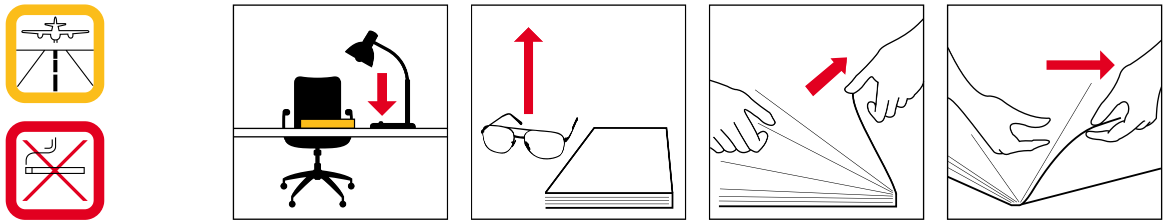
For a safe journey
Für eine sichere Reise

AR-2011

Lufthansa



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Content
Inhalt

AR-2011

Please read the Annual Report 2011 carefully. / Bitte den Geschäftsbericht 2011 sorgfältig lesen.

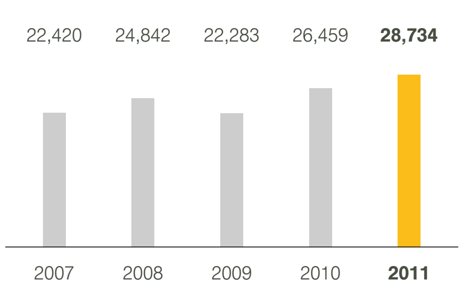
Key figures Lufthansa Group

		2011	2010	Change in %
Revenue and result				
Total revenue	€m	28,734	26,459	8.6
of which traffic revenue	€m	23,779	21,466	10.8
Operating result	€m	820	1,020	–19.6
EBIT	€m	734	1,480	–50.4
EBITDA	€m	2,546	3,166	–19.6
Net profit/loss	€m	–13	1,131	
Key balance sheet and cash flow statement figures				
Total assets	€m	28,081	29,320	–4.2
Equity ratio	%	28.6	28.4	0.2 pts
Net indebtedness	€m	2,328	1,596	45.9
Cash flow from operating activities	€m	2,356	2,992	–21.3
Capital expenditure (gross)	€m	2,566	2,273	12.9
Key profitability and value creation figures				
Adjusted operating margin[1]	%	3.4	4.7	–1.3 pts
EBITDA margin	%	8.9	12.0	–3.1 pts
CVA	€m	99	71	39.4
CFROI	%	8.0	9.4	–1.4 pts
Lufthansa share				
Share price at year-end	€	9.19	16.36	–43.8
Earnings per share	€	–0.03	2.47	
Suggested dividend per share	€	0.25	0.60	–58.3
Traffic figures				
Passengers	thousands	100,603	92,693	8.5
Freight and mail	thousand tonnes	2,120	2,023	4.8
Passenger load factor	%	77.6	79.6	–2.0 pts
Cargo load factor	%	66.8	68.2	–1.4 pts
Flights	number	1,050,728	1,008,988	4.1
Employees[2]				
Average number of employees	number	119,084	117,066	1.7
Employees as of 31.12.	number	120,055	117,019	2.6

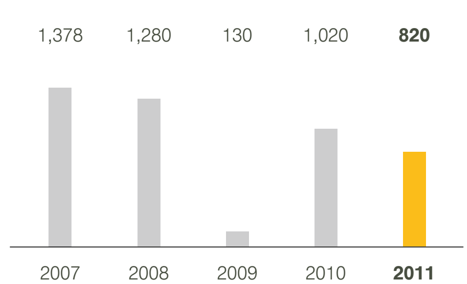
[1] Performance indicator to enable comparison with other airlines: (operating result + write-backs of provisions) / revenue.
[2] Including bmi.

Date of publication: 15 March 2012.

Revenue in €m



Operating result in €m



Lufthansa Group overview

Key figures business segments

Passenger Airline Group		2011	Change in %
Revenue	€m	22,290	11.2
of which external revenue	€m	21,544	11.2
Operating result	€m	349	–44.5
Adjusted operating margin	%	2.1	–1.9 pts
Segment result	€m	355	–53.5
EBITDA*	€m	1,667	–18.9
CVA	€m	–122	38.4
Segment capital expenditure	€m	2,085	1.9
Employees as of 31.12.	number	55,361	3.4

Passenger Airline Group The airlines in the Passenger Airline Group set a new record with more than 100 million passengers. Despite non-recurring expenses and a deteriorating economic environment, the segment was able to increase revenue and generate an operating profit. Lufthansa dissociated itself of a persistently loss-making subsidiary by selling bmi.

Logistics		2011	Change in %
Revenue	€m	2,943	5.3
of which external revenue	€m	2,917	5.3
Operating result	€m	249	–19.7
Adjusted operating margin	%	9.1	–2.3 pts
Segment result	€m	243	–26.4
EBITDA*	€m	328	–26.3
CVA	€m	202	–13.3
Segment capital expenditure	€m	76	261.9
Employees as of 31.12.	number	4,624	2.4

Logistics As expected, Lufthansa Cargo was not able to repeat the previous year's growth rates, but still reported its second-best operating result ever thanks to tight capacity management. The temporary night-flight ban in place since late October at Frankfurt Airport has a considerable impact on operations. The Lufthansa Cargo 2020 strategy sets the course for sustainable growth.

MRO		2011	Change in %
Revenue	€m	4,093	1.9
of which external revenue	€m	2,305	–2.9
Operating result	€m	257	–4.1
Adjusted operating margin	%	6.9	–0.5 pts
Segment result	€m	306	–4.1
EBITDA*	€m	377	–8.9
CVA	€m	152	–11.6
Segment capital expenditure	€m	139	107.5
Employees as of 31.12.	number	19,975	–0.9

MRO Lufthansa Technik increased its revenue slightly and generated an operating profit that was only just short of the previous year's. This was largely due to provisions for long-term contracts. By intensifying its involvement in Asia and introducing products for new aircraft models, Lufthansa Technik is securing its future growth potential.

IT Services		2011	Change in %
Revenue	€m	599	0.7
of which external revenue	€m	230	–0.9
Operating result	€m	19	90.0
Adjusted operating margin	%	4.0	2.2 pts
Segment result	€m	21	
EBITDA	€m	58	28.9
CVA	€m	23	
Segment capital expenditure	€m	55	52.8
Employees as of 31.12.	number	2,820	–3.9

IT Services Lufthansa Systems stabilised its revenue in 2011 and improved its operating result considerably. This is primarily the result of the realignment made as part of the Jetzt! initiative to improve competitiveness. The expansion of existing and new customer business and product innovations pave the way for profitable growth.

Catering		2011	Change in %
Revenue	€m	2,299	2.2
of which external revenue	€m	1,738	1.3
Operating result	€m	85	11.8
Adjusted operating margin	%	3.7	0.3 pts
Segment result	€m	97	11.5
EBITDA	€m	147	–15.5
CVA	€m	–25	10.7
Segment capital expenditure	€m	74	94.7
Employees as of 31.12.	number	29,586	3.8

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

Catering As the global market leader in airline catering LSG Sky Chefs again registered a rise in revenue and operating profit. Initiatives to standardise processes and improve performance were continued successfully. Its global presence was extended by establishing new own sites and in particular by means of joint ventures and entry into adjacent markets, such as catering for schools.

2011 figures

100.6
Passengers in million

3.4
Adjusted operating margin in per cent

2,566
Capital expenditure (gross) in EUR m

713
Free cash flow in EUR m

99
Cash value added in EUR m

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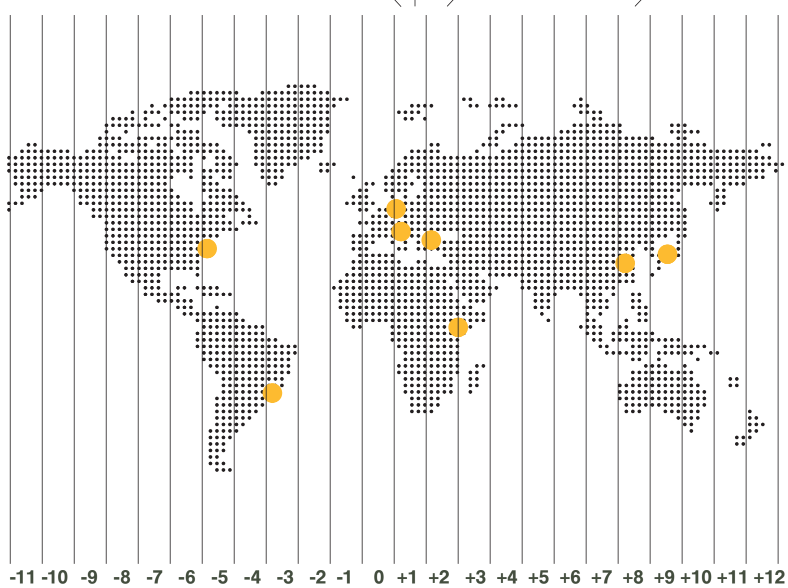

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Ready for a
safe journey

There is only one certainty in the world of aviation: things are turbulent. At home and abroad in the world. Around the clock. Lufthansa is holding a stable course though. Strong in competitive markets. With a stable risk profile, even in changeable weather conditions. Our performance is consistent, even when we are battling against strong headwinds. How do we do it? Come with us on a trip to various destinations. On a safe journey – to more growth and greater value.

12:01 FRA

Frankfurt/Germany | Senator Lounge |

Lufthansa stands for the highest quality and proximity to the customer by virtue of excellent products that provide travel comfort in every class. For anyone who spends time in the new Senator Lounge in Frankfurt, even the wait can be enjoyable.

Travelling is an individual matter ✈ Tranquillity, entertainment, concentrated working – all guests have their own ideas about how they would like to spend their journey time, a time which begins at the airport. With our inflight and ground products we allow room for the most diverse needs. We mean that literally, in fact, because the new Senator Lounge at Frankfurt Airport, the largest in the world, offers a wellness area too, in addition to the other familiar areas. The modernisation of our fleet means that, once aboard the plane, passengers can now expect more legroom, more comfortable seats and, as in the new Business Class on the Boeing 747-8i, a full flat bed. We are investing billions in the systematic development of our inflight product and take great pleasure in combining innovation with a subtle sense for anticipating our customers' wishes.

First Class Terminal: a pleasant journey starts at the airport

Excellent products for customers with high demands

The biggest Lufthansa lounge in the world → A pleasant flight can begin well before take-off: At Frankfurt Airport, since July 2011, the new lounge in Terminal 1 invites frequent flyers with Senator status to relax in a space measuring more than 1,800 square metres. The Senator Lounge redefines the concept of waiting, with modern spa facilities, the City Lights bar, free broadband internet access, and quiet zones.

New jumbo jet takes off → From spring 2012 the Boeing 747-8i will set new standards. As the launching customer, we were involved in the development of the 76.3 metre passenger aircraft – the world's longest – from the very beginning. The result is compelling for both passengers and the environment: innovative wings and engines enable a particularly fuel-efficient flight, while the Business Class scores top marks for comfort.

Success story Miles & More → Europe's largest frequent flyer programme set a new record in 2011: the 20-millionth Miles & More member was welcomed in Brussels in February. And as another 5,000 new members register every day on average, the success story has continued since then.

Prospects for Munich and Frankfurt → At the two major Lufthansa hubs in Germany the systems are set for growth. In addition to the expansion of Frankfurt Airport with a new runway and the Pier A-Plus, green light was given for the construction of another satellite building in Munich. These building projects set the stage for us to keep offering our high level of quality at the volumes of traffic expected in the future.

18:01 PEK

Beijing/China | A380 |

As a leading international airline, Lufthansa attaches great importance to developing its global route network. Being in pole position in our European home market is a prerequisite for our staying competitive on long-haul routes to the other continents America, Africa and Asia/Pacific.

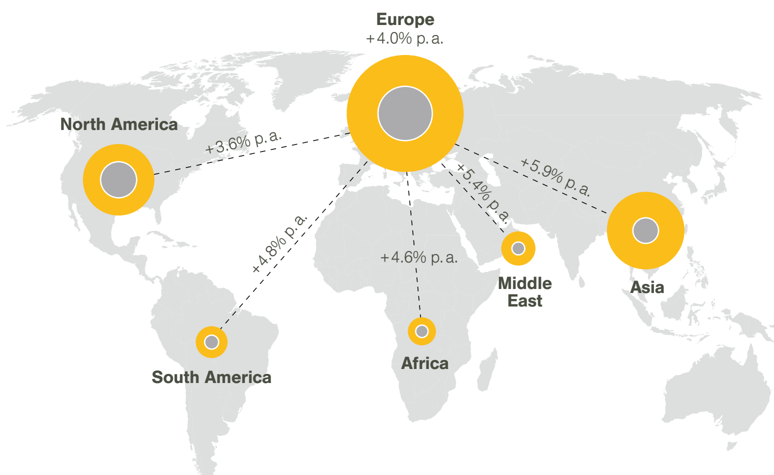
World markets are reshaping themselves A trend for which we are best prepared, both strategically and operationally. The success of the Airbus A380 symbolises this trend like no other aircraft in our fleet. Around the world, the Lufthansa flagship connects destinations where the pulse of the global economy beats, and the list is getting longer all the time. Whether in New York, Singapore or Johannesburg, anyone travelling in the A380 experiences greatness. That is visible in all the service classes and culminates in the new First Class. The concept is extremely well received by passengers. For us, the high load factor represents a real efficiency gain.

Singapore: more and more of Lufthansa's passengers come from Asia

Strong position in competitive markets

An eye on growth markets Megatrends such as demographic change and the shifting tectonics of global markets are important economic factors. They have a decisive impact on air traffic. Passengers are not only getting older, more individualistic and more discerning – they are also coming from regions which previously were not in focus. Especially in countries like China or Brazil, increasing affluence means greater demand for mobility. We are responding by realigning our global flight network to ensure that we continue to expand our profitable long-haul routes.

Lufthansa profits from growth prospects for air travel
Forecast growth in traffic flows from 2011 to 2030 in revenue seat-kilometres (RPK)



RPK in bn 2011 RPK in bn 2030
Source: Lufthansa, Boeing Current Market Outlook 2011 to 2030.

There were many new destinations for the A380 in 2011, for example New York

New destinations 2011 was defined by the network expansion of the A380. Following New York and San Francisco, Miami became the third destination to be included in the flight plan to the USA. The largest passenger aircraft in the world flies daily to Singapore and Beijing, two important cities in the Asian region. As a strong growth market, China is playing an ever greater role in the entire Lufthansa network too. We have expanded our presence there with connections to Shenyang and Qingdao. Altogether, Lufthansa now offers 55 weekly services to six destinations in the Middle Kingdom, making this one of the most extensive networks of any European airline. In order to enhance services to the important Russian market, two flights a day were started in November 2011 to Moscow-Vnukovo, a new destination in the route network.

Global competition In its intercontinental business Lufthansa is exposed to intense competition. Pressure comes in particular from the massive growth of airlines from the Far East and the Gulf states. We are defending our leading position in the long-haul league with a solid financial base, investment in the product and a modern and efficient fleet, and an attractive global network. Our well-trained and motivated staff also give us a real competitive advantage, because we know that continuous refinement is the basis for satisfying the highest demands of our customers – both corporate clients and private travellers.

Strong competitive standing The battle for market share is not only fought on the long-haul, but also in European traffic. Low-cost carriers are growing fast and imposing aggressive price policies. In an environment already subject to high cost pressure, this presents us with great challenges. We are therefore stepping up our efforts to achieve our strategic objective of profitable growth. In Europe and worldwide, the aim is to best play Lufthansa's aces of quality and attractiveness. Alongside the product, revenue management also makes an important contribution to profitability. By managing prices and capacities precisely we were able to carry nearly 10 per cent more passengers in 2011 for example, despite one-off effects and the deteriorating economy.

At the forefront of competition through greater efficiency

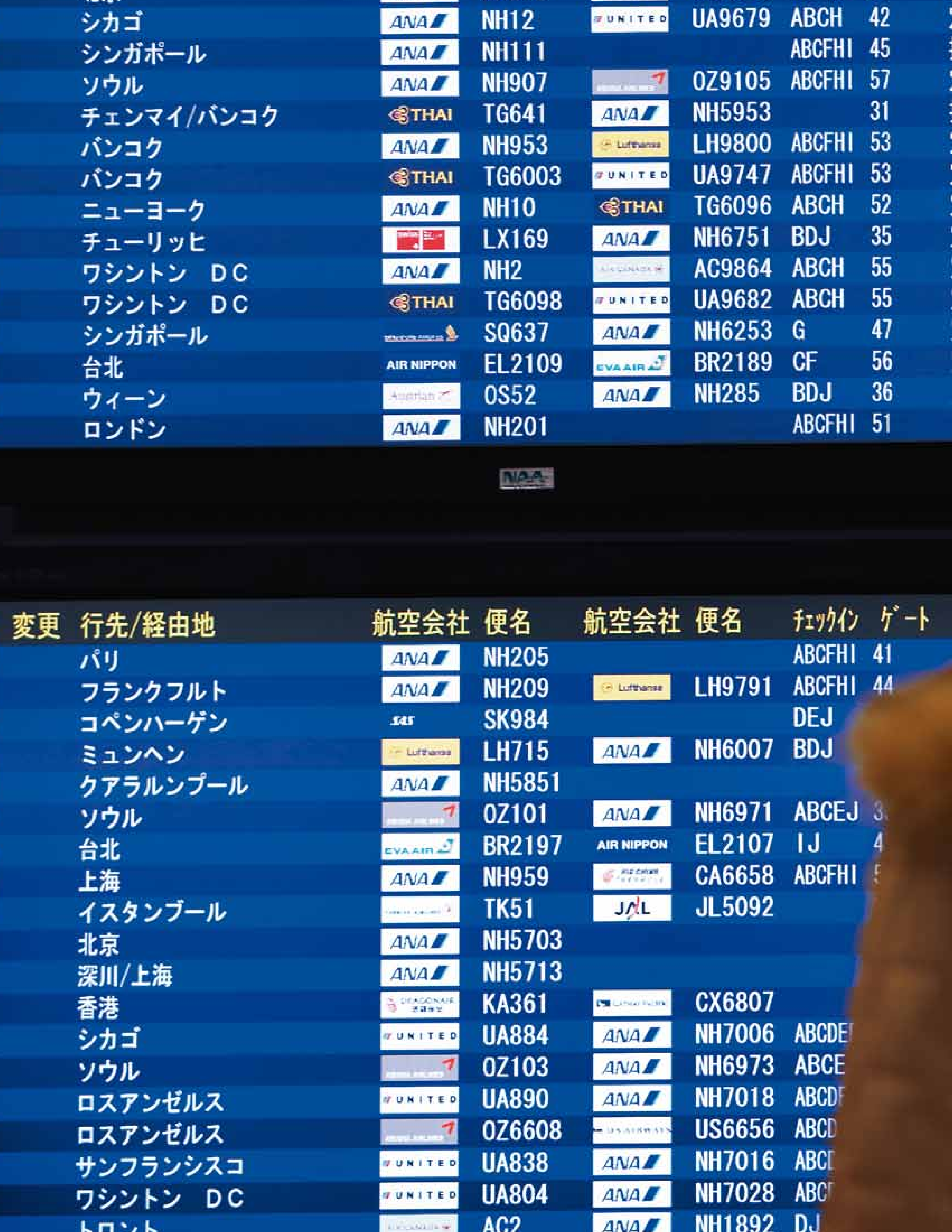
Changes in the portfolio → Staying flexible – what our customers want also applies to Lufthansa itself. This includes subjecting the portfolio to a permanent critical review in the light of market developments and adjusting it accordingly. This was the context for altering our strategy for Italy in 2011. Given the price erosion in European traffic, it was not possible to establish a European route network in the Italian market under a separate brand. The important Italian market will therefore be served in future by the core Lufthansa brand together with the regional airline Air Dolomiti. Lufthansa remains the most successful foreign carrier in Italy and intends to build on this position. Our plans to return bmi to profitability did not make it off the ground either. By selling this subsidiary we are adjusting the airline portfolio to match the strategic orientation of the Group and enjoying greater profitability.

Greater cooperation → A joint product from Lufthansa and Germanwings, which also includes coordinated flight plans, is intended to attract additional passengers in the future. As part of this closer cooperation, Germanwings will from summer 2012 on initially fly to all of Lufthansa's European destinations from Stuttgart. This increases the number of connections, and at the same time we are also aiming for lower costs and an improved overall result. Germanwings will also be integrated more closely into the Lufthansa corporate programmes.

Growth in Berlin → We are treading new ground in the German capital. When the new Berlin-Brandenburg airport "Willy Brandt" opens in June 2012 we will station 15 aircraft in Berlin and use them to serve a total of 38 destinations in Europe and the Middle East. By stationing cockpit and cabin crews locally on competitive terms, we can offer our customers in the capital and the surrounding area a particularly good deal, with one-way prices starting at EUR 49.

Lufthansa remains the most successful foreign airline in Italy


EXIT

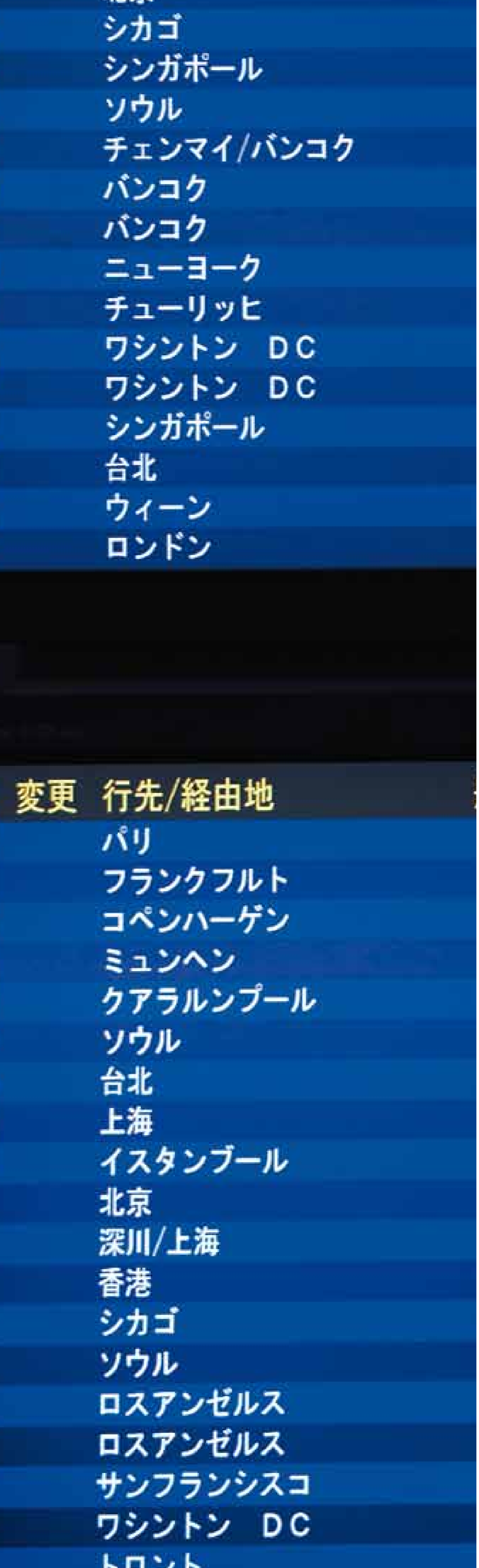

シカゴ ANA NH12 UNITED UA9679 ABCH 42
シンガポール ANA NH111 ABCFHI 45
ソウル ANA NH907 OZ9105 ABCFHI 57
チェンマイ/バンコク THAI TG641 ANA NH5953 31
バンコク ANA NH953 Lufthansa LH9800 ABCFHI 53
バンコク THAI TG6003 UNITED UA9747 ABCFHI 53
ニューヨーク ANA NH10 THAI TG6096 ABCH 52
チューリッヒ LX169 ANA NH6751 BDJ 35
ワシントン DC ANA NH2 AC9864 ABCH 55
ワシントン DC THAI TG6098 UNITED UA9682 ABCH 55
シンガポール SQ637 ANA NH6253 G 47
台北 AIR NIPPON EL2109 EVA AIR BR2189 CF 56
ウィーン OS52 ANA NH285 BDJ 36
ロンドン ANA NH201 ABCFHI 51
NAA
変更 行先/経由地 航空会社 便名 航空会社 便名 チェックイン ゲート
パリ ANA NH205 ABCFHI 41
フランクフルト ANA NH209 Lufthansa LH9791 ABCFHI 44
コペンハーゲン SAS SK984 DEJ
ミュンヘン Lufthansa LH715 ANA NH6007 BDJ
クアラルンプール ANA NH5851
ソウル OZ101 ANA NH6971 ABCEJ
台北 EVA AIR BR2197 AIR NIPPON EL2107 IJ
上海 ANA NH959 CA6658 ABCFHI
イスタンブール TK51 JAL JL5092
北京 ANA NH5703
深川/上海 ANA NH5713
香港 KA361 CX6807
シカゴ UNITED UA884 ANA NH7006
ソウル OZ103 ANA NH6973
ロスアンゼルス UNITED UA890 ANA NH7018
ロスアンゼルス OZ6608 US6656
サンフランシスコ UNITED UA838 ANA NH7016
ワシントン DC UNITED UA804 ANA NH7028
AC2 ANA NH1892

19:01 NRT

Tokyo/Japan | Star Alliance |

As the number one in Europe, Lufthansa is an attractive partner for other market leaders. By making use of a strong network like the Star Alliance, Lufthansa can exploit its market opportunities and options for growth in a better way.

Powerful alliances to open up new markets Star Alliance is the leading airline grouping in the world, with more than 21,000 flights a day to 1,290 airports in 189 countries. And yet we are always on the lookout for ways of broadening the scope of collaboration and improving services for our customers even further. This is particularly promising when representatives of two important economic areas such as Japan and Europe come together. The largest Japanese airline All Nippon Airways (ANA) and Lufthansa have agreed on a strategic joint venture called Japan+ for routes between Japan and Europe. This is a milestone which will make travelling in the two regions much easier in future. The cooperation agreement provides for a coordination of the flight plans and sales activities of ANA and Lufthansa. For passengers this means improved transfer connections and connecting flights.

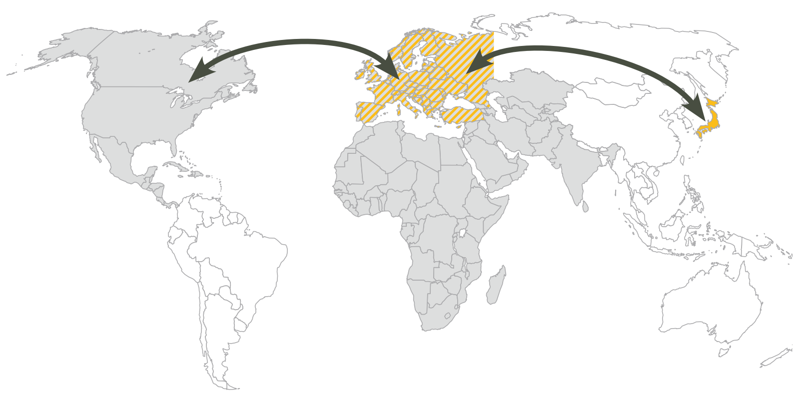


New horizons for profitable growth

Willingness to change Our long-term objective is clearly formulated in our strategy: sustainable profitable growth, with a leading position as a quality airline and the forward-looking structures of an efficient, attractive company. In an industry undergoing wrenching change, this is about safeguarding and enhancing our competitiveness in traffic from Europe to the world. The market is growing and so are we. And the market is changing. Emerging economies such as Asia, Latin America and Africa are coming onto the airlines' radar screens. Mergers and acquisitions are shaping a new market structure. The trend towards consolidation is producing large groups with broadly based route networks. Lufthansa is keeping a close eye on these developments, because our route to growth and market leadership in all segments, from airlines over Logistics up to Catering, also goes by way of sensible acquisitions and partnerships.

Expansion of alliances and joint ventures Refining our global alliances forms the basis for our strong, sustainable network. The extension of our own network and the planned accession of new partners to the Star Alliance are important milestones on the path towards a substantial expansion of our route network and presence in Central and South America. In Africa, Ethiopian Airlines was accepted as a new partner for the Star Alliance. In mid 2011 we also incorporated the group airlines SWISS and Austrian Airlines into the transatlantic joint venture Atlantic++. We established the joint venture in 2010 with United, Continental and Air Canada. Its successful development and the experience gained there formed the basis for the new joint venture Japan+.

Catchment areas for the joint ventures Atlantic++ and Japan+



Catchment area for Atlantic++ Catchment area for Japan+

17:30 バンコク THAI
17:30 北京 ANA
17:40 サンフランシスコ UNITED
17:40 サンフランシスコ
17:40 シアトル UNITED
17:50 台北 UNITED
18:15 ロスアンゼルス
18:20 ホーチミン ANA
18:20 バンコク UNITED
18:30 ソウル UNITED
18:40 香港 ANA
18:40 上海 ANA
18:45 シカゴ UNITED
18:45 シカゴ THAI
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航空会社
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ANA
UNITED
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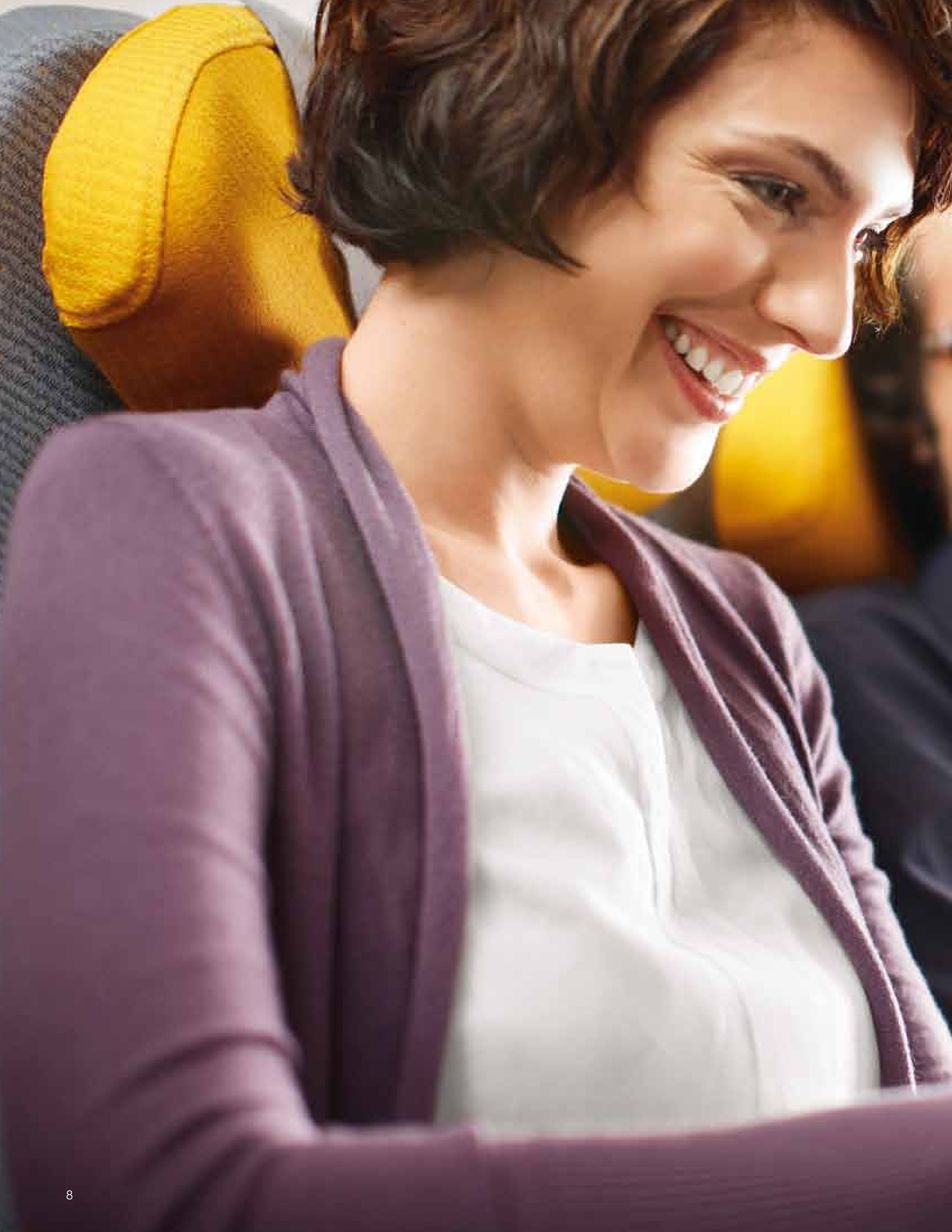
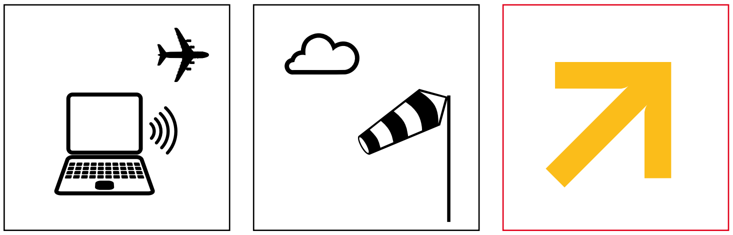
EVA AIR
Air Japan





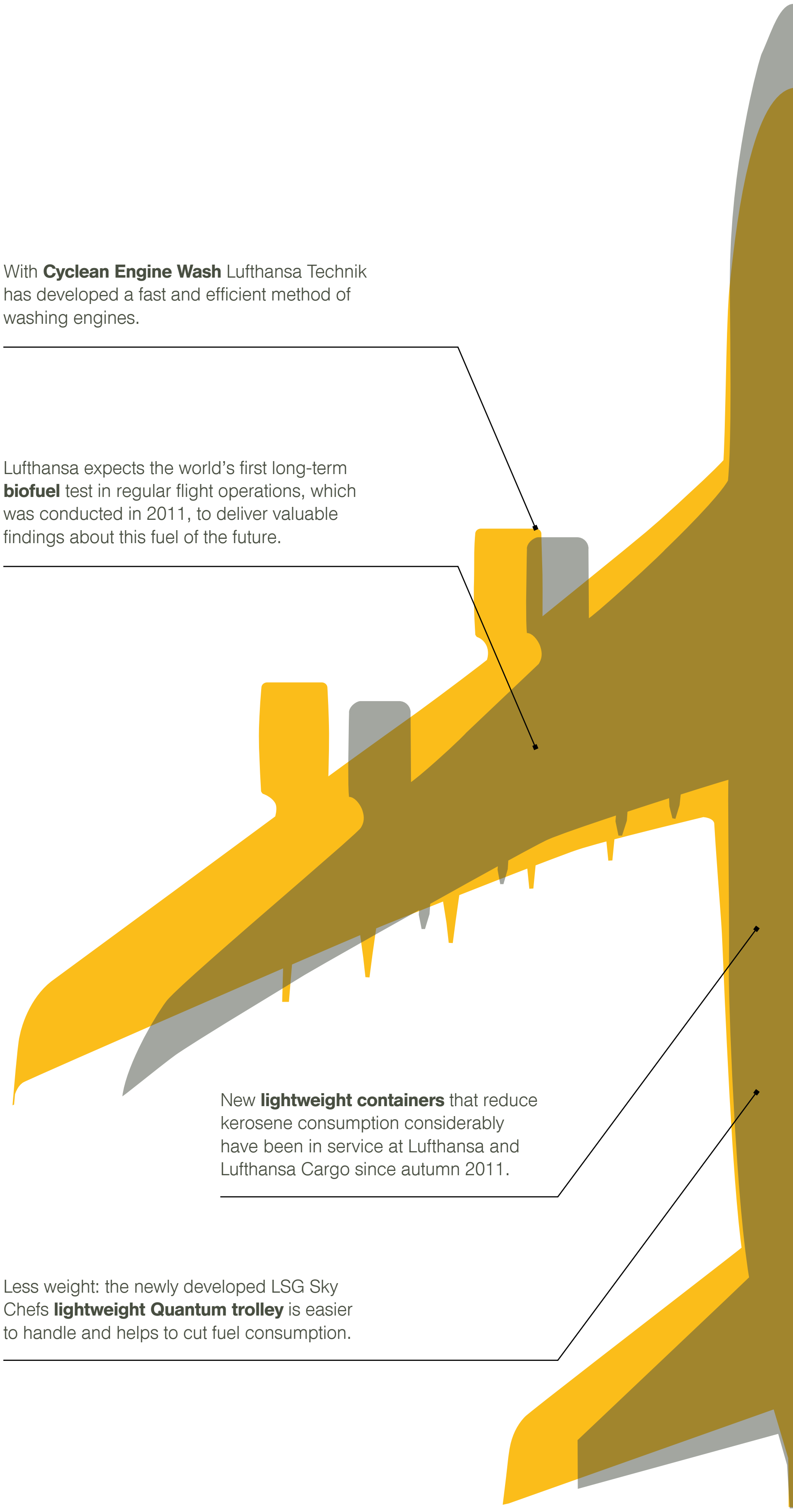
06:01 JFK

New York/USA | FlyNet over the Atlantic |

Lufthansa also is at the pinnacle of the market in terms of its technology. Innovations in the air and on the ground make us one of the global trendsetters in our industry. Customer benefits, safety and cost-effectiveness rank equally next to our responsibility for the environment and society.

Hotspot above the clouds Having access to the World Wide Web during the flight is a great hit with passengers. We have now equipped the majority of our wide-bodied jets with the broadband access that was reintroduced in late 2010. Many customers use the WLAN service, which is already available on numerous routes to North America and selected flights to the Middle East and South America, for business and private communications. The jury of the computer magazine Chip was impressed by the “first dependable and affordable system for inflight internet”, choosing FlyNet as its Product of the Year 2011.

Innovations



With **Cyclean Engine Wash** Lufthansa Technik has developed a fast and efficient method of washing engines.

Lufthansa expects the world's first long-term **biofuel** test in regular flight operations, which was conducted in 2011, to deliver valuable findings about this fuel of the future.

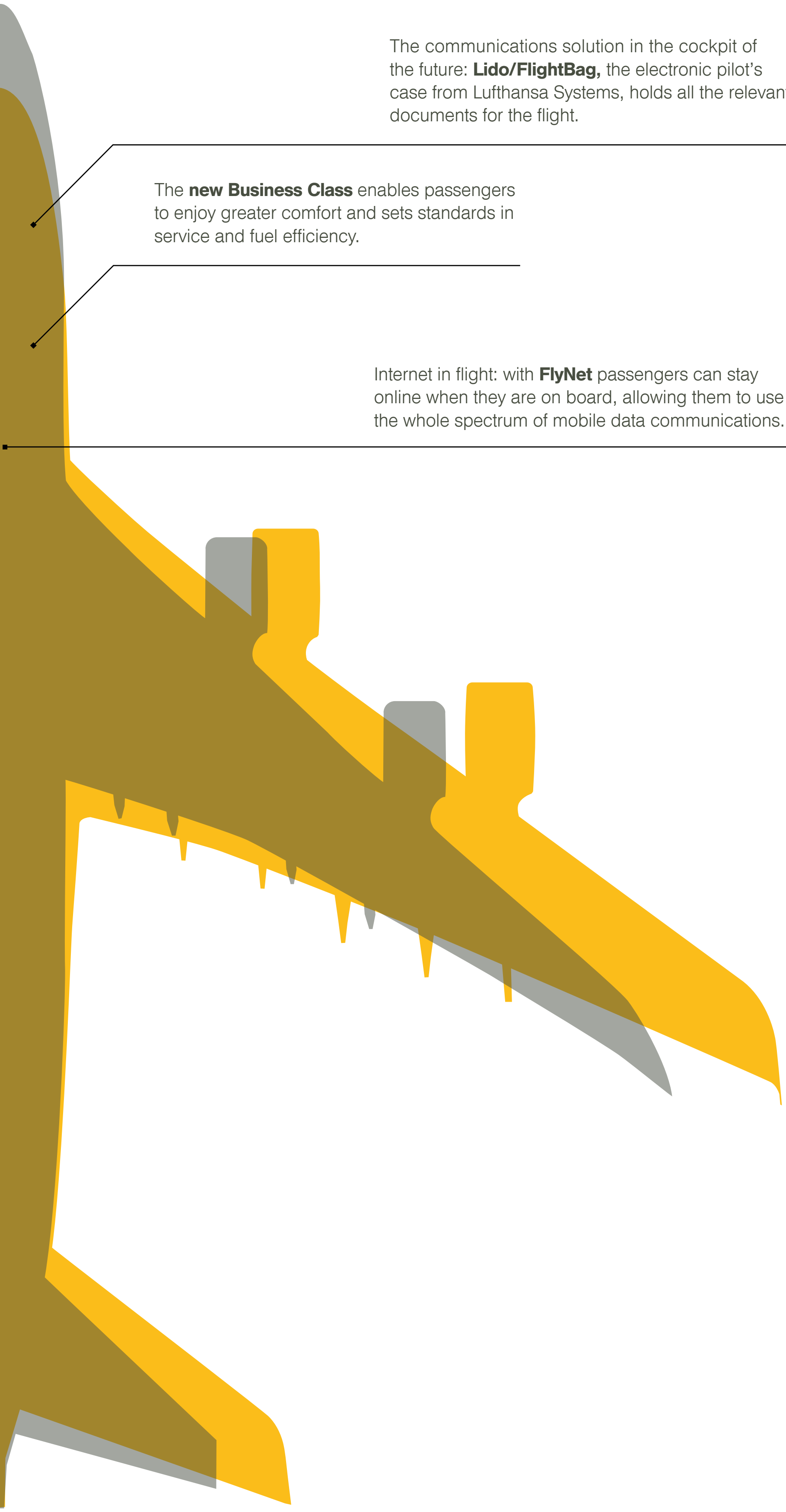
New **lightweight containers** that reduce kerosene consumption considerably have been in service at Lufthansa and Lufthansa Cargo since autumn 2011.

Less weight: the newly developed LSG Sky Chefs **lightweight Quantum trolley** is easier to handle and helps to cut fuel consumption.

The communications solution in the cockpit of the future: **Lido/FlightBag,** the electronic pilot's case from Lufthansa Systems, holds all the relevant documents for the flight.

The **new Business Class** enables passengers to enjoy greater comfort and sets standards in service and fuel efficiency.

Internet in flight: with **FlyNet** passengers can stay online when they are on board, allowing them to use the whole spectrum of mobile data communications.



Airbus A380
Boeing 747-8i

Always a nose cone ahead

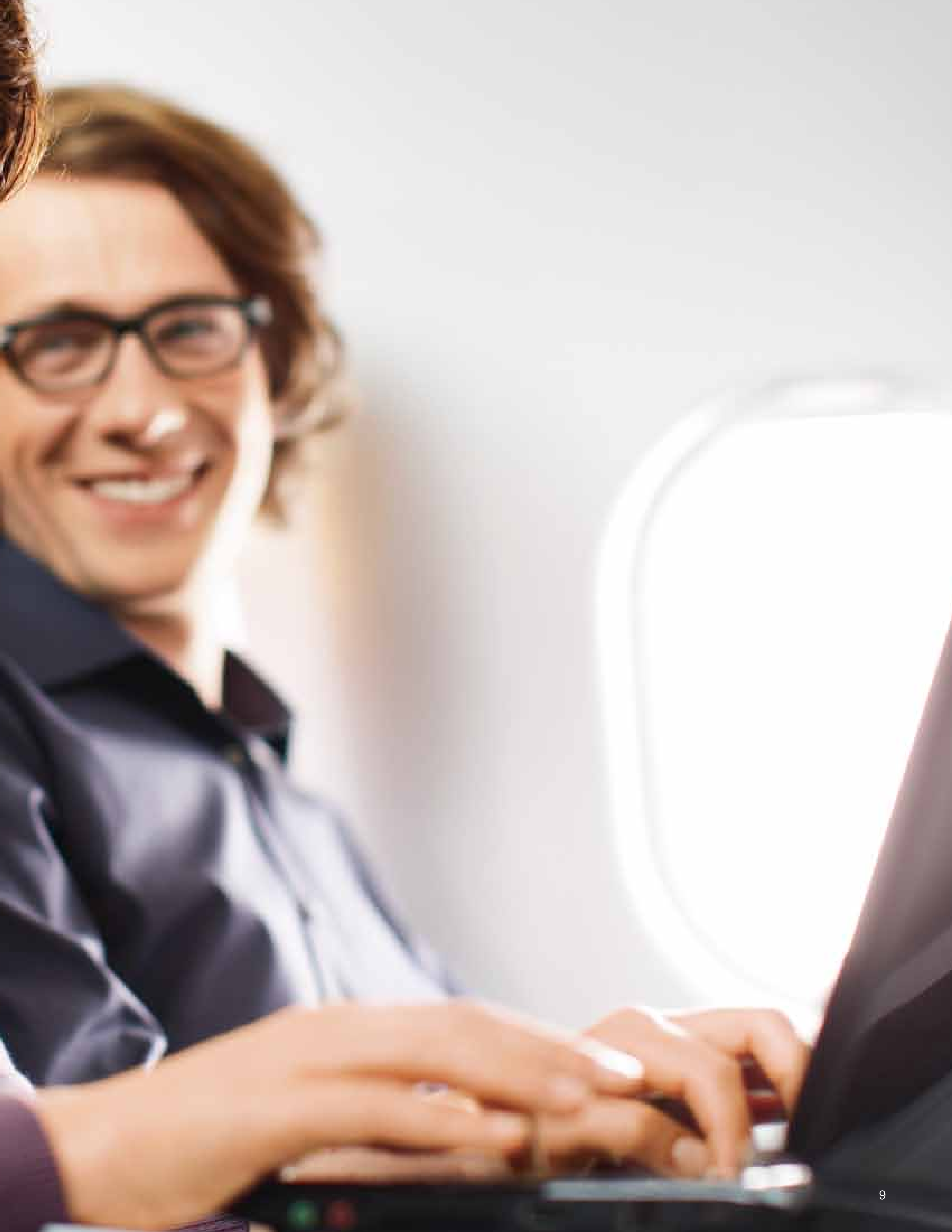
Innovation for tranquillity and comfort ✈ Whether in the Airbus A380, the Boeing 747-8i or other aircraft in our long-haul fleet, passengers in First Class enjoy an exceptional travel experience with Lufthansa. Sophisticated novelties like special soundproof curtains and underfloor noise insulation provide peace and quiet and, if desired, the opportunity to sleep undisturbed. Another world's first is our refined air humidity management system in the A380, which increases air humidity in First Class from five per cent previously to up to 25 per cent.

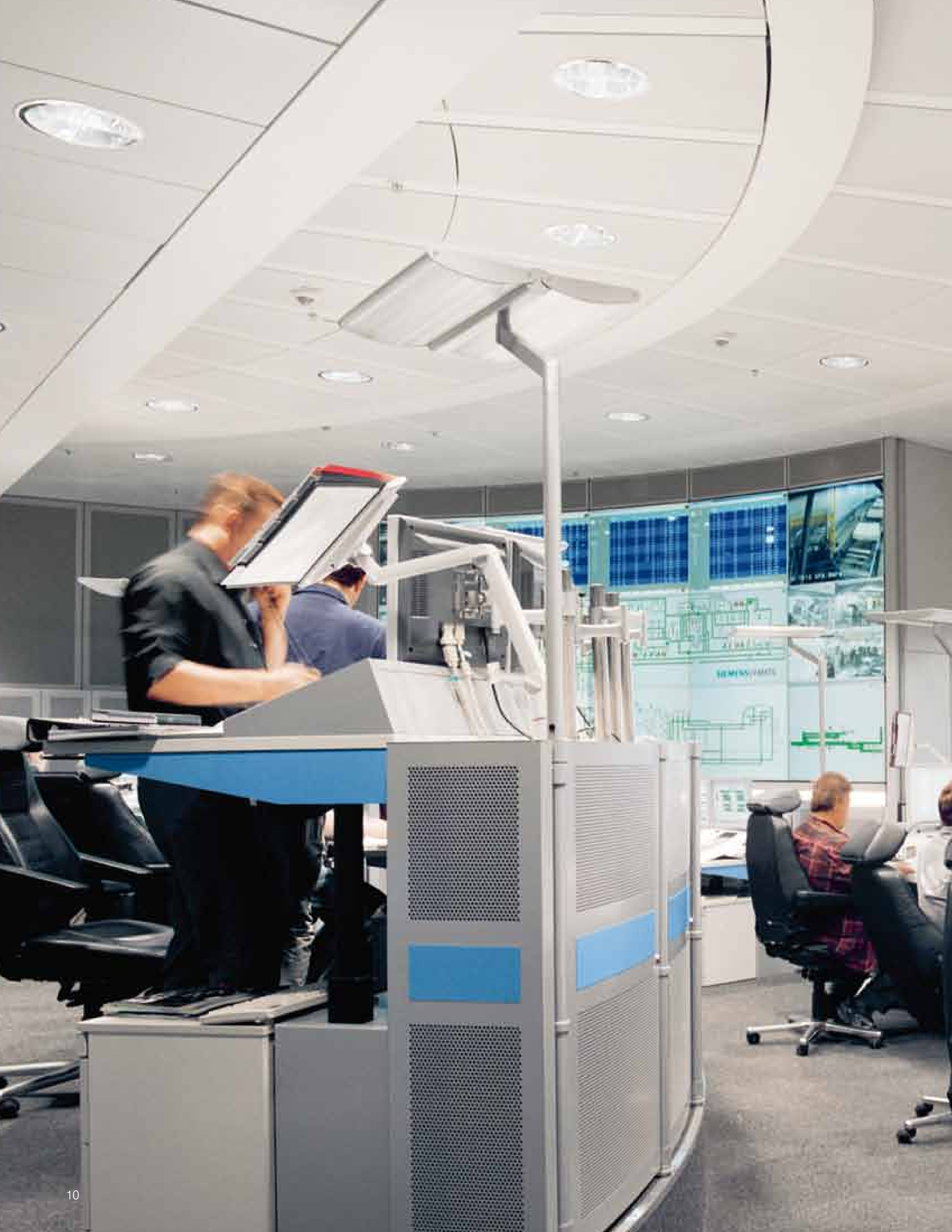
More mobile options ✈ More and more people are making use of our services and bookings via smartphones and tablet computers. Since mid 2011 we have met this trend by means of the free Lufthansa iPad app. We have also improved the mobile check-in options greatly, so that our passengers can now choose between four different ways of checking in. Since July 2011 it has also been possible to change Lufthansa bookings simply and flexibly online – up to one hour before departure.

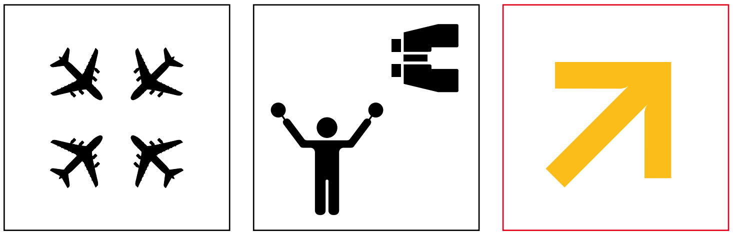
Contribution to sustainability ✈ Even with all this technological progress we always keep environmental and sustainability aspects in mind. Even more, all our business segments are working hard to develop and implement innovative technologies and concepts for conserving resources. Examples include the energy-saving engine wash Cyclean from Lufthansa Technik, the flight planning software LIDO from Lufthansa Systems and the environmentally friendly dishwashers in operation at LSG Sky Chefs. Lufthansa was also the first airline in the world to test biofuel in regular flight operations for a period of six months.

Sustainable fleet ✈ We invest continuously in the modernisation of our passenger and freight fleet. This is another way in which we strengthen the competitiveness of the airlines in the Group. In addition to the new Boeing 747-8i planes, we have ordered 30 aircraft from the A320neo family for the Passenger Airline Group, which are to go into service in European traffic from 2016. SWISS will take delivery of 30 new aircraft in the Bombardier C-Series from 2014, which will replace its older planes. From 2013 the Logistics segment will receive five new Boeing 777F freighter aircraft. In all models the focus is on greater fuel efficiency and also on lower operating costs, emissions and noise figures.

The first Boeing 747-8i for the Lufthansa fleet







12:01 MUC

Munich/Germany | Hub Control Center |

Lufthansa reinforces its position as a global market leader by striving permanently for more efficiency and greater cost-effectiveness. These are important conditions for shouldering the investment necessary for profitable growth.

Time is in short supply ✈ Thousands of processes have to function every day. In traffic management, professional teamwork is essential for the smooth running of scheduled operations – and even more so when flexibility and short reaction times are called for. At Munich Airport this is organised by the Hub Control Center, the airport's nerve centre, which has been designed jointly by Lufthansa and the airport operator FMG. The centre represents in a single unit what applies to Lufthansa as a whole: the better the small cogs in the larger machine intermesh, the more efficient and cost-effective the processes are.

A passion for efficiency and cost-effectiveness

Solid as a rock ✈ The foundations on which Lufthansa is built have proved to be robust and steadfast. They form the best underlying conditions for securing and building on our strong competitive position. This is all the more important when competition sharpens and operating conditions are difficult. Whether we look at the euro crisis combined with turbulence on the financial markets, the political unrest in North Africa or the catastrophes in Japan, 2011 demonstrated in many ways how vital it is to have financial stability and the ability to react flexibly. There are many factors we cannot influence, but in the areas under our control we are ready for action.

Efficiency programmes take effect ✈ Demanding projects to increase competitiveness are underway in all business segments. With planned savings of EUR 1bn, Climb 2011 at Lufthansa Passenger Airlines is the most extensive efficiency programme. By 2011 a total earnings effect of EUR 640m had been achieved and the measures taken are still to come into full play in 2012. The other segments are also making their contributions, for example Lufthansa Systems with its restructuring programme Jetzt! and the Catering segment, which with Upgrade^{plus} is making structural adjustments and thereby achieving lasting cost savings. There is some headwind, however. Austrian Airlines missed its earnings target for 2011 by a large margin, so that the restructuring endeavours there had to be intensified. All activities contribute systematically to the Group's profit and cash flow from operating activities. They help us to maintain our investment grade rating and avoid any constraints on our financial flexibility, which is so immensely important for our economic independence. Indeed, it is our sound financial profile that enables us to invest in our business segments, fleet, staff and products for our customers.

The turnaround programme at Austrian Airlines was intensified

SCORE
Change for Success

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

SCORE realises overarching synergies The airline industry offers great growth potential, which Lufthansa actively intends to capture for itself. The sector is nonetheless also undergoing major structural changes. The economic environment has also altered sharply in recent years – not to mention the additional burdens such as the air traffic tax and emissions trading, which distort competition. In order to achieve our core objective of profitable growth and to safeguard the capital expenditure this requires, we must increase the efficiency of our organisation and improve our operating margin sustainably. One important contribution comes from the Group-wide programme SCORE – Change for Success, which we launched at the beginning of 2012. It supplements the existing initiatives in the business segments. The programme will run for three years and is intended to deliver structural and sustainable earnings improvements of at least EUR 1.5bn for the Group. All segments, airlines and Group functions are to be included in this process and make individual contributions. A further focus of the initiative lies on making greater use of overarching synergies. A small central project team is working closely with project owners in all business segments towards this goal. The first joint projects that have been identified right at the start of the programme are optimising neighbourhood traffic, realising synergies in procurement and reducing administrative expenses. Other projects are to be developed and implemented in close cooperation between the project team, the business segments and the Executive Board.

Hedging policy reduces risks The enormous increases in fuel prices are and will remain a key cost driver. In 2011 the average price for kerosene was about 40 per cent higher than in the previous year, mainly due to price fluctuations on the market for crude oil. Lufthansa has an effective risk management system in place to mitigate the effects of these financial risks. The management of currency and interest rate risks, and since 2011 of emissions certificates as well, follows this structured and effective hedging policy.

The Hub Control Center orchestrates efficient interaction

No holds barred in the struggle for safety and punctuality

All systems go Operating a traffic hub successfully is like doing an enormous jigsaw puzzle: lots of separate pieces – such as coordination, monitoring and managing ground processes for Lufthansa and its partners – have to be put together as accurately as possible. Punctuality and flexibility are decisive economic factors. This is why we set up ultra-modern Hub Control Centers, HCCs for short, in Frankfurt and Munich from which all handling procedures can be managed centrally. Together, specialists from the airport and from Lufthansa ensure that all interaction between the airport and the airlines functions smoothly. These also include the Connection Center. So that passengers and their luggage make their connecting flights even in the event of delays, these experts stay in permanent contact with air traffic control and can ask for preferential landing approval and new gate positions to shorten the distance to the connecting flight.

Continuous process optimisation Further traffic growth means that the traffic management of the future will require continuous optimisation. The key to success here lies not only in technological progress, but also in ever closer cooperation. In an area where split-second decisions and coordination are part of daily work, we attach great importance to an open communications culture and intensive dialogue.


K 6509 GFA
K 6501 GFA
K-7322 GFA Bereich
K 6203 Position


ESCAPE LINE
PULL

13:01 NBO

Nairobi/Kenya | Lufthansa Cargo |

Lufthansa Cargo is an important international player in global trade with a tightly meshed, global network of flight connections. With innovative ideas and attractive partnerships that generate customer loyalty by means of high product quality, we have become one of the world's largest cargo airlines.

Best connections to Africa Lufthansa participates in the dynamic growth taking place on the African continent at many levels of the Group. Alongside a comprehensive range of flights from the airlines and the activities of Lufthansa Technik and LSG Sky Chefs on the ground, Lufthansa Cargo has also ramped up its involvement in Africa in recent years. Its network has also been extended thanks to the cooperation agreement with the Kenyan cargo airline Astral Aviation. Its aircraft distribute the freight that Lufthansa Cargo flies to Nairobi to numerous destinations in various African countries. Since last year Lufthansa Cargo has also had a strategic partnership with a new, ultra-modern handling centre at the international airport in Nairobi. It is particularly intended to provide high-quality handling of consignments of sensitive goods such as flowers and food.

At the forefront of flexibility and innovation

Dependably from A to B ✈ 300 destinations in 100 countries – this tightly woven network makes Lufthansa Cargo one of the leading companies in its sector. In order to manage the transport volume of almost 2 million tonnes smoothly, Lufthansa Cargo also relies on international cooperation agreements, with Japan Airlines Cargo, Air China Cargo and Lan Cargo, for instance. This not only makes it possible to improve customer service but also to make mutual use of know-how and synergy effects. The programme of cooperation with the logistics provider DHL is particularly wide-ranging. In 2009 Lufthansa Cargo and DHL Express established the cargo airline AeroLogic. It is based at Leipzig/Halle Airport, which in recent years has established itself as Germany's second largest cargo hub. With its strategy Lufthansa Cargo 2020 the company is readying itself for growth in the years ahead. It is made up of six focus themes which are directed at improving financial success and strengthening sustainable profitability.

Lightweights on board ✈ The success of Lufthansa Cargo is also due to its constant product innovations, which not only advance its business, but also bring benefits for the environment. They include new containers from light composite materials that weigh as much as 15 per cent less than their predecessors and have been in service at Lufthansa and Lufthansa Cargo since autumn 2011. By using these, kerosene consumption can be cut by around 2,180 tonnes a year and savings of 6,867 tonnes of CO_2 made.

Obstacle course ✈ Things do not always go to plan, as was shown in October 2011 when the temporary nightflight ban for Frankfurt Airport was imposed at short notice. This will cause severe financial losses and in the long term will endanger jobs and the competitiveness of Frankfurt as a cargo hub. The Hesse administrative court called a halt to all night-flights between 11 p.m. and 5 a.m., a period which is mostly used for freight services. Since then Lufthansa Cargo's flight operations have been subject to considerable restrictions. A final decision is still pending, but the fact is that literally overnight, Lufthansa has had to reschedule flights, move them to other airports, or even cancel some altogether.

The night-flight ban for Frankfurt Airport is a heavy blow

08:01 GIG

Rio de Janeiro/Brazil | LSG Sky Chefs |

As a global business the Lufthansa Group is also present in many local markets outside Europe. With a market share of 26 per cent, the LSG Sky Chefs group is the clear number one in airline catering. Its 30,000 employees working in 50 countries around the world enable LSG Sky Chefs to forge its decentralised units into a strong and successful whole.

Broad presence in Latin America ✈ To profit from the dynamism of the Latin American market, LSG Sky Chefs enters into local cooperation agreements and expands its own sites. Its portfolio in Latin America consists of 47 plants in total, of which 38 are joint ventures. Brazil is a rapidly emerging country and features prominently in the growth strategy with five of its own facilities – two at Rio de Janeiro Airport – and many important customers. Extension work at the airport in Panama City was the cue for LSG Sky Chefs to build its own new site there: the foundation stone was laid in November 2011.

Global standards and regional diversity breed success

A good blend delivers top performance Diversity is a principle that is honoured in Lufthansa's operations. This is true with regard to both to the formation of the Group, with its many different segments and airlines, and to the people who bring our philosophy to life every day around the world. One example of unity in diversity is LSG Sky Chefs. The catering specialist employs tens of thousands of staff, who come from over 100 countries and contribute a wealth of cultures, careers and experiences. It is precisely this diversity within the company that enables it to do business successfully around the world with suppliers, customers and partners. More than 300 airline customers depend on the services that LSG Sky Chefs provides as a global company with a great flair for local specificities. In LSG Sky Chefs catering, globally uniform service standards meet authentic regional cuisine provided by the international network. The results are innovative premium products that are always ahead of the expectations and demands of the market and can therefore withstand strong price pressure.

New service trolleys Making work easier for its employees and doing something for the environment into the bargain: with the Quantum Light Weight Trolley developed by LSG Sky Chefs, the company does both. The new model is easier to handle and thanks to its lightweight construction it also helps to reduce fuel consumption and CO_2 emissions.

Social responsibility Human interaction has a high priority in the Lufthansa Group. Internally, but well beyond that too. Several years ago Lufthansa staff founded the charity HelpAlliance, which supports a large number of aid initiatives and development projects around the world. In Africa and Latin America this aid is employed where it is needed most: in schools, hospitals and projects to help homeless children.

HelpAlliance project: Estrela do Sul in Porto Allegre, Brazil

13:01 SOF

Sofia/Bulgaria | Lufthansa Technik |

Lufthansa Technik supplies its customers with dependable maintenance services from its modern, all-encompassing product portfolio and by means of an international production alliance. For the Group this steady revenue growth and consistent cost management have for years meant reliable and substantial earnings contributions. At times of economic uncertainty this makes the business model for the whole Group much more robust.

Lufthansa Technik expanding in Sofia Since it was established in 2007 Lufthansa Technik Sofia has become one of the leading centres for maintenance, repair and overhaul (MRO) services for medium-haul aircraft in Europe and the Middle East. Further growth at the site is the logical next step: Lufthansa Technik Sofia's two joint venture partners, Lufthansa Technik AG and the Bulgarian Aviation Group, are investing EUR 15m in the construction of a new hangar. A smaller hangar is also being built for simpler maintenance work. This extension will nearly double the capacity for MRO services at this location.

Even more success for the Group with entrepreneurial spirit

All set for the future The expansion in Sofia is a great example of the success story that is Lufthansa Technik. In recent years this segment has been able to generate consistently high operating profits even during economically turbulent times. As the leading provider of MRO services for civil commercial aircraft, Lufthansa Technik is well placed for the future too. Important contributions come from its modern product portfolio and global production group. Around 30 operating subsidiaries and equity investments in Europe, Asia, Australia and America make up the Lufthansa Technik group. The strategy of consistently developing its international network bolsters its competitive position sustainably. The company tackles the competition and price pressure on the MRO market with promptly initiated programmes to make capacities more flexible, cut costs and increase efficiency.

A balanced profile provides stability A good balance between airborne and non-flying companies is one of the core elements of the Lufthansa strategy. The Group's profile, which is made up of airlines as well as service segments such as MRO, IT Services and Catering, positions the Company on several pillars, giving it a strong footing. One of Lufthansa's qualities has always been a culture of entrepreneurship. This is how we promote the efficient use of resources, identify market opportunities and keep an open mind for new business ideas and models. In the future we will be giving even greater weight to exchanging ideas between companies in boards like the Airline Development Board or the Group Development Board so as to make even better use of our common resources within the Group.

An entrepreneurial mindset and responsibility for quality in all segments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To our shareholders | Letter of the Executive Board |

2011 was a challenging year. We completed it better than many competitors, but also less well than we had hoped. Our Group structure had a stabilising effect; all business segments generated a profit. Lufthansa stands on solid foundations. We follow a clear strategy: our goal is profitable growth. The challenges nevertheless remain. We face them with quality and operating flexibility. Our new Group programme SCORE will strengthen Lufthansa’s future role decisively.

The Executive Board of Deutsche Lufthansa AG (from left):
Christoph Franz, Stefan Lauer, Carsten Spohr, Stephan Gemkow

Ladies and Gentlemen,

My colleagues Stephan Gemkow, Stefan Lauer, Carsten Spohr and I can now look back on our first year in our new formation. We started with ambitious goals. We closed the 2011 financial year much better than many of our competitors, but also less well than we hoped at the beginning of the year. The events in Japan and the Arab region, the European debt crisis, high fuel prices, the air traffic tax, the night-flight ban in Frankfurt and a slowing global economy – we had to face many challenges over the course of 2011. They affected the airborne companies much more severely than our service segments. Our Group structure, especially our presence in different areas of the aviation value chain, thus proved to be a stabilising factor once more.

Our operating figures still turned out decently given the difficult environment. We increased revenue by more than 8 per cent and generated an operating profit of EUR 820m. The bottom line is that the Group reported a loss of EUR 13m, however, which was partly influenced by the negative effect of the current result and the disposal valuation for bmi. As an exception from our dividend policy we will nevertheless table a proposal to distribute a dividend of 25 cents per share at the Annual General Meeting on 8 May. With this we wish to enable you, our shareholders, to participate in our successful operating performance in 2011 in a manner that is justifiable to our financial profile. At the same time, we would like to give a sign of thanks for your trust and your loyalty in a difficult stock market year, in which our emblem, the crane, also lost many feathers.

Looking back at the year 2011 there are still plenty of positive developments to report, however. Our customers stayed true to us. Passenger numbers rose to more than 100 million. 2011 was also a year of record investment, with capital expenditure of nearly EUR 2.6bn, above all on modern and fuel-efficient aircraft, but also on many other very promising projects in all business segments. At the same time, we generated a free cash flow again in 2011.

All the business segments held their ground against global competition and all were able to close the challenging financial year 2011 in the black. Our airlines in the Passenger Airline Group won market shares in Germany and Europe. They are well prepared for global competition as well, with wide-ranging partnerships such as the Atlantic++ and Japan+ joint ventures. Altogether the segment increased its revenue substantially and earned an operating profit, albeit a smaller one than in the previous year.

One focus of our attention in 2011 was bmi. The management and staff there fought hard. Despite the comprehensive restructuring it was not enough to turn the company around. The intended sale to International Airlines Group now offers the best prospects – both for bmi and for earnings development at Lufthansa.

Lufthansa Cargo generated the second-best result in its history, despite the deteriorating economy. The night-flight ban in force since October 2011 is nevertheless a considerable burden. Lufthansa Technik also contributed a substantial profit to our result, nearly matching the previous year's figure despite non-recurring effects. At Lufthansa Systems, restructuring activities are having an effect. Revenue has stabilised and the result is much better – but the IT market remains difficult. LSG Sky Chefs continued its successful performance, increasing revenue and result yet again in 2011.

All in all, the foundations on which our Company stands have proved to be sound and stable. To ensure they remain so, we defined the Group's strategic direction in more detail in 2011 and drew up a road map for the next ten years. We have a clear destination in mind. We want to stay the number one in Europe and to build on our position as Europe's airline powerhouse. In global competition we intend to hold on to and advance our position on the leader board. In order to reach this goal we have to secure a financial profile for our Company that enables us to invest in a modern fleet and innovative products for our customers, in developing our market position and in our business segments and their employees. With these criteria in mind, we have defined and initiated a wide range of activities. These include withdrawing from persistently loss-making businesses, as we have already done with Lufthansa Italia and bmi. In addition, we intend to increase our organisational efficiency, to improve the airline group management and also to examine the disposal of non-strategic equity investments.

Our new Group programme to improve earnings – SCORE – will make a major contribution to shaping Lufthansa's future role. All business segments and airlines will deliver individual and overarching contributions with which we intend to increase the Group's operating profit sustainably by at least EUR 1.5bn over the next three years. This will require a considerable effort, because we anticipate that the financial year 2012 will again be plagued by uncertainty. The economic conditions remain difficult and volatility is still high, but we are prepared for all weathers. Our continued strategic development, our operating flexibility and our competitiveness, which SCORE is intended to sharpen further, are vital building blocks for safeguarding the future of our Company and its staff.

We are ready for a safe journey and we invite you, our shareholders, to accompany us on our course of sustainable profitable growth. Thank you for your trust.

Frankfurt, March 2012

Christoph Franz

Christoph Franz
Chairman of the Executive Board of Deutsche Lufthansa AG

Christoph Franz

Chairman of the Executive Board and CEO Christoph Franz, born on 2 May 1960, has been Chairman of the Executive Board and CEO of Deutsche Lufthansa AG since 1 January 2011. After studying and gaining his doctorate in engineering and business administration in Germany, France and the USA, he began his career at Deutsche Lufthansa AG in 1990. One of the achievements here was his involvement in the turnaround of the Company in the 1990s. In 1994 he moved to Deutsche Bahn AG, where after different positions he became management board member with responsibility for passenger traffic from 1999. On 1 July 2004 he was appointed Chief Executive Officer of Swiss International Air Lines AG. This was followed by the appointment as of 1 June 2009 as Deputy Chairman of the Executive Board of Deutsche Lufthansa AG and at the same time as Chairman of Lufthansa German Airlines.

Stephan Gemkow

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

Stefan Lauer

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

Carsten Spohr

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


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Annual review

Q1/2011

New Executive Board team
The new Executive Board of Deutsche Lufthansa AG commenced work at the beginning of the year. Christoph Franz took over the post of Chairman of the Executive Board and CEO of Deutsche Lufthansa AG as of 1 January 2011. He is the successor to Wolfgang Mayrhuber. Effective as of the same date, Carsten Spohr was appointed to the Executive Board of Deutsche Lufthansa AG as CEO of Lufthansa German Airlines.

Air traffic tax introduced in Germany and Austria
The air traffic tax on flights departing from Germany introduced on 1 January 2011 leads to higher ticket prices for air travel. A similar tax on departures from Austria was introduced on 1 April 2011. These one-way measures distort competition and have since had an adverse effect on airlines' traffic performance, as price-sensitive customers in border areas partly switch to airports abroad.

Political unrest in North Africa and Middle East and disasters in Japan
The unrest in some Arab countries in the first quarter had a distinctly negative effect on business. Flights were temporarily suspended to some cities in the countries affected. The earthquake and devastating tsunami in Japan on 11 March 2011 as well as the subsequent catastrophe at the Fukushima nuclear power plant resulted in temporary restrictions on flights to Japan.

Supervisory Board approves order for 35 new aircraft
In March the Supervisory Board approved the order of 35 aircraft. They include 30 aircraft from the Airbus A320neo family and five Boeing 777 freighters. The passenger planes are to be delivered from 2016 and the freighters from as early as 2013. The fleet modernisation was continued in September with the ordering of a further twelve aircraft (two Airbus A380s, one A330-300, four A320s, five Embraer 195s).

Q3/2011

Lufthansa starts biofuel test
In mid July 2011 Lufthansa began a biofuel test supported by the German government's aviation research programme. This involved operating one engine of an Airbus A321 on the Frankfurt–Hamburg route with a fuel blend made up of 50 per cent biosynthetic fuel. The test ended in December 2011 and according to initial calculations was able to save 1,471 tonnes of CO_2 on the flights made.

Lufthansa adjusts growth plans to the changed market environment
In September Lufthansa adjusted its earnings expectations and growth plans in line with the sharp deterioration in market conditions. As part of a package of measures, capacities were cut in the winter flight plan 2011/2012 and planned capacity growth reduced for the full year 2012.

PartnerPlusBenefit is ten years old
The Lufthansa corporate bonus programme PartnerPlusBenefit celebrated its tenth anniversary in September. The programme was launched in 2001 for small and medium-sized companies in Germany and enables them to benefit from corporate incentives.

Jaan Albrecht nominated as new CEO of Austrian Airlines
In August 2011 Jaan Albrecht was nominated by the Executive Board of Deutsche Lufthansa AG as Chairman of the Executive Board of Austrian Airlines, and in September was appointed to the post by the Supervisory Board. The long-serving CEO of Star Alliance, who made a key contribution to developing the alliance's leading role in global airline competition, took up his new position on 1 November 2011.

Q2 / 2011

Oil price hits high for the year

In the second quarter of 2011 the oil price reached its high for the year at USD 126.25 for a barrel of Brent Crude. The kerosene price also hit its annual high, putting pressure on business. Over the course of the year prices for crude oil and kerosene remained high and were therefore an important factor in the Lufthansa Group's earnings development.

Joint venture Japan+ founded by Lufthansa and ANA

Following approval by the Japanese competition authorities, in June a strategic joint venture named Japan+ was founded by Lufthansa and ANA, Japan's largest airline. The partnership, which is due to commence in April 2012, includes coordinated sales activities and flight plans.

Wage settlement with Vereinigung Cockpit pilots' union

Lufthansa and the Vereinigung Cockpit pilots' union agreed on a new wage settlement on 29 June 2011. This comprises a pay rise of around 3.5 per cent, backdated to 1 April 2011, for the approximately 4,500 pilots at Lufthansa Passenger Airlines, Lufthansa Cargo and Germanwings. The wage agreement runs until the end of April 2012.

Awards for companies in the Lufthansa Group

At the World Airline Awards 2011 Lufthansa Passenger Airlines was voted "Best Transatlantic Airline". At the same ceremony, Austrian Airlines emerged victorious in the categories "Best Business Class Catering" and "Staff Service Excellence Europe". SWISS won in the category "Best Airline in Western Europe" at the Skytrax World Airline Awards. Over the course of the year Lufthansa Cargo and Lufthansa Technik were voted "Best Cargo Airline" and "Best MRO Provider in Europe".

Q4 / 2011

Greater cooperation between Lufthansa Passenger Airlines and Germanwings

A decision was taken in December 2011 to coordinate the routes available from Lufthansa Passenger Airlines and Germanwings even more closely in future. As a result, Germanwings will serve all European destinations from Stuttgart for Lufthansa Passenger Airlines from summer 2012. The two airlines have been cooperating since the beginning of the year. It has been possible for customers to combine flights from Lufthansa and Germanwings since January 2011. In early February Germanwings was also integrated as an airline partner in the Lufthansa corporate programmes.

Lufthansa is growing in Berlin with a new strategy

On 9 November 2011 Lufthansa presented its plans for the inauguration of the Berlin-Brandenburg "Willy Brandt" airport in summer 2012 for the first time. In addition to local fleet growth from nine to 15 aircraft, the route network is also to be extended from eight to 38 destinations. Cockpit and cabin crews stationed locally on competitive terms make it possible to offer customers one-way tickets from EUR 49.

Night-flight ban at Frankfurt Airport

On 10 October 2011 the Hesse administrative court unexpectedly imposed a strict ban on night-flights for Frankfurt Airport as of 30 October 2011. It prohibits flights in the period from 11 p.m. to 5 a.m. and will remain in force until a final ruling by the Federal Administrative Court in spring 2012. The ban has grave consequences for the winter flight plans at Lufthansa Passenger Airlines and Lufthansa Cargo.

Lufthansa and IAG sign contract for the sale of bmi.

Lufthansa and International Airlines Group (IAG) signed an agreement for the sale of British Midland Ltd. (bmi) on 22 December 2011. With the transaction Lufthansa is disassociating from a sustainably loss-making subsidiary. The deal is aimed to be closed in the first quarter of 2012 and is subject above all to approval by the competition authorities.

Lufthansa share

↗ Share indices fell sharply worldwide in 2011. ↗ The Lufthansa share also lost nearly 44 per cent of its value. ↗ Its market valuation is well below the target prices of analyst recommendations. ↗ Lufthansa maintains a direct dialogue with investors. ↗ A dividend of EUR 0.25 is being proposed for 2011.

DAX falls by 14.7 per cent in a difficult year on stock markets
2011 was a difficult year altogether on the stock market. Although stock market performance was fairly stable in the first six months, the second half-year saw sharp losses in the wake of worsening sovereign debt crises in Europe and the USA and the related recessionary risks. The DAX too registered a rise of 6.7 per cent in the first half-year before shedding 20.0 per cent of its value in the second, resulting in a performance for the full year of –14.7 per cent.

Even more severe losses for airline shares
In the airline sector the losses were even greater. Contrary to the general market trend, airline shares even came under pressure in the first half-year due to the high oil price and one-off events like the earthquake disaster in Japan and political unrest in the Arab world.

As the airlines react particularly sensitively to economic variations, the repeated revision of economic forecasts and increasing fears of a recession caused share prices to fall further in the second half-year.

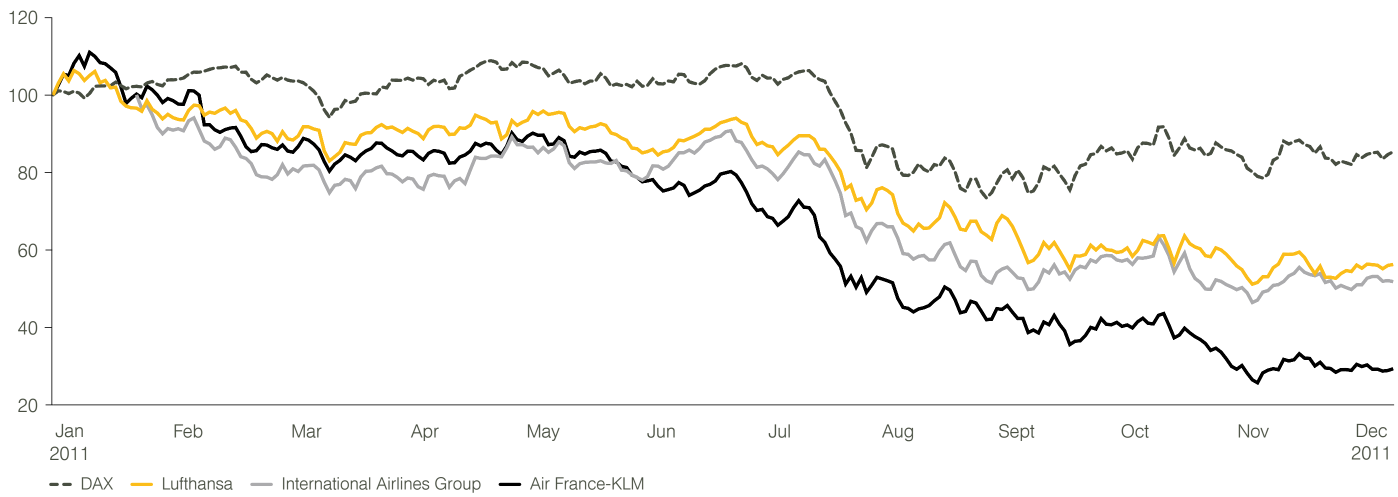
Over the course of the full year the Lufthansa share lost 43.8 per cent to close on 31 December 2011 at EUR 9.19. While Lufthansa outperformed its competitors substantially in the first half-year, in the second half-year the differences between airlines played a much smaller role in investment decisions, as the uncertain economic environment caused investors to avoid the entire sector.

Including the dividend payment for the financial year 2010, the total shareholder return on the Lufthansa share came to –40.2 per cent. This loss was less severe than for the direct competitors Air France-KLM (–70.9 per cent) and IAG (–48.3 per cent).

The Lufthansa share: key figures

		2011	2010	2009	2008	2007
Year-end share price	€	9.19	16.36	11.75	11.19	18.22
Highest share price	€	17.39	17.77	12.31	18.32	22.72
Lowest share price	€	8.35	10.34	7.86	8.99	17.17
Number of shares	millions	457.9	457.9	457.9	457.9	457.9
Market capitalisation (at year-end)	€bn	4.2	7.5	5.4	5.1	8.3
Earnings per share	€	–0.03	2.47	–0.07	1.18	3.61
Cash flow from operating activities per share	€	5.14	6.71	4.35	5.40	6.25
Dividend per share	€	0.25	0.60	–	0.70	1.25
Dividend yield (gross)	%	2.7	3.7	–	6.3	6.9
Dividend	€m	114.5	274.8	–	320.5	572.4
Total shareholder return	%	–40.2	39.2	11.3	–31.7	–9.3

Performance of the Lufthansa share, indexed as of 31.12.2010, compared with the DAX and competitors, in %



Lufthansa was the only European network airline to pay a dividend in 2011 and therefore to let its shareholders share directly in the previous year's economic success. The dividend yield was 3.7 per cent, based on the closing price for 2010.

25 cent dividend proposal

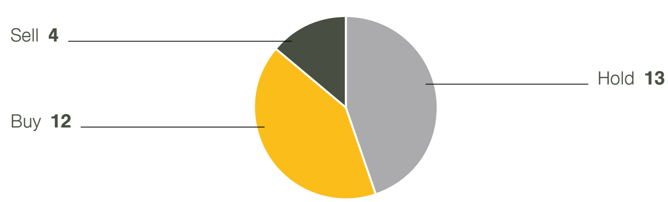
By means of its consistent dividend policy Lufthansa has for many years distributed a sustainable share of the Company's positive performance directly to its shareholders. In accordance with this, dividend payments are primarily based on the Group's operating profit, whereby a dividend ratio of 30 to 40 per cent is the target. The condition for a dividend payment being made is that the net profit for the year as reported in the individual financial statements under HGB, from which the dividend is paid, allows the distribution of a corresponding amount, see also the chapter "Financial Strategy" on p. 39.

↗ For many years Lufthansa has distributed a sustainable share of the Company's positive performance directly to its shareholders.

This condition has not been met for the financial year 2011, as the annual result was negative – largely due to the negative result and valuation effects in connection with the disposal of bmi. The Executive Board and the Supervisory Board nevertheless decided, as an exception to the dividend policy, to propose the distribution of a dividend of EUR 0.25 per share at the Annual General Meeting on 8 May 2012, in order to let shareholders participate in the successful operating performance in a way that is justifiable to the financial profile. See "Profit distribution" on p. 53 for further details.

The dividend payment proposed represents a dividend yield of 2.7 per cent, based on the share's closing price as of 31 December 2011.

Analysts' recommendations* as of 31.12.2011



* Target price: EUR 12.00, average of 29 analysts.
Range: EUR 6.40 to EUR 17.00.

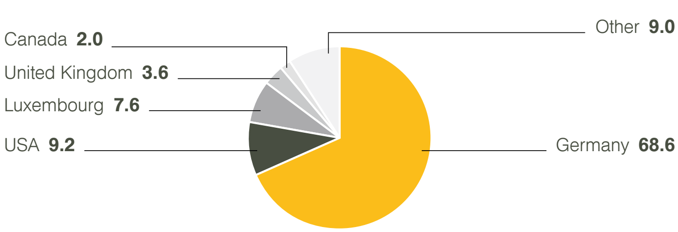
Analysts look favourably upon the Lufthansa share

Despite the short-term, industry-wide risks that are depressing the share prices of all airlines, most analysts see Lufthansa as one of the best placed companies in the sector. The strong competitive positions of its business segments, efficient hubs and its very sound financial structure enable Lufthansa to take an active and successful part in the growth of and the changes affecting the industry. The consistent cost management and the solutions found for unprofitable units are also well viewed. Furthermore, the current market valuation is well below the share's medium-term potential. At year-end about 86 per cent of equity analysts therefore recommended the share as a hold or a buy. The average target price for the usual 12 to 18-month period was EUR 12.00 and therefore offered potential of 30.6 per cent compared with the price on the reporting date.

Stable shareholder structure

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 documentation can be provided proving that the majority of Lufthansa shares are held by German investors. There were only slight shifts in the regional shareholder structure over the course of 2011. At year-end the percentage of German investors came to 68.6 per cent (previous year: 68.5 per cent) and was therefore again well above the statutory minimum. The second largest group with 9.2 per cent was shareholders from the USA. Investors from Luxembourg accounted for 7.6 per cent, followed by the United Kingdom and Canada with 3.6 and 2.0 per cent respectively.

Shareholder structure by nationality as of 31.12.2011 in %



Free float: 100%

The free float for Lufthansa shares is 100 per cent. As of the reporting date 61.5 per cent of the shares were held by institutional investors and 38.5 per cent by private individuals. The largest investors at year-end were the global fund managers BlackRock Inc. and Templeton Global Investors Limited with holdings of 5.08 and 3.19 per cent respectively. All the transactions requiring disclosure and published during the financial year 2011 can be seen in the Notes to the consolidated financial statements from p. 182. They are also published on our website i www.lufthansa.com/investor-relations together with the shareholder structure, which is updated every quarter.

Lufthansa sets high value on dialogue with investors

In the financial year 2011 we again practised our philosophy of informing all investors in a timely, thorough and professional manner. We believe that this is a basic condition for gaining shareholders' trust.

In 2011 and in addition to the own quarterly conferences, the Executive Board and Investor Relations team held 39 roadshows and 11 investor conferences to inform institutional investors about current developments at the Group. This involved more than 300 one-on-one and group meetings. Once a year we also organise an Investor Day to give analysts and investors an insight into the individual segments and subsidiaries and to give them the opportunity of talking directly to senior management. In 2011 this event took place in Zurich and focused accordingly on the Group company SWISS. Other areas of focus were developments at the hubs in Frankfurt and Munich as well as at Lufthansa Cargo. In addition, participants discussed the Group's strategy and financial performance with the Executive Board.

We also attach great importance to direct contact with our private shareholders. Investor Relations representatives were available to answer questions at six special forums organised for private investors. The service for private shareholders also includes our Shareholder Information, which was published twice in 2011. It can be accessed on our website. There you will also find our financial calendar as well as regular updates on conferences and shareholder events that we will be attending. The next Annual General Meeting takes place on 8 May 2012 in Cologne.

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

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

Our activities aimed at communicating an up-to-date and transparent view of Lufthansa and its prospects to all interested capital market participants were again acknowledged last year. Lufthansa's investor relations work was rewarded with third place in the well-known Capital Investor Relations Prize in the DAX category. In international rankings, such as those by International Investor and Thomson Extel, Lufthansa again won the top position, sometimes in several categories, in the transport sector.

Membership in major share and sustainability indices

As a member of the DAX, Lufthansa is one of the 30 largest publicly listed companies in Germany. At year-end the share had an index weighting of 0.82 per cent. With a market capitalisation of EUR 4.2bn the Company was number 29 in the leading German index. The drop of 6 places compared with the previous year reflects the share's sensitivity to cyclical fluctuations described above, which meant that it underperformed the market as a whole considerably in 2011. In terms of stock market turnover, Lufthansa came in at number 23 (previous year: number 24). Trading volume in the Lufthansa share amounted to 1.1 billion shares in 2011; this represents a transaction volume of EUR 14.1bn.

In addition to the DAX, the Lufthansa share is also included in other international indices such as the Dow Jones EURO STOXX Mid, MSCI Euro and FTSE Eurofirst 300. In the USA investors can also invest in Lufthansa via the Sponsored American Depository Receipt Program (ADR). Since October 2011 the Lufthansa ADRs have also been registered on the standardised trading and information platform OTCQX, which makes trading in ADRs even easier and more liquid.

Lufthansa takes its corporate responsibility very seriously. This is reflected in the Company's external sustainability ratings. It is again included in renowned sustainability indices and registers such as FTSE4Good, Ethibel and ASPI. Further information on sustainability indices and rankings of Lufthansa can be found in the section on "corporate responsibility" on p. 110.

The Lufthansa share: data

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

Ladies and Gentlemen,

In the financial year 2011 the Supervisory Board worked well and effectively with the Executive Board led by the new CEO Christoph Franz. We carried out the duties conferred on us by statute, the Company's Articles of Association and its internal regulations: to supervise the work and to advise the Executive Board.

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

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

In 2011 the Supervisory Board held four ordinary meetings, on 16 March, 2 May, 29 September and 7 December. All members of the Supervisory Board attended all meetings.

In September we held in-depth discussions with the Executive Board about the further strategic development of the Group. In December we carried out the regular review of the efficiency of our working practices and together with the Executive Board issued an updated declaration of compliance with the German Corporate Governance Code. There were no conflicts of interest requiring disclosure in 2011.

In the declaration of compliance the Supervisory Board reaffirmed its support for the fundamental importance of a diverse Supervisory Board membership for the Company. At the same time, it would like to see more women represented. Notwithstanding the recommendation in 5.4.1 of the Code, a decision was again taken, however, not to set concrete targets for this in the form of quotas or absolute figures. When proposing candidates for election to the Annual General Meeting, the Supervisory Board will be guided by the knowledge, skills and professional experience of the potential nominees.

The Supervisory Board meetings focused on economic developments at Lufthansa and its consolidated and investee companies. Particular attention was given to the effects of the earthquake off the coast of Japan in spring 2011, the political unrest in North Africa and the Middle East, and the ruling issued by the Hesse administrative court in October imposing a temporary ban on night-flights from Frankfurt. The Supervisory Board also received detailed information about the assessment of a strategic partnership for Lufthansa Systems AG and the difficult economic situation at British Midland. As a turnaround remained out of reach at British Midland, despite considerable efforts by management and staff, we approved the sale of the company to International Airlines Group in December.

Other important items on the agenda in the reporting year related to approvals for the purchase of 47 aircraft of different models for the airlines in the Group, new cabin products on Lufthansa Passenger Airlines and Austrian Airlines wide-bodied aircraft, the implementation of a joint venture with All Nippon Airways, and the reorganisation of company law structures at LSG Sky Chefs Deutschland GmbH and its facilities.

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

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

On the recommendation of the Steering Committee the Supervisory Board adopted a new remuneration structure for the Executive Board in September 2010, which applies to all Executive Board members from the financial year 2011. The Supervisory Board was keen to align the remuneration structure more closely with the sustainable development of the Company and to smooth the remuneration of the Executive Board, which in the cyclical airline business had fluctuated far more than average in recent years. We therefore reduced the short-term financial incentives in the variable component by converting part of the one-year variable bonus into basic salary and largely basing the variable remuneration on performance over several years. The overall level of average remuneration was not altered. The new structure, which was adopted by an overwhelming majority at the 2011 Annual General Meeting, is described in full in the remuneration report.

The Steering Committee met four times in the financial year 2011. Neither the Arbitration Committee required under Section 27 Paragraph 3 German Codetermination Act nor the Nomination Committee needed to be convened during the reporting period. The Audit Committee, which met four times in 2011, three of which in the presence of the auditors, discussed the interim reports with the CFO before publication. The committee also dealt with supervision of accounting processes and the effectiveness of the internal control system, the risk management system and the internal audit system. The members received regular reports on risk management, compliance and the work of the Group's internal audit department. The committee also received detailed information from the Board members of Austrian Airlines and British Midland on the economic situation at their respective companies.

We appointed PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Dusseldorf, who were elected as auditors for the parent company and the Group at the Annual General Meeting 2011, to audit the financial statements and the consolidated financial statements, the management reports and the risk management system. The Audit Committee acknowledged the declaration of independence provided by PricewaterhouseCoopers and discussed the main topics of the audit. No potential grounds for disqualifying the auditors or doubting their impartiality came to light during the course of the audit.

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), taking account of interpretations by the International Financial Reporting Interpretations Committee (IFRS IC) as applicable in the European Union (EU). The auditors audited the annual financial statements and consolidated financial statements of Deutsche Lufthansa AG and the combined management report as of 31 December 2011 in accordance with the legal requirements, and had no reservations to make. They further confirmed that the risk management system set up by the Executive Board is suitable for the early identification of developments which could endanger the Company's continued existence. During their audit the auditors did not come across any facts in contradiction with the declaration of compliance.

In early March 2012 the Audit Committee discussed the audit reports in detail with the CFO in the presence of the two auditors who had signed the financial statements. At the Supervisory Board accounts meeting the auditors reported on their audit findings and answered questions. We examined the financial statements and the consolidated financial statements of Deutsche Lufthansa AG, the combined management report and the proposal for profit distribution in detail and had no objections to make. The financial statements and the consolidated financial statements were approved. The 2011 annual financial statements of Deutsche Lufthansa AG as prepared by the Executive Board have thereby been adopted. We agree with the proposal for profit distribution.

We would like to express our particular thanks to the Executive Board and to all the employees in the Group and its associated companies for their personal contribution to the Lufthansa Group's success in the financial year 2011.

Cologne, 14 March 2012

J. Weber

For the Supervisory Board
Jürgen Weber, Chairman

Corporate governance

↗ The recommendations of the German Corporate Governance Code have largely been followed. ↗ The Executive Board and Supervisory Board pursue the common goal of increasing company value sustainably. ↗ From 2011 a new remuneration structure for the Executive Board conforms more closely to the Act on Appropriate Executive Board Remuneration (VorstAG). ↗ The Lufthansa Compliance Programme is in force throughout the Group.

Declaration of compliance with the German Corporate Governance Code

At their meeting on 7 December 2011, the Executive Board and Supervisory Board issued the following declaration of compliance with the German Corporate Governance Code (the Code):

"In accordance with Section 161 of the German Stock Corporation Act (AktG), the Executive Board and Supervisory Board of Deutsche Lufthansa AG declare that the recommendations of the German Corporate Governance Code, as published by the Federal Ministry of Justice in the official section of the electronic Federal Gazette on 2 July 2010 (the Code), have been complied with since the last declaration of compliance with the following exceptions and will continue to be complied with:

The Executive Board members Wolfgang Mayrhuber (until 31 December 2010) and Stephan Gemkow in the past held more than three supervisory board seats in publicly listed companies outside the Group or on supervisory boards of companies with similar demands. As announced in the last declaration of compliance, since 26 May 2011 all Executive Board members have complied with the maximum number of board seats in companies outside the Group as stipulated in 5.4.5 of the Code.

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

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

Shareholders and Annual General Meeting

Lufthansa shares are registered shares with transfer restrictions, which all have the same voting rights. This means that our shareholders take part in all fundamental Company decisions at the Annual General Meeting. Registration in the shareholders' register takes place by means of shareholder data provided electronically via banks and the clearing system. A peculiarity at Lufthansa is that in addition to the German Stock Corporation Act the registration requirements of the LuftNaSiG must also be met. All shareholders listed in the shareholders' register can exercise their voting rights at the Annual General Meeting. The electronic service for the registration process required under stock corporation law includes the option of appointing proxies, banks and shareholder associations to exercise these voting rights via internet and, starting in 2012, by postal vote. Shareholders can also follow the speeches made at the Annual General Meeting by the Chairmen of the Supervisory and Executive Boards online. Further information is also available on our website.

Executive Board and Supervisory Board

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

The Supervisory Board of Deutsche Lufthansa AG has adopted internal regulations governing the work of the Executive Board and the Supervisory Board 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 Executive Board reports regularly to the Supervisory Board, which is made up of equal numbers of shareholder and employee representatives. At the Supervisory Board meetings the Executive Board informs the Supervisory Board four times a year on business developments at the Group and its affiliated companies, and once a year on operational planning and financial planning for the Group. The Executive Board presents the Company's quarterly reports to the Supervisory Board. Furthermore, the Chairman of the Executive Board informs the Chairman of the Supervisory Board and the Supervisory Board of important matters.

The Executive Board takes decisions by simple majority of votes cast. There are a number of transactions for which the Executive Board requires the prior approval of the Supervisory Board. These include in particular – always above a certain value threshold – capital expenditure (for aircraft and other non-current assets), long-term leasing of aircraft, establishing companies, acquisitions or disposals of shares in companies, entering new businesses within the scope of the Articles of Association or discontinuing any such existing businesses, signing or cancelling control agreements and strategically important cooperation agreements, and borrowing.

The Supervisory Board elects a Steering Committee made up of four members with equal shareholder and employee representation, which makes recommendations to the Supervisory Board on the contents, form and signing of service contracts with the Executive Board members. The Steering Committee is also responsible for other staff matters regarding Executive Board members and senior managers.

A six-member Audit Committee with equal shareholder and employee representation is also elected, which is essentially responsible for monitoring the accounting processes, reviewing the effectiveness of the internal control system, the risk management system and the internal audit system, and handling matters relating to compliance. It also discusses the quarterly interim reports with the Executive Board before they are published.

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

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

The Supervisory Board member Mr Matthias Wissmann is a partner and the Supervisory Board member Mr Robert Kimmitt is a partner and Senior International Counsel at the law firm WilmerHale. The Supervisory Board member Mr Martin Koehler was a partner at the company The Boston Consulting Group (BCG) until the end of October 2011 and since then has been a Senior Advisor for the consultancy. Lufthansa has had in the past and will probably in the future have advisory contracts with both WilmerHale and BCG. Neither Mr Wissmann nor Mr Kimmitt nor Mr Koehler advise the Company as part of these contracts. Both WilmerHale and BCG have also confirmed in writing that they have taken organisational steps to ensure that fees from advisory work for our Company are not taken into account either directly or indirectly in determining the remuneration that the aforementioned gentlemen receive from the law firm and the consultancy company respectively. The aforementioned Supervisory Board members therefore have no potential conflict of interests and there is no question of their independence, and the Supervisory Board's approval of these advisory contracts is not required.

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

The names of Executive Board and Supervisory Board members and their responsibilities, as well as the members and duties of committees set up by the Supervisory Board, are listed from p. 213 of this annual report.

Transparent accounting and financial communications

Lufthansa prepares its consolidated financial statements and interim reports in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), taking account of interpretations by the International Financial Reporting Interpretations Committee (IFRS IC) as applicable in the European Union (EU). The individual financial statements for Deutsche Lufthansa AG, which are required by law and are definitive for the dividend payment, are prepared according to the German Commercial Code (HGB). PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft in Dusseldorf has been appointed to audit the financial statements for 2011. The auditors' fees for the 2011 financial year are summarised in the Notes to the consolidated financial statements, "Note 52" on p. 209.

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. 24 and on our website i www.lufthansa.com/investor-relations.

Trading in Lufthansa shares, or in financial instruments based on them, in particular options or derivatives, by members of the Executive Board, Supervisory Board and members of the Lufthansa German Airlines Board – known as directors' dealings – are announced 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

In accordance with Section 13 Paragraph 1 of the Articles of Association, the members of the Supervisory Board receive a fixed salary of EUR 50,000 per year and a variable bonus depending on net profit per share. Total remuneration for an ordinary member may not exceed EUR 100,000 per year. Remuneration for the Chairman is three times and for the Deputy Chairman one and a half times the total remuneration of ordinary members. Committee members receive an additional 25 per cent and committee chairmen an additional 50 per cent of total remuneration. Remuneration for committee work is subject to the proviso that the committee met at least once in the financial year.

In 2010 the Supervisory Board adopted a new remuneration structure for the Executive Board, which was applicable from the 2011 financial year onwards. It implements the rules contained in the Act on Appropriate Executive Board Remuneration (VorstAG) and the German Corporate Governance Code (GCGC). These require publicly listed companies to align their remuneration structures more closely with the sustainable development of the company. The Supervisory Board was also keen to smooth the remuneration of the Executive Board, which in the cyclical airline business had fluctuated far more than average in recent years. At the Annual General Meeting held on 3 May 2011 this new system of Executive Board remuneration was approved by 98.41 per cent of votes validly cast. The current system of Executive Board remuneration reduces the short-term financial incentives in the variable components and bases the variable remuneration largely on performance over several years.

Part of the previous one-year variable bonus was therefore converted into basic salary. The remaining, in comparison with the old system smaller, variable remuneration component is measured by reference to the operating margin. Only 75 per cent of this bonus is to be paid the following year, and therefore on an annual basis. The remaining 25 per cent are carried forward for another two years. At the end of the assessment period, which runs for three years in total, the amount carried forward is to be multiplied by a factor of between 0 and 2. How high the factor is depends to 70 per cent on the CVA achieved over the three-year period and to 30 per cent on sustainability parameters such as environmental protection, customer satisfaction and staff commitment. As the Executive Board is also obliged to take part in the LH-Performance programme, the great majority of variable remuneration components are therefore based on performance over several years.

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

Details of remuneration and retirement benefit commitments for members of the Executive Board and of remuneration for members of the Supervisory Board can be found in the remuneration report on p. 34, which is part of the management report. The amounts paid to the individual Executive Board and Supervisory Board members are published in the Notes to the consolidated financial statements, "Note 50" from p. 205.

Compliance

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

Combined management report

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

Company and organisation

↗ Our five business segments have leading positions in their sectors. ↗ New Executive Board team since 2011. ↗ Long-term, performance-related remuneration with a uniform programme structure for Executive Board members and managers. ↗ The value-based management system aims for sustainable value creation. ↗ Despite difficult conditions we were able to achieve many of our goals for 2011.

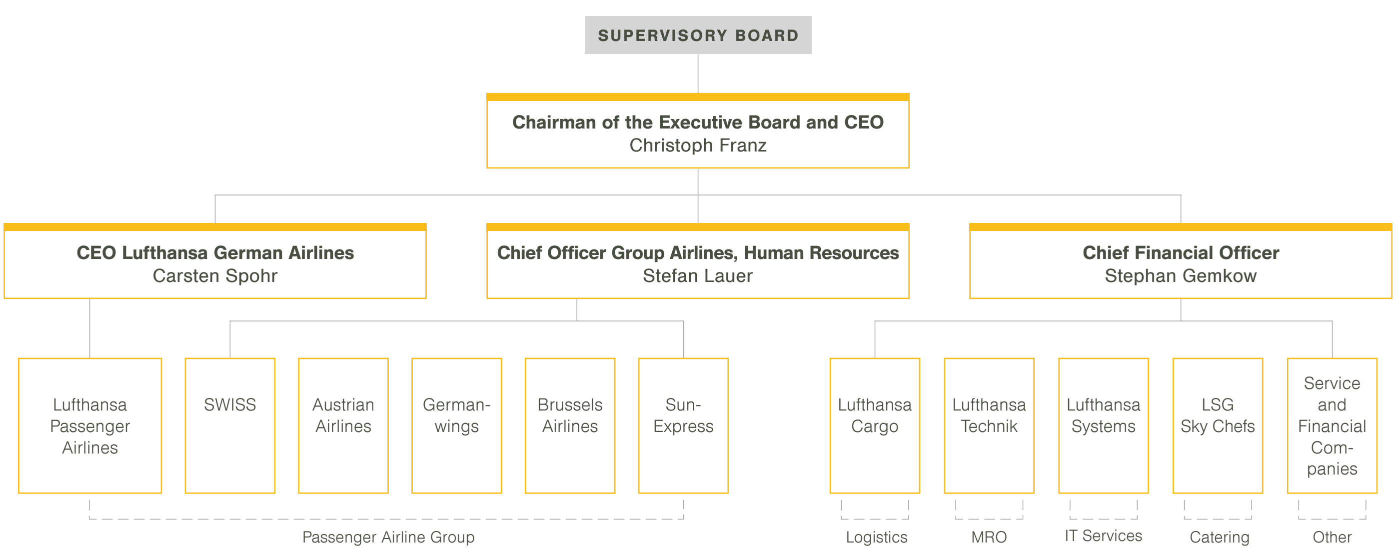
Business activities and Group structure

Five business segments with leading roles in their industries
Deutsche Lufthansa AG is an aviation group with global operations and a total of more than 400 subsidiaries and associated companies. It is divided into five business segments, which cover the areas of passenger transportation, airfreight and airline services: Passenger Airline Group, Logistics, MRO, IT Services and Catering. These segments play leading roles in their sectors and are in some cases even the global market leader.

The strategic focus is on the airlines. In the passenger business Lufthansa Passenger Airlines, SWISS, Austrian Airlines and Germanwings are acknowledged as quality carriers in their markets. Lufthansa was able to consolidate its position in its European home market in 2011: measured by passenger numbers and revenue it is Europe's largest airline. The Logistics segment also plays a leading role in international airfreight traffic. Its portfolio comprises standard and express freight, as well as special cargo.

The segments MRO, IT Services and Catering offer a full range of services for airlines both inside and outside the Group. Lufthansa Technik is the global leader in the maintenance, repair and overhaul of civil aircraft. Its service portfolio covers the whole spectrum from single jobs to the servicing of entire fleets. The IT Services segment is one of the leading global IT services providers to the airline industry. As well as customised IT solutions, the portfolio of products and services of Lufthansa Systems also includes the

Group structure



operation of complete infrastructures. The Catering segment is the global market leader in airline catering and serves international, national and regional carriers. Increasingly, LSG Sky Chefs also offers other services in the areas of development, procurement and logistics of in-flight articles and in adjacent markets. Detailed information on the individual business segments can be found in the respective comments on p. 62–103. An overview of all the main equity holdings is shown in the notes to the consolidated financial statements from p. 216.

In 2011 the Lufthansa Group had an average of 119,084 employees (without bmi: 115,335) and generated revenue of some EUR 28.7bn.

Management and supervision

Two-tier management and supervisory structure
As is common in Germany, Deutsche Lufthansa AG has a split management and supervisory structure. 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.

Christoph Franz heads new Executive Board team
The Lufthansa Group is managed by four Board members. Since 1 January 2011 Christoph Franz has led the Executive Board team as Chairman of the Executive Board and CEO, succeeding Wolfgang Mayrhuber. Christoph Franz was previously deputy Chairman of the Executive Board of Deutsche Lufthansa AG and Chairman of Lufthansa Passenger Airlines at the same time.

Since 1 January 2011 Carsten Spohr has been a Member of the Executive Board of Deutsche Lufthansa AG and responsible for Lufthansa Passenger Airlines. The Executive Board also consists of the Chief Financial Officer (Stephan Gemkow) and the Chief Officer Group Airlines and Corporate Human Resources (Stefan Lauer).

Deutsche Lufthansa AG is the parent company and at the same time the largest single operating company in the Group. The individual business segments are run as separate Group companies, with the exception of Lufthansa Passenger Airlines. They have their own profit and operating responsibility and are monitored by their respective supervisory boards, in which members of the Group's Executive Board are also represented. Further information can be found in the Notes to the consolidated financial statements "Note 50" from p. 206.

Performance-related remuneration for managers
Incentive programmes traditionally play an important role in the remuneration of Executive Board members, managers and other employees in the Lufthansa Group. Managers receive a two-stage, performance-related bonus in addition to their basic salary.

One component of this remuneration system is the LH-Bonus programme. It consists of a variable bonus relating to the reporting period. The amount is determined by the Company's performance and the manager's performance against personal targets. LH-Bonus 2011 was aligned even more closely with the Group's performance and the target indicators were harmonised for Executive Board members and managers. For both categories, Group performance is measured by reference to the operating margin and the cumulative cash value added over three years (CVA, see chapter on "Value-based management and targets" on p. 34). The perennial reference period reflects the aim of creating sustainable value.

Since 1997 we have also offered our managers the LH-Performance programme as a long-term component of variable remuneration. This annual programme rewards the sustainable increase in company value based on the performance of the shares in Deutsche Lufthansa AG.

It combines an obligatory personal investment by the participants in Lufthansa shares with the granting of appreciation rights. Lufthansa offers a discount on the personal investment. In return the shares are subject to a lock-up period until the end of the programme. The appreciation rights are made up of a performance and an outperformance option. A payment is made on the performance option at the end of the programme if the appreciation of the Lufthansa share over the entire duration exceeds a predetermined threshold, which is based on Lufthansa's cost of equity. The outperformance option generates a payment at the end of the programme if the Lufthansa share has performed better over the course of the programme than a basket made up of the shares of the main European competitors.

A key feature of LH-Performance is the uniform programme structure for Executive Board members, managers and non-payscale employees. The duration of the programme was generally raised accordingly from three to four years from the 2011 edition on. More information on our share programmes is available at i www.lufthansa.com/investor-relations.

Results "LH-Performance"

	End of programme	Outperformance as of 31.12.2011 in %	Performance as of 31.12.2011 in %
LH-Performance 2011	2015	–3	–9
LH-Performance 2010	2013	8	–29
LH-Performance 2009	2012	14	–16
LH-Performance 2008	2011	6	–15

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

The new structure of Executive Board remuneration is intended to achieve a roughly equal balance between the two components "fixed annual salary" and "variable annual bonus and remuneration with a long-term incentive effect and risk characteristics". It has been ensured that the variable remuneration components are overwhelmingly based on a period of several years. They are subject to a satisfactory operating margin and a significant performance and outperformance respectively of the Lufthansa share. The Supervisory Board members receive fixed payments as well as a variable bonus depending on the net profit for the period, whereby total remuneration for an ordinary Supervisory Board member may not exceed EUR 100,000. The detailed remuneration report and amounts paid to the individual members of the Executive and Supervisory Boards can be found in the Notes to the consolidated financial statements, "Note 50" from p. 205.

Value-based management and targets

Our goal is sustainable value creation

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

We review performance against targets on a regular basis and incorporate the results in our internal and external reporting. The value-based management system is also linked to performance-related pay, on which you can find further details in the chapter "Performance-related remuneration for managers" on p. 33.

Cash value added measures the value contribution

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

The CVA is an absolute residual amount, which is calculated as the difference between the cash flow generated in a given year and the minimum required cash flow. If the cash flow generated is greater than the minimum cash flow required, the CVA is positive and reflects the corresponding value creation. The individual parameters are calculated as follows:

The minimum required cash flow is the sum of the required return on capital employed, the capital recovery rate and the flat tax rate. The capital base is defined as the total of non-current and current assets less interest-free liabilities. It is measured at historic cost. This makes value calculation and generation independent of the depreciation and amortisation applied. We calculate the required return on capital using a widely recognised formula that determines the weighted average costs of debt and equity for the Lufthansa Group and for the individual operating segments (weighted average cost of capital – WACC). In the financial year 2011 these were based on the input variables shown in the following table:

Return on capital 2011

in %	
Risk-free market interest rate	3.7
Market risk premium	5.4
Beta factor	1.1
Proportion of equity	50
Proportion of debt	50
Cost of equity	**9.6**
Cost of debt	**4.3**

We review these factors every year and update them as required for the following year's corporate planning and performance measurement. In doing so we bear the long-term orientation of the concept in mind and try to smooth short-term fluctuations. In the course of the regular review of the individual parameters for 2011 it became apparent that given consistently lower base rates and much lower risk premiums it was necessary to reduce the WACC for the Lufthansa Group from 7.9 per cent previously to 7.0 per cent. The review for 2012 did not result in any changes.

On the basis of our financial strategy a target capital structure of 50 per cent equity at market value and 50 per cent debt is used to calculate the WACC for both the Group and the business segments. We factor in the different segment risks by means of individual costs of equity, and therefore total costs of capital, in order to ensure that the allocation of capital to projects in the business segments is risk-adjusted. These costs are applied by means of beta factors, which are reviewed every two years.

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

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

in %	**2011**	2010	2009	2008	2007
Group	7.0	7.9	7.9	7.9	7.9
Passenger Airline Group	7.0	7.9	7.9	7.9	7.9
Logistics	7.2	8.2	8.2	8.2	8.2
MRO	6.7	7.6	7.6	7.6	7.6
IT Services	6.7	7.6	7.6	7.6	7.6
Catering	7.0	7.9	7.9	7.9	7.9

The minimum required cash flow includes what is known as capital recovery (economic depreciation), in order to reflect the depletion of the Company's non-current assets in the production process. It is derived from depreciable non-current assets and represents the amount that we need to put by every year and invest at a rate equivalent to the WACC in order to recoup the amount of the purchase costs by the end of the asset's useful life. Finally, the expected tax payment is added by applying a surcharge of currently 0.6 per cent of the capital base. The resulting minimum required cash flow for the year 2011 came to EUR 3.0bn (previous year: EUR 3.2bn).

In the Lufthansa Group the cash flow effectively generated is represented by EBITDA^{plus}, which is made up of an operating and a financial component. We derive the operating portion of EBITDA^{plus} from the operating result by adjusting it for non-cash items. These are principally depreciation and amortisation, income from the write-back of provisions and net changes in pension provisions. Then the financial portion of EBITDA^{plus} is added, comprising pro rata pre-tax earnings of non-consolidated equity investments, interest income and earnings contributions from the disposal of financial investments. This ensures that EBITDA^{plus} includes all significant cash-relevant items. In the reporting year Lufthansa's EBITDA^{plus} came to EUR 3.1bn (previous year: EUR 3.3bn).

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

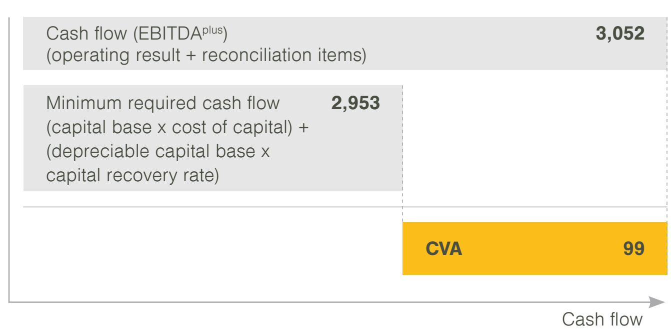
Reconciliation EBITDA^{plus}

in €m	**2011**	2010
Operating result	**820**	**876**
Depreciation and amortisation	1,663	1,609
Result from disposal of property, plant and equipment	29	36
Income from reversal of provisions	163	234
Impairment losses on intangible assets and property, plant and equipment	–76	–82
Change in pension provisions before interests	138	54
Operating EBITDA^{plus}	**2,737**	**2,727**
Pro rata pre-tax results of non-consolidated equity investments	168	181
Interest income	177	175
Result from disposal of financial assets	–30	189
Financial EBITDA^{plus}	**315**	**545**
EBITDA^{plus}	**3,052**	**3,272**

Value contribution of EUR 99m in 2011

For the financial year 2011 the CVA for the Lufthansa Group was positive at EUR 99m. Alongside the decision to sell bmi and the adjustments made to the WACC, reducing the financial capital base had a positive effect on value creation and made up for the decline in cash flow.

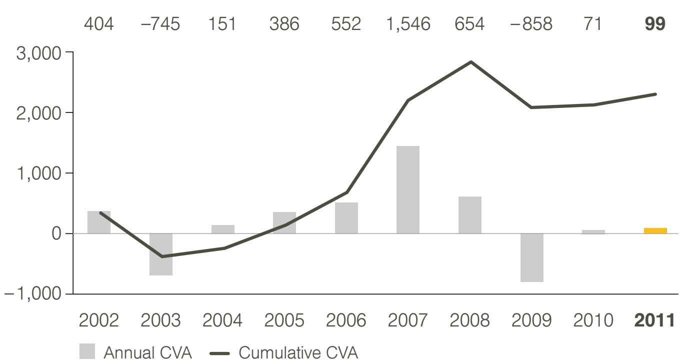
Calculation of cash value added (CVA) 2011 in €m



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

in €m	2011	2010	2009	2008	2007
Group	99	71	–858	654	1,546
Passenger Airline Group	–122	–198	–691	346	768
Logistics	202	233	–264	71	59
MRO	152	172	164	188	205
IT Services	23	–23	3	29	–16
Catering	–25	–28	–68	–17	21

Performance of Lufthansa Group
Cash value added in €m



Experience shows that it is difficult to give a forecast for future value creation. The current macroeconomic outlook makes achieving a positive CVA look ambitious in 2012. We nevertheless stand by our intention of generating sustainable value over the course of the air transport cycle. In the last ten years for example, the Lufthansa Group has generated a positive value of EUR 2.3bn.

We have a number of further financial targets in addition to value creation that are described more closely in the following chapter and in the "Financial strategy" on p. 39.

We reached important goals through precaution and flexibility

The targets for the 2011 financial year that we published a year ago, see the chapter "Forecast" of the annual report 2010 on p. 147–148, were defined at a time when expectations of global economic developments were very different to what actually happened. Nonetheless, we had already prepared ourselves for the permanent state of uncertainty and the vulnerability of the airline industry to fluctuations in the operating environment.

Indeed, the business did not develop as expected over the course of 2011. Right at the beginning of the year the unrest in some Arab countries and the catastrophes in Japan had an impact which could not have been foreseen in advance. From the middle of the year the worsening euro crisis provided the backdrop for a sharp downturn in economic growth. In contrast, the oil price remained at a high level. This had a severe effect on the entire air traffic sector. Thanks to our solid positioning, our operating and financial flexibility and established risk management, the Lufthansa Group was able to respond swiftly to these developments, however, and therefore came through much better than most competitors in the industry. All in all, the course of business in the 2011 financial year was therefore satisfactory. The Executive Board thanks all the managers and employees in the Group, without whose commitment this result would not have been possible under the prevailing conditions.

Under these circumstances we were able to meet many, although not all, of our targets. The effects of our actions nevertheless confirm us in our course and encourage us to make good the shortfall. The following table gives an overview of the achievement of our targets. The respective chapters deal with individual aspects in more detail.

Target	Target achievement 2011
Further revenue growth	EUR 28.7bn in revenue (+8.6 per cent)
Increase of the operating result	EUR 820m operating profit (–19.6 per cent)
Efficiency gains in all business segments	All the business segments are profitable and we have disposed of main loss-makers
Maintain minimum liquidity of EUR 2.3bn	Liquidity of EUR 4.1bn
Keep a high proportion of unencumbered aircraft	73 per cent of the Group fleet is unencumbered (81 per cent of the core Lufthansa Passenger Airlines and Lufthansa Cargo fleet)
Move closer to an equity ratio of 30 per cent	28.6 per cent equity ratio (+0.2 percentage points)
Keep gearing in the target corridor of 40 to 60 per cent	Gearing: 55.9 per cent (+5.9 percentage points)
Reach a debt repayment ratio of at least 60 per cent	Debt repayment ratio: 49.7 per cent (–10.0 percentage points)
Meet the conditions for distributing a dividend	EUR 0.25 dividend proposal; dividend policy conditions were only partly met
Generate free cash flow despite ongoing fleet renewal programme	EUR 713m free cash flow and EUR 2.6bn gross capital expenditure
Improve credit rating	Ratings confirmed: BBB–, outlook stable (S&P's); Ba1, outlook stable (Moody's)
Sustainable value creation (positive CVA) over the cycle	EUR 2.3bn CVA since 2002 including EUR 99m CVA in 2011

Group strategy

↗ Lufthansa wants to exploit growth potential to create value. ↗ Activities were adopted in 2011 that will develop the Group into Europe's Airline Powerhouse. ↗ Competitiveness will receive a lasting boost. ↗ The financial strategy combines sound foundations with financial flexibility.

↗ Sustainable development is a constant in the Group's strategy

The strategic orientation pursued in recent years has enabled us to establish Lufthansa as one of the world's leading airline groups. Alongside the Passenger Airline Group with its strong position in European home markets, the Lufthansa Group is now the acknowledged market leader in most of its business segments, such as Logistics, MRO and Catering.

Despite its cyclical nature, the aviation industry is and will remain a growth business and its development mirrors the ongoing tendency towards globalisation. Our portfolio of business segments, which each have their own characteristics and business cycles, stabilises the performance of the Group as a whole and will therefore continue to form the basis for healthy corporate development and profitable, sustainable growth. This benefits shareholders, customers, staff and partners equally. Our explicit goal is to ensure that our growth creates value and to secure the future of our Company with a financial structure that enables us to invest in our business segments, fleets, products and employees. Our strategic mission statement and our value system are derived from this understanding of what we do.

Mission statement

↗ We are **Europe's Airline Powerhouse** connecting Europe with the world and the world via Europe with our global services.

↗ The **customer** is the centre of our attention: we provide reliable services for passengers and air-cargo. Seamless cooperation with our partners strengthens us in a volatile environment.

↗ As the world's **leading aviation group**, we are the global leader in selected aviation services.

↗ Our highly motivated and dedicated **team** stands for superlative **quality**. Our **corporate culture** and its value concepts are defined by entrepreneurship and collaboration, in an atmosphere of transparency, trust and diversity.

↗ Our target is to **grow profitably** and maintain a healthy financial structure, to enable investment in the development of our business, fleet, products and people.

↗ We are committed to **sustainable development** and assume our ecological, civic and social responsibilities.

↗ Successful revenue and cost management even in a volatile market environment

Market conditions have been consistently challenging in recent years. Numerous crises, resulting from natural disasters, political unrest or economic and financial turmoil, and the accompanying fluctuations in demand have forced our business segments to keep adapting to new market conditions. Lufthansa has nevertheless been able to achieve positive medium and long-term development. The flexible capacity management of our airborne segments plays a vital role in this. At the same time, the continuous optimisation of our cost structures makes it possible for us to compensate for price increases in expense items that are largely beyond our influence, such as fuel, fees and charges, or air traffic taxes. In the last two years alone, the Lufthansa Group had to absorb nearly EUR 3bn in additional fuel costs and still managed to achieve considerable operating profits in this period. For each segment, flexible cost structures and improvements to income structures are top priorities in their striving for sustainable, profitable growth.

The measures being used are supplemented as necessary by other cost management initiatives and structural alterations to secure competitiveness. Details on the activities carried out in the business segments – such as the Climb 2011 initiative at Lufthansa Passenger Airlines that has been brought to a successful conclusion – can be found in the comments on the individual business segments from p. 62. In parallel with the ongoing optimisation in the individual companies we generate cross-company and cross-segment earnings contributions by realising synergies.

This entails pooling competences in the Group and exchanging best practices among the separate companies in order to keep improving the results in the future.

We are always looking for opportunities to improve our cost structures and we take further steps to increase efficiency, such as the introduction of lean management methods and concepts, which are now applied in broad areas of the Group. At the beginning of 2012 we launched the Group-wide structural earnings improvement programme SCORE in order to achieve lasting improvements in our operating margin. Over the course of the three-year programme earnings improvements of at least EUR 1.5bn are to be generated. It is an expression of and at the same time a requirement for our goal of achieving sustainable profitable growth in a capital-intensive business. In comparison with other network carriers in Europe this means Lufthansa continues to stand for solid profitability and sustainable value creation.

↗ Exploit opportunities for profitable growth despite intense competition

As the growth engine of the global economy, the aviation sector not only consists of challenges arising from the competitive environment; it also offers us many opportunities to build on our leading role. Our assumption is that today's growth markets will become even more important in the future. In terms of traffic volume for instance, the Asian region will have caught up with the Western core markets North America and Europe by 2020.

Capacity growth in the passenger business will be accompanied by selective reductions of specific overcapacities and the consolidation of the industry. At the same time, we assume that the pressure of competition from Middle Eastern carriers and no-frills airlines is set to increase.

We still need to combat competitive pressure with a set of measures that include improvements to competitiveness and cost structures as well as greater focus in route networks and selected strategic partnerships.

Our aim is to participate in the additional demand for services in the passenger and cargo business and thereby to maintain our course of profitable growth. To do so, we constantly evaluate all our options: opportunities for organic growth, partnerships and also selective acquisitions. New aviation technologies will make it possible to optimise services to existing and new long-haul destinations on the one hand and on the other to improve cost structures and competitiveness on short-haul routes as well. We continue to expand our network alongside our alliance partners and to develop trendsetting commercial relationships. Selective acquisitions of strong brands also allow us to reinforce our competitive position in strategic regions, gain access to semi-regulated markets and to play an active role in the consolidation of the industry.

Development into "Europe's Airline Powerhouse"

In today's airline and service group the Passenger Airline Group is the strategic business segment at the centre of our portfolio. Its operationally independent airlines and largely decentralised structures distribute profit and loss responsibility and promote entrepreneurship. Our insistence to grow profitably applies to every individual company. The services segments enhance the Group's competitiveness. They are defined by their strategic relevance and competence fit with the Passenger Airline Group.

We will continue to reinforce our competitive position according to these criteria and to develop the Lufthansa Group into "Europe's Airline Powerhouse".

Strategy to position Lufthansa as "Europe's Airline Powerhouse"

Strategic pillars	**Portfolio orientation towards attractive markets** in airline and aviation segments and alignment of investments to our capabilities and strengths	**Optimising our quality**, consistency and reliability in a dynamic competitive environment, supported by our strong values	**Leading global market position** by means of growth, acquisitions and partnerships to generate economies of scale and attractiveness for customers	**Earnings improvement from a strong market position** and continuous cost focus, generating industry-leading returns and a healthy financial profile	**Reinvestment** in continous fleet renewal, market aligned growth, career opportunities and innovation
Core activities	Withdrawal from persistently loss-making businesses and disposal of non-strategic equity investments, selective investments in attractive markets	Investments in products and innovations as well as gains in organisational efficiency	Development of market leadership and stabilisation by growing in line with the market and through commercial joint ventures	Focus on profitability by means of initiatives to improve efficiency, cut costs and realise further synergies	Targeted investment in fleet renewal and infrastructure while maintaining a healthy financial profile

Financial strategy

↗ Our strong financial profile brings competitive advantages
Securing a strong financial profile is the core of our financial strategy for the Group. Sound financial circumstances provide the latitude for pursuing the Lufthansa Group's operating and strategic development at all times. They are therefore a prerequisite not only for adapting flexibly to ever changing external conditions, but also for actively shaping this operating environment – independently of the current state of the market. Financial stability is also an important factor for the trust that thousands of customers place in us every day.

The ongoing European and to a certain extent global financial crisis shows clearly that a healthy financial constitution and financial reserves are indispensable. Our financial strategy already provides a distinct competitive advantage today. In view of the challenging conditions in our industry, this aspect will become even more important in future.

↗ The financial strategy is binding and clearly defined
The financial strategy is implemented in several dimensions. Its main aspects are incorporated into all the Company's important planning processes and decisions. We have defined the following strategic dimensions of our financial profile:

- 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.
- The Group requires appropriate liquidity reserves to reduce the risks of refinancing and interruptions to operations. This is vital, particularly in view of volatile customer and financial markets. As a strategic reserve Lufthansa holds minimum liquidity of EUR 2.3bn that is available at any time.
- A strong target capital structure provides stability in a turbulent environment. We therefore strive for a sustainable equity ratio of 30 per cent. Gearing including pension liabilities should also move within a target range of 40 to 60 per cent.
- We aim for a figure of 60 per cent for the debt repayment ratio, i.e. the adjusted cash flow from operating activities in relation to net indebtedness including pensions. This is based on the rating agencies' demands for an investment grade rating.
- We secure our financial and our operational flexibility by having a high proportion of unencumbered aircraft.
- We control financial risks by integrated risk management with the aim of smoothing price fluctuations.

↗ Our shareholders share in the Company's success
Lufthansa's dividend policy is transparent, comprehensible and consistent with the financial strategy. As part of this policy, dividend payments are primarily based on the Group's operating profit under IFRS. After successful financial years we have distributed between 30 and 40 per cent of operating profit as a dividend in the past.

However, this is subject to the ability to pay a dividend from the net profit for the year reported in the individual financial statements for Deutsche Lufthansa AG under HGB, see p. 134–138. In the financial year 2011 this figure was negative, however, largely due to the negative result and valuation effects in connection with the disposal of bmi. In a departure from the dividend policy, the Executive Board and Supervisory Board have nevertheless decided to propose the distribution of a dividend at the Annual General Meeting. Further details can be found in the section "Profit distribution" on p. 53.

Development of earnings and dividends

		2011	2010	2009	2008	2007
Operating result	in €m	820	1,020	130	1,280	1,378
Net profit/loss (Group)	in €m	–13	1,131	–34	542	1,655
Net profit/loss (HGB)	in €m	–116	483	–148	276	1,123
Dividend per share	in €	0.25	0.60	–	0.70	1.25
Dividend ratio (based on operating result)	in %	14	27*	–	25	41
Dividend yield (gross)	in %	2.7	3.7	–	6.3	6.9

* 31% based on the operating result of EUR 876m reported for 2010.

Economic environment and course of business

↗ Global economic developments took a turn for the worse in 2011, but worldwide air traffic still increased. ↗ Competition in the airline industry is rising, leading to further consolidation. ↗ Regulatory intervention distorts competition. ↗ The course of business was adversely affected by non-recurring factors. ↗ Altogether, Lufthansa put in a solid performance.

Macroeconomic situation

Global economic growth slows sharply

The world economy recovered faster and more conspicuously than expected in 2010. Until the beginning of 2011 expectations were therefore still mostly optimistic. However, the pace of economic growth slowed considerably in the first half-year 2011. This was accompanied by sluggish expansion rates in world trade. Several factors were responsible for this: emerging markets, which had previously experienced a rapid upswing, began to show signs of overheating and some countries responded by tightening their economic policies. Further pressure was added by the steep rise in commodity prices, partly due to the political unrest in the Arab world, and by the effects of the earthquake in Japan. At the same time, some of the economic stimulus programmes launched by countries in the midst of recession began to expire, removing another positive impetus. The situation was exacerbated in some industrialised countries by entrenched unemployment, high household and public-sector debt and weakened property markets. Since mid 2011 the debt and bank crisis has worsened in Europe and the USA, triggering worldwide falls in business and consumer confidence. This uncertainty is also visible in the sharp rise in volatility on stock markets.

Economic downturn mainly affects industrialised countries

There are still differences in economic growth rates between industrialised and emerging markets. Whereas the industrialised economies saw expansion rates slow substantially, growth in emerging markets remained robust. The pace of expansion slowed there too, but only slightly, and as inflation was high in many cases this was often welcomed politically. The global economy grew by a total of 3.0 per cent in 2011. This is well below the previous year's rate of 4.3 per cent.

In the USA the economic recovery picked up speed in the third quarter, after only modest developments in the first half-year. The expansion was bolstered by higher consumer spending, company investment and exports. Growth for 2011 came to 1.8 per cent.

GDP development

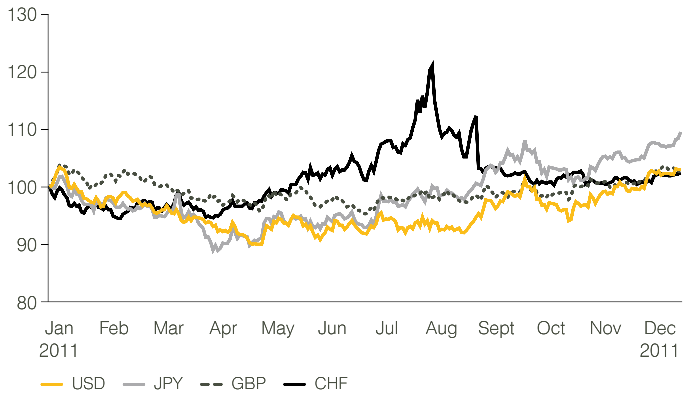
in %	**2011***	2010	2009	2008	2007
World	3.0	4.3	−2.0	1.6	4.1
Europe	1.9	2.2	−4.1	0.4	3.3
Germany	3.0	3.6	−5.1	0.8	3.4
North America	1.8	3.0	−3.4	−0.2	1.9
South America	3.9	5.8	−1.7	4.0	5.4
Asia / Pacific	4.5	7.2	1.9	3.6	6.8
China	9.2	10.4	9.2	9.6	14.2
Middle East	5.4	4.2	0.6	5.0	5.4
Africa	1.5	4.7	2.5	5.5	6.2

Source: Global Insight World Overview as of 14.1.2012.
* Forecast.

Japan's economic performance was severely depressed by the effects of the catastrophes in March 2011. Since this slump, the Japanese economy has recovered again sharply, however, supported by economic policies. A contraction of 0.7 per cent overall was recorded here for 2011. The other Asian economies reported very strong growth, but there too, the pace of expansion was somewhat reduced, so that a growth figure of 4.5 per cent has now been registered for the Asia/Pacific region. China and India in particular saw their economies grow sharply, driven by private-sector investment and consumer spending. Their economic output increased by 9.2 per cent and 6.8 per cent respectively in 2011.

In Europe the economy weakened considerably over the course of 2011 as global growth rates declined and governments began taking widespread action to consolidate their budgets. The debt and banking crises worsened and the resulting loss of confidence had an adverse effect on growth rates. Growth in European gross domestic product was 1.9 per cent. At the same time the German economy was much more stable than this. Propelled by consistently high exports and investment and robust consumer spending, gross domestic product climbed by 3.0 per cent. This was only just below the previous year's figure of 3.6 per cent.

Currency development 2011
EUR 1 in foreign currency, indexed to 100%



Volatility on currency markets dips slightly

The volatility of exchange rates was slightly lower than in 2010 and 2009. The US dollar traded on average 5 per cent lower than in the previous year, when the euro crisis began. This benefited the Lufthansa Group in terms of expenses. The pound sterling fell by an average of 1 per cent against the euro, whereas the Japanese yen rose by 4 per cent.

The Swiss franc ended the year where it had begun. Over the course of the year it had gained more than 20 per cent against the euro, however, prompting the Swiss central bank first to intervene in currency markets and finally to fix the exchange rate at EUR 1.20.

In line with our currency hedging strategy, which is unchanged, we try to reduce the effects of exchange rate fluctuations on the Company's performance by means of rule-based hedging policies. Further details can be found in the "Risk and opportunities report" on p. 122. Including these hedges, currency movements had a minor positive effect of EUR 85m on the Group's operating result for 2011.

Currency development EUR 1 in foreign currency

	2011	2010	2009	2008	2007
USD	1.3910	1.3239	1.3945	1.4743	1.3615
JPY	110.74	115.94	130.39	153.59	161.04
GBP	0.8676	0.8574	0.8907	0.7901	0.6807
CHF	1.2303	1.3780	1.5095	1.5896	1.643

Source: Reuters, annual average daily price.

Short and long-term interest rates move in different directions

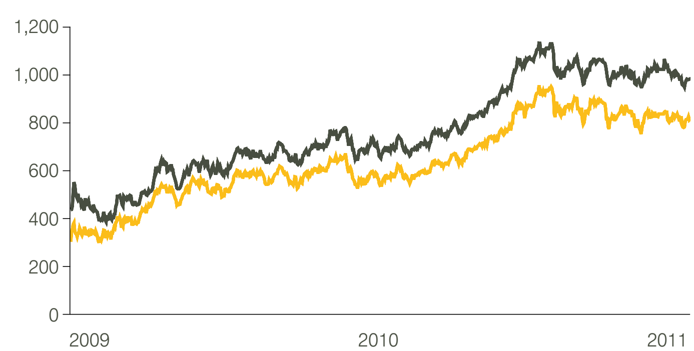
Over the course of the year 6-month Euribor continued the upward trend that followed its historic low in the previous year: on average the rate was 51 per cent higher than the previous year. Long-term interest rates moved in the opposite direction, however. The 10-year swap rate fell to 2.4 per cent for instance. Nevertheless, on average interest rates did not change very much compared with the previous year, although interest rate volatility increased as speculation spread as to a downturn in the European economy and the continuing euro crisis.

As the Group's operating result is positively correlated with a strong macroeconomic situation and short-term interest rates, we hold most financial liabilities at floating rates to make use of this natural hedge, see p. 123.

Oil price remains high

Despite slower global economic growth, oil prices stayed at a relatively high level well into the new year. On 31 December 2011 a barrel of Brent Crude cost USD 107.38. The average price of USD 110.82/barrel was 37.9 per cent higher than in the previous year.

Price development of crude oil and kerosene in USD/t



Source: Lufthansa, based on market data.

The jet fuel crack, the price difference between crude oil and kerosene, moved between USD 16/barrel and USD 18/barrel in 2011. The conflicts in North Africa at the beginning of the year and stock market turbulence in August nevertheless contributed to greater fluctuations of up to +/–25 per cent at times. The persistently high intra-day price fluctuations for jet fuel crack are significant and stem largely from the high volatility of exchange-traded crude oil. With the early arrival of winter in the north-eastern US states and the concomitant increase in demand for heating oil, coupled with steady demand for diesel from European industry, the jet fuel crack escaped from its broadly sideways trend at the end of the third quarter 2011, rising at times to over USD 23/barrel. On average over the year it quoted at USD 17.33/barrel and thus 54 per cent higher than in the previous year. The price at year-end was USD 17.62/barrel.

This took the average price for kerosene to a total of approximately USD 1,010 per tonne, which represents an increase of around 40 per cent compared with the previous year. The fuel price is a central factor behind changes in the Lufthansa Group's expenses. To limit the ensuing risks, Lufthansa also pursues systematic risk management for this raw material with a rule-based hedging policy. In 2011 this improved the operating result by EUR 694m. Detailed information on the hedging policy can be found in the "Risk and opportunities report" on p. 124.

Sector developments

Passenger traffic performs well

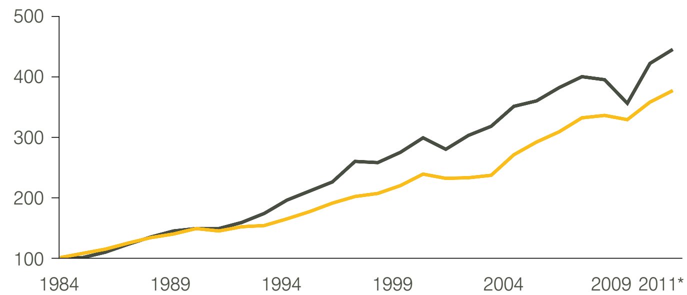
So far, the gloomier prospects for the economy have only had a modest effect on developments in international passenger traffic, which managed to grow again worldwide in 2011. Revenue passenger-kilometres rose by a total of 5.9 per cent. Contrary to expectations, the premium segment also put in another robust performance. According to IATA information, premium traffic went up year on year by 5.9 per cent in 2011.

As with macroeconomic developments, trends in air traffic also differed significantly between regions in 2011. Sales growth for the European carriers was very sturdy at 9.1 per cent. By contrast, airlines from the Asia/Pacific region saw an increase in sales of 5.4 per cent and North American carriers one of just 2.2 per cent. Air traffic in Africa registered a slight increase (+0.5 per cent). Top of the class were Latin American airlines with growth of 11.3 per cent. Traffic in the Middle East region also did well, increasing by 8.6 per cent.

Slow growth in European airfreight traffic

In contrast to passenger traffic, the airfreight business languished in 2011 (–0.7 per cent). Indeed, its performance deteriorated steadily over the course of the year. While growth of 9.1 per cent was reported in January, IATA published declining or stagnant sales figures for cargo traffic from May onwards.

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



Source: ICAO / IATA.
* Forecast for 2011 (IATA Fact Sheet 12/11).

Sales growth for the European carriers' airfreight business was better than average with an increase of 1.3 per cent. The steepest drop was felt by the airlines in the Asia/Pacific region, largely due to the slowdown in the Chinese airfreight market and the effects of the earthquake in Japan. Sales here fell by 4.6 per cent, followed by African airlines (–1.8 per cent). Sales by North American airlines grew by 0.4 per cent. The strongest sales growth was achieved by Latin American airlines with 6.0 per cent and carriers from the Middle East, whose sales rose year-on-year by 8.1 per cent.

Sales performance 2011

in % compared with previous year	Revenue passenger-kilometres	Cargo tonne-kilometres
Europe	9.1	1.3
North America	2.2	0.4
Central and South America	11.3	6.0
Asia / Pacific	5.4	–4.6
Middle East	8.6	8.1
Africa	0.5	–1.8
Industry	**5.9**	**–0.7**

Source: IATA Carrier Tracker 12 / 11.

Profitability down on the previous year
After several corrections, IATA adjusted its 2011 annual forecast for the airline industry to USD 6.9bn in December. This puts profits for the industry well below the previous year's figure of USD 16.0bn. European airlines are expected to have made an earnings contribution of USD 1.0bn in 2011 (previous year: USD 1.9bn).

The consolidation of the airline industry has many faces
Alliances and cooperation agreements in international passenger traffic were expanded again in the financial year. International joint ventures are becoming ever more important alongside the global airline alliances. Following the successful operation since 2010 of the transatlantic joint venture Atlantic++, established by Lufthansa, Air Canada, Continental and United, in summer 2011 the joint venture Japan+ between Lufthansa and ANA was also approved by the Japanese competition authorities. It has been possible to book joint flights between Europe and Japan since February 2012, and the joint venture will commence in April 2012. American Airlines and Japan Airlines, both members of the oneworld alliance, started a transpacific joint venture in April 2011. The airline alliance Skyteam welcomed new members China Eastern Airlines and China Airlines in the summer. Ethiopian Airlines joined Star Alliance in December.

At the same time, tough competition, with considerable overcapacities in some markets, high kerosene prices and economic uncertainty weighed increasingly on the airline sector. Many companies cannot withstand this pressure on their own. AMR Corp., the parent company of American Airlines, applied for creditor protection under Chapter 11 of the American Bankruptcy Code in late November 2011, due to financial problems as a result of high fuel and staff costs and a high gearing. Flight operations are to be kept running, however. Other airlines such as TAP and Air Berlin sought respectively found strategic investors, the latter with success. The difficult market and competitive environment has already led to formal or de facto nationalisations, as exemplified by the case of Air Baltic in December 2011.

In long-haul traffic, airlines are increasingly having to compete worldwide against carriers from the Gulf region. Their growth is unbroken and bears no relation to developments in their home markets. South America on the other hand is a genuine growth market. The LATAM airline group formed recently by LAN and TAM is currently exploring its options for joining an airline alliance. It is likely to be either oneworld or Star Alliance, where LAN (oneworld) and TAM (Star Alliance) are still members. In December the Skyteam member Delta Airlines took a minority stake of 3 per cent in the Brazilian airline Gol.

More information on our business segments' sectors can be found in the comments starting on p. 62.

Regulatory and other factors

The Lufthansa Group and its business segments are subject to numerous legal and regulatory influences. This became apparent in a negative way in the reporting year with Germany's air traffic tax putting huge one-sided pressure on German airlines and also with the unexpected imposition of a temporary ban on night-flights in Frankfurt. In many other cases too, there is still a need for clarification and correction in order to avoid solutions that distort competition.

Inefficient security concepts
Since 11 September 2001 the security standards in the airline industry have been tightened sharply. Between the competing interests of security, customer satisfaction and cost-effectiveness, the reactive response to every new security incident means that our customers are being inconvenienced by checks that are often inefficient, repeated and disagreeable. Over the years this has pushed the current security concept to its limits. A broad exchange of views is therefore now taking place between airlines and airports and at international government level in order to adapt future security design to these new requirements and to growing passenger numbers. A holistic approach is being sought to passenger and cargo security, which is intended to establish customer service and efficiency as central concerns, alongside an undiminished level of security. Important components of this future security concept are uniform global security specifications, government-sponsored "Trusted Traveller" programmes that are independent of the class of travel, and the implementation of new technologies.

Regional regulation instead of effective climate protection
The subject of climate protection remains a high priority for the airline industry. It is the first industry in the world to have set itself targets for reducing CO_2 emissions – based on the comprehensive four-pillar strategy that Lufthansa helped to elaborate. This IATA Global Approach represents a global attempt at a solution to a global problem. The EU Emissions Trading Scheme for air transport that began on 1 January 2012 also aims to protect the climate. It offers, however, only a regional regulatory approach and could lead to the distortion of competition and inefficiencies. A direct flight from Frankfurt to a long-haul destination is subject to EU emissions trading at 100 per cent, for instance, whereas the same flight with a stopover outside the EU is only charged for the first flight segment.

To avoid having to pay these additional costs, airlines offering intercontinental transfers will find themselves obliged to shun connections via Europe in the interests of their customers. This weakens the value creation function of the European airline industry and is ecologically counter-productive, because it implies considerable diversions and additional CO_2 emissions.

To prevent competitive distortions it must be ensured that all non-EU states also join the emissions trading scheme. However, at the Council meeting of the International Civil Aviation Organisation held in November 2011, 26 of the 36 Council member states (including USA, China, Russia and India) signed a declaration against the EU's unilateral action on emissions trading. At the same time, the EU and its member states are being called upon to cooperate with the international community to find a global solution to reduce CO_2 emissions from air traffic. On the basis of current regulation and national legislation, the EU member states could ultimately be forced to prevent airlines from non-participating countries from entering their airspace. Any such action would presumably not remain without effects on flights by European airlines to the corresponding countries.

Furthermore, there is no uniform system of reporting. The ten companies in the Lufthansa Group affected by emissions trading have to report to five different national authorities, with different formats and different requirements in each case. This produces considerable extra costs for the companies, on top of many other individual expenses. Despite the difficult operating environment, all companies in the Lufthansa Group are preparing for emissions trading.

Competitive neutrality in emissions trading in the airline sector, as described by the German federal government in its coalition agreement, is therefore indispensable for the Lufthansa airline group.

The ambitious targets of the IATA Global Approach are our yardstick in the search for a global solution. They aim for an annual improvement of 1.5 per cent in the fuel and CO_2 efficiency of global air transport by 2020. From 2020 emissions are to remain constant despite forecast traffic growth and by 2050 are even to be reduced by 50 per cent compared with 2005. It is the responsibility of national governments, particularly those of the USA, China, India, Russia and Brazil, and those in the European Union to take this promising approach further.

Laborious progress achieved on the way towards a Single European Sky

Cross-border organisation of airspace management by air traffic control is a vital pillar of a comprehensive climate and sustainability policy. In 2004 the EU adopted the Single European Sky (SES) initiative for this very purpose, but its implementation is still very slow. In 2009 the EU passed a regulation revising SES (SES II), which is intended to expand the scope of SES and expedite its realisation. From 2012 national air traffic control authorities are subject to binding performance targets for punctuality, flight efficiency and cost effectiveness. Most EU states – including Germany – are finding it very difficult to draw up performance plans that are compatible with these targets, however. The international treaty establishing the Functional Airspace Block Europe Central (FABEC) signed in December 2010 by Germany, Belgium, France, Luxembourg, the Netherlands and Switzerland is currently in the process of ratification and implementation. In a number of stages, FABEC is intended to make European airspace management considerably more efficient. If this succeeds, for Lufthansa it will mean more airspace capacity, fewer delays, more stable flight plans, lower air traffic control fees and considerable savings in fuel and emissions. Monopolies, national pride and the defence of vested interests are nevertheless hindering a thorough and swift reform of the fragmented European airspace management system.

Airport extension and restrictions to flight operations in Frankfurt

There is no doubt that the long awaited realisation of the approved extension plans for Frankfurt Airport was and is enormously important for Germany in terms of air transport. The rulings and judgements handed down in connection with the operating framework have nevertheless resulted in excessive restrictions on flight operations. The operating regulations that formed part of the planning approval do not meet the capacity requirements applied for by the Lufthansa Group companies. They enforce a restriction on the number of night-flights between 11 p.m. and 5 a.m. to 17, which are intended to be used mainly by airlines based at Frankfurt Airport and solely for cargo flights.

The limitation of night-flights was the main subject of the law suit brought by Deutsche Lufthansa AG and Lufthansa Cargo AG before the administrative court in Kassel. The objections were dismissed in a ruling on 21 August 2009, however. The court considers that the flight movements permitted in the planning approval document do not give sufficient weight to the statutory right to peace and quiet during the night. In fact, it sees no scope for permitting any 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 concerning the annulment of the night-flight regulations, but Lufthansa was not.

The federal state has appealed against the ruling. Lufthansa is attempting to obtain leave to appeal by initiating the appropriate legal proceedings. At present it is not possible to predict the outcome of the proceedings with any degree of certainty.

Flight operations at Frankfurt Airport were restricted further shortly before the new runway was opened. In rulings dated 10 October 2011 the Kassel administrative court reinstated of its own accord the suspensive effect of appeals by various residents against the planning approval, altering its rulings from 2009 accordingly, to the extent that the planning approval document permitted scheduled flights between 11 p.m. and 5 a.m. This had the effect of imposing a surprising ban on night-flights immediately before the winter flight plan began. There are no legal remedies against these decisions. The current restrictions affect freight and passenger operations equally. Technical delays extending to just a few minutes after 11 p.m. have resulted in aircraft that were already on their way to the runway having to return to the gate and several hundred passengers having to stay overnight in Frankfurt – an intolerable situation for an international aviation hub. A decision by the Federal Administrative Court on the restriction of night-flights at Frankfurt Airport is expected at the end of March 2012. If the current regulations are not suspended, Lufthansa will be faced with considerable restrictions to its flight operations and massive economic losses of a mid two-digit million euro amount.

European Commission revises slot regulation

At the end of the year the European Commission presented a proposal for the revision of the current regulation on the allocation of landing and take-off slots and the current directives on ground handling services and noise-related operating restrictions at airports. The proposal on allocating slots acknowledges "grandfather rights" for historic slots, which is important for Lufthansa, and formalises the sale of slots between airlines, which has been tolerated for some time. However, it tightens the conditions an airline must meet for maintaining its entitlement to an allocated slot in the next flight plan period, which is to the detriment of the established network carriers. In future the Commission also intends to authorise local procedures for allocating slots and to allow airports to charge a fee for reserving slots under defined conditions. The proposals also contain stricter standards for particularly noisy aircraft. A decision still has to be taken by the European Parliament and the Council of Ministers.

Ineffective developments in consumer protection

Consumers are protected by numerous regulations. It is laid down for instance that ticket prices must show all costs clearly and that price discrimination between customers in Europe is not permitted. The internet also provides price transparency and therefore increases the influence of the consumer. For Lufthansa this means continuing to reinforce our market position as a quality provider with tailored products and excellent service for different customer groups.

In response to litigation by the federal consumer protection agency (vzbv), the German courts have investigated the clause in the general terms and conditions commonly used in the industry specifying that flight tickets may only be used in full and in the order originally booked, otherwise losing their validity. In April 2010 the Federal Court of Justice ruled that this clause was invalid. The court's reasoning nevertheless opened up the possibility of making transport dependent on payment of a surcharge based on the actual route. A new suit by the federal consumer protection agency against the clause as revised in accordance with the ruling by the Federal Court of Justice has now been filed with the Cologne County Court.

In December 2008 the European Court of Justice (ECJ) ruled that only in exceptional cases can technical problems exonerate an airline for cancelling a flight. If the airline cannot exonerate itself, it must pay denied boarding compensation (DBC) of EUR 250 to EUR 600 per passenger. According to a ruling by the ECJ in November 2009, airlines are also obliged to pay this compensation if arrival is delayed by more than three hours. The ruling is legally disputed as the court interpreted the DBC regulation (Regulation (EC) 261/2004) in a way contrary to its wording, which constitutes interference in the powers of the legislature. This is made worse by the fact that the interpretation has a retroactive effect, which is against the principle of legality. No appeals are possible against the ruling. The High Court in London referred the matters in dispute back to the ECJ in summer 2010. Six cases relating to this area have now been referred back to the ECJ.

Claims for compensation for delays will not be heard in the United Kingdom following the referral. Otherwise, most national courts now apply the regulation in the event of delays as well. Whether the ECJ will change its ruling is impossible to predict.

The situation is exacerbated by the fact that increasing public pressure has led the German Federal Aviation Authority to treat every breach of regulation (EC) 261/2004 as an administrative offence for which a fine of up to EUR 25,000 can be imposed. Contrary to general legal understanding, the regulation gives the German Federal Aviation Authority the opportunity of using the laws on administrative offences to enforce civil law claims.

Following the principle of "no penalty without a law", no administrative proceedings have yet been started on this charge of non-payment of denied boarding compensation in the event of delays (ECJ ruling). Particularly given the ECJ ruling, it is not possible to say how the number of cases will develop and to what extent Lufthansa will be able to defend itself successfully against the German Federal Aviation Authority or by seeking judicial review from the courts.

Regulation of over-the-counter derivatives trading
In both Europe and America various efforts are being made to regulate over-the-counter (OTC) derivatives. As a company exposed to fluctuations in oil prices, exchange rates and interest rates in its core business, Lufthansa uses over-the-counter derivatives as part of its risk management. They are used for hedging and form an essential part of risk management by offsetting fluctuations in fuel expenses or the costs of aircraft financing for example. To date, Lufthansa has been able to carry out these transactions directly with its business partners. Current draft regulation, which has not yet been finally adopted, includes EMIR (European Market Infrastructure Regulation), MiFID (Markets in Financial Instruments Directive) and CRD4 (Capital Requirements Directive). This is part of the Basel III reform package, which aims to make the use of central counterparties or capital requirements mandatory for real transactions such as commodity price hedges as well. These endeavours would result in a drain on the Company's liquidity and also make the majority of derivatives much more expensive. Lufthansa continues to lobby for a specific set of rules for companies that are not part of the financial sector and only use derivatives to hedge the underlying exposure from their industrial businesses.

Overview of the course of business

Non-recurring effects and the global economic slowdown undermine the course of business
The performance of the Lufthansa Group was severely affected in 2011 by non-recurring effects such as the political crises in Africa and the Middle East and the environmental catastrophes in Japan. The sharp reduction in global economic growth in the second half of the year had an adverse impact on business, especially for the airborne companies. Overall, the service companies had a stabilising influence on the course of business and earnings development.

Although market conditions were benign in early 2011, the Lufthansa Group's operating segments were tested by the aforementioned events over the subsequent course of the year.

The companies in the Passenger Airline Group were hit particularly hard by the environmental disasters in Japan and the unrest in North Africa and the Middle East. The global economic downturn and high oil price also depressed earnings sharply for the Passenger Airline Group and led to cuts in its planned rate of growth.

These factors affected business in the Logistics segment as well. As expected, Lufthansa Cargo was not able to repeat its record profit of 2010. Despite the severe interruption to its operations in the final quarter from the night-flight ban at Frankfurt Airport, it was nevertheless able to make a substantial earnings contribution. The MRO segment also had a sound year. Its profit was slightly down on the previous year, however, mainly due to provisions for long-term contracts. Our IT Services segment worked hard on its new strategic orientation in 2011 and was already rewarded by a rise in its operating profit. The Catering segment also performed very well and was again able to beat the previous year's result.

The financial year 2011 again showed that flexibility and steps to increase profitability are vital for survival in a competitive environment. The airborne companies continuously adapted their capacity planning to changes in demand and all companies increased their cost management efforts. At the same time, a necessary review and consolidation of the portfolio was carried out. The steps taken as a result included the planned sale of bmi and the closure of Lufthansa Italia. These efforts will remain with us in 2012 and the years thereafter. The new Group-wide programme SCORE represents an important milestone in this regard. Detailed information on this initiative can be found in the "Forecast" section on p. 131.

Significant events

Environmental catastrophes and political unrest
The earthquake and nuclear catastrophe in Japan and the political unrest in the Middle East/Africa region had a severe effect on the course of business in some cases – depending on the different Group companies. Whereas the cancellation of connections to and from Tokyo mainly impacted Lufthansa Passenger Airlines and Lufthansa Cargo, it was bmi and Austrian Airlines in particular that suffered from the temporary suspension of flights to some destinations in North Africa.

New air traffic tax depresses passenger business
The air traffic tax on flights from Germany introduced at the beginning of the financial year makes ticket prices for German travellers more expensive. This was a particular burden on the traffic figures at Germanwings in 2011, as passengers in border regions chose to fly from airports abroad in some cases. Austrian Airlines is similarly affected by the new air traffic tax in Austria.

Fleet modernisation progressing with new orders
The Supervisory Board approved orders for new aircraft in the reporting year. As well as 30 planes from the Airbus A320neo family, the decision also covers deliveries of two additional Airbus A380s and five Boeing 777F freighters. This advances the fuel-efficient modernisation and expansion of the Lufthansa Group fleet. Altogether the orders in 2011 were for a total of 47 new aircraft with a list price of EUR 4bn, which are to be delivered successively from 2012.

Lufthansa signs contract for the sale of bmi
On 22 December 2011 Deutsche Lufthansa AG and International Airlines Group (IAG) signed an agreement on the sale of British Midland (bmi) to IAG. The gross purchase price is GBP 172.5m in cash (around EUR 207m). Taking the agreed adjustments into account, however, the net purchase price is expected to be significantly negative. With the transaction Lufthansa is disassociating from a sustainably loss-making subsidiary. Closing of the deal is targeted for the first quarter of 2012 and is subject in particular to approval by the competition authorities.

Overall assessment of business performance

It is the conviction of the Executive Board of Deutsche Lufthansa AG that the Lufthansa Group put in a solid performance in the 2011 financial year. As in the previous year, all the business segments delivered a positive earnings contribution. In the airborne segments Passenger Airline Group and Logistics these earnings were appreciably lower than in the previous year, however. The high level of oil prices and numerous external factors, such as the crises in the Arab region and North Africa, the environmental disasters in Japan and the debt crisis in Europe, all depressed the business results. The earnings of the service segments had a stabilising effect on the Group's operating result.

Under these circumstances the flexible cost and capacity management of the Group helped to generate a substantial operating profit despite difficult conditions. This means that Lufthansa was again able to outperform the industry. The termination of Lufthansa Italia's flight operations and the sale of bmi were important strategic milestones that rebalanced the portfolio and will bolster the result significantly in future.

The Group's financial profile remains stable. The equity ratio rose slightly, at the same time net indebtedness went up. Gearing remained in the target corridor of 40 to 60 per cent. The rating agencies also confirmed the existing ratings in 2011.

Despite the difficult conditions of the 2011 financial year, the profitability of the Lufthansa Group was altogether sufficient to earn the cost of capital and to create value of EUR 99m. Sustainable value creation is still the explicit objective of the Executive Board. The Group and all the business segments therefore continue to concentrate on carrying on a cost-effective and profitable business while making use of growth opportunities.

Standards applied and changes in the group of consolidated companies

The consolidated financial statements for 2011 and the quarterly reports are prepared in accordance with the International Financial Reporting Standards (IFRS) and the interpretations of the IFRS Interpretations Committee (IFRS IC) as applicable in the European Union (EU). The commercial law provisions of Section 315a Paragraph 1 of the German Commercial Code (HGB) have also been applied. All mandatory standards and interpretations for the 2011 financial year were respected.

There were no significant changes to the group of consolidated companies compared with the same period last year. The individual changes compared with year-end 2010 are shown in the Notes to the consolidated financial statements, "Note 1" from p. 149. These changes had no significant effect on the consolidated balance sheet and income statement in comparison with the same period last year.

The special treatment of British Midland Ltd. (bmi) after the signing of the contract for its sale to International Airlines Group (IAG) is discussed in detail in the sections "Earnings position" from p. 48 and "Assets and financial position" from p. 54.

Earnings position

↗ Higher traffic revenue increased operating income by 6.7 per cent to EUR 31bn. ↗ Fuel price increases drove up operating expenses by 9.3 per cent altogether. ↗ All business segments contributed to operating profit. ↗ The Group operating profit came to EUR 820m. ↗ Earnings per share were negative at EUR –0.03.

As a result of the contract for the sale of British Midland Ltd. (bmi) to International Airlines Group (IAG) signed by Deutsche Lufthansa AG and IAG on 22 December 2011, British Midland Ltd. is to be presented in the Group's income statement as a discontinued operation in line with IFRS 5. This form of presentation applies to the after-tax result for bmi and to the result from valuation/disposal proceeds for the discontinued operation, which in this case are the proceeds of the aforementioned contractual agreement. The figures for the previous year have been adjusted in accordance with the presentation in the reporting year. Details of the result from discontinued operations can be found in the following comments and in the Notes to the consolidated financial statements, "Note 15" on p. 164.

Revenue and income

Operating income developed well in the 2011 financial year, rising by 6.7 per cent to EUR 31.2bn altogether. This increase is primarily due to the positive development of traffic revenue, which grew by 10.8 per cent to EUR 23.8bn as the result of higher traffic volumes. Other revenue was nearly on par with the previous year's, whereas other operating income went down sharply.

Traffic revenue up by 10.8 per cent
Traffic revenue for the Group climbed steeply by 10.8 per cent to EUR 23.8bn. Volumes accounted for 7.0 per cent and higher prices for 3.8 per cent of the increase. Currency movements had no effect on revenue development.

Traffic figures of the Lufthansa Group's airlines

		2011	2010	Change in %
Passengers carried	thousands	100,603	92,693	8.5
Available seat-kilometres	millions	258,263	234,377	10.2
Revenue seat-kilometres	millions	200,376	186,451	7.5
Passenger load factor	%	77.6	79.6	–2.0 pts
Freight/mail	thousand tonnes	2,120	2,023	4.8
Available cargo tonne-kilometres	millions	16,260	15,298	6.3
Revenue cargo tonne-kilometres	millions	10,861	10,429	4.1
Cargo load factor	%	66.8	68.2	–1.4 pts
Total available tonne-kilometres	millions	40,798	37,664	8.3
Total revenue tonne-kilometres	millions	29,906	28,274	5.8
Overall load factor	%	73.3	75.1	–1.8 pts
Flights	number	1,050,728	1,008,988	4.1

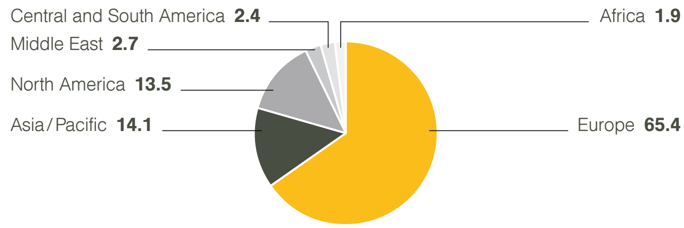
The Passenger Airline Group segment accounted for 86.4 per cent of traffic revenue, by far the largest share. It reported traffic revenue totalling around EUR 20.5bn, a rise of 11.6 per cent on the previous year. Besides the increase in volumes of 7.5 per cent, the increase in prices by 3.9 per cent attributed to this revenue growth. Currency movements contributed just 0.2 per cent to the rise.

Traffic revenue in the Logistics segment was up by 7.1 per cent at EUR 2.8bn. Here the growth in sales volumes accounted for 6.5 per cent and higher prices for 2.2 per cent of the increase, whereas adverse currency movements reduced the total by 1.6 per cent. Overall, the Group's traffic revenue made up 82.8 per cent of its total revenue (previous year: 81.1 per cent).

Revenue and income

	2011 in €m	2010 in €m	Change in %
Traffic revenue	23,779	21,466	10.8
Other revenue	4,955	4,993	–0.8
Total revenue	**28,734**	**26,459**	**8.6**
Changes in inventories and work performed by the entity and capitalised	139	165	–15.8
Other operating income	2,324	2,610	–11.0
Total operating income	**31,197**	**29,234**	**6.7**

Traffic revenue Group in %



Other revenue slightly down on previous year

Other revenue stems primarily from the MRO, Catering and IT Services segments, and to a lesser extent from the Passenger Airline Group and Logistics as well. It came to EUR 5.0bn, or 0.8 per cent below the figure for the previous year.

The MRO segment reported a fall in revenue to EUR 2.3bn (–2.9 per cent), whereas Catering was able to increase its revenue by 1.3 per cent to EUR 1.7bn. Revenue in the IT Services segment declined slightly by 0.9 per cent to EUR 230m. The airborne companies in the Passenger Airline Group and Logistics segments contributed EUR 682m (+1.5 per cent) to other revenue.

Revenue originates largely in the passenger business

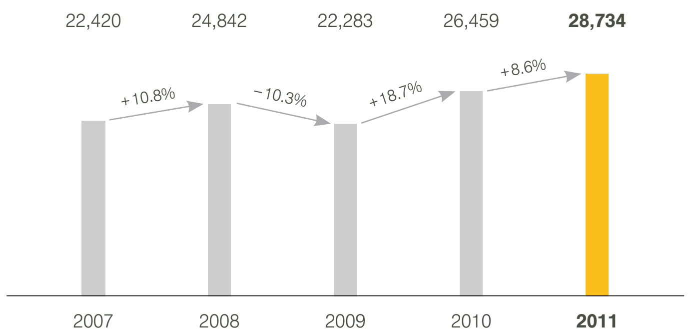
The Group's external revenue went up by 8.6 per cent to EUR 28.7bn. The Passenger Airline Group segment's share of total revenue increased to 75.0 per cent (+1.8 percentage points) mainly because of higher traffic volumes, while those of the other segments declined slightly.

External revenue by segment

2011	External revenue in €m	Year on year change in %	Share of total revenue in %
Passenger Airline Group	21,544	11.2	75.0
Logistics	2,917	5.3	10.2
MRO	2,305	–2.9	8.0
IT Services	230	–0.9	0.8
Catering	1,738	1.3	6.0

A regional breakdown of revenue by sales location is given in the segment reporting section; see the Notes to the consolidated financial statements, "Note 48" on p. 199. The regional distribution of traffic revenue by traffic region for the segments Passenger Airline Group and Logistics is described in the chapters on the respective business segments on p. 65 and p. 81.

Development of revenue in €m
Change in revenue in %



Other operating income falls due to lower book gains

Other operating income shrank by 11.0 per cent to EUR 2.3bn. The decline was principally due to lower income from disposals of non-current assets (EUR –198m). In the previous year, this figure included profits from the transfer of shares in Fraport to the Lufthansa Pension Trust (EUR 94m) and book gains from the sale of 6.2 million shares in Amadeus IT Holding S.A. (EUR 67m). Income from write-ups was down by EUR 33m, largely due to the development of the US dollar. Income from write-backs of provisions dropped to EUR 163m (previous year: EUR 224m). Commission income was up by EUR 37m on the other hand.

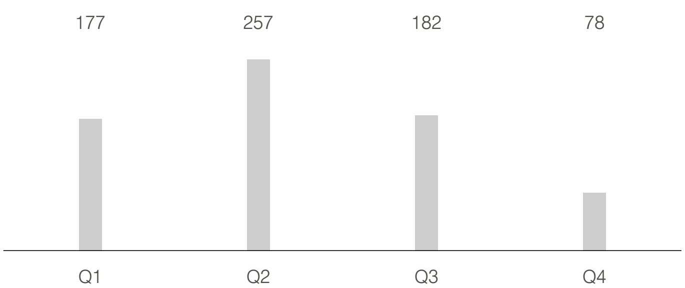
Exchange rate gains and the other items did not vary significantly compared with the previous year. The Notes to the consolidated financial statements contain a detailed list of other operating income under "Note 6" on p. 160.

Expenses

Operating expenses were driven upwards by increases in the price of fuel, rising 9.3 per cent to EUR 30.4bn.

Cost of materials and services rises by 13.8 per cent
The cost of materials and services rose by 13.8 per cent to EUR 16.7bn in the financial year 2011. Higher fuel costs were the driving factor behind this increase. Out of the total steep increase of 26.4 per cent to EUR 6.3bn, higher prices account for 25.3 per cent (including fuel hedging) and greater volumes for 6.9 per cent. At the same time, the US dollar weakening over the course of the year reduced expenses by 5.8 per cent. Price hedging cut fuel costs by a total of EUR 694m in the financial year. The fourth quarter accounted for a share of just EUR 78m.

Result of fuel price hedging per quarter 2011 in €m



Other raw materials, consumables and supplies were up by 2.6 per cent at EUR 2.6bn.

Fees and charges climbed by a total of 15.8 per cent to EUR 5.0bn, largely as a result of higher traffic volumes and the first-time levy of the air traffic tax (EUR 361m). The main variables were the increase in passenger charges (+14.7 per cent), air traffic control charges (+9.3 per cent) and take-off and landing fees (+10.4 per cent).

Staff costs rise by 2.9 per cent
Staff costs went up modestly by 2.9 per cent to EUR 6.7bn in the reporting period. On average over the year the Group had 115,335 employees, or 1.8 per cent more than in the previous year, not counting the staff at bmi. As well as these increased staff numbers, the additional expenses were due to higher additions to pension provisions, currency movements and salary increases resulting from pay settlements.

Depreciation and amortisation up by 4.1 per cent
Depreciation, amortisation and impairment came to EUR 1.7bn in the financial year (+4.1 per cent). The rise came mostly from higher depreciation on aircraft, particularly for new aircraft deliveries last year and in the current year. Of total impairment losses of EUR 59m, EUR 57m related to two Boeing 747-400s, two Airbus A340-300s, two B737-500s, five B737-300s and two A330-200s, one Canadair Regional Jet 200 and four Avro RJs which have been decommissioned or are held for disposal. Impairment losses of EUR 21m were also incurred on five B737-500s and on other aircraft and repairable spare parts for aircraft shown in the balance sheet as assets held for sale. These charges are recognised in other operating expenses.

Expenses

	2011 in €m	2010 in €m	Change in %	Percentage of operating expenses in %
Cost of materials and services	16,731	14,700	13.8	55.0
of which fuel	6,276	4,964	26.4	20.6
of which fees and charges	5,000	4,318	15.8	16.4
of which operating lease	136	168	–19.0	0.4
Staff costs	6,678	6,491	2.9	21.9
Depreciation	1,722	1,654	4.1	5.7
Other operating expenses	5,293	5,003	5.8	17.4
of which sales commissions paid to agencies	417	477	–12.6	1.4
of which indirect staff costs and external staff	868	766	13.3	2.9
of which rental and maintenance expenses	757	760	–0.4	2.5
Total operating expenses	**30,424**	**27,848**	**9.3**	**100.0**

Other operating expenses increase by 5.8 per cent

Other operating expenses went up year on year by 5.8 per cent. Higher exchange rate losses (EUR +153m) were the main reason behind the increase. Corresponding exchange rate gains were accounted for in other operating income. Increases were also reported for staff-related expenses (EUR +102m), legal, audit and consultancy fees (EUR +44m), and advertising and sales promotion (EUR +33m). Write-downs of EUR 32m on current financial investments were also recognised as of the reporting date. Sales commissions, however, were down by EUR 60m. The other items did not vary significantly compared with the previous year.

Earnings development

The Lufthansa Group reported positive operating earnings figures throughout the entire 2011 financial year. All segments contributed operating profits. One-off expenses and the economic downturn took the edge off the performance, however, so that all of the Group's earnings indicators were down compared with the previous year.

Operating profit of EUR 820m achieved

The profit from operating activities as defined by IFRS fell sharply by EUR 613m year on year to EUR 773m. As in prior years, it was adjusted for net book gains, write-backs of provisions, impairment losses, results of financial investments and measurements of financial liabilities on the reporting date. This adjusted operating result facilitates comparison of the financial performance with other financial years. The adjustments applied are shown in the table on p. 53. In 2011 net expenses of EUR 47m (previous year: net income of EUR 366m) were eliminated in this way.

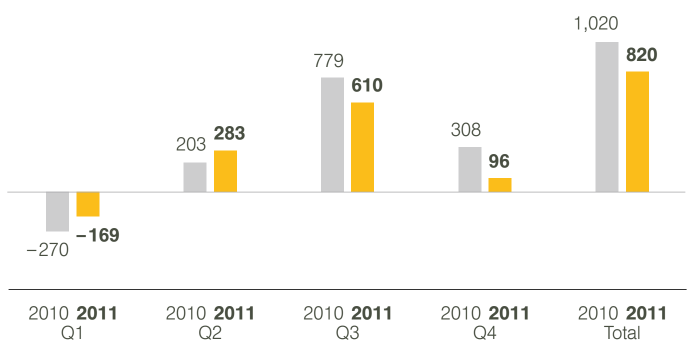
After these adjustments the operating profit came to EUR 820m (previous year: EUR 1.0bn). The adjusted operating margin, calculated by adding write-backs of provisions, was 3.4 per cent (previous year: 4.7 per cent).

The contribution of the individual business segments to the operating profit varied enormously. Whereas the airborne companies suffered a sharp fall in earnings, the service companies were able to increase their overall earnings contributions slightly. Profit for the Passenger Airline Group sank year on year by EUR 280m or 44.5 per cent to EUR 349m. With an operating profit of EUR 249m the Logistics segment too was, as expected, below its record result of EUR 310m from the financial year 2010. The MRO segment generated an operating profit of EUR 257m, which was slightly lower than in the previous year (–4.1 per cent).

By contrast, the segments IT Services and Catering improved their operating profits to EUR 19m (+90.0 per cent) and EUR 85m (+11.8 per cent) respectively. The other Group companies, which under IFRS 8 do not require separate reporting, and the central Group functions reduced the Group's operating result by a total of EUR –92m (previous year: EUR –226m).

The variation in seasonal earnings was similarly pronounced. Earnings for the individual business segments in the Group also have their own variations and ranges of fluctuation. Overall, this had a stabilising effect on the Group's operating result. Despite the deteriorating market environment, Lufthansa was therefore able to report a substantial operating profit for the financial year 2011, in contrast to many of its competitors.

Development of operating result by quarter in €m



Financial result down on the year

The financial result fell by EUR 75m to EUR –327m. The result from equity investments was down by EUR 32m due to the slump in the result of the equity valuation by EUR 66m to EUR –20m. This stemmed in particular from the equity investments in SN Airholding (EUR –38m) and Jade Cargo (EUR –38m).

Net interest improved by a total of EUR 58m to EUR –288m, thanks mainly to lower interest expense on pension provisions.

The result from other financial items fell sharply by EUR 101m to EUR –110m. Changes in the time value of options used for hedging (primarily fuel hedges) amounting to EUR –96m (previous year: EUR –18m) were recognised in the financial result in line with IAS 39. However, the expenses arising from changes in the time value of options must be viewed in connection with the hedging gains and losses realised and changes to the intrinsic value of hedging transactions, which are recognised directly in equity.

As a result, the positive result of hedging considerably alleviated fuel costs by EUR 694m in the financial year 2011. After the deduction of these maturing derivatives, the intrinsic value of the outstanding fuel hedges recognised in equity only declined by EUR 88m. In addition, income of EUR 23m (previous year: EUR 25m) came from changes in the value of hedging instruments considered under IAS 39 as held for trading.

Earnings before interest and tax (EBIT) came to EUR 734m. In the previous year EBIT amounted to EUR 1.5bn. It includes the profit from operating activities, the result from equity investments and other financial items. Adding depreciation and amortisation results in EBITDA of EUR 2.5bn (previous year: EUR 3.2bn).

Profit breakdown of the Lufthansa Group

	2011 in €m	2010 in €m	Change in %
Operating income	31,197	29,234	6.7
Operating expenses	–30,424	–27,848	9.3
Profit from operating activities	**773**	**1,386**	**–44.2**
Financial result	–327	–252	–29.8
Profit / loss before income taxes	**446**	**1,134**	–60.7
Income taxes	–157	161	
Profit/loss from continuing operations	**289**	**1,295**	**–77.7**
Profit/loss from discontinued operations	–285	–152	–87.5
Profit / loss attributable to minority interests	–17	–12	–41.7
Net profit / loss attributable to shareholders of Deutsche Lufthansa AG	**–13**	**1,131**	

EUR 289m profit from continuing operations

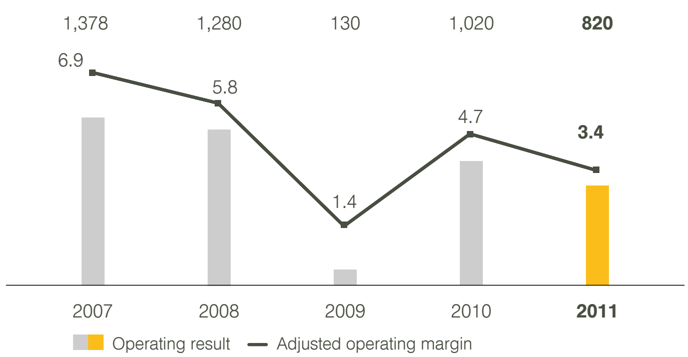
The total of profit from operating activities and financial result gave a profit before income taxes of EUR 446m (previous year: EUR 1.1bn). This was EUR 688m lower than the year before. Income taxes reduced the result by EUR 157m. In the previous year income taxes resulted in income of EUR 161m, despite the high pre-tax earnings of EUR 1.1bn. This was largely due to tax relief of around EUR 400m from the use of previously unrecognisable tax-loss carryforwards from the LSG Sky Chefs USA group in the course of the financial restructuring of the Catering segment, as well as from receivables waived in this context. After deducting income taxes, the profit from continuing operations came to EUR 289m (previous year: EUR 1.3bn).

Slight net loss for the period

The result of discontinued operations comes to EUR –285m (previous year: EUR –152m), reflecting the planned sale of bmi. This includes the current after-tax result for bmi of EUR –155m as well as the valuation and after-tax sales proceeds of EUR –130m resulting from the purchase agreement between Lufthansa and IAG. Details can be found in the Notes to the consolidated financial statements, “Note 15” on p. 164.

This adds up to a net profit of EUR 4m after income tax (previous year: EUR 1.1bn). Deducting net profit attributable to minority interests of EUR 17m (previous year: EUR 12m) resulted in a net loss for the period attributable to shareholders of Deutsche Lufthansa AG of EUR –13m (previous year: net profit of EUR 1.1bn). Earnings per share and diluted earnings per share came to EUR –0.03 (previous year: EUR 2.47), see also p. 164 in the Notes to the consolidated financial statements.

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



Long-term overview of earnings

Lufthansa operates in a highly volatile environment, which is marked by cyclical fluctuations and a high degree of dependency on general economic developments. Within this environment the Group stands out for its high stability in times of crisis and for its ability to profit disproportionately from economic upturns. In the crisis year 2009, for example, we earned a positive operating result despite the economic turbulence. In the first year after the crisis Lufthansa profited substantially from the upswing and generated a profit of EUR 1.0bn. Under last year’s difficult conditions Lufthansa achieved what in comparison with our competitors was a very good operating result of EUR 820m.

Reconciliation of results

in €m	2011 Income statement	2011 Reconciliation with operating result	2010 Income statement	2010 Reconciliation with operating result
Total revenue	**28,734**	**–**	**26,459**	**–**
Changes in inventories	139	–	165	–
Other operating income	2,324	–	2,610	–
of which book gains and current financial investments	–	−61	–	−275
of which income from reversal of provisions	–	−163	–	−224
of which write-ups on capital assets	–	−6	–	−39
of which period-end valuation of non-current financial liabilities	–	−23	–	−52
Total operating income	**31,197**	**−253**	**29,234**	**−590**
Cost of materials and services	−16,731	–	−14,700	–
Staff costs	−6,678	–	−6,491	–
of which past service costs	–	24	–	19
Depreciation, amortisation and impairment	−1,722	–	−1,654	–
of which impairment losses	–	59	–	68
Other operating expenses	−5,293	–	−5,003	–
of which impairment losses on assets held for sale – non-operating		21	–	16
of which expenses incurred from book losses and current financial investments	–	87	–	47
of which period-end valuation of non-current financial liabilities	–	109	–	74
Total operating expenses	**−30,424**	**300**	**−27,848**	**224**
Profit / loss from operating activities	**773**	**–**	**1,386**	**–**
Total from reconciliation with operating result	–	47	–	−366
Operating result	**–**	**820**	**–**	**1,020**
Result from equity investments	71	–	103	–
Other financial items	−110	–	−9	–
EBIT	**734**	**–**	**1,480**	**–**
Write-downs (included in profit from operating activities)	1,722	–	1,654	–
Write-downs on financial investments (including at equity)	90	–	32	–
EBITDA	**2,546**	**–**	**3,166**	**–**

Profit distribution

Lufthansa's dividend policy aims for continuity on the basis of distributing a stable percentage of the operating result, as long as a dividend payment is possible from the net profit for the year as shown in the individual financial statements for Deutsche Lufthansa AG drawn up according to the commercial law provisions (HGB). Please see also the "Financial strategy" section on p. 39.

Full details of the individual financial statements for Deutsche Lufthansa AG in accordance with German commercial law can be found starting from p. 134 of this management report. According to these individual financial statements, a net loss of EUR 116m for the financial year 2011 was reported, which was largely (EUR −571m) due to the negative result and valuation effects in connection with the disposal of bmi.

In spite of this, the Executive Board and Supervisory Board have decided to make a departure from the dividend policy by transferring retained earnings and proposing the distribution of a dividend of EUR 0.25 per share at the Annual General Meeting. This distribution is intended to let shareholders participate in the operating performance of the year 2011 in a way that is justifiable for the Group's financial profile and does not allow the operational success to be overcompensated by the valuation effects mentioned above. The loss in the individual financial statements brought about by the sale of bmi will in fact strengthen the Group's profitability sustainably in the future.

The Executive Board and Supervisory Board emphasise that this dividend payment is an exception. Future dividend proposals will again follow the established dividend policy and be based on the operating result, if and to the extent the net profit for the year in the individual HGB financial statements allows a distribution to be made.

Assets and financial position

➚ Investment in growth and modernisation creates further development prospects for Lufthansa. ➚ Following gross capital expenditure of EUR 2.6bn, Lufthansa's free cash flow came to EUR 713m. ➚ Financial debt was reduced and further improvements to the capital structure were made. ➚ We used the liquidity to optimise our financing structure in 2011. ➚ Lufthansa is the European airline with the best credit rating.

Capital expenditure

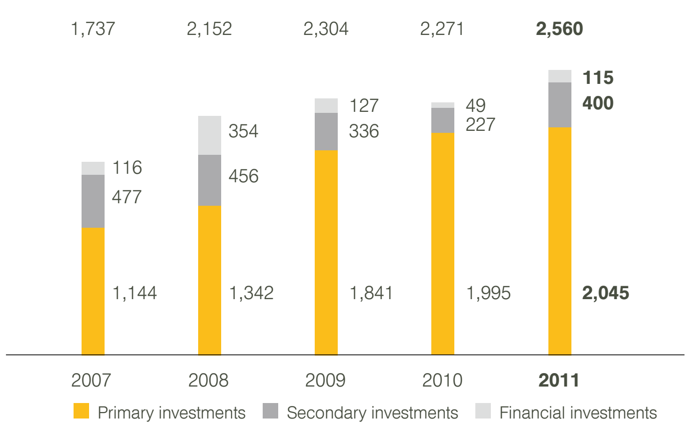
Investment safeguards the Group's future development
While maintaining its cost management, the Lufthansa Group made further important investments in the financial year 2011 in order to open up additional prospects for the future. The extensive fleet renewal programme continued throughout 2011 in order to further improve the cost basis by means of fuel-efficient aircraft. At EUR 2.6bn, capital expenditure for the Group was 12.9 per cent up on the previous year. This includes primary investment, i.e. down payments and final payments for aircraft and aircraft overhauls, equipment and reserve engines, which increased slightly by 2.5 per cent to EUR 2.0bn.

Capital expenditure for other items of property, plant and equipment and for intangible assets, known collectively as secondary investment, went up by 76.2 per cent to EUR 400m. Property, plant and equipment, such as technical equipment and machinery, operating and office equipment, accounted for EUR 265m in total (previous year: EUR 173m). At the same time, EUR 135m (previous year: EUR 54m) was invested in intangible assets such as licences and goodwill.

In 2011 a total of EUR 115m (previous year: EUR 49m) was spent on financial investments such as capital contributions to non-consolidated equity investments, other lending and smaller share purchases.

The Passenger Airline Group segment accounted for the largest share of capital expenditure in 2011 at EUR 2.1bn (previous year: EUR 2.0bn).

Primary, secondary and financial investments in €m*



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

Expenses were primarily on new aircraft and down payments for aircraft. Investments in the 2011 financial year included 40 aircraft: four Airbus A380s, two A330s, twelve A321s, two A320s, two A319s, two Boeing 737s, two B767s, seven Bombardier CRJ900s, six Embraer 195s and one ATR 700.

In the Logistics business segment, capital expenditure of EUR 76m in total (previous year: EUR 21m) consisted largely of down payments in connection with orders for Boeing 777F freighter aircraft.

Investment in the MRO segment went up to EUR 139m (previous year: EUR 67m), in particular due to purchases of reserve engines and capital contributions to equity investments.

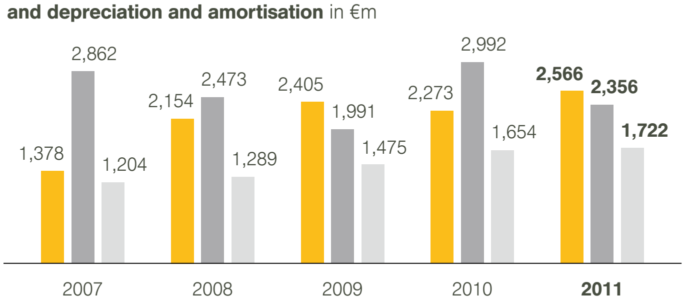
In the IT Services segment capital expenditure came to EUR 55m (previous year: EUR 36m). The increase stemmed from the reworking of a subsidiary's business model and the related transfer of assets.

In the Catering segment capital expenditure rose to EUR 74m in 2011 (previous year: EUR 38m). Here the funds were used particularly to secure existing production facilities.

Cash flow

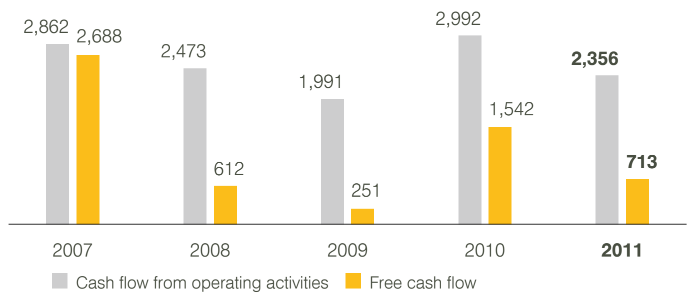
EUR 2.4bn cash flow from operating activities generated
The fall in profits is mirrored in the Group's cash flow from operating activities. This came to EUR 2.4bn, which was EUR 636m or 21.3 per cent below the previous year's record figure. Based on a EUR 688m drop in the profit/loss before income taxes, non-cash expenses of EUR 73m from changes in the market value of financial derivatives (previous year: income of EUR 7m) were eliminated when calculating cash flow because they do not affect the cash flow from operating activities. After adjustment for non-cash depreciation and amortisation as well as for the proceeds of non-current asset disposals, which are attributed to investing activities, cash flow improved further by EUR 310m. By contrast, EUR 155m more was spent on income tax payments than in the previous year. However, the change in working capital depressed cash flow from operating activities by EUR 149m compared with the previous year. As of the financial year 2011 the calculation of cash flow from operating activities also includes retirement benefits paid to former staff from external pension funds (EUR 80m), which are included in changes in working capital. The figures for the previous year have been adjusted in accordance with the presentation in the reporting year. This resulted in a cash flow from continuing operations of EUR 2.5bn. Cash flow from discontinued operations came to EUR –161m.

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



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

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



Free cash flow substantially positive at EUR 713m
Gross capital expenditure for the Lufthansa Group came to EUR 2.6bn. This includes the primary, secondary and financial investment described above as well as repairable spare parts for aircraft.

Asset disposals, including the disposal of non-consolidated shareholdings, gave an income of EUR 465m in 2011. The sale of aircraft accounted for EUR 208m of the total, securities disposals for EUR 130m, repayments received for lending for EUR 48m and the sale of intangible assets for EUR 76m.

Interest and dividend income went up by 17.0 per cent to EUR 454m. This brought total net cash used for investing activities to EUR 1.6bn (previous year: EUR 1.5bn).

After deducting this net cash used for investing activities, free cash flow for the financial year 2011 was substantially positive at EUR 713m (previous year: EUR 1.5bn). The internal financing ratio, that is the proportion of capital expenditure financed from cash flow, came to 91.8 per cent (previous year: 131.6 per cent).

Targeted reduction of financial liabilities
In the financial year 2011 we retained our policy of funding our pension obligations flexibly over the medium term. A total of EUR 736m was committed to further funding in Germany and abroad. The purchase of securities for EUR 1.4bn and the sale of securities for EUR 1.9bn resulted in a net cash inflow of EUR 535m (previous year: net outflow of EUR 1.3bn).

The balance of financing activities was a net cash outflow of EUR 1.4bn (previous year: EUR 300m). Cash outflows included dividends paid, including profits attributable to minority interests (EUR 296m), as well as interest paid (EUR 449m) and scheduled repayment of debt amounting to EUR 1.0bn. In addition, the good liquidity position in the first half-year was used to optimise the financial structure and pay back five borrower's note loan tranches worth a total of EUR 407m ahead of schedule. In exchange, in 2011 a total of EUR 740m was successfully raised from new borrowing at favorable conditions, see chapter "Financing", p. 60, and EUR 5m received in capital contributions from minority shareholders.

Cash and cash equivalents at EUR 4.0bn

Cash and cash equivalents declined by EUR 210m in the reporting year to around EUR 887m. This includes an increase of EUR 9m in cash and cash equivalents due to exchange rate movements. Cash of EUR 46m was shown in the balance sheet under assets held for sale. Total liquid funds (including current securities) came to EUR 4.0bn (previous year: EUR 5.4bn).

Assets

Balance sheet total down to EUR 28.1bn

At the end of the financial year 2011 the consolidated balance sheet total came to EUR 28.1bn and therefore was EUR 1.2bn below the figure for the previous year. Whereas non-current assets fell by EUR 336m to EUR 18.6bn, current assets sank even further by EUR 903m to EUR 9.5bn.

On 22 December 2011 Deutsche Lufthansa AG and International Airlines Group (IAG) signed an agreement on the sale of British Midland Ltd. (bmi) to IAG. On the basis of this agreement the assets and liabilities attributable to bmi have, in accordance with IFRS 5, been presented separately in the balance sheet as of 31 December 2011 as assets held for sale and liabilities included within a disposal group.

Non-current assets declined by EUR 391m primarily because the slots and the brand name of bmi are now shown separately. The item aircraft and reserve engines increased by EUR 439m to EUR 11.6bn due to additions in the current financial year.

Abbreviated cash flow statement of the Lufthansa Group

	2011 in €m	2010 in €m	Change in %
Profit/loss before income taxes	446	1,134	−60.7
Depreciation and amortisation/reversals	1,780	1,659	7.3
Net proceeds on disposal of non-current assets	−25	−214	88.3
Net interest/result from equity investments	217	243	−10.7
Income tax payments	−265	−110	−140.9
Measurement of financial derivatives through profit or loss	73	−7	
Change in working capital	291	440	−33.9
Cash flow from continuing operations	**2,517**	**3,145**	**−20.0**
Cash flow from discontinued operations	−161	−153	−5.2
Cash flow from operating activities	**2,356**	**2,992**	**−21.3**
Investments and additions to repairable spare parts	−2,562	−2,349	−9.1
Purchase/disposal of shares/non-current assets	465	511	−9.0
Dividends and interest received	454	388	17.0
Net cash from used in investing activities	**−1,643**	**−1,450**	**−13.3**
Free cash flow	**713**	**1,542**	**−53.8**
Purchase/disposal of securities/fund investments	**535**	**−1,345**	
Capital increase	5	–	–
Non-current borrowing and repayment of non-current borrowing	−681	169	
Dividends paid	−296	−18	
Interest paid	−449	−451	0.4
Net cash from used in investing activities	**−1,421**	**−300**	
Changes due to currency translation differences	9	64	−85.9
Cash included in assets held for sale	−46	–	–
Cash and cash equivalents 1.1.	**1,097**	**1,136**	**−3.4**
Cash and cash equivalents 31.12.	**887**	**1,097**	**−19.1**

The fall of EUR 230m in equity investments is due principally to the change in the market value of the shares in Amadeus IT Holding S.A. (EUR –107m) and JetBlue (EUR –44m) without effect on profit and loss and to the reclassification of equity investments attributable to bmi (EUR –45m). Non-current securities sank by EUR 116m due in large part to the disposal of a borrower's note loan.

Within current assets receivables rose slightly by EUR 36m to EUR 3.4bn. The decrease in the market values of current financial derivatives (EUR –70m) stems largely from fuel hedging and is offset by an increase in the market values of currency hedges. Cash and cash equivalents, consisting of current securities, bank balances and cash-in-hand, sank by EUR 1.4bn to EUR 4.0bn. Assets held for sale rose by EUR 500m to EUR 686m, largely due to the reclassification of bmi's assets. Details on the components of this item can be found in the Notes to the consolidated financial statements, "Note 33" from p. 180.

Capital structure slightly improved

Shareholders' equity (including minority interests) came to EUR 8.0bn as of the reporting date. This represents a decline of 3.5 per cent. The fall was accompanied by an after-tax result that almost broke even, and stems mainly from the dividend payments of EUR 296m for the 2010 financial year to shareholders of Deutsche Lufthansa AG and minority shareholders as well as negative changes of EUR 90m in the market values of financial assets. The latter includes EUR 71m in higher intrinsic values for financial derivatives used to hedge fuel and currency risks. Positive currency translation differences increased equity by EUR 81m. As the consolidated balance sheet total contracted by 4.2 per cent, the equity ratio rose as a result to 28.6 per cent (year-end 2010: 28.4 per cent) and is therefore drawing even nearer to its medium-term target of 30 per cent.

Development of earnings, equity and equity ratio

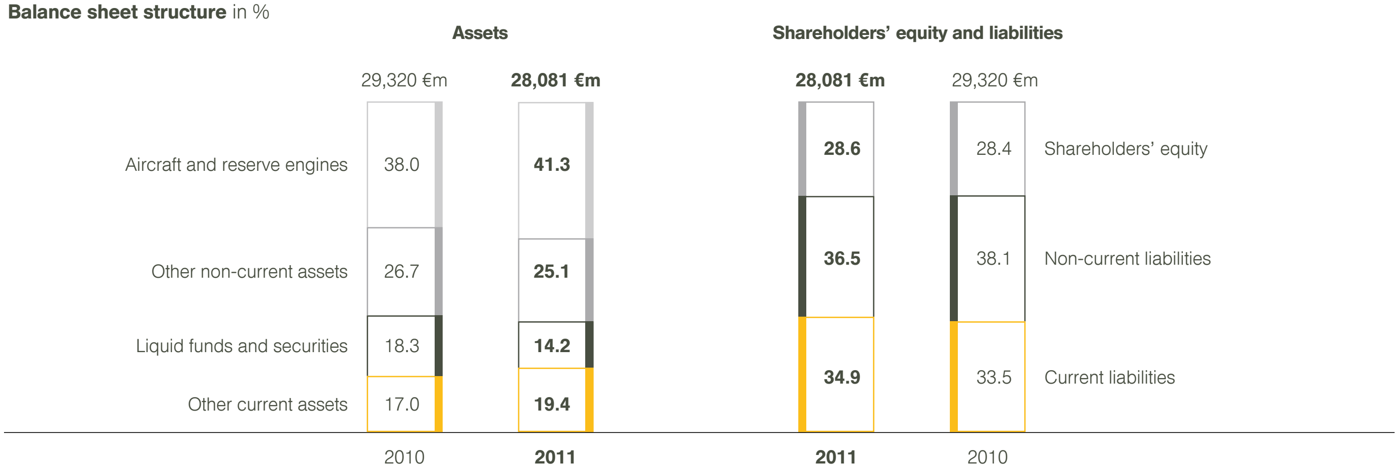
		2011	2010	2009	2008	2007
Result*	€m	4	1,143	–22	552	1,760
Equity*	€m	8,044	8,340	6,202	6,594	6,900
Equity ratio*	%	28.6	28.4	23.5	29.4	30.9

* Including minority interests.

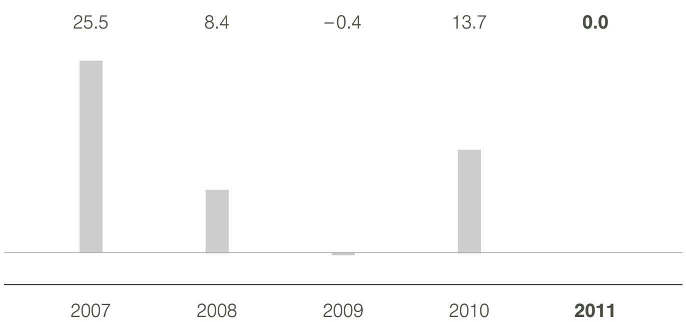
Non-current liabilities and provisions went down by EUR 900m to EUR 10.3bn in the reporting year, while current borrowing was on par with the previous year at EUR 9.8bn. Under the non-current liabilities, financial borrowing fell by a total of EUR 419m, largely thanks to the early repayment of five borrower's note loans and to maturities, while the negative market value of derivative financial instruments (principally from currency hedging) declined by EUR 56m. The ongoing funding of pension obligations via external pension funds again reduced the corresponding provisions by EUR 406m to EUR 2.2bn.

Within the current liabilities and provisions, financial liabilities decreased by a total of EUR 341m. This increase was due to maturities and was offset in the reporting period by capital repayments. Furthermore, the negative market values of current financial derivatives (largely from exchange rate hedging) dropped by EUR 66m. Liabilities included within a disposal group consist essentially of liabilities attributable to British Midland Ltd., which is due to be sold. Details can be found in the Notes to the consolidated financial statements, "Note 33" from p. 180.

Balance sheet structure in %



Return on equity in %



Debt repayment ratio

in €m	2011	2010
Cash flow from operating activities	2,517	2,992
Change in working capital	−291	−440
Interest income	336	314
Interest paid	−449	−451
Dividends received	118	74
Adjusted cash flow from operating activities	**2,231**	**2,489**
Net indebtedness and pensions	**4,493**	**4,167**
Debt repayment ratio in %	**49.7**	**59.7**

Non-current funding accounts for 65.1 per cent of the balance sheet total (previous year: 66.5 per cent). Non-current financing now covers 98.2 per cent of non-current assets (previous year: 102.8 per cent).

Net indebtedness rose to EUR 2.3bn (previous year: EUR 1.6bn). This is the balance of gross financial debt and available financial assets plus non-current securities that can be liquidated at short notice.

Calculation of net indebtedness and gearing

	2011 in €m	2010 in €m	Change in %
Liabilities to banks	1,456	1,925	−24.4
Bonds	2,119	2,177	−2.7
Other non-current borrowing	2,849	3,082	−7.6
	6,424	**7,184**	**−10.6**
Other bank borrowing	16	23	−30.4
Group indebtedness	**6,440**	**7,207**	**−10.6**
Cash and cash equivalents	887	1,097	−19.1
Securities	3,111	4,283	−27.4
Non-current securities (liquidity reserve)*	114	231	−50.6
Net indebtedness	**2,328**	**1,596**	**45.9**
Pension provisions	2,165	2,571	−15.8
Net indebtedness and pensions	**4,493**	**4,167**	**7.8**
Gearing in %	**55.9**	**50.0**	**5.9 pts**

* Realisable at any time.

Gearing, at 55.9 per cent (previous year: 50.0 per cent), was still within the target corridor of 40 to 60 per cent. The figure expresses the ratio of net indebtedness plus pension provisions to shareholders' equity. By contrast, the debt repayment ratio came to 49.7 per cent in 2011, missing its target of 60 per cent. A ten-year overview of the main performance indicators can be found in the chapter "Ten-year overview" from p. 226.

Fleet

New aircraft models improve fuel efficiency and cost base

The Group's fleet is an essential resource and is by far the largest asset in the balance sheet. The fleet is so vital for value creation that it must be both modern and efficient to ensure the Group's success. The modification of the aircraft fleet that has been undertaken in recent years has not only enabled us to fly with less impact on the environment, but also to respond more precisely to fluctuations in demand. Aircraft made by Airbus and Boeing make up the majority of the fleet, whereas aircraft from Bombardier and Embraer are used in the regional segment.

As of the reporting date the Group fleet counted 696 aircraft (without bmi: 636 aircraft), with an average age of 11.2 years. In terms of units this is lower than in the previous year (710 aircraft, including bmi), but overall capacity went up at the same time thanks to the introduction of the new Europa cabin, which has room for more passengers and offers greater comfort. Flight operations for the 50-seater regional aircraft finally ceased in the reporting year. The greater seating capacity achieved by modernising the fleet leads to lower unit costs, as well as reducing fuel consumption and therefore also CO_2 emissions. Besides making the fleet more environmentally friendly, continued investment in new aircraft also results in lower noise emissions.

In strategic terms, the Lufthansa Group's fleet policy has not changed. The majority of the fleet is owned by the Group and is financially unencumbered. The fleet is rounded off by just a small proportion of externally leased aircraft. This provides a flexibility that allows us to respond individually to fluctuations in demand. When demand is high, we can rely on sufficient aircraft being available and when demand contracts we profit from lower expenses by adjusting capacity. Thanks to the ongoing modernisation and greater efficiency of our fleet, our competitive position is also strong in the face of rising fuel prices and the emissions trading beginning in 2012. As well as ordering new aircraft we follow our policy of developing the latest innovations for our existing planes.

Last year saw the addition of four more of our flagship Airbus A380s, taking the total number to eight. Another increase to a total of ten A380s is planned for 2012.

Fleet orders

	Deliveries
Long-haul fleet	
9 Airbus A380	2012 to 2015
20 Boeing 747-8i	2012 to 2015
5 Boeing 777F	2013 to 2015 (LH Cargo)
4 Airbus A330	2012 to 2014
5 Airbus A330	2012 to 2013 (SWISS)
Short-haul fleet	
69 Airbus A320 family	2012 to 2018
8 Airbus A320 family	2012 to 2014 (Germanwings)
5 Airbus A320 family	2012 to 2014 (SWISS)
Regional fleet	
30 Bombardier C-Series	2014 to 2016 (SWISS)
13 Embraer EMB190 family	2012 to 2013

Group fleet – Number of commercial aircraft and fleet orders
Deutsche Lufthansa AG (LH), SWISS (LX), Austrian Airlines (OS), British Midland (bmi)[1], Germanwings (4U), Lufthansa CityLine (CLH), Air Dolomiti (EN), Eurowings (EW) and Lufthansa Cargo (LCAG) as of 31.12.2011

Manufacturer/type	LH	LX	OS	bmi[1]	4U	CLH	EN	EW	LCAG	**Group fleet**	of which finance lease	of which operating lease	Change compared with 31.12.10	Additions 2012 to 2018	Additional options
Airbus A310	2[4]									2			–		
Airbus A319	32	7	7	11	30					87	4	25	+2	12	
Airbus A320	46	25	9	7						87	11	6	+3	55	
Airbus A321	56	7	6	7						76	5	5	+12	15	5
Airbus A330	15	17		2						34		6	–	9	2
Airbus A340	50	13	2[3]							65	2	2	−1		
Airbus A380	8									8			+4	9	3
Boeing 737	55		11	14						80	3	11	−8		
Boeing 747	30									30			–	20	
Boeing 767			6							6	2		–		
Boeing 777			4							4			–	5	5
Boeing MD-11F									18	18			–		
Bombardier CRJ	26[2]		2			32		5		65		5	−12		
Bombardier C-Series										0			–	30	30
Bombardier Q-Series			14							14			−5		
ATR	5[2]						6			11		7	−5		
Avro RJ		20				9				29		10	−7		
Embraer	30[2]	4[4]	3[4]	19						56	3	9	+7	13	
Fokker F70			9							9	1		–		
Fokker F100			15							15			–		
Cessna Citation	0									0			−4		
Total aircraft	**355**	**93**	**88**	**60**	**30**	**41**	**6**	**5**	**18**	**696**	**31**	**86**	**−14**	**168**	**45**

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

In addition, another ultra-modern aircraft model, the Boeing 747-8i, will enhance our fleet in 2012. The new "jumbo jet" is fitted with the latest technology and supports us in our endeavours to cut unit costs even further. This model fills the capacity gap between the Boeing 747-400 and the much larger Airbus A380. Five B747-8is are expected to join our fleet over the course of 2012. We are also expecting deliveries of two Airbus A380s, six A330s, 17 aircraft from the A320 family and ten regional aircraft in 2012. This takes total deliveries for the year 2012 to 40.

Altogether, 168 aircraft have been ordered for the period up to 2018. They include 47 planes for which the Supervisory Board approved orders in the 2011 financial year. A large part of these orders is for 30 aircraft from the Airbus A320neo family. These aircraft are equipped with modern engines and will enable fuel efficiency to be increased and unit cost advantages generated in the short and medium-haul segment as well, probably from 2016.

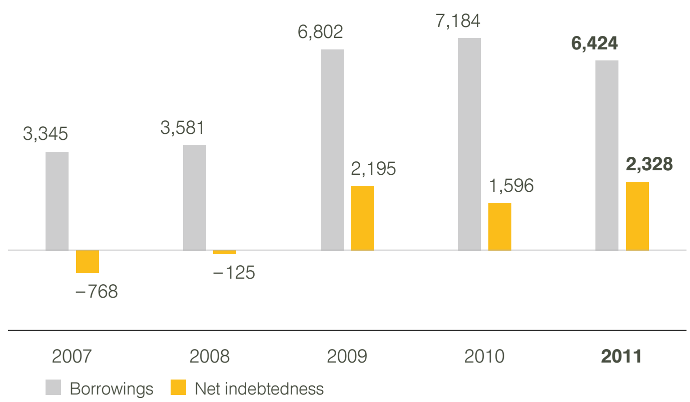
Financing

Central financial management optimises cash flows throughout the Group

Lufthansa's financial strategy is aimed at securing stability and permanent freedom of action for the Group; see chapter "Financial strategy" on p. 39. Optimising short and medium-term cash flows is a prerequisite for efficient financial management. The Lufthansa Group has a centralised financial management function, where all cash flows are pooled. Excess liquidity is invested and new funding is raised externally as required.

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

Development of borrowings and net indebtedness in €m



Favourable funding conditions thanks to financing mix

It is generally Deutsche Lufthansa AG that raises the necessary external funds for the Group, passing these on to subsidiaries by means of internal Group loans. Only in exceptional cases and for particular reasons or advantages do subsidiaries raise external funds directly, in coordination with the Group financial management. The funding instruments chosen in each case are derived from the financial strategy. When arranging the funding mix, we pay particular attention to optimising financing terms, maintaining a balanced maturity structure, and enhancing the diversification of investors and lenders.

Thanks to our good corporate 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 be a core component of financing the Lufthansa Group in the future.

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

A number of banks have also granted us bilateral credit lines with a maturity of one year. At the end of the financial year 2011 credit lines amounting to some EUR 2.1bn were available.

Lufthansa mainly refinances its business in euros, the reporting currency. The financial strategy provides for holding 85 per cent of financial liabilities at floating rates of interest. More information can be found in the Notes to the consolidated financial statements, "Note 47" on p. 195 under "Price risks". The current financing structure is described in the Notes to the consolidated financial statements, "Note 40" on p. 190. Deutsche Lufthansa AG's main financial liabilities do not include covenants.

Successful aircraft financing and borrower's note loans in 2011

In the previous year fund-raising had consisted primarily of aircraft financing, but in 2011, despite a difficult market environment, we successfully completed transactions for both aircraft financing and borrower's note loans.

At the same time, we optimised our financing structure. This involved the early repayment in May 2011 of the variable tranche of the borrower's note loan taken out in 2009. The borrower's note loans issued in November 2011 enabled us to extend the maturity of our financial debt and improve the interest terms. The total amount raised by these transactions was EUR 300m. EUR 198m came from a 5.5-year tranche, around EUR 73m from a 7-year tranche and nearly EUR 29m from a tranche with a maturity of 10 years. In other transactions in December a further EUR 105m was raised from a borrower's note loan maturing in 5.2 years and EUR 45m from one maturing in 7 years.

In the second half of 2011 we successfully concluded a number of aircraft financing transactions, raising a total of around EUR 226m. These include a French lease structure for one of the recently acquired Airbus A380s and four Japanese operating leases, each for one Airbus A321. These transactions again enabled Lufthansa to raise debt on very favourable terms.

We continued the funding of pension obligations begun in 2004. A contribution of EUR 736m was made in 2011 for the entire Group, EUR 528m of which went to the Lufthansa Pension Trust.

There was no significant off-balance sheet financing in the reporting year. However, various Lufthansa Group companies did enter into rental and/or operating lease contracts. These mainly relate to leases for aircraft and property, see the Notes to the consolidated financial statements, "Note 22" on p. 172.

Development of ratings

Rating / outlook	**2011**	2010	2009	2008	2007
Standard & Poor's	**BBB– / stable**	BBB– / stable	BBB– / negative	BBB / negative	BBB / stable
Moody's	**Ba1 / stable**	Ba1 / stable	Ba1 / stable	Baa3 / stable	Baa3 / positiv

Ratings confirmed

Its current credit ratings make Lufthansa the best rated airline in Europe. Over the course of 2011 the rating agencies Moody's and Standard & Poor's both confirmed their ratings. The current grades reflect the sound financial profile and the diversification across a broad route network and various business segments. The following table provides further details.

Lufthansa's credit ratings

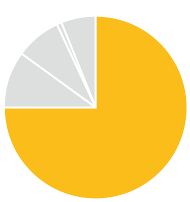
Standard & Poor's (December 2011)*	**Moody's Investors Service** (June 2011)*
Long-term: BBB- Short-term: A-3 Outlook: Stable	Long-term: Ba1 Short-term: Not Prime Outlook: Stable
Strengths	**Strengths**
+ One of the world's leading airlines with a strong position at hubs in Frankfurt and Munich	+ One of the largest airlines in the world with a strong competitive position
+ Diversification of revenue as one of the leading European providers of freight transport, maintenance, repair and over-haul services and airline catering	+ Robust business profile with diversified business segments reduces volatility
+ Strong position in profitable long-haul business and premium traffic	+ Climb 2011 initiative to safeguard long-term competitiveness and improve cost structure and income
+ Good liquidity holdings	+ Solid liquidity, large proportion of the fleet is owned, comparatively low debt
+ Experience in flexibly adjusting capacity and demand as well as costs when the economy slows	+ Performance indicators profit from industry upturn and cautious acquisition policy
Weaknesses	**Weaknesses**
– Weak industry environment due to deteriorating economic growth	– Diffident sector forecasts and increase in fuel prices weigh on the profitability of the airline industry
– Difficult environment, cyclical industry, strong price competition and capital intensity	
– Profitability depends on volatile fuel prices	– Operating losses at Austrian Airlines and bmi
– Tough competition on home and European market	– Limited flexibility to increase the share of secured financing

* Latest report.

Passenger Airline Group business segment

Lufthansa is developing its position as leading group of European quality carriers. Partnerships and joint ventures are becoming ever more important. Market share was regained, especially in Germany and Europe. Despite adverse, non-recurring factors, income was increased in all traffic regions. Operating profit was down on the previous year. The focus is on capacity and cost management.

Share of Group revenue 75.0%



Leading group of European quality carriers

Key figures Passenger Airline Group

		2011	2010	Change in %	of which Lufthansa Passenger Airlines[2] 2011	Change in %
Revenue	€m	22,290	20,046	11.2	15,689	12.2
of which with companies of the Lufthansa Group	€m	746	678	10.0		
Operating result	€m	349	629	–44.5	168	–56.0
Adjusted operating margin	%	2.1	4.0	–1.9 pts	1.8	–1.7 pts
Segment result	€m	355	764	–53.5		
EBITDA[1]	€m	1,667	2,055	–18.9	1,136	–11.2
CVA	€m	–122	–198	38.4		
Segment capital expenditure	€m	2,085	2,047	1.9		
Employees as of 31.12.	number	55,361	53,544	3.4	39,392	4.7
Average number of employees	number	54,946	53,477	2.7	38,981	4.7
Passengers carried	thousands	100,603	92,693	8.5	65,427	11.2
Available seat-kilometres	millions	258,263	234,377	10.2	182,574	11.9
Revenue seat-kilometres	millions	200,376	186,451	7.5	141,038	8.8
Passenger load factor	%	77.6	79.6	–2.0 pts	77.3	–2.1 pts

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

22.3 €bn

Revenue

349 €m

Operating result

Business and strategy

Leading airline group in Europe
The Passenger Airline Group consists of the companies operating in the Lufthansa airline group, i.e. Lufthansa Passenger Airlines, SWISS, Austrian Airlines and Germanwings, together with its equity investments such as Brussels Airlines and offers its customers important benefits. The increasing harmonisation of products and processes gives passengers considerable added value by enabling seamless travelling within the Group's route network with 246 destinations. In addition, the multi-hub strategy offers them maximum travel flexibility at the hubs of the airline group, such as Frankfurt, Munich and Zurich. For Lufthansa the strategy represents additional cost synergies as well.

With this strategy each home carrier can play to its strengths in its respective home market. At the same time, the airline group profits from the special know-how of individual members in niche markets with growth potential, such as Brussels Airlines in West Africa. The use of synergies within the Lufthansa airline group constitutes a major competitive advantage, especially in a challenging environment. Lufthansa Passenger Airlines and Germanwings are exploring new territory in combining their business models. The two companies have worked together closely since early 2011 and offer their customers additional travel advantages: combinable tickets, Miles & More mileage accrual on Germanwings flights and joint offers in corporate sales. In December the scope of cooperation was extended further by including a coordinated flight plan from Stuttgart. Synergies are not only created in the airline group, however, but also in collaboration with the service segments, such as MRO and Catering.

Lufthansa's aim is to expand its position as leading independent group of European quality carriers and to exploit market opportunities. At the same time, topics such as safety, punctuality, reliability and professional service remain a high priority. The companies in the airline group are united in their search for profitable growth. This enables them to make investments in modern aircraft, achieve financial stability in a volatile industry and create secure jobs with attractive development prospects. The companies also strive to assume their responsibility for conserving natural resources by their sustainable business practices.

Efficiency gains and profitable growth are mutually reinforcing
Lufthansa is the number one player in Europe in its industry today and intends to preserve this status in future. To do so, the Group will consolidate and build on its current position while taking a leading role in competitive markets worldwide. Lufthansa's home market is Europe, while Germany is the core location and the Group's largest single market.

Growth potential lies primarily in global long-haul routes, however. In order to optimise connections between them and the European network, the key is to safeguard and expand our position in the home market. A leading position in Europe makes the range of services attractive to customers for one thing, and also increases the Group's relevance as a partner for opening up growth markets outside Europe.

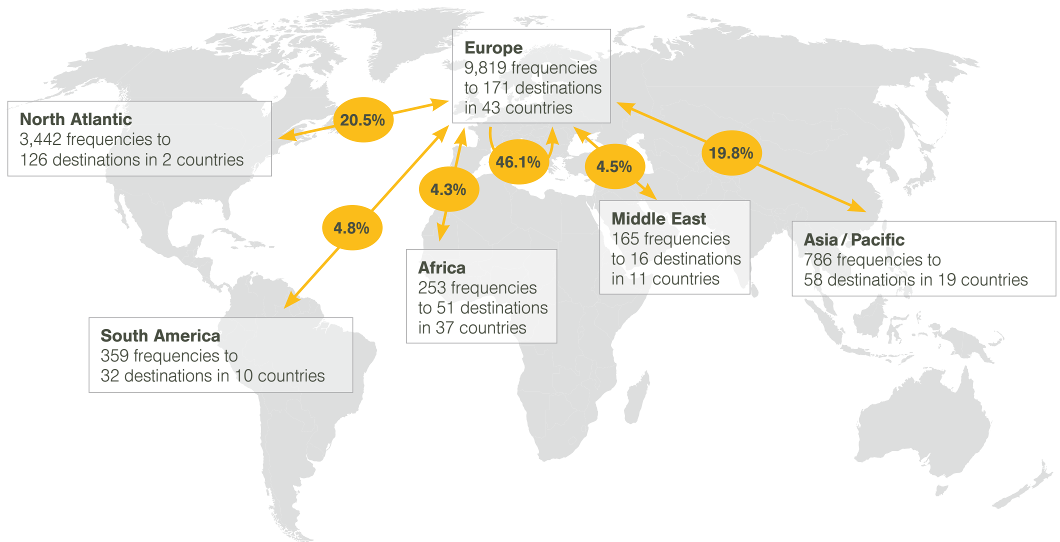
Profitable growth is a cornerstone of this strategy. It is enabled by lower costs and efficiency increases to be achieved in the course of expanding route networks and strengthening the airline group's hubs. The multi-hub strategy offers a comprehensive route network for the hubs' respective catchment areas. Feeder flights from Europe also improve the load factors for intercontinental flights and expand the range of destinations on offer to local customers. Unit costs are being lowered at the same time, by modernising the fleet and increasing its productivity for example. In this context Lufthansa particularly enjoys the benefits of its largely unencumbered fleet and the related flexibility in terms of capacity and cost management.

The most celebrated example of the ongoing fleet renewal was the successful introduction of the first eight Airbus A380s by the end of 2011. This made it possible to achieve cost-effective growth combined with a very high level of customer satisfaction. The Group's order list contains other ultra-modern aircraft, such as the Boeing 747-8i for long-haul routes, the Airbus A320neo for European routes and the C-Series from Bombardier for regional traffic.

Joint venture models gaining in importance
Lufthansa and the group airlines follow a diversified network strategy in all global sales markets. In Europe it is based on multiple hubs and catchment areas. Frankfurt and Munich are the largest hubs and cover the full range of products. Since the new runway was opened in October 2011 the Frankfurt hub has used the growth opportunities to maximise transfer options for customers. Moreover, the hubs in Zurich, Vienna, Brussels and Dusseldorf mainly serve local demand in their respective catchment areas and offer very good connections to the main European cities, economic centres and niche destinations. The network is increasingly being extended to tourist destinations as well. In the important German catchment areas like Hamburg and Berlin, Lufthansa offers direct flights to an attractive range of short and medium-haul destinations.

In addition to the Group's own expanded production platforms, the scope of cooperation agreements and alliances was also extended further in 2011. Ethiopian Airlines joined the Star Alliance in December 2011 and bolsters Lufthansa's market position in East Africa substantially. Star Alliance remains the world's leading global alliance, currently flying to 1,290 destinations in 189 countries.

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



* Frequencies per week, Lufthansa including code-shares. Share of revenue of the Passenger Airline Group.

Joint venture models are gaining in importance in the competition between the airline alliances. Lufthansa positioned itself successfully for this trend at an early date. Based on the positive experience gained in the leading North Atlantic joint venture with United Airlines and Air Canada (Atlantic++), which SWISS and Austrian Airlines joined in mid-year, Lufthansa has established a strategic joint venture with the Star Alliance partner All Nippon Airways. The programme for Europe-Japan traffic is due to start operating in April 2012.

Markets and competition

Market share won in Germany and Europe

The European airlines Air France-KLM and IAG, as well as US carriers such as Delta Airlines and American Airlines, which is currently undergoing Chapter 11 reorganisation, are Lufthansa's main competitors in intercontinental traffic. Fast growing companies from the Gulf region like Emirates, Qatar Airways and Etihad Airways are increasingly moving into the centre of competitive focus, however. In European traffic Lufthansa's main competitors are Air Berlin and Easyjet. Its market position, product and service portfolio, worldwide network and the combined strengths of its joint ventures such as Atlantic++ mean, however, that the Passenger Airline Group is well prepared for global competition. Successful sales growth enabled it to gain market share in 2011, especially in Germany and Europe.

Sales and customers

Unceasing growth for Miles & More

In terms of customer loyalty, Lufthansa has already fulfilled its leadership aspirations. In the reporting year Miles & More attracted 1.7 million new members, extending its lead at the forefront of European frequent flyer programmes with a total of 22 million members. The number of partners and marketing agreements for collecting and redeeming miles was also expanded. Its growth policy focuses on strategic markets in India and China but also on making the programme more attractive by means of regional partnerships. Lufthansa is therefore investing in a new Miles & More IT infrastructure as the basis for further growth and development of the programme in the years ahead. Since summer 2011 customers have been able to redeem miles for hotels and car rentals flexibly and easily at a new online booking site.

Course of business

2011 defined by economic slowdown and one-off effects

Alongside the declining pace of economic growth, it was principally the crises in the Middle East and North Africa and in particular the catastrophes in Japan that depressed demand in 2011. Continuing to serve Japan throughout the crisis nevertheless confirmed the Group's competitive position in this important and highly profitable market. Substantial capacity growth was largely sold in the market despite the difficult environment.

Thanks to their high degree of flexibility, the companies in the Passenger Airline Group could adapt quickly to changes in the operating environment. Over the course of this year they reacted to increasing sales and earnings risks by taking measures to safeguard earnings and by intensifying initiatives already underway. Detailed information on the performance and activities of the individual companies is provided in the respective comments starting from p. 69.

Operating performance

Increase in sales and average yields

In the reporting period the Passenger Airline Group carried a total of 100.6 million passengers (not counting bmi), which despite the economic slowdown in the second half-year still represents an increase of 8.5 per cent compared with the same period last year.

The Passenger Airline Group increased its capacity by 10.2 per cent in the period. This growth is mainly due to the fleet roll-over and the introduction of the new Europa cabin at Lufthansa Passenger Airlines. The number of flights rose by just 4.1 per cent. The increased capacity was sold to a large extent, but not in full. Sales rose by 7.5 per cent. This resulted in a passenger load factor of 77.6 per cent, which was 2.0 percentage points down on the previous year. All the airlines in the Passenger Airline Group registered lower load factors; only Germanwings was able to improve its passenger load factor slightly.

Despite the exceptional events at the beginning of the year and the downturn in the global economy over subsequent months, average yields (including fuel surcharge and air traffic tax) rose year on year by a total of 3.8 per cent. Combined with higher sales, this drove up traffic revenue by a total of 11.6 per cent.

Revenue up in all traffic regions

Traffic revenue increased substantially in all regions. The fastest growth came from Europe, which climbed by 13.9 per cent to EUR 9.4bn. Average yields also picked up, rising by 3.7 per cent. Capacity increased by 10.8 per cent compared with the previous year. With sales growth of 9.8 per cent it was nearly all sold. The passenger load factor sank slightly by 0.6 percentage points to 71.6 per cent.

Available seat kilometres in America rose by 8.9 per cent. Following a 7.0 per cent increase in sales, the passenger load factor fell by 1.5 percentage points to 83.5 per cent. Average yields went up sharply by 4.9 per cent at the same time, however. The combination caused traffic revenue to rise by a total of 12.2 per cent.

Performance in the Asia/Pacific traffic region was affected by the disasters in Japan. Capacity grew by 11.7 per cent, whereas sales were only up by 6.5 per cent. The passenger load factor sank as a result by 4.0 percentage points to 81.1 per cent. Average yields improved by 2.5 per cent. Traffic revenue therefore also picked up significantly by a total of 9.1 per cent.

In the Middle East/Asia traffic region the political developments unfolding since the beginning of the financial year also caused disruption to traffic. Additional capacity of 6.9 per cent could only partly be sold in the market, with sales growing by 3.2 per cent. As a result, the passenger load factor fell by 2.6 percentage points to 72.8 per cent. Traffic revenue went up by 4.6 per cent. This was buoyed by a 1.3 per cent rise in average yields.

Trends in traffic regions
Passenger Airline Group*

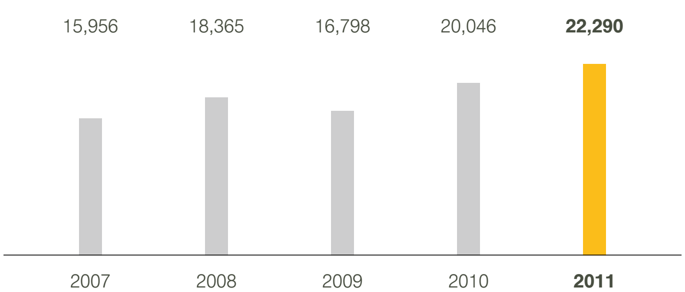
	Net traffic revenue in €m external revenue		Number of passengers in thousands		Available seat-kilometres in millions		Revenue seat-kilometres in millions		Passenger load factor in %	
	2011	Change in %	**2011**	Change in %	**2011**	Change in %	**2011**	Change in %	**2011**	Change in pts
Europe	9,366	13.9	79,633	9.5	88,613	10.8	63,410	9.8	71.6	−0.6
America	5,153	12.2	8,975	6.7	79,465	8.9	66,328	7.0	83.5	−1.5
Asia/Pacific	4,020	9.1	6,198	7.0	59,303	11.7	48,095	6.5	81.1	−4.0
Middle East/Africa	1,798	4.6	4,646	−1.3	26,443	6.9	19,242	3.2	72.8	−2.6
Total scheduled services	**20,337**	**11.6**	**99,452**	**8.5**	**253,824**	**10.0**	**197,075**	**7.4**	**77.6**	**−1.9**
Charter	197	8.8	1,151	11.9	4,439	23.9	3,301	13.8	74.4	−6.6
Total	**20,534**	**11.6**	**100,603**	**8.5**	**258,263**	**10.2**	**200,376**	**7.5**	**77.6**	**−2.0**

* Including Lufthansa Passenger Airlines, SWISS, Austrian Airlines and Germanwings.

Revenue and earnings development

As a result of the contract for the sale of bmi to IAG signed by Lufthansa and IAG on 22 December 2011, bmi is to be presented in the Group's income statement as a discontinued operation in line with IFRS 5. This separate presentation also includes all bmi's income and expenses from current operating activities. These comments on revenue and earnings development in the Passenger Airline Group segment therefore no longer include the figures for bmi. This applies both to the reporting year and the previous year.

Revenue Passenger Airline Group in €m



11.2 per cent revenue growth

Increased traffic meant that the segment's traffic revenue climbed to EUR 20.5bn and was therefore 11.6 per cent higher than in the previous year. In addition to the 7.5 per cent increase in sales volumes, higher prices (+3.9 per cent) also lifted revenue. Currency movements only had a marginal effect of +0.2 per cent. In total, revenue grew to EUR 22.3bn, by 11.2 per cent.

Other operating income shrank by 3.7 per cent to EUR 1.1bn. Lower exchange rate gains (EUR –75m) were partly offset by greater income derived from compensation for damages (EUR +21m). Overall, total operating revenue improved by 10.4 per cent to EUR 23.4bn.

Expenses up by 12.1 per cent

Operating expenses rose by 12.1 per cent to EUR 23.0bn. This was principally due to the higher cost of materials and services of EUR 14.5bn (+15.9 per cent). The 25.4 per cent leap in fuel expenses to EUR 5.8bn was behind the increase. In addition to the 25.3 per cent rise in fuel prices (after hedging), volumes also contributed 6.9 per cent to expenses. At the same time, the US dollar weakening over the course of the year reduced expenses by 5.8 per cent.

Fees and charges climbed by a total of 16.2 per cent to EUR 4.7bn, largely as a result of greater traffic and the first-time levy of the air traffic tax (EUR 361m). The main components of the increase were higher passenger fees (+14.7 per cent), take-off and landing fees (+10.4 per cent) and air traffic control charges (+9.3 per cent). Other purchased services went up by a modest 3.7 per cent to EUR 3.8bn.

Expenses Passenger Airline Group

	2011 in €m	2010 in €m	Change in %
Cost of materials and services	14,542	12,544	15.9
of which fuel	5,769	4,600	25.4
of which fees	4,731	4,071	16.2
of which MRO services	1,909	1,803	5.9
of which operating lease	136	168	–19.0
Staff costs	3,874	3,661	5.8
Depreciation and amortisation	1,350	1,238	9.0
Other operating expenses	3,280	3,121	5.1
of which agency commissions	359	411	–12.7
of which external staff	577	526	9.7
Total operating expenses	**23,046**	**20,564**	**12.1**

The average number of employees for the year rose by 2.7 per cent to 54,946, whereas staff costs were 5.8 per cent higher at EUR 3.9bn. The additional expenses were due primarily to higher additions to pension provisions, currency movements and increases resulting from pay settlements.

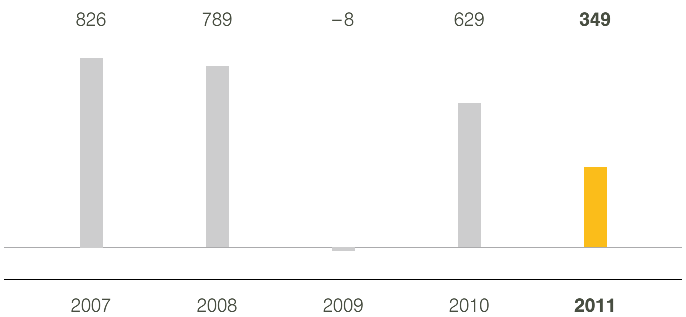
Depreciation and amortisation rose by 9.0 per cent to a total of EUR 1.4bn mainly due to new aircraft deliveries this year and last.

Other operating expenses climbed by 5.1 per cent to EUR 3.3bn. This was driven among other things by higher expenses for exchange rate losses (+EUR 70m), indirect staff costs (+EUR 51m) and advertising and sales promotion (+EUR 27m). Income from agency commissions, however, was down by EUR 52m.

Operating profit of EUR 349m

Despite higher traffic, the operating result for the Passenger Airline Group was well down on the previous year. The segment generated an operating profit of EUR 349m, compared with a profit of EUR 629m in the previous year, after adjustment for bmi. The steepest fall in earnings was felt by Lufthansa Passenger Airlines, but SWISS could not match the previous year's strong figure either.

Operating result Passenger Airline Group in €m



Austrian Airlines and Germanwings made negative earnings contributions, as in the previous year. Comments on the earnings of the individual airlines can be found in the following sections.

Other segment income of EUR 151m (previous year: EUR 233m) was attributable above all to book gains on the disposal of non-current assets of EUR 33m and income from write-backs of provisions of EUR 114m (EUR 179m). Other segment expenses came to EUR 111m. Total impairment losses of EUR 57m were incurred on two Boeing 747-400s, two Airbus A340-300s, twelve B737-500s and two A330-200s, which have been decommissioned or are held for disposal. Other segment expenses also include impairment charges of EUR 21m on aircraft and repairable spare parts for aircraft, which are shown in the balance sheet under assets held for sale.

The result of the equity valuation of EUR –34m (previous year: EUR –10m) relates particularly to SN Airholding (EUR –38m) and SunExpress (EUR 2m). The segment result fell overall by EUR 409m to EUR 355m.

Slight increase in segment capital expenditure

Segment capital expenditure rose by EUR 38m to EUR 2.1bn. This mainly involved investments in the fleet and included 40 aircraft: four Airbus A380s, two A330s, twelve A321s, two A320s, two A319s, two Boeing B737s, two B767s, seven Bombardier CRJ900s, six Embraer 195s and one ATR 700.

Long-term overview reveals considerable volatility

The long-term overview shows both the profitability of the Passenger Airline Group and the pronounced effects of the business cycle on its earnings. In 2007 and 2008 the segment generated a highly positive result despite the mounting impact of the financial crisis. Thereafter, however, the global economic crisis in the 2009 financial year hit the Passenger Airline Group as well.

In the first year after the crisis the segment recovered quickly, generating a substantial operating profit. In the 2011 financial year just ended, the renewed deterioration in the economic environment – caused mainly by the European debt crisis – left its mark on the income statement for the Passenger Airline Group.

Forecast

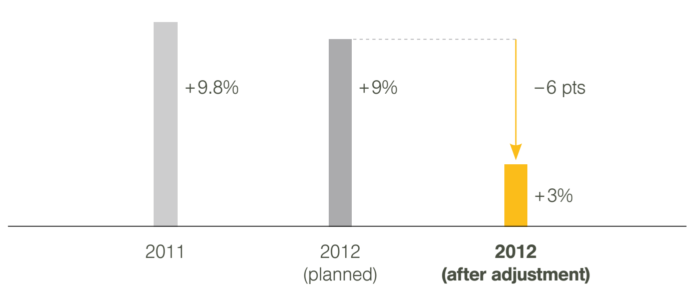
Fuel prices affect earnings development

Sales in passenger traffic tailed off sharply over the course of 2011. At the same time, the persistently high oil price had an adverse effect on the airlines' profitability worldwide. Oil price movements will again have a major impact on the earnings performance of the Passenger Airline Group in 2012, especially as at current price levels the hedging policy has barely an effect, unlike in the previous year.

The companies in the Passenger Airline Group are therefore anticipating challenging conditions again in 2012 and have taken appropriate steps to safeguard earnings. In this context, they have also reduced their planned capacity growth for 2012 from 9 per cent beforehand to 3 per cent. The market is monitored closely and, depending on further developments, the companies will use their flexibility to make further adjustments. Information on the activities and forecasts of the individual companies can be found in the relevant comments on the following pages.

Altogether, the Passenger Airline Group segment is expected to increase revenue in 2012 and to generate an operating profit. The amount will depend largely on the conditions described above, in particular the development of oil prices, so that a more precise statement is not possible at the present time. From today's perspective and subject to the same limitations on forecasting accuracy, further positive developments in revenue and the renewed achievement of an operating profit are expected for 2013.

Capacity adjustment Passenger Airline Group



Lufthansa Passenger Airlines

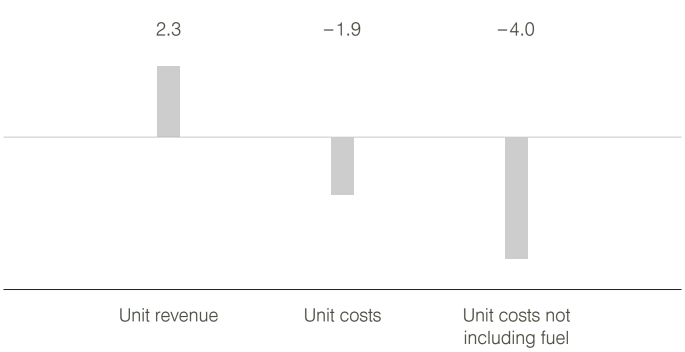
Capacity adjustments to the altered environment

Lufthansa Passenger Airlines is aiming for profitable growth as an attractive and efficient company with sustainable structures and intends to maintain its position as a leading European quality carrier. The focus is on the four brand values personal attention, value for a reasonable price, leadership and quality.

Carsten Spohr became CEO of Lufthansa German Airlines on 1 January 2011 and as of 1 April 2011 the organisational structure was also adapted to the new market environment with a stronger focus on customers and competitors. Internal decision-making processes were also expedited and management processes optimised as part of the Lean initiative.

In the 2011 winter flight timetable, Lufthansa Passenger Airlines offered services to 199 destinations in 82 countries. The main hubs Frankfurt and Munich are supplemented by a regional hub in Dusseldorf and direct connections throughout Europe, which strengthen the position in the home market. The performance and financial figures for Lufthansa Passenger Airlines include the fully consolidated companies in regional traffic (for example Lufthansa CityLine and Air Dolomiti) and for 2011 Lufthansa Italia as well.

Development in unit revenue and unit costs (per ASK)
in short-haul traffic year on year in %



The economic slowdown over the course of 2011 had a very adverse effect on the performance of Lufthansa Passenger Airlines. Customer-focused offers, high market penetration in the corporate and private customer segments, the loyalty programmes and the continued strength of German exports nevertheless enabled Lufthansa Passenger Airlines to respond appropriately to the increasing uncertainty.

The company won market share in European traffic and became more competitive thanks to the sharp reduction in unit costs achieved by deploying larger aircraft and new seats. Intercontinental traffic, by contrast, felt the impact of the global economic slowdown more severely. In this sector, additional capacity could not be sold in full.

These developments meant that planned capacity growth had to be curtailed gradually. In the winter flight plan for instance, the increase in available capacity was reduced by postponing the start of new routes and reducing frequencies. For the full year 2012 projected growth was cut to 3 per cent.

Operations at Lufthansa Italia, which was set up in 2008, were discontinued at the end of the summer flight timetable as part of the above-mentioned adjustment measures. Lufthansa nevertheless remains the most successful foreign airline in Italy. This important inbound and outbound market is now served by Lufthansa Passenger Airlines and Air Dolomiti. The range of destinations and connections to the hubs were improved considerably at the same time.

Climb 2011 successfully concluded

The components of the Climb 2011 project were largely completed in 2011, so that the intended reduction in unit costs could take effect from 2012. The operating areas did not meet the earnings targets for 2011 because of additional expenses like the air traffic tax, but compared with the previous year productivity was increased across the board. The new contracts with internal and external providers already made a major contribution to cutting costs in 2011.

The retirement of the 50-seater fleet was implemented by July 2011, and brought sustainable improvements to the unit costs in the regional segment. By the end of 2011 a sustainable earnings contribution of EUR 640m in saved costs was achieved thanks to Climb 2011.

Opening of new runway allows further growth in Frankfurt

After more than ten years in the planning, the new Northwest runway went into service at the Frankfurt hub in October 2011. Following years of overload this urgently necessary extension had an immediate effect on the operating performance and quality of this hub, bringing substantial improvements. At the same time, this paved the way for further growth at Frankfurt airport. In addition to better connections to existing destinations, Lufthansa Passenger Airlines also used the extension to expand its route network to Rio de Janeiro, Aberdeen and other destinations for example. Another eight seasonal destinations were added to the route network right from the summer flight timetable 2011 in order to make Lufthansa even more attractive, especially in the leisure travel sector.

In 2011 Lufthansa took delivery of more Airbus A380s and by the end of 2011 had put eight aircraft of this type in service to seven destinations. Operations with the A380 run very smoothly and from both a customer and a financial perspective the aircraft has been a complete success.

Further growth potential also in Munich and in decentralised traffic

The Munich hub also extended its route portfolio in 2011. Five seasonal summer destinations were added, as were Jakarta and Jeddah from the winter. Altogether, Lufthansa therefore served nearly 100 European destinations from Munich in winter 2011, with around 2,260 flights a week.

Since the end of July 2011 it has also been confirmed that the Munich international hub shall get a third runway, prospectively available for service from 2015. A decision in favour of a satellite building to expand Terminal 2 was taken back in spring 2011. The capital expenditure of EUR 650m will be shared by Lufthansa and the Munich airport operator.

The pressure of competition is still particularly high in point-to-point traffic outside the hubs, particularly from carriers like Air Berlin and Easyjet. The sub-project EU-DIRection launched by Climb 2011 in the second half of 2009 was pursued with the aim of restoring direct traffic to profitability. Compared with the project start date, cumulative unit cost reductions (not including fuel) have now reached more than 30 per cent. This also entailed decommissioning all 50-seaters in 2011 and replacing them with larger aircraft like the Bombardier CRJ900 and the Airbus A320. At the same time, the seats in the Lufthansa Passenger Airlines European fleet were replaced with new, lighter seating. Losses in European traffic were halved in 2011 compared with the previous year. Following the successful deployment of the Airbus A330 from Dusseldorf across the North Atlantic, expansion eastwards to Asia is planned in 2012.

Customer satisfaction continues to rise

Passengers appreciated the investments in the product, which include the installation of entertainment systems in the Economy Class of the Boeing 747-400 for instance, as well as the new Europa cabin. Customers were also more satisfied with the punctuality of departures. The number of customers who considered Lufthansa good or very good in terms of value for money also went up by nearly 2 percentage points. Compared with the previous year, overall customer satisfaction (as measured by the Customer Performance Index, CPI) went up by 83 points to 7,731 in 2011.

Income increased, but the result is still down by half

Lufthansa Passenger Airlines registered growth in passenger numbers of 11.1 per cent to 65.5 million in 2011. Capacity was extended by 11.8 per cent, whereas the number of flights rose at the much lower rate of 6.3 per cent. This reflects the modernisation of the fleet with larger aircraft and new seating. Due to the one-off factors described above and the deterioration of the macroeconomic situation, this additional capacity could not be sold in full, however. Sales nonetheless climbed by 8.8 per cent, with a slight fall in the load factor (–2.2 percentage points). Thanks to an improvement of 3.4 per cent in average yields, Lufthansa Passenger Airlines increased its traffic revenue by 12.5 per cent to EUR 14.5bn in the reporting period.

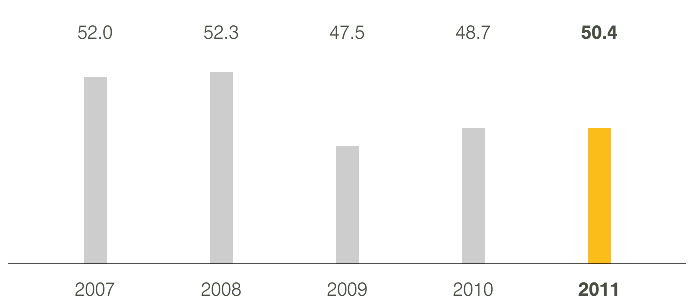
Altogether, revenue rose to EUR 15.7bn (+12.2 per cent) in the reporting year. The non-recurring expenses mentioned above and the resurgent oil price meant that Lufthansa Passenger Airlines was only able to report an operating result of EUR 168m, however (previous year: EUR 382m). The adjusted operating margin therefore fell by half to 1.8 per cent (previous year: 3.5 per cent).

Product development: broad-based investments

Investments by Lufthansa Passenger Airlines were concentrated on the fleet, ground and in-flight products, and the expansion of the service infrastructure at selected airports. Examples include the new Europa cabin and the introduction of the new First Class product, which were both rated very positively by customers. The seat comfort in Economy Class was improved again on long-haul routes and a new entertainment system brought in. The offer of the internet system FlyNet was expanded in 2011, so that by the end of the year customers on over 48 aircraft were able to enjoy the service on routes to North America and the Middle East.

The largest Lufthansa Lounge in the world, covering some 1,800 square metres, was opened in Frankfurt in the summer. This new Senator Lounge offers its guests the first Senator Spa as well as an exciting City Light Bar with a view onto the apron.

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

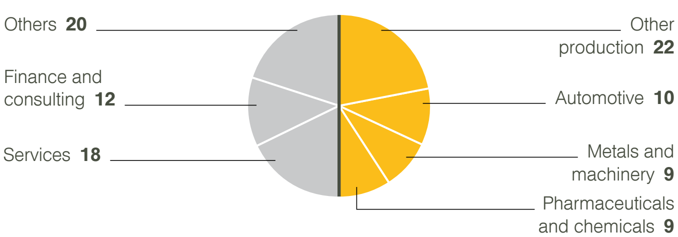


The greater presence planned in Berlin as part of the new service concept presented in November will also help to put Lufthansa in a strong position here compared with its national and international competitors. A total of 23 aircraft from the Lufthansa Passenger Airlines Airbus fleet will fly on routes to and from Berlin. A package of measures is intended to cut unit costs there by one third compared with the average in European traffic.

Corporate customers are a vital cornerstone of the sales strategy

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

Sector origin of Lufthansa Passenger Airlines' corporate customers in %



The successful sale of increased capacity was supported by extensive marketing activities such as the introduction of a new pricing concept for inner-German traffic (one-way prices from EUR 59), the implementation of a new booking class structure, the focused incentivisation of agencies for short-term travel and the expansion of the existing corporate customer portfolio in the area of small and medium companies.

This successfully enabled revenue to be increased in the corporate customer segment. Revenue from corporate customers rose by a total of 12 per cent in 2011. With corporate business accounting for 40 per cent of total revenue, Lufthansa Passenger Airlines remains the leader in the industry. The company can point to a very balanced mix of industries in its corporate customer relations (see chart). In 2011 the automotive industry pulled into first place thanks to its strong exports.

The high proportion of business travellers also meant that First and Business Class revenue's share of traffic revenue came to around 39 per cent, which is roughly on par with the previous year's strong performance, although for structural reasons capacity growth had a far greater impact on the Economy Class. On long-haul routes the premium share was even 50 per cent (previous year: 49 per cent).

From summer 2011 further sales activities were initiated to combat the effects of the global economic downswing, including the early acquisition of price-sensitive business to minimise risks to load factors and the activation of volume sales channels (e.g. tour operators, consolidators). With this and increased marketing via the Lufthansa website, online ticket sales were lifted sharply to around 28 per cent (+2 percentage points).

Forecast

In 2012 Lufthansa Passenger Airlines also expects the ongoing uncertainty about economic developments to continue. It has therefore taken steps to achieve the earnings development necessary for future investments, dividends and job security by reducing the growth rates originally planned, exploiting sales potential and cutting other costs. Factoring in modest capacity growth, it is therefore anticipating a rise in revenue and the achievement of an operating profit for 2012. The amount cannot be quantified more precisely at present, however, for the reasons described above.

The full potential of the EUR 1bn Climb 2011 programme will be evident for the first time in 2012. Intercontinental traffic is to be expanded further, with Lufthansa Passenger Airlines benefiting from the deployment of additional low-unit-cost Airbus A380s, as well as from its extensive route network and its great attractiveness for customers and partners. Competitiveness in European traffic is being strengthened by further optimisation of the cost structure.

The ongoing modernisation of the fleet plays a vital role in achieving further cost reductions. A total of 33 aircraft are scheduled for delivery in 2012, including two Airbus A380s and five Boeing 747-8is. The new Boeing 747-8i promises significant unit cost advantages and will be the first plane to feature the new Business Class. Further development of the hubs holds additional potential. With the opening of the new runway in Frankfurt in late 2011 and the agreed extension to the satellite terminal in Munich, Lufthansa's development prospects in the European competitive landscape are very good. Regulatory intervention, such as the imposition of the night-flight ban at Frankfurt Airport, however, can diminish competitiveness and prospects severely.

SWISS

SWISS*

		2011	2010	Change in %
Revenue	€m	3,942	3,459	14.0
Operating result	€m	259	298	–13.1
EBITDA	€m	503	531	–5.3
Passengers carried	thousands	16,361	15,153	8.0
Employees as of 31.12.	number	7,918	7,640	3.6

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

SWISS ends a successful year 2011

SWISS International Air Lines (SWISS) reported a successful close to the year 2011, despite the events in Japan and the Middle East/Africa and the modest performance of the global economy, and achieved an operating profit of EUR 259m.

An international network with a high-quality product

SWISS has its roots and its heart in Switzerland and cultivates the classical national values such as quality, punctuality and hospitality. The target group for SWISS particularly includes business travellers, but the company is also well established in the private travel segment as the airline of Switzerland. The holiday airline Edelweiss Air adds to the product range there. SWISS offers a three-class product on all intercontinental routes, with First, Business and Economy Class. Since autumn 2011 the entire wide-bodied fleet has been equipped with a new Business Class. As differentiating through brands is becoming more and more important in mass-market flight services, SWISS sharpened its brand profile as the airline of Switzerland last October. The tail fin with the Swiss cross as a new logo, the claim “Our sign is a promise” and a new advertising campaign embody the emphasis on Swiss quality and proximity to the customer.

Network and product range are well received

In 2011 SWISS set a new record for Swiss aviation, carrying over 16 million passengers (+8.0 per cent). Capacity rose by 9.0 per cent due to catch-up effects. The average passenger load factor came to 81.1 per cent (–1.1 percentage points). In its winter flight timetable 2011/2012 the airline serves 72 destinations in 38 countries from its hub in Zurich and the airports in Basel, Geneva and Lugano. In February SWISS made Beijing its 25th intercontinental destination with new daily flights from Zurich. The connection to Newark has also been flown by SWISS itself since the end of March.

In the cargo business, which makes a substantial contribution to revenue of 11 per cent on average, SWISS focuses on its niche as a carrier of high-value goods. Performance at SWISS World Cargo closely mirrored the uncertainty about global economic developments in 2011.

Freight volumes showed positive growth compared with 2010. The cargo load factor suffered over the course of the year, however, coming to an average of 52.6 per cent (–2.5 percentage points).

SWISS invests in further growth

SWISS is continuing its policy of investing in its fleet and products. In 2012 the fleet is to be expanded by three new Airbus A330-300s and two A320s. Altogether there are 40 aircraft on its order list, including more A330-300s and A320s and 30 Bombardier C-Series, which are to replace the Avro-RJ regional fleet successively from 2014. With a fleet of 93 aircraft, of which eight are operated under wet leases, the Swiss airline has the necessary flexibility to cope with the highly volatile environment in the industry. Its compact company size also allows company policy to stay particularly close to markets and customers. SWISS is currently building a site for routine technical maintenance. This will bolster operational independence in this area, which is very important for smooth flight operations. The new department will have around 200 employees. Overall, the company plans to create around 500 new jobs for cockpit, cabin and ground staff in 2012. 2011 saw the recruitment of 278 new employees.

Profitability to be increased

SWISS’s goal as a company is to maintain and build on its position as one of Europe’s leading airlines in terms of service, quality and profitability. In the 2011 financial year SWISS reported revenue of EUR 4.0bn (+14.0 per cent) and an operating profit of EUR 259m. The result was therefore down 13.1 per cent on the year, mainly due to the currency crisis. In the reporting year SWISS was particularly affected by this, as the Swiss franc’s rise against the euro and the US dollar directly reduced income generated in these markets. As part of its targets for consistent, sustainable growth, the company aims for an annual return on sales of between 5 and 8 per cent, to enable it to keep making replacement and growth investments. In 2011 the figure was 6.6 per cent.

High revenue and passenger numbers are expected again for the financial year 2012, although the competitive environment will stay tense. Given the difficult state of the world economy and persistent pressure on average yields, SWISS management is anticipating a challenging financial year ahead. From today’s standpoint it therefore seems unlikely that the previous year’s operating result can be repeated. Faced with these conditions, since early 2012 SWISS has, under an initiative for improving earnings, systematically been developing activities to optimise costs further and generate additional income in all areas. Both operating and structural measures are intended to bolster profitability.

Austrian Airlines

Austrian Airlines*

		2011	2010	Change in %
Revenue	€m	2,047	2,033	0.7
Operating result	€m	–62	–66	6.1
EBITDA	€m	107	168	–36.3
Passengers carried	thousands	11,261	10,895	3.4
Employees as of 31.12.	number	6,777	6,943	–2.4

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

The specialist for traffic between Eastern and Western Europe
Austrian Airlines operates a global route network with around 130 destinations and specialises in traffic between Western Europe and the growth regions Central and Eastern Europe.

The restructuring of the company is progressing well
For Austrian Airlines the financial year 2011 was particularly dominated by the adverse effects of the unrest in the Middle East, the catastrophes in Japan, sharp price rises for kerosene and the ongoing uncertainty caused by the euro crisis. Despite this, the company was able to slightly buck the trend for the industry and improve its results. The original goal of achieving a positive operating result could not be reached, however. Austrian Airlines is therefore working hard to turn the company around. The focus lies on improving the cost base and increasing profitability. Further efforts will be made to exploit synergies in the Lufthansa airline group. Progress was made on the turnaround in 2011: structures have been made even leaner, processes accelerated, unit costs cut and price reductions obtained from system partners. The global developments mentioned above also made the market situation much more difficult than expected for Austrian Airlines in 2011. Competition from low-cost carriers, especially at Vienna Airport, also remained intense. The market strategy introduced in 2010 as part of the Austrian Next Generation programme no longer positions the company solely as a pure Eastern Europe specialist, however, but increasingly highlights traffic between Eastern and Western Europe.

Targeted development of network, product and distribution
In the reporting year Austrian Airlines made great improvements to its product range and strengthened its long-haul routes by using the sales force of the Lufthansa airline group. In June 2011 the connection to Baghdad was reinstated in the flight plan after an absence of 21 years. In 2011 Austrian Airlines thus became the first Western European network carrier to fly to a second destination in Iraq alongside Erbil. Two destinations in Western Europe were removed from the winter 2011/12 flight timetable and in exchange the number of flights on strategically important routes to Central and Eastern Europe was increased for summer 2012.

At the same time, Austrian Airlines is making focused investments to improve quality: a total of 32 aircraft from the medium-haul fleet were fitted with the new Europa seats in 2011. In winter 2012 the long-haul fleet will also be given a modern interior design and new seats. As part of the central sales coordination at Austrian Airlines, progress was made on developing proprietary sales, especially via internet, and by means of specific marketing campaigns. The heightened focus on crisis-proof market segments and its increased presence in all relevant sales channels also had a positive effect on passenger trends.

Slight improvement in operating result
With 11.3 million passengers Austrian Airlines transported 3.4 per cent more customers than a year earlier. Capacity increased by 5.9 per cent. Sales went up by 1.7 per cent at the same time. The load factor came to 73.8 per cent (–3.0 percentage points). These traffic figures enabled revenue to be stabilised at EUR 2.0bn despite the crises. The operating result for Austrian Airlines was still negative in 2011 at EUR –62m, but this was nevertheless an improvement of EUR 4m on the year before.

Jaan Albrecht is new CEO of Austrian Airlines
With effect from 1 November 2011 the Supervisory Board appointed Jaan Albrecht as Chairman of the Executive Board, which now has three members. Previously CEO of Star Alliance Services GmbH, he made a major contribution to expanding the leading role of the Star Alliance in the competitive global airline sector.

Further improvement in operating result targeted for 2012
Austrian Airlines has set itself the goal of improving its operating result further in 2012. In view of persistently high fuel costs, however, achieving a balanced operating result for 2012 does not seem within reach from a current perspective. The continued restructuring of the company remains the top priority, because the operating environment is still difficult and could lead to lasting changes and further consolidation within the airline industry.
To meet the turnaround targets, the Executive Board of Austrian Airlines presented a work programme in early 2012 which requires contributions from all stakeholders and is made up of two thirds cost savings and one third increased revenue. On the revenue side, it is primarily enhanced sales activities in the home market and the introduction of new yield management systems that are to deliver higher income. The sale of eleven Boeing 737s is planned under the restructuring programme. Depending on further market developments, these will be replaced with up to seven Airbus A319/A320s and the medium-haul fleet will be harmonised around this model. The intention is also to revise the existing wage agreements in order to make staff costs competitive.

Germanwings

Germanwings*

		2011	2010	Change in %
Revenue	€m	687	630	9.0
Operating result	€m	–52	–39	–33.3
EBITDA	€m	–15	–9	–66.7
Passengers carried	thousands	7,522	7,730	–2.7
Employees as of 31.12.	number	1,274	1,272	0.2

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

Focus on the customer

Germanwings understands itself as the quality carrier among the low-cost airlines. With a fleet of 30 Airbus A319s, Germanwings connects the German locations of Cologne/Bonn, Stuttgart, Hanover, Berlin and Dortmund to a total of 75 destinations in Europe and beyond.

Since the company was founded in 2002 the core of its operations has been centred on Cologne/Bonn airport. With 71 destinations and a market share of over 40 per cent, Germanwings was the market leader here by far in the reporting year. Stuttgart is home to seven Germanwings aircraft, which link one of Germany's leading economic regions to 43 destinations. Three Germanwings aircraft are stationed at the base in Hanover, opened in 2010. A further three aircraft in Berlin-Schönefeld and one in Dortmund complete the offer for flights to and from Germany.

After strong capacity growth in the previous year, the additional expense caused by the introduction of the air traffic tax meant that Germanwings concentrated on consolidating and optimising its route network in 2011. Germanwings therefore abandoned unprofitable routes such as Cologne-Madrid and Stuttgart-Madrid. In parallel, frequencies were increased on the Cologne-Berlin route to make it more attractive to business travellers. Leisure travel capacity was extended with additional destinations in Italy (Pisa, Naples, Bari, Cagliari and Catania). The higher load factor combined with reduced capacity confirms Germanwings in its decision to press on with the optimisation of the route network in a difficult market environment.

At the same time, Germanwings also further improved its in-flight product and boosted revenue as a result. Since the beginning of June, customers travelling in the first ten rows of any aircraft in the fleet can enjoy a larger seat pitch. Passengers can either book this additional leg-room by choosing the "Best Seat" option or as part of the "Best Price" package. The "Best Price" package also includes one item of luggage, a snack and a drink. It is particularly popular with business travellers.

Since January 2011, it has been possible to book Germanwings flights in combination with Lufthansa via global distribution systems. The successive integration of Germanwings into Lufthansa's corporate benefits programme has enabled the range of sales channels to be extended even further.

Air traffic tax weighs on operating result

The introduction of ticket taxes for departures from Germany and Austria on 1 January and 1 April 2011 respectively represents an increasing and lasting imposition on air traffic as a means of transport from 2011. Altogether, Germanwings remitted 5.4 per cent of its revenue to the appropriate federal authorities. The higher oil price also inflated the cost base. Over the course of the year Germanwings was increasingly able to pass on these exogenous effects to the market, so that average yields rose sharply despite the competitive environment. Passenger numbers sank by 2.7 per cent to 7.5 million while the passenger load factor went up by 1 percentage point to 78.2 per cent. Revenue rose to EUR 687m (+9.0 per cent). Overall, however, for the financial year 2011 Germanwings reported a negative operating result of EUR –52m (previous year: EUR –39m) due to the effects mentioned above.

Cooperation between Germanwings and Lufthansa is intensified

Increasing fuel prices, the start of emissions trading and perennial fears of recession in Europe again present Germanwings with serious challenges in 2012. The company is nevertheless striving to improve its revenue and operating result in 2012. The initiatives taken in 2011 will make a major contribution to achieving this goal.

The cooperation with Lufthansa focuses on additional customer value and will release significant earnings potential. Reciprocal marketing on the Germanwings and Lufthansa websites as well as the introduction of status miles on flights with Germanwings enhance the position of the Lufthansa Group in decentralised European traffic. The ensuing synergies further improve the unit cost position at Germanwings, which is essentially competitive already.

In this context, the Lufthansa group airlines' route networks from Stuttgart are to be more closely coordinated starting with the summer flight timetable 2012. All European destinations will then be served by Germanwings for example. In organisational terms, the management functions responsible for decentralised European traffic at Lufthansa Passenger Airlines and the management board of Germanwings are to work together more closely.

British Midland

British Midland[1,2]

		2011	2010	Change in %
Revenue	€m	865	896	–3.5
Operating result	€m	–199	–145	–37.2
EBITDA	€m	–135	–117	–15.4
Passengers carried	thousands	5,733	6,194	–7.4
Employees as of 31.12.	number	3,690	3,613	2.1

1) More information on British Midland can be found at www.flybmi.com.
2) Discontinued operations.

Since November 2009 Lufthansa has been the sole shareholder of British Midland Airlines Ltd. (bmi) via the British holding company LHBD Holding Ltd. Since then, extensive restructuring has been carried out to bring bmi back to profitability in the medium term. In December 2011 the sale to International Airlines Group (IAG) took place.

Present with three airlines in its UK home market

The bmi group consists of three airlines – British Midland International, bmi Regional and bmibaby, each of which focusses on different markets and customer groups. The core market for all three airlines is the United Kingdom.

British Midland International sees itself as a classical carrier and its route network from London Heathrow serves destinations in the UK home market and in Europe, the CIS states, the Middle East and Africa. The slots at London Heathrow are thereby of great strategic value. Over the course of the reporting year the strategy of abandoning routes within the UK in favour of new routes to neighbouring countries and to the Middle East was continued.

With its Embraer fleet, bmi Regional exclusively operates short-haul flights within the UK and Europe.

The bmibaby fleet consists of 14 aircraft from the Boeing 737 family. The East Midlands and Birmingham airports are the main operating base for the low-cost airline where it has a strong presence.

Market developments overshadow restructuring success

The restructuring of the bmi group continued in the financial year. The location in Glasgow was closed for British Midland International and capacities to Berlin-Tegel were reduced. New routes were established to Casablanca, Marrakesh, Agadir, Bergen, Stavanger, Nice and Amritsar. bmibaby pulled out of Manchester and Cardiff.

All in all, the cost-cutting measures were effective and contributed to reducing the cost base. They were nonetheless not sufficient to offset higher fuel expenses, fees and charges in full.

On the income side bmi was also not able to meet its targets. Economic developments in the UK were again subject to a high degree of uncertainty. Coupled with the strong presence of low-cost carriers in the UK home market, this meant that average yields remained low. Routes to the Middle East and North Africa were severely disrupted by the unrest there and in some cases the flight programme was cut sharply. The planned service to Tripoli did not come to fruition either. In aggregate, these factors led to an operating result of EUR –199m, which was below the previous year's figure of EUR –145m.

Over the course of the year various alternative approaches to further restructuring were therefore investigated, as were disposals of parts of the group. In the meantime letters of intent have been signed for the sale of bmibaby and bmi Regional.

The company's financial profile was strengthened in July 2011 via the conversion of a short-term loan of GBP 151m from Lufthansa into equity. An additional equity contribution of GBP 150m was also paid in.

Future outside the Lufthansa Group

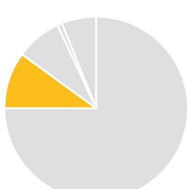
The outlook is difficult, also in the medium term, partly due to structural factors in the UK market and at London Heathrow Airport. For this reason it has not been possible to realise the full strategic value of bmi's slots within the Lufthansa Group. The strategic significance of the company for the Lufthansa Group is therefore limited. After a thorough review of the strategic alternatives, Lufthansa therefore decided to sell the bmi group. A sales agreement with IAG was signed on 22 December 2011. The aim is to complete the transaction by the end of the first quarter. It is subject in particular to review by the competition authorities. The transaction gives bmi the prospect of a sustainable future and strengthens the future profitability of the Lufthansa Group at the same time.

In the consolidated financial statements for the Lufthansa Group bmi's assets and liabilities are therefore presented separately as a disposal group and valued accordingly. In the reporting period the result from discontinued operations came to EUR –285m, which is made up of the current after-tax result of EUR –155m (previous year: EUR –152m) and the valuation/disposals proceeds of EUR –130m. More detailed information is available in the Notes to the consolidated financial statements, "Note 15" on p. 164.

Logistics business segment

↗ Lufthansa Cargo is a global player with a broad product range. ↗ The pace of sales growth declined over the year. ↗ Traffic and revenue nonetheless went up in all regions. ↗ Lufthansa Cargo reported the second-best operating result in its history. ↗ The Lufthansa Cargo 2020 strategy secures profitable growth in the years ahead.

Share of Group revenue 10.2%



↗ One of the largest cargo airlines

Key figures Logistics

		2011	2010	Change in %
Revenue	€m	2,943	2,795	5.3
of which with companies of the Lufthansa Group	€m	26	25	4.0
Operating result	€m	249	310	–19.7
Adjusted operating margin	%	9.1	11.4	–2.3 pts
Segment result	€m	243	330	–26.4
EBITDA*	€m	328	445	–26.3
CVA	€m	202	233	–13.3
Segment capital expenditure	€m	76	21	261.9
Employees as of 31.12.	number	4,624	4,517	2.4
Average number of employees	number	4,572	4,469	2.3
Freight and mail	thousand tonnes	1,885	1,795	5.0
Available cargo tonne-kilometres	millions	13,647	12,564	8.6
Revenue cargo tonne-kilometres	millions	9,487	8,905	6.5
Cargo load factor	%	69.5	70.9	–1.9

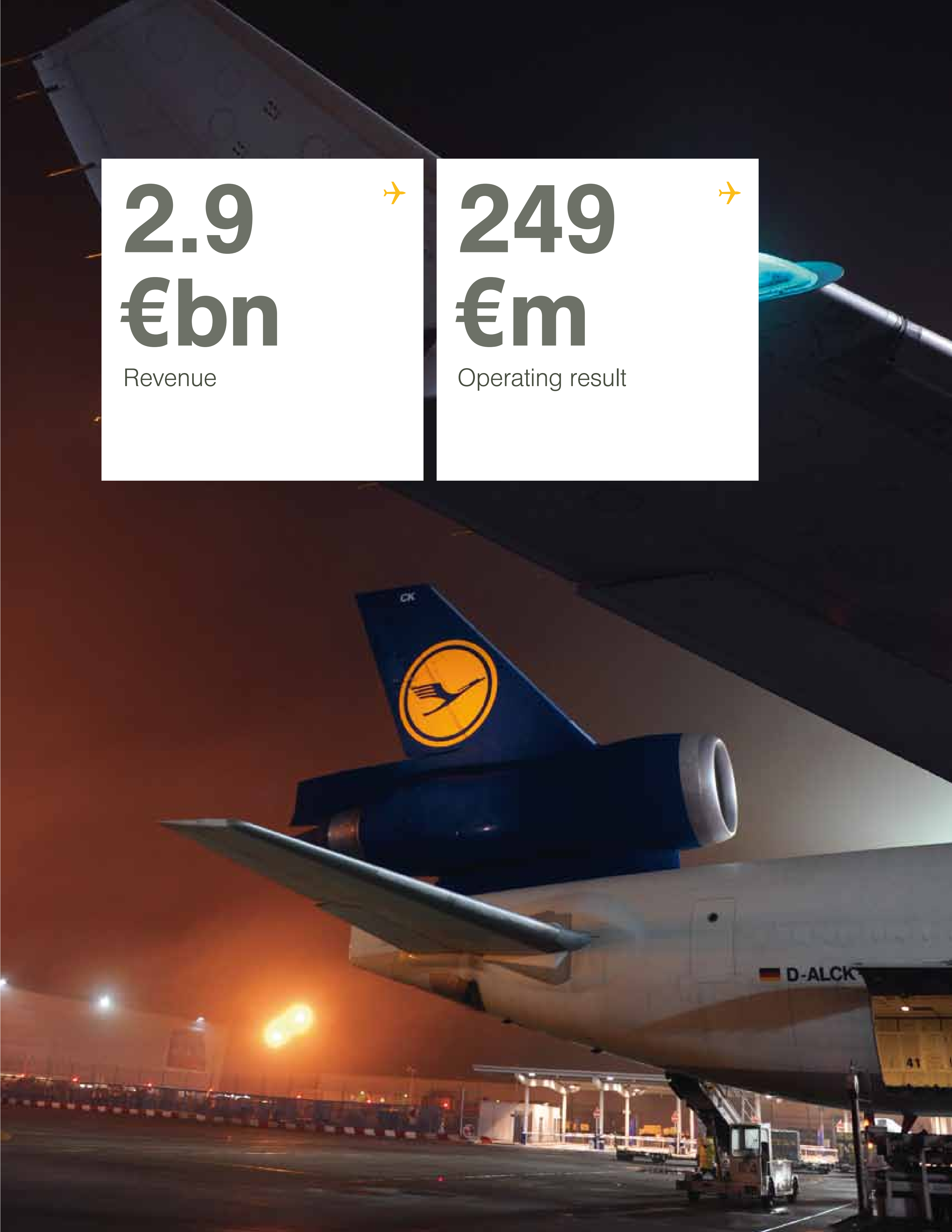
* Before profit / loss transfer from other companies.

2.9 €bn

Revenue

249 €m

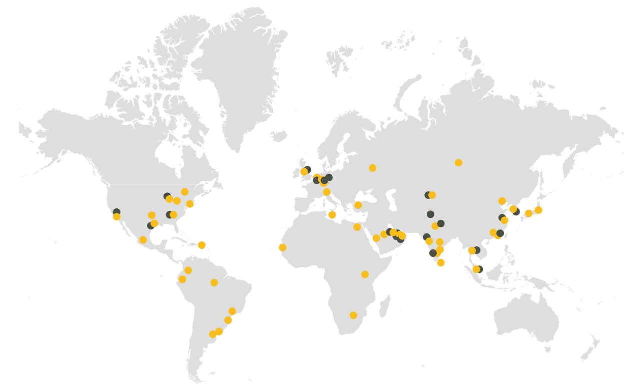
Operating result



Business and strategy

Lufthansa Cargo is a successful global player
Lufthansa Cargo is the service provider for the logistics business in the Lufthansa Group. The company has 18 Boeing MD-11 freighters of its own, and these are supplemented by the freight capacities of the Lufthansa and Austrian Airlines passenger fleets as well as the equity investment AeroLogic. This makes it one of the world's leading cargo airlines. The shareholders of AeroLogic GmbH are Lufthansa Cargo and DHL Express, which each hold 50 per cent. The two companies are the sole users of the capacities of the eight Boeing 777F aircraft, with Lufthansa Cargo mostly using the capacity at the weekend. The Chinese company Jade Cargo International, in which Lufthansa Cargo holds a stake of 25 per cent, is undergoing financial restructuring, during which flight operations have been suspended.

Locations Lufthansa Cargo



A broadly diversified product portfolio
The focus of Lufthansa Cargo's operations lies in the airport-to-airport business. Its product portfolio in this segment covers both standard and express freight. Transport of special goods forms an important pillar of the product range. The carriage of live animals, valuable cargo, mail, dangerous goods and above all temperature-sensitive goods, plays an ever growing role. The main hub for the freighter fleet is Frankfurt. Other main hubs are Munich and Vienna. All the product segments benefit from a tightly meshed global network of around 300 destinations in more than 100 countries, which is made possible by combining the capacities from the different production platforms.

In addition to aircraft, freight consignments are also transported by lorry in road feeder services. These are principally used for transport to and from airports. Lufthansa Cargo Charter Agency GmbH is available for highly individualised transport. The Lufthansa Cargo subsidiary specialises in ad hoc charter solutions for goods of all dimensions.

The freight capacities of Lufthansa subsidiary SWISS and stake Brussels Airlines are not marketed directly by Lufthansa Cargo, but the group nevertheless enjoys a close partnership with the freight divisions of these airlines.

Lufthansa Cargo has strategically important subsidiaries and equity investments. Jettainer GmbH is a global provider of management services for loading aids such as containers and pallets.

The portfolio of the Lufthansa Cargo group also includes the wholly owned subsidiary handling counts GmbH, which specialises in freight handling at Frankfurt Airport, and the equity investment in time:matters GmbH, an express provider specialised in courier, same-day and emergency logistics.

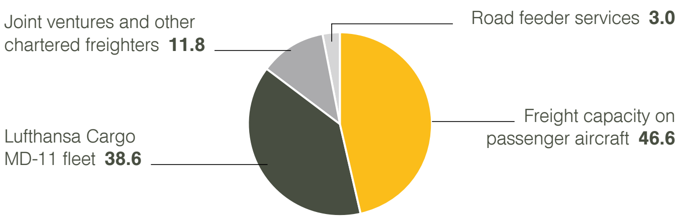
In the Asian growth markets too, Lufthansa Cargo traditionally has a strong position thanks to its stakes and joint ventures. Equity investments there include stakes in the Shanghai Pudong International Airport Cargo Terminal and in the International Cargo Center Shenzhen.

Markets and competition

Lufthansa Cargo builds on flexibility
The strong sales growth from the record year 2010 continued unbroken in the first half of the 2011 financial year. Structurally higher capacity compared with the same period last year was sold almost in full, especially at the beginning of the year.

Over the course of the year sales slowed sharply however, especially compared with the very strong period last year. This was mainly due to weaker performance in Asia. Demand remained below the original expectations, above all in China, the most important airfreight market in the world. The Chinese airfreight market was also characterised by very intense competition and considerable overcapacities. Thanks to strong exports, Lufthansa Cargo profited from much better load factors on flights from Europe to China. At the same time, the company decided to shift capacity from Asia towards America, as market developments in this traffic region were much more stable.

Composition of Logistics capacity in %



This fast and flexible capacity management enabled Lufthansa Cargo to boost its traffic figures substantially for the full year 2011. The company expanded in all traffic regions and opened up new markets.

Sales and customers

Global Partners are of high significance

Developing the long-term business relationships with its strategic partners was again an area of focus for Lufthansa Cargo in the financial year 2011. The "Global Partnership programme" plays a vital role in this respect. Lufthansa Cargo generates around 50 per cent of its worldwide revenue with its Global Partners. The aim of the programme is to participate jointly in the global growth of the airfreight market.

As well as the Global Partners, small and medium-sized forwarders are also very important for Lufthansa Cargo. They have specialised key account management in their own "Business Partnership programme".

Innovative products as a way to the future

One of Lufthansa Cargo's focal areas is the expansion of its electronic processes. Especially paperless airfreight, known as eFreight, saw further advances in 2011. Around 10 per cent of potential paperless transport now takes place via eFreight processes. All consignments in the route network that is open to eFreight shall be paperless by 2015. Lufthansa Cargo also makes increasing use of electronic booking channels. Around 38 per cent of global bookings are now made via electronic platforms. Since November 2011 customers of Lufthansa Cargo have also been able to use specially developed smartphone apps, which make it possible to track freight shipments on a mobile device independent from place and time.

Awards received for quality and services

The high quality of Lufthansa Cargo's products and services earned acknowledgement at several prize-giving ceremonies for the logistics industry. At the "Cargo Airline of the Year Awards" the company took the prize for best cargo airline in the world and the title of best European cargo airline. The US Airforwarders Association (AfA) also awarded Lufthansa Cargo the prize as best international freight carrier. In Toronto, Lufthansa Cargo was nominated "Carrier of the Year" and "Best Carrier to Europe" by the Canadian International Freight Forwarders Association (CIFFA).

An important part of Lufthansa Cargo's product promise is based on its acknowledged industry leadership in all matters of airfreight security. The strict regulations on flights to and from the USA in particular required extensive investment in technology and staff. Lufthansa Cargo was again able to confirm its leading role and was the first airline to be certified under the US Safety Act by the US Department of Homeland Security.

Course of business

Cost discipline and flexible capacity management

In the first half of the financial year 2011 Lufthansa Cargo made excellent use of the still robust economy and reported rapid growth rates. Both freight volumes and price levels ensured that quarterly profits were high. From the middle of the year the pace of industry growth slowed considerably. Thanks to great cost discipline and rapid, flexible capacity management, Lufthansa Cargo was nonetheless able to achieve much better traffic performance than the industry as a whole in the third and fourth quarters as well, increasing profits further.

Good load factors at higher capacity

Capacity went up significantly year on year, as did freight volumes. For the first time, the capacities of Austrian Airlines, the eight AeroLogic aircraft and the MD-11 freighters grounded in the crisis year 2009 were all available for a full financial year. These different platforms enable Lufthansa Cargo to provide its global route network with optimal capacities in line with demand at any given time. Adding new destinations to the global network flexibly and at short notice or shifting capacities to growth regions are integral parts of the regular management process. In the reporting period numerous new destinations were included in the route network, such as Kolkata in India, Lahore in Pakistan, Houston in the USA and Dhaka, the capital of Bangladesh.

Lufthansa Cargo 2020 sets the course for sustainable growth

After the record result in 2010, Lufthansa Cargo used the reporting year to lay the foundations for the profitable growth in the years ahead with its Lufthansa Cargo 2020 strategy. The company's successful future is built on economic success and sustainable profitability. This is how Lufthansa Cargo intends to continue participating in the growing airfreight market, to simplify and optimise its processes and to achieve unit cost advantages. Six focus themes have been defined to put this strategy into practice:

Fleet development: Last year Lufthansa Cargo ordered five new Boeing 777 freight aircraft for delivery between 2013 and 2015. The aircraft will cover the planned growth and their outstanding fuel efficiency will deliver significant unit cost advantages.

Modernisation of the IT environment: The aim is to replace the previous core IT system by introducing a modern and flexible platform on the basis of industry standards. The main advantages are improved data quality, greater security, paperless data exchange and end-to-end process management. The new system is so flexible that it makes complicated ad hoc solutions superfluous; it facilitates everyday routines and thus saves time and money.

Location Frankfurt/future of the Frankfurt cargo hub: The position of the site in Frankfurt is to be strengthened in cooperation with system partners such as the airport operator, customers and authorities, although the extent depends largely on further developments concerning the night-flight ban. A major part of the plan is the modernisation of the cargo centre to improve quality and reduce unit costs. Non value-added activities are to be automated and production routines are to be scheduled centrally. The reorganisation will reduce waiting times within processes.

eCargo: eCargo digitalises the exchange of information and data between Lufthansa Cargo and its customers and partners along the entire transport chain. The digitalised "customer to customer" process will become standard and manual corrections of transmitted data will no longer be the norm. The physical flow of documents will be eliminated, unit costs will be reduced.

Quality/lean logistics: Only by means of outstanding quality for its customers can Lufthansa Cargo secure and build on its market position. The aspiration is continual process improvement that delivers sustainable benefits for customers.

Lufthansa Cargo 2020 focus topics and targets

Fleet development	Securing fuel efficiency and unit cost advantages
IT modernisation	Data quality improvements, security, data exchange, process management optimisation, time and cost savings
Location Frankfurt / future of the Frankfurt cargo hub	Improving quality and reducing unit costs
eCargo	Eliminating flows of physical documents, thereby reducing unit costs
Quality / lean logistics	Increasing productivity
Cooperation	Access to capacities on strategically attractive traffic flows and expansion of the products on offer to customers

The consistent use of lean management methods is one way of getting there. The lean philosophy has already been successfully established at various stations in the Lufthansa Cargo network, such as Dusseldorf, Johannesburg and New York, where it increased productivity substantially.

Cooperation: Cooperation agreements both within and outside the Lufthansa Group are a lever for sustainable growth. In the years ahead Lufthansa Cargo will be arranging more and more agreements with airline partners. This gives the company access to capacities on strategically attractive traffic flows and expands the products on offer to customers.

Night-flight ban has a huge impact on the development of the Frankfurt hub

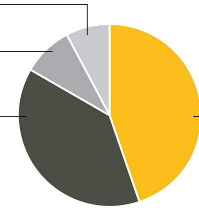
In mid October 2011, just a few weeks before the winter flight plan went into effect, the Hesse administrative court in Kassel imposed a surprising ban on night-flights at Frankfurt Airport. At short notice Lufthansa Cargo had to switch its planned 69 weekly night-flights to other slots or move them to other airports, in some cases even cancelling them. Higher costs and lost revenue mean that annual economic losses in the significant two-digit million euro range are to be expected if the night-flight ban is upheld. A final decision on long-term investment, including in the new logistics centre, will therefore only be taken once the number of permitted night-flights in Frankfurt has been legally settled.

Lufthansa Cargo is focusing the group

In the financial year Lufthansa Cargo continued sharpening its focus on the core business segment. The company sold its share of the equity investment in LifeConEx to DHL Global Forwarding.

In November 2011 Lufthansa Cargo also disposed of its 46.85 per cent stake in Global Logistics System Europe Company for Cargo Information Services GmbH (TRAXON Europe). TRAXON will remain an important partner of Lufthansa Cargo as a neutral platform and provider of electronic communications solutions. Furthermore, Lufthansa Cargo sold its equity investment in the Tianjin Airport Hua Yu Air Cargo Terminal Co.

Logistics traffic revenue by traffic region in %



Investment in growth segments

As in the previous year, Lufthansa Cargo continued to invest in the growing business of temperature-controlled cargo in 2011. The pharma hub developed with the operator of Hyderabad Airport in India went into service in May. The latest infrastructure and special processes designed for sensitive pharmaceutical transport bolster Lufthansa Cargo's position at the biggest hub for temperature-controlled transport in South Asia.

In December a new hangar for temperature-controlled consignments, the Lufthansa Cargo Cool Center, went into operations at the home base in Frankfurt. Since then all chilled shipments sent via Frankfurt have been handled in the modern, 4,500 square metre Cool Center.

Focus on social commitment

The social commitment of the company and its staff again played a special role in 2011. As in prior years, emergency aid flights to areas in crisis were carried out in cooperation with relief organisations. Lufthansa Cargo helped with aid shipments for those suffering from the disastrous earthquake in Japan, for instance. In August and September Lufthansa Cargo organised an aid flight for the victims of the famine in East Africa.

At the same time, Lufthansa Cargo continues to give substantial support to the aid project Cargo Human Care in Nairobi, which was set up by company employees.

In June thirty years of partnership were celebrated with Werkstätten für Behinderte Rhein-Main e. V., a workshop programme for disabled people. Lufthansa Cargo has bought lashing straps and other loading aids from the charity since 1981 and thereby helps to provide work for around 100 people with disabilities.

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 %	
	2011	Change in %	**2011**	Change in %	**2011**	Change in %	**2011**	Change in %	**2011**	Change in pts
Europe	245	14.0	634	2.9	810	2.2	381	3.7	47.1	0.7
America	1,087	22.7	578	10.0	5,678	13.3	4,035	9.8	71.1	–2.2
Asia / Pacific	1,267	–4.6	530	3.0	5,906	5.6	4,327	3.8	73.3	–1.2
Middle East/Africa	218	6.3	144	3.1	1,253	7.7	743	7.2	59.3	–0.2
Total	**2,817**	**6.9**	**1,885**	**5.0**	**13,647**	**8.6**	**9,487**	**6.5**	**69.5**	**–1.4**

* Not including Extracharter.

Operating performance

2011 was another very successful year for the Logistics segment. Despite the global economic slowdown, cargo tonnage rose by 5.0 per cent compared with high 2010 levels. Sales were up by 6.5 per cent and capacity by 8.6 per cent, bringing the load factor to 69.5 per cent, 1.4 percentage points below the previous year. There was a slight improvement of 0.4 per cent in average yields.

The largest year-on-year volume growth of 10.0 per cent was seen in the Americas traffic region. This performance was driven almost exclusively by traffic to America. Capacity increased by 13.3 per cent and the load factor came to 71.1 per cent (–2.2 percentage points).

In the Asia/Pacific region sales grew by 3.0 per cent, or less than the network average, as they were affected by declining sales ex China in the second half of the year. Capacity was increased moderately by 5.6 per cent. The load factor was 1.2 percentage points down on the previous year, but at 73.3 per cent was still the highest of all traffic regions.

Tonnage in the Middle East/Africa traffic region rose by 3.1 per cent compared with the previous year. In the second half-year this was buoyed by a sharp rise in exports to South Africa. Capacity growth of 7.7 per cent was sold nearly in full. The load factor was stable as a result.

Freight volumes within Europe rose by 2.9 per cent. This business is largely feeder traffic to the Americas and Asia/Pacific traffic regions. Sales rose by more than capacity growth of 2.2 per cent, improving Lufthansa Cargo's load factor by 0.7 percentage points.

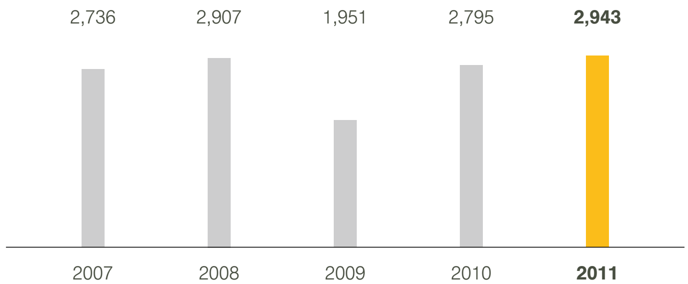
Revenue and earnings development

Revenue climbs by 5.3 per cent

Lufthansa Cargo increased its revenue by 5.3 per cent to EUR 2.9bn in the reporting period. Traffic revenue was chiefly responsible for this growth, up 7.1 per cent in all on the previous year at EUR 2.8bn. Exchange rate movements influenced traffic revenue by –1.6 per cent and prices by +2.2 per cent.

Other revenue sank year on year to EUR 105m (–27.8 per cent), in particular due to lower income from ad hoc aircraft charters.

Revenue Logistics in €m



Non-recurring factors in the previous year meant that other operating income was down 17.9 per cent on the year at EUR 78m.

Total operating income therefore rose to EUR 3.0bn overall. That is a rise of 4.5 per cent.

Higher oil price pushes up operating expenses

Operating expenses went up by 7.4 per cent to EUR 2.8bn in the reporting period. This increase was largely driven by higher cost of materials and services, which was up 10.7 per cent at EUR 2.0bn. In line with the steep rise in the kerosene price, fuel expenses soared by EUR 139m to EUR 502m (+38.3 per cent). Fees and charges went up by 6.0 per cent, mostly due to greater volumes, to EUR 299m.

Operating expenses Logistics

	2011 in €m	2010 in €m	Change in %
Cost of materials and services	2,043	1,846	10.7
of which fuel	502	363	38.3
of which fees	299	282	6.0
of which charter expenses	1,023	996	2.7
of which MRO services	129	125	3.2
Staff costs	347	338	2.7
Depreciation and amortisation	83	107	–22.4
Other operating expenses	299	289	3.5
Total operating expenses	**2,772**	**2,580**	**7.4**

Higher fees for belly capacities, i.e. the cargo space on passenger aircraft flown by Lufthansa Passenger Airlines and Austrian Airlines, caused charter expenses to rise by 2.7 per cent to EUR 1.0bn. The more intensive use of the fleet and the ensuing increase in maintenance inspections meant that MRO expenses were 3.2 per cent higher than in the previous year at EUR 129m.

Staff costs picked up by 2.7 per cent to EUR 347m because of higher basic pay as well as a slight increase in staff numbers. Pilot capacities were strengthened as laid-up aircraft were brought back into service. In the reporting period the business segment had an average of 4,572 employees, or 2.3 per cent more than the previous year.

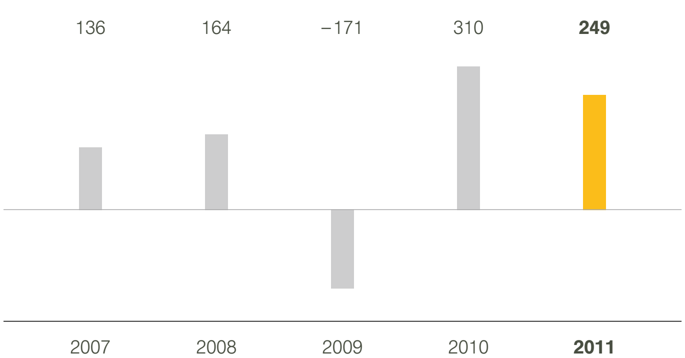
Depreciation and amortisation was 22.4 per cent lower than in the previous year at EUR 83m. This was mainly because depreciation of the MD-11 freighters had come to an end.

Other operating expenses totalled EUR 299m (+3.5 per cent). Travel expenses, Group services, rental and maintenance expenses and write-downs on receivables went up year on year, whereas exchange rate losses and agency commissions were lower.

Second-best result in the company's history

In the 2011 financial year Lufthansa Cargo generated an operating profit of EUR 249m. This is the second-best result in the company's history, but as expected it is below the previous year's record figure of EUR 310m.

Operating result Logistics in €m



The segment result was EUR 243m (previous year: EUR 330m). It was depressed by a loss of EUR 22m from the subsidiaries accounted for using the equity method. This in turn stemmed mainly from current losses and the realisation of accrued losses from prior years at the joint venture Jade Cargo International Ltd. The charge was largely made good by other segment income of EUR 17m, mostly from write-backs of provisions. Other segment expenses remained negligible at EUR 1m.

Segment capital expenditure up sharply

Segment capital expenditure went up to EUR 76m in the reporting period (previous year: EUR 21m). The steep rise was due largely to down payments in connection with the purchase of five Boeing 777F aircraft.

The capital contribution to Jade Cargo International Ltd. and scheduled additions to office and operating equipment also led to greater investing activities.

Long-term overview illustrates a positive trend

Logistics is the most volatile business segment and in the past five years saw wide fluctuations in its results. While the operating result improved steadily until 2008, it dropped off sharply to EUR –171m in the crisis year 2009. After the record result in 2010 and notwithstanding the slowdown in the global economy, the year 2011 also saw high operating profit at EUR 249m.

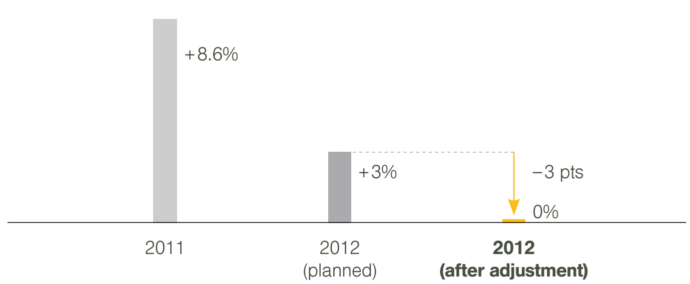
Forecast

Operating profit expected also for 2012

Following very good financial years in 2010 and 2011, Lufthansa Cargo anticipates that its business performance will remain strong. Capacity will be kept more or less stable in 2012, in order to keep creating value with high load factors and profitable average yields in what will remain a challenging environment. Strict capacity and cost management remains a high priority and will be applied consistently. At the same time, the company is working on large-scale projects for the future in the strategy programme Lufthansa Cargo 2020. They will create the conditions for still being at the summit of the airfreight industry even in the year 2020.

For the financial year 2012 Lufthansa Cargo is expecting slightly higher revenue and another operating profit in the three-digit million euro range. Given considerable overcapacities, the effects of the preliminary night-flight ban in Frankfurt and rather weak cargo developments in the Chinese market, a repeat of the very good operating result for 2011 is not currently expected, however. On the basis of current forecasts, a further increase in revenue and a comparable operating result is anticipated for 2013.

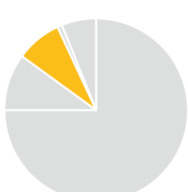
Capacity adjustment Logistics



MRO business segment

↗ Lufthansa Technik is the world's leading MRO provider. ↗ It delivers continuously high earning contributions to the Lufthansa Group. ↗ With its modern portfolio Lufthansa Technik participates in market growth. ↗ Despite adverse factors last year's operating result was nearly matched. ↗ Cost and efficiency management are being applied systematically. ↗ Lufthansa Technik prepared for the new aircraft models in good time.

Share of Group revenue 8.0%



↗ Worldwide leading provider of maintenance, repair and overhaul services

Key figures MRO

		2011	2010	Change in %
Revenue	€m	4,093	4,018	1.9
of which with companies of the Lufthansa Group	€m	1,788	1,645	8.7
Operating result	€m	257	268	−4.1
Adjusted operating margin	%	6.9	7.4	−0.5 pts
Segment result	€m	306	319	−4.1
EBITDA*	€m	377	414	−8.9
CVA	€m	152	172	−11.6
Segment capital expenditure	€m	139	67	107.5
Employees as of 31.12.	number	19,975	20,159	−0.9
Average number of employees	number	19,822	20,297	−2.3

* Before profit/loss transfer from other companies.

4.1 €bn
Revenue

257 €m
Operating result

Business and strategy

Leading MRO provider
Lufthansa Technik is the world's leading independent provider of maintenance, repair and overhaul services (MRO) for civil commercial aircraft. The MRO group includes 32 technical maintenance operators worldwide. The company also holds direct and indirect stakes in 54 companies.

Lufthansa Technik's service range is delivered by six divisions: maintenance, aircraft overhaul, engines, components, landing gears as well as completion and servicing for VIP aircraft. The portfolio consists of a variety of different product structures and combinations – from the repair of individual components to the fully integrated supply of entire fleets. These Total Support service packages guarantee the customer a full service range, right through to complete fleet management, and are the company's most popular products. Lufthansa Technik also develops products and services for new aircraft types, which enable airlines to put them into service in scheduled flight operations. Following the successful launch of various technical services for the Airbus A380, for instance maintenance and component support, the company was also able to sign some major contracts for inspections and completions of the new aircraft models Boeing 787 and 747-8i in 2011.

Lufthansa Technik product portfolio

Lufthansa Technik's registered offices and primary location are in Hamburg. The local maintenance site is made up of aircraft overhaul, completion of VIP aircraft, engine and component maintenance and the logistics centre, as well as development and manufacturing facilities. The largest maintenance stations are located in Frankfurt and Munich, with other stations at all larger airports in Germany and at some 50 other sites around the world. In Germany, the company's market presence is being strengthened by the construction currently underway of a new aircraft maintenance hangar at the future Berlin-Brandenburg International airport.

Lufthansa Technik also has an international network, which it uses to provide direct services to customers at their local bases. The expansion of its MRO group is also intended to reinforce its presence in growth markets such as Asia and South America and to improve its competitiveness by establishing and developing low-cost locations. In 2011 Lufthansa Technik therefore decided to expand the sites in Bulgaria (Lufthansa Technik Sofia) and in the Philippines (Lufthansa Technik Philippines).

Numerous new products launched
In the reporting year Lufthansa Technik worked hard to prepare for the introduction of new aircraft models. The company was able to win Japan Airlines as its first customer for component maintenance for the Boeing 787. Furthermore, preparations are underway for introducing maintenance of the Boeing 747-8i at Lufthansa Passenger Airlines. From 2012 onwards it will also be able to carry out VIP completions on the Boeing 747-8i. Two important contracts have already been signed for these services in 2011. The introduction of many new wide-bodied aircraft means that demand for the completion of VIP aircraft is rising sharply, so that Lufthansa Technik has decided to extend its capacities in this area.

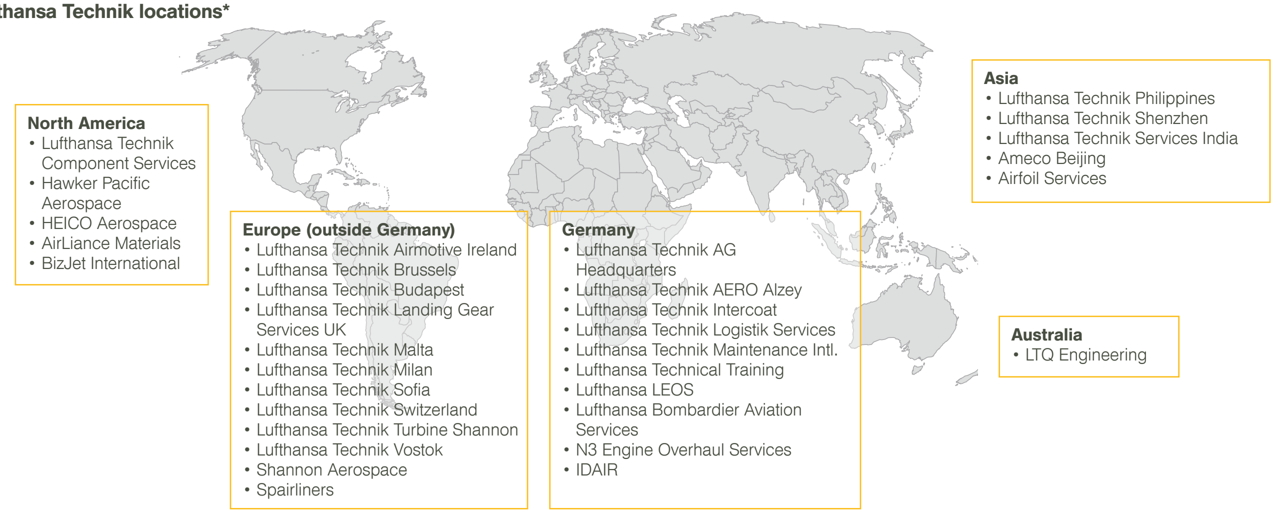
Innovative new products are also being developed that will make it possible to reduce the weight of the aircraft and thereby increase their productivity. The launch of the Cyclean Engine Wash product has already successfully enabled fuel consumption to be reduced.

Markets and competition

Further growth in the MRO market
The recovery of global air traffic that initially continued in the first half of the year caused demand for technical MRO services to rise worldwide. The overall market for services to civilian aircraft grew year on year by around 4 per cent in 2011. Lufthansa Technik's portfolio covers some 80 per cent of this market volume. At the same time, it is particularly important for the company to be present in the markets with the highest growth rates – Asia and South America – and to keep expanding successfully there. With its comprehensive product portfolio and worldwide presence, Lufthansa Technik was able to defend its position as global market leader to a certain extent with a market share of 14 per cent in the financial year 2011.

Lufthansa Technik's main competitors include original equipment manufacturers (OEMs) such as Airbus, GE and Rockwell Collins, the MRO operations of other airlines like Air France-KLM, and independent suppliers (e.g. ST AERO, SR Technics). The OEMs in particular are moving into the MRO market, as well as an increasing number of smaller independent companies that concentrate on supplying components and engines, and purchase repair

Main Lufthansa Technik locations*



* Including affiliated companies and equity investments.

services as required. This capital-intensive production model enables a rapid market entry and results in new competitors. Altogether, these trends are leading to a much greater supply of MRO services, which increases pricing pressure and competition for new contracts. Lufthansa Technik will continue to highlight its differentiating features, such as quality, turnaround time and punctuality, to develop innovative new products and to optimise its group management and cost base. This is the background to ESP@LHT, the programme to safeguard earnings and secure competitiveness at Lufthansa Technik that was launched in June. The programme covers both cost-cutting and sales activities to stabilise the earnings situation.

Sales and customers

Greater involvement in Asia

Lufthansa Technik has over 770 customers around the world, mostly airlines and aircraft leasing companies, but also operators of VIP jets and public-sector clients. The company's main sales market is still Europe, including the CIS states; the region accounted for around 70 per cent of revenue in 2011. For America the share was 10 per cent. The political unrest in the Middle East and North Africa caused the share of revenue from this region to fall sharply to 7 per cent. Asia accounted for 13 per cent. Thanks to a large number of new contracts this percentage is set to keep rising in the years ahead. Greater involvement in the region, including the expansion of Lufthansa Technik Shenzhen and the construction of a material depot in Singapore, is intended to ensure that Lufthansa Technik gets its fair share of growth in the Asian MRO market.

Lufthansa Technik distributes the majority of its products and services via a centralised sales organisation, which is present in all the main locations with regional sales offices. This is supplemented by decentralised sales activities for specific products, which in some cases have a regional focus. Key account management and customer service activities are carried out on a decentralised basis, sometimes with further regional differentiation. Lufthansa Technik stays in close touch with its customers by means of regular dialogue, a modern portal where customers can view a wide range of information and place orders, and various print media. These activities contributed to the fact that the largest and most important customers have had intensive and wide-ranging business relations with Lufthansa Technik for many years.

Course of business

Major components and VIP contracts signed for new aircraft models

Despite incurring expenses from some long-term contracts in the reporting year, Lufthansa Technik was able to report a result nearly on par with the previous year, as early action to stabilise business was taken as part of the ESP@LHT programme, which contributed to a highly satisfactory operating performance in some areas.

Altogether, the company was able to close the full year 2011 with a contract value of EUR 506m from 466 new contracts and 45 new customers. A further 70 aircraft (+3.4 per cent) were acquired for MRO services in 2011, taking the fleet under contract to 2,125 aircraft. A significant fall in revenue from customers in North Africa and the Middle East took the shine off this altogether positive performance, however.

During the reporting period Lufthansa Technik handed over the second Airbus A340 and four Bombardier Global 5000s to the Special Air Mission Wing at the German Federal Ministry of Defence. This brought the fleet renewal programme in this segment to a close.

The installation of the new Europa cabin has nearly been completed for the company's largest customer, Lufthansa Passenger Airlines. Other product innovations such as Business and First Class refits and FlyNet installations (internet on board) are currently implemented.

Lufthansa Technik successfully won two large contracts for the VIP completion of Boeing 747-8i aircraft. This means that there are now firm bookings for almost all completion capacity for wide-bodied aircraft until late 2013. Alongside the component supply contract for the whole B787 fleet at Japan Airlines, the company recorded other important contract wins in Asia, such as the Total Technical Support contract with Nok Air for the maintenance and overhaul of the B737NG fleet, and Total Component Support contracts with Peach Aviation, LAN Airlines, Asiana Airlines, Aeroflot and Air New Zealand. A Total Technical Support contract was signed with Meridiana Fly for the maintenance and overhaul of the entire fleet, while Qantas Airways signed a contract for the overhaul of its A330 landing gear. Other customers, including Aegean, Ethiopian Airlines and Travel Service, renewed their engines contracts. In addition, Germanwings and Lufthansa Technik have signed a wide-ranging cooperation agreement for technical services for the entire Airbus A319 fleet, thereby extending the scope of their collaboration considerably.

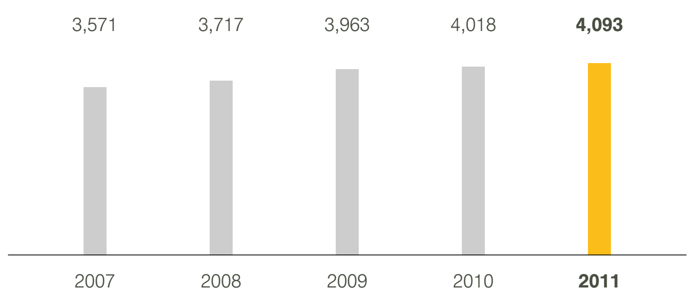
Lufthansa Technik Sofia reported other major contract wins in addition to the extension of maintenance and overhaul capacities at its local airport.

Revenue and earnings development

Slight revenue growth of 1.9 per cent

Revenue from Group companies grew year on year by a total of 8.7 per cent to EUR 1.8bn, mainly thanks to enhanced modification programmes, such as the installation of the Europa cabin and the new First Class for Lufthansa Passenger Airlines, as well as new contracts with various Group companies. External revenue declined by 2.9 per cent, however, to EUR 2.3bn. Revenue growth in aircraft maintenance was more than offset by lower demand from customers in North Africa, a decline in customer business at some subsidiaries and in engines, and the adverse movement of the US dollar. In total, revenue picked up by 1.9 per cent to EUR 4.1bn. External income accounted for more than 56 per cent of total revenue.

Revenue MRO in €m



Other operating income went up by EUR 21m to EUR 232m, primarily due to exchange rate movements relating to the reporting date. The MRO segment generated total operating income of EUR 4.3bn (+2.3 per cent).

Operating expenses up by 2.7 per cent

Operating expenses went up in line with revenue by 2.7 per cent to EUR 4.1bn.

Operating expenses MRO

	2011 in €m	2010 in €m	Change in %
Cost of materials and services	2,123	2,056	3.3
of which raw materials, consumables and supplies	1,389	1,329	4.5
of which external services	644	604	6.6
Staff costs	1,095	1,101	−0.5
Depreciation and amortisation	90	94	−4.3
Other operating expenses	760	710	7.0
Total operating expenses	**4,068**	**3,961**	**2.7**

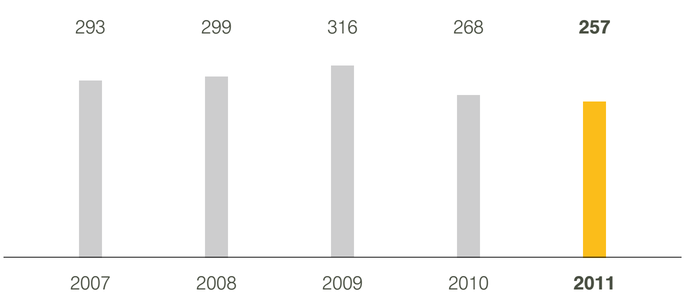
This includes a 3.3 per cent higher cost of materials and external services (EUR 2.1bn), caused primarily by aircraft idle time and greater use of materials for engine maintenance.

Despite higher pension provisions, staff costs were reduced slightly to EUR 1.1bn (–0.5 per cent) in 2011. An average of 19,822 employees worked in the MRO segment in 2011, 475 fewer than in the previous year. While more than 220 employees moved from partial to full retirement, the company took on 200 temporary workers as permanent employees and welcomed around 200 young people starting their apprenticeships. Furthermore, the workforce was particularly reduced at plants, such as Lufthansa Technik Switzerland or Shannon Aerospace, that are currently carrying out or have recently concluded restructuring programmes to ensure their long-term competitiveness.

Depreciation and amortisation sank year on year by EUR 4m to EUR 90m.

Other operating expenses rose by 7.0 per cent to EUR 760m. Provisions for long-term contracts were the main reason for the increase.

Operating result MRO in €m



Operating result only just short of the previous year's
With an operating result of EUR 257m in 2011, Lufthansa Technik was nearly able to match its very good operating result of the previous year (EUR 268m).

Other segment income fell by 11.8 per cent to EUR 30m. This was largely the result of lower write-backs of provisions. Other segment expenses were stable year on year at EUR 2m. The income from associates consolidated using the equity method was up on the previous year (+10.5 per cent) at EUR 21m, partly owing to improved earnings at HEICO, BELAC and Spairliners. The segment result for the reporting period was EUR 306m (previous year: EUR 319m).

Segment capital expenditure up sharply
Compared with the previous year (EUR 67m), the segment's capital expenditure soared to EUR 139m. The main investments were made to purchase reserve engines for Lufthansa Technik Airmotive Ireland Leasing and to obtain a Pratt & Whitney licence for Lufthansa Technik AERO Alzey and a Hamilton Sundstrand licence for Lufthansa Technik. Equity of EUR 7.5m was provided for Lufthansa Technik Milan, Lufthansa Technik Services India and the new joint venture with Panasonic IDAIR.

Lufthansa Technik delivers stable, solid earnings contributions
In recent years Lufthansa Technik has always been able to generate revenue growth and high operating profits, even under varying external conditions. The current profit record was set in 2009. In financial years 2010 and 2011 the MRO segment again delivered vital earnings contributions to the consolidated operating result, despite incurring substantial expenses on some long-term contracts.

Forecast

Revenue and earnings growth targeted
Against a backdrop of growing aircraft fleets worldwide, the MRO industry is expecting medium-term growth of around 4 per cent per year. Lufthansa Technik's portfolio will grow faster than this, however, due to its focus on modern aircraft types. The rising demand is nonetheless being met by a much greater supply of services. Under these conditions, only MRO providers with a competitive cost base and a high-quality, innovative product portfolio will be able to pursue a strategy of profitable growth in future. In the short term there is a risk that deterioration of the global economy will feed through to demand for MRO services.

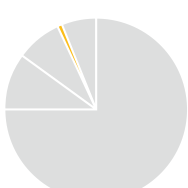
Lufthansa Technik will maintain the strict management of costs and efficiency that is embodied in the ESP@LHT programme to safeguard earnings and intends to keep on innovating and optimising its products. The programme focusses on reducing operating and project expenses while simultaneously launching a sales offensive to drive revenue growth. The early product entry into the new aircraft models Boeing 787 and 747-8i will also contribute to a positive performance. This is also the goal of group management, which aims to expand the best sites and restructure the critical ones.

Based on current economic forecasts, Lufthansa Technik is expecting a modest increase in revenue in the financial years 2012 and 2013 and a return to increasing operating results.

IT Services business segment

↗ The market for airline IT stabilised in 2011, but pressure on margins remains intense. ↗ Realignment enabled Lufthansa Systems to raise its competitiveness significantly. ↗ The success of Jetzt! can be seen in the sharp rise in operating profit and stabilised revenue figures. ↗ Lufthansa Systems wants to return to profitable growth and is selectively making use of partnerships.

Share of Group revenue 0.8%



↗ Leading IT service provider for the air transport industry

Key figures IT Services

		2011	2010	Change in %
Revenue	€m	599	595	0.7
of which with companies of the Lufthansa Group	€m	369	363	1.7
Operating result	€m	19	10	90.0
Adjusted operating margin	%	4.0	1.8	2.2 pts
Segment result	€m	21	–6	
EBITDA	€m	58	45	28.9
CVA	€m	23	–23	
Segment capital expenditure	€m	55	36	52.8
Employees as of 31.12.	number	2,820	2,935	–3.9
Average number of employees	number	2,855	2,974	–4.0

599 €m

Revenue

19 €m

Operating result

Business and strategy

IT services provider with focus on the airline industry
Lufthansa Systems offers its clients consultancy and IT services. The company focuses on the airline industry, where it is a global leader, as well as on the areas of transport and logistics, industry, media and publishing, energy, healthcare and tourism. Its customer base includes around 200 airlines around the world and more than 100 companies from other sectors, of which a large number has worked with Lufthansa Systems for many years.

The company is headquartered in Kelsterbach near Frankfurt. Additional sites in Germany and in 16 other countries ensure the proximity to the customer and the rapid response times that are essential for a global IT services provider. An international production base also contributes to lower production costs and makes the company more competitive. Lufthansa Systems operates its own data centres at various sites around the world. Its data centre in Kelsterbach is one of the most modern and powerful in Europe.

Broadly diversified range of services
As a full-service provider, Lufthansa Systems offers its customers the entire spectrum of IT services – from consultancy via the development and implementation of custom-built applications through to systems operations in its own data centres. All its services and IT solutions are aimed at generating direct added value for the customer in the form of efficiency gains, cost reductions or higher yields.

The key factors of the company's success on the market is its combination of IT know-how and the ability to understand all the customer's relevant business processes.

Locations Lufthansa Systems

Thanks to its many years of experience in the airline industry Lufthansa Systems is for example the only provider with solutions to cover the entire air transport process chain.

Its understanding of complex business processes, in-depth technological knowledge and expertise in managing projects of all sizes also come to the fore in other sectors. Examples include the optimisation of sales processes, the development of sophisticated online solutions and the introduction of completely new IT environments for industrial companies with international operations.

Markets and competition

Competition remains intense
The IT market is very competitive and this is reflected in high pressure on prices and margins. Providers from emerging markets such as India benefit from the ongoing trend towards outsourcing thanks to their comparative cost advantages.

For several years the market for airline IT contracted, but in 2011 it stabilised at around the EUR 7.5bn mark. Airlines spend around 50 per cent of this total on operating services, 30 per cent on projects and 20 per cent on IT products. There is still no sign of any lasting change in airlines' general disinclination to invest.

With a share of 30 per cent of outsourced airline IT services, Lufthansa Systems has a leading position in the EMEA region (Europe, Middle East, Africa). In Asia and America the market share is 3 per cent respectively.

The main competitors in the airline IT market are Sabre Airline Solutions, Amadeus, HP, SITA and the Boeing subsidiary Jeppesen. However, none of them has such a wide-ranging product portfolio as Lufthansa Systems. New players in this market include Google, Amazon and Apple.

Prompted by the economic upswing at the beginning of the year German industry increased its IT investment in 2011. The trend towards cloud computing also boosted the growth rate. In total the volume of the German market for IT Services came to EUR 34.2bn, according to BITKOM, the industry association. This represents year-on-year growth of 3.5 per cent. Lufthansa Systems competes successfully in this market against all the major providers of consultancy services and IT outsourcing. In 2011 the company again achieved a place in the top 5 in the well-known "Lünendonk-Listen", a register of IT advisory and systems integration companies in Germany.

Sales and customers

Tailored solutions for customers all over the world
Around the world, more than 300 customers rely on the IT competence and services from Lufthansa Systems. Some 200 of them are airlines, representing the whole spectrum of business models: international network carriers, low-cost airlines and regional operators. Outside the airline industry, products such as VI&VA for publishers and media companies and infotainment for cruise ships are well established on the market.

The customer base at Lufthansa Systems is very stable. The relationships with many customers go back a long way, in some cases ten years and more. Vattenfall Europe for instance has put its trust in the IT know-how from Lufthansa Systems for more than 15 years. Since 2000, the company has realised a large number of joint SAP projects with Vattenfall Europe Information Services, a subsidiary of the energy utility, and developed an internet portal for its consumers as a new distribution channel.

In the airline sector the relationships sometimes even predate the spin-off of Lufthansa Systems. This is the case for Ryanair and Croatia Airlines, for instance. Emirates is a good example of the way many customer relationships develop. In 1996 the company selected the flight route planning system Lido/Flight and today it uses a wide range of products from Lufthansa Systems in its flight operations. Even if a customer is a member of another airline alliance, this has no impact on the quality and stability of the business relationship, as demonstrated by the oneworld member Finnair. The Finnish airline decided to work with Lufthansa Systems for the first time in 1997 and has continued to extend the scope of the partnership ever since.

Four regional management units are responsible for airline customers: Europe, Middle East/Africa, Asia/Pacific and America. These were set up in 2011 and are an important part of the company's realignment under the Jetzt! programme. Regional managers are the primary point of contact for customers and have broad decision-making authority. Their remit covers the entire account and service management as well as sales.

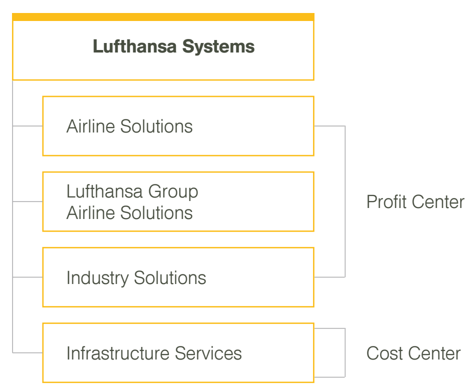
As the largest single customer, Lufthansa Passenger Airlines is managed by the profit centre Lufthansa Group Airline Solutions, which was also created in 2011. The Industry Solutions unit has organised its sales on the basis of key account management.

Course of business

New structure brings new focus
The restructuring of the company under the Jetzt! programme introduced in 2010 enabled Lufthansa Systems to increase its competitiveness significantly in an operating environment defined by margin pressure and unrelenting consolidation. The realignment of the company structure was completed with the implementation of a new customer-oriented structure following the merger of five subsidiaries with Lufthansa Systems AG. The aim of the realignment is to reduce complexity and thereby to cut costs in all areas. The company now delivers its services through the three profit centres Airline Solutions, Industry Solutions and Lufthansa Group Airline Solutions, as well as through the cost centre Infrastructure Services.

In recent months Lufthansa Systems has been working on four central aspects to bolster its competitiveness and return to a growth path. At the same time revenue was boosted by short-term activities. Expenses were also reduced even further compared with the previous year. In the field of innovation many new products were presented or initiated. Specific partnerships with global IT companies were explored to secure the company's future success.

New organisational structure of Lufthansa Systems



Contracts with new customers and product innovation
In a challenging climate still defined by economic uncertainty, Lufthansa Systems was able to report new customer wins and expand its business with existing customers. A major contract was signed with Malaysia Airlines to take over its global data network. Numerous new customers such as Aerolineas Argentinas and Adria Airways decided to purchase various IT solutions to optimise their operating processes. Lufthansa renewed the licence agreements for network planning, medium and short-term flight planning, codeshare management and flight plan distribution solutions, which have been running for more than ten years.

The highly successful product innovations last year included the wireless in-flight entertainment system BoardConnect. It is based on a wireless network using the common WiFi standard. Passengers can use their own devices to access films, audio files and other information or to make use of all the opportunities offered by the internet. The first customer for BoardConnect is Condor and more airlines are to follow, with Virgin America and Qantas set to deploy the system in 2012.

Another innovative solution that makes use of the unbroken trend towards mobile devices is the Lido/iRouteManual, which turns an iPad into a mobile pilot's case and obtained operating approval from the US civil aviation authority in 2011.

Lufthansa Systems also presented deskBase, its new model for the workplace. Based on the principle of cloud computing, this workplace model enables employees to access applications and data stored in the data centre at any time and from anywhere. deskBase is currently being introduced in the Lufthansa Group and is also on offer on the external market.

In addition, Lufthansa Technik and Lufthansa Systems have signed a long-term service agreement for their IT workspaces. This enables Lufthansa Systems to strengthen its long-term position as the main provider of infrastructure services at Lufthansa Technik.

In the field of logistics, Lufthansa Systems ramped up its collaboration with Hamburg Süd, Schenker Deutschland and the Hamburg Port Authority. As a general contractor, Lufthansa Systems is renewing the IT systems that manage all rail traffic at the Port of Hamburg.

The publishers Lippische Zeitungsverlag and Donaukurier Verlagsgesellschaft are using additional functions of the publishing solution VI&VA. Volkswagen also commissioned the introduction of a new company portal. Gesundheit Nord gGmbH has appointed Lufthansa Systems to merge all the SAP systems in the four hospitals that form the Bremen clinic group. Viking River Cruises is the first customer from the river cruise sector.

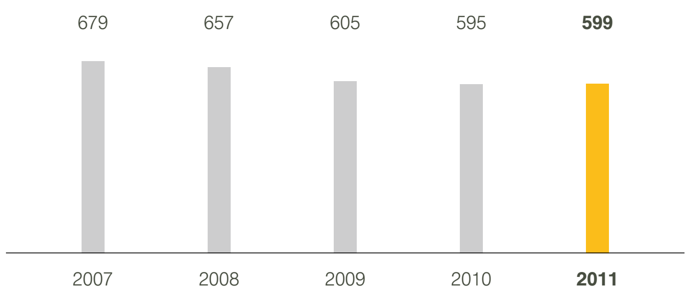
Lufthansa Systems won the innovation prize from German industry for a system that supports the rapid and secure recovery of IT passwords by means of biometric identification.

Revenue and earnings development

Revenue trend stabilises

Business at Lufthansa Systems became increasingly stable over the reporting period. Revenue of EUR 599m was marginally higher than the previous year's figure of EUR 595m. Revenue with Lufthansa Group companies rose by 1.7 per cent to EUR 369m thanks to higher volumes. Pruning the sector portfolio trimmed revenue from external customers by 0.9 per cent to EUR 230m. Revenue from external customers was, however, an important component of Lufthansa Systems' business success, accounting for 38 per cent of total revenue.

Revenue IT Services in €m



Other operating income declined year on year by 43.8 per cent to EUR 18m. This is largely due to lower investment in product software.

Total operating income fell to EUR 617m (–1.6 per cent).

Operating expenses reduced by 3.1 per cent

Increased project activity in the area of infrastructure services drove the cost of materials and services up by 12.0 per cent to EUR 84m.

Operating expenses IT Services

	2011 in €m	2010 in €m	Change in %
Cost of materials and services	84	75	12.0
Staff costs	229	247	–7.3
Depreciation and amortisation	34	34	0.0
Other operating expenses	251	261	–3.8
of which external staff	59	59	0.0
of which rent/maintenance of IT	104	106	–1.9
Total operating expenses	**598**	**617**	**–3.1**

In connection with the Jetzt! programme the average number of employees was reduced to 2,855 in the reporting period (previous year: 2,974). Staff costs were 7.3 per cent lower than in the previous year at EUR 229m. This includes one-off effects in connection with restructuring measures initiated the year before.

Depreciation and amortisation came to EUR 34m, exactly the same as last year.

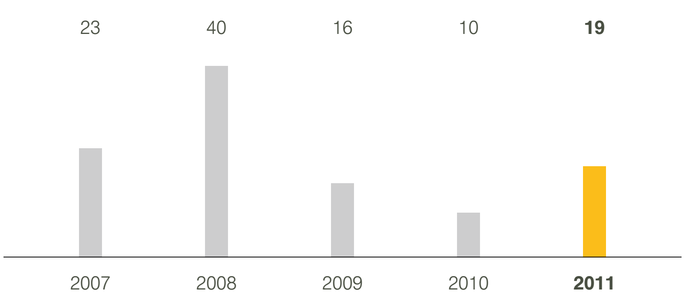
Other operating expenses fell by 3.8 per cent to EUR 251m.

Total operating expenses declined accordingly to EUR 598m (–3.1 per cent).

Distinct improvement in operating result
The stabilisation of sales and the sustainably lower costs are reflected in a tangible improvement to the operating result. Lufthansa Systems increased its operating profit to EUR 19m (previous year: EUR 10m).

The segment result was a profit of EUR 21m. This came after a segment loss of EUR 6m the year before. The loss was the result of write-downs made in connection with new priorities being set for development projects.

Operating result IT Services in €m



Capital expenditure up on the year
Lufthansa Systems made segment investments of EUR 55m in 2011. The considerable increase compared with the previous year's figure of EUR 36m stems from the transfer of assets from the subsidiary Lufthansa Systems FlightNav to Lufthansa Systems AG. Adjusted for this effect, capital expenditure was roughly the same as the previous year and served mainly to maintain existing business.

Long-term overview confirms the effects of Jetzt!
In mid 2010 Lufthansa Systems started the programme Jetzt! to boost the company's profitability.

It was intended to make up for dwindling sales prices and weak demand in a market environment plagued by margin pressure by cutting costs and generating additional income at short notice. These activities had an effect right in the first year. They enabled revenue, which had been sliding since 2007, to be stabilised. At the same time, Lufthansa Systems took its operating result past its 2009 and 2010 levels for the first time in the 2011 financial year. The adjusted operating margin improved as well as a consequence.

Forecast

Cost-cutting measures to be continued
Irrespective of the customer's sector, IT plays a central role in the optimisation of business process with the goal of reducing costs and increasing flexibility. In an economic environment that is volatile overall, it remains essential for companies to keep their costs down permanently and yet still be able to respond quickly to market changes. New technologies such as cloud computing and mobilisation open up a wide range of new possibilities in this area. By developing new products and solutions Lufthansa Systems creates the conditions for companies to benefit from these developments.

The restructuring in 2011 laid the foundation for Lufthansa Systems to return to profitable growth again in 2012. Targeted measures will also save further costs in the years ahead.

Although business with Lufthansa Passenger Airlines will initially continue to decrease as a result of the switch to new and cheaper technologies, the greater customer orientation and faster response times should lead to more new business in external markets.

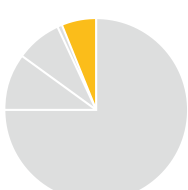
After an in-depth review of strategic partnership opportunities a focused approach has been chosen, by which wherever it makes sense for the company and its customers, Lufthansa Systems will work with selected partners on a project basis or in specific areas. The discussions did not produce any convincing options for a global partnership.

For the years 2012 and 2013 Lufthansa Systems is expecting its business to develop positively and revenue to increase thanks to more new orders from airlines, especially in the regions Asia/Pacific and America, and greater income from existing customers in other industries. The improved cost base will also be reflected in further improvements in the operating result during this period.

Catering business segment

↗ LSG Sky Chefs successfully combines airline catering with other services. ↗ Its global presence is being extended by means of joint ventures. ↗ The segment increased its revenue and profit again in 2011. ↗ Upgrade^plus has met its targets. ↗ LSG Sky Chefs continues its profitable growth.

Share of Group revenue 6.0%



↗ Global market leader in airline catering

Key figures Catering

		2011	2010	Change in %
Revenue	€m	2,299	2,249	2.2
of which with companies of the Lufthansa Group	€m	561	533	5.3
Operating result	€m	85	76	11.8
Adjusted operating margin	%	3.7	3.4	0.3 pts
Segment result	€m	97	87	11.5
EBITDA	€m	147	174	–15.5
CVA	€m	–25	–28	10.7
Segment capital expenditure	€m	74	38	94.7
Employees as of 31.12.	number	29,586	28,499	3.8
Average number of employees	number	29,226	28,369	3.0

2.3 €bn
Revenue

85 €m
Operating result

Business and strategy

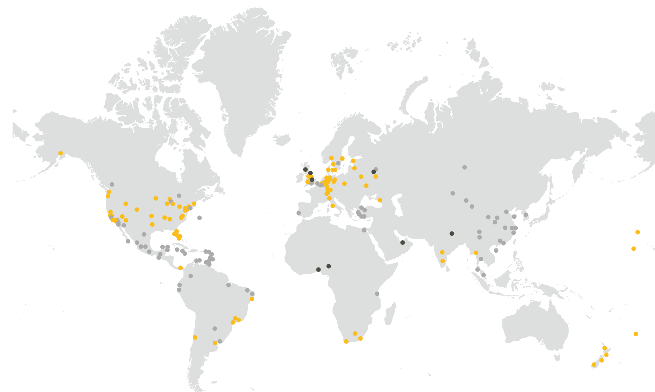
Leading role in airline catering and other services
The LSG Sky Chefs group is the global market leader in airline catering and related upstream and downstream in-flight service processes. In airline catering, which accounts for 85 per cent of the group's total revenue, the company has a global market share of around 26 per cent. Its strong presence is reflected at a regional level above all in the highly developed markets Germany and the USA. It nevertheless continues to expand its network in the growth regions Latin America, Africa, Asia and Eastern Europe. The LSG Sky Chefs group consists of 148 companies with operations at 198 airport sites in 50 countries. The parent company for the group, LSG Lufthansa Service Holding AG, is based in Neu-Isenburg.

LSG Sky Chefs has more than 70 years of experience in airline catering, to which it continues to add every year. The marketing agreement signed in 1993 and the successive purchase of shares in Sky Chefs led to the complete takeover of the American caterer in summer 2001. In the last two decades LSG Sky Chefs has also been able to establish a solid presence in important Asian, South American, Eastern European and African markets, primarily via partnerships with local players. More recently, further corporate development has also concentrated on adding innovative equipment solutions and logistics services to the product range for airline customers and on entering neighbouring markets in which the competences acquired in its core business generate benefits for customers.

At the beginning of 2011 the previously three-member Executive Board was expanded to four members with the appointment of Erdmann Rauer as Chief Sales Officer. The company's airline catering activities are carried out by six regional management teams, whose responsibilities are aligned with the maturity of the individual markets, their potential for business development and the need for standardisation. The regional units are supported by centralised centres of excellence for upstream and downstream products and services. Operations in adjoining markets are run by specialised teams with knowledge of their respective markets.

LSG Sky Chefs still adheres to its basic strategic orientation, defined just a few years ago, of continuing to develop its market position in all segments by means of profitable growth. In terms of cost management the focus is on permanent improvements by means of restructuring and standardising production and administrative processes, as well as by reducing staff and material costs. Growth targets are to be met by expanding the core business as well as by penetrating specific neighbouring markets.

Locations Catering



● LSG Sky Chefs ● Joint Ventures ● Strategic partnerships

To extend the portfolio for airline customers LSG Sky Chefs plans to establish partnerships with providers of supplementary products and services and with local partners in new locations.

Markets and competition

Expanding global presence through joint ventures
Despite rising passenger numbers overall, the global market volume of the airline catering market has not grown significantly over the last decade. There are two main reasons for this. One is that the network carriers in North America and Europe have cut their spending on in-flight service sharply in the face of increased competition and cost pressure. The other is that passenger numbers increased disproportionately at the low-cost carriers. The decline in mature markets has only partially been offset by the increase in passenger volumes in Asia, the Middle East and Latin America, where for cultural reasons in-flight service is still considered to be highly important. On long-haul routes too, the price pressure on catering services continues to increase.

Under these circumstances LSG Sky Chefs benefits from being present in nearly all sales markets. Gate Gourmet is its only global competitor with a presence on all continents. In addition, there is a modest number of providers with sites in one or two regions. The industry remains characterised by consolidation and expansion. In America and Europe, market share for LSG Sky Chefs is between 35 and 40 per cent, according to the company's own calculations. The national airlines in Asia, the Middle East and Africa are increasingly interested in selling or finding partners for the catering divisions that have hitherto been wholly owned. In these markets LSG Sky Chefs is successfully developing its presence via joint venture agreements and management contracts.

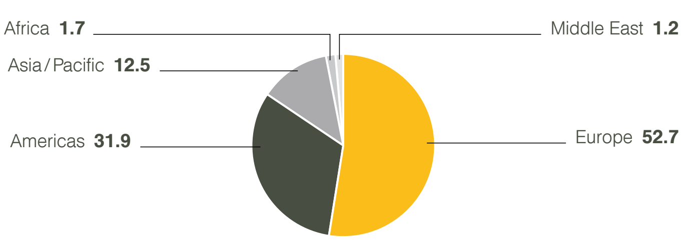
Sales and customers

LSG Sky Chefs has a broadly diversified customer base
Nearly all international airlines and numerous national and regional ones – network carriers, charter companies and low-cost carriers – belong to the global customer base of LSG Sky Chefs. The customer portfolio includes some 300 key accounts, whose contracts differ widely in scope and duration. LSG Sky Chefs supplies its largest customers at several sites within one or more regions with catering and additional services such as the development, procurement and logistics of in-flight items. For other airlines, which still have their own catering at their hub, products and services are provided at specific sites. The duration of contracts ranges from just a few months up to several years.

The regional sales teams are made up of key account managers, who according to the scope of the contracts advise one or more customers in all strategic and contractual matters and who are based as near as possible to the headquarters of their respective airlines. Pan-regional tenders and contracts for services that go beyond catering are dealt with by a central sales team. The centres of excellence for equipment development and procurement, logistics, in-flight sales programmes and frozen food are involved in exploiting this potential. The central sales team has overall responsibility for elaborating and executing the global sales strategy in close consultation with the regions.

Day-to-day business with customers in the local stations is carried out by customer service managers.

Catering revenue by region in %



Course of business

LSG Sky Chefs increases sales
Demand for LSG Sky Chefs catering services was up on the previous year in the full year 2011, despite the political turbulence in North Africa and the Middle East and the earthquakes in New Zealand and Japan. In parallel with the general economy, growth slowed in the second half of the year, however. This also affected demand in the premium segment. Nonetheless, for the full year 2011, LSG Sky Chefs' revenue in local currency was still higher than the previous year's in all regions.

In the reporting period the great majority of airline catering contracts were renewed and the company won some important new customers. New contracts got off to a successful start with British Midland in the UK and Onur Air in Turkey. Furthermore, LSG Sky Chefs successfully renewed and extended business relationships with existing customers. These include United Airlines at 24 sites worldwide, Air France-KLM, TAM in South America, Air Baltics in Riga, All Nippon Airways in China, North America and Germany, and Germanwings and Thai Airways in Germany. Qatar Airways, Transaero and Gulf Air are being supplied with equipment solutions for the first time.

In Zurich LSG Sky Chefs has merged its operations in a joint venture with First Catering Production AG, a globally active airline catering company. The joint venture commenced operations in May. In addition, the company signed a letter of intent with Alpha Flight Group to establish a joint venture dedicated solely to the British market. The effective date and further timetable for the joint venture depend on the approval of the relevant competition authorities, which was still outstanding at the end of the year.

At the third largest airport in the world, in Chicago, LSG Sky Chefs has been represented with its own facilities again since May 2011. The joint venture in Nanjing in existence since 1998 was renewed before schedule until 2026. The start of construction work for a catering facility in Luanda due to open in summer 2012 was an important milestone in the company's strategic expansion in Africa.

Realignment results in greater flexibility
In mid-year the airline catering activities in Germany were realigned and the former LSG Sky Chefs Deutschland GmbH was split into an administration company and twelve operating companies. Setting up individual German GmbH companies enabled the individual sites to adjust faster and more flexibly to their specific market conditions and thereby to improve competitiveness and generate growth.

In adjoining markets – catering for trains, schools and clinics and deliveries to retailers – LSG Sky Chefs was also able to meet its targets and expand its operations in all regions. A new contract was acquired in train services, which began in December with supplies for the daily Veolia-Trenitalia night train between Paris and Venice. Catering for schools in Hong Kong, which has been a success for many years, was ramped up to over 35,000 meals a day for 82 schools. Initial pilot projects in school catering are underway in India and Sweden as well. In the area of clinic catering, supplies to the Schön-Klinik in Hamburg began as part of the partnership with the service specialist Ahr Service. To reinforce its retail operations in the USA, LSG Sky Chefs acquired the retail supplier Constance Food Group, dba Norris Food Services, New York, in autumn.

The service quality of LSG Sky Chefs was again acknowledged and rewarded by customers and industry associations. LSG Sky Chefs continues to differentiate itself by means of innovation and environmental awareness. The new lightweight trolley Quantum, which offers a weight saving of up to 40 per cent compared with conventional galley carts and won an award in 2010 as the most innovative cabin product, is increasingly being used by major customers.

The company-wide initiatives launched in prior years to standardise processes and increase performance in purchasing, production and sales were continued successfully. In purchasing, the effects of severe price inflation in the areas of food and energy could be limited. The new LSG Sky Chefs production system was implemented in the 25 largest plants: it ensures very high service quality, efficient processes and dependable deliveries. Process standardisation in sales has now been rolled out throughout the company: it creates global transparency, comparability and added value for customers.

Upgrade^plus has met its targets
The company-wide programme Upgrade^plus that was launched in 2009 has met its target for year-end 2011 of cutting costs by EUR 200m compared with 2008. The project management systems introduced as part of the programme have been incorporated into everyday routines in all regions. This enabled LSG Sky Chefs to improve its competitiveness sustainably as well.

Revenue and earnings development

Revenue climbs by 2.2 per cent
Revenue in the Catering segment rose by 2.2 per cent in the financial year (adjusted for exchange rates: +4.9 per cent) to EUR 2.3bn. This is largely a reflection of higher passenger numbers. External revenue rose by 1.3 per cent to EUR 1.7bn and internal revenue by 5.3 per cent to EUR 561m. Changes in the group of consolidated companies delivered an additional revenue contribution of EUR 14m compared with the previous year.

Revenue Catering in €m

Other operating income fell by EUR 9m to EUR 58m compared with the same period a year ago. This was largely the result of lower exchange rate gains. Overall, total operating revenue improved by 1.8 per cent to EUR 2.4bn.

Operating expenses up by 1.4 per cent
At EUR 2.3bn, total operating expenses were 1.4 per cent higher than in the previous year and so rose by a smaller fraction than revenue.

The cost of materials and services increased by 3.3 per cent to EUR 1.0bn. The cost ratio for materials and services was 44.8 per cent (previous year: 44.3 per cent). Inflation in food prices was behind the higher cost.

Operating expenses Catering

	2011 in €m	2010 in €m	Change in %
Cost of materials and services	1,030	997	3.3
Staff costs	799	811	–1.5
Depreciation and amortisation	58	59	–1.7
Other operating expenses	385	373	3.2
Total operating expenses	**2,272**	**2,240**	**1.4**

In the financial year 2011, LSG Sky Chefs had an average of 29,226 employees, 3.0 per cent more than in the previous year. Recruitment was concentrated in the USA, Switzerland, Brazil and China. Despite the larger workforce, staff costs fell overall by 1.5 per cent to EUR 799m due to exchange rate movements. The staff cost ratio sank as a result by 1.3 percentage points to 34.7 per cent.

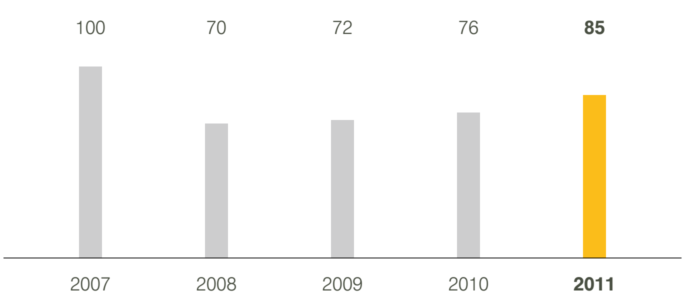
Depreciation and amortisation of EUR 58m was roughly on par with the previous year (EUR 59m).

Other operating expenses came to EUR 385m and were thus slightly up on the year (+3.2 per cent).

Operating result 11.8 per cent higher

For the financial year 2011 LSG Sky Chefs reported an operating profit of EUR 85m, an improvement of EUR 9m on the previous year.

Operating result Catering in €m



At EUR –2m, the balance of other segment income and expenses was slightly higher than the previous year's figure of EUR –3m. The result of the equity valuation was stable year on year at EUR 14m.

Altogether the segment result for LSG Sky Chefs came to EUR 97m (previous year: EUR 87m).

Positive performance reflected in long-term overview

In the financial year 2011 LSG Sky Chefs improved its operating result sharply and continued the positive trend of recent years. This demonstrates the effectiveness of the programmes implemented throughout the company to manage costs, standardise processes and improve performance. The progress made internally was backed up in the financial year 2011 by higher passenger volumes and therefore higher capacity utilisation.

Segment capital expenditure increased further

Segment capital expenditure of EUR 74m was EUR 36m higher than in 2010. Capital expenditure the previous year had been restricted to the amount necessary for maintenance and securing operations as part of the activities to safeguard earnings.

Forecast

Further increase in revenue and profits expected

In view of the unstable economic situation, LSG Sky Chefs is only assuming moderate growth in the core business segment of airline catering for the financial year 2012. In adjacent markets it intends to develop its position proactively by means of focused initiatives in defined countries. In airline catering the company will continue to rely on innovating and leveraging its existing and new customer relationships and partnerships to strengthen its position. LSG Sky Chefs will again differentiate itself from the market by its claim to quality leadership. The entry into adjacent markets will be pursued by concentrating on specific regions in order to generate growth and increase the benefits to customers.

A further focus will be on consistently standardising processes across all functions to achieve greater transparency and competitiveness. The company's intensive endeavours to reshape wage structures in Germany are being continued.

Altogether, LSG Sky Chefs is expecting to increase both its revenue and its operating profit further in the years 2012 and 2013 too.

Other

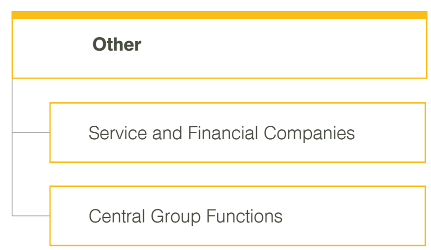
↗ AirPlus benefited from the growing business travel market, increasing revenue and operating profit. ↗ Lufthansa Flight Training improved simulator utilisation and the operating result. ↗ The Group functions improved their result thanks to currency movements. ↗ Both income and earnings for the segment rose sharply in 2011.

Other

	2011 in €m	2010 in €m	Change in %
Total operating income	1,354	1,232	9.9
Operating result	−92	−226	59.3
Segment result	−123	−196	37.2
EBITDA*	51	106	−51.9
Segment capital expenditure	30	17	76.5
Employees as of 31.12.	3,999	3,752	6.6
Average number of employees	3,914	3,731	4.9

* Before profit/loss transfer from other companies.

Structure Other



The segment Other comprises Group functions and the service and financial companies

The segment Other includes the service and financial companies which incorporate the Lufthansa Group's financial and service activities. They include AirPlus, Lufthansa Flight Training and Lufthansa Commercial Holding. The central Group functions are also allocated to this segment.

AirPlus benefits from growing business travel market

AirPlus is one of the leading global providers of solutions for business travel payment and analysis. Under the AirPlus International brand the company supplies tailored products and integrated solutions with which companies can make their everyday travel management simpler and more cost-effective. By creating transparency throughout an entire company, AirPlus enables effective controlling of all business travel expenses. The company is based in Neu-Isenburg and now also has branch offices and subsidiaries in 25 countries. Around the world over 1,000 employees served more than 38,000 corporate customers in the financial year.

Business travel resumed its growth path in 2011. Despite political and economic crises, companies all over the world declared mobility to be a success factor and handled business travel less restrictively than two years earlier. AirPlus customers made more trips in 2011 than in the record year 2008 and their travel expenses were also higher than in prior years. This again enabled the company to report a substantial increase in revenue for 2011. Total billing revenue climbed by 11 per cent in 2011 to EUR 22.0bn. The number of transactions billed via AirPlus rose to over 138 million. The main driver of growth remains the international markets, which contributed to AirPlus's dynamic expansion with an increase of 26 per cent.

This gratifying trend also fed through to the performance indicators. Total operating income was up year on year to EUR 296m (+5.3 per cent) and the operating result soared by 40.0 per cent to EUR 28m.

In the reporting year AirPlus concentrated on refining its global solutions for managing its multinational customers' business travel. Important steps included the expansion of the global banking partner network and the worldwide consolidation of business travel transactions from different financial services providers and credit card companies. The product portfolio was also extended in 2011 by the issue of central company debit cards (AirPlus Debit Accounts).

AirPlus intends to pursue its expansion in international markets in 2012. Particular attention is being paid to the Asia/Pacific growth region, where a service centre was opened in Singapore in 2011. Increasing global acceptance of the AirPlus Company Account and the AirPlus Debit Account will remain a top priority. In addition, the services in the AirPlus product portfolio are to be extended by developing mobile payment solutions.

Lufthansa Flight Training improves simulator utilisation and earnings

At its sites in Frankfurt am Main, Berlin, Vienna, Bremen, Munich and Phoenix, Arizona, Lufthansa Flight Training has decades of experience in training cockpit and cabin crew in areas such as flight simulation, service and emergency training and computer-aided learning.

In addition to Lufthansa Group companies, around 150 other airlines belong to the company's customer base. Increasing demand for simulator and cabin training and long-term relationships with important customers in the airline industry had a positive effect on revenue and results in 2011. Simulator training made the largest contribution to this, with higher capacity utilisation than in the previous year. Lufthansa Flight Training also enjoyed higher demand in 2011 from Lufthansa Passenger Airlines for basic flight attendant training courses. Total operating income for Lufthansa Flight Training increased to EUR 178m (+4.7 per cent). The operating result was 3.3 per cent up on the previous year at EUR 31m.

Lufthansa Flight Training commissioned additional facilities in order to satisfy the greater demand for training services. Since May 2011 three flat-panel trainers for the A320 family have made the type-rating training even more efficient. The first of the new simulators went into operation on 6 May 2011 at the Lufthansa Flight Training Center in Munich. Two more have been available at Lufthansa Flight Training in Frankfurt since 20 May and 1 July 2011. Since summer 2011 customers have been able to use another cockpit simulator for an Airbus A320 model at the site in Munich. Another A320 cockpit simulator has also been added to existing training capacities in Frankfurt and will be ready for training in early 2012.

Since late 2011 the flight training school in Bremen has been able to make use of another training plane for its junior pilots. An additional flight navigation procedure trainer was delivered, entering service in early 2012. The first training courses with students from Austrian Airlines started at the flight training school in Bremen in March and April.

In future too, Lufthansa Flight Training intends to face up to the challenges of competition. Competitiveness requires that long-term profitability is assured in spite of cyclical volatility. Achieving this is therefore the central objective of the corporate strategy. The company began the year 2012 with new, leaner structures. With these lean structures and optimised processes, cost and therefore price advantages should secure existing and additional business.

Group functions improve earnings contribution

The results for the segment Other are largely determined by the Group functions, whose earnings reflect the currency hedging and financing activities carried out by Deutsche Lufthansa AG on behalf of the companies in the Group. Fluctuations in exchange rates therefore have a marked effect on the segment result.

In 2011 the performance of the Group functions was again driven mainly by currency movements. Overall, exchange rate movements resulted in a net loss. Whereas total operating income fell slightly by 1.9 per cent to EUR 728m, operating expenses declined much faster, falling 13.5 per cent to EUR 891m, partly due to exchange rate movements and the non-recurring effect of an extraordinary payment the previous year. The result therefore improved by 43.4 per cent to EUR –163m.

Clear improvement in segment revenue and result

The segment Other reported total operating income of EUR 1.4bn in 2011. Currency movements were the main reason for the year-on-year improvement of 9.9 per cent. Operating expenses moved the other way, falling in the same period by 0.8 per cent to EUR 1.5bn, also due to exchange rates. The operating result therefore improved by 59.3 per cent to EUR –92m. The segment result also improved substantially to EUR –123m (+37.2 per cent).

Employees

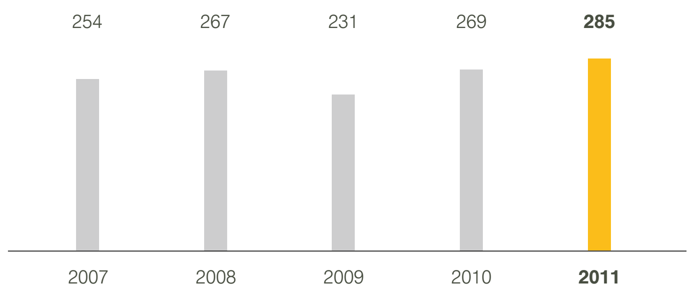
↗ The volatile market environment made human resources activities particularly challenging in 2011. ↗ Major projects were launched to increase flexibility and diversity. ↗ The Management Landscape 2020 project addresses the demands of the future. ↗ Wide-ranging wage agreements create perspectives. ↗ International employer attractiveness further improved.

Employees as of 31.12.*

		2011	2010	Change in %
Group employees	number	116,365	113,406	2.6
of which Passenger Airline Group	number	55,361	53,544	3.4
of which Logistics	number	4,624	4,517	2.4
of which MRO	number	19,975	20,159	−0.9
of which IT Services	number	2,820	2,935	−3.9
of which Catering	number	29,586	28,499	3.8
of which Other	number	3,999	3,752	6.6
Revenue per employee	thousands €	249	233	6.7
Revenue per full-time equivalence	thousands €	285	269	5.9

* Excl. bmi.

Revenue per full-time equivalence Lufthansa Group in € thousands



Flexibility to cope with the demands of a volatile market environment

Prompted by the growth of the Lufthansa Group, the human resources department successfully secured the necessary staff capacities in the financial year 2011. This entailed offering 8,866 new employees a platform to develop their careers. These new jobs were created primarily at the Frankfurt site, in operational in-flight and ground areas at Lufthansa Passenger Airlines. Human resources management was able to deal successfully with these additional requirements in the reporting year with the help of proven, internet-based processes. The successful recruitment of qualified service professionals enables Lufthansa to assure the customary high service quality levels of its airlines.

In the first half of 2011 the focus was on coping with the human resources aspects of unexpected external events, whereas the second half-year was dedicated to deciphering and correctly interpreting the harbingers of far-reaching changes in our industry.

Initially it was operating topics that took centre stage in response to events in Japan and the Middle East and the flooding in Bangkok. A number of specific safety measures were taken, such as transferring Lufthansa's activities in Japan from Tokyo to Osaka at short notice to protect employees. In the acute phase, changes to the flight routes of the Lufthansa group airlines also made it possible to protect cockpit and cabin staff from potential dangers. During the disastrous and long-lasting flooding in Bangkok, Lufthansa provided accommodation for staff affected by the floods and helped actively by providing funding for rebuilding work.

Faced with the changes in the economic environment that tested the Lufthansa Group in the second half of 2011, human resources management used its leverage efficiently to respond at short notice. We did not alter our recruitment strategy for the operating areas, however, in order to ensure that the quality promise made to customers could be kept. The Company thus remains true to its strategy of sustainable corporate development.

At year-end 2011 we ran through a number of potential crisis scenarios. The extent to which further steps will have to be taken in the field of human resources policy will largely be determined by the course of economic developments in the financial year 2012.

Projects initiated to increase flexibility and diversity
In consideration of the future and the ever faster changing market factors affecting the airline industry, the Executive Board launched the project Management Landscape 2020 in the reporting year 2011. This project deals with the demands that will be made of managers in the Lufthansa Group in future, as well as with the challenges that we as a company have to confront in this regard. In concrete terms, the project tackles the processes by which management structures can be made more diverse and flexible, in order to be as prepared as possible for the developments ahead. One sub-project also deals with the topic of "Equal Opportunities for Women in Management Positions", which was also the subject of much public debate in 2011.

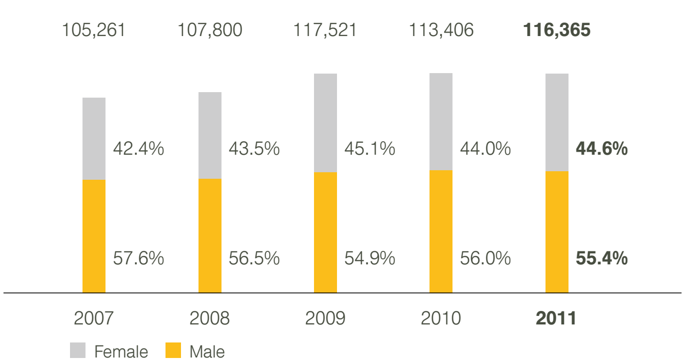
In an overarching collaboration with all DAX 30 companies Lufthansa has set clear targets for redressing the gender balance at the different management levels within the Group. The concrete target for the Lufthansa Group is to increase the number of women in management positions in Germany by 30 per cent by 2020. To realise this self-imposed target successfully the individual companies in the Group have adopted a specific framework and set of measures. Additional activities and measures to foster the career progression of women in leadership positions are to be agreed at an individual level.

The proportion of women in management positions will also be sustainably increased due to the obligation introduced in 2011 to consider female candidates when taking recruitment or promotion decisions – without departing from the principle of choosing the best person for the job. In Germany the proportion of women in management positions was still at 15.5 per cent in 2011. Worldwide, Lufthansa was able to increase the ratio of women in leadership roles from 13.1 per cent to 13.6 per cent. Altogether the proportion of women with staff responsibility below senior management level came to 35.5 per cent.

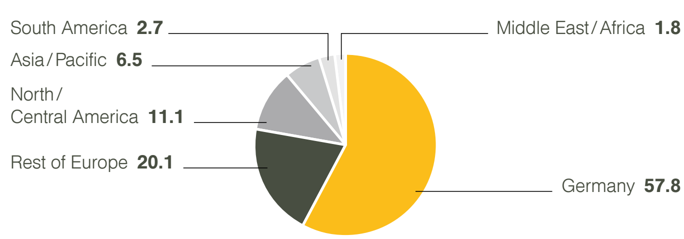
We back up our self-imposed target of increasing the proportion of women in management positions by 30 per cent by 2020 with concrete activities, such as the cross-mentoring programme for women introduced in 1998, which was relaunched in 2011 with a new generation. In the reporting year 2011 the foundations were also laid for purchasing further nursery places, which will be made available to Lufthansa employees from the second quarter of 2012. A public children's day-care facility co-funded by Lufthansa Technik was opened in Hamburg in early 2012.

Cooperation in the airline group optimised further
Another important topic in 2011 was the continued development of intra-Group collaboration in human resources, especially between the airlines in the airline group. All group airlines have now been fully integrated into existing processes, enabling them to share knowledge and information with one another. Personnel development activities were also increasingly carried out within the airline group, especially at management level. In the reporting period the employee representatives also broadened the scope of their European collaboration in a form appropriate to the needs of the Lufthansa Group.

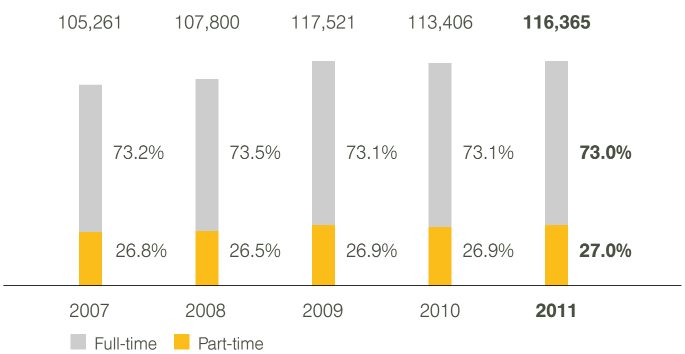
Number of employees by gender



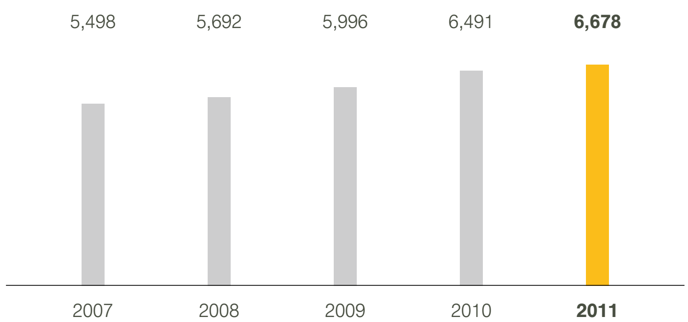
Employees by region in %



Number of employees in part-time and full-time



Staff costs Lufthansa Group in €m



As part of ongoing integration activities the Shared Services group within the Human Resources (HR) department was able to acquire further companies from within the Group as customers in 2011. Group companies outsourced new processes to HR Shared Services as well, which generated additional synergies and reduced costs as a result of further process optimisation and automation.

Diversity is a critical success factor for adding value

As of year-end 2011 a total of 120,055 people were employed at Lufthansa worldwide. Adjusted for bmi the figure is 116,365 employees, an increase of 2.6 per cent on the previous year. The rise is largely due to recruitment in airlines' operational areas. In the reporting year 6,276 departures were offset by 8,866 new entrants. The fluctuation rate at the German companies went up slightly from 6.0 per cent to 6.1 per cent. This is mainly due to more staff entering retirement. At Lufthansa too, the demographic developments behind the aging of the workforce are an important topic. The average age of the workforce developed accordingly from 40.7 to 40.8 years. The average period of employment at the Company was unchanged at 13.6 years.

These demographic trends will remain relevant in the years ahead. For this reason, one of our central concerns is to maintain the productivity and health of all employees. Lufthansa therefore offers a range of different part-time working schemes, which are used actively by 27 per cent of the workforce. Other staff benefits on offer include a wide range of sports from the Lufthansa sports groups and Group-wide initiatives involving exercise and sporting activities.

The individual companies, with the support and coordination of the central medical service, also organise various healthcare activities that reflect the specific working environments of their employees. Additional events, like the Health Weeks, special focus days and the services offered by the medical team, contribute to a broad portfolio of benefits aimed at healthy living and working. In the reporting year topics of special attention included dependency syndromes and somatisation disorders, as well as the long-term study on metabolic syndrome run by Lufthansa Technik and Hamburg University.

Creating perspective for collective bargaining

In the field of collective bargaining the financial year 2011 saw the signing of sustainable agreements between the Air Transport Employers' Federation and the trade unions responsible for different sections of the workforce. Wage negotiations with cockpit staff and the search for solutions to structural challenges at small and highly competitive sites were two areas of particular focus.

The previous year the Air Transport Employers' Federation and the trade union ver.di had signed wage agreements for ground and cabin staff that remained in force until 31 December 2011. Pay negotiations for the following period began in January 2012 and have in some cases already been completed, see "Supplementary report" p. 127.

The Vereinigung Cockpit pilots' union (VC) ushered in the 2011 round of collective bargaining for cockpit staff by terminating the wage agreement with due notice as of 31 March 2011. An agreement had already been reached by June. In addition to pay increases, the discussions focused on making the operating margin the revenue-neutral basis for the profit-share payment. This meant that the profit-sharing schemes for all staff groups (ground, cabin, cockpit) were standardised according to uniform principles.

Operating margin* for the Group and the business segments in %

	2011	2010	Change in pts
Passenger Airline Group	1.6	3.1	–1.5
Lufthansa Passenger Airlines	1.1	2.7	–1.6
Logistics	8.5	11.1	–2.6
MRO	6.3	6.7	–0.4
IT Services	3.2	1.7	1.5
Catering	3.7	3.4	0.3
Group	2.9	3.9	–1.0

* Operating result / revenue.

The overall package for the cockpit wage settlement 2011 included new agreements on the management of the Airbus A330 and A340 fleet, on the management of the Bremen Flight School, as well as guidelines on selecting aircraft pilots. Particularly noteworthy is the wage agreement for the management of the A330 and A340 fleet, which for the first time has given Lufthansa the option of recruiting trained, “ready-entry” pilots for these wide-body models under certain conditions. These new collective agreements resolve what have been the main areas of conflict in recent years by means of pragmatic compromises and lay the foundations for Lufthansa’s continued growth in the years to come.

The period since the last wage agreement for cabin staff, which was signed in January, was used to discuss urgently needed structural adjustments to payscales and steps to improve competitiveness in European traffic with the collective bargaining partner Unabhängige Flugbegleiter Organisation (UFO). Lufthansa and UFO agreed on the general outlines, but a final agreement could not be reached in 2011.

A socially acceptable solution to dealing with structural changes was found for ground staff at the sites in Bremen, Hanover, Nuremberg and Cologne in the reporting year. To achieve a competitive target structure for the Lufthansa Group, a set of measures with immediate effect was agreed with the collective bargaining partners to increase efficiency and to phase out various station services. Partial retirement agreements, severance packages and support with job transfers within stations and to other sites or to the cabin are intended to increase fluctuation.

The agreed solution puts an end to an intense debate about the future of staff at decentralised stations and does justice to employees’ interests in job security and future prospects as well as to the necessity for the Company to improve its competitiveness.

Lufthansa has a responsibility for training

Lufthansa more than fulfils its role as a socially and civilly responsible employer with over 808 new apprenticeships in 53 occupations. As in the past, the Group again offers a very broad range of apprenticeships and training opportunities which open up long-term career prospects. Women made especially good use of this opportunity, accounting for a considerable 21 per cent of trainees. Worldwide, Lufthansa also recruited several hundred new ground staff. For the airborne staff a total of 4,929 new flight attendants were trained and recruited in Germany. The Group’s own flight school recruited 368 new pilots for training, of whom 7 per cent are women. After successfully obtaining their qualifications they will be taken on to work for the Group. Another 428 employees also qualified as pursers following internal professional training.

Investment in vocational and professional training even in difficult economic times

“There’s no better way to learn.” With this slogan the Lufthansa School of Business provides professional training and dialogue for managers and employees throughout the entire Lufthansa Group. Last year showed again that investing in the development and training of our staff and managers pays off. Extensive training activities were therefore carried out again in 2011 despite the challenging times for the economy. The diverse courses on offer from the Lufthansa School of Business are used irrespectively of age differences.

In terms of management development the Lufthansa School of Business runs interdisciplinary networking and dialogue platforms as well as management programmes for all management levels, making a valuable contribution to management development, to collaboration within the Group and to the implementation of the Group strategy.

Our corporate university is currently working successfully with selected international business schools and other academic partners. In 2011 the Lufthansa School of Business won an award from the European Foundation for Management Development (EFMD) for Partnership in Design, Development & Delivery and its contribution to organisational development for its partnership with the Lancaster University Management School and McGill University as part of the International Masters Program in Practicing Management (IMPM), a five-module programme for managers lasting for several months.

In 2011 the Lufthansa School of Business also drove the optimisation of interdisciplinary training within the Group. To a great extent, therefore, an increase in the range of products available for the employees of the group airlines was also achieved. Altogether, the volume of internal training went up by 21 per cent to EUR 123m. At the same time, the number of training days rose by 10 per cent to 681,000.

The Lufthansa School of Business also devoted itself to furthering equal opportunities in 2011, with “Women” as a focus topic. As part of the theme for the year, “A Modern Working Environment”, the challenges this presents were analysed and steps for immediate execution were formulated on the basis of concrete examples proposed by course participants.

Further improvement in international employer attractiveness
Lufthansa again accentuated the international focus of its recruitment campaign last year. The Group was able to attract participants from different countries for around 30 per cent of the places on the ProTeam entry-level recruitment programme.

The “explorers” programme for networking and developing international collaboration between the different companies in the Group was run again in 2011 for over 150 talented young employees in the Group and at major affiliates.

In spite of its international outlook Lufthansa remains true to its roots as well, presenting the Lufthansa Award for Excellence in the German Language at three international universities. The winners for 2011 were students of Boston College and MIT in the USA, and participants of the Chinese-German College in Shanghai.

Lufthansa is one of the most popular employers in Germany
Lufthansa was again honoured with the accolade of being one of Germany’s favourite employers in 2011. For the fifth year in a row the Company earned a top place in the Business category among the German companies ranked by the Universum Student Survey 2011.

Universum Student Survey 2010
(published in “Wirtschaftswoche”)

Degree course	**Ranking 2011**	Ranking 2010
Business studies	3th place	2nd place
Engineering	7th place	7th place
IT	16th place	14th place

Over 155,000 applications for more than 6,000 vacancies in the Group bear witness to this popularity and are a tribute to the success and brand recognition of the Group recruitment portal i www.be-lufthansa.com, the central platform for personnel marketing and recruitment. Lufthansa makes active use of the site to manage its online talent pool, which currently comprises approximately 5,000 profiles.

The Facebook page of i www.be-lufthansa.com has also developed into a very popular platform for exchanging information on careers and applications at the Lufthansa Group. With 20,000 fans it is one of the busiest Facebook career pages in the German-speaking network. Lufthansa particularly uses this channel to approach talented young people and attract them to a career within the Group.

New ideas generate efficiency gains and cost reductions
Innovation and imagination are the keywords behind our Group initiative “Impulse”. Committed staff members again made vital contributions to optimising products and processes in 2011 as part of the suggestion management scheme. Our employees’ fertile imaginations produced 3,142 suggestions for improvements with the potential for saving around EUR 8m.

This does not include the implementation of those ideas which had a highly positive effect on customer satisfaction, quality, environmental protection, sustainability or health and safety but which could not be quantified directly in monetary terms.

One particular example is the process development idea submitted at Lufthansa Technik to the Impulse programme. This procedure enables innovative, rapid and safe engine maintenance directly on the wing, helping to prevent flight cancellations especially in international traffic. This provides cost cutting and increases customer satisfaction at the same time.

The Group’s appreciation of good ideas was underlined by the Lufthansa Innovation Prize, which in 2011 was awarded to employees from the Group in the categories “Commitment”, “Collaboration” and “Innovation”. The first two categories are intended to highlight the dedication and the teamwork of those involved in a process, from the moment the idea is born through to its concrete implementation. This illustrates the aphorism that an idea needs two people – one to have it and one to foster it.

Corporate responsibility

↗ The principles of corporate responsibility are an essential part of our Company values. ↗ Lufthansa is represented in the main sustainability indices. ↗ Responsible business forms the basis for sustainable value creation. ↗ The modernisation of the fleet has reduced CO_2 emissions further. ↗ Test flights with biofuels were brought to a successful conclusion. ↗ Our commitment to civil and social causes extends around the world.

Lufthansa has long felt a duty to uphold the principles of corporate responsibility, which is why these form an established part of our Company values and leadership principles. In the reporting period we introduced further specifications to our sustainability framework and allocated all our initiatives to the five familiar focus areas. These are economic sustainability, responsibility for the climate and the environment, social responsibility, corporate governance and compliance, and corporate citizenship.

Coordination by the Corporate Responsibility Council

At Lufthansa the Corporate Responsibility Council is the senior decision-making body in terms of corporate responsibility. It is chaired by the head of Group Strategy and is composed of the heads of the Group departments Policy, Environmental Concepts, Executive Personnel, Legal Affairs, Communications, Investor Relations and Group Controlling. The Corporate Sourcing department is also consulted on matters relating to purchasing, supply chains and supplier relationships. The Corporate Responsibility Council ensures that all the activities and initiatives relating to corporate responsibility in the Lufthansa Group are pursued effectively and sustainably. The council reports directly to the Executive Board.

Corporate responsibility and focus topics at Lufthansa

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

Lufthansa wins awards for responsible company management

In 2011 the Lufthansa Group's operations were again rated by external experts and agencies according to various criteria for corporate responsibility. Once again Lufthansa was present in several sustainability indices, including the FTSE4Good, ASPI (Advanced Sustainable Performance Indices) and ESI (Ethibel Sustainability Index). In the corporate rating by the oekom agency Lufthansa achieved what is known as "Prime Status" in 2011, a distinction reserved for particularly sustainable and responsible companies. For the Carbon Disclosure Project (CDP) a much better rating was obtained than in the year before. These rankings were accompanied by numerous prizes for responsible company management, including the "Condé Nast Traveller World Savers Award 2011" in the category "Doing it All" and the "Clean Tech Media Award 2011".

The criteria for the Dow Jones Sustainability Index (DJSI) were tightened again and Lufthansa did not manage to regain its position in it. The analysts saw potential for development above all in the area of operational eco-efficiency, which mainly focuses on emissions and the consumption of fuel, energy and water. The assessment improved greatly for the areas of economic efficiency and risk and crisis management, however.

Lufthansa management takes the results of the surveys and ratings very seriously and uses them to derive necessary actions to be taken by the Company.

Lufthansa is committed to the principles of the UN Global Compact and supports its activities. Since 2002 Lufthansa has complied with all recommendations of the German Corporate Governance Code and followed most of its facultative suggestions as well. The declaration of compliance was updated with minor exceptions at the Supervisory Board meeting held on 7 December 2011. Further information can be found in the "Corporate governance" chapter on p. 28.

Sustainable business is imperative in a competitive environment

The Executive Board is committed to sustainable value creation in the sense of value-based company management. This value-based management approach entails measuring the Company's performance by its cash value added (CVA). Further information on this subject can be found in "Value-based management and targets" on p. 34.

The bonuses for managers and Executive Board members are also based on CVA. This approach further ensures that the focus lies on sustainable initiatives; it reduces the risk of pursuing strategies that may achieve short-term results but not lasting success.

To promote sustainable development Lufthansa also regularly identifies the risks and opportunities that are relevant to the Company and makes these an important feature of Company management. This guarantees that the Company takes the appropriate steps to be prepared for both positive and negative influences. More on our management of risks and opportunities can be found in the "Risk and opportunities report" on p. 114.

We have a regular dialogue characterised by mutual respect with internal and external stakeholders. For a service company it is vitally important to be trusted. This applies equally to relations with investors, customers, suppliers and neighbours, but also to the way we treat each other within the Company. Alongside regular exchanges between employee representatives in Germany and abroad, a regular dialogue also takes place between Company management and local managers and staff, in what are known as "town meetings" for instance.

Procurement Leadership successfully implemented

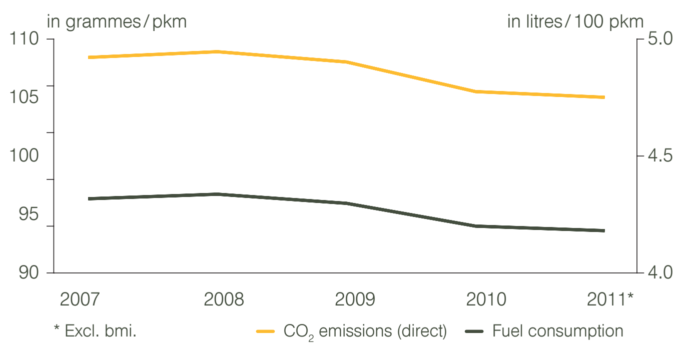
In the area of procurement we were able to bring the Procurement Leadership project to a successful conclusion in 2011. Its main aim was to generate a significant earnings contribution from purchasing activities by improving cooperation between the business segments and making the purchasing processes and systems more professional and standardised. A Group purchasing policy was adopted to ensure that uniform governance standards are applied throughout the Group. This also explicitly includes corporate responsibility as an area of focus for procurement. To secure the results in the area of procurement for the long term, a Corporate Sourcing department was set up as a permanent organisational unit under the Chief Financial Officer.

High priority for environmental protection

Lufthansa established the goal of assuming its responsibility for the climate and the environment a long time ago. The environmental strategy 2020 was finally adopted in 2008. It provides 15 principles to guide Lufthansa's continued development in terms of climate and environmental protection. The range of topics covered runs from emissions targets to the promotion of alternative fuels and optimisation of flight processes.

The Company is also committed to the continuous development of its environmental management. The Group's own environmental database is a vital source of key data. It tracks all the operating activities and processes in the Lufthansa Group that have an impact on the environment. This allows us to retrieve a variety of key performance indicators and thus to measure the success of our environmental endeavours over time. As well as the core emissions figures for aviation – these include noise as well as gases – the data for energy and kerosene consumption as well as refuse, water and waste water are also gathered. On this basis our environmental experts work permanently to improve climate and environmental protection in the Lufthansa Group. The medium-term goal is to introduce a certifiable environmental management system at all the larger Group companies.

CO_2 emissions and fuel consumption



* Excl. bmi.

We are still working hard to achieve our goal of reducing CO_2 emissions per passenger-kilometre (pkm) flown by 25 per cent compared with 2006 (110.5 g/pkm) by 2020. In 2011 the figure was 105.3 g/pkm – it therefore improved by 0.4 per cent year on year.

In 2011 the absolute volume of CO_2 emissions produced by the Lufthansa Group's transport operations was 28.4 million tonnes of CO_2. This is a year-on-year increase of 6.7 per cent. At the same time, fuel consumption measured in litres per 100 passenger-kilometres flown was also reduced. The previous year's figure of 4.20 l/100 pkm improved slightly by 0.4 per cent to 4.18 l/100 pkm. Additional, more detailed environmental performance indicators for the financial year 2011 can be found at i www.lufthansa.com/responsibility from the middle of the year.

It is in Lufthansa's own financial interest to reduce the level of fuel consumption. This enables fuel costs to be cut, which are one of the largest items in the Lufthansa Group's income statement. Lower fuel consumption also mitigates the adverse financial effects that result from the Europe-wide emissions trading scheme in place from 2012. More information on emissions trading and our standpoint can be found in the chapter "Regulatory and other factors" from p. 43.

Our website i www.lufthansa.com/responsibility provides an overview of our environmental strategy including the 15 environmental principles and shows the status of individual projects and activities. From the middle of the year you will also be able to view other more detailed indicators for the financial year 2011 there.

Continuous innovation by means of research and development

As a service company Lufthansa does not run its own research and development department in the narrow sense of the term. Research and development as a general topic nevertheless features prominently. A large number of research projects and partnerships generate new findings and advance the progress of innovative ideas in the spirit of sustainable development.

Lufthansa is actively involved in research into alternative fuels. In mid July 2011 a biofuel test was started with an Airbus A321 on the Frankfurt-Hamburg route as part of an aviation research programme sponsored by the German federal government. The test was brought to a successful close at the end of December. One of the plane's engines was fuelled with standard jet fuel, whereas the blend for the other engine contained 50 per cent conventional kerosene and 50 per cent HRJ biosynthetic fuel. HRJ consists of vegetable oil from the jatropha plant, camelina and other fats that are produced to exacting environmental standards. In the course of the test, which was entitled BurnFAIR, the effects of the alternative fuel on engines and emissions were tested on some 1,187 flights. Based on initial calculations, the test saved 1,471 tonnes of CO_2.

Also in July 2011, Lufthansa and the Jülich research centre started a programme of long-term observation of the Earth's atmosphere using scheduled aircraft. For this climate research initiative specially developed equipment on board a Lufthansa Airbus A340 measures atmospheric trace elements and in future also aerosols and cloud particles during the flight. After every flight the data is gathered digitally, processed and analysed. The overall goal is to develop a global measurement infrastructure around the Earth's atmosphere that will enable better observations of climate developments with the help of civil aviation.

The project is named IAGOS (In-service Aircraft for a Global Observing System). It was launched in 2011 after a development phase of several years and includes 15 European project partners. The use of measuring instruments in scheduled aircraft makes it possible to gather large quantities of data, which could not be achieved by operating purely scientific flights. Climate research has a long heritage at Lufthansa: IAGOS is already the fourth climate project sponsored by the Group to date. For nearly two decades Lufthansa has been the only airline in the world involved in climate research and air quality.

Starting in autumn 2011 and after extensive testing, the container fleet at Lufthansa and Lufthansa Cargo is being replaced successively by new containers made of light compound materials. In the period up to 2015, this will initially entail replacing the small containers that fit in the lower decks of passenger and freight aircraft. The new containers will enable weight savings of 15 per cent. This in turn is forecast to reduce annual kerosene consumption by around 2,180 tonnes and CO_2 emissions by around 6,800 tonnes. The lightweight containers meet all the relevant standards and also require fewer repairs than the conventional aluminium boxes.

The aircraft cabins are also to benefit from another climate-friendly alteration. Since summer 2011 new flight trolleys developed by LSG Sky Chefs have also been brought into service on the Lufthansa fleet. The previous service trolleys are gradually being replaced by the new lightweight version known as the Quantum Light Weight Trolley. Over the next three years almost 30,000 of the new aircraft trolleys will go into service. The new galley carts not only make working on board easier for flight attendants but are also a real bonus for the environment, as they are a third lighter than the predecessor model. This reduces kerosene consumption by around 9,000 tonnes a year and helps Lufthansa cut its CO_2 emissions by some 28,350 tonnes. The trolleys have been used on intercontinental flights so far, where they have proved to be very practical. During trial operations in 2010 the Quantum Light Weight Trolley was selected by a jury of international airline experts for the Crystal Cabin Award in the category Greener Cabin, Health and Safety.

The successful installation of hush kits on the complete Boeing B737 fleet in late 2011 also made an important contribution to the sustainable reduction of aircraft noise. The hush kits reduce take-off and landing noise significantly, delivering substantial abatement of up to 2.4 decibels. This should provide considerable noise relief for residents in airport catchment areas.

With these and other measures we are supporting the 4-pillar climate protection strategy for the air transport sector. The ambitious environmental targets for our industry can only be met by a combination of technical progress, infrastructure improvements, operational measures and economic instruments. Additional information on the 4-pillar strategy for air transport and further comments on our research and development activities can be found in Balance, our sustainability report, and on our website i www.lufthansa.com/responsibility.

Responsible dealings with staff

As a Group with global operations in the services sector, Lufthansa has a great responsibility to its staff. Motivated, satisfied and efficient employees are essential in our business. Enhancing and maintaining their professional knowledge is therefore a priority, as are other steps to increase Lufthansa's attractiveness as an employer. The strategies Lufthansa pursues to do so are described in detail in the chapter "Employees" from p. 104.

Securing corporate compliance

The management and supervisory culture at Lufthansa is largely determined by German legislation on stock corporations, codetermination and capital markets as well as by our Articles of Association and the German Corporate Governance Code as applied by the Company. Mandatory staff training on competition compliance and integrity compliance ensure that good corporate governance is a feature of everyday work for all employees as well.

Corporate citizenship is a serious business for Lufthansa

Alongside its responsibility as an employer Lufthansa is well aware of its role as a corporate citizen and has for many years been closely involved around the world in culture, the environment, social affairs, education and sport.

Commitment to culture, conservation, animal protection and biodiversity

In the cultural sphere Lufthansa concentrates on classical music. Since 1997 the Company has put on an annual New Year's Concert at the Konzerthaus on the Gendarmenmarkt in Berlin. We invite not only representatives from politics, business, culture and the media to this event, but also Lufthansa frequent flyers. Since 2010 Lufthansa has also been the First Global Partner of the Gürzenich Orchestra in Cologne. The Lufthansa Festival of Baroque Music held in London is another of the larger cultural events sponsored by Lufthansa. In addition to its involvement in classical concerts, Lufthansa was the official airline of the Eurovision Song Contest in 2011. The Company brought competitors and fans of this important European television event safely to the venue in Dusseldorf.

In the environmental arena Lufthansa is an active supporter of animal protection and nature conservation, for which we sponsor a number of projects. In terms of animal protection we are particularly dedicated to the crane, the symbol of our airline. Most of the world's crane species are endangered. As a member of the project group Crane Protection Germany, Lufthansa therefore provides financial, logistics and communications support for activities that protect cranes at an international level. Furthermore, Lufthansa provides resources that help the Global Nature Funds organisation to protect freshwater lakes and the sustainability foundation Nature-Life-International to conserve rain forests and biodiversity.

Social commitment is a voluntary undertaking

Probably the most prominent example of Lufthansa's social responsibility is the HelpAlliance e.V., which was set up in 1999 by staff from all over the Lufthansa Group. As a recognised charity, HelpAlliance runs projects to improve the living conditions of disadvantaged people around the world. These include schools, training centres, orphanages, projects for street children, business start-up help and bush hospitals in Africa, Asia, Europe and Latin America. As well as operating long-term projects, HelpAlliance is also on hand when emergency aid is called for. In 2011 the organisation appealed for donations for the victims of the tsunami and the nuclear disaster in Japan and to combat the famine in East Africa. Lufthansa has provided HelpAlliance with financial, logistics and communications support since it was founded.

In August 2011 the aid organisation Wings of Help arranged a joint aid flight to Kenya with Lufthansa Cargo and other partners. On board the Lufthansa Cargo freighter to Nairobi were around 90 tonnes of relief supplies, primarily food, medicine and tents, for those stricken by famine in East Africa. Another aid flight was carried out in September, again illustrating that Lufthansa Cargo remains true to its motto of helping quickly and without red tape at times of humanitarian crisis. Since 2004 the charity Cargo Human Care has provided straightforward and professional medical aid to those in distress by offering flight tickets to doctors and free transport capacities for deliveries of emergency aid.

As well as Lufthansa, all the other airlines in the group are involved in social projects too. SWISS supports the international aid organisation SOS Kinderdorf, which operates globally to help children in need. In addition, SWISS provides the independent SWISS children's trust with financial support, infrastructure and logistics. The trust gives SWISS employees the opportunity of doing voluntary work for SOS Kinderdorf villages.

Austrian Airlines sponsors the annual Life Ball in Vienna, Europe's largest charity event for the benefit of people with HIV/AIDS. Brussels Airlines is involved primarily with its b.foundation for Africa, where the company supports organisations and non-governmental organisations dedicated to providing humanitarian aid for crisis areas in Africa.

Education and sports sponsorship – an investment in the future

The importance we attach to the topic of education is not only visible in the vocational and professional training of our employees. Outside the Company, Lufthansa also contributes to many educational initiatives. Lufthansa Erlebnis Wissen combines an online platform with an educational DVD to give schoolchildren the opportunity to learn more about the Lufthansa Group and to discover the different kinds of jobs people do there at the same time. Lufthansa organises a regular Girls' and Boys' Day at its sites in Germany as well. Here the aim is to attract girls' attention to what are conventionally considered to be jobs for men and to attract boys to those considered to be typically carried out by women. In the technical areas of the aviation industry, girls are still under-represented for example. In addition to its in-house activities, Lufthansa has since 2008 supported the charitable initiative Teach First Deutschland, which campaigns for more equality of opportunity for school children on their way into the job market. Since 2002 Lufthansa has also sponsored the business@school initiative which aims to familiarise older pupils with the practical aspects of economics subjects. In the field of scientific education Lufthansa provides active support to students preparing their dissertations and also benefits from the light shed by their findings. Lufthansa also partners with the Joblinge programme, which gives participants, who mostly come from socially disadvantaged backgrounds, the chance to obtain an apprenticeship by completing work placements.

Finally, Lufthansa is also involved in sports sponsorship. Our involvement in sports represents a commitment to both competitive performance and the Company's social responsibility. The institutions and initiatives we sponsor include the partnership with the Deutsche Sporthilfe foundation, which has been extended by another four years, and the partnerships with the German Olympic Sports Confederation and the National Paralympic Committee Germany to support the German athletes at the Olympic Games and the Paralympics. Lufthansa's sports sponsorship also includes individual sponsorship of athletes from various disciplines. Furthermore, Lufthansa has been the official partner of the German Football Association since 2005, taking the men's national team and since 2011 also the women's national team to all their matches around the world.

Risk and opportunities report

↗ Opportunities and risks are managed actively. ↗ Management of opportunities and risks is an important part of planning and control processes. ↗ Relevant risks and countermeasures are summarised in a risk map. ↗ The Executive Board and Supervisory Board are informed by means of the regular opportunities and risk report. ↗ The continued existence of the Company is not in danger.

Opportunity and risk management system

As an international aviation company Lufthansa is exposed to macroeconomic, sector-specific and Company risks. Our management systems are constantly updated and enable us to identify both risks and opportunities at an early stage and act accordingly. Our proven risk strategy allows us to take advantage of business opportunities as long as a risk-adjusted return can be realised on market terms.

The calculated management of opportunities and risks is an integral factor in the management of our Company. Our risk management is therefore integrated into our business processes. The system enabling operational risks to be identified and managed at an early stage is composed of several modules. These modules are linked systematically with each other – with the exception of financial risk management, for which responsibility is organised centrally. This enables homogenous risks to be identified in their entirety and responsibly managed with the necessary economic competence. The functions of trading, settlement and financial controlling are strictly separated and are based in independent organisational units. The risk management system for financial instruments is part of central financial management. It is described in the section "Financial opportunities and risks" from p. 122 and in the Notes to the consolidated financial statements under "Note 47" from p. 195.

Our Risk Management Committee ensures on behalf of the Executive Board that business risks are permanently identified and evaluated across all functions and processes. The committee is made up of the eight directors of Corporate Controlling, Legal Affairs, Corporate Finance, Corporate Accounting, Corporate Audit (permanent member without voting rights), Corporate IT, Controlling Lufthansa Passenger Airlines and Delvag Group. It is responsible for continuously improving the effectiveness and efficiency of the risk management system.

An important instrument for doing so is the risk map: it lists all material risks which could endanger the Company's earnings and its continued existence. At the same time it identifies all the instruments for managing these risks. Risks count as material if they are capable of causing damage of at least one third of the operating result necessary for maintaining the value of the Company. For 2011 this amount was again determined to be EUR 300m for the Lufthansa Group. The materiality threshold is calculated individually for each of the business segments according to the same principle.

The risk map is updated regularly and its structure is aligned with the entire process of risk management, identification, coordination, communication and control. Lufthansa applies uniform risk management standards throughout the Group. The managing directors of all Group companies also appoint risk managers in all business segments. They are responsible for implementing the Group guidelines within their respective companies and are in close, regular contact with the Risk Management Committee. This also enables the rapid integration of new subsidiaries, as occurred with Austrian Airlines for instance.

Opportunity and risk controlling in the course of the planning and coordination processes is a further component of the system. This primarily identifies the potential risks and opportunities that could impact earnings targets in an analysis of the market and competition landscape, evaluates them and initiates steps to manage them.

As both positive and negative departures from plan are covered, this means that the same instruments are used to identify, evaluate, manage and control risks and opportunities.

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

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

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

Risk categories and individual risks

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

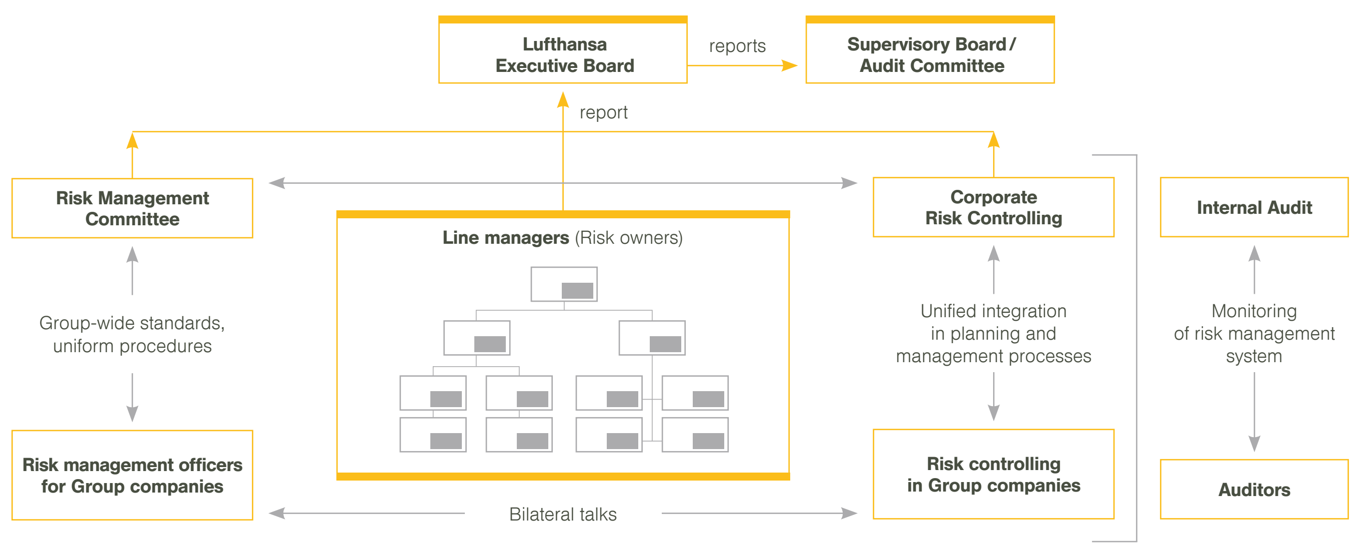
Macroeconomic opportunities and risks

In view of its worldwide operations, Lufthansa is heavily exposed both to global and regional macroeconomic developments. Of great significance is growth in gross domestic product (GDP) in the different economic regions of the world. This in turn determines growth in demand for air transport. For example, based on historical data GDP growth of 1 per cent is positively correlated with growth of around 1.5 per cent in passenger air traffic in mature markets and up to 2.5 per cent in the growth markets of Asia, Latin America and Eastern Europe.

The world economy experienced a rapid, robust recovery in 2010 but the pace of global economic growth slowed considerably in the first half of 2011. This was accompanied by sluggish expansion rates in world trade. Since mid 2011 the debt and bank crisis has worsened in Europe and the USA, triggering worldwide falls in business and consumer confidence.

Further details on past and forecast economic performance can be found in the chapters "Macroeconomic situation" from p. 40 and "Macroeconomic outlook" from p. 128.

Risk management at Lufthansa



The implementation of consolidation plans by over-indebted countries in the European Union also risks making the macroeconomic situation even more debilitating and depressing growth rates in Europe even further. At the same time, the risk of contagion affecting other economies in the global airline group cannot be ruled out. If these developments come to pass, there is a risk that demand for airline services will turn out to be lower than currently expected.

Given that demand from airlines would then sink, new orders in the other business segments would in this scenario also be expected to turn out lower than originally planned for 2012. Their different business models mean that the segments' results would be affected to a different extent and at different times, however.

Changes in global economic growth rates regularly lead to changes in parity between currencies and in interest rates. For the effects and the management of these risks we refer to the section "Financial opportunities and risks" from p. 122 of this report.

The diminishing pace of the economy in 2011 has not had any substantial effect on the price of aircraft fuel, which has remained at a comparatively high level. Lufthansa was again able to derive considerable financial benefits from its long-established hedging policy in 2011 compared with its unhedged competitors. At the same time, the principle of rolling three-year hedges means that the level of hedging income generated cannot be sustained in the long term. Further explanations of the principles and effects of fuel hedging can be found in the section "Financial opportunities and risks" from p. 122.

Sector-specific opportunities and risks

Market and competitive risks affecting capacity and load factors

Growth in international passenger air traffic continued in 2011, contrary to macroeconomic developments. Global passenger demand went up, despite the effects of the catastrophic earthquake in Japan, the political upheaval in the Arab world, higher oil prices and other negative factors. On the basis of passenger numbers, the industry is back at its pre-crisis level. Premium business with First and Business Class customers also picked up again, especially on long-haul routes. The rapid pace of demand growth is losing momentum, however. According to the IATA forecast, global passenger demand is to increase by 4.4 per cent in 2012. In view of the situation on financial markets and the potential consequences for the global real economy, the forecasts for trends in demand are nonetheless marked by considerable uncertainty. More details can be found in the chapters "Sector developments" from p. 42 and "Sector outlook" on p. 129.

As well as demand trends, it is the development of airlines' available capacities that have a decisive influence on the risk profile of the industry. The number of new aircraft ordered and the lower growth prospects mean that overcapacities are expected to persist in all markets. This could increase the pressure on average yields. Airlines' competitiveness under these conditions depends primarily on how flexible the company is and how fast it can react to changes in demand. For example, the airlines in the Passenger Airline Group have cut capacity growth for 2012 from 9 to 3 per cent.

In the current environment, keeping costs variable is a decisive competitive factor. Top of the list is the flexibility to adjust aircraft capacities to potential changes in demand, also medium-term ones. 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 partly been depreciated already, they can be grounded temporarily if necessary at short notice and without high residual cost.

All the business segments in the Lufthansa Group operate in highly competitive markets. The subsidies that can be observed in many quarters could possibly distort competition to the detriment of Lufthansa. Competitors also keep developing, influencing both European and international markets with new business models and cheaper cost structures for instance. The companies in the Lufthansa Group respond above all with customer-focused, high-quality products and services. This is discussed in detail in the comments on the individual "business segments" starting on p. 62.

The ability to make constant improvements to the cost structure is vital if we are to stay ahead of the competition. In the Lufthansa Group we achieve this by setting up and executing programmes to safeguard earnings as required and at the same time by constantly reducing the cost base of our everyday business and making it more flexible. All the companies are required to adapt their costs to the new competitive environment and the trend towards ever lower prices and to deliver positive earnings and value contributions in the short or medium term. As with all measures aimed at reducing risks, there is also a risk that the effect of these steps on earnings may be delayed.

International competition is increasingly developing into a competition between entire systems of airports, air traffic control organisations and airlines. This is because these players have a considerable effect on the efficiency of the whole value chain at a given location and thereby on the competitiveness of the airlines stationed there. The significance of the infrastructural environment extends not only to the necessary capacities but also to seamless processes and competitive cost and price structures. By bringing us together with our partners at airports, air traffic control organisations and public authorities, the Air Traffic for Germany initiative has created a common platform to secure and develop Germany's position as an air traffic location. The demand-driven extension of the runway and terminal system at Frankfurt Airport is a key condition for maintaining its position as a leading air traffic hub. This applies all the more in view of the megahubs being built elsewhere in the world, which aim to attract global traffic flows by means of low-cost structures. For Lufthansa on the other hand, the expansion of the domestic hub offers the opportunity of implementing extensive product and process improvements, thereby increasing its own competitiveness.

Bottlenecks in the fragmented European air traffic control system continue to be 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 earnings of all European airlines and on the environment, as well as jeopardising growth in air traffic. Lufthansa and its competitors are therefore continuing their demands for the European Commission and national governments to create an effective European air traffic control system in the immediate future. For the progress made in this respect see also p. 44.

Open skies agreements, like the one between the USA and the EU, create both opportunities and risks for Lufthansa. Unrestricted access to each other's airspace for airlines from the EU and the USA will add considerably to competition in transatlantic traffic and lead to pressure on prices. At the same time, it will give rise to new potential in neighbouring markets, which Lufthansa intends to watch closely and use to the best advantage. The joint venture Atlantic++ between Lufthansa's airline group companies, 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. Additionally, 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 this competitive environment alliances and more in-depth forms of global cooperation play an increasingly important role. Star Alliance remains the leading association of its kind, with the broadest scope worldwide. Lufthansa adds to this scope in particular by developing and joining specific regional cooperation groups. Based on experience gained in the North Atlantic, a new programme of cooperation known as Japan+ was also arranged with All Nippon Airways and is due to start in April 2012. Further information on the development of the Star Alliance can be found in the chapter "Passenger Airline Group" starting from p. 62.

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

Legal risks and contingencies

Laws and changes to national and international regulations can also have a decisive effect on Lufthansa's future profitability. Air traffic rights, safety regulations and compliance requirements are just as important as regulations and foreign and domestic rulings on taxes, capital markets and competition law. The latest legal changes which could affect the course of Lufthansa's business are described in the chapter "Regulatory and other significant factors" from p. 43. Lufthansa also runs a compliance programme, which is described in the chapter "Corporate governance" on p. 30.

Political, geopolitical and regulatory risks

Geopolitical events such as wars, terrorist attacks or environmental catastrophes continue to have a considerable influence on the airline industry. But political decisions – especially at national and European level – can also have wide-reaching effects. This is particularly true when these affect competition, as with subsidies or one-sided burdens for certain market participants.

The national air traffic tax introduced in Germany as of 1 January 2011 is just such an intervention in the field of fiscal and environmental policy. The tax is levied on flights leaving Germany and depends on the distance flown. International transfers and cargo flights are exempt from the tax. Although some effort has been made in this way to accommodate Germany's fragile air transport structures at least, German air traffic and the export and tourism sector will be affected by the decision. Altogether the federal government expects the tax to generate revenue of EUR 1bn a year.

Similar national taxes exist in the UK, France, Ireland and Austria. The international consensus that air traffic internalises its external costs by means of infrastructure fees is therefore losing further ground.

Something similar is happening with the EU emission trading scheme that is planned from 1 January 2012 and which represents a regional regulatory approach to a worldwide problem in a global industry. Even if it included all airlines flying to the European Union, it would still impact European competitors much more severely than non-European companies. Moreover, at present many non-European countries are refusing to take part in the scheme. More information on the subject can be found from p. 43.

There are further risks in connection with environmental matters. The night-flight ban imposed on Frankfurt Airport at short notice, for example, results in substantial additional costs and restricts growth prospects at Europe's highest-volume cargo hub. For available capacities to be used economically and in line with demand, a practicable arrangement for night-flights at Frankfurt Airport is indispensable. See p. 44–45 for the current status.

In addition to the environmental rules and regulations mentioned, it will be necessary to deal with increasingly robust consumer protection regulation in the years ahead. As a full-service carrier, most of the standards under debate are already a matter of course for Lufthansa, however. One particularly critical point is if European regulation does not lean towards internationally accepted norms, for example in the area of denied boarding compensation, and this exerts one-sided discrimination against the European industry in global competition.

Environmental risks can also materialise suddenly and without warning. One such case was the renewed closure of broad swathes of European airspace in 2011 owing to the possible spread of volcanic ash. Particularly in the previous year, this revealed severe difficulties in the administrative handling of the situation and also showed that cooperation between governments and communication with stakeholders and key players does not function smoothly. In order to cope better with similar scenarios in future, a crisis coordination point has been created at European level, the ICAO Volcanic Ash Contingency Plan for Europe updated and better coordination processes initiated among the EU member states. The ICAO Volcanic Ash Task Force is busy refining global standards for the applicable procedures and defining limits.

Together with other airlines, Lufthansa is striving to be given more decision-making authority. Comprehensive information about atmospheric conditions would enable independent, decentralised decisions on whether flight operations should be maintained or suspended in borderline cases.

Company-specific opportunities and risks

The recent economic crisis has accelerated the pace of structural market shifts. Travel and booking patterns have undergone lasting changes, particularly in European traffic. It cannot be assumed that average yields here can be lifted back up to any considerable extent in the short term. Lufthansa's response has been a structural adjustment to its formation in European traffic and a reduction in unit costs, see the chapter "Passenger Airline Group" from p. 62. The productivity gains have led to an increase in capacity at stable average yields.

The success of a network carrier with global operations depends largely on its worldwide, closely meshed route network. Together with our Star Alliance partners and the airlines in the Lufthansa group, we give our customers access to the largest flight network in the world. Systematic network and alliance management enable risks to be identified at an early stage and opportunities used effectively. 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 still have good development prospects in both regions. In Latin America our formation has been improved substantially with the accession of TAM to the Star Alliance and the planned membership of Avianca-TACA and Copa. After the merger between TAM and oneworld member LAN Airlines a decision will need to be taken on which alliance the new company should belong to. Extended cooperation in the growth region Latin America would mean enormous growth potential for Lufthansa.

Lufthansa has played an active role in the consolidation of the industry. The expansion of the Passenger Airline Group adds to the weight of the airlines in Lufthansa's portfolio. It also means that risks specific to the airline business, such as pressure on average yields and oil price movements, become more important for the Group.

Lufthansa continues to invest in renewal and growth. The Group's order list at year-end alone included 168 aircraft to renew and expand the fleet. A wide range of investment decisions need to be taken today so that market opportunities can be exploited tomorrow. Risks arise from the generally volatile environment of the sector. Despite this, global market opportunities are to be expected based on the sector's forecast growth path. Strategic opportunities are available to us thanks to our alliance partners with their sites in the various regions of the world and to enhanced cooperation both in transatlantic traffic (Atlantic++ joint venture) and in Japanese traffic (Japan+). Risks can ensue from shifts between different alliances or in the broader operating environment.

We are pursuing further the customer-focused, multi-market, multi-hub and multi-brand strategy. It promotes local entrepreneurship and combines the typical strengths of a large company with the advantages of largely autonomous units focused on their local regions and marketplaces. The successful execution of the airline group strategy depends to a considerable extent on whether the potential synergies within the airline group can be realised. The opportunities for the group are to be seized by further extending the scope of cooperation. The Airline Development Board set up for the airline group, which includes the CEOs of the group airlines plus the Executive Board of Lufthansa, as well as the Group Development Board, on which the CEOs of the Group's other business segments are also represented, have proven their worth and provided a vital impetus for the further integration of the passenger airlines and the generation of more synergies in the entire Group.

Where expectations of sustainable financial success have not been met, the Group has ceased operations (Lufthansa Italia) or, as in the case of bmi, is attempting to find a lasting solution both for the company and for the Group by means of a disposal.

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. Thanks to their positions in their respective markets and their profitable growth, Lufthansa Cargo and the service companies make a vital contribution to the Group's success.

Staff

In 2011 the situation in human resources was characterised by the unusually swift changes in the macroeconomic environment and some previously unfamiliar short-term consequences of the crisis. The Group's workforce withstood this trial successfully – thanks not least to the performance and commitment of the staff. The speed and effectiveness of reaction are still risk factors, however, which we are working on by further extending arrangements to make staff rostering more flexible.

One increasing challenge for human resources is to make a greater distinction in the Group between the use of long and short-term management tools. The size and heterogeneity of the companies and the volatility of the business described above, which affects the Group's employees in different places and at different times, require staff numbers to be increased and reduced in parallel. At the moment for instance, staff capacity in the administrative areas particularly needs to be reduced further. Whereas Lufthansa Systems has completed the consolidation of the company and the related redundancies successfully and at an acceptable social cost, Austrian Airlines and Germanwings still have to make further efforts to become competitive. Redundancies are always only a last resort, but are nevertheless sometimes unavoidable. Our approach is defined by a clear preference for a social balance and an active internal placement policy within the Group. This also benefits our reputation in the labour market. It helps us to build up staff capacity again quickly in other areas of the Group. In the reporting year flight operations at Lufthansa Passenger Airlines grew again including a significant hiring requirement. Here the strategy pays off of working to professionalise human resources systems at times of low economic growth, in order to prepare them for the subsequent upturn. We make good use of our modern systems and methods in personnel marketing and staff development to meet our qualitative and quantitative human resources targets. The aim is to create the conditions today for being able to select new employees from among the best in the future, even in different demographic circumstances and different phases of the labour market.

Further classical human resources risks exist in the area of collective bargaining and codetermination. They are concentrated in the sphere of wage settlements and retirement benefits. The risks inherent in the negotiations that need to be held in the different companies are all the greater for the broad differences in the companies' competitive environments. In a traditionally intensive dialogue with trade unions and works councils we try to ensure predictability and security as well as an appropriate share of economic gains for the Group and its employees by means of long-term agreements with company-specific and performance-related components. Collective bargaining disputes, potentially including strikes, are systemic, however, and again cannot be ruled out for 2012. In addition to the damage it does to Lufthansa's image as a dependable service provider, strike action also entails the risk of considerable revenue losses and additional costs. This risk is also run if Lufthansa is affected indirectly by strikes in other areas of the value chain.

The Air Transport Employers' Federation, introduced in 2010 to carry out collective bargaining for several segments within the Group, has worked well. It reflects the new demands of collective bargaining in the Group and also creates a lobbying platform for the airline industry, in legislative matters for instance and by giving added weight to representation in overarching employers' associations.

The rulings of the Federal Labour Tribunal have departed from the principle of uniform collective bargaining, creating legal uncertainty and opening the door for collective bargaining partners to pursue special interests more vigorously. This jeopardises the principle of abidance by collective bargaining agreements, with corresponding effects on operations and the wider economy.

Employees' qualifications are a decisive competitive factor, as is staff development aimed at creating a high-performance management team. The scope of our risk management in this respect can be judged by investments in education and training amounting to EUR 190m in 2011 in addition to our sophisticated, sustainable staff development instruments.

Following the expansion of the Group investment portfolio we have been careful to maintain the identities and autonomy of the companies acquired and to use our cosmopolitan culture to preserve the specific commitment of the staff employed there. Wherever closer cooperation and integration of individual workforces makes sense, a structure of joint dialogue and decision making ensures that optimised solutions are reached. These do justice to both local and broader Group interests and obligations.

If risks should arise from epidemic hazards, professional medical services and detailed pandemic plans are at the ready, as in prior years.

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

Information technology

Business processes in all areas at Lufthansa are supported by appropriate IT systems. The use of IT is inseparable from risks to the availability and stability of business processes and the confidentiality of data. Our IT risk management process ensures that these risks are identified and evaluated and that the measures to reduce them are implemented as necessary. The IT systems are regularly assessed in terms of their security levels. The review is based on the criticality of the business processes as defined by those responsible for them. The assessment covers critical applications and joint infrastructures and takes a variety of potential threats into account, including system malfunctions, hacker attacks, and the theft and manipulation of data. The IT risk management process is organised on a cross-segment basis. The results are consolidated annually and discussed at Group level by the Risk Management Committee.

Any security vulnerabilities are addressed by organisational and technical measures. The Lufthansa Group's IT security policy is permanently adjusted to conform to the latest IT security standards. An IT security organisation has been established to implement the security regulations, consisting of a corporate information security officer for the Group and information security officers for the companies. They are responsible for implementing the IT security standards in the companies and for emphasising the necessity of IT security to all staff by means of specific awareness-raising and training courses. In this way 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.

In connection with IT risk management and IT security management, data protection should protect customers, shareholders, suppliers and staff of the Lufthansa Group from any infringement of their privacy due to incorrect handling of their personal data. On the one hand, the department Corporate Data Protection ensures that the Lufthansa Group complies with the provisions of the Federal Data Protection Act by informing staff of the relevant passages of the statute and carrying out data protection audits. On the other, the data protection experts advise the operating departments on the introduction of new systems and on designing or altering processes in order to optimise and coordinate data protection and economic concerns from an early stage.

Quality
Further rapid growth in passenger numbers and flight movements is expected for 2012. This represents a risk for the stability of flight handling, especially as an adequate infrastructure, such as the terminal extension at Frankfurt Airport, is not yet available. Lufthansa has taken measures to simplify and expedite ground processes, such as increasing process automation by means of check-in machines and self-boarding for instance. Here again, external influences cannot be ruled out, however. The recruitment bottleneck at German air traffic control is expected to persist in 2012 for example.

Communications
Like any large company, Lufthansa is also exposed to communications risks. For this reason, Corporate Communications and Capital Market Communications have for many years worked professionally to guarantee that the right information is given to the appropriate addressees in a timely manner. An Ad Hoc Committee, made up of the General Counsel and the heads of Investor Relations and Group Communications, also reviews all significant events to determine their relevance for ad hoc publication in accordance with the Securities Trading Act.

Accounting
Numerous national and European regulations and statutory provisions apply to the preparation of Lufthansa's financial statements, as for all publicly listed companies in Germany. Incorrect accounting can give rise to risks. The organisation of our bookkeeping methods ensures that in our accounting and the preparation of our financial statements the national and European regulations and statutory provisions are applied. Information on this subject can be found in the chapter "Corporate Governance" on p. 29 and in the Notes to the consolidated financial statements from p. 146.

German Accounting Law Modernisation Act (BilMoG) and Internal Control System (ICS)
The Group project with the name Implementing Governance following the German Accounting Law Modernisation Act (BilMoG) determined which Group companies and topics are to be included in financial reporting in terms of the documentation and assessment of their internal control systems. The relevance of the Group companies was decided on the basis of statutory requirements and qualifying criteria. They include the German companies that come within the scope of BilMoG as well as foreign companies that pass a certain materiality threshold. The risk-focused selection of topics takes place annually on the basis of qualitative and quantitative criteria for the items in the balance sheet and income statement. In the future, companies and topics will be selected by a central ICS unit.

Centralised target requirements (management controls) have been formulated for the companies' internal control systems for all identified topics. The existing management and monitoring instruments to cover the target requirements in the selected companies are documented and must be updated every year. The structure, functionality and therefore the effectiveness of the instruments is also assessed annually. This is carried out on a regular basis by the Internal Audit department or by means of self-assessment by the process owner.

This procedure of testing based on centrally defined target requirements serves to standardise the internal control system across the Group for accounting purposes. Each company reports regularly to its supervisory board on the effectiveness of its internal control system. Lufthansa's Audit Committee also looks regularly at the effectiveness of the internal control system for financial reporting at the overarching level.

Tax risks
Tax risks include the risks of a tax inspection. These mainly relate to impairment losses recognised before 2008 on shareholder loans to various domestic and foreign Group companies. Further risk-carrying topics for discussion with the tax authorities are individual leasing structures, the treatment of income from special investment funds and various provisions.

Adequate provisions have been recognised in the interim financial statements for these risks. Adding foreign airlines to the Lufthansa Group has meant that cross-border services are rendered within the Group, which in turn entails fiscal uncertainty about setting transfer prices and the place of taxation in light of the static interpretation of Art. 8 OECD Model Tax Convention (principle of home state taxation for airlines).

Operational risks
Like all airlines, Lufthansa is exposed to potential flight and technical operating risks. One of these is the risk of not being able to carry out regular flight operations for technical or external reasons. If flights do not take off or land on time, due to weather conditions for instance, this may have a negative influence on customer satisfaction and future purchase decisions. Airlines' liability for delays has also been broadened considerably, see "Regulatory and other factors" on p. 43.

Another flight and technical risk is the risk of an accident happening, with the possibility of damage to people and property. Dangers affecting accident risk are divided into four groups: environmental factors (for example weather, bird strike), technical factors (for example engine failure), organisational factors (such as errors in selecting staff, contradictory instructions), and especially important, the human factor. Lufthansa searches for these dangers systematically in order to manage the resulting risk by means of suitable countermeasures and to increase the level of flight safety further. For example, every single Lufthansa flight is routinely analysed using the parameters recorded in the flight recorder (black box) in order to identify any peculiarities at an early stage. Other sources of information, e.g. accidents and hazardous situations which come to light around the world are also analysed and the results integrated into prevention measures, such as training courses, if relevant. Lufthansa's safety management system can thereby reduce operational risk, for instance by specific steps as part of pilot training or by technical modifications such as retrofitting new types of warning system. This enables the safety management system to be improved and refined continuously.

Financial opportunities and risks

As an international aviation company, the Lufthansa Group is faced with financial risks in the form of changes in fuel prices, interest rates and exchange rates. The principally conservative approach towards financial and commodity risks is reflected in systematic financial management. We use suitable management and monitoring systems to do this, with which we measure, control and monitor the risks. The functions of trading, settlement and controlling of financial risk are strictly separated at an organisational level. Lufthansa uses internal guidelines which are laid down by the Executive Board and permanently developed. The Group Financial Risk Controlling and Corporate Audit departments monitor compliance with these guidelines. Furthermore, the current hedging policies are also permanently discussed in management board meetings across the business areas. The Supervisory Board is regularly informed of the amounts at risk. Detailed information on currency, interest rate and fuel hedges can be found in the Notes to the consolidated financial statements, "Note 47" from p. 195.

Derivative financial instruments are used exclusively for hedging underlying transactions. The market value of the derivatives must therefore be seen in connection with the hedged items. Depending on the way it is put into practice, the planned regulation of OTC derivatives could create a significant liquidity risk for industrial companies and therefore also for the Lufthansa Group; see also "Regulatory and other factors" on p. 46.

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

The credit rating given to Lufthansa by the rating agencies has been stable since 2009. Lufthansa is rated by Standard & Poor's as investment grade and by Moody's as non-investment grade. If in future a rating agency were to downgrade the credit rating, in particular if Standard & Poor's were also to downgrade the credit rating to non-investment grade, this could lead to a distinct deterioration in funding terms and financial risk management and restrict access to new funding and hedging instruments. We are not currently anticipating a downgrade, however. On the contrary, Standard & Poor's confirmed its rating in late 2011. For the current assessment of the rating agencies see "Development of rating" on p. 61.

Currency risks

International ticket sales and the purchase of fuel, aircraft and spare parts give rise to foreign currency risks for the Lufthansa Group. All subsidiaries report their currency exposure to the Group over a timeframe of at least 24 months. At Group level, a net position is aggregated for each currency in order that "natural hedging" can be taken advantage of. Of the 80 currencies in the Lufthansa Group, 20 positions are hedged. The main currencies are the US dollar, the yen and sterling. Currencies highly correlated with the US dollar are also set off against operating USD exposure. Operating exposure and other information on hedging general currency positions and hedging currency risks from aircraft investments can be found in the Notes to the consolidated financial statements, "Note 47" from p. 195.

Liquidity, financing and interest rate risks

Securing sufficient liquidity at all times is a vital task for Lufthansa's financial management. The financial reporting system provides centralised information on the actual financial status and expected cash flows of all companies in the Lufthansa Group. This adds up to an up-to-date picture of the Group's liquidity at all times. To maintain its freedom of action, Lufthansa always holds strategic minimum liquidity available at short notice of EUR 2.3bn, as defined in its financial strategy. As of 31 December 2011 the Group held total liquidity of EUR 4.1bn. At year-end Lufthansa also had undrawn bilateral credit lines for a further EUR 2.1bn.

Lufthansa will continue to have a regular borrowing requirement in order to make the investments planned for the years ahead. Especially due to its financial strength and its position in the market, banks and investors still consider Lufthansa to be a preferred partner. We rely on a strong, sustainable profile to ensure that this remains the case. Our financial profile and the pillars of our financial strategy are presented in detail in the chapter "Financial strategy" on p. 39.

Interest rate risks arise from financing our business. As of 31 December 2011 total outstanding financing came to EUR 6.4bn. 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). As a rule, 85 per cent of financial liabilities are either at floating rates from the outset or are swapped into floating rates using derivatives. This also enables 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 cross currency swaps and interest rate swaps. Additional information can be found in the Notes to the consolidated financial statements, "Note 47" from p. 195.

Credit risks

The transactions completed in the course of financial management give rise to default risks. These are managed using a system of counterparty limits with which we constantly assess the risk of counterparty default. A maximum acceptable risk is determined for each counterparty. This is primarily derived from the rating given by recognised rating agencies. For oil companies without a rating the maximum credit limit is generally EUR 20m. The extent to which counterparty limits are taken up by existing financial market transactions is calculated and monitored daily. If limits are exceeded, a documented escalation procedure comes into play, requiring decisions to be taken on the action needed.

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

Counterparty risks in connection with credit card companies are also monitored closely and incoming payments reviewed daily. Furthermore, payment targets with some credit card companies have been significantly reduced to lessen default risk. Additional information and the credit risk positions existing at year-end 2011 can be found in the Notes to the consolidated financial statements, "Note 44" on p. 194.

Market risk from capital investments

Capital investments at Lufthansa are managed as part of the operating and strategic liquidity. Investments are also made by the Lufthansa Pension Trust and other pension funds in the Group. The risks mainly consist of potential price changes for shares, fixed-income securities and interest rates, as well as credit risks.

Capital investments to ensure Lufthansa's operating liquidity are made in accordance with the Group's financial guidelines. The duration of the investments is limited to twelve months, whereby at least EUR 300m must be in investments that can be liquidated on a daily basis. For its operating liquidity Lufthansa mainly uses money market funds which can be liquidated daily, overnight deposits, fixed-term deposits and short-term securities, especially commercial papers, from creditworthy issuers. Investments must be with counterparties which have a rating of at least "BBB". Only 30 per cent of investments for operating liquidity may be invested with counterparties with less than an "A" rating. Investment in money market funds may not exceed 10 per cent of the fund's total assets.

We have determined the investment structure of the strategic minimum liquidity for the Lufthansa Group using a stochastic allocation study. It was based on the liquidity requirements and our conservative investment principles. The majority of these investments are in money market-related products. The strategic minimum liquidity is divided into various components with different investment horizons. They are managed by several external asset managers with separate mandates. One of the requirements is that the investments must be able to be liquidated within a maximum of four weeks. Each manager follows his or her own investment guidelines derived from the general Lufthansa investment principles. The asset allocation is reviewed regularly and adjusted as necessary. The experience from the financial crisis in particular has led to an even greater focus on liquidity and counterparty risks. Risk management with a defined stop-loss has also been implemented across all asset classes.

Lufthansa is in permanent contact with the asset managers concerned and monitors their performance by means of daily and monthly performance and risk reports.

Investments by Lufthansa pension funds are made on the basis of regularly updated allocation studies. Specific investment guidelines for the individual asset managers follow the Group's conservative investment principles. 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 for the Lufthansa Pension Trust, which enables daily controlling on the basis of a strict risk budget.

Scheduled contributions to the pension fund were continued in 2011, see on p. 61.

Fuel price risks

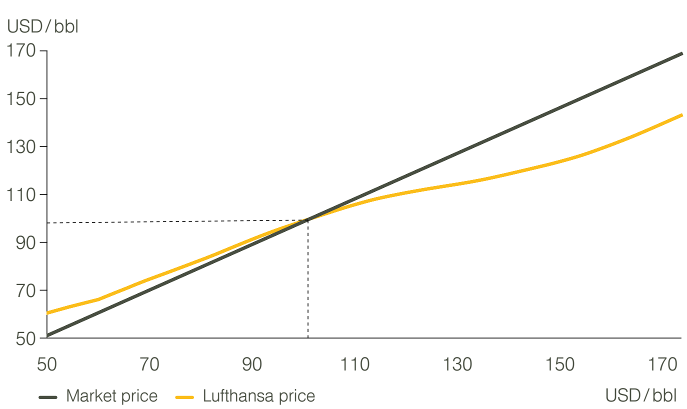
In the reporting year the Lufthansa Group consumed around 9 million tonnes of kerosene. It is a major item of expense, making up over 20 per cent of operating expenses for the Lufthansa Group. Severe fluctuations in fuel prices can therefore have a considerable effect on the operating result. A change in the fuel price of +10 per cent (–10 per cent) in 2012 would increase (reduce) fuel costs for the Lufthansa Group by EUR +372m (EUR –460m) after hedging.

Lufthansa therefore hedges fuel prices with a time horizon of up to 24 months. This is aimed at reducing fluctuations in fuel prices. Limited protection against higher prices is accepted in exchange for maximising the benefits derived from any fall in prices.

The hedging level and the time horizon depend on the risk profile, which is derived from the business model of the Group company concerned. The hedging policy and structure shown in the graph are applied to Lufthansa Passenger Airlines, SWISS and the scheduled operations of Austrian Airlines.

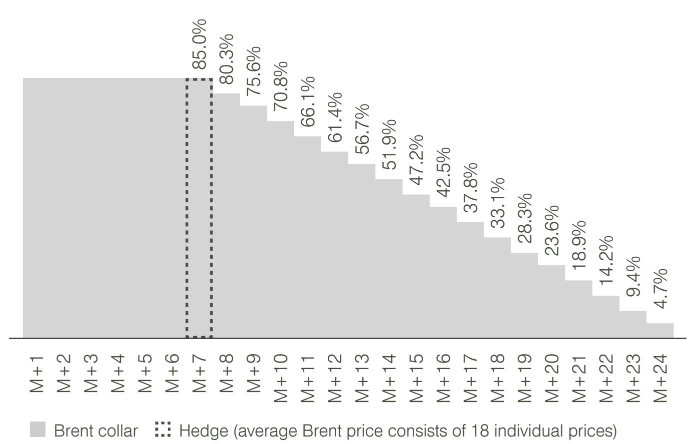
We use standard market instruments for fuel hedging and hedge fuel price risks with a lead time of up to 24 months, mostly by means of combined options. Hedges are mainly in crude oil for reasons of market liquidity. The hedging transactions are therefore based on fixed rules and map the average of crude oil prices over time. Depending on the company in the Group, the amounts hedged each month result in a hedging level of up to 85 per cent. For Lufthansa Passenger Airlines for instance, the six months following a given date are hedged to 85 per cent. At the beginning of February 2012 there were crude oil and kerosene hedges for 73 per cent of the forecast fuel requirement for 2012, in the form of futures and options. For 2013 around 29 per cent of the forecast fuel requirement was hedged at that time. The fuel surcharge has established itself in the market as a further means of reducing risk. The extent to which it will continue to be possible to levy a surcharge is nevertheless uncertain. If fuel prices were to drop by 20 per cent below their level at the start of February 2012, expenses for the Lufthansa Group would be reduced from the forecast EUR 7.4bn to around EUR 6.4bn. The earnings improvement that this would bring could be offset by lower fuel surcharges, however. As fuel is priced in US dollars, fluctuations in the euro/US dollar exchange rate can have a positive or a negative effect on fuel prices in euros. This is accounted for in the currency exposure.

Oil price scenario for the Lufthansa Group 2012*



* As of 1.2.2012.

Lufthansa's hedging policy Medium-term crude oil hedging



Overall statement on the risk situation of the Group

The opportunities and risks for the Lufthansa Group will be defined very largely by macroeconomic factors and their subsequent effects on global air traffic markets and competition. Past experience shows that developments in external parameters are subject to great uncertainty. We currently anticipate that the global economy will continue to perform well, albeit at lower growth rates. As a result of the financial and economic crisis a tangible forecast risk can be observed for assessments of future economic developments. In the future greater volatility is expected than has been previously observed. The assumed growth in global passenger and cargo demand is therefore subject to considerable opportunities and risks for Lufthansa. Fuel prices remained high throughout 2011 and were not much affected by the lower growth prospects. Kerosene costs were reduced in 2011 by strong hedging results. On the basis of current futures prices we are expecting the results of fuel hedging to be much lower in 2012. Additional expenses will come from the inclusion of European air traffic in emissions trading, which takes effect as of 2012. No decision has yet been taken on the possibility of offsetting the costs of purchasing the necessary certificates against the air traffic tax introduced in 2011. These risks are mirrored by the corresponding opportunities if the parameters of demand, average yields and fuel price develop better than expected.

In this environment Lufthansa is relying on its ability to adjust its capacities and resources flexibly to changing market conditions and to cut costs. In early 2012 the Executive Board presented SCORE, the new Group programme to safeguard earnings, which is intended to make lasting, structural improvements to profitability. More information can be found in the "Forecast" section on p. 131.

Despite the tense situation on financial markets and the deteriorating economic outlook, the Group expects to be able to maintain its investment grade rating. Counterparty risks are rising again, however.

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

Description of the internal control and risk management system in accordance with Section 289 Paragraph 5 and Section 315 Paragraph 2 No. 5 HGB

Principles of the accounting-related internal control and risk management system

The Lufthansa Group's internal control system covers all the principles, procedures and steps intended to ensure effective, economical and accurate accounting and compliance with the relevant legal regulations. It is based on the COSO model (Committee of the Sponsoring Organizations of the Treadway Commission). There have been no significant changes since the reporting date.

Overall responsibility for the internal control system required to manage risk lies with the Executive Board of Deutsche Lufthansa AG, which defines the scope and the format of the systems in place based on the specific requirements of the Lufthansa Group.

The internal monitoring system 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 Audit Committee of Deutsche Lufthansa AG monitors the effectiveness of the internal control and risk management system on the basis of Section 107 Paragraph 3 German Stock Corporation Act (AktG).

The auditors of the consolidated financial statements and other instances, such as tax audits, exercise a wider control function, independently of business processes, for the Lufthansa Group. In particular, the audit of the consolidated financial statements and the review of the accounts presented by the Group companies constitute the main independent monitoring steps in relation to consolidated accounting procedures.

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

The risk management system is a component of the internal control system and in terms of financial reporting is directed at the risk of misstatements in the consolidated accounting and in external reporting. The objective of the internal control system for accounting processes is by making checks to provide a reasonable degree of certainty that the consolidated financial statements conform to regulations, despite the risks identified.

Principle structures, processes and controls

The Lufthansa accounting guidelines govern uniform accounting standards for the domestic and foreign companies included in the Lufthansa consolidated financial statements in accordance with International Financial Reporting Standards (IFRS). In addition to general accounting principles and methods this relates above all to rules for the balance sheet, income statement, notes, cash flow statement and segment reporting in accordance with the legal situation in the EU. For the domestic German companies in the Group a guideline defines rules for drawing up individual financial statements in line with the German Commercial Code (HGB).

The elements of the internal control system are aimed at ensuring the accuracy and reliability of consolidated financial reporting and guarantee that business transactions are recognised in full and at the proper time in accordance with statutory regulations and Lufthansa's Articles of Association. Furthermore, they ensure that inventories are carried out correctly and that assets and liabilities are accurately recognised, measured and disclosed in the consolidated financial statements. The regulations also ensure that the accounting documents provide reliable, comprehensible information.

The controlling activities to ensure the accuracy and reliability of the accounting include analytical reviews using specific performance indicators as well as the execution and control of important and complex transactions by different people. The separation of administrative, executive, accounting and authorisation functions and their performance by different individuals (dual signatures) reduce the risk of fraud.

Internal guidelines also govern specific formal requirements made of the consolidated financial statements. Establishing the group of consolidated companies is defined in detail, as are the components of the reports to be drawn up by the Group companies and their transmission to the central consolidation system. The formal requirements relate to the mandatory use of a standardised and complete set of reporting forms and a uniform account framework for the Group. The internal guidelines also include concrete instructions on presenting and carrying out netting procedures within the Group and confirming the resulting account balances. Confirmation of account balances for the entire Group takes place via an internet-based platform.

At Group level the specific control activities to ensure the accuracy and reliability of consolidated financial reporting include the analysis and if necessary restatement of separate financial statements prepared by Group companies, taking into account the auditors' reports and meetings held to discuss them. The accuracy and completeness of the reporting packages presented by the individual companies in the Group are confirmed by the respective auditors in their report. Individual financial statements that contain errors are selected and restated as necessary at Group level on the basis of control mechanisms already defined in the consolidation software SAP SEM-BCS system and/or by systematic plausibility checks. The consolidation system dictates the different deadlines for various elements of the reporting packages and verifies centrally that they are adhered to during the preparation process. Changes to sections of the accounts that have already been closed can then only be made following authorisation in the system by the department responsible for the consolidated financial statements. The centralised controlling of impairment tests for the specific cash-generating units from the Group perspective ensures that uniform, standardised measurement criteria are applied.

The scope of regulations at Group level extends to the centralised definition of the parameters to be used for measuring pension provisions. Expert opinions for determining the amount of pension provisions are prepared by external consultants. Furthermore, the data used to prepare external information in the Notes to the financial statements and the management report are prepared and aggregated centrally. The accounting-based internal control system also aims to ensure that the financial statements for Deutsche Lufthansa AG are prepared in accordance with the provisions of commercial law laid down in the German Commercial Code (HGB).

The accounting-related processes are examined independently and regularly by the Corporate Audit department and by the internal auditing departments of the Group companies.

Use of IT systems

Book-keeping for the individual financial statements of subsidiaries of Deutsche Lufthansa AG generally takes place in local book-keeping systems from SAP, either locally or using the Group's own shared service centres. To prepare the consolidated financial statements for Deutsche Lufthansa AG the individual financial statements of the Group companies are supplemented by additional information to form standardised reporting packages, which are then entered into the consolidation software SAP SEM-BCS by the companies, either automatically via transfer interfaces or by means of a data capture module. The Group auditors put SAP SEM-BCS through a specific system test when it was introduced. Any adjustments made to the system are subject to regular reviews by the auditors.

The SAP SEM-BCS system generates and documents all the steps taken to prepare the consolidated financial statements for Deutsche Lufthansa AG, such as capital consolidation, consolidation of liabilities, the elimination of intra-Group expenses and profits, and the equity valuation. Consolidation takes place simultaneously.

The IT systems used for accounting are protected against unauthorised access by special security precautions.

Qualifying remarks

By means of the organisational, control and monitoring structures defined for the Lufthansa Group, the internal control and risk management system enables all matters affecting the Company to be captured, processed and evaluated and to be presented adequately in the Group's financial reporting.

The effectiveness and reliability of the control and risk management systems deployed can be restricted by the use of individual discretion, faulty checks, criminal acts by related persons and other factors, so that even the application of these systems throughout the Group cannot guarantee complete certainty regarding the accuracy, completeness and timeliness with which matters are recognised in consolidated financial reporting.

These statements only relate to Deutsche Lufthansa AG and the significant subsidiaries included in the consolidated financial statements of Deutsche Lufthansa AG that are under the legal or effective control of Deutsche Lufthansa AG.

Supplementary report

Lufthansa and ver.di sign new wage agreement

On 26 January 2012 the Air Transport Employers' Federation (ATEF) and the trade union ver.di agreed on a new wage settlement that is to run for 13 months. The agreement provides for a 3.5 per cent pay increase, backdated to 1 January 2012, for ground staff employed in Germany. On an annual basis this represents a pay increase of 3.2 per cent. Other benefits and allowances were also moderately increased. The trade union UFO rejected the agreement, thereby abandoning the collective bargaining partnership it had just formed with ver.di.

Specific provisions were made for the Catering and MRO segments. At LSG Sky Chefs the main focus is on securing sustainable competitiveness in Germany. The pay increase from this round of collective bargaining is to be used to safeguard jobs and to make a one-off payment of EUR 250 per full-time employee. In exchange, LSG Sky Chefs has confirmed that there will be no redundancies for the duration of the wage agreement. The agreement for the MRO segment outlined the arrangements for introducing and financing performance-related pay and for phasing out the transitional allowance.

Apron controllers' strike causes flight cancellations

In the course of the collective bargaining dispute between Fraport and the trade union Gewerkschaft der Flugsicherung (GdF), apron staff stopped work for several days from 16 February 2012. Lufthansa was indirectly affected by the strike action and suffered considerable disruptions to flight operations. Thanks to the efforts of Lufthansa and Fraport, most of the flights were able to take off, however.

Forecast

↗ The economy will remain unpredictable for the time being. ↗ Fuel prices continue to have a great effect on airlines' profitability. ↗ Lufthansa prepares itself for a volatile environment. ↗ An operating profit in the mid three-digit million euro range is expected for 2012. ↗ The new Group initiative SCORE is intended to deliver structural, sustainable improvements to the Group's profitability.

Macroeconomic outlook

GDP development
Forecast 2011 to 2015 compared with previous year

in %	2011*	2012*	2013*	2014*	2015*
World	3.0	2.7	3.7	4.2	4.2
Europe	1.9	–0.2	1.3	2.2	2.4
Germany	3.0	0.2	1.2	1.8	1.6
North America	1.8	2.0	2.4	3.4	3.3
South America	3.9	3.2	4.5	4.9	4.3
Asia/Pacific	4.5	5.3	6.0	6.0	6.0
China	9.2	7.9	8.6	8.5	8.2
Middle East	5.4	4.2	4.5	4.9	4.5
Africa	1.5	4.5	5.8	5.8	5.1

Source: Global Insight World Overview as of 15.1.2012.
* Forecast.

Global economic growth remains modest

The outlook for the world economy has darkened against a backdrop of unsolved debt problems and their effects on the banking sector, considerable uncertainty among investors and consumers, and sluggish international demand. The global economic slowdown is expected to depress world trade further. For 2012 economic development in the industrialised countries is forecast to be weak, as steps to reduce government debt will have a severely restrictive effect on the economy. In many countries the high unemployment rate and negative wealth effects mean that consumer demand is unlikely to make good the shortfall.

The prospects for emerging markets are better, but lower demand from more developed countries and the restrictive economic policies being pursued in many places mean that they too are expecting growth rates to slow. Overall, the global economy is forecast to grow by 2.7 per cent in 2012, rising again the year after. This presupposes that over-indebted countries will continue to implement their consolidation plans and thereby manage to avoid international contagion and greater turmoil on financial markets, with the corresponding effects that this would have on the real economy.

The US economy is projected to grow only modestly in 2012. Although consumer demand will likely remain hesitant given persistently high unemployment and private households' high levels of debt, capital expenditure by companies is forecast to increase. Growth of around 2.0 per cent is predicted for 2012, with a higher rate expected in 2013.

In Japan the continued return to normality after the natural disasters and the economic effects of pent-up demand mean that the economy is forecast to expand by 2.9 per cent in 2012 and 2013. A significant decline in the economic growth rate is expected for the emerging markets in Asia, although it will remain high overall. Altogether, economic growth of 5.3 per cent is forecast for the Asia-Pacific region in 2012, trending higher the following year.

Given the national debt crises and the necessary structural adjustments the economy in the euro area is likely to remain more or less stagnant. There are considerable differences between the countries in the euro zone, however. Whereas steps to consolidate the budget in peripheral countries such as Greece, Portugal, Italy and Spain will prevent a recovery, countries with fewer structural problems are expected to lead the economic league tables, as their fiscal situation and labour market difficulties are less dire. Overall negative growth of –0.2 per cent is predicted for Europe in 2012, which is to become positive again in the subsequent years. As its economy is linked closely to those of its neighbours, Germany will probably not see a repeat of its previous high growth rates. Growth in 2012 should nevertheless outperform the European average at 0.2 per cent. Here too, gross domestic product should rise again more in 2013.

Interest and exchange rate development remain uncertain

The global economy is currently feeling the effects of slower growth in industrialised countries, and the euro crisis and is dependent on the decisions taken in the international political arena. Interest and exchange rates are therefore expected to remain volatile or become even more so in 2012.

Many factors affect the oil price

Given the darkening economic outlook, market participants are expecting oil prices to go down modestly in the medium term. Futures contracts for delivery in December 2012 were trading in early February 2012 at around USD 110/barrel and for December 2013 at around USD 105/barrel. Prices are also affected by geopolitical developments, however. The political crisis in the Middle East in February again caused the oil price to go up sharply.

Sector outlook

Continued growth in air traffic

In connection with global economic growth, IATA's forecast for 2012 is for growth of 4.4 per cent in total worldwide passenger numbers (previous year: 5.7 per cent) and of 5.2 per cent for international passenger traffic (previous year: 6.5 per cent). Average growth in international traffic is predicted to go up to 5.8 per cent p.a. by 2015, which would put it slightly above the long-term mean. Airlines are expecting to break the barrier of 3 billion passengers worldwide in 2013.

Developments in air transport markets will nonetheless continue to differ from region to region. According to IATA the fastest growth in international passenger traffic in the period 2011 to 2015 is expected in the Middle East, with an average annual rate of 7.9 per cent.

Substantial growth is also forecast for international passenger traffic in the regions Asia-Pacific and Africa. This strong expansion will make Asia in particular an important driver of passenger traffic in the years to come. Comparatively moderate growth rates are still projected for European and North American markets.

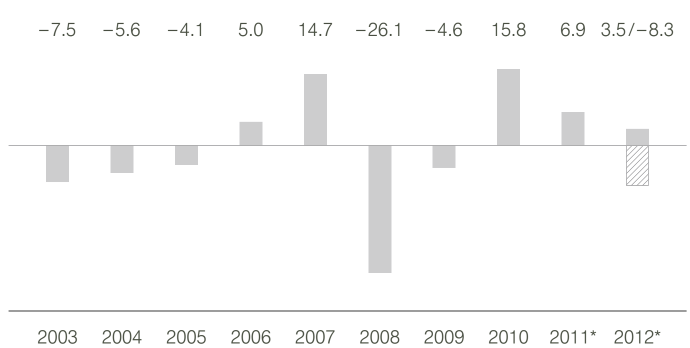
Airfreight traffic recovering

After slowing sharply to a rate of just 1.7 per cent in 2011, growth in airfreight traffic should pick up again smartly, driven by the emerging markets. IATA is forecasting freight growth of 4.5 per cent for 2012. On this forecast international airfreight demand will rise to an average of 4.7 per cent per year by 2015. In airfreight too, the fastest growth between 2011 and 2015 will be in the Middle East and South America, whereas forecast growth rates for other markets are more modest.

Profitability in the airline industry remains meagre

In view of the gloomier outlook for the world economy, IATA is expecting profits for the airline industry to fall to USD 3.5bn in 2012 after reaching USD 6.9bn in 2011. These earnings are to stem primarily from airlines in the Asia-Pacific region with profits of USD 2.1bn. Carriers from North and South America, the Middle East and Africa are set to see a slight decline in profitability compared with last year. IATA is forecasting a steeper fall for the European airlines in 2012, whose profits are expected to contract from USD 1.0bn to USD –0.6bn. If attempts to solve the sovereign debt crises should fail, IATA is predicting a recession for the euro area, which could result in losses of up to USD 8.3bn for the airline industry worldwide.

Development of sector net result in USD billion



Source: IATA Financial Forecast (12/2011). * Forecast.

Base case Recession scenario

Changes in business and organisation

In order to respond to the permanently changing environment for air transport, Lufthansa reviews its organisational structure regularly and adjusts it as necessary. The organisational structure of Lufthansa Passenger Airlines was therefore revised with effect from 1 April 2011 and aligned more closely with customers and the competition. The Lufthansa Italia brand also ceased to operate at the end of the summer flight timetable 2011. Furthermore, the airline portfolio has been adjusted to the Group's strategic orientation through the disposal of bmi. Another change to the organisational structure came from dovetailing Germanwings more closely with decentralised European traffic at Lufthansa Passenger Airlines. Details of the measures mentioned above can be found in the relevant chapters. To examine the need for structural adjustment is also a key element of the new Group initiative SCORE.

Outlook for the Lufthansa Group

We are preparing for the environment to remain unstable
The year 2011 showed how little reliance there can be on general assumptions made at the beginning of the year as regards the operating environment that will prevail during the course of the year and what a pronounced effect changes in these conditions can have on the earnings performance of the airline companies. At the beginning of the year we assumed that demand and earnings would start modestly and pick up over the course of the months. In actual fact, they were stronger than predicted in the first half-year, although the unforeseeable events in Asia and Middle East/ Africa had a negative impact too. In the second half of the year the escalating euro crisis depressed the whole economy and our earnings development.

Given such imponderables, only flexibility and sound foundations can keep the Company on track under all conditions in a low-margin industry like the airline sector. In 2011 Lufthansa again demonstrated its mastery of these principles. The final result is much better than that of many competitors, but it is also much worse than originally planned.

At present we must assume that the uncertainty affecting macroeconomic conditions will persist. The first few weeks of the current year have already confirmed this assumption.

The oil price is rising to new heights due to the escalating political crisis in the Middle East and the strike by apron controllers in Frankfurt is causing considerable disruption to flight operations. In 2012 Lufthansa and its operating segments will therefore continue to rely on proven experience in dealing with this incertitudes.

We are therefore confident that we will again be able to demonstrate our leading role in the industry in 2012. There are nevertheless considerable challenges to be overcome. Oil prices for one, which have a crucial impact on the Company's cost base. There are also internal challenges, however, such as the forthcoming collective bargaining, for instance. Demands for improvements in pay and conditions vie with the need for structural adjustments and efficiency gains. As always in such negotiations, the situation may escalate. Neither is the impact on Lufthansa limited to disputes in its own back yard, as was amply demonstrated by the apron controllers' strike in Frankfurt in early 2012. The necessary steps to increase efficiency will be pursued in all of the Lufthansa Group's business segments and supplemented by the new Group programme SCORE.

It is not possible to quantify the forecast for the operating result at present
From today's perspective we believe that it will be possible to increase Group revenue year on year in the financial year 2012. The fuel costs that inflate expenses will have to be recouped. To what extent this will be possible depends largely on the strength of market demand and the further direction of oil prices. At current price levels the hedging effect of the transactions we have already closed is very limited. Lufthansa would benefit strongly from a fall in prices, however. A price increase would cause additional expenses, but Lufthansa would also realise increasing hedging profits and therefore cost advantages compared with unhedged competitors.

All in all, it is currently expected that the 2012 operating result for the Lufthansa Group will be in the mid-three digit million euro range. If the operating environment evolves very favourably in terms of revenue and costs, it may also be possible to beat last year's result. On the basis of today's parameters this seems very ambitious, however. Should the key variables evolve unfavourably, the comparatively high earnings stability of our service companies will form an important earnings cushion and downside buffer.

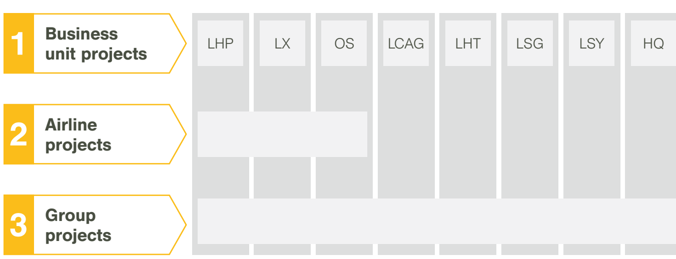
The acuity of forecasting for 2013 is even more limited in the current environment. On the assumption that the market will recover, we are currently forecasting a further increase in revenue and another operating profit.

Structural earnings improvements are needed – SCORE is going after them

Although it will only be possible to put a more precise figure on the result in the course of the year, it is already apparent that earnings – for 2012 at least – will make meeting our own targets for value creation an ambitious proposition.

In order to take part in the growth opportunities offered by our industry and to shape events proactively, we therefore have to make lasting structural improvements to our operating margin. To this end we launched the Group programme SCORE in early 2012. With the support of project owners in all the business segments, a central project team will develop and coordinate ideas for improving the Group's structural profitability. An additional focus of this programme, alongside contributions from all companies, is to make greater use of synergies by intensifying the collaboration between the airlines and the business segments.

Overarching cooperation as part of SCORE



Lufthansa Passenger Airlines (LHP), SWISS (LX), Austrian Airlines (OS), Lufthansa Cargo (LCAG), Lufthansa Technik (LHT), LSG Sky Chefs (LSG), Lufthansa Systems (LSY), Group functions (HQ)

SCORE aims to increase the Group's earnings sustainably by at least EUR 1.5bn. The programme is scheduled to run for three years, which means its full potential will be seen in the Group's result for 2015.

Improvement in net profit expected

The sale of bmi decided on at the end of 2011 will also bolster the Group's earnings performance. As it will additionally relieve the Group of heavy losses, we are assuming that net profit for the period and earnings per share will improve in 2012, which should also be mirrored in the result for the year in the Company's individual HGB financial statements. This is relevant for the conditions for paying out a dividend defined in our dividend policy.

Lufthansa preserves its solid foundations

Given expected gross capital expenditure of EUR 2.9bn, the generation of a free cash flow is not guaranteed in every scenario. In all events, the defined minimum liquidity of EUR 2.3bn will be maintained. Lufthansa's assets are likewise still sound and the majority of the fleet is owned and unencumbered. While the equity ratio will remain high, it will probably still be below the medium-term target of 30 per cent. The debt repayment ratio will probably also not reach its target of 60 per cent in 2012. However, we expect gearing to remain within the target range of 40 to 60 per cent.

Overall statement on the expected development of the Group

Ready for a safe journey

The Executive Board of Deutsche Lufthansa AG believes that the outlook for the Group remains positive overall. The combination of operating flexibility and solid financial profile allows the Company to develop its business actively and independently of the prevailing market environment. At the same time, the business segments are addressing the structural shifts in the industry, which result from high fuel prices or state subsidised competitors on long-haul routes. Against the background of these changed conditions, Lufthansa must create competitive structures in order to be able to retain its market position and defend itself against competitors, in particular low-cost carriers and airlines from the Middle East, for the long term. These challenges are being tackled vigorously as part of the SCORE programme. By taking difficult but necessary portfolio decisions in 2011 the Executive Board demonstrated that a sustainable financial perspective is a condition for a future in the Lufthansa Group, in addition to a good strategic fit. Furthermore, the Board attaches great importance to upholding a strong financial profile, as expressed in an investment grade rating.

With this orientation, the Lufthansa Group is setting its course for the future. Irrespective of the operating environment, which will remain subject to wide swings, Lufthansa is ready for a safe journey and is pursuing its course of sustainable, profitable growth.

Disclosures in accordance with Section 315 Paragraph 4 HGB

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

Voting and share transfer restrictions
For the Company to retain its aviation licence under European law and the air traffic rights required to fly to international destinations outside Europe, the proportion of foreign shareholders may not exceed 50 per cent of the Company's issued capital. If the proportion of foreign shareholders reaches 40 per cent, Deutsche Lufthansa AG is empowered under Section 4 Paragraph 1 German Aviation Compliance Documentation Act (LuftNaSiG) together with Section 71 Paragraph 1 No. 1 German Stock Corporation Act (AktG), to buy back its own shares to prevent imminent excessive foreign control. If the proportion of foreign shareholders in the share register reaches 45 per cent, the Company is authorised, subject to Supervisory Board approval, to increase issued capital by up to 10 per cent by issuing new shares for payment in cash without subscription rights for existing shareholders (Section 4 Paragraph 2 and 3 LuftNaSiG together with Section 4 Paragraph 4 of the Articles of Association). If the proportion of foreign shareholders approaches the 50 per cent threshold, the Company is entitled to withhold authorisation to register new foreign shareholders in the share register (Section 5 Paragraph 1 of the Articles of Association). Should the proportion of foreign investors exceed 50 per cent despite these precautions, Deutsche Lufthansa AG is authorised, subject to the approval of the Supervisory Board, to require the most recently registered shareholders to sell their shares. If they do not comply with this requirement within four weeks, the Company is entitled, after a further notice period of three weeks, to declare the shares to be forfeited and to compensate the shareholders accordingly (Section 5 LuftNaSiG).

On 31 December 2011 the proportion of foreign shareholders was 31.4 per cent. Detailed information on the German Aviation Compliance Documentation Act (LuftNaSiG) and the quarterly update on our shareholder structure can be found on our website
i www.lufthansa.com/investor-relations.

Employee performance programmes contain time-based restrictions on trading in shares, in particular lock-up periods of three and four years.

Direct or indirect shareholdings with more than 10 per cent of voting rights
As of 31 December 2011 Deutsche Lufthansa AG had received no notification of direct or indirect shareholdings with more than 10 per cent of voting rights.

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

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

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

Powers of the Executive Board (share buy-backs, share issuance)
Deutsche Lufthansa AG has authorised capital of EUR 586,160,092.

A resolution passed at the Annual General Meeting on 29 April 2010 authorised the Executive Board until 28 April 2015, subject to approval by the Supervisory Board, to increase the Company's issued capital on one or more occasions by up to EUR 561,160,092 by issuing new registered shares on one or more occasions for payment in cash or in kind (Authorised Capital A). As a matter of principle, existing shareholders are to be granted subscription rights.

A resolution passed by the Annual General Meeting on 24 April 2009 authorised the Executive Board until 23 April 2014, subject to approval by the Supervisory Board, to increase the Company's issued capital on one or more occasions by up to EUR 25m by issuing new registered shares to employees (Authorised Capital B) for payment in cash. Existing shareholders' subscription rights are excluded.

Contingent capital has been increased by up to EUR 234,464,035.80 by issuing up to 91,587,514 new registered shares. The contingent capital increase will only be carried out to the extent that the holders or creditors of conversion rights or options attached to convertible bonds and/or warrants or profit-sharing rights of any kind (or any combination of these instruments) issued by the Company or its affiliated companies for cash pursuant to the authorisation given at the Annual General Meeting for the period 3 May 2011 to 2 May 2016 exercise their conversion or option rights or that the holders or creditors of convertible bonds issued by the Company or its affiliated companies pursuant to the authorisation given at the Annual General Meeting for the period 3 May 2011 to 2 May 2016 (or of profit-sharing rights or other forms of mezzanine capital with obligatory conversion) meet their conversion obligations and to the extent that the debt is not settled using treasury shares or other rights. The new shares are entitled to share in profits from the beginning of the financial year in which they are issued by the exercise of conversion or option rights or by meeting a conversion obligation. The Executive Board is authorised to determine the further details of the way in which the contingent capital increase is to be carried out.

In addition, the Company is authorised by resolution of the Annual General Meeting on 29 April 2010 to buy back its own shares until 28 April 2015. The resolution can be used to expand the financing alternatives in the event that another company or an equity stake in a company is acquired. The proportion of shares acquired on the basis of this authorisation, along with any other Lufthansa shares that the Company has already acquired and still holds, must at no time amount to more than 10 per cent of issued capital.

Further information on authorised capital, contingent capital and share buy-backs is given in the Notes to the consolidated financial statements, "Note 34" from p. 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 50" from p. 205.

Notes to the individual financial statements for Deutsche Lufthansa AG (HGB)

↗ For the first time the management report for Deutsche Lufthansa AG has been combined with the Group management report. ↗ Deutsche Lufthansa AG reported an increase in revenue in 2011. ↗ Performance indicators were well below those for the previous year. ↗ The net loss for the year was EUR 116m. ↗ It was influenced hugely by the effect of the current losses and the disposal valuation for bmi. ↗ Cash flow from operating activities was also down on the year. ↗ Total assets were reduced again.

The financial statements for Deutsche Lufthansa AG have been prepared in accordance with the German Commercial Code (HGB) and the supplementary provisions of the German Stock Corporation Act (AktG) as well as the transitional provisions of the German Accounting Law Modernisation Act (BilMoG) that are still in force, and have been audited by PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Dusseldorf. They are published in the electronic Federal Gazette. The financial statements are permanently available on the internet from i www.lufthansa.com/investor-relations and a printed copy can be ordered from Deutsche Lufthansa AG.

In this annual report the management report for Deutsche Lufthansa AG has been combined with the Group management report for the Lufthansa Group. Deutsche Lufthansa AG and its results also include the Group headquarters with the central functions for Corporate Development, Finance and Controlling, Communications, Public Affairs, Human Resources, Legal and Compliance, Data Security, IT, Safety and Procurement. The economic environment for Deutsche Lufthansa AG is essentially the same as for the Group and is described in detail in the section "Economic environment and course of business" on p. 40.

Earnings position of Deutsche Lufthansa AG

65 million passengers transported

The number of passengers increased by 11.2 per cent in the financial year 2011 to 65 million. Capacities were expanded by a total of 11.9 per cent at the same time. As sales rose by slightly less (+8.8 per cent), the passenger load factor fell by 2.1 percentage points to 77.3 per cent.

Trends in traffic regions of Deutschen Lufthansa AG

	Traffic revenue in €m external revenue		Number of passengers in thousand		Available seat-kilometres in millions		Revenue seat-kilometres in millions		Passengers load factor in %	
	2011	Change in %	**2011**	Change in %	**2011**	Change in %	**2011**	Change in %	**2011**	Change in pts
Europe	6,337	16.5	50,472	12.9	55,189	15.5	38,528	14.0	69.8	−1.0
America	4,216	11.0	7,105	7.1	63,763	9.4	52,827	7.2	82.8	−1.7
Asia/Pacific	3,271	8.3	4,697	7.2	44,779	12.4	36,352	7.2	81.2	−3.9
Middle East/Africa	1,341	6.6	3,046	−0.4	18,624	8.6	13,159	5.0	70.7	−2.5
Total scheduled services	**15,165**	**12.2**	**65,320**	**11.1**	**182,355**	**11.9**	**140,866**	**8.8**	**77.2**	−2.2
Charter	14	43.4	107	143.4	219	46.8	172	70.4	78.6	10.9
Total	**15,179**	**12.2**	**65,427**	**11.2**	**182,547**	**11.9**	**141,038**	**8.8**	**77.3**	−2.1

Income statement for Deutsche Lufthansa AG in accordance with HGB

in €m	2011 in €m	2010 in €m
Traffic revenue	15,179	13,525
Other revenue	300	267
Total revenue	**15,479**	**13,792**
Other operating income	1,842	1,976
Cost of materials and services	– 11,100	– 9,459
Staff costs	– 2,669	– 2,571
Depreciation, amortisation and impairment	– 489	– 513
Other operating expenses	– 3,232	– 2,995
Result from operating activities	**– 169**	**230**
Result of other equity investments	901	889
Net interest	– 416	– 137
Impairment on investments and current securities	– 353	– 264
Financial result	**132**	**488**
Result from ordinary activities	**– 37**	**718**
Extraordinary result	– 35	– 37
Taxes	– 44	– 198
Net profit / loss for the year	**– 116**	**483**
Transfers from retained earnings	230	
Transfers to retained earnings		– 208
Distributable earnings	**114**	**275**

Average yields again higher than previous year

In 2011 average yields rose by 3.2 per cent compared with the previous year's figure. With sales up by 8.8 per cent the Company reported traffic revenue of EUR 15.2bn or 12.2 per cent more than in the previous year. Other revenue was also markedly higher than the previous year's at EUR 300m. Overall revenue totalled EUR 15.5bn, an increase of 12.2 per cent year on year.

Revenue and earnings development

While operating income overall rose by 9.8 per cent, operating expenses increased disproportionately by 12.6 per cent. That is why the result from operating activities shown in the income statement fell year on year by EUR 399m to EUR –169m (previous year: EUR 230m). After adjusting both financial years for various and highly varied extraordinary effects included in the result – mainly from additions to provisions for impending losses in connection with the upcoming sale of bmi, write-backs on financial investments, write-back of provisions, losses on disposal of assets and other special effects – earnings fell by just EUR 40m.

Total revenue went up by 12.2 per cent to EUR 15.5bn. The reason for the increase was higher traffic revenue, which rose by 12.2 per cent to EUR 15.2bn. Other operating income reported a decline to EUR 1.8bn (previous year: EUR 2.0bn). This stems from the smaller write-up on the carrying amount for LSG Lufthansa Service Holding AG, lower book gains from asset disposals and reduced currency gains from changes in exchange rates between origination and realisation and the rates applied at the reporting date. The effect is mitigated by higher leasing income and greater compensation for damages in particular.

Operating expenses totalled EUR 17.5bn and were 12.6 per cent up on the year. This was primarily due to the increase of EUR 1.6bn in the cost of materials and services.

The **cost of materials and services** reached EUR 11.1bn and now accounts for 63.4 per cent of total operating expenses (previous year: 60.9 per cent). The increase in the cost of materials and services by EUR 1.6bn stemmed mainly from fuel expenses, which went up by 26.1 per cent to EUR 4.1bn. Adjusted for the amortisation of fuel surcharges, fuel expenses rose by 25.7 per cent. Of the adjusted rise in costs, 8.0 per cent was due to higher volumes, while 24.5 per cent stemmed from higher fuel prices in US dollars (including the hedging result). On average over the year USD exchange rate movements reduced costs by a minimal amount. Without the positive hedging result of EUR 551m fuel costs would have been even higher.

Costs of services purchased also climbed steeply year on year (+12.3 per cent) to EUR 6.9bn. Fees and charges at EUR 3.1bn still constitute the largest expense item under services purchased. As both the number of passengers and prices were higher, air traffic control charges rose by 10.8 per cent, landing fees by 11.8 per cent and handling charges by 5.2 per cent. Passenger fees went up by 55.4 per cent to EUR 1.1bn, not least due to the introduction of the air traffic tax. Overall fees and charges went up by 21.1 per cent. Costs for purchased MRO services were roughly unchanged compared with the previous year at EUR 1.4bn. Charter expenses, largely payable to the regional partners as part of the Lufthansa Regional concept, rose just slightly year on year by 2.4 per cent to EUR 826m. By contrast, expenses for operating leases again went up sharply, by 44.7 per cent to EUR 462m. This was due to the aircraft financed by means of various sale-and-lease-back models in the financial year.

In financial year 2011 Lufthansa's **staff costs** totalled EUR 2.7bn, which was 3.8 per cent up on the year. With average annual staff numbers increased by 5.3 per cent (previous year: –0.3 per cent), wage and salary costs rose by 3.6 per cent. Social security contributions also increased by 1.1 per cent to EUR 279m. Expenses for retirement benefits went up by 7.5 per cent to EUR 333m.

Depreciation and amortisation sank by EUR 24m or 4.7 per cent to EUR 489m in the 2011 financial year. The decline was due to the 4 Cessnas sold during the financial year and the 22 Airbus A340-300s involved in sale-and-lease-back transactions.

Other operating expenses totalled EUR 3.2bn and were 7.9 per cent or EUR 237m up on the year. The main reason was the addition to the provision for impending losses for the upcoming disposal of bmi and currency-related losses on the transfer of USD advance payments for three Airbus A380s to Lufthansa Malta Aircraft Leasing Ltd. The increase was partly offset by lower currency losses from changes in exchange rates between origination and realisation and the rates applied at the reporting date as well as lower sales commissions.

The **financial result** of EUR 132m was well below the previous year's figure of EUR 488m. In 2011 it was made up of a positive result from equity investments of EUR 901m (previous year: EUR 889m), negative net interest of EUR 416m (previous year: EUR 137m) and other financial items of EUR –353m (previous year: EUR –264m).

Compared with the previous year the **result from equity investments** was virtually unchanged. The increase of EUR 12m is the net balance of income from equity investments with (EUR –240m) and without (EUR +252m) profit and loss transfer agreements. Income from equity investments without profit and loss transfer agreements went up because of higher dividends from Air Trust (EUR 309m) and the Lufthansa SICAV-FIS fund of funds (EUR 46m). The profit transferred by Eurowings GmbH fell sharply by contrast (EUR 2m). In addition, EUR 47m was transferred from the 13 Austrian leasing companies. Lower results than in the previous year from Lufthansa Cargo AG (EUR 233m), Lufthansa Technik AG (EUR 175m), LSG Lufthansa Service Holding AG (EUR –3m), Lufthansa Commercial Holding GmbH (EUR 46m) and Lufthansa CityLine GmbH (EUR –33m) had a negative effect on income from profit and loss transfer agreements. They were not made up for by the higher income from Lufthansa Systems AG (EUR 24m), Lufthansa Flight Training GmbH (EUR 27m) and Delvag Luftversicherungs-AG (EUR 19m).

In the financial year **net interest** came to EUR –416m (previous year: EUR –137m). Lower interest income resulted mainly from netting within the Group. Higher interest expenses stem from new borrowing and above all from accrued interest on provisions (EUR 321m) and the negative change in the market value (EUR –17m) of assets used to fund retirement benefit obligations.

Balance sheet for Deutsche Lufthansa AG in accordance with HGB

	31.12.2011 in €m	31.12.2010 in €m
Assets		
Intangible assets	157	140
Aircraft	4,573	4,338
Property, plant and other equipement	107	101
Financial investments	9,367	8,583
Non-current assets	**14,204**	**13,162**
Inventories	44	27
Trade receivables	537	502
Other receivables	1,754	1,576
Securities	1,199	2,717
Liquid funds	210	340
Current assets	**3,744**	**5,162**
Prepaid expenses	**66**	**42**
Total assets	**18,014**	**18,366**
Shareholders' equity and liabilities		
Issued capital	1,172	1,172
Capital reserve	857	857
Retained earnings	1,337	1,567
Distributable earnings	114	275
Shareholders' equity	**3,480**	**3,871**
Provisions	**6,684**	**6,358**
Bonds	2,107	2,106
Liabilities to banks	1,007	1,068
Payables to affiliated companies	1,713	1,895
Other liabilities	2,999	3,037
Liabilities	**7,826**	**8,106**
Deferred income	**24**	**31**
Total shareholders' equity and liabilities	**18,014**	**18,366**

Impairments on investments and current securities were EUR 89m higher than the previous year at EUR –353m. This is particularly due to write-downs on financial investments totalling EUR 353m (previous year: EUR 264m), including EUR 278m on the carrying amount for LHBD Holding Limited, EUR 60m on the carrying amount for Eurowings GmbH and EUR 13m on the carrying amount for the stake in SN Airholding SA/NV.

Extraordinary result

Deutsche Lufthansa AG has exercised its statutory option to recognise the obligation of EUR 462m arising from the revaluation of its pension obligations for retirement and transitional benefits as of 1 January 2010 in profit and loss over a period of 15 years. The ensuing expenses for 2011 of EUR 35m are included in the extraordinary result mentioned above. The extraordinary result, financial result and operating result combine to make up a pre-tax loss of EUR –72m (previous year: pre-tax profit of EUR 681m).

Positive distributable earnings after transfer of retained earnings

Deducting taxes of EUR 44m resulted in a net loss for the year of EUR 116m in 2011. After transferring EUR 230m from retained earnings, Deutsche Lufthansa AG reported distributable earnings of EUR 114m.

Asset and financial position of Deutsche Lufthansa AG

Sharp fall in cash flow from operating activities

Cash flow from operating activities came to EUR 474m and was therefore barely half the previous year's amount. In the reporting year Lufthansa invested EUR 1.2bn (previous year: EUR 1.3bn) in new aircraft and advance payments for new aircraft. Of the total, EUR 605m was for advance payments. To finance future payment obligations arising from staff pension entitlements, Lufthansa again invested cash totalling EUR 330m in the Lufthansa Pension Trust on a long-term basis for investment in various fixed income and share funds. Altogether, investments, income from asset disposals and sales of securities resulted in a cash inflow of EUR 451m. Financial liabilities fell by EUR 114m as a result. With cash flow from operating activities of EUR 474m and gross capital expenditure of EUR 2.8bn the internal financing ratio came to just 17.0 per cent (previous year: 39.9 per cent).

Further balance sheet reduction

Total assets declined by 1.9 per cent or EUR 352m to EUR 18.0bn. Non-current assets went up by EUR 1.0bn, whereas current assets including prepaid expenses dropped by EUR 1.4bn.

The increase of EUR 784m in financial investments is largely due to the increase in shares in affiliated companies, particularly following capital increases at Lufthansa Malta Holding Ltd. (EUR 283m), the Lufthansa SICAV-FIS fund of funds (EUR 397m) and LHBD Holding Limited (EUR 278m). In addition, three more Austrian leasing companies were established by contributions in kind in the form of aircraft (EUR 183m).

A write-up on the carrying amount for LSG Lufthansa Service Holding AG (EUR 103m) also increased the amount of shares in affiliated companies. The opposite effect resulted from write-downs on the carrying amounts for LHBD Holding Limited (EUR 278m), Eurowings GmbH (EUR 60m) and SN Airholding SA/NV (EUR 13m). The item loans included an increase in loans to affiliated companies (EUR 722m) as well as the disposal of loans to affiliated companies (EUR 604m).

Cash and securities fell by EUR 1.6bn to EUR 1.4bn, especially as a result of weaker business performance and higher capital expenditure than in the previous year. They were principally invested in money market funds (EUR 522m) and in other securities (EUR 677m).

As a result, the balance sheet structure showed a slight shift towards non-current assets, which now make up 78.9 per cent of total assets (previous year: 71.7 per cent). Shareholders' equity decreased by EUR 391m to EUR 3.5bn (previous year: EUR 3.9bn) due to the distribution of the distributable profit for 2010 and the net loss for the financial year 2011. The equity ratio sank as a result by 1.8 percentage points to 19.3 per cent. Non-current borrowing rose by EUR 121m.

The proportion of non-current funding in the balance sheet total sank a little accordingly by 0.4 percentage points and now amounts to 58.5 per cent (previous year: 58.9 per cent). Non-current assets are now 74.2 per cent (previous year: 82.1 per cent) covered by non-current funding.

Net indebtedness stood at EUR 1.8bn (previous year: EUR 539m). In the reporting year the present value of the outstanding off-balance-sheet finance lease payments no longer had any effect on net indebtedness (previous year: increase to EUR 563m).

Declaration on corporate governance in accordance with Section 289a HGB

The declaration on corporate governance required under Section 289a HBG has been issued and made publicly available on the Company's website at i investor-relations.lufthansa.com/en/corporate-governance/corporate-governance-declaration-section-289a-hgb.html.

Risk report

Business at Deutsche Lufthansa AG is subject to essentially the same risks and opportunities as business at the Passenger Airline Group segment as presented in the consolidated financial statements. Deutsche Lufthansa AG is exposed to the risks of its equity investments and subsidiaries in proportion to its respective equity stakes. For further information see "Passenger Airline Group business segment" on p. 62–75.

Supplementary report

The main events taking place after the reporting date are those described in the consolidated financial statements pertaining to the Passenger Airline Group segment.

Forecast

Future business performance at Deutsche Lufthansa AG is subject to essentially the same factors as the Passenger Airline Group segment, as presented in this combined management report on p. 71.

Further information on anticipated macroeconomic developments and the performance of the business segments, as well as the assumptions on which the Group forecast is based, can be found in the "Forecast" chapter on p. 128–131.

Consolidated financial statements

Consolidated income statement
for the financial year 2011

in €m	Notes	2011	2010
Traffic revenue	3	23,779	21,466
Other revenue	4	4,955	4,993
Total revenue		**28,734**	**26,459**
Changes in inventories and work performed by entity and capitalised	5	139	165
Other operating income	6	2,324	2,610
Cost of materials and services	7	–16,731	–14,700
Staff costs	8	–6,678	–6,491
Depreciation, amortisation and impairment	9	–1,722	–1,654
Other operating expenses	10	–5,293	–5,003
Profit / loss from operating activities		**773**	**1,386**
Result of equity investments accounted for using the equity method	11	–20	46
Result of other equity investments	11	91	57
Interest income	12	190	197
Interest expenses	12	–478	–543
Other financial items	13	–110	–9
Financial result		**–327**	**–252**
Profit / loss before income taxes		**446**	**1,134**
Income taxes	14	–157	161
Profit / loss from continuing operations		**289**	**1,295**
Profit / loss from discontinued operations	15	–285	–152
Profit/loss after income taxes		**4**	**1,143**
Profit / loss attributable to minority interests		–17	–12
Net profit / loss attributable to shareholders of Deutsche Lufthansa AG		**–13**	**1,131**
Basic/diluted earnings per share in €	16	**–0.03**	**2.47**
of which from continuing operations	16	0.59	2.80
of which from discontinued operations	16	–0.62	–0.33

Statement of comprehensive income
for the financial year 2011

in €m	2011	2010
Profit / loss after income taxes	**4**	**1,143**
Other comprehensive income		
Differences from currency translation	81	311
Subsequent measurement of available-for-sale financial assets	–164	485
Subsequent measurement of cash flow hedges	109	288
Other comprehensive income from investments accounted for using the equity method	2	–4
Other expenses and income recognised directly in equity	1	14
Income taxes on items in other comprehensive income	–35	–79
Other comprehensive income after income taxes	**–6**	**1,015**
Total comprehensive income	**–2**	**2,158**
Comprehensive income attributable to minority interests	–16	–16
Comprehensive income attributable to shareholders of Deutsche Lufthansa AG	**–18**	**2,142**

Consolidated balance sheet
as of 31 December 2011

Assets

in €m	Notes	31.12.2011	31.12.2010
Intangible assets with an indefinite useful life*	17	1,191	1,582
Other intangible assets	18	384	329
Aircraft and reserve engines	19 22	11,592	11,153
Repairable spare parts for aircraft		840	877
Property, plant and other equipment	20 22	2,118	2,120
Investment property	21	–	–
Investments accounted for using the equity method	23	394	385
Other equity investments	24 25	898	1,128
Non-current securities	24 25	134	250
Loans and receivables	24 26	616	620
Derivative financial instruments	24 27	343	350
Deferred charges and prepaid expenses	30	24	26
Effective income tax receivables	14	60	61
Deferred tax assets	14	33	82
Non-current assets		**18,627**	**18,963**
Inventories	28	620	662
Trade receivables and other receivables	24 29	3,437	3,401
Derivative financial instruments	24 27	414	484
Deferred charges and prepaid expenses	30	171	146
Effective income tax receivables		128	98
Securities	24 31	3,111	4,283
Cash and cash equivalents	24 32	887	1,097
Assets held for sale	33	686	186
Current assets		**9,454**	**10,357**
Total assets		**28,081**	**29,320**

* Including goodwill.

Shareholders' equity and liabilities

in €m	Notes	31.12.2011	31.12.2010
Issued capital	34 35	1,172	1,172
Capital reserve	36	1,366	1,366
Retained earnings	36	3,800	2,944
Other neutral reserves	36	1,624	1,629
Net profit/loss		–13	1,131
Equity attributable to shareholders of Deutsche Lufthansa AG		**7,949**	**8,242**
Minority interests		95	98
Shareholders' equity		**8,044**	**8,340**
Pension provisions	37	2,165	2,571
Other provisions	38	578	643
Borrowings	39 40	5,808	6,227
Other financial liabilities	41	128	110
Advance payments received, deferred income and other non-financial liabilities	42	1,156	1,087
Derivative financial instruments	27 39	55	111
Deferred tax liabilities	14	364	405
Non-current provisions and liabilities		**10,254**	**11,154**
Other provisions	38	818	881
Borrowings	39 40	616	957
Trade payables and other financial liabilities	39 43	4,227	4,193
Liabilities from unused flight documents		2,359	2,389
Advance payments received, deferred income and other non-financial liabilities	44	939	1,066
Derivative financial instruments	27 39	37	103
Effective income tax obligations		71	237
Liabilities related to assets held for sale	33	716	–
Current provisions and liabilities		**9,783**	**9,826**
Total shareholders' equity and liabilities		**28,081**	**29,320**

Consolidated statement of changes in shareholders' equity

as of 31 December 2011

in €m	Issued capital	Capital reserve	Fair value measurement of financial instruments	Currency differences	Revaluation reserve (due to business combinations)	Other neutral reserves	**Total other neutral reserves**	Retained earnings	Net profit/loss	**Equity attributable to shareholders of Deutsche Lufthansa AG**	Minority interests	**Total shareholders' equity**
As of 31.12.2009	**1,172**	**1,366**	**162**	**−70**	**193**	**333**	**618**	**2,972**	**−34**	**6,094**	**108**	**6,202**
Capital increases/reductions	–	–	–	–	–	–	–	–	–	–	–	–
Reclassifications	–	–	–	–	–	–	–	−34	34	–	–	–
Dividends to Lufthansa shareholders/minority interests	–	–	–	–	–	–	–	–	–	–	−18	−18
Transactions with minority interests	–	–	–	–	–	–	–	6	–	6	−8	−2
Consolidated net profit/loss attribt. to minority interests	–	–	–	–	–	–	–	–	1,131	1,131	12	1,143
Other expenses and income recognised directly in equity*	–	–	694	311	–	6	1,011	–	–	1,011	4	1,015
As of 31.12.2010	**1,172**	**1,366**	**856**	**241**	**193**	**339**	**1,629**	**2,944**	**1,131**	**8,242**	**98**	**8,340**
Capital increases/reductions	–	–	–	–	–	–	–	–	–	–	5	5
Reclassifications	–	–	–	–	–	–	–	856	−856	–	–	–
Dividends to Lufthansa shareholders/minority interests	–	–	–	–	–	–	–	–	−275	−275	−21	−296
Transactions with minority interests	–	–	–	–	–	–	–	–	–	–	−3	−3
Consolidated net profit/loss attribt. to minority interest	–	–	–	–	–	–	–	–	−13	−13	17	4
Other expenses and income recognised directly in equity*	–	–	−90	81	–	4	−5	–	–	−5	−1	−6
As of 31.12.2011	**1,172**	**1,366**	**766**	**322**	**193**	**343**	**1,624**	**3,800**	**−13**	**7,949**	**95**	**8,044**

* Please refer to Note 36, p. 184, for more information on other comprehensive income.

Consolidated cash flow statement for the financial year 2011

in €m	Notes	2011	2010 [4]
Cash and cash equivalents 1.1.		**1,097**	**1,136**
Net profit / loss before income taxes		446	1,134
Depreciation, amortisation and impairment losses on non-current assets (net of reversals)	9 13	1,755	1,637
Depreciation, amortisation and impairment losses on current assets (net of reversals)		25	22
Net proceeds on disposal of non-current assets	6	–25	–214
Result of equity investments	11	–71	–103
Net interest	12	288	346
Income tax payments / reimbursements		–265	–110
Measurement of financial derivatives through profit or loss		73	–7
Change in working capital [1]		291	440
Cash flow from continuing operations		**2,517**	**3,145**
Cash flow from discontinued operations		–161	–153
Cash flow from operating activities		**2,356**	**2,992**
Capital expenditure for property, plant and equipment and intangible assets	17 – 21	–2,445	–2,222
Capital expenditure for financial investments	25 26	–87	–38
Additions / Loss to repairable spare parts for aircraft		4	–76
Proceeds from disposal of non-consolidated equity investments		7	113
Proceeds from disposal of consolidated equity investments		–	–
Cash outflows for acquisitions of non-consolidated equity investments	23 – 25	–28	–11
Cash outflows for acquisitions of consolidated equity investments	1	–6	–2
Proceeds from disposal of intangible assets, property, plant and equipment and other financial investments		458	398
Interest income		336	314
Dividends received		118	74
Net cash from / used in investing activities		**–1,643**	**–1,450**
of which from discontinued operations		65	–52
Purchase of securities / fund investments [2]		–1,367	–2,251
Disposal of securities / fund investments		1,902	906
Net cash from / used in investing and cash management activities		**–1,108**	**–2,795**
of which from discontinued operations		80	–33
Capital increase [3]	34 – 36	5	–
Non-current borrowing		740	925
Repayment of non-current borrowing		–1,413	–720
Other financial debt		–8	–36
Dividends paid		–296	–18
Interest paid		–449	–451
Net cash from / used in financing activities		**–1,421**	**–300**
of which from discontinued operations		–43	20
Net increase / decrease in cash and cash equivalents		**–173**	**–103**
Changes due to currency translation differences		9	64
Cash included in assets held for sale		–46	–
Cash and cash equivalents 31.12.	32	**887**	**1,097**
Securities	31	3,111	4,283
Total liquidity		**3,998**	**5,380**
Net increase / decrease in total liquidity		–1,382	941

[1] Working capital consists of inventories, receivables, liabilities and provisions.
[2] Including transfer to LH Pension Trust of EUR 528m.
[3] Capital increase from minority interests.
[4] Previous year adjusted to current year's presentation.

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

Notes to the consolidated financial statements
of Deutsche Lufthansa AG for 2011

Notes to the consolidation and accounting policies

International Financial Reporting Standards (IFRS) and Interpretations (IFRIC) applied
The consolidated financial statements of Deutsche Lufthansa AG, Cologne, and its subsidiaries have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), taking account of interpretations by the International Financial Reporting Interpretations Committee (IFRS IC) as applicable in the European Union (EU).

The following section shows all the standards and interpretations applicable as of 1 January 2011 in condensed form. They did not have a significant effect on the Group's net assets, financial and earnings position in the reporting period:

The revision of IAS 24 Related Party Disclosures gives a more precise definition of the term "related party".

IAS 32 Financial Instruments: Presentation was altered so that subscription rights and options or warrants for shares in another currency than the company's reporting currency, which were previously shown as financial liabilities, are under certain circumstances now to be presented as equity instruments.

IFRS pronouncement	Adopted	EU endorsement	Published in the Official Journal of the EU	Effective date in EU
Amendment to IAS 32, Financial Instruments: Presentation: Classification of Rights Issues	8.9.2009	23.12.2009	24.12.2009	1.2.2010
Amendment to IFRS 1, First-time Adoption of IFRS: Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters	28.1.2010	30.6.2010	1.7.2010	1.7.2010
Amendment to IAS 24, Related Party Disclosures	4.11.2009	19.7.2010	20.7.2010	1.1.2011
IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments	19.11.2009	23.7.2010	24.7.2010	1.7.2010
Amendment to IFRIC 14: Prepayments of a Minimum Funding Requirement	26.11.2009	19.7.2010	20.7.2010	1.1.2011
Annual Improvements to IFRS	6.5.2010	18.2.2011	19.2.2011	Mainly 1.1.2011

Published International Financial Reporting Standards (IFRS) and Interpretations (IFRIC), not yet applied/applicable

IFRS pronouncement	Adopted	EU endorsement	Published in the Official Journal of the EU	Effective date in EU
Application expected in the 2012 financial year				
Amendment to IFRS 7, Financial Instruments: Disclosures: Transfers of Financial Assets	7.10.2010	22.11.2011	23.11.2011	1.7.2011
Amendments to IFRS 1, First-time Adoption of IFRS: Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters	20.12.2010	Pending	Pending	Expected: 1.7.2011
Amendment to IAS 12, Deferred Taxes: Recovery of Underlying Assets	20.12.2010	Pending	Pending	Expected: 1.7.2012
Application expected in the 2013 financial year or later				
IFRS 9, Financial Instruments: Classification and Measurement: Financial Assets	12.11.2009	Pending	Pending	Expected: 1.1.2015
IFRS 9, Financial Instruments: Classification and Measurement: Financial Liabilities	28.10.2010	Pending	Pending	Expected: 1.1.2015
IFRS 10, Consolidated Financial Statements	12.5.2011	Pending	Pending	Expected: 1.1.2013
IFRS 11, Joint Arrangements	12.5.2011	Pending	Pending	Expected: 1.1.2013
IFRS 12, Disclosures of Interests in Other Entities	12.5.2011	Pending	Pending	Expected: 1.1.2013
IFRS 13, Fair Value Measurement	12.5.2011	Pending	Pending	Expected: 1.1.2013
Revised IAS 27, Separate Financial Statements	12.5.2011	Pending	Pending	Expected: 1.1.2013
Revised IAS 28, Investments in Associates and Joint Ventures	12.5.2011	Pending	Pending	Expected: 1.1.2013
Amendment to IAS 1, Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income	16.6.2011	Pending	Pending	Expected: 1.7.2012
Revised IAS 19, Employee Benefits	16.6.2011	Pending	Pending	Expected: 1.1.2013
IFRIC 20, Stripping Costs in the Production Phase of a Surface Mine	19.10.2011	Pending	Pending	Expected: 1.1.2013
Amendments to IFRS 9 and IFRS 7, Mandatory Effective Date and Transition Disclosures	16.12.2011	Pending	Pending	Expected: 1.1.2015
Amendment to IAS 32 and IFRS 7, Offsetting Financial Assets and Financial Liabilities	16.12.2011	Pending	Pending	Expected: 1.1.2013

In November 2009 the IASB adopted IFRS 9 Financial Instruments: Classification and Measurement – Financial Assets. The new standard describes the classification and measurement of financial assets and thereby concludes the first of three phases at the end of which the existing IAS 39 Financial Instruments: Recognition and Measurement is to be abolished. Phases II (Impairment) and III (Hedge Accounting) had not yet been adopted at the time these financial statements were prepared. Phase I has not yet been adopted as European law. The interpretation is applicable to financial years beginning on or after 1 January 2015. The effects of IFRS 9 on the Group's net assets, financial and earnings position and the Group's presentation are currently, indeed continuously, under review.

In addition to the IFRS 9 published in November 2009, on 28 October 2010 the IASB also issued IFRS 9 Financial Instruments: Classification and Measurement – Financial Liabilities. Financial liabilities can still be assigned to the measurement categories Amortised Cost or Fair Value. Under the new regulations a company applying the fair value option to measure its financial liabilities can no longer recognise in profit and loss any changes in fair value brought about by a change in its own credit risk, but must instead recognise them without effect on profit and loss under other comprehensive income in the statement of comprehensive income – and therefore directly in equity. It is possible to ignore this rule if such a presentation would result in an accounting mismatch in the income statement. The amendments have not yet been adopted as European law. The interpretation is applicable to financial years beginning on or after 1 January 2015. The effects of IFRS 9 on the Group's net assets, financial and earnings position and the Group's presentation are currently, indeed continuously, under review.

The new **IFRS 10 Consolidated Financial Statements** replaces the guidelines on control and consolidation included in IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation: Special Purpose Vehicles. In the revised version, IAS 27 was renamed Separate Financial Statements and in the future will only deal with rules on separate IFRS financial statements. IFRS 10 changes the definition of control so that the same criteria are applied to all companies to determine a controlling relationship. This definition is supported by wide-ranging application guidelines illustrating the various criteria that can lead to the control of a company by the reporting company. In this definition, control requires power over the investee and variable returns. Power is defined as the ability to direct the activities of the investee company that have a significant effect on the variable returns. IFRS 10 thereby explicitly establishes the concept of de facto control and includes guidelines on substantive rights, as distinguished from protective rights, which do not give a company power over an investee. IFRS 10 is expected to apply retrospectively to financial years beginning on or after 1 January 2013. IFRS 10 is not currently anticipated to have a significant effect on the Lufthansa Group's net assets, financial and earnings position and the Group's presentation.

IFRS 11 Joint Arrangements alters the definition of joint ventures. A joint arrangement is defined as an agreement by which two or more parties exercise joint control. Joint control means that decisions on activities that have a significant effect on the returns from an agreement require the unanimous approval of the parties sharing control. Each party to a joint arrangement must account for their rights and obligations under the agreement in their financial statements. IFRS 11 distinguishes two types of joint arrangement: joint operations and joint ventures. The previous option of pro-rata consolidation of joint ventures has been abolished. Parties to a joint venture must account for the investment using the equity method. IFRS 11 is expected to apply retrospectively to financial years beginning on or after 1 January 2013. The effects of IFRS 11 on the Lufthansa Group's net assets, financial and earnings position and the Group's presentation are currently under review.

To comply with **IFRS 12 Disclosure of Interests in Other Entities,** companies must disclose information that enables users of financial statements to assess the nature, risks and financial effects associated with their investment in subsidiaries, associated companies, joint arrangements and unconsolidated structured entities (special purpose entities). IFRS 12 is expected to be retrospectively applicable to financial years beginning on or after 1 January 2013 and will increase the volume of disclosures in the Notes to the financial statements of Deutsche Lufthansa AG.

IFRS 13 Fair Value Measurement describes how fair value is to be measured for IFRS reporting and extends the disclosures to be made on fair value, but does not stipulate in which cases fair value is to be used. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). The fair value of a liability therefore reflects its default risk, i.e. the entity's own credit risk. IFRS 13 stipulates the market conditions under which fair value measurement is possible or restricted and explains that measurement is made with reference to specific markets and not to specific companies. For non-financial assets fair value is to be measured on the basis of highest and best use from the perspective of a market participant. IFRS 13 is expected to be prospectively applicable to financial years beginning on or after 1 January 2013 and will increase the volume of disclosures in the Notes to the financial statements of Deutsche Lufthansa AG.

The **amendments to IAS 1 Presentation of Financial Statements** mainly relate to changes in the recognition of items of other comprehensive income. In future these must be presented separately as items which may be "recycled" in subsequent periods to profit or loss and those which will not be reclassified in this way. This amendment is expected to apply to financial years beginning on or after 1 January 2013. The effects this will have on the presentation of the statement of comprehensive income are currently under review.

The **revised version of IAS 19 Employee Benefits** includes new rules on the recognition, measurement and presentation of expenses for defined benefit pension plans and termination benefits. Actuarial gains and losses are to be recognised as revaluations directly in equity in the future, taking deferred taxes into account. The 10-per cent corridor rule previously used in the Lufthansa Group to avoid annual fluctuations in the balance sheet will then no longer be allowed. Changes in the discount rate used to measure pension obligations and for funded pension plans, fluctuations in the market value of plan assets, can in particular result in considerable, unpredictable fluctuations in the balance sheet and shifts between equity and liabilities. For funded defined benefit plans the same interest rate chosen to determine interest expenses and measure pension obligations is also to be used to measure interest income from plan assets. Defining a uniform interest rate will alter the net interest expense for pension obligations. Furthermore, the revised IAS 19 clarifies the meaning of “short-term”, “other long-term benefits” and “plan curtailments” and clarifies the amortisation of “past service cost”. These amendments can have an effect on the timing of the recognition in profit or loss of obligations under partial retirement and similar programmes. In addition, they will require more extensive disclosure of recognised amounts and existing risks from defined benefit plans and multi-employer plans. The amendments are applicable for financial years beginning on or after 1 January 2013. The future effects on the Group’s net assets, financial and earnings position are currently, indeed continuously, under review.

At the present time, the other new or amended IFRS pronouncements listed in the table are not considered to be of great relevance to the Lufthansa Group.

The Group has not voluntarily applied any of the new or amended regulations mentioned above before their binding date of application.

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 – 225. The list of shareholdings is attached at the end of these notes.

LSG Sky Chefs/GCC Ltd. is classified as a fully consolidated associated company in spite of a 50 per cent share of voting rights because the Lufthansa Group exercises economic and financial control over the company.

LSG Lufthansa Service Hong Kong Ltd. is classified as a fully consolidated associated company in spite of a 47.9 per cent share of voting rights because the Lufthansa Group exercises economic and financial control over the company.

Special purpose entities in which the Group does not hold a voting majority are, nonetheless, classified as subsidiaries if the Group derives majority benefit from their activities or bears most of the risk. The companies affected are identified as such in the list of significant subsidiaries.

In addition to Deutsche Lufthansa AG as the parent company, the group of consolidated companies includes 60 domestic and 168 foreign companies, including special purpose entities (previous year: 67 domestic and 155 foreign companies).

Changes in the group of consolidated companies during the 2011 financial year are shown in the following table:

Changes in the group of consolidated companies

Name, registered office	Additions	Disposals	Reason
Passenger Airline Group segment			
ALIP No. 4 Co. Ltd., Tokyo, Japan	26.10.11		Established
ALIP No. 6 Co. Ltd., Tokyo, Japan	26.10.11		Established
Gina Leasing Co. Ltd., Tokyo, Japan	16.12.11		Established
Lufthansa Leasing Austria GmbH & Co. OG Nr. 11, Salzburg, Austria	24.3.11		Established
Lufthansa Leasing Austria GmbH & Co. OG Nr. 12, Salzburg, Austria	24.3.11		Established
Lufthansa Leasing Austria GmbH & Co. OG Nr. 14, Salzburg, Austria	24.3.11		Established
NBB Cologne Lease Co., Ltd., Tokyo, Japan	23.12.11		Established
TimBenNico Finance 2011 S.N.C., Paris, France	5.7.11		Established
AUA A320/A321 2001 Ltd., George Town, Cayman Islands		15.12.11	Liquidation
Lufthansa Leasing GmbH & Co. Fox-Alfa oHG, Grünwald, Germany		11.7.11	Company purpose suspended
Lufthansa Leasing GmbH & Co. Fox-Delta oHG, Grünwald, Germany		1.7.11	Merger
Lufthansa Leasing GmbH & Co. Fox-Echo oHG, Grünwald, Germany		1.7.11	Merger
Lufthansa Leasing GmbH & Co. Fox-Hotel oHG, Grünwald, Germany		11.7.11	Company purpose suspended
Lufthansa Leasing GmbH & Co. Fox-Quebec oHG, Grünwald, Germany		1.1.11	Company purpose suspended
Lufthansa Leasing GmbH & Co. Fox-Romeo oHG, Grünwald, Germany		1.1.11	Company purpose suspended
Lufthansa Leasing GmbH & Co. Fox-Sierra oHG, Grünwald, Germany		1.1.11	Company purpose suspended
Lufthansa Leasing GmbH & Co. Fox-Tango oHG, Grünwald, Germany		1.1.11	Company purpose suspended
Lufthansa Leasing GmbH & Co. Fox-Uniform oHG, Grünwald, Germany		1.1.11	Company purpose suspended
Lufthansa Leasing GmbH & Co. Fox-Victor oHG, Grünwald, Germany		1.1.11	Company purpose suspended
Lufthansa Leasing GmbH & Co. Fox-Yankee oHG, Grünwald, Germany		1.1.11	Company purpose suspended
Lufthansa Leasing GmbH & Co. Golf-Lima oHG, Grünwald, Germany		1.1.11	Company purpose suspended
Lufthansa Leasing GmbH & Co. Golf-Mike oHG, Grünwald, Germany		1.1.11	Company purpose suspended
IT Services segment			
Lufthansa Systems Aeronautics GmbH, Raunheim, Germany		24.3.11	Merger
Lufthansa Systems Airline Services GmbH, Kelsterbach, Germany		24.3.11	Merger
Lufthansa Systems Berlin GmbH, Berlin, Germany		24.3.11	Merger
Lufthansa Systems Infratec GmbH, Kelsterbach, Germany		24.3.11	Merger
Lufthansa Systems Passenger Services GmbH, Kelsterbach, Germany		24.3.11	Merger
Catering segment			
Charm Food Service Co. Ltd., Incheon, South Korea	1.1.11		Established
Constance Food Group, Inc., New York, USA	1.11.11		Purchase
LSG France SAS, Paris, France	28.9.11		Established
LSG Sky Chefs – First Catering Schweiz AG, Basserdorf, Switzerland	24.5.11		Established
LSG Sky Chefs Argentina S.A., Buenos Aires, Argentina	1.6.11		Consolidated for the first time
LSG Sky Chefs Berlin GmbH, Neu-Isenburg, Germany	1.7.11		Established
LSG Sky Chefs Bremen GmbH, Neu-Isenburg, Germany	1.7.11		Established
LSG Sky Chefs Düsseldorf GmbH, Neu-Isenburg, Germany	1.7.11		Established
LSG Sky Chefs Frankfurt International GmbH, Neu-Isenburg, Germany	1.7.11		Established
LSG Sky Chefs Frankfurt ZD GmbH, Neu-Isenburg, Germany	1.7.11		Established
LSG Sky Chefs Hamburg GmbH, Neu-Isenburg, Germany	1.7.11		Established
LSG Sky Chefs Hannover GmbH, Neu-Isenburg, Germany	1.7.11		Established
LSG Sky Chefs Köln GmbH, Neu-Isenburg, Germany	1.7.11		Established
LSG Sky Chefs Leipzig GmbH, Neu-Isenburg, Germany	1.7.11		Established
LSG Sky Chefs München GmbH, Neu-Isenburg, Germany	1.7.11		Established
LSG Sky Chefs Nürnberg GmbH, Neu-Isenburg, Germany	1.7.11		Established
LSG Sky Chefs Stuttgart GmbH, Neu-Isenburg, Germany	1.7.11		Established
Oakfield Farms Solutions Europe Ltd., Feltham, United Kingdom	1.4.11		Consolidated for the first time
LSG Sky Chefs Deutschland GmbH, Neu-Isenburg, Germany		1.7.11	Spin-off

As of 1 November 2011, 100 per cent of the shares in the US company Constance Food Group Inc. were acquired for a purchase price of EUR 16m. The purchase is made up of a payment of EUR 6m and a subsequent instalment with a present value of EUR 9m as well as the present value of an earn-out payment of EUR 1m depending on the future earnings performance of Constance Food Group Inc. The shares acquired correspond to the voting rights. Calculating the fair value of the company's assets and liabilities on the acquisition date resulted in goodwill of EUR 8m. The following table shows the company's main assets and liabilities immediately before and after the acquisition date:

in €m	Before acquisition	After acquisition
Non-current assets	2	18
Current assets	3	3
thereof cash and cash equivalents	1	1
thereof other current assets	2	2
Total assets	**5**	**21**
Shareholders' equity	2	16
Non-current liabilities	0	1
Current liabilities	3	4
Total equity and liabilities	**5**	**21**

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 2011:

Company name	Registered office
Germanwings GmbH	Cologne
Hamburger Gesellschaft für Flughafenanlagen mbH	Hamburg
In-Flight Management Solutions GmbH	Neu-Isenburg
LSG Asia GmbH	Neu-Isenburg
LSG-Food & Nonfood Handel GmbH	Frankfurt/M.
LSG Lufthansa Service Catering- und Dienstleistungsgesellschaft mbH	Neu-Isenburg
LSG Lufthansa Service Europa/Afrika GmbH	Neu-Isenburg
LSG Lufthansa Service Holding AG	Neu-Isenburg
LSG Sky Chefs Catering Logistics GmbH	Neu-Isenburg
LSG Sky Chefs Düsseldorf GmbH	Neu-Isenburg
LSG Sky Chefs Frankfurt International GmbH	Neu-Isenburg
LSG Sky Chefs Frankfurt ZD GmbH	Neu-Isenburg
LSG Sky Chefs München GmbH	Neu-Isenburg
LSG Sky Chefs Verwaltungsgesellschaft mbH	Neu-Isenburg
LSG Sky Chefs Lounge GmbH	Neu-Isenburg
LSG-Sky Food GmbH	Alzey
LSG South America GmbH	Neu-Isenburg
Lufthansa Technik AERO Alzey GmbH	Alzey
Lufthansa Cargo AG	Kelsterbach
Lufthansa Cargo Charter Agency GmbH	Kelsterbach
Jettainer GmbH	Raunheim
Lufthansa CityLine GmbH	Cologne
Lufthansa Commercial Holding GmbH	Cologne
Lufthansa Flight Training Berlin GmbH	Berlin
Lufthansa Flight Training GmbH	Frankfurt/M.
Lufthansa Leasing GmbH & Co Echo-Zulu oHG	Grünwald
Lufthansa Systems Aktiengesellschaft	Kelsterbach
Lufthansa Systems AS GmbH	Norderstedt
Lufthansa Systems Business Solutions GmbH	Raunheim
Lufthansa Process Management GmbH	Neu-Isenburg
Lufthansa Technik AG	Hamburg
Lufthansa Technik Immobilien und Verwaltungsgesellschaft mbH	Hamburg
Lufthansa Technik Logistik GmbH	Hamburg
Lufthansa Technik Maintenance International GmbH	Frankfurt/M.
Lufthansa Technik Objekt- und Verwaltungsgesellschaft mbH	Hamburg
Lufthansa Training & Conference Center GmbH	Seeheim-Jugenheim
Lufthansa WorldShop GmbH	Frankfurt/M.
MARDU Grundstücks-Verwaltungsgesellschaft mbH & Co. oHG	Grünwald
Miles & More International GmbH	Neu-Isenburg

Since the revision of the Energy Economy Act (EnWG) in August 2011, Lufthansa Technik AG (LHT) qualifies as an energy supply company within the meaning of Section 3 No. 18 Energy Economy Act as amended. This is due to the operation of a medium tension installation, whose main function by far is to supply LHT's operating site, but which also provides electricity to affiliated companies and third parties. In the reporting year these purchased 14 GWh of electricity from LHT (of which 12 GWh went to affiliated companies).

The consolidated financial statements include equity stakes in 58 joint ventures and 41 associated companies (previous year: 60 joint ventures and 41 associated companies), of which 10 joint ventures (previous year: 11) and 15 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:

	2011			2010		
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	238	236	345	146	252	351
Current assets	245	121	53	205	117	28
Shareholders' equity	141	144	40	128	131	28
Non-current liabilities	130	137	329	51	171	219
Current liabilities	212	76	29	172	67	132
Income	723	252	61	512	201	57
Expenses	688	230	51	491	187	50

2 Summary of significant accounting policies and valuation methods and estimates used as a basis for measurement

The application of the accounting policies prescribed by IFRS and IFRIC requires making a large number of estimates and assumptions with regard to the future that may, naturally, not coincide with actual future conditions. All these estimates and assumptions are, however, reviewed continuously and are based either on past experience and/or expectations of future events that seem reasonable in the circumstances on the basis of sound business judgement.

Estimates and assumptions that are of material importance in determining the carrying amounts for assets and liabilities are explained in the following description of the accounting policies applied to material balance sheet items.

The fundamental valuation method applied in the consolidated financial statements is historical cost. Where IFRS stipulate that other methods of measurement be applied, these are used instead, and are referred to specifically in the following comments on measuring assets and liabilities.

Cash flow statement

As of the financial year 2011 the measurement of cash flow from operating activities not only includes retirement benefits paid from recognised pension provisions, but also retirement benefits paid to former staff from external pension funds. The previous year's figures shown in the cash flow statement have been adjusted accordingly. In the 2011 financial year retirement benefits of EUR 95m (previous year: EUR 83m) were paid from external pension funds.

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 2011 came to EUR 50m (previous year: EUR 36m).

Operating expenses are recognised when the product or service is used or the expense arises. Provisions for guarantees are made when the corresponding revenue is recognised. Interest income and expenses are accrued in the appropriate period. Dividends from shareholdings not accounted for using the equity method are recognised when a legal claim to them arises.

Discontinued operations

The British Midland Group represented a separate cash-generating unit within the Passenger Airline Group segment of the Lufthansa Group. It is therefore a separate line of business within the meaning of IFRS 5, to which clearly defined cash flows are attributed for operating and accounting purposes. As a result of the contract for the sale of British Midland Ltd. (bmi) to International Consolidated Airlines Group, S.A. (IAG) signed by Deutsche Lufthansa AG and IAG on 22 December 2011, British Midland Ltd. is to be presented in the Group's income statement as a discontinued operation in line with IFRS 5. This form of presentation applies to the after-tax result for bmi and to the valuation or proceeds of disposal for the discontinued operation, which in this case are the proceeds of the aforementioned contractual agreement. The figures for the previous year have been adjusted in accordance with the presentation in the reporting year. For details of the result of the discontinued operation we refer to the Notes to the consolidated financial statements, "Note 15" on p. 164.

Initial consolidation and goodwill

The initial consolidation of Group companies takes place using the purchase method. This involves measuring the fair value of the assets, liabilities and contingent liabilities, identified in accordance with the provisions of IFRS 3, of the company acquired at the acquisition date, and allocating the acquisition costs to them. The proportion of fair value of assets and liabilities not acquired is shown under minority interests. Incidental acquisition costs are recognised as expenses.

Any excess of cost over the value of equity acquired is capitalised as goodwill and subject to a regular annual impairment test thereafter.

If the value of the acquirer's interest in the shareholders' equity exceeds the costs incurred by the acquiring company, the difference is recognised immediately in profit or loss.

Differences from minority interests acquired after control has been assumed are to be set off directly against equity.

Annual impairment tests applied to goodwill are carried out using recognised discounted cash flow methods. This is done on the basis of expected future cash flows from the latest management planning, which are extrapolated on the basis of long-term revenue growth rates and are assumptions with regard to margin development, and discounted for the capital costs of the business unit. Tests are performed at the cash generating unit (CGU) level. For the individual premises on which impairment tests were based in the financial year 2011, see "Note 17" from p. 165.

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:

	2011		2010	
	Balance sheet exchange rate	**Income statement average rate**	Balance sheet exchange rate	Income statement average rate
USD	0.77235	0.71033	0.74864	0.75815
JPY	0.00999	0.00894	0.00920	0.00863
GBP	1.19838	1.14345	1.16044	1.16902
CAD	0.75669	0.72085	0.74918	0.72974
HKD	0.09943	0.09121	0.09630	0.09761
THB	0.02442	0.02326	0.02495	0.02384
SEK	0.11218	0.11067	0.11145	0.10425
NOK	0.12886	0.12821	0.12793	0.12431
DKK	0.13453	0.13421	0.13414	0.13428
CHF	0.82269	0.80974	0.79847	0.72014
KRW	0.00067	0.00064	0.00067	0.00065

The effects of intra-Group transactions are completely eliminated in the course of consolidation. Receivables and liabilities between consolidated companies are netted and intra-Group profits and losses in non-current assets and inventories are eliminated. Intra-Group income is set off against the corresponding expenses. Tax accruals and deferrals are made as required by IAS 12 for temporary differences arising from consolidation.

Other intangible assets (except goodwill)

Acquired intangible assets are shown at cost, internally generated intangible assets from which the Group expects to derive future benefit, and which can be measured reliably, are capitalised at cost of production and amortised regularly using the straight-line method over an estimated useful life. The cost of production includes all costs directly attributable to the production process, including borrowing costs as required under IAS 23, as well as appropriate portions of production-related overhead.

Intangible assets with an indefinite useful life are not amortised but, like goodwill, are subjected to a regular annual impairment test.

Property, plant and equipment

Tangible assets used in business operations for longer than one year are valued at cost less regular straight-line depreciation. The cost of production includes all costs directly attributable to the manufacturing process as well as appropriate portions of the indirect costs relating to this process. Borrowing costs in close connection with the financing of the purchase or production of a qualifying asset are also capitalised. In the reporting period borrowing costs of EUR 8m (previous year: EUR 2m) were capitalised. The useful lives applied to tangible assets correspond to their estimated/expected useful lives in the Group.

New aircraft and spare engines are depreciated over a period of twelve years to a residual value of 15 per cent.

A useful life of between 20 and 45 years is assumed for buildings, whereby buildings, fixtures and fittings on rented premises are depreciated according to the terms of the lease or over a shorter useful life. Depreciation rates are mainly between 10 and 20 per cent per annum. A useful life of up to ten years is fixed for plant and machinery. Operating and office equipment is depreciated over three to ten years in normal circumstances.

Assets acquired second-hand are depreciated over their expected remaining useful life.

Finance leases

In accordance with IAS 17, the economic ownership of leased assets is deemed to be transferred to the lessee if the lessee bears substantially all the risks and rewards associated with ownership of the leased asset. In addition to the duration of the non-terminable initial term of the lease and the present value of the leasing payments as a proportion of the total investment, particular consideration is given to the distribution of risks and rewards relating to the residual value of the asset not amortised over the remaining term of the lease. Insofar as its economic ownership is deemed to be with the Lufthansa Group, the asset is capitalised at the time the leasing contract was signed at the lower of the present value of the leasing instalments and the asset's fair value, plus any incidental expenses borne by the lessee. Depreciation methods and useful lives correspond to those applied to comparable purchased assets.

Impairment losses on intangible assets and property, plant and equipment

In addition to amortisation and depreciation on intangible assets and property, plant and equipment, impairment losses are also recognised on the balance sheet date if the asset's recoverable amount has fallen below its carrying amount. The recoverable amount is determined as the higher of an asset's fair value less costs to sell, and the present value of the estimated net future cash flows from continued use of the asset (value in use).

Fair value less costs to sell is derived from recent market transactions, if available.

If it is impossible to forecast expected cash flows for an individual asset, the cash flows for the next larger asset unit are estimated, discounted at a rate reflecting the risk involved, and the recoverable amount allocated to the individual assets in proportion to their respective carrying amounts.

If the reasons for an impairment loss recognised in previous years should cease to exist in whole or in part in subsequent periods, the impairment loss is reversed.

Repairable spare parts for aircraft

Repairable spare parts for aircraft are held at continually adjusted prices based on average acquisition costs. For measurement purposes, spare parts are assigned to individual aircraft models and depreciated at the same rate as the aircraft models for which they can be used.

Investment property

Property held exclusively for letting to companies outside the Group is classified as investment property and recognised at amortised cost.

Equity investments accounted for using the equity method

Equity investments accounted for using the equity method are capitalised at cost at the time of acquisition.

In subsequent periods, the carrying amounts are either increased or reduced annually by changes in the shareholders' equity of the associated company or joint venture that is held by the Lufthansa Group. The principles of purchase price allocation that apply to full consolidation are applied accordingly to the initial measurement of any difference between the acquisition cost of the investment and the pro rata share of shareholders' equity of the company in question. An impairment test for goodwill is only carried out in subsequent periods if there are indications of a potential impairment in the entire investment valuation. Inter-Group profits and losses from sales between Group companies and companies accounted for using the equity method are eliminated pro rata in relation to the equity stake.

Financial assets

Financial assets are classified within the Lufthansa Group as "at fair value through profit or loss", "loans and receivables" and "available-for-sale financial assets".

The category "at fair value through profit and loss" includes financial assets held for trading purposes, e.g. derivatives which do not qualify as hedging transactions as part of a hedging relationship.

The category "loans and receivables" consists of financial assets with fixed payment schedules which are not traded in an active market. They are classified as non-current or current assets according to their remaining maturity.

"Available-for-sale financial assets" are non-derivative financial assets which are not attributable to one of the other categories. Securities, equity investments and cash and bank balances count as available for sale.

Derivatives which qualify as hedging transactions within a hedging relationship are not classified in any of these categories.

Financial assets are capitalised on the settlement date, i. e. the date at which the asset is created or transferred, at fair value plus transaction costs. Long-term low or non-interest bearing loans are recognised at net present value using the effective interest method.

Trade receivables from production or service contracts not completed at the balance sheet date are recognised at production costs, including borrowing costs in accordance with IAS 23, plus a profit margin, if the result of the production contract can be reliably estimated. For other incomplete customer contracts the production costs are capitalised if they are likely to be covered by revenue.

Assets classified as at fair value through profit or loss are always recognised at fair value. Changes in fair value are recognised in profit or loss and included in the financial result.

Subsequent measurement of loans and receivables is at amortised cost, using the effective interest method for low or non-interest bearing receivables.

If there are doubts as to the recoverability of receivables they are recognised at the lower recoverable amount. Subsequent reversals (write-backs) are recognised in profit or loss.

Receivables denominated in foreign currencies are measured at the balance sheet date rate.

Available-for-sale financial assets are recognised at fair value in subsequent periods to the extent that this can be reliably measured.

The fair value of securities is determined by the price quoted on an active market. For unlisted fixed-interest securities the fair value is determined from the difference between effective and market interest rate at the valuation date.

Fluctuations in fair value between balance sheet dates are recognised in equity without effect on profit or loss. The cumulative amount is removed from equity and recognised in profit or loss either on disposal or if fair value falls below the carrying amount on a permanent basis. If an impairment loss recognised in previous years due to fair value falling below the carrying amount no longer exists it is reversed – without effect on profit or loss for securities classified as equity instruments, through profit or loss for debt securities.

Subsequent measurement of equity investments for which no quoted price exists on an active market is at cost. If the recoverable amount falls below the carrying amount, an impairment loss is recognised. Such losses are not reversed.

Derivative financial instruments are measured at fair value on the basis of published market prices. If there is no quoted price on an active market, other appropriate valuation methods are applied.

Appropriate valuation methods take all factors into account which independent, knowledgeable market participants would consider in arriving at a price and which constitute recognised, established economic models for calculating the price of financial instruments.

In accordance with its internal guidelines the Lufthansa Group uses derivative financial instruments to hedge interest rate and exchange rate risks, and to hedge fuel price risks. This is based on the hedging policy defined by the Executive Board and monitored by a committee. In some cases the counterparties for interest and exchange rate hedges are also non-consolidated Group companies.

Interest rate swaps and interest rate/currency swaps are used to manage interest rate risks. Interest rate/currency swaps also hedge exchange rate risks arising from borrowing in foreign currencies.

The Lufthansa Group uses currency futures and currency options to hedge exchange rate exposure. This involves the use of spread options that combine the purchase and simultaneous sale of currency options in the same currency. Spread options are concluded as zero-cost options, i. e. the option premium to be paid is equal to the premium resulting from the sale of the option.

Fuel price hedging takes the form of spread options and other hedging combinations, primarily for crude oil. To a limited extent, hedging is also undertaken for other products, such as gas oil.

Hedging transactions are used to secure either fair values or future cash flows.

To the extent that the financial instruments used qualify as effective cash flow hedging instruments within the scope of a hedging relationship, in accordance with the provisions of IAS 39, the fluctuations in market value will not affect the result for the period during the term of the derivative. They are recognised without effect on profit and loss in the corresponding reserve. However, following the amendment to IAS 39 Financial Instruments: Recognition and Measurement, from the financial year 2010 onwards it has no longer been possible to recognise the change in total market value of an option used as a hedge (full fair value method) in equity as part of hedge accounting, but only the “intrinsic value” of the option. The change in the time value of the option is recognised in the financial result.

If the hedged cash flow is an investment, the result of the hedging transaction, which has previously been recognised in equity, is set off against the cost of the investment at the time the underlying transaction matures.

In all other cases the cumulative gain or loss previously stated in equity is included in net profit or loss for the period on maturity of the hedged cash flow.

In the case of effective hedging of fair values, the changes in the market value of the hedged asset, or the hedged debt and those of the financial instrument, will balance out in the income statement.

Where the financial instruments used do not qualify as effective hedging transactions but as trading under IAS 39, all changes in market value are recognised directly as a profit or loss in the income statement. Embedded derivatives – to the extent that they cannot be separated from the financial host contract – are considered with these as trading transactions for measurement purposes. Changes in market value are also recognised directly as a profit or loss in the income statement. Both types must be classified as financial assets stated at fair value through profit or loss.

The Group’s hedging policy is to use only effective derivatives for the purpose of hedging interest rate, exchange rate and fuel price risks, see “Note 47” from p. 195.

Hedging transactions with non-consolidated Group companies and interest/currency swaps generally do not, however, satisfy the qualifying criteria for effectiveness as defined in IAS 39. Changes in the fair value of these transactions are therefore recognised directly in profit or loss.

Inventories

This item includes non-repairable spare parts, raw materials, consumables and supplies, purchased merchandise and advance payments made for inventories. They are measured at cost, determined on the basis of average prices, or at production costs. The cost of production includes all costs directly attributable to the production process, including borrowing costs as required under IAS 23, as well as appropriate portions of production-related overheads. 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.

On the basis of the aforementioned agreement between Deutsche Lufthansa AG and International Consolidated Airlines Group, S.A. (IAG) for the sale of British Midland Ltd. (bmi) to IAG, the assets and liabilities attributable to bmi are shown separately in the balance sheet as of 31 December 2011 as “Assets held for sale” and “Liabilities included within a disposal group” in accordance with IFRS 5. For details we refer to the Notes to the consolidated financial statements, see “Note 33” on p. 180.

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 2011 amount to EUR 2,839m (previous year: EUR 1,416m). In the 2011 financial year EUR 40m (previous year: EUR 15m) was amortised via staff costs.

Other provisions and provisions for taxes (effective income tax obligations) are recognised if an obligation toward third parties exists as a result of a past event that is likely to lead to an outflow of resources which can be reliably estimated. If no provision could be recognised because one of the stated criteria was not fulfilled, the corresponding obligations are shown as contingent liabilities.

The amount of provisions is determined by the amount that is most likely to arise.

Provisions for obligations that are not expected to lead to an outflow of resources in the following year are recognised to the amount of the present value of the expected outflow, taking foreseeable price rises into account.

The assigned value of provisions is reviewed on each balance sheet date. Provisions in foreign currencies are translated at reporting date rates.

Financial liabilities

Liabilities arising from finance leases are recognised at the present value of the leasing instalments at the time the lease was concluded. Other financial liabilities are recognised at fair value. Liabilities for which interest is not payable at a market rate are recognised at present values.

Measurement in subsequent periods is at amortised cost, using the effective interest rate method for high and low-interest bearing liabilities.

Liabilities in foreign currencies are measured at the exchange rate on the balance sheet date.

Share-based liabilities from option programmes for managers were measured at fair value in accordance with IFRS 2 Share-based Payment. Fair value was measured using a Monte Carlo simulation.

The obligation was recognised on the basis of the resulting fair value, taking the term of the programme into account.

Details of the premises used for the model and the structure of the option programmes can be found in "Note 42" from p. 191.

Liabilities from unused flight documents

Until they are used, sold flight documents are recognised as an obligation from unused flight documents. Once a passenger coupon or an airfreight document has been used, the amount carried as a liability is recognised as traffic revenue in the income statement. Coupons that are unlikely to be used are also recognised at the end of the year as traffic revenue in the income statement at their estimated value. The estimate is based on past statistical data.

Obligations under bonus mile programmes

Calculation of the obligations arising from bonus miles programmes is based on several estimates and assumptions.

In accordance with IFRIC 13 Customer Loyalty Programmes, accumulated but as yet unused bonus miles are deferred using the deferred revenue method to the extent that they are likely to be used on flights by airlines in the Lufthansa Group. The fair value of miles accumulated on the Group's own flights is recognised under deferred revenue and the points collected from third parties are shown under other non-financial liabilities. Fair value is determined as the value for which the miles could be sold separately, i.e. the average yield, taking booking class and traffic region into account.

Miles that are likely to be used on flights with partner airlines are valued at the price per mile to be paid to the partners in question.

No provisions are recognised for miles that are expected to lapse. The quota of miles that have been allowed to lapse in the past is used to estimate the number of miles that will probably lapse subject to current expiry rules.

A total of 201 billion miles were to be measured as of 31 December 2011. EUR 620m (previous year: EUR 605m) of the resulting obligations were recognised in other non-financial liabilities and EUR 987m (previous year: EUR 944m) in deferred revenue, see "Note 42" from p. 191 and "Note 44" on 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 2011 was EUR 633m (previous year: EUR 564m).

Deferred foreign tax rates in the 2011 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	2011	2010
Passenger	20,534	18,402
Freight and mail	3,245	3,064
	23,779	**21,466**
Scheduled	23,073	21,069
Charter	706	397
	23,779	**21,466**

Of total freight and mail revenue EUR 2,821m was generated in the Logistics segment (previous year: EUR 2,633m). Freight and mail revenue at SWISS, Austrian and Germanwings from marketing belly capacities on passenger flights amounted to EUR 424m (previous year: EUR 431m), and is shown in the segment reporting as other revenue from the Passenger Airline Group segment.

4 Other revenue

Revenue by sector

in €m	2011	2010
MRO services	2,095	2,207
Catering services	1,548	1,539
Travel services (commissions)	171	160
IT services	247	248
Ground services	107	93
Other services	787	746
	4,955	**4,993**

MRO services make up the majority of external revenue in the MRO segment. Other revenue in the MRO segment from the sale of material and hiring out material and engines, as well as logistics services, are classified as other services.

The revenue listed under catering services originates exclusively in the Catering segment. LSG Food & Nonfood Handel GmbH and LSG Airport Gastronomiegesellschaft mbH, in particular, also earn revenue in the Catering segment, which does not relate to catering services and is shown under other services.

Revenue from IT services relates to revenue from the IT Services segment.

Other revenue includes revenue of EUR 286m (previous year: EUR 188m) from work in progress in connection with long-term production and service contracts. This revenue has been recognised in line with the percentage of completion method. If earnings from the whole contract could not be estimated reliably, the costs incurred for the contract were recognised. If the realisable revenue in these cases was below the costs incurred for the contract, write-downs were made accordingly. The percentage of completion was calculated on the basis of the ratio of contract costs incurred by the balance sheet date to the estimated total costs for the contract.

Accumulated costs for unfinished contracts, i.e. including amounts recognised in prior years, amounted to EUR 296m (previous year: EUR 213m). Profits of EUR 50m were set off against them (previous year: EUR 36m). Advance payments by customers amounted to EUR 330m (previous year: EUR 201m). Unfinished contracts with a net credit balance – less any write-downs – are disclosed in trade receivables, see "Note 29" from p. 180. Unfinished contracts for which advance payments by customers exceed the costs plus any offset pro rata profit are recognised as advance payments, see "Note 44" 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	2011	2010
Increase/decrease in finished goods and work in progress	4	5
Other internally produced and capitalised assets	135	160
	139	**165**

6 Other operating income

Other operating income

in €m	2011	2010
Income from the disposal of non-current assets	47	65
Income from the disposal of non-current available-for-sale financial assets	1	181
Income from the reversal of impairment losses on fixed assets	6	39
Foreign exchange gains	963	969
Income from the reversal of provisions and accruals	163	224
Commission income	222	185
Re-invoicing of charges for computerised distribution systems	0*	8
Reversal of write-downs on receivables	32	52
Income from staff secondment	51	47
Compensation received for damages	58	67
Rental income	26	25
Income from sub-leasing aircraft	30	30
Income from the disposal of current available-for-sale financial assets	12	29
Negative goodwill	2	2
Miscellaneous other operating income	711	687
	2,324	**2,610**

* Rounded below EUR 1m.

EUR 34m of the income from disposal of property, plant and equipment comes from sales of aircraft and reserve engines. In the previous year income from the disposal of non-current assets included in particular realised gains on the transfer of 8.5 per cent of the Fraport shares to the Lufthansa Pension Trust (EUR 94m) and book gains of EUR 67m on the sale of 6.2 million shares in Amadeus IT Holding S.A.

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" from p. 161.

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.

Compensation for damages includes income of EUR 16m for the reimbursement of selling fees paid in prior years in connection with an out-of-court settlement between Lufthansa and Amadeus IT Holding S.A. In the previous year this item included insurance payments received in connection with the MD-11 accident at Lufthansa Cargo in July 2010.

The earn-out clause agreed as part of the AUA acquisition gave rise to income of EUR 2m in the financial year (previous year: EUR 2m).

Miscellaneous other operating income includes items not attributable to any of the aforementioned categories, such as income from training, travel management and other services provided by the Group.

7 Cost of materials and services

Cost of materials and services

in €m	2011	2010
Aircraft fuel and lubricants	6,276	4,964
Other raw materials, consumables and supplies	2,127	2,099
Purchased goods	432	396
Total cost of raw materials, consumables and supplies and of purchased goods	**8,835**	**7,459**
Fees and charges	5,000	4,318
Charter expenses	617	683
External MRO services	1,105	1,080
In-flight services	342	321
Operating lease payments	136	168
External IT services	129	112
Other services	567	559
Total cost of purchased services	**7,896**	**7,241**
	16,731	**14,700**

8 Staff costs

Staff costs

in €m	2011	2010
Wages and salaries	5,380	5,296
Social security contributions	766	767
Expenses for pension plans and other employee benefits	532	428
	6,678	**6,491**

Expenses for retirement benefits principally consist of additions to the pension provisions, see "Note 37" from p. 185.

Employees

	Average for the year 2011	Average for the year 2010	**As of 31.12.2011**	As of 31.12.2010
Ground staff	81,907	81,803	82,297	81,097
Flight staff	35,735	33,770	36,142	34,319
Trainees	1,442	1,493	1,616	1,603
	119,084	**117,066**	**120,055**	**117,019**

The staff costs shown do not include expenses for bmi staff because the results of discontinued operations are shown separately in accordance with IFRS 5. To facilitate comparison, the following table therefore shows Group employees without the bmi staff.

Employees (without bmi)

	Average for the year 2011	Average for the year 2010	**As of 31.12.2011**	As of 31.12.2010
Ground staff	79,876	79,822	80,263	79,177
Flight staff	34,017	32,002	34,486	32,626
Trainees	1,442	1,493	1,616	1,603
	115,335	**113,317**	**116,365**	**113,406**

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 1,722m (previous year: EUR 1,654m).

In the financial year 2011 the impairment losses came to EUR 59m in total, of which EUR 57m was recognised for 18 aircraft held for sale or rather to be decommissioned successively in line with current corporate plans and which were written down to fair value less costs to sell or the present value of the forecast net cash proceeds. Other operating expenses include additional write-downs of EUR 21m on aircraft and repairable spare parts for aircraft, which are shown in the balance sheet under assets held for sale.

Impairment losses of EUR 68m were recognised in the financial year 2010. EUR 43m of the total was recognised for a total of 29 aircraft either held for sale or to be decommissioned successively in line with current corporate plans and which were written down to fair value less costs to sell or the present value of the forecast net cash proceeds. Other operating expenses included additional write-downs of EUR 16m on aircraft and repairable spare parts for aircraft, which were shown in the balance sheet for the previous year under assets held for sale. Other impairment charges resulted from the loss of an MD-11 at Lufthansa Cargo in July 2010.

Annual impairment testing in 2011 and 2010 did not result in any impairment losses on goodwill.

Further information on impairment testing can be found in "Note 17" from p. 165.

10 Other operating expenses

Other operating expenses

in €m	**2011**	2010
Sales commission paid to agencies	417	477
Rental and maintenance expenses	757	760
Staff-related expenses	868	766
Expenses for computerised distribution systems	344	329
Advertising and sales promotions	325	292
Foreign exchange losses	1,194	1,041
Auditing, consulting and legal expenses	172	128
Other services	137	130
Insurance premiums for flight operations	57	58
Write-downs on receivables	86	109
Communications costs	54	55
Other taxes	63	63
Losses on disposal of non-current assets	24	32
Losses on current available-for-sale financial assets	63	15
Consultancy fees in connection with financial transactions	3	0*
Losses on disposal of other current assets	0*	0*
Miscellaneous other operating expenses	729	748
	5,293	**5,003**

* 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. 160.

Losses from current financial investments include realised losses on the disposal of current securities (EUR 31m) and write-downs on current securities (EUR 32m) recognised in profit or loss.

Losses of EUR 6m were incurred on the disposal of property, plant and equipment in the course of selling one Boeing 737-300, two Canadair Regional Jet 200s and one ATR 42-500.

11 Result from equity investments

Result from equity investments

in €m	2011	2010
Result of joint ventures accounted for using the equity method	34	28
Result of associated companies accounted for using the equity method	−54	18
Result of equity investments accounted for using the equity method	**−20**	**46**
Dividends from other joint ventures	3	2
Dividends from other associated companies	9	16
Income from profit transfer agreements	56	33
Expenses from loss transfer agreements	−5	−10
Dividends from other equity investments	28	16
Result of other equity investments	**91**	**57**
	71	**103**

Income and expenses from profit and loss transfer agreements are shown including tax contributions.

The result from investments accounted for using the equity method was reduced by the negative earnings contributions of EUR −38m (previous year: EUR −2m) from SN Airholding and of EUR −38m (previous year: EUR 0m) from Jade Cargo.

12 Net interest

Net interest

in €m	2011	2010
Income from other securities and non-current financial loans	5	6
Other interest and similar income	185	191
Interest income	**190**	**197**
Interest expenses on pensions obligations	−147	−182
Interest expenses on other provisions	−37	−32
Interest and other similar expenses	−294	−329
Interest expenses	**−478**	**−543**
	−288	**−346**

Net interest from financial instruments calculated under the effective interest method of EUR −104m (previous year: EUR −132m) comes solely from financial instruments not classified as at fair value through profit or loss.

13 Other financial items

Other financial items

in €m	2011	2010
Write-downs on held-for-sale financial assets	−26	−5
Write-downs on loans	−11	−11
Gains / losses on fair value changes of hedged items	14	−43
Gains / losses on fair value changes of derivatives used as fair value hedges	−14	43
Result of derivatives held for trading classified as at fair value through profit or loss	23	25
Ineffective portion of derivatives used as cash flow hedges	−96	−18
	−110	**−9**

14 Income taxes

Income taxes

in €m	2011	2010
Current income taxes	72	220
Deferred income taxes	85	−381
	157	**−161**

Current income taxes for 2011 include corporation tax, solidarity surcharge, trade tax and other income taxes paid outside Germany totalling EUR 119m (previous year: EUR 112m). EUR 47m in tax income was received for prior years (previous year: tax expenses of EUR 109m).

The following table reconciles expected and effective tax expenses. Expected tax expense is calculated by multiplying pre-tax profit by a tax rate of 25 per cent for the parent company (previous year: 25 per cent). This is made up of 15 per cent for corporation tax (previous year: 15 per cent) and 10 per cent for trade tax and solidarity surcharge together (previous year: 10 per cent).

	2011		2010	
in €m	**Basis of assessment**	**Tax expenses**	Basis of assessment	Tax expenses
Expected income tax expense/refund	446	111	1,134	283
Tax-free income, other allowances and permanent differences	–	49	–	–136
Profits from equity investments without deferred taxes	–	–5	–	–16
Difference between local taxes and the deferred tax rates of the parent company*	–	–13	–	–37
Unrecognised tax loss carry-forwards and deferred tax assets on losses	–	14	–	–256
Other	–	1	–	1
Recognised income tax expenses	**–**	**157**	**–**	**–161**

* Including taxes from other periods recognised in effective tax expenses.

In the previous year the row “Unrecognised tax loss carry-forwards and deferred tax assets on losses” contained EUR 190m in income from previously unrecognised tax loss carry-forwards from the LSG Sky Chefs USA group, which could be offset against taxes in the course of the financial restructuring of the Catering segment.

Deferred taxes are recognised on retained earnings of equity investments accounted for using the equity method for the amount of taxes payable on distribution.

Deferred tax liabilities of EUR 15m (previous year: EUR 21m) 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 38m (previous year: EUR 82m) were recognised without effect on profit and loss in the 2011 financial year.

Deferred tax assets and liabilities in 2011 and 2010 are attributable to the following categories:

	31.12.2011		31.12.2010	
in €m	**Assets**	**Liabilities**	Assets	Liabilities
Tax loss carry-forwards, non deductible interest carry-forwards and tax credits	60	–	89	–
Pension provisions	337	–	342	–
Finance leases for aircraft	–	26	–	–
Intangible assets, property, plant and equipment	–	618	–	684
Non-current financial assets	–	34	21	–
Fair value measurement of financial instruments	–	66	10	–
Provisions for contingent losses	48	–	40	–
Receivables/liabilities/other provisions	–	135	–	224
Offset amounts	–515	–515	–503	–503
Other	103	–	83	–
	33	**364**	**82**	**405**

The deferred tax assets and liabilities in the category receivables/liabilities/other provisions are expected to reverse within twelve months of the reporting date.

In addition to recognised deferred tax assets from tax loss carry-forwards, non-deductible interest carry-forwards and tax credits, further tax loss carry-forwards and temporary differences totalling EUR 3,130m (previous year: EUR 2,737m) exist for which no deferred tax assets could be recognised.

Of the unrecognised tax loss carry-forwards, EUR 1m can only be used until 2013, EUR 1m only until 2016, EUR 1m until 2017, EUR 8m until 2018, EUR 4m until 2019, EUR 2m until 2020 and 2,407m can also be used after 2020. A total of EUR 633m (previous year: EUR 564m) in deferred tax assets were not recognised.

15 Result from discontinued operations

The following table shows the result of the discontinued operations at British Midland Group:

in €m	2011	2010
Income	911	912
Expenses	–1,092	–1,068
Current result from discontinued operations before taxes	**–181**	**–156**
Taxes on income and earnings for discontinued operations	26	4
Current result from discontinued operations after taxes	**–155**	**–152**
Valuation/disposal proceeds from discontinued operations	–157	0
Taxes on valuation/disposal proceeds	27	0
Valuation/disposal proceeds from discontinued operations after taxes	**–130**	**0**
Result from discontinued operations	**–285**	**–152**

As a result of the contract for the sale of British Midland Ltd. (bmi) to International Consolidated Airlines Group, S.A. (IAG) signed by Deutsche Lufthansa AG and IAG, an impairment loss of EUR 150m was recognised on assets held for sale. The impairment charge was applied to the individual non-current assets in relation to their share of the carrying amount. The valuation/disposal proceeds also include expenses of EUR 5m for advisory services in connection with the transaction.

Starting from a gross sales price of EUR 207m and deducting financial liabilities (EUR 55m), pension obligations remaining with the Lufthansa Group (EUR 153m) and other price adjustments (in particular for restructuring expenses at bmibaby and British Midland Regional to be paid by Lufthansa), means the net sales price is negative. Adding the negative equity for bmi in the Lufthansa Group and the advisory costs mentioned above gives a total negative valuation/disposal proceeds of EUR 130m.

16 Earnings per share

Basic earnings per share are calculated by dividing consolidated net profit by the weighted average number of shares in circulation during the financial year. To calculate the average number of shares, the shares bought back and reissued for the employee share programmes are included pro rata temporis.

To calculate diluted earnings per share, the maximum number of common shares which can be issued when conversion rights from the convertible bond issued by Deutsche Lufthansa AG on 4 January 2002 are exercised are also added to the average. At the same time, the net profit or loss for the period is increased by the costs incurred for the convertible bond. The maximum number of shares that can arise from a conversion is 336,404 as in the previous year.

		2011	2010
Basic earnings per share	€	**–0.03**	**2.47**
Consolidated net profit/loss	€m	–13	1,131
Weighted average number of shares		457,907,886	457,934,014
Diluted earnings per share	€	**–0.03**	**2.47**
Consolidated net profit/loss	€m	–13	1,131
+ Interest expenses on the convertible bond	€m	+0*	+0*
– Current and deferred taxes	€m	–0*	–0*
Adjusted net profit/loss for the period	€m	–13	1,131
Weighted average number of shares		458,244,290	458,270,418

* Rounded below EUR 1m.

Earnings per share from continuing operations (basic and diluted) came to EUR 0.59 per share (previous year: EUR 2.80), whereas earnings per share from discontinued operations (basic and diluted) came to EUR –0.62 per share (previous year: EUR –0.33)

As the parent company of the Group, Deutsche Lufthansa AG reported distributable earnings of EUR 114m for the 2011 financial year. The Executive Board and Supervisory Board will table a proposal at the Annual General Meeting to be held on 8 May 2012 to pay a dividend of EUR 0.25 per share from this distributable profit.

In 2011 EUR 0.60 per share was distributed as a dividend from the net profit for 2010.

Notes to the consolidated balance sheet

ASSETS

17 Goodwill and intangible assets with an indefinite useful life

in €m	Goodwill from consolidation	Intangible assets with an indefinite useful life	Total
Cost as of 1.1.2010	899	912	1,811
Accumulated impairment losses	–300	–	–300
Carrying amount 1.1.2010	**599**	**912**	**1,511**
Currency translation differences	6	65	71
Additions due to changes in consolidation	–	–	–
Additions	–	0*	0*
Reclassifications	–	–	–
Disposals due to changes in consolidation	–	–	–
Disposals	–	–	–
Reclassifications to assets held for sale	–	–	–
Impairment losses	–	–	–
Reversal of impairment losses	–	–	–
Carrying amount 31.12.2010	**605**	**977**	**1,582**
Cost as of 1.1.2011	906	977	1,883
Accumulated impairment losses	–301	–	–301
Carrying amount 1.1.2011	**605**	**977**	**1,582**
Currency translation differences	0*	18	18
Additions due to changes in consolidation	8	–	8
Additions	–	0*	0*
Reclassifications	–	–	–
Disposals due to changes in consolidation	–	–	–
Disposals	–	–35	–35
Reclassifications to assets held for sale	–	–382	–382
Impairment losses	–	–	–
Reversal of impairment losses	–	–	–
Carrying amount 31.12.2011	**613**	**578**	**1,191**
Cost as of 31.12.2011	914	578	1,492
Accumulated impairment losses	–301	–	–301

* Rounded below EUR 1m.

Apart from goodwill of EUR 8m for Constance Food Group, Inc. acquired by the sales contract signed on 1 November 2011, all goodwill and intangible assets with an indefinite useful life were subjected to a regular impairment test in accordance with IAS 36 in the 2011 financial year. Acquired brands and slots have an indefinite useful life due to their sustainably legal and economic significance. The tests were performed at the level of the smallest cash generating unit (CGU) on the basis of 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 3m	EUR 277m	EUR 52m	EUR 6m	EUR 6m	EUR 12m
Impairment losses	–	–	–	–	–	–	–
Revenue growth p.a. over planning period	4.9% to 9.1%	−2.3% to 1.0%	1.4% to 2.4%	3.0% to 4.5%	4.0% to 7.0%	0.9% to 5.0%	−6.9% to 6.0%
EBITDA margin over planning period	8.7% to 10.2%	23.4% to 26.7%	7.0% to 8.4%	28.0% to 29.5%	16.4%	11.2% to14.0%	1.4% to 30.0%
Investment ratio over planning period	7.6% to 10.2%	7.4% to 42.0%	2.4% to 5.0%	1.7%	1.5% to 2.0%	1.0% to 1.4%	0.0% to 4.4%
Duration of planning period	3 years	3 years	5 years	5 years	5 years	5 years	5 years
Revenue growth p.a. after end of planning period	4.1%	1.0%	2.0%	3.0%	4.0%	4.0%	1.0% to 4.0%
EBITDA margin after end of planning period	10.2%	26.7%	8.4%	29.5%	16.4%	14.0%	2.5% to 20.5%
Investment ratio after end of planning period	9.4%	7.4%	2.4%	1.7%	1.5%	1.0%	1.0% to 4.0%
Discount rate	7.2%	8.0%	7.7%	7.5%	7.2%	7.2%	7.2% to 8.0%

* 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 4.1 per cent at the end of the planning period by Lufthansa AG and its regional partners as described in the table, the recoverable amount would exceed the carrying amount by a considerable figure. Even if the assumptions for revenue growth and/or the discount rate were to be reduced substantially, which is not likely, the recoverable amount would exceed the carrying amount.

Assuming sustained revenue growth of 2.0 per cent at the end of the planning period by the LSG Sky Chefs USA Group as described in the table, the recoverable amount would exceed the carrying amount by a considerable sum. Even if the assumptions for revenue growth and/or the discount rate were to be reduced substantially, which is not likely, the recoverable amount would exceed the carrying amount.

The EBITDA margins used are based on past experience or were developed on the basis of cost-cutting measures initiated. The investment rates are based on past experience and take account of the replacement of any means of production envisaged during the planning period.

The intangible assets with indefinite useful lives consist of slots purchased as part of company acquisitions and brand names acquired.

The following table shows the assumptions made for regular impairment testing of the smallest cash-generating unit (CGU) in each case. The assumptions made for the CGU Deutsche Lufthansa AG and regional partners are the same as those made for the acquired goodwill.

Name of the CGU	SWISS	AUA
Segment	Passenger Airline Group	Passenger Airline Group
Carrying amount for slots	EUR 118m	EUR 25m
Impairment losses	–	–
Revenue growth p.a. in planning period	3.8% to 4.4%	10.1% to 11.3%
EBITDA margin over planning period	14.7% to 15.7%	6.5% to 7.4%
Investment ratio over planning period	4.7% to 12.1%	2.7% to 4.2%
Duration of planning period	3 years	3 years
Revenue growth p.a. after end of planning period	2.0%	4.1%
EBITDA margin after end of planning period	15.7%	7.4%
Investment ratio after end of planning period	9.0%	5.6%
Discount rate	7.7%	7.2%

Assuming sustained revenue growth by Swiss of 2.0 per cent at the end of the planning period as described in the table, the recoverable amount would be well in excess of the carrying amount. Even if the assumptions for revenue growth and/or the discount rate were to be reduced substantially, which is not likely, the recoverable amount would exceed the carrying amount.

Assuming sustained revenue growth by AUA of 4.1 per cent at the end of the planning period as described in the table, the recoverable amount would exceed the carrying amount by a considerable sum. Only if revenue declines by 1.7 per cent or the discount rate is increased to 11.5 per cent does the recoverable amount match the carrying amount.

The carrying amount of EUR 255m for the acquired slots was tested for impairment on the basis of the value in use at the level of the smallest cash generating unit (CGU). There were no impairment charges to be made in the Passenger Airline Group segment.

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
Carrying amount for brand	EUR 213m	EUR 109m
Impairment losses	–	–
Revenue growth for brand p.a. in planning period	3.9% to 4.8%	13.2% to 15.2%
Duration of planning period	3 years	3 years
Revenue growth p.a. after end of planning period	1.8%	2.0%
Savings in hypothetical leasing payments before taxes (royalty rate)	0.6%	0.35%
Discount rate*	6.5%	6.5%

* After-tax rate.

Assuming sustained revenue growth associated with the brand after the end of the planning period of 1.8 per cent, the recoverable amount for the SWISS brand exceeds the carrying amount by EUR 315m. Even if the assumptions for brand-related revenue growth were to be reduced substantially, which is not likely, the recoverable amount would exceed the carrying amount.

Assuming sustained revenue growth associated with the brand after the end of the planning period of 2.0 per cent, the recoverable amount for the AUA brands exceeds the carrying amount by EUR 17m. Only if revenue declines by 1.2 per cent or the discount rate is increased to 7.2 per cent does the recoverable amount match the carrying amount.

The bmi slots and the bmi brand presented in this item in the previous year are shown in the reporting year under assets held for sale.

18 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 1.1.2010	726	109	112	947
Accumulated amortisation	–484	–92	–43	–619
Carrying amount 1.1.2010	**242**	**17**	**69**	**328**
Currency translation differences	25	0*	1	26
Additions due to changes in consolidation	7	–	–	7
Additions	31	1	22	54
Reclassifications	26	30	–51	5
Disposals due to changes in consolidation	–	–	–	–
Disposals	–	–	–1	–1
Reclassifications to assets held for sale	–	–	–	–
Amortisation	–64	–26	–	–90
Reversal of impairment losses	–	–	–	–
Carrying amount 31.12.2010	**267**	**22**	**40**	**329**
Cost as of 1.1.2011	800	140	41	981
Accumulated amortisation	–533	–118	–1	–652
Carrying amount 1.1.2011	**267**	**22**	**40**	**329**
Currency translation differences	5	1	0*	6
Additions due to changes in consolidation	8	0*	–	8
Additions	89	15	31	135
Reclassifications	12	4	–13	3
Disposals due to changes in consolidation	–	–	–	–
Disposals	–4	0*	0*	–4
Reclassifications to assets held for sale	–2	–	–	–2
Amortisation	–79	–12	–	–91
Reversal of impairment losses	–	–	–	–
Carrying amount 31.12.2011	**296**	**30**	**58**	**384**
Cost as of 31.12.2011	839	143	58	1,040
Accumulated amortisation	–543	–113	0*	–656

* Rounded below EUR 1m.

Intangible assets carried at EUR 1m (previous year: EUR 5m) were acquired by means of finance leases. Non-capitalised research and development expenses for intangible assets of EUR 13m (previous year: EUR 8m) were incurred in the period. Firm orders have been placed for intangible assets worth EUR 11m (previous year: EUR 8m), but they are not yet at the Group's economic disposal.

19 Aircraft and reserve engines

in €m	Aircraft and reserve engines	Advance payments for aircraft and reserve engines	**Total**
Cost as of 1.1.2010	19,973	1,282	21,255
Accumulated depreciation	–10,811	–	–10,811
Carrying amount 1.1.2010	**9,162**	**1,282**	**10,444**
Currency translation differences	271	42	313
Additions due to changes in consolidation	0*	–	0*
Additions	1,434	561	1,995
Reclassifications	731	–726	5
Disposals due to changes in consolidation	–	–	–
Disposals	–53	–6	–59
Reclassifications to assets held for sale	–187	–	–187
Depreciation	–1,358	–	–1,358
Reversal of impairment losses	–	–	–
Carrying amount 31.12.2010	**10,000**	**1,153**	**11,153**
Cost as of 1.1.2011	21,699	1,153	22,852
Accumulated depreciation	–11,699	–	–11,699
Carrying amount 1.1.2011	**10,000**	**1,153**	**11,153**
Currency translation differences	62	16	78
Additions due to changes in consolidation	–	–	–
Additions	1,215	830	2,045
Reclassifications	652	–654	–2
Disposals due to changes in consolidation	–	–	–
Disposals	–42	–1	–43
Reclassifications to assets held for sale	–198	–	–198
Depreciation	–1,444	–	–1,444
Reversal of impairment losses	3	–	3
Carrying amount 31.12.2011	**10,248**	**1,344**	**11,592**
Cost as of 31.12.2011	22,486	1,344	23,830
Accumulated depreciation	–12,238	–	–12,238

* 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 265m (previous year: EUR 336m), 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 2011, as in the previous year, EUR 7m was recognised in other operating income.

The item also includes 47 aircraft carried at EUR 1,308m (previous year: 56 aircraft carried at EUR 1,728m), 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 7.6bn (previous year: EUR 6.8bn).

Within this item aircraft held at EUR 2,807m (previous year: EUR 3,245m) serve as collateral for current financing arrangements and aircraft held at EUR 293m (previous year: EUR 342m) were also acquired under finance leases, see “Note 22” from p. 172.

20 Property, plant and other equipment

in €m	Land and buildings	Technical equipment and machinery	Other equipment, operating and office equipment	Advance payments and plant under construction	**Total**
Cost as of 1.1.2010	2,297	1,008	1,218	65	4,588
Accumulated depreciation	−853	−703	−875	–	−2,431
Carrying amount 1.1.2010	**1,444**	**305**	**343**	**65**	**2,157**
Currency translation differences	18	7	6	1	32
Additions due to changes in consolidation	13	2	6	0*	21
Additions	16	24	87	46	173
Reclassifications	18	11	25	−64	−10
Disposals due to changes in consolidation	–	–	–	–	–
Disposals	−5	−4	−8	−4	−21
Reclassifications to assets held for sale	–	–	–	–	–
Depreciation	−77	−52	−104	–	−233
Reversal of impairment losses	1	–	–	–	1
Carrying amount 31.12.2010	**1,428**	**293**	**355**	**44**	**2,120**
Cost as of 1.1.2011	2,372	1,015	1,265	44	4,696
Accumulated depreciation	−944	−722	−910	–	−2,576
Carrying amount 1.1.2011	**1,428**	**293**	**355**	**44**	**2,120**
Currency translation differences	2	1	1	0*	4
Additions due to changes in consolidation	0*	1	1	–	2
Additions	39	45	121	60	265
Reclassifications	12	12	9	−33	–
Disposals due to changes in consolidation	–	–	–	–	–
Disposals	−21	−2	−7	0*	−30
Reclassifications to assets held for sale	−13	−1	0*	–	−14
Depreciation	−75	−51	−103	–	−229
Reversal of impairment losses	0*	–	–	–	0*
Carrying amount 31.12.2011	**1,372**	**298**	**377**	**71**	**2,118**
Cost as of 31.12.2011	2,335	1,044	1,286	71	4,736
Accumulated depreciation	−963	−746	−909	–	−2,618

* Rounded below EUR 1m.

Charges of EUR 4m (previous year: EUR 21m) exist over land and property. As in the previous year, pre-emption rights are registered for land held at EUR 243m (previous year: EUR 251m). Other property, plant and equipment carried at EUR 29m (previous year: EUR 39m) serves as collateral for existing financing arrangements. Miscellaneous equipment carried at EUR 157m (previous year: EUR 192m) was acquired by means of finance leases, see "Note 22" from p. 172.

The following items of property, plant and equipment have been ordered, but are not yet at the Group's economic disposal:

in €m	31.12.2011	31.12.2010
Land and buildings	12	2
Technical equipment	12	23
Operating and office equipment	62	35
	86	**60**

21 Investment property

in €m	Investment property
Cost as of 1.1.2010	3
Accumulated depreciation	0*
Carrying amount 1.1.2010	**3**
Currency translation differences	0*
Additions due to changes in consolidation	–
Additions	–
Reclassifications	–
Disposals due to changes in consolidation	–
Disposals	−3
Reclassifications to assets held for sale	–
Depreciation	–
Reversal of impairment losses	–
Carrying amount 31.12.2010	**0***
Cost as of 1.1.2011	0*
Accumulated depreciation	0*
Carrying amount 1.1.2011	**0***
Currency translation differences	–
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 31.12.2011	**0***
Cost as of 31.12.2011	0*
Accumulated depreciation	–

* Rounded below EUR 1m.

A plot of land held solely as investment property has a carrying amount of EUR 0.1m, as in the previous year. Its fair value as estimated by surveyors using market data is EUR 2m (previous year: EUR 1m).

22 Assets for which the Group is lessor or lessee

Property, plant and equipment also includes leased assets which are deemed to be the property of the Group as the underlying contracts are structured as finance leases. The following table shows leased assets for which the Group is either lessor or lessee:

in €m	Lessor of aircraft and reserve engines	Lessee of aircraft and reserve engines	Lessee and 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 1.1.2010	269	387	–	273	–	6	16
Accumulated depreciation	–175	–110	–	–71	–	0*	–16
Carrying amount 1.1.2010	**94**	**277**	**–**	**202**	**–**	**6**	**0***
Currency translation differences	–	49	–	7	–	0*	0*
Additions due to changes in consolidation	–	–	–	–	–	–	–
Additions	–	76	–	1	–	0*	–
Reclassifications	78	5	9	–5	–	0*	–
Disposals due to changes in consolidation	–	–	–	–	–	–	–
Disposals	–24	–	–	0*	–	0*	–
Reclassifications to assets held for sale	–40	–3	–	–	–	–	–
Depreciation	–5	–62	–1	–14	–	0*	0*
Reversal of impairment losses	–	–	–	–	–	–	–
Carrying amount 31.12.2010	**103**	**342**	**8**	**191**	**–**	**6**	**0***
Cost as of 1.1.2011	219	489	9	275	–	7	1
Accumulated depreciation	–116	–147	–1	–84	–	–1	–1
Carrying amount 1.1.2011	**103**	**342**	**8**	**191**	**–**	**6**	**0***
Currency translation differences	–	10	–	1	–	0*	0*
Additions due to changes in consolidation	–	–	–	–	–	–	–
Additions	–	32	–	2	–	0*	1
Reclassifications	0*	31	0*	0*	–	–4	
Disposals due to changes in consolidation	–	–	–	–	–	–	–
Disposals	0*	–	–	–18	–	–1	–
Reclassifications to assets held for sale	–	–46	–	–5	–	–	–
Depreciation	–7	–76	–1	–14	–	–1	0*
Reversal of impairment losses	–	–	–	–	–	–	–
Carrying amount 31.12.2011	**96**	**293**	**7**	**157**	**–**	**0***	**1**
Cost as of 31.12.2011	201	505	9	248	–	7	2
Accumulated depreciation	–105	–212	–2	–91	–	–7	–1

* Rounded below EUR 1m.

Finance leases

The total amount of leased assets attributed to the Group's economic ownership under IAS 17 is EUR 458m (previous year: EUR 547m), of which EUR 300m (previous year: EUR 350m) relates to aircraft (two Airbus A340s, five Airbus A321s, eleven Airbus A320s, four Airbus A319s, two Boeing B767s, three Boeing B737s, three Embraer 145s 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 Euribor or Libor rate.

In addition, the Group has a variety of finance leases for buildings, fixtures and for operating and office equipment. For buildings and fixtures the leases run for 15 to 30 years. The lease agreements have lease payments based partly on variable and partly on fixed interest rates, and some have purchase options at the end of the lease term. The agreements cannot be terminated. Options for extending the contracts generally rest with the lessee, if at all.

For technical equipment and operating and office equipment the lease terms are generally from four to five years. The leases normally have fixed lease payments and occasionally also have purchase options at the end of the lease term. The contracts cannot normally be extended by the lessee and cannot be cancelled.

The following lease payments are due for finance leases, whereby the variable lease payments have been extrapolated on the basis of the most recent interest rate:

in €m	2012	2013–2016	from 2017
Lease payments	79	251	136
Discounted amounts	10	36	36
Present values	69	215	100
Payments from sub-leasing	2	2	0

In the previous year the following figures were given for finance leases:

in €m	2011	2012–2015	from 2016
Lease payments	92	338	261
Discounted amounts	7	69	129
Present values	85	269	132
Payments from sub-leasing	2	4	0

Two aircraft legally owned by the Group at the end of 2011 have been let to third parties under finance leases until 2016 and 2019 respectively. The leases are to generate the following cash inflows in subsequent periods:

in €m	2012	2013–2016	from 2017
Lease payments	6	25	10
Discounted amounts	1	4	1
Present values	5	21	9

The previous year the following amounts were given for a finance lease running until 2016:

in €m	2011	2012–2015	from 2016
Lease payments	2	8	5
Discounted amounts	0	2	2
Present values	2	6	3

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 86 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	2012	2013–2016	from 2017
Aircraft	114	141	7 p.a.
Various buildings	227	848	195 p.a.
Other leases	64	226	49 p.a.
	405	**1,215**	**251 p.a.**
Payments from sub-leasing	19	25	2 p.a.

In the previous year the following figures were given for operating leases:

in €m	2011	2012 – 2015	from 2016
Aircraft	210	377	30 p.a.
Various buildings	237	886	198 p.a.
Other leases	75	256	54 p.a.
	522	**1,519**	**282 p.a.**
Payments from sub-leasing	17	39	2 p.a.

Seven aircraft and reserve engines, legally and economically the property of the Group at the end of 2011, 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	2012	2013 – 2016	from 2017
Payments received from operating leases	17	10	3 p.a.

Eleven aircraft as well as reserve engines and intangible assets, legally and economically the property of the Group at the end of 2010, were leased to third parties under non-terminable operating leases. These leases gave rise to the following payments:

in €m	2011	2012 – 2015	from 2016
Aircraft	19	12	5 p.a.
Intangible assets	11	8	–
	30	**20**	**5 p.a.**

23 Investments accounted for using the equity method

in €m	Investments in joint ventures	Investments in associated companies	**Total**
Cost as of 1.1.2010	145	183	328
Accumulated impairment losses	–	–8	–8
Carrying amount 1.1.2010	**145**	**175**	**320**
Currency translation differences	11	7	18
Additions due to changes in consolidation	–	–	–
Additions	39	18	57
Reclassifications	31	–	31
Disposals due to changes in consolidation	–	–	–
Disposals	–28	–7	–35
Reclassifications to assets held for sale	–2	–4	–6
Impairment losses	–	–	–
Reversal of impairment losses	–	–	–
Carrying amount 31.12.2010	**196**	**189**	**385**
Cost as of 1.1.2011	196	194	390
Accumulated impairment losses	–	–5	–5
Carrying amount 1.1.2011	**196**	**189**	**385**
Currency translation differences	9	4	13
Additions due to changes in consolidation	–	–	–
Additions	37	32	69
Reclassifications	–	–	–
Disposals due to changes in consolidation	–	–	–
Disposals	–17	–56	–73
Reclassifications to assets held for sale	–	–	–
Impairment losses	–	–	–
Reversal of impairment losses	–	–	–
Carrying amount 31.12.2011	**225**	**169**	**394**
Cost as of 31.12.2011	225	174	399
Accumulated impairment losses	–	–5	–5

In the previous year the carrying amount of one associated company was not reduced below EUR 0m, and losses of EUR 16m at associated companies were not taken into account.

24 Financial assets by category

Financial assets in the balance sheet as of 31.12.2011

in €m	Loans and receivables	At fair value through profit or loss	Available for sale	Derivative financial instruments which are an effective part of a hedging relationship
Other equity investments	–	–	898	–
Non-current securities	–	–	134	–
Loans	190	–	–	–
Non-current receivables	386	–	–	–
Non-current derivative financial instruments	–	155	–	188
Trade receivables and other current receivables	3,437	–	–	–
Current derivative financial instruments	–	144	–	270
Current securities	–	–	3,111	–
Cash and cash equivalents	–	–	887	–
Total	**4,013**	**299**	**5,030**	**458**

Financial assets in the balance sheet as of 31.12.2010

in €m	Loans and receivables	At fair value through profit or loss	Available for sale	Derivative financial instruments which are an effective part of a hedging relationship
Other equity investments	–	–	1,128	–
Non-current securities	–	–	250	–
Loans	170	–	–	–
Non-current receivables	450	–	–	–
Non-current derivative financial instruments	–	124	–	226
Trade receivables and other current receivables	3,401	–	–	
Current derivative financial instruments	–	167	–	317
Current securities	–	7	4,276	–
Cash and cash equivalents	–	–	1,097	–
Total	**4,021**	**298**	**6,751**	**543**

The financial assets in the category “at fair value through profit or loss” in both financial years include assets held for trading and time values of options used for hedging of EUR 174m (previous year: EUR 218m) which following an amendment to IAS 39 are to be recognised in the financial result. Otherwise, no financial assets have been classified as “at fair value through profit or loss”.

The net result of the different categories of financial assets is made up as follows:

2011

in €m	Other operating income	Other operating expenses	Result of equity investments	Other financial items	**Net result**
Loans and receivables	32	–86	–	–11	**–65**
Financial assets at fair value through profit or loss	–	–	–	23	**23**
Ineffective portion of derivatives used as cash flow hedges	–	–	–	–96	**–96**
Available-for-sale financial assets	12	–63	–	–26	**–77**

2010

in €m	Other operating income	Other operating expenses	Result of equity investments	Other financial items	**Net result**
Loans and receivables	52	–109	–	–11	**–68**
Financial assets at fair value through profit or loss	–	–	–	25	**25**
Ineffective portion of derivatives used as cash flow hedges	–	–	–	–18	**–18**
Available-for-sale financial assets	210	–15	–	–5	**190**

Financial assets held at fair value by level of fair value hierarchy

The following table shows financial assets held at fair value by level of fair value hierarchy. The levels are defined as follows:

Level 1:

- Financial instruments traded on active markets the quoted prices for which are taken for measurement unchanged.

Level 2:

- Measurement is made by means of valuation methods with parameters derived directly or indirectly from observable market data.

Level 3:

- Measurement is made by means of valuation methods with parameters not based exclusively on observable market data.

Assets as of 31.12.2011

in €m	Level 1	Level 2	Level 3	**Total**
Financial assets at fair value through profit and loss	–	–	–	–
Financial derivatives classified as held for trading	–	299	–	299
Current securities	–	0*	0*	0*
Total financial assets through profit and loss	**–**	**299**	**0***	**299**
Derivative financial instruments which are an effective part of a hedging relationship	**–**	**458**	**–**	**458**
Available-for-sale financial assets				
Equity instruments	787	–	–	787
Debt instruments	662	2,396	6	3,064
	1,449	**2,396**	**6**	**3,851**
Total assets	**1,449**	**3,153**	**6**	**4,608**

* Rounded below EUR 1m.

In the financial year 2010 the fair value hierarchy for assets held at fair value was as follows:

Assets as of 31.12.2010

in €m	Level 1	Level 2	Level 3	**Total**
Financial assets at fair value through profit and loss	–	–	–	–
Financial derivatives classified as held for trading	–	291	–	291
Current securities	–	3	4	7
Total financial assets through profit and loss	**–**	**294**	**4**	**298**
Derivative financial instruments which are an effective part of a hedging relationship	**–**	**543**	**–**	**543**
Available-for-sale financial assets				
Equity instruments	841	–	–	841
Debt instruments	809	3,684	20	4,513
	1,650	**3,684**	**20**	**5,354**
Total assets	**1,650**	**4,521**	**24**	**6,195**

Additional disclosures on financial assets in Level 3 as of 31.12.2011

in €m	1.1.2011	Recognised in result for the period	Change in market value recognised in equity	Additions/ Disposals	**31.12.2011**
Financial assets at fair value through profit or loss	4	4	–	−8	0*
Available-for-sale financial assets	20	3	0*	−17	6
Total	**24**	**7**	**0***	**−25**	**6**

* Rounded below EUR 1m.

Additional disclosures on financial assets in Level 3 as of 31.12.2010

in €m	1.1.2010	Recognised in result for the period	Change in market value recognised in equity	Additions/ Disposals	**31.12.2010**
Financial assets at fair value through profit or loss	3	1	–	0*	4
Available-for-sale financial assets	24	0*	0*	−4	20
Total	**27**	**1**	**0***	**−4**	**24**

* Rounded below EUR 1m.

25 Other equity investments and non-current securities

The following table shows changes in other equity investments and non-current securities in the years 2011 and 2010:

in €m	Investments in affiliated companies	Equity investments	Non-current securities	**Total**
Cost as of 1.1.2010	361	814	354	1,529
Accumulated impairment losses	–44	–253	–5	–302
Carrying amount 1.1.2010	**317**	**561**	**349**	**1,227**
Currency translation differences	4	0*	0*	4
Additions due to changes in consolidation	–	–	–	–
Additions	12	667	3	682
Reclassifications	–34	–1	–	–35
Disposals due to changes in consolidation	–11	–	–	–11
Disposals	–5	–377	–102	–484
Reclassifications to assets held for sale	–	–	–	–
Impairment losses	–5	–	0*	–5
Reversal of impairment losses	–	–	–	–
Carrying amount 31.12.2010	**278**	**850**	**250**	**1,378**
Cost as of 1.1.2011	327	979	250	1,556
Accumulated impairment losses	–49	–129	0*	–178
Carrying amount 1.1.2011	**278**	**850**	**250**	**1,378**
Currency translation differences	1	0*	0*	1
Additions due to changes in consolidation	–	–	–	–
Additions	16	1	15	32
Reclassifications	0*	–	–	–
Disposals due to changes in consolidation	–	–	–	–
Disposals	–5	–166	–131	–302
Reclassifications to assets held for sale	–51	–	–	–51
Impairment losses	–25	–1	0*	–26
Reversal of impairment losses	–	–	–	–
Carrying amount 31.12.2011	**214**	**684**	**134**	**1,032**
Cost as of 31.12.2011	285	817	133	1,235
Accumulated impairment losses	–71	–133	1	–203

* Rounded below EUR 1m.

Equity investments and securities are recognised at fair value if there is an active market for them with publicly available prices. For equity investments held at EUR 20m (previous year: EUR 20m) and non-current securities held at EUR 9m (previous year: EUR 8m) there is no active market with publicly available market prices. In the financial year 2011 securities with a carrying amount of EUR 130m, whose fair value could not previously be measured for lack of an active market, were sold for the same amount. Furthermore, equity investments and securities held at EUR 6m were sold, which had previously not been held at fair value as there was no active market for them. This resulted in a loss of EUR 2m.

Securities held at EUR 10m (previous year: EUR 11m) were pledged as collateral for liabilities.

26 Non-current loans and receivables

Loans and receivables

in €m	31.12.2011	31.12.2010
Loans to and receivables from affiliated companies	51	84
Loans to and receivables from other equity investments	0*	0*
Other loans and receivables	524	535
Pre-financed rental property	1	1
Emissions certificates	40	–
	616	**620**

* Rounded below EUR 1m.

The carrying amount of non-current loans and receivables corresponds to their fair value, as they earn floating rate or market standard interest.

For the impairment test for emissions certificates we refer to the disclosures on the cash-generating units (CGU) Deutsche Lufthansa AG (including regional partners), Swiss and AUA in the Notes to the consolidated financial statements, see "Note 17" from p. 165.

Collateral received for other loans has a fair value of EUR 3m (previous year: EUR 3m).

Other receivables include expected reimbursements for obligations for which provisions have been made amounting to EUR 1m (previous year: EUR 2m).

Of the non-current receivables, EUR 60m (previous year: EUR 122m) serves as collateral for liabilities.

27 Derivative financial instruments

Derivative financial instruments qualifying as effective hedging instruments within a hedging relationship have the following balances:

Derivative financial instruments

in €m	31.12.2011	31.12.2010
Positive market values – long-term	188	226
Positive market values – short-term	270	317
Negative market values – long-term	–16	–78
Negative market values – short-term	–20	–85
	422	**380**

They relate to the following hedged items:

in €m	31.12.2011	31.12.2010
Fuel price hedges	141	311
Exchange rate hedges	163	–76
Interest rate hedges	118	145

Derivative financial instruments measured at fair value through profit or loss are shown in the following table:

Trading portion

in €m	31.12.2011	31.12.2010
Positive market values – long-term	155	124
Positive market values – short-term	144	167
Negative market values – long-term	–39	–33
Negative market values – short-term	–17	–18
	243	**240**

The positive and negative market values shown are from derivatives that do not qualify under IAS 39 as effective hedging instruments within a hedging relationship as well as the fair values of options used for hedging.

Fair values are all calculated on the basis of recognised financial and mathematical methods, using publicly available market information.

28 Inventories

Inventories

in €m	31.12.2011	31.12.2010
Raw materials, consumables and supplies	512	550
Finished goods and work in progress	108	111
Advance payments	0*	1
	620	**662**

* Rounded below EUR 1m.

Inventories valued at EUR 30m (previous year: EUR 39m) are pledged as collateral for loans.

The gross value of inventories as of 31 December 2011 was EUR 806m (previous year: EUR 841m). Of these, inventories at a carrying amount of EUR 495m (previous year: EUR 499m) were recognised at fair value less costs to sell (net realisable value). Write-downs of EUR 186m (previous year EUR 179m) were made to net realisable value. In the reporting period new write-downs were made for EUR 23m (previous year: EUR 30m). Write-downs of EUR 11m made the previous year were reversed (previous year: EUR 4m).

29 Trade receivables and other receivables

in €m	31.12.2011	31.12.2010
Trade receivables		
Trade receivables from affiliated companies	92	125
Trade receivables from other equity investments	2	3
Trade receivables from third parties	2,744	2,543
	2,838	**2,662**
of which: from unfinished orders less advance payments received	(151)	(148)
Other receivables		
Receivables from affiliated companies	165	93
Receivables from other equity investments	6	0*
Other receivables	428	646
	599	**739**
Total	**3,437**	**3,401**

* Rounded below EUR 1m.

The carrying amount of these receivables corresponds to their fair value.

Collateral received for trade receivables has a fair value of EUR 1m, as in the previous year.

EUR 8m of trade receivables (previous year: EUR 61m) was pledged as collateral for loans.

Other receivables include expected reimbursements for obligations for which provisions have been made amounting to EUR 2m (previous year: EUR 5m).

30 Deferred charges and prepaid expenses

Deferred charges and prepaid expenses consist mainly of rents, insurance premiums and interest paid in advance for subsequent periods.

31 Current securities

Current securities are almost exclusively fixed income securities, participation certificates and investments in money market funds. They are held at fair value, derived almost entirely from publicly available market prices in active markets.

32 Cash and cash equivalents

The bank balances denominated in euros with various banks mostly earned interest at a rate of 0.4 to 1.5 per cent (previous year: 0.3 to 1.5 per cent). USD balances were invested at an average interest rate of 0.4 per cent (previous year: 1.5 per cent) and balances in Swiss francs at an average rate of 0.35 per cent (previous year: 0.25 per cent).

EUR 17m of the bank balances (previous year: EUR 47m) was pledged as collateral for liabilities.

Bank balances in foreign currencies are translated at the exchange rate on the balance sheet date.

33 Assets held for sale

The assets of British Midland Ltd. presented as held for sale are made up as follows:

in €m	
Intangible assets	255
Aircraft and reserve engines	99
Repairable spare parts for aircraft	17
Property, plant and other equipment	8
Financial investments	47
Other assets	150
	576

Intangible assets consist of EUR 239m for bmi's slots and EUR 15m for the bmi brand name. Financial investments include a 59.38 per cent stake in British Mediterranean Airways Ltd. held at EUR 37m.

Impairment losses of EUR 150m were recognised for intangible assets and property, plant and equipment in the financial year 2011 and form part of the result from discontinued operations.

The following liabilities form part of the same disposal group and are also shown separately in the balance sheet:

in €m	
Other provisions	153
Borrowings	69
Other liabilities	403
Deferred income tax liabilities	65
	690

Assets held for sale also include assets with a carrying amount of EUR 32m from the spin-off and sale of the private customer business of AirPlus Air Travel Card Vertriebsgesellschaft mbH. Liabilities of EUR 26m form part of the same disposal group.

At year-end 2011 asset held for sale also included two Boeing B747-400s, two Airbus A340-300s, six Boeing B737-300s, one Airbus A330-300, three Canadair Regional Jet 200s and five Avro RJs with a total carrying amount of EUR 64m. Impairment losses of EUR 52m were recognised on these assets.

At year-end 2010 this item consisted of one Airbus A340-300, one Airbus A330-200, two Airbus A330-300s, six Canadair Regional Jet 200s, five ATR 42-500s, two Dash 8-300s and four Cessna Citations. Of the two Airbus A330-300s one was let on a finance lease in the 2011 financial year and the second was also let on a finance lease in February of the financial year 2012. The other assets were sold in financial year 2011, see “Note 45” on p. 194.

Collateral received for the assets shown here has a fair value of EUR 8m.

SHAREHOLDERS’ EQUITY AND LIABILITIES

34 Issued capital

Deutsche Lufthansa AG’s issued capital totals EUR 1,172.3m. Issued capital is divided into 457,937,572 registered shares, with each share representing EUR 2.56 of issued capital.

A resolution passed at the Annual General Meeting on 29 April 2010 authorised the Executive Board until 28 April 2015, subject to approval by the Supervisory Board, to increase the Company’s issued capital on one or more occasions by up to EUR 561,160,092 by issuing new registered shares on one or more occasions for payment in cash or in kind (Authorised Capital A). Existing shareholders are to be granted subscription rights. In the case of shares issued for payment in kind these rights may be ruled out, while in the case of shares issued for payment in cash they may be ruled out for residual amounts. The Executive Board is further authorised in the case of a capital increase against cash contributions to rule out, subject to approval by the Supervisory Board, a subscription right for existing shareholders on condition that the new shares so issued must not exceed 10 per cent of the issued capital and that the issue price must not be significantly lower than the market price.

A resolution passed at the Annual General Meeting on 3 May 2011 authorised the Executive Board until 2 May 2016, subject to approval by the Supervisory Board, to issue bearer or registered convertible bonds, bond/warrant packages, profit sharing rights or participating bonds (or combinations of these instruments), on one or more occasions, for a total nominal value of up to EUR 1.5bn, with or without restrictions on maturity. To do so, contingent capital (contingent capital II) was created for a contingent capital increase of up to EUR 234,464,035.80, by issuing up to 91,587,514 new registered shares. The contingent capital increase will only take place insofar as the holders of convertible bonds or warrants from bond/warrant packages decide to exercise their conversion and/or option rights.

The resolution passed at the Annual General Meeting on 17 May 2006 authorising the Executive Board until 16 May 2011 to issue convertible bonds and/or bond/warrant packages and to create contingent capital II of EUR 117,227,520 for conversion is suspended.

Under the authorisation dated 16 June 1999 Deutsche Lufthansa AG had issued EUR 750m in convertible bonds with effect from 4 January 2002. The pre-emptive right of the old shareholders was excluded. A total of 750,000 rights of conversion were issued that after the 2004 capital increase entitled the holders to convert them into up to 37,764,350 Lufthansa AG shares at a price of EUR 19.86 each. Convertible bonds were converted early on 4 January 2006 for a total of EUR 699m, 309 conversion rights were exercised (15,558 shares) in 2006, a further 40 conversion rights (2,014 shares) were exercised in 2007 and as of 4 January 2008 convertible bonds amounting to EUR 205,000, and to EUR 43,458,000 on 4 January 2010, were redeemed. As of the balance sheet date there were therefore 6,681 conversion rights outstanding, convertible into up to 336,404 shares in Deutsche Lufthansa AG at a price of EUR 19.86.

There was subsequently contingent capital available (contingent capital I) for a contingent increase in issued capital of up to EUR 97,644,615.68 through the issue of 38,142,428 new registered shares.

A resolution passed at the Annual General Meeting on 24 April 2009 authorised the Executive Board until 23 April 2014, subject to approval by the Supervisory Board, to increase the issued capital by up to EUR 25m, by issuing new registered shares to employees (Authorised Capital B) for payment in cash. Existing shareholders' subscription rights are excluded.

A resolution passed at the Annual General Meeting held on 29 April 2010 authorised the Executive Board pursuant to Section 71 Paragraph 1 No. 8 Stock Corporation Act (AktG) to purchase treasury shares until 28 April 2015. The authorisation is limited to 10 per cent of current issued capital which can be purchased on the stock exchange or by a public purchase offer to all shareholders.

In 2011 Deutsche Lufthansa AG bought back a total of 2,367,884 of its own shares at an average price of EUR 10.35. This is equivalent to 0.52 per cent of issued capital.

The shares were used as follows:

- 1,396,042 shares were offered to the staff of Lufthansa AG and 40 other affiliated companies and equity investments as part of the profit-sharing scheme for 2010, at a share price of EUR 10.87.
- 971,712 shares were used as part of performance-related variable remuneration in 2011 for managers and non-payscale staff of Deutsche Lufthansa AG and 31 further affiliated companies and equity investments at a price of EUR 9.60.
- 130 shares were allocated to managers and non-payscale staff as part of performance-related remuneration for 2010 at a price of EUR 15.91.

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 2011 and 2010, equity and total assets were as follows:

in €m	**31.12.2011**	31.12.2010
Shareholders' equity	8,044	8,340
in per cent of total assets	28.6	28.4
Liabilities	20,037	20,980
in per cent of total assets	71.4	71.6
Total capital	**28,081**	**29,320**

In the financial year 2011 the equity ratio rose again year on year by 0.2 percentage points to EUR 28.6 per cent. As balance sheet equity declined by EUR 296m to EUR 8.0bn, this is largely the result of a sharp fall in financial liabilities and pension provisions.

Lufthansa is not subject to any statute-like capital requirements. Obligations to issue shares still exist in connection with the convertible bond to the extent that the options have not yet been exercised. No conversion rights were exercised in 2011, as in the previous year. The conversion rights still outstanding are listed in the comments on contingent capital.

35 Notifications on the shareholder structure

Notifications on the shareholder structure in accordance with Section 26 Paragraph 1 WpHG (Securities Trading Act) dated 18 January 2011

On 14 January 2011 BlackRock Investment Management (UK) Limited, London, UK, notified us on behalf and with the authorisation of the following companies as follows: The voting rights of BlackRock Inc., New York, USA, in Deutsche Lufthansa AG fell below the threshold of 5 per cent on 10 January 2011 and on this date came to 5.08 per cent (23,255,011 voting shares). Of the total, 5.08 per cent (23,255,011 voting shares) is attributable to it in accordance with Section 22 Paragraph 1 Sentence 1 No. 6 in conjunction with Sentence 2 WpHG.

The voting rights of BlackRock Financial Management, Inc., New York, USA, in Deutsche Lufthansa AG exceeded the threshold of 5 per cent on 10 January 2011 and on this date came to 5.003 per cent (22,912,821 voting shares). Of the total, 5.003 per cent (22,912,821 voting shares) is attributable to it in accordance with Section 22 Paragraph 1 Sentence 1 No. 6 in conjunction with Sentence 2 WpHG.

The voting rights of BlackRock Holdco 2 Inc., Wilmington, Delaware, USA, in Deutsche Lufthansa AG exceeded the threshold of 5 per cent on 10 January 2011 and on this date came to 5.003 per cent (22,912,821 voting shares). Of the total, 5.003 per cent (22,912,821 voting shares) is attributable to it in accordance with Section 22 Paragraph 1 Sentence 1 No. 6 in conjunction with Sentence 2 WpHG.

Notifications on the shareholder structure in accordance with Section 26 Paragraph 1 WpHG (Securities Trading Act) dated 28 April 2011

On 27 April 2011 Janus Capital Management LLC, Denver, Colorado, USA, notified us as follows: The voting rights of Janus Capital Management LLC, Denver, Colorado, USA, in Deutsche Lufthansa AG fell below the threshold of 3 per cent on 26 April 2011 and on this date came to 2.94 per cent (13,452,164 voting shares). Of this, 2.94 per cent (13,452,164 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 17 May 2011

On 13 May 2011 Credit Suisse Group AG, Zurich, Switzerland notified us on its own behalf and pursuant to Section 24 WpHG on behalf of Credit Suisse AG, Zurich, Switzerland, Credit Suisse Investments (UK), London, UK, Credit Suisse Investment Holdings (UK), London, UK, Credit Suisse Securities (Europe) Limited, London, UK, as follows:

Threshold exceeded as of 9 May 2011: The voting rights of Credit Suisse Securities (Europe) Limited, London, UK, in Deutsche Lufthansa AG exceeded the threshold of 3 per cent on 9 May 2011 and on this date came to 3.213 per cent (14,711,953 voting shares).

The voting rights of Credit Suisse Investment Holdings (UK), London, UK, in Deutsche Lufthansa AG exceeded the threshold of 3 per cent on 9 May 2011 and on this date came to 3.213 per cent (14,711,953 voting shares). These voting rights are fully attributable to Credit Suisse Investment Holdings (UK) in accordance with Section 22 Paragraph 1 Sentence 1 No. 1 WpHG.

The voting rights of Credit Suisse Investments (UK), London, UK, in Deutsche Lufthansa AG exceeded the threshold of 3 per cent on 9 May 2011 and on this date came to 3.213 per cent (14,711,953 voting shares). These voting rights are fully attributable to Credit Suisse Investments (UK) in accordance with Section 22 Paragraph 1 Sentence 1 No. 1 WpHG.

The voting rights of Credit Suisse AG, Zurich, Switzerland, in Deutsche Lufthansa AG exceeded the threshold of 3 per cent on 9 May 2011 and on this date came to 3.242 per cent (14,846,869 voting shares). 3.218 per cent (14,736,685 voting shares) are attributable to Credit Suisse AG in accordance with Section 22 Paragraph 1 Sentence 1 No. 1 WpHG. 0.024 per cent (110,184 voting shares) are attributable to Credit Suisse AG in accordance with Section 22 Paragraph 1 Sentence 1 No. 6 WpHG in conjunction with Section 22 Paragraph 1 Sentence 2 WpHG.

The voting rights of Credit Suisse Group AG, Zurich, Switzerland, in Deutsche Lufthansa AG exceeded the threshold of 3 per cent on 9 May 2011 and on this date came to 3.243 per cent (14,852,681 voting shares). 3.218 per cent (14,736,685 voting shares) are attributable to Credit Suisse Group AG in accordance with Section 22 Paragraph 1 Sentence 1 No. 1 WpHG. 0.025 per cent (115,996 voting shares) are attributable to Credit Suisse Group AG in accordance with Section 22 Paragraph 1 Sentence 1 No. 6 WpHG in conjunction with Section 22 Paragraph 1 Sentence 2 WpHG.

Threshold no longer exceeded as of 10 May 2011: The voting rights of Credit Suisse Securities (Europe) Limited, London, UK, in Deutsche Lufthansa AG fell below the threshold of 3 per cent on 10 May 2011 and on this date came to 2.591 per cent (11,865,516 voting shares).

The voting rights of Credit Suisse Investment Holdings (UK), London, UK, in Deutsche Lufthansa AG fell below the threshold of 3 per cent on 10 May 2011 and on this date came to 2.591 per cent (11,865,516 voting shares). These voting rights are fully attributable to Credit Suisse Investment Holdings (UK) in accordance with Section 22 Paragraph 1 Sentence 1 No. 1 WpHG.

The voting rights of Credit Suisse Investments (UK), London, UK, in Deutsche Lufthansa AG fell below the threshold of 3 per cent on 10 May 2011 and on this date came to 2.591 per cent (11,865,516 voting shares). These voting rights are fully attributable to Credit Suisse Investments (UK) in accordance with Section 22 Paragraph 1 Sentence 1 No. 1 WpHG.

The voting rights of Credit Suisse AG, Zurich, Switzerland, in Deutsche Lufthansa AG fell below the threshold of 3 per cent on 10 May 2011 and on this date came to 2.621 per cent (12,000,432 voting shares). 2.597 per cent (11,890,248 voting shares) are attributable to Credit Suisse AG in accordance with Section 22 Paragraph 1 Sentence 1 No. 1 WpHG. 0.024 per cent (110,184 voting shares) are attributable to Credit Suisse AG in accordance with Section 22 Paragraph 1 Sentence 1 No. 6 WpHG in conjunction with Section 22 Paragraph 1 Sentence 2 WpHG.

The voting rights of Credit Suisse Group AG, Zurich, Switzerland, in Deutsche Lufthansa AG fell below the threshold of 3 per cent on 10 May 2011 and on this date came to 2.624 per cent (12,016,632 voting shares). 2.596 per cent (11,890,248 voting shares) are attributable to Credit Suisse Group AG in accordance with Section 22 Paragraph 1 Sentence 1 No. 1 WpHG. 0.028 per cent (126,384 voting shares) are attributable to Credit Suisse Group AG in accordance with Section 22 Paragraph 1 Sentence 1 No. 6 WpHG in conjunction with Section 22 Paragraph 1 Sentence 2 WpHG.

The chain of controlling companies is as follows (beginning with the lowest company): Credit Suisse Securities (Europe) Limited, Credit Suisse Investment Holdings (UK), Credit Suisse Investments (UK), Credit Suisse AG and Credit Suisse Group AG.

Notifications on the shareholder structure in accordance with Section 26 Paragraph 1 WpHG (Securities Trading Act) dated 7 September 2011
On 6 September 2011 Templeton Global Advisors Limited, Nassau, Bahamas, notified us as follows: The voting rights of Templeton Global Advisors Limited, Nassau, Bahamas, in Deutsche Lufthansa AG exceeded the threshold of 3 per cent on 31 August 2011 and on this date came to 3.19 per cent (14,593,366 voting shares). Of the total, 3.19 per cent (14,593,366 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 12 September 2011
On 12 September 2011 AXA Investment Managers Deutschland GmbH, Frankfurt, Germany, notified us on behalf and with the authorisation of AXA S.A., Paris, France, as follows: The voting rights of AXA S.A., Paris, France, in Deutsche Lufthansa AG exceeded the threshold of 3 per cent on 7 September 2011 and on this date came to 3.05 per cent (13,973,736 voting shares). Of the total, 3.05 per cent (13,973,736 voting shares) is attributable to it in accordance with Section 22 Paragraph 1 Sentence 1 No. 6 in conjunction with Sentence 2 WpHG.

Notifications on the shareholder structure in accordance with Section 26 Paragraph 1 WpHG (Securities Trading Act) dated 2 November 2011
On 31 October 2011 AXA Investment Managers Deutschland GmbH, Frankfurt, Germany, notified us on behalf and with the authorisation of AXA S.A., Paris, France, as follows: The voting rights of AXA S.A., Paris, France, in Deutsche Lufthansa AG fell below the threshold of 3 per cent on 27 October 2011 and on this date came to 2.80 per cent (12,844,003 voting shares). Of the total, 2.80 per cent (12,844,003 voting shares) is attributable to it in accordance with Section 22 Paragraph 1 Sentence 1 No. 6 in conjunction with Sentence 2 WpHG.

Notifications on the shareholder structure in accordance with Section 26 Paragraph 1 WpHG (Securities Trading Act) dated 13 January 2012
On 11 January 2012 Templeton Global Advisors Limited, Nassau, Bahamas, notified us as follows: The voting rights of Templeton Global Advisors Limited, Nassau, Bahamas, in Deutsche Lufthansa AG exceeded the threshold of 5 per cent on 10 January 2012 and on this date came to 5.0001 per cent (22,897,430 voting shares). Of this, 5.0001 per cent (22,897,430 voting shares) is attributable to it in accordance with Section 22 Paragraph 1 Sentence 1 No. 6 WpHG.

36 Reserves

Capital reserves only include the share premium paid on capital increases and a convertible bond. No conversion rights were exercised in 2011, as in the previous year.

The legal reserve contained in retained earnings is unchanged at EUR 26m; other reserves consist of other retained earnings.

The following table shows changes in other neutral reserves in 2011:

Notes on other comprehensive income

in €m	2011	2010
Other comprehensive income after income taxes		
Differences from currency translation	81	311
of which reclassified through profit or loss	–	–
Subsequent measurement of available-for-sale financial assets		
Profit/loss for the period	–176	666
Reclassification adjustments recognised in profit or loss	12	–181
Subsequent measurement of cash flow hedges		
Profit/loss for the period	766	396
Reclassification adjustments recognised in profit or loss	–720	–97
Transfer to cost of hedged items	63	–11
Other comprehensive income from investments accounted for using the equity method	2	–4
Other expenses and income recognised directly in equity	1	14
Income taxes on items in other comprehensive income	–35	–79
Other comprehensive income after income taxes	**–6**	**1,015**

Note on income taxes recognised for other comprehensive income

	2011			2010		
in €m	**Amount before income taxes**	**Tax expenses / income**	**Amount after income taxes**	Amount before income taxes	Tax expenses / income	Amount after income taxes
Differences from currency translation	81	–	81	311	–	311
Subsequent measurement of available-for-sale financial assets	–164	3	–161	485	–15	470
Subsequent measurement of cash flow hedges	109	–38	71	288	–64	224
Other comprehensive income from investments accounted for using the equity method	2	–	2	–4	–	–4
Other expenses and income recognised directly in equity	1	–	1	14	–	14
Other comprehensive income	**29**	**–35**	**–6**	**1,094**	**–79**	**1,015**

As of 31 December 2011, EUR –34m of other comprehensive income was attributable to discontinued operations.

The overall change in equity is shown in the consolidated statement of changes in Lufthansa shareholders' equity.

37 Pension provisions

A Company pension scheme exists for staff working in Germany and staff seconded abroad. For staff who joined the Group before 1995 the supplementary pension scheme for state employees (VBL) was initially retained as the Company's pension scheme. Following collective agreements in 2003 to harmonise retirement benefits for ground and flight staff, the pension scheme for ground and flight staff as well as for cockpit staff under the terms of the 4 December 2004 wage settlement were also converted to an average salary plan. The retirement benefit commitment is now equal to that for staff who joined the Company after 1994. One pension component is earned every year based on an employee's pay and age; retirement benefit is defined as the sum of accumulated pension components. Under IAS 19 these pension obligations are regarded as defined-benefit obligations 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 2011 contributions toward defined-contribution pension plans amounted to EUR 376m (previous year: EUR 358m).

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 2011 a further EUR 528m was transferred for staff, taking the total transferred to the pension trust to EUR 4,870m.

Additional external plan assets of EUR 102m exist to fund defined benefit obligations in Germany as of the reporting date. A total of EUR 55m was contributed to these plan assets in 2011.

Staff abroad are also entitled to retirement benefits and in some cases to health 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 %	**31.12.2011**	31.12.2010	31.12.2009
Interest rate in Germany	4.5	5.0	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	2.5–5.0	2.75–5.75	3.3–5.9
Projected salary increase abroad	1.0–4.0	1.5–5.0	1.5–5.0
Projected pension increase abroad	0.0–3.5	0.0–3.7	0.0–3.5
Health care cost trend for pensioners abroad	5.0–7.0	7.5	12.0
Expected return on external plan assets in Germany*	5.2	5.2	5.2
Expected return on external plan assets abroad	2.5–8.3	2.4–8.3	2.8–8.3

* Post-tax interest since 2008.

Since 31 December 2005 biometric calculations have been based on the 2005 G Heubeck life-expectancy tables, with fluctuation estimated on the basis of age and gender.

The projected return on plan assets is generally based on the plan's investment policy relating to the selection of asset classes. The 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 € thousands	Increase by 1 per cent	Decrease by 1 per cent
Service costs and interest expenses	+21	−21
Health care commitments	+411	−403

On the balance sheet date the present value of pension obligations and the fair values of plan assets were as follows:

in €m	**31.12.2011**	31.12.2010	31.12.2009	31.12.2008	31.12.2007
Present value of funded pension obligations in Germany	8,850	5,485	4,730	4,081	4,068
Plan assets in Germany	5,363	4,805	3,921	3,445	3,580
Deficit (+) / surplus (–)	**3,487**	**680**	**809**	**636**	**488**
Present value of funded pension obligations abroad	3,768	3,266	2,726	1,712	1,603
Plan assets abroad	2,823	2,682	2,212	1,476	1,648
Deficit (+) / surplus (–)	**945**	**584**	**514**	**236**	**−45**
Present value of unfunded pension obligations	**323**	**2,411**	**2,157**	**1,961**	**1,948**

On the balance sheet date for 2011 the portfolio of external plan assets was made up as follows:

	Plan assets Germany		Plan assets abroad	
	in €m	in %	in €m	in %
Shares	1,341	25.0	1,166	41.3
Fixed-income instruments, bonds	2,741	51.1	1,058	37.5
Property	–	–	345	12.2
Other	1,281	23.9	254	9.0
	5,363	**100.0**	**2,823**	**100.0**

In 2011 the actual loss on plan assets came to EUR 85m (previous year: gain of EUR 426m).

Change in present value of pension obligations

in €m	**2011**	2010
Carried forward 1.1.	11,162	9,613
Currency translation differences	92	304
Additions from company acquisitions	1	–
Other changes in the group of consolidated companies	–	17
Current service costs	400	353
Past service costs	27	23
Interest costs	514	497
Contributions by plan participants	34	27
Actuarial gains/losses	994	652
Pension payments	−319	−290
Plan curtailments/settlements	−2	−34
Other*	38	–
Balance on 31.12.	**12,941**	**11,162**

* Amounts in 2011 are for obligations deemed for the first time to be defined benefit obligations and for benefit obligations which were measured according to IAS 19 for the first time as of 1 January 2011.

Change in fair value of plan assets

in €m	**2011**	2010
Carried forward 1.1.	7,487	6,133
Currency translation differences	73	282
Additions from company acquisitions	–	–
Other changes in the group of consolidated companies	–	17
Expected return on plan assets	367	315
Actuarial gains/losses	−452	111
Contributions by plan participants	34	27
Employer contributions	736	690
Pension payments	−95	−83
Other*	36	−5
Balance on 31.12.	**8,186**	**7,487**

* Amounts in 2011 are for obligations deemed for the first time to be defined benefit obligations and for benefit obligations which were measured according to IAS 19 for the first time as of 1 January 2011.

Funding status

in €m	**2011**	2010
Present value of unfunded pension obligations	323	2,411
Present value of funded pension obligations abroad	3,768	3,266
Present value of funded pension obligations Germany	8,850	5,485
External plan assets abroad	−2,823	−2,682
External plan assets in Germany	−5,363	−4,805
Unrecognised actuarial losses	−2,839	−1,416
Unrecognised past service costs	73	75
“Unrealised” asset surpluses	176	237
	2,165	**2,571**

The year-on-year change in funding status results largely from the net effect of transfers to plan assets in Germany and abroad, but also from the reduction in the interest rate on domestic pension obligations.

In financial years 2011 and 2010 pension provisions developed as follows:

Pension provisions

in €m	**2011**	2010
Carried forward 1.1.	2,571	2,710
Currency translation differences	6	9
Changes in the group of consolidated companies	1	–
Pensions payments	−224	−207
Additions	609	545
Contribution to plan assets/staff changes	−798	−486
Year-end total	**2,165**	**2,571**

In addition to recognised contributions that reduce the amount of provisions, further plan assets totalling EUR 176m (previous year: EUR 237m) are also shown under assets as an “unrealized” surplus in accordance with IAS 19.

The expenses recognised in the income statement for allocations to the pension provisions are made up as follows:

in €m	**2011**	2010
Current service costs	400	353
Recognised actuarial losses	40	15
Recognised actuarial gains	–	–
Past service costs	24	19
Plan curtailments / settlements	−2	−29
Interest costs on pension obligations	514	497
Expected return on plan assets	−367	−315
Net effect of adjustment for asset ceiling	–	5
	609	**545**

Current service costs and actuarial losses/gains are recognised as staff costs, while the interest costs on pension obligations, less the expected return on plan assets is recognised as interest expenses.

Adjustments to pension obligations and plan assets based on past experience were as follows:

Experience adjustments

in €m	**2011**	2010	2009	2008	2007
Pension obligations	+22	−111	−139	+122	+30
Plan assets	−452	+111	+132	−1,006	−77
Total	**−474**	**+222**	**+271**	**−1,128**	**−107**

A plus sign before pension obligations in the table means an increase in the obligation and, therefore, a loss. A minus sign before plan assets also means a loss. For the total amount a minus sign signifies an overall loss.

In 2012 an estimated EUR 747m will be transferred to pension plans. The transfers are made up of planned allocations and benefit payments which are not covered by equivalent reimbursements from plan assets.

38 Other provisions

Other provisions disclosed in the balance sheet as non-current and current provisions are made up as follows:

	31.12.2011			31.12.2010		
in €m	**Total**	**Non-current**	**Current**	Total	Non-current	Current
Obligations under partial retirement contracts	23	4	19	41	6	35
Other staff costs	311	250	61	279	219	60
Onerous contracts	207	130	77	197	126	71
Environmental restoration	30	26	4	32	28	4
Legal proceedings	117	24	93	72	17	55
Restructuring / severance payments	24	1	23	61	3	58
Fixed-price customer maintenance contracts	94	23	71	104	19	85
Maintenance of operating lease aircraft	261	63	198	363	175	188
Warranties	38	0*	38	38	–	38
Other provisions	291	57	234	337	50	287
Total	**1,396**	**578**	**818**	**1,524**	**643**	**881**

* Rounded below EUR 1m.

Provisions for staff costs mainly relate to staff jubilee bonuses, variable payment portions and other current obligations. Expected losses from onerous contracts result from ongoing obligations or other contractual relationships in which performance and consideration are out of balance. Provisions for environmental restoration are based on surveyors' findings and the assumption that all contamination is removed within ten years without any further legal requirements. Provision for legal proceedings is based on an assessment of the likely outcome of the proceedings.

Changes in the groups of individual provisions in 2011 were as follows:

in €m	Obligations under partial retirement contracts	Other staff costs	Onerous contracts	Environmental restoration	Legal proceedings	Restructuring/ severance payments
As of 1.1.2011	41	279	197	32	72	61
Changes in the group of consolidated companies	–	0*	–	–	–	–
Currency translation differences	–	1	1	0*	1	0*
Utilisation	–61	–37	–91	–2	–3	–39
Increase/addition	29	50	128	0*	42	5
Interest added back	–1	21	7	1	0*	0*
Reversal	0*	–3	–6	–1	–8	–3
Transfers	15	0*	–29	–	13	0*
As of 31.12.2011	**23**	**311**	**207**	**30**	**117**	**24**

* Rounded below EUR 1m.

in €m	Fixed-price customer maintenance contracts	Maintenance of operating lease aircraft	Warranties	Other provisions	**Total**
As of 1.1.2011	104	363	38	337	**1,524**
Changes in the group of consolidated companies	–	–	–	–	**0***
Currency translation differences	0*	8	0*	1	**12**
Utilisation	–63	–184	–16	–117	**–613**
Increase/addition	53	177	18	98	**600**
Interest added back	1	10	–	2	**41**
Reversal	–1	–7	–2	–17	**–48**
Transfers	–	–106	–	–13	**–120**
As of 31.12.2011	**94**	**261**	**38**	**291**	**1,396**

* Rounded below EUR 1m.

The funding status for provisions for obligations to staff under partial retirement agreements is as follows:

Funding status

in €m	**2011**	2010
Present value of funded obligations under partial retirement agreements	165	190
External plan assets	–142	–149
	23	**41**

In 2005 EUR 97m was transferred to an external trust fund as insolvency insurance for employer's performance arrears, under partial retirement agreements under which the employee at first works full-time for less pay and then retires early on the same reduced pay.

In 2007 and 2009 a further EUR 39m and EUR 2m were transferred respectively. These assets, which fulfil the requirements for plan assets and therefore reduce the net amount of obligations accordingly, are measured at fair value on the balance sheet date.

Obligations under partial retirement agreements were calculated on the basis of the following assumptions:

Assumptions

in %	**2011**	2010	2009
Interest rate	2.5	2.2	5.5
Projected earnings from external plan assets	2.2	3.1	3.2

The following cash outflows are estimated for the non-current portion of the other groups of provisions:

in €m	2013	2014	2015	2016 and thereafter
Onerous contracts	54	12	27	51
Environmental restoration	4	4	4	19
Restructuring / severance payments	0*	7	7	0*
Fixed-price customer maintenance contracts	17	5	1	1
Maintenance of operating lease aircraft	41	20	4	1
Other provisions	51	38	9	45

* Rounded below EUR 1m.

At the end of 2010 the cash outflows were estimated as follows:

in €m	2012	2013	2014	2015 and thereafter
Onerous contracts	43	18	16	57
Environmental restoration	4	3	3	20
Restructuring / severance payments	2	0*	0*	0*
Fixed-price customer maintenance contracts	11	7	0*	2
Maintenance of operating lease aircraft	89	42	22	35
Other provisions	22	18	5	47

* Rounded below EUR 1m.

39 Financial liabilities by category

Financial liabilities in the balance sheet as of 31.12.2011

in €m	Liabilities at fair value through profit or loss	Derivative financial instruments which are an effective part of a hedging relationship	Other financial liabilities at cost
Borrowings	–	–	6,424
Derivative financial instruments	56	36	–
Trade payables	–	–	2,805
Other financial liabilities	–	–	1,550
Total	**56**	**36**	**10,779**

Financial liabilities in the balance sheet as of 31.12.2010

in €m	Liabilities at fair value through profit or loss	Derivative financial instruments which are an effective part of a hedging relationship	Other financial liabilities at cost
Borrowings	–	–	7,184
Derivative financial instruments	51	163	–
Trade payables	–	–	2,902
Other financial liabilities	–	–	1,401
Total	**51**	**163**	**11,487**

The measurement of derivative financial instruments held at fair value was made on the basis of observable market data.

40 Borrowings

Borrowings consist of a non-current portion with a residual term of more than one year and a current portion of less than one year which is shown under current liabilities. The following table shows the total amount of borrowings:

Borrowings 31.12.2011

in €m	**Total**	Non-current	Current
Bonds	2,119	2,112	7
Liabilities to banks	1,456	1,171	285
Leasing liabilities and other loans	2,849	2,525	324
	6,424	**5,808**	**616**

Borrowings 31.12.2010

in €m	**Total**	Non-current	Current
Bonds	2,177	2,177	0*
Liabilities to banks	1,925	1,358	567
Leasing liabilities and other loans	3,082	2,692	390
	7,184	**6,227**	**957**

* Rounded below EUR 1m.

The following table shows the carrying amounts and fair values for individual classes of borrowings. The fair values given for the bonds are their quoted prices. The fair 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	**31.12.2011**		31.12.2010	
in €m	**Carrying amount**	**Fair value**	Carrying amount	Fair value
Bonds	2,119	2,383	2,177	2,462
Liabilities to banks	1,456	1,492	1,925	2,089
Leasing liabilities and other loans	2,849	3,098	3,082	3,133
	6,424	**6,973**	**7,184**	**7,684**

Collateral was provided for EUR 709m of the liabilities to banks (previous year: EUR 1,150m).

There were no delays or defaults on payment obligations under these loan agreements in either 2011 or 2010.

Leasing liabilities and other loans relate exclusively to finance leases described in "Note 22" from p. 172 and aircraft financing arrangements described in "Note 19" on p. 169.

41 Other non-current financial liabilities

Other non-current financial liabilities		
in €m	**31.12.2011**	31.12.2010
Liabilities to banks	–	–
Liabilities due to affiliated companies	0*	–
Liabilities due to other equity investments	–	–
Other financial liabilities	128	110
	128	**110**

* Rounded below EUR 1m.

The carrying amount for financial liabilities is equivalent to their fair value, as they pay interest at a floating or market standard rate.

42 Non-current advance payments received, deferred income and other non-financial liabilities

Non-current advance payments received, deferred income and other non-financial liabilities		
in €m	**31.12.2011**	31.12.2010
Advance payments received	7	5
Deferred income	718	666
Other non-financial liabilities	431	416
	1,156	**1,087**

Deferred income includes EUR 695m (previous year: EUR 630m) of deferred income for obligations under bonus miles programmes. Other non-financial liabilities include EUR 418m (previous year: EUR 401m) of obligations under bonus miles programmes.

Other non-financial liabilities include obligations to return material valued at EUR 4m (previous year: EUR 4m) and the EUR 5m (previous year: EUR 6m) 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 8m (previous year: EUR 7m) is included in current other non-financial liabilities.

As part of the share-based remuneration agreements, Lufthansa and other participating Group companies offer a 50 per cent discount on staff investment in Lufthansa shares to Executive Board members, managers and non-payscale staff. The option packages granted in 2009, 2010 and 2011 consist of an outperformance option and a performance option. As the duration of the 2011 programme was extended from three to four years, a performance/outperformance option after three years and a performance/outperformance option after four years were included in the option package for 2011.

The outperformance option is linked to the performance of the Lufthansa share compared with a fictitious index composed of European competitors' shares, whereas the performance option is linked to the absolute performance of the Lufthansa share. With the outperformance option the holder receives a cash payment for each percentage point of outperformance on exercising the option. The cash payment is capped at an outperformance of 20 per cent.

The performance option for 2009 results in a cash payment if the share price goes up by more than 33 per cent. This is capped for share price increases of more than 49 per cent (48 per cent for staff outside payscales). The performance option for 2010 and the three-year performance option for 2011 result in a cash payment if the share price goes up by more than 29 per cent. For the performance option 2010 this is capped for share price increases of more than 45 per cent (44 per cent for non-payscale staff). For the three-year performance option 2011 it is capped for share price increases of more than 43 per cent (44 per cent for non-payscale staff). The four-year performance option for 2011 results in a cash payment if the share price goes up by more than 38 per cent. The bonus is capped for Executive Board members at 58 per cent, for managers at 56 per cent and for non-payscale staff at 57 per cent.

2009, 2010 and 2011 programmes outperformance option

	€ per percentage point from 1%	Maximum per tranche in €
Executive Board	1,000	20,000
Managers	400	8,000
Non-payscale staff (per 5 pts)	200	1,000

2009 programme performance option

	€ per performance unit from 33% performance	Maximum per tranche in €
Executive Board	10,000 + 1,250 per performance unit	20,000
Managers	4,000 + 500 per performance unit	8,000
Non-payscale staff	500 + 100 per performance unit	1,000

2010 and 2011 programmes performance option (after three years)

	€ per performance unit from 29% performance	Maximum per tranche in €
Executive Board	10,000 + 1,000 per performance unit	20,000
Managers	4,000 + 500 per performance unit	8,000
Non-payscale staff	500 + 100 per performance unit	1,000

2011 programme performance option (after four years)

	€ per performance unit from 38% performance	Maximum per tranche in €
Executive Board	10,000 + 1,000 per performance unit	20,000
Managers	4,000 + 500 per performance unit	8,000
Non-payscale staff	500 + 100 per performance unit	1,000

The 2009 and 2010 programmes each run for three years. The 2011 programme has two exercise dates, after three and four years respectively.

All options can be exercised at a fixed time in the final year. The (out)performance is calculated on the principle of total shareholder return. The shares invested in personally may not be sold until the option is exercised.

The 2008 outperformance option for Executive Board members, managers and non-payscale staff matured in 2011. A total of EUR 5m was paid out on the 2008 outperformance option. No payment was made on the performance option for 2008 as the 33 per cent hurdle was not reached.

Over the financial years 2011/2010 the number of options changed as follows:

	2011		2010	
	Number of options/ option packages*	**Cash settlement in € thousands**	Number of options/ option packages*	Cash settlement in € thousands
Outstanding options on 1.1.	10,329	–	9,884	–
Options issued	8,881	–	3,697	–
Expired or unused options	6	–	126	–
Options exercised	3,195	4,764	3,126	16,231
Outstanding options on 31.12.	16,009	–	10,329	–

* The outperformance option and the performance option from the 2009 and 2008 programmes are known as an option package.

On 1 January 2011 members of the Executive Board, managers and non-payscale staff held 2,481,196 shares under the various programmes, and on 31 December 2011 they held 2,954,982 shares.

The fair values of the nine options programmes still running were calculated using Monte Carlo simulations. This involves simulating the future returns of the shares in the index and of Deutsche Lufthansa AG and calculating the value of the option rights as the forecast amount of a payment.

The following fair values were measured in total:

in € per option	Own investment	Fair value
Executive Board		
Options 2009	2,000	13,907
Options 2010	2,000	11,506
Options 2011 (after three years)	2,000	11,056
Options 2011 (after four years)	–	11,425
Managers		
Options 2009	2,000	5,563
Options 2010	2,000	4,602
Options 2011 (after three years)	2,000	4,420
Options 2011 (after four years)	–	4,578
Non-payscale staff		
Options 2009	1,000	703
Options 2010	1,000	588
Options 2011 (after three years)	1,000	557
Options 2011 (after four years)	–	576

The weighted average share prices at the calculation date were used in the Monte Carlo simulation. As stated in the terms of the programme, these are 50-day averages for the shares of Deutsche Lufthansa AG and the competitors included in the comparative index. The volatilities and correlations used are forecasts for a specific date and maturity on the basis of current market estimates.

Swap rates for the remaining term of the outperformance option were used as interest rates in each case. The maximum term of the programmes was used for measurement purposes.

The parameters used by the external service provider are shown in the following table:

Reference price

in EUR / GBP	Options 2009	Options 2010
Lufthansa	11.57	13.74
Air France-KLM	11.51	11.60
British Airways (IAG)	209.98	246.88
Iberia (IAG)	2.00	2.90
Ryanair	3.33	4.19
easyJet	365.33	400.87
Air Berlin	3.78	3.27

Projected volatilities for

in %	Options 2009	Options 2010
Lufthansa	36.51	32.73
Air France-KLM	47.18	42.41
British Airways (IAG)	39.68	37.79
Iberia (IAG)	39.79	38.02
Ryanair	29.25	30.99
easyJet	40.30	35.91
Air Berlin	41.51	36.37
Risk-free interest rate	0.10 – 0.38 for euro zone, 0.48 for UK	
Fluctuation	4.9	

Reference price

in EUR / GBP	Options 2011 (three years)	Options 2011 (four years)
Lufthansa	10.27	10.27
Air France-KLM	5.77	5.77
IAG	160.13	160.13
Ryanair	3.16	3.16
easyJet	340.33	340.33
Air Berlin	2.66	2.66

Projected volatilities for

in %	Options 2011 (three years)	Options 2011 (four years)
Lufthansa	34.72	37.40
Air France-KLM	45.45	48.45
IAG	44.86	52.34
Ryanair	36.38	47.59
easyJet	39.00	48.40
Air Berlin	40.90	52.88
Risk-free rate (three years)	0.68 for euro zone, 0.67 for UK	
Risk-free rate (four years)	0.99 for euro zone, 0.95 for UK	
Fluctuation	4.9	

Staff costs include total expenses of EUR 9m (previous year: EUR 19m) for options programmes.

43 Trade payables and other current financial liabilities

in €m	31.12.2011	31.12.2010
Trade payables		
Trade payables to affiliated companies	50	125
Trade payables to other equity investments	19	18
Trade payables to third parties	2,736	2,759
	2,805	**2,902**
Other liabilities		
Liabilities to banks	16	23
Other liabilities to affiliated companies	274	196
Other liabilities to equity investments	0*	1
Other financial liabilities	1,132	1,071
	1,422	**1,291**
Total	**4,227**	**4,193**

* Rounded below EUR 1m.

The carrying amount of these liabilities corresponds to their fair value.

44 Current advance payments received, deferred income and other non-financial liabilities

in €m	31.12.2011	31.12.2010
Advance payments received	32	187
Net debit balance of advance payments received and receivables from unfinished contracts	150	107
Deferred income	329	351
Other non-financial liabilities	428	421
	939	**1,066**

Obligations under bonus miles programmes, see also "Note 42" from p. 191, are recognised in deferred income with EUR 292m (previous year: EUR 314m) and in other non-financial liabilities with EUR 202m (previous year: EUR 204).

In addition, deferred income includes EUR 8m (previous year: EUR 10m) for grants and subsidies received for capital expenditure, which are realised over the useful life of the assets.

Other liabilities include deferrals of EUR 217m (previous year: EUR 210m) for outstanding holiday allowance and overtime and EUR 8m (previous year: EUR 7m) for the current portion of fair value obligations under share-based remuneration agreements, see "Note 42" from p. 191.

Other disclosures

45 Contingencies and events after the balance sheet date

Contingent liabilities

in €m	31.12.2011	31.12.2010
From guarantees, bills of exchange and cheque guarantees	874	883
From warranty contracts	977	960
From providing collateral for third-party liabilities	35	14

Guarantees include EUR 867m (previous year: EUR 867m) and warranty agreements include EUR 289m (previous year: EUR 296m) in contingent liabilities toward creditors of joint ventures. A total of EUR 1,156m (previous year: EUR 1,157m) relates to joint and several guarantees and warranties. This amount is offset by compensatory claims against the co-debtors for EUR 1,059m (previous year: EUR 1,062m). 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 161m (previous year: EUR 210) for subsequent years.

Contracts signed the previous year for the sale of five Canadair Regional Jet 200s yielded total cash inflows of EUR 14m, including profits of EUR 2m, in the financial year 2011.

Contracts signed for the sale of one Boeing B747-400, three Canadair Regional Jet 200s and one Avro RJ 85 are expected to generate cash inflows of EUR 13m in the financial year 2012.

Lufthansa and ver.di sign new wage agreement

On 26 January 2012 the Air Transport Employers' Federation (ATEF) and the trade union ver.di agreed on a new wage settlement that is to run for 13 months. The agreement provides for a 3.5 per cent pay increase, backdated to 1 January 2012, for ground staff employed in Germany. On an annual basis this represents a pay increase of 3.2 per cent. Other benefits and allowances were also moderately increased. The trade union UFO rejected the agreement, thereby abandoning the collective bargaining partnership it had only just formed with ver.di.

Specific provisions were made for the Catering and MRO segments. At LSG Sky Chefs the main focus is on securing sustainable competitiveness in Germany. The pay increase from this round of collective bargaining is to be used to safeguard jobs and to make a one-off payment of EUR 250 per full-time employee. In exchange, LSG Sky Chefs has confirmed that there will be no redundancies for the duration of the wage agreement. The agreement for the MRO segment outlined the arrangements for introducing and financing performance-related pay and for phasing out the transitional allowance.

Apron controllers' strike causes flight cancellations

In the course of the collective bargaining dispute between Fraport and the trade union Gewerkschaft der Flugsicherung (GdF), apron staff stopped work for several days from 16 February 2012. Lufthansa was indirectly affected by the strike action and suffered considerable disruptions to flight operations. Thanks to the efforts of Lufthansa and Fraport, most of the flights were able to take place, however.

46 Other financial obligations

As of 31 December 2011 there were purchase commitments for EUR 7.7bn (previous year: EUR 6.8bn) for capital expenditure on property, plant and equipment and for intangible assets. There were also capital and shareholder loan commitments of EUR 53m towards equity investments (previous year: EUR 34m). Sales contracts and put options granted to third parties gave rise to purchase commitments for company shares amounting to EUR 6m (previous year: EUR 14m).

47 Hedging policy and financial derivatives

As an aviation group with worldwide operations, the Lufthansa Group is exposed to exchange rate, interest rate and fuel price movement risks, as well as to credit and liquidity risks. It is Group policy to limit these risks by systematic financial management.

Price risk

The major price risks to which the Lufthansa Group is exposed are exchange rate fluctuations between the euro and other currencies, interest rate fluctuations in international money and capital markets, and price fluctuations in the crude oil and oil products markets. Hedging policy for limiting these risks is laid down by the Executive Board and documented by internal Group guidelines. It also provides for the use of financial derivatives. The corresponding financial transactions are concluded only with first-rate counterparties.

For US dollars, Lufthansa is mainly in a net payer position as regards currency risks from its operating business, as fuel payments are dollar-denominated. For other currencies there is always a net surplus. The main risks in this respect stem from the pound sterling, the Swiss franc and the Japanese yen. Currency risks from projected operational exposure are hedged gradually over a period of 24 months by means of futures contracts. The aim is to reach an average hedging level of 50 per cent.

At the end of 2011 exposure from operations for the next 24 months was as follows:

in million	USD	JPY	GBP	CHF
Exposure (currency)	−13,339	178,839	671	1,441
Exposure (EUR at spot rate)	−10,309	1,784	803	1,186
Hedges (currency)	5,320	−79,992	−505	−707
Hedging level	40%	45%	75%	49%

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 2011 exposure for capital expenditure was as follows:

in million	2012	2013	2014	2015	2016
Exposure from net capital expenditure (USD)	−1,926	−1,261	−1,002	−982	−291
Exposure from net capital expenditure (EUR at spot rate)	−1,489	−975	−775	−759	−225
Hedges (USD)	1,764	1,070	863	887	258
Hedging level	92%	85%	86%	90%	88%

Lufthansa aims to finance 85 per cent of its financial liabilities at floating rates of interest. This proportion recognises the need to both minimise long-term interest expense and reduce earnings volatility.

At the end of 2011 the ratio of floating to fixed interest rates for long-term borrowing was as follows:

Exposure

in €m	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Fixed	1,064	809	614	500	408	332	313	252	176	109	39
Floating	5,238	4,941	4,214	2,912	2,515	1,494	940	623	416	319	210
Floating / fixed ratio	83%	86%	87%	85%	86%	82%	75%	71%	70%	75%	84%

In contrast, foreign currency risks from financial liabilities are always hedged to 100 per cent by means of interest rate/currency swaps. These hedging transactions are treated almost exclusively as trading in accordance with IAS 39.

In 2011 fuel costs accounted for 20.6 per cent of the Lufthansa Group's operating expenses (previous year: 17.8 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

		2012	2013
Fuel requirement	in 1,000 tonnes	9,569	10,467
Hedges	in 1,000 tonnes	6,723	2,606
Hedging level	in %	70.3	24.9

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 31.12.2011**	Market value 31.12.2010	**Market value 31.12.2011**	Market value 31.12.2010
Interest rate swaps	119	145	–	–
Spread options for fuel hedging	–	–	1	43
Hedging combinations for fuel hedging	–	–	139	268
Futures contracts for currency hedging	−2	−6	120	−152
Spread options for currency hedging	–	–	45	82
Total	**117**	**139**	**305**	**241**

The market values stated for financial derivatives correspond to the price at which an independent third party would assume the rights and/or obligations from the financial instrument.

The fair values of interest rate derivatives correspond to their respective market values, which are measured using appropriate mathematical methods, such as discounting expected future cash flows. Discounting takes market standard interest rates and the residual term of the respective instruments into account.

Currency futures and swaps are individually discounted to the balance sheet date based on their respective futures rates and the appropriate interest rate curve. The market prices of currency options and the options used to hedge fuel prices are determined using acknowledged option pricing models.

From a current perspective, the fuel price and currency cash flow hedges will have the following effects on the result for the period and/or on the acquisition costs of hedged capital expenditure:

Financial year in €m	Result for the period	First-time measurement of acquisition costs**	**Total**
2012	192	58	250
2013	38	43	81
2014	−0*	5	5
2015	−0*	−5	−5
2016	−1	−24	−25
2017	−1	–	−1
Total	**228**	**77**	**305**

* Rounded below EUR 1m.
** Minus signs mean increased acquisition costs.

In the 2011 financial year, EUR 800m was transferred for maturing interest rate swaps from equity including deferred taxes to fuel expenses, reducing these expenses. For currency hedges EUR 414m was transferred from equity including deferred taxes to other operating income and EUR 516m to other operating expenses. A further EUR 63m was recognised by increasing acquisition costs for aircraft.

Changes in the market values of derivatives which do not qualify as effective hedging transactions under IAS 39 can be seen in the income statement, "Note 13" on p. 162.

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%	+37	+146
−10%	−82	-88
Currency – USD		
+10%	−134	+645
−10%	+131	−519
Currency – JPY		
+10%	−2	−66
−10%	+2	+54
Currency – CHF		
+10%	−3	−126
−10%	+1	+103
Currency – GBP		
+10%	+3	−49
−10%	−3	+40
Interest		
−100 basis points	+10	+32
+100 basis points	−10	−30

* All amounts after deferred tax effects; +/− signs relate to net profit and/or equity.

Liquidity risk

Complex financial planning systems enable Lufthansa to identify its future liquidity position at an early stage. Based on the results of the Group strategy and planning processes, a monthly rolling liquidity plan is drawn up with a planning horizon of 24 months. This planning method offers an up-to-date picture of anticipated liquidity developments as regards the Company and currencies.

Lufthansa holds a liquidity reserve of at least EUR 2.3bn that is available at short notice. Furthermore, the Lufthansa Group held confirmed unused lines of credit totalling EUR 2.1bn (previous year: EUR 1.9bn) as of 31 December 2011.

A maturity analysis for the borrowing stated in "Note 39" on p. 190 and the derivative financial instruments listed in "Note 26" on p. 179, 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 2011. As a result of the hedges used there are generally direct connections between the cash inflows and outflows for the derivative financial instruments shown.

Derivative financial instruments

in €m	Inflows	Outflows	**Net**
1st quarter	4,592	−4,469	**123**
Up to 1 year*	8,560	−8,431	**129**
1 – 5 years	9,781	−9,549	**232**
Later	627	−573	**54**

* Without payments in 1st quarter.

Non-derivative financial instruments

in €m	**Outflows**
1st quarter	**−415**
Up to 1 year*	**−410**
1 – 5 years	**−4,600**
Later	**−2,243**

* Without payments in 1st quarter.

Credit risk

The sale of passenger travel and freight documents mostly takes place via agencies. These agencies are mostly connected to national clearing systems for billing passenger and freight sales. The creditworthiness of the agents is reviewed by the clearing system responsible. Due to the broad diversification, credit risk for the agencies is relatively low worldwide.

Receivables and liabilities between airlines are offset through bilateral arrangements or via an IATA clearing house, insofar as the contracts underlying services do not explicitly specify otherwise. Systematic settlement of weekly receivables and liability balances significantly reduces the default risk. Fidelity guarantee insurance also covers partial risks within a certain range. Service contracts occasionally require collateral for miscellaneous transactions.

All other contractual relationships are subject to credit rules, which, depending on the type and volume of the contract involved, require collateral, credit ratings/references or historical data from prior dealings, particularly payment history, in order to avoid defaults.

Counterparty risks in connection with credit card companies are monitored closely and incoming payments reviewed daily. Credit terms were tightened for some credit card issuers to reduce risks even further. In addition to the monitoring of receivables at company or segment level there is also counterparty monitoring at Group level, with individually assigned limits, in order to identify the accumulation of portfolio risks across the entire Group and take appropriate action if necessary.

If risks are identified receivables are written down accordingly.

As of 31 December 2011 the maximum credit risk from the potential insolvency of debtors for loans and receivables was EUR 4,013m, made up as follows:

in €m	**31.12.2011**	31.12.2010
Loans	190	170
Non-current receivables	386	450
Trade receivables and other current receivables	3,437	3,401
	4,013	**4,021**

Impairments on loans and receivables developed as follows:

in €m	**1.1.2011**
Gross amount	193
Impairment charges	–171
Carrying amount 1.1.2011	**22**

in €m	**31.12.2011**
Gross amount	195
Impairment charges	–172
Carrying amount 31.12.2011	**23**

A further EUR 124m (previous year: EUR 116m) was already overdue, but not yet written down.

The term structure of overdue receivables is as follows:

in €m	
Up to 90 days	101
Between 90 and 180 days	11
Over 180 days	12

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	**31.12.2011**
Debt instruments	3,073
Equity instruments	172
Total securities	**3,245**

Securities representing debt are rated as follows (Standard & Poor's):

in €m	
AAA	1,253
AAA–	–
AA+	45
AA	55
AA–	371
A+	268
A	518
A–	359
BBB+	106
BBB	35
Below BBB or unrated	63
Total	**3,073**

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 2011 the credit risk from derivative financial instruments, which are an effective part of a hedging relationship, was EUR 458m (previous year: EUR 543m). The counterparty default risk for financial market transactions is limited by defining a maximum risk, taking the credit score given by recognised rating agencies into account.

Positive market values on the balance sheet date exist for transactions with business partners rated as follows (Standard & Poor's):

in €m	
AA–	10
A+	218
A	128
A–	29
BBB+	54
BBB	19
Total	**458**

The credit risk arising from financial derivatives shown at fair value through profit and loss amounted to EUR 299m as of 31 December 2011, and consisted of the total amount of business with contractual partners that on balance showed a positive market value. This figure includes EUR 174m for the time values of options used for hedging, changes in which must be recognised in the financial result as from 1 January 2010. The contractual partners have the following ratings (Standard & Poor's):

in €m	
AA–	2
A+	115
A	100
A–	29
BBB+	8
BBB	30
Below BBB or unrated	15
Total	**299**

48 Segment reporting

The Lufthansa Group operates in five major business segments: scheduled passenger air traffic ("Passenger Airline Group") via Deutsche Lufthansa AG, Lufthansa CityLine GmbH, Swiss International Air Lines AG, Austrian Airlines AG, Air Dolomiti S.p.A., Eurowings Luftverkehrs AG and Germanwings GmbH; scheduled airfreight services ("Logistics") via the Lufthansa Cargo group; maintenance, repair and overhaul ("MRO") via the Lufthansa Technik group; information technology ("IT Services") via the Lufthansa Systems group; and catering ("Catering") via the LSG Lufthansa Sky Chefs group.

Income and expenses for Lufthansa Commercial Holding GmbH, Lufthansa AirPlus Servicekarten GmbH, Lufthansa Flight Training GmbH and other Group companies not assigned to a reporting segment are presented together with income and expenses for central Group functions in the "Other" column of the segment reporting.

Sales and revenue between business segments are based on arm's length prices. Administrative services are charged as cost allocations.

For information on external traffic revenue see "Note 3" on p. 159.

Segment information by operating segment for 2011

in €m	Passenger Airline Group	Logistics	MRO	IT Services	Catering	Total reportable operating segments	Other	Reconciliation: Not allocated	Reconciliation: Consoli-dation	Group
External revenue	21,544	2,917	2,305	230	1,738	28,734	–	–	–	28,734
of which traffic revenue	20,534	2,821	–	–	–	23,355	–	424	–	23,779
Inter-segment revenue	746	26	1,788	369	561	3,490	–	–	−3,490	–
Total revenue	**22,290**	**2,943**	**4,093**	**599**	**2,299**	**32,224**	**–**	**–**	**−3,490**	**28,734**
Other operating income	1,105	78	232	18	58	1,491	1,354	–	−633	2,212
Total operating income	**23,395**	**3,021**	**4,325**	**617**	**2,357**	**33,715**	**1,354**	**–**	**−4,123**	**30,946**
Operating expenses	23,046	2,772	4,068	598	2,272	32,756	1,446	–	−4,076	30,126
of which cost of materials and services	14,542	2,043	2,123	84	1,030	19,822	97	–	−3,188	16,731
of which staff costs	3,874	347	1,095	229	799	6,344	318	–	−7	6,655
of which depreciation and amortisation	1,350	83	90	34	58	1,615	43	–	5	1,663
of which other operating expenses	3,280	299	760	251	385	4,975	988	–	−886	5,077
Operating result 1)	**349**	**249**	**257**	**19**	**85**	**959**	**−92**	**–**	**−47**	**820**
Other segment income	151	17	30	5	3	206	32	56	−43	251
Other segment expenses	111	1	2	3	5	122	64	154	−42	298
of which impairment losses	78	0*	0*	0*	1	79	–	–	1	80
Result of investments accounted for using the equity method	−34	−22	21	–	14	−21	1	–	–	−20
Segment result 2)	**355**	**243**	**306**	**21**	**97**	**1,022**	**−123**	**−98**	**−48**	**753**
Other financial result										−307
Profit/loss before income taxes										446
Segment assets 3)	15,212	777	3,017	233	1,268	20,507	1,521	13,690	−7,637	28,081
of which from investments accounted for using the equity method	76	55	176	–	81	388	6	–	–	394
Segment liabilities 4)	9,423	411	1,259	116	508	11,717	1,486	10,016	−3,182	20,037
Segment capital expenditure 5)	2,085	76	139	55	74	2,429	30	1,062	−946	2,575
of which from investments accounted for using the equity method	–	10	1	–	–	11	0*	–	–	11
Employees on balance sheet date	55,361	4,624	19,975	2,820	29,586	112,366	3,999	3,690	–	120,055
Average number of employees	54,946	4,572	19,822	2,855	29,226	111,421	3,914	3,749	–	119,084

* Rounded below EUR 1m.
1) See page 53 of the management report for reconciliation between operating result and profit from operating activities.
2) Profit from operating activities including result of investments measured at equity.
3) Intangible assets, property, plant and equipment, investments accounted for using the equity method, inventories, trade receivables and other assets – total assets are presented under the heading “Group”.
4) All liabilities with the exception of financial debt, liabilities to Group companies, derivative financial instruments, other deferred income and tax obligations – total liabilities are presented under the heading “Group”.
5) Capital expenditure on intangible assets, property, plant and equipment, and investments accounted for using the equity method.

Segment information by operating segment for 2010

in €m	Passenger Airline Group [2]	Logistics	MRO	IT Services	Catering	Total reportable operating segments	Other	Reconciliation [2] Not allocated	Reconciliation [2] Consolidation	Group [3]
External revenue	19,368	2,770	2,373	232	1,716	26,459	–	–	–	26,459
of which traffic revenue	18,402	2,633	–	–	–	21,035	–	431	–	21,466
Inter-segment revenue	678	25	1,645	363	533	3,244	–	–	–3,244	–
Total revenue	**20,046**	**2,795**	**4,018**	**595**	**2,249**	**29,703**	**–**	**–**	**–3,244**	**26,459**
Other operating income	1,147	95	211	32	67	1,552	1,232	–	–599	2,185
Total operating income	**21,193**	**2,890**	**4,229**	**627**	**2,316**	**31,255**	**1,232**	**–**	**–3,843**	**28,644**
Operating expenses	20,564	2,580	3,961	617	2,240	29,962	1,458	–	–3,796	27,624
of which cost of materials and services	12,544	1,846	2,056	75	997	17,518	100	–	–2,918	14,700
of which staff costs	3,661	338	1,101	247	811	6,158	320	–	–6	6,472
of which depreciation and amortisation	1,238	107	94	34	59	1,532	44	–	10	1,586
of which other operating expenses	3,121	289	710	261	373	4,754	994	–	–882	4,866
Operating result [1]	**629**	**310**	**268**	**10**	**76**	**1,293**	**–226**	**–**	**–47**	**1,020**
Other segment income	233	9	34	1	2	279	49	388	–126	590
Other segment expenses	88	12	2	17	5	124	19	140	–59	224
of which impairment losses	60	9	–	14	0*	84	0*	–	–	84
Result of investments accounted for using the equity method	–10	23	19	–	14	46	0*	–	–	46
Segment result [4]	**764**	**330**	**319**	**–6**	**87**	**1,494**	**–196**	**248**	**–114**	**1,432**
Other financial result										–298
Profit/loss before income taxes										1,134
Segment assets [5]	14,839	805	3,030	222	1,215	20,111	1,337	14,691	–6,819	29,320
of which from investments accounted for using the equity method	112	46	155	–	67	380	5	–	–	385
Segment liabilities [6]	9,416	431	1,376	221	479	11,923	1,196	10,632	–2,771	20,980
Segment capital expenditure [7]	2,047	21	67	36	38	2,209	17	998	–951	2,273
of which from investments accounted for using the equity method	–	–	–	–	–	–	–	–	–	–
Employees on balance sheet date	53,544	4,517	20,159	2,935	28,499	109,654	3,752	3,613	–	117,019
Average number of employees	53,477	4,469	20,297	2,974	28,369	109,586	3,731	3,749	–	117,066

* Rounded below EUR 1m.
[1] See page 53 of the management report for reconciliation between operating result and profit from operating activities.
[2] Previous year's figures have been adjusted for the result and employees of discontinued operations (cf. No. 15).
[3] Previous year's figures have been adjusted for the result from discontinued operations (cf. No. 15).
[4] Profit from operating activities including result of investments measured at equity.
[5] Intangible assets, property, plant and equipment, investments accounted for using the equity method, inventories, trade receivables and other assets – total assets are presented under the heading "Group".
[6] All liabilities with the exception of financial debt, liabilities to Group companies, derivative financial instruments, other deferred income and tax obligations – total liabilities are presented under the heading "Group".
[7] Capital expenditure on intangible assets, property, plant and equipment, and investments accounted for using the equity method.

The reconciliation column includes both the effects of consolidation activities and the amounts resulting from different definitions of segment item contents compared with the corresponding Group items.

Eliminated business segment revenue generated with other consolidated business segments is shown in the reconciliation column for revenue.

For other operating income, inter-segment income has also been eliminated (reconciliation column for operating income). In the 2011 financial year it consisted especially of rental income from subletting buildings, foreign currency transaction gains from short-term intra-Group foreign currency loans and revenue from intra-Group training and services. To the extent that eliminated revenue and other operating income is matched by operating expenses in the companies receiving the services, these expenses are also eliminated (reconciliation columns for expenses).

The amounts in the reconciliation column for the operating result include the effects of consolidation procedures on profit or loss in which income and expense do not figure for two companies at the same amount, or in the same period.

Other segment income includes, for example, income from the reversal of provisions and book gains from disposals, which are attributed to the segment result but not to the operating result.

Here too, income from other segments is eliminated (reconciliation column for other segment income). The same applies vice versa to other segment expenses, which include expense items not attributable to operations but which must be reflected in the segment result, such as book losses or impairment charges. The components of the consolidated operating result which are included in neither the operating nor the segment result, such as gains/losses from current financial investments, for example, are added back in the reconciliation columns for other segment income and other segment expenses.

The result of the equity valuation for the segment's equity investments is part of its segment result, however from a Group perspective it is not attributed to the operating result but rather to the financial result.

Segment assets primarily include property, plant and equipment, intangible assets, investments accounted for using the equity method, inventories and receivables.

Segment liabilities consist of operating liabilities and provisions. Tax and financial items have not been allocated to segments. Segment assets and segment liabilities in the column "Other" also include the financial assets and liabilities of the Group companies aggregated here for which IFRS 8 does not require reporting as part of segment reporting.

Segment capital expenditure includes additions to property, plant and equipment and intangible assets, as well as capital expenditure on investments accounted for using the equity method.

Figures by region for 2011

in €m	Europe	North America	Central and South America	Asia / Pacific	Middle East	Africa	**Total**
Traffic revenue [1]	15,556	3,218	568	3,349	644	444	**23,779**
Other revenue	2,286	1,105	157	960	239	208	**4,955**
Non-current assets [2]	14,808	259	17	166	1	11	**15,262**
Capital expenditure on non-current assets	2,401	26	2	17	0*	2	**2,448**

The figures for the main countries are as follows:

in €m	Germany	USA
Traffic revenue [1]	6,695	2,813
Other revenue	909	944
Non-current assets	8,636	255
Capital expenditure on non-current assets	1,404	25

* Rounded below EUR 1m.
[1] Traffic revenue is allocated according to the original location of sale.
[2] Non-current assets include property, plant and equipment and intangible assets with the exception of repairable spare parts for aircraft.

Figures by region for 2010

in €m	Europe	North America	Central and South America	Asia / Pacific	Middle East	Africa	Total
Traffic revenue [1]	13,593	3,075	511	3,225	624	438	**21,466**
Other revenue	2,328	1,009	147	974	301	234	**4,993**
Non-current assets [2]	14,829	155	10	162	1	10	**15,167**
Capital expenditure on non-current assets	2,157	61	1	6	0*	1	**2,226**

The figures for the main countries are as follows:

in €m	Germany	USA
Traffic revenue [1]	5,793	2,694
Other revenue	929	900
Non-current assets	8,589	151
Capital expenditure on non-current assets	1,149	61

* Rounded below EUR 1m.
[1] Traffic revenue is allocated according to the original location of sale.
[2] Non-current assets include property, plant and equipment and intangible assets with the exception of repairable spare parts for aircraft.

The allocation of traffic revenue to regions is based on the original location of sale, the allocation of other revenue is based on the geographical location of the customer.

The regions are defined on a geographical basis. As an exception to this rule, traffic revenue generated in Turkey is attributed to Europe.

Lufthansa controls its air traffic operations on the basis of network results and not on the basis of regional earnings contributions. The same applies to the Catering segment. Consequently, the presentation of regional segment results is of no informational value for the Lufthansa Group.

A presentation of traffic revenue generated in the Passenger Airline Group and Logistics segments by traffic region, rather than by original location of sale, is included in the information on the respective segments in the management report.

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49 Related party disclosures

The Lufthansa Group business segments render numerous services to related parties within the scope of their ordinary business activities. Conversely, the companies in question provide services to the Lufthansa Group as part of their normal business. These extensive supply and service relationships take place on the basis of market prices.

In addition, the Group and certain non-consolidated subsidiaries have concluded numerous billing agreements, partly governing the 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 2011	2010	Volume of services received 2011	2010
Non-consolidated subsidiaries				
Airline Accounting Center Sp. z o.o., Poland	0*	0*	6	6
Albatros Versicherungsdienste GmbH, Germany	8	10	49	53
Austrian Airlines Technik-Bratislava, s.r.o., Slovakia	3	3	6	6
Austrian Lufthansa Cargo GmbH, Austria	8	–	8	–
Cargo Future Communications (CFC) GmbH, Germany	0*	0*	5	5
City Net Catering Holdings Ltd., United Kingdom	–	3	–	7
Delvag Luftfahrtversicherungs-AG, Germany	9	7	10	9
DLH Fuel Company mbH, Germany	5	2	735	508
Global Tele Sales (PTY) Ltd., South Africa	2	1	9	13
Global Tele Sales Ltd., Ireland	1	1	1	8
Global Tele Sales Pty Limited, Australia	0*	0*	0*	5
Global Telesales of Canada, Inc., Canada	0*	0*	3	8
handling counts GmbH, Germany	1	1	12	10
LRS Lufthansa Revenue Services GmbH, Germany	8	7	45	46
Lufthansa Cagri Merkezi ve Müsteri Hizmetleri A.S., Turkey	0*	0*	0*	5
Lufthansa Engineering and Operational Services GmbH, Germany	4	4	30	30
Lufthansa Global Tele Sales GmbH, Germany	1	1	42	12
Lufthansa Systems FlightNav AG, Switzerland	1	2	27	15
Lufthansa Systems Hungaria Kft., Hungary	2	2	29	28
Lufthansa Systems Network Services GmbH, Germany	1	1	24	28
Lufthansa Systems Poland sp. z o.o., Poland	0*	1	7	7
Lufthansa Technical Training GmbH, Germany	4	5	24	25
Lufthansa Technik Component Services LLC, USA	2	3	7	5
Lufthansa Technik Logistik of America LLC, USA	4	5	13	13
Lufthansa Technik Logistik Services GmbH, Germany	7	6	33	27
Lufthansa Technik Milan s.r.l., Italy	8	6	11	9
Lufthansa Technik Services India Private Limited, India	5	10	2	7
Lufthansa Technik Shenzhen Co., Ltd., China	9	11	5	3
Lufthansa Technik Sofia OOD, Bulgaria	4	4	24	26
Lufthansa Technik Tulsa Corporation, USA	0*	1	0*	7
Lufthansa Technik Turbine Shannon Limited, Ireland	5	7	20	23
LZ-Catering GmbH, Germany	9	10	16	16
Joint ventures				
Aerologic GmbH, Germany	16	5	113	68
Aircraft Maintenance and Engineering Corp., China	10	7	9	11
Airfoil Services Sdn. Bhd., Malaysia	1	1	7	6
EFM – Gesellschaft für Enteisen und Flugzeugschleppen am Flughafen München mbH, Germany	0*	0*	10	14
FraCareServices GmbH, Germany	10	10	2	1
Günes Ekspres Havacilik Anonim Sirketi (SunExpress), Turkey	16	13	0*	0*
LTQ Engineering Pty Limited, Australia	1	2	30	22
N3 Engine Overhaul Services GmbH & Co. KG, Germany	5	5	0*	0*
Shanghai Pudong International Airport Cargo Terminal Co. Ltd., China	1	1	5	5
Spairliners GmbH, Germany	12	11	6	1
Star Alliance Services GmbH, Germany	7	8	7	7
Terminal 2 Betriebsgesellschaft mbH & Co oHG, Germany	2	15	12	83
Terminal One Group Association, L.P., USA	0*	0*	9	10
Associated companies				
Airmail Center Frankfurt GmbH, Germany	0*	0*	7	7
AviationPower GmbH, Germany	0*	0*	31	24
BELAC LLC, USA	0*	1	5	9
HEICO Aerospace Holdings Corp., USA	1	0*	15	17
Jade Cargo International Company Limited, China	16	12	43	109

in €m	Volume of services rendered 2011	2010	Volume of services received 2011	2010
Other affiliated companies				
Brussels Airlines NV/SA, Belgium	49	41	5	4
SunExpress Deutschland GmbH, Germany	4	–	1	–

* Rounded below EUR 1m.

The following tables show receivables owed by and liabilities to related parties:

Receivables from affiliated companies

in €m	2011	2010
Trade receivables from non-consolidated subsidiaries	63	90
Trade receivables from joint ventures	12	13
Trade receivables from associated companies	4	14
Trade receivables from other affiliated companies	13	8
Total trade receivables	**92**	**125**
Other receivables from non-consolidated subsidiaries	102	51
Other receivables from joint ventures	10	16
Other receivables from associated companies	25	26
Other receivables from other affiliated companies	28	0
Total other receivables	**165**	**93**
Loans to non-consolidated subsidiaries	47	71
Loans to joint ventures	4	13
Loans to associated companies	0	0
Total non-current receivables	**51**	**84**

Liabilities to affiliated companies

in €m	2011	2010
Trade payables to non-consolidated subsidiaries	8	74
Trade payables to joint ventures	14	11
Trade payables to associated companies	10	22
Trade payables to other affiliated companies	18	18
Total trade payables	**50**	**125**
Other liabilities to non-consolidated subsidiaries	271	196
Other liabilities to joint ventures	0	0
Other liabilities to associated companies	3	0
Total other liabilities	**274**	**196**

No individual shareholders of Deutsche Lufthansa AG exercise significant influence over the Group. For related party transactions with members of the Executive Board and the Supervisory Board please refer to "Note 50" from p. 205.

50 Supervisory Board and Executive Board

The members of the Supervisory Board and the Executive Board are listed on p. 213.

Remuneration report for the Executive Board

The Executive Board's remuneration consists of the following components:

- Basic remuneration, paid monthly as a salary.
- Since financial year 2011 the variable remuneration is based on the operating margin for the Lufthansa Group. 75 per cent of this bonus is paid the following year, and therefore on an annual basis. The remaining 25 per cent are carried forward for another two years. At the end of the assessment period, which runs for three years in total, the amount carried forward is to be multiplied by a factor of between 0 and 2. How high the factor is depends to 70 per cent on the CVA achieved over the three-year period and to 30 per cent on sustainability parameters such as environmental protection, customer satisfaction and staff commitment.
- Executive Board members are also required to participate in the option programmes for managers (with their own parameters which vary from those of the general managers' programme). The duration of these programmes was extended from three to four years in 2011. These arrangements ensure that the variable remuneration components are essentially based on performance over several years, see "Note 42" from p. 191.
- In years with poor operating results due to extraordinary exogenous factors, the Supervisory Board may award Executive Board members an appropriate individual bonus.

The following remuneration was paid to individual Executive Board members in 2011:

in €	Basic salary	Variable remuneration	Payments from maturing option programmes	Change in fair value of option programmes	Other*	**Total**
Christoph Franz	1,207,500	578,815	–	324,669	148,906	2,259,890
Stephan Gemkow	862,500	407,989	180,000	18,945	96,446	1,565,880
Stefan Lauer	862,500	407,989	174,000	26,852	161,918	1,633,259
Carsten Spohr (Executive Board member since 1.1.2011)	862,500	407,989	–	32,708	67,523	1,370,720
Effective remuneration for the 2011 financial year	**3,795,000**	**1,802,782**	**354,000**	**403,174**	**474,793**	**6,829,749**

* Other remuneration includes, in particular, the non-cash benefit of using company cars, the discount granted in connection with option programme issues (Note 42), benefits from concessionary travel in accordance with the relevant IATA regulations and attendance fees and daily allowances for work on the supervisory boards of subsidiaries.

The following remuneration was paid to individual Executive Board members in 2010:

in €	Basic salary	Variable remuneration	Payments from maturing option programmes	Change in fair value of option programmes	Other*	**Total**
Wolfgang Mayrhuber (Executive Board member until 31.12.2010)	805,000	1,610,000	900,000	66,255	110,434	3,491,689
Christoph Franz (Executive Board member since 1.6. 2009).	700,000	1,378,700	–	226,101	86,946	2,391,747
Stephan Gemkow	575,000	1,135,400	600,000	44,170	86,701	2,441,271
Stefan Lauer	575,000	1,135,400	600,000	36,262	110,536	2,457,198
Effective remuneration for the 2010 financial year	**2,655,000**	**5,259,500**	**2,100,000**	**372,788**	**394,617**	**10,781,905**

* Other remuneration includes, in particular, the non-cash benefit of using company cars, the discount granted in connection with option programme issues (Note 42), benefits from concessionary travel in accordance with the relevant IATA regulations and attendance fees and daily allowances for work on the supervisory boards of subsidiaries.

As of 31 December 2011 (2010) the members of the Executive Board hold the following shares from current option programmes:

	2008 programme		2009 programme		2010 programme		**2011 programme**	
Number of shares	Number of shares purchased from own funds	Number of option packages	Number of shares purchased from own funds	Number of option packages	Number of shares purchased from own funds	Number of option packages	**Number of shares purchased from own funds**	**Number of option packages**
Christoph Franz (Executive Board member since 1.6.2009)	– (–)	– (–)	14,060 (14,060)	37 (37)	9,620 (9,620)	37 (37)	17,280 (–)	45 (–)
Stephan Gemkow	– (11,160)	– (30)	11,400 (11,400)	30 (30)	7,800 (7,800)	30 (30)	11,520 (–)	30 (–)
Stefan Lauer	– (10,788)	– (29)	11,400 (11,400)	30 (30)	7,800 (7,800)	30 (30)	11,520 (–)	30 (–)
Carsten Spohr (Executive Board member since 1.1.2011)	– (–)	– (–)	– (–)	– (–)	– (–)	– (–)	11,520 (–)	30 (–)

See “Note 42” from p. 191 for payment caps.

The pro rata change for 2011 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 2011 option programme for Mr Franz on the date of issue was EUR 1,011,645. For Mr Gemkow, Mr Lauer and Mr Spohr the figure was EUR 674,430 each.

Serving members of the Executive Board will benefit from various contractual entitlements when their employment comes to an end.

Since 2006 each Executive Board member has had a personal pension account into which for the duration of their employment Deutsche Lufthansa AG pays contributions amounting to 25 per cent of the annual salary and the bonus. The investments guidelines for the pension account are based on the investment concept for the Lufthansa Pension Trust, which also applies to staff members of Deutsche Lufthansa AG.

As of 31 December 2011 Mr Franz's retirement benefit entitlement amounted to EUR 1.1m (previous year: EUR 0.6m). That of Mr Gemkow was EUR 4.4m (previous year: EUR 4.1m), that of Mr Lauer EUR 5.9m (previous year: EUR 5.7m) and that of Mr Spohr EUR 1.1m.

If employment ends before an Executive Board member reaches retirement age, he or she retains the pension entitlement from the pension account, which is continued without further contributions. On reaching retirement age (65 or early retirement between 60 and 65) or in the event of disability the account holder will acquire a pension credit equivalent to the balance of the pension account at that time. Lufthansa guarantees the amounts paid in retirement benefits.

A supplementary risk capital sum will be added to the pension credit in the event of a claim for a disability pension or a pension for surviving dependants. This sum will consist of the average contributions paid into the pension account over the past three years multiplied, when a disability pension entitlement arises, by the number of full years by which the claimant is short of the age of 60.

The pension credit is paid out in ten instalments. On application by the Executive Board member or his widow the pension credit will, subject to approval by the Company, be converted into a pension. On application by the Executive Board member or his surviving dependants a single payment or payment in fewer than ten instalments may also be made.

The widow's pension is 60 per cent of the deceased Board member's pension entitlement. If the Board member dies while in the Company's employment his widow will be paid his full salary until the end of the financial year for a period of at least six months.

The cost of pension entitlements accrued in 2011 for Mr Franz was EUR 0.5m; for Mr Gemkow, Mr Lauer and Mr Spohr EUR 0.3m each. The total cost of EUR 1.4m (previous year: EUR 1.4m), plus EUR 6.8m (previous year: EUR 10.8m) in overall remuneration as shown in the remuneration table, is listed under staff costs, amounting to EUR 8.2m (previous year: EUR 12.2m).

If Mr Lauer's employment contract is terminated for reasons for which he is not responsible he is entitled to a transitional pension until he becomes 60. Since 1 January 2011 the transitional pension entitlement has reached its maximum benefit level of 40 per cent of basic annual salary.

If Mr Gemkow's employment contract is terminated for reasons for which he is not responsible when he is over 55 he is entitled to a transitional pension until he becomes 60. As of 31 December 2011 his transitional pension entitlement came to 26 per cent of basic annual salary. The benefit level increases by two percentage points up to a maximum of 40 per cent for each year of service commenced from 1 February 2012 as a full Executive Board member of the Company.

If Mr Franz's employment contract is terminated for reasons for which he is not responsible when he is over 55 he is entitled to a transitional pension until he becomes 60. His transitional pension entitlement amounts to 10 per cent of his basic annual salary, increasing by two percentage points up to a maximum of 20 per cent for each year of service commenced from 1 June 2014 as a full member of the Executive Board.

Under his contract as a pilot, which is currently not active, Mr Spohr is entitled to a transitional pension in accordance with the wage agreement "Transitional pensions for cockpit staff". If Mr Spohr leaves the Executive Board before he becomes 60 and resumes his employment as a pilot he is entitled to draw a "Transitional pension for cockpit staff at Lufthansa" once he becomes 60 or on request once he becomes 55, in accordance with the provisions of the wage agreement. This additional benefit is paid if certain conditions of eligibility are met and provides for a monthly pension of up to 60 per cent of the last modified salary until the beneficiary reaches the age of 63.

If a contract is terminated early for reasons other than good cause or a change of control, the Company will not remunerate more than the value of outstanding entitlements for the remainder of the contract, as recommended by the German Corporate Governance Code, whereby these payments including ancillary benefits may not exceed annual remuneration for two years (maximum compensation). Maximum compensation is calculated by reference to total remuneration for the last full financial year before departure from the Executive Board, as shown in the remuneration report, and including expected total remuneration for the current financial year.

If the contract between the Executive Board member and Deutsche Lufthansa AG is terminated in connection with a change of control at the Company, the Executive Board member is entitled to compensation for remuneration outstanding for the remainder of the contract. In accordance with the relevant recommendation of the German Corporate Governance Code, compensation may not exceed 150 per cent of the maximum compensation agreed in the contract and described above.

Current payments and other benefits for former members of the Executive Board and their surviving dependants came to EUR 3.6m (previous year: 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 51.9m (previous year: EUR 39.5m). They are included in pension provisions, see "Note 37" from p. 185.

Remuneration report for the Supervisory Board

In the 2011 financial year Supervisory Board remuneration included EUR 1,275,000 (previous year: EUR 1,304,000) in fixed payments for work on the Deutsche Lufthansa AG Supervisory Board. No variable bonuses were paid for the financial year 2011 (previous year: EUR 1,304,000), as these are subject to positive earnings per share attributable to Lufthansa shareholders of at least EUR 1.02. The figures for the individual Supervisory Board members are shown in the following table.

	2011				2010			
in €*	**Fixed remuneration**	**Remuneration for committee work**	**Variable remuneration**	**Total Supervisory Board remuneration**	Fixed remuneration	Remuneration for committee work	Variable remuneration	Total Supervisory Board remuneration
Dipl.-Ing. Dr-Ing. E. h. Jürgen Weber, Chairman	150,000	25,000	–	175,000	150,000	37,500	187,500	375,000
Frank Bsirske, Deputy Chairman	75,000	12,500	–	87,500	75,000	12,500	87,500	175,000
Jacques Aigrain	50,000	–	–	50,000	50,000	–	50,000	100,000
Dr Werner Brandt	50,000	12,500	–	62,500	50,000	12,500	62,500	125,000
Bernd Buresch	50,000	12,500	–	62,500	50,000	12,500	62,500	125,000
Jörg Cebulla	50,000	–	–	50,000	50,000	–	50,000	100,000
Dipl.-Vwt. Jürgen Erwert	50,000	12,500	–	62,500	50,000	12,500	62,500	125,000
Herbert Hainer (from 29.4.2010)	50,000	–	–	50,000	33,750	–	33,750	67,500
Dr Jürgen Hambrecht	50,000	12,500	–	62,500	50,000	20,950	70,950	141,900
Ulrich Hartmann (until 29.4.2010)	–	–	–	–	16,250	8,100	24,350	48,700
Dominique Hiekel	50,000	–	–	50,000	50,000	–	50,000	100,000
Dr h.c. Robert Kimmitt (from 29.4.2010)	50,000	–	–	50,000	33,750	–	33,750	67,500
Martin Koehler (from 2.3.2010)	50,000	12,500	–	62,500	41,800	8,450	50,250	100,500
Dr Nicola Leibinger-Kammüller	50,000	–	–	50,000	50,000	–	50,000	100,000
Eckhard Lieb	50,000	12,500	–	62,500	50,000	12,500	62,500	125,000
Simon Reimann	50,000	–	–	50,000	50,000	–	50,000	100,000
Marlies Rose	50,000	–	–	50,000	50,000	–	50,000	100,000
Dr Klaus G. Schlede	50,000	25,000	–	75,000	50,000	37,500	87,500	175,000
Dr Herbert Walter (until 29.4.2010)	–	–	–	–	16,250	–	16,250	32,500
Matthias Wissmann	50,000	–	–	50,000	50,000	–	50,000	100,000
Dr Michael Wollstadt	50,000	12,500	–	62,500	50,000	12,500	62,500	125,000
Stefan Ziegler	50,000	–	–	50,000	50,000	–	50,000	100,000
Total	**1,125,000**	**150,000**	**–**	**1,275,000**	**1,116,800**	**187,500**	**1,304,300**	**2,608,600**

* Individual amounts rounded to the nearest euro.

Other remuneration, mainly attendance fees, amounted to EUR 79,000 (previous year: EUR 82,000).

The Deutsche Lufthansa AG Supervisory Board members were also paid EUR 65,000 (previous year: EUR 56,000) for work on supervisory boards of Group companies.

Key management personnel
In addition to their Supervisory Board remuneration, employee representatives on the Supervisory Board received compensation for their work in the form of wages and salaries including pension entitlements amounting to EUR 1.2m in total (previous year: EUR 1.1m).

51 Declaration of compliance in accordance with Section 161 German Stock Corporation Act (AktG)

The declaration of compliance with the German Corporate Governance Code required by Section 161 of the German Stock Corporation Act (AktG) was issued by the Executive Board and Supervisory Board, and made available to shareholders on the internet at

i http://investor-relations.lufthansa.com/en/corporate-governance/corporate-governance-declaration-section-289a-hgb/declaration-of-compliance-section-161-aktg.html.

52 Auditors' fees

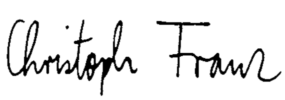
The fees paid to the auditors in the financial year and charged to expenses in accordance with Section 319 Paragraph 1 HGB is made up as follows:

in €m	2011	2010
Annual audit	2.7	2.8
Other assurance services	0.7	0.5
Tax advisory services	0.3	0.3
Other services	1.3	1.2
Total	**5.0**	**4.8**

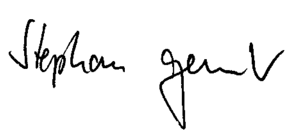
The following fees paid to overseas companies in the global PricewaterhouseCoopers federation were also recognised as expenses:

in €m	2011	2010
Annual audit	2.8	2.5
Other assurance services	0.2	0.2
Tax advisory services	0.6	0.5
Other services	0.2	0.3
Total	**3.8**	**3.5**

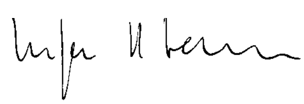
Cologne, 7 March 2012
Executive Board



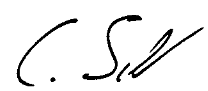
Dr Christoph Franz
Chairman of the
Executive Board



Stephan Gemkow
Member of the
Executive Board
Chief Financial Officer



Stefan Lauer
Member of the
Executive Board
Chief Officer Group Airlines and
Corporate Human Resources



Carsten Spohr
Member of the
Executive Board
Chief Officer
Lufthansa German Airlines

Declaration by the legal representatives

We declare that to the best of our knowledge and according to the applicable accounting standards the consolidated financial statements give a true and fair view of the net assets, the financial and earnings positions of the Group, and that the Group management report, which has been combined with the management report for Deutsche Lufthansa AG, includes a fair review of the course of business, including the business result, and the situation of the Group, and suitably presents the principal opportunities and risks associated with the expected development of the Group.

Cologne, 7 March 2012
Executive Board

Dr Christoph Franz
Chairman of the
Executive Board

Stephan Gemkow
Member of the
Executive Board
Chief Financial Officer

Stefan Lauer
Member of the
Executive Board
Chief Officer Group Airlines and
Corporate Human Resources

Carsten Spohr
Member of the
Executive Board
Chief Officer
Lufthansa German Airlines

Auditors' report

To Deutsche Lufthansa Aktiengesellschaft, Cologne

Remarks on the consolidated financial statements

We have audited the attached consolidated financial statements for Deutsche Lufthansa Aktiengesellschaft, Cologne, and its subsidiaries – comprising the consolidated balance sheet, consolidated income statement and consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated cash flow statement and notes to the consolidated financial statements for the financial year from 1 January to 31 December 2011.

Responsibility of the Executive Board for the consolidated financial statements

The Executive Board of Deutsche Lufthansa Aktiengesellschaft, Cologne, is responsible for the preparation of these financial statements. This responsibility extends to ensuring that the consolidated financial statements comply with IFRS as adopted by the EU and the additional requirements of German law pursuant to Section 315a Paragraph 1 HGB and that they give a true and fair view of the net assets, financial position and results of operations of the group in accordance with these requirements. The Executive Board is also responsible for the internal controls it believes are necessary to enable the preparation of consolidated financial statements that are free of material misstatements – either intentional or unintentional.

Auditors' responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audit. We conducted our audit of the financial statements in accordance with Section 317 HGB and the German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW) and additionally observed the International Standards on Auditing (ISA). These require that we carry out our professional duties and plan and perform the audit so as to obtain sufficient assurance as to whether the consolidated financial statements are free of material misstatements.

An audit involves carrying out audit procedures in order to obtain documentary evidence of the carrying amounts and other disclosures included in the consolidated financial statements. The audit procedures are chosen at the professional discretion of the auditors. This includes an assessment of the risks of material misstatements – either intentional or unintentional – in the consolidated financial statements. In assessing these risks the auditors take account of the internal control system, which is relevant to the preparation of true and fair consolidated financial statements. The aim is to plan and carry out audit procedures which are appropriate under the given circumstances, but not to form an audit opinion on the effectiveness of the Group's internal control system. An audit also includes an assessment of whether the accounting methods applied are suitable and whether the accounting estimates determined by the Executive Board are reasonable, as well as an assessment of the overall presentation of the consolidated financial statements.

We believe that the documentary evidence we have obtained is sufficient and suitable to form the basis for our audit opinion.

Audit opinion

In accordance with Section 322 Paragraph 3 Sentence 1 HGB we declare that our audit of the consolidated financial statements has not given rise to any objections.

In our opinion based on the findings of our audit the consolidated financial statements comply in all material respects with the IFRS as adopted by the EU and the additional requirements of German law pursuant to Section 315a Paragraph 1 HGB and give a true and fair view of the net assets and financial position of the Group as of 31 December 2011 and of its earnings for the financial year ending on that date in accordance with these requirements.

Remarks on the Group management report

We have audited the attached Group management report for Deutsche Lufthansa Aktiengesellschaft, Cologne, which has been combined with the management report for the Company, for the financial year from 1 January to 31 December 2011. The Executive Board of Deutsche Lufthansa Aktiengesellschaft, Cologne, is responsible for the preparation of the combined management report in accordance with applicable statutory German regulations as defined in Section 315a Paragraph 1 HGB. We conducted our audit in accordance with Section 317 HGB and the German generally accepted standards for the audit of combined management reports promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). These require that we plan and carry out the audit of the combined management report so as to obtain sufficient assurance as to whether the combined management report is consistent with the consolidated financial statements and the findings of the audit and altogether provides an accurate view of the state of the Group and the opportunities and risks of its future development.

In accordance with Section 322 Paragraph 3 Sentence 1 HGB we declare that our audit of the combined management report has not given rise to any objections.

In our opinion, based on the findings of the audit of the consolidated financial statements and the combined management report, the combined management report is consistent with the consolidated financial statements and altogether provides an accurate view of the state of the Group and accurately presents the opportunities and risks of its future development.

Düsseldorf, 7 March 2012
PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Frank Hübner
Wirtschaftsprüfer
(German Public Auditor)

Dr Bernd Roese
Wirtschaftsprüfer
(German Public Auditor)

Supervisory Board and Executive Board

Supervisory Board

Dr Wolfgang Röller
Former Chairman of the Supervisory Board
Deutsche Lufthansa AG
Honorary Chairman

Voting members

Dipl.-Ing. Dr-Ing. E. h. Jürgen Weber
Former Chairman
of the Executive Board
Deutsche Lufthansa AG
Chairman

Frank Bsirske
Chairman ver.di
Employee representative
Deputy Chairman

Jacques Aigrain
Chairman
LCH.Clearnet Group Limited, UK

Dr Werner Brandt
Member of the Executive Board
SAP AG

Bernd Buresch
Coordinator
Enterprise Operation Center
Employee representative

Jörg Cebulla
Flight captain and member
of the Executive Board
of the Cockpit pilots' union
Employee representative

Dipl.-Vwt. Jürgen Erwert
Administrative staff member
Employee representative

Herbert Hainer
Former Chairman
of the Executive Board
adidas AG

Dr Jürgen Hambrecht
Former Chairman
of the Executive Board
BASF SE

Dominique Hiekel
Purser
Employee representative

Dr h.c. Robert Kimmitt
Senior International Counsel
WilmerHale, USA

Martin Koehler
Senior Advisor
The Boston Consulting
Group Inc.

Dr Nicola Leibinger-Kammüller
Managing partner and
Chair of the Management Board
TRUMPF GmbH + Co. KG

Eckhard Lieb
Engine maintenance mechanic
Employee representative

Simon Reimann
Flight attendant and member
of the trade union UFO
Employee representative

Marlies Rose
Flight Manager
Employee representative

Dr Klaus G. Schlede
Former Deputy Chairman
of the Executive Board
Deutsche Lufthansa AG

Matthias Wissmann
President of the
German Automotive Industry
Federation (VDA)

Dr Michael Wollstadt
Head IT Development Network
Management
Employee representative

Stefan Ziegler
Captain
Employee representative

Executive Board

Dr Christoph Franz
Chairman of the Executive Board

Stephan Gemkow
Member of the Executive Board
Chief Financial Officer

Stefan Lauer
Member of the Executive Board
Chief Officer Group Airlines and
Corporate Human Resources

Carsten Spohr
Member of the Executive Board
CEO Lufthansa German Airline

Supervisory Board Committees

Steering Committee
Dipl.-Ing. Dr-Ing. E. h. Jürgen Weber (Chairman)
Frank Bsirske (Deputy Chairman)
Bernd Buresch
Dr Jürgen Hambrecht
Four meetings in 2011

The Supervisory Board has elected a Steering Committee from among its members made up of equal numbers of shareholder and employee representatives. It consists of the Chairman of the Supervisory Board, his deputy and two other members. The Steering Committee gives recommendations to the Supervisory Board on the contents, form and signing of employment contracts with Executive Board members and is responsible for other HR matters involving board members and authorised company representatives (e.g. lending in accordance with Section 89 Stock Corporation Act (AktG)). The Steering Committee represents the Company in dealings with the members of the Executive Board (Section 112 AktG). It is also responsible for contracts with members of the Supervisory Board (Section 114 AktG) and for lending to members of the Supervisory Board (Section 115 AktG). The committee also rules on other HR matters which have to be submitted to the Supervisory Board for approval in accordance with the internal regulations for the Executive Board. In the event of equal voting, the Chairman of the Supervisory Board has the casting vote.

Audit Committee
Dr Klaus G. Schlede (Chairman)
Dr Werner Brandt
Jürgen Erwert
Martin Koehler
Eckhard Lieb
Dr Michael Wollstadt
Four meetings in 2011

The Supervisory Board has elected an Audit Committee from among its members made up of equal numbers of shareholder and employee representatives, which has six members. The chair is held by a member of the Supervisory Board elected to this post. The members of the Audit Committee should have special knowledge in the area of accounting, management and financial management. One of the Supervisory Board members to qualify as an independent financial expert is Audit Committee member Dr Werner Brandt, CFO of SAP AG. The task of the Audit Committee is to discuss, in accordance with instructions from the Chairman of the Supervisory Board, the monitoring of the accounting process, the examination of the effectiveness of the internal control system, the risk management system and the internal auditing system as well as matters of compliance, the necessary independence of the auditors, the appointment of auditors, the focus of audits and the fee agreement, and to make recommendations in this respect to the Supervisory Board, particularly on the auditors to put forward for election at the Annual General Meeting and on approval of the individual and consolidated financial statements. The Audit Committee also discusses the quarterly interim reports with the Executive Board before they are published. The Audit Committee is authorised to lay down the internal organisation of its work in its own internal regulations, which it submits to the Supervisory Board for its information.

Nomination Committee
Dr Jürgen Hambrecht
Dr Klaus G. Schlede
Dipl.-Ing. Dr-Ing. E. h. Jürgen Weber
No meetings in 2011

The Supervisory Board has elected a Nomination Committee from among its shareholder representatives, consisting of three equal members. The Committee's task is to propose to the Supervisory Board suitable candidates to recommend for election at the Annual General Meeting. The Supervisory Board should be so composed that its members together have the knowledge, skills and professional experience necessary for them to carry out their tasks correctly. Taking this precondition into account, an appropriate share of women members and of members with considerable business experience in countries other than Germany is to be aimed for.

Arbitration Committee in accordance with Section 27 Paragraph 3 Co-determination Act (MitbestG)
Dipl.-Ing. Dr-Ing. E. h. Jürgen Weber (Chairman)
Frank Bsirske (Deputy Chairman)
Dr Jürgen Hambrecht
Dominique Hiekel
No meetings in 2011

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 2011

Dipl.-Ing. Dr-Ing. E. h. Jürgen Weber
a) Allianz Lebensversicherungs-AG
Bayer AG
Voith GmbH
Willy Bogner GmbH & Co. KGaA
(Chairman of the Supervisory Board)
b) Loyality Partner GmbH
(Chairman of the Supervisory Board)
Tetra Laval Group

Frank Bsirske
a) Deutsche Postbank AG
(Deputy Chairman
of the Supervisory Board)
IBM Central Holding GmbH
RWE AG (Deputy Chairman
of the Supervisory Board)

Jacques Aigrain
b) J.A. Consulting SA, Switzerland
LyondellBassell NV
Resolution Limited, UK
SWISS International Air Lines AG

Dr Werner Brandt
b) QIAGEN N.V.

Bernd Buresch
a) Lufthansa Systems AG

Herbert Hainer
a) Allianz Deutschland AG
FC Bayern München AG
(Deputy Chairman of the
Supervisory Board)

Dr Jürgen Hambrecht
a) Daimler AG
Fuchs Petrolub AG
(Chairman of the Supervisory Board)
TRUMPF GmbH + Co. KG

Martin Koehler
a) Delton AG

Dr Nicola Leibinger-Kammüller
a) Axel Springer AG
Siemens AG
Voith GmbH

Eckhard Lieb
a) Albatros Versicherungsdienste GmbH

Matthias Wissmann
a) Seeburger AG (Deputy Chairman
of the Supervisory Board)

Mandates of the Executive Board members of Deutsche Lufthansa AG

As of 31 December 2011

Dr Christoph Franz
a) Lufthansa Technik AG*
b) Roche Holding AG
SN Airholding SA/NV
Stadler Rail AG
Swiss International Air Lines AG*

Stephan Gemkow
a) Delvag Luftfahrtversicherungs-AG*
(Chairman of the Supervisory Board)
Evonik Industries AG
LSG Lufthansa Service Holding AG*
(Chairman of the Supervisory Board)
Lufthansa AirPlus Servicekarten GmbH*
(Chairman of the Supervisory Board)
Lufthansa Cargo AG*
(Chairman of the Supervisory Board)
Lufthansa Systems Aktiengesellschaft*
(Chairman of the Supervisory Board)
Lufthansa Technik AG*
(Chairman of the Supervisory Board)
b) Amadeus IT Group S.A.
Amadeus IT Holding S.A.
JetBlue Airways Corp.

Stefan Lauer
a) Fraport AG
Germanwings GmbH*
(Chairman of the Supervisory Board)
LSG Lufthansa Service Holding AG*
Lufthansa Cargo AG*
Lufthansa Flight Training GmbH*
(Chairman of the Supervisory Board)
Pensions-Sicherungs-Verein VVaG
(Supervisory Board)
b) Aircraft Maintenance and
Engineering Corp. (Deputy Chairman
of the Board of Directors)
Austrian Airlines AG
(Chairman of the Supervisory Board)
ESMT European School
of Management and Technology GmbH
Landesbank Hessen-Thüringen
Girozentrale
SN Airholding SA/NV
Günes Ekspres Havacilik A.S.
(SunExpress) (Deputy Chairman
of the Board of Directors)
SWISS International Air Lines AG*

Carsten Spohr
b) Dr. August Oetker KG

a) Membership of supervisory boards required by law.
b) Membership of comparable supervisory bodies at companies in Germany and abroad.
* Group mandate.

Major subsidiaries, joint ventures and associated companies

Major subsidiaries as of 31.12.2011	Equity stake	Voting share		Different reporting period
Name, registered office	in %	in %		
Passenger Airline Group segment				
A319 LDA-LDB-LDC Ltd., George Town, Grand Cayman, Cayman Islands	0.00	0.00	SPE	
A319 LDD-LDE-LDF Ltd., George Town, Grand Cayman, Cayman Islands	0.00	0.00	SPE	
Air Dolomiti S.p.A. Linee Aeree Regionali Europee, Dossobuono di Villafranca (Verona), Italy	100.00	100.00		
AirNavigator Ltd., Tokyo, Japan	0.00	0.00	SPE	
AirTrust AG, Zug, Switzerland	100.00	100.00		
ALIP No. 4 Co., Ltd., Tokyo, Japan	0.00	0.00	SPE	
ALIP No. 6 Co., Ltd., Tokyo, Japan	0.00	0.00	SPE	
AUA 2006 MSN 263 Ltd., George Town, Grand Cayman, Cayman Islands	0.00	0.00	SPE	
AUA Beteiligungen Gesellschaft m.b.H., Vienna Airport, Austria	100.00	100.00		
AUA LNR/LNS/LNT/LNU Ltd., George Town, Grand Cayman, Cayman Islands	0.00	0.00	SPE	
Austrian Airlines AG, Vienna Airport, Austria	100.00	100.00		
Austrian Airlines Lease and Finance Company Ltd., Guernsey, Channel Islands, UK	100.00	100.00		
British Midland Airways Ltd., Donington Hall, UK	100.00	100.00		
British Midland Ltd., Donington Hall, UK	100.00	100.00		
Edelweiss Air AG, Kloten, Switzerland	100.00	100.00		
Ellen Finance 2010 S.N.C., Paris, France	0.00	0.00	SPE	
Eurowings GmbH, Dusseldorf	100.00	100.00		
FI Beauty Leasing Ltd., Tokyo, Japan	0.00	0.00	SPE	
First Valley Highway Kumiai, Tokyo, Japan	0.00	0.00	SPE	
Germanwings GmbH, Cologne	100.00	100.00		
Gina Leasing Co. Ltd., Tokyo, Japan	0.00	0.00	SPE	
Global Brand Management AG, Basel, Switzerland	100.00	100.00		
GOAL Verwaltungsgesellschaft mbH & Co. Projekt Nr. 7 oHG, Grünwald	100.00	66.67		
Ingrid Finance 2010 S.N.C., Paris, France	0.00	0.00	SPE	
Jour Leasing Co., Ltd., Tokyo, Japan	0.00	0.00	SPE	
Lauda Air Luftfahrt GmbH, Vienna Airport, Austria	100.00	100.00		
LeaseAir GmbH & Co. Verkehrsflugzeuge V KG, Dortmund	100.00	100.00		
LHBD Holding Ltd., London, UK	100.00	100.00 [1)]		
LLG Nord GmbH & Co. Bravo KG, Grünwald	100.00	66.67		
LNN/LNO/LAE Ltd., George Town, Grand Cayman, Cayman Islands	0.00	0.00	SPE	
LPC/LNP/LNQ Finance Ltd., George Town, Grand Cayman, Cayman Islands	0.00	0.00	SPE	
Lufthansa CityLine GmbH, Cologne	100.00	100.00		
Lufthansa Italia S.p.A., Milano, Italy	100.00	100.00		
Lufthansa Leasing Austria GmbH & Co. OG Nr. 1, Salzburg, Austria	100.00	66.67		
Lufthansa Leasing Austria GmbH & Co. OG Nr. 2, Salzburg, Austria	100.00	66.67		
Lufthansa Leasing Austria GmbH & Co. OG Nr. 3, Salzburg, Austria	100.00	66.67		
Lufthansa Leasing Austria GmbH & Co. OG Nr. 4, Salzburg, Austria	100.00	66.67		
Lufthansa Leasing Austria GmbH & Co. OG Nr. 5, Salzburg, Austria	100.00	66.67		
Lufthansa Leasing Austria GmbH & Co. OG Nr. 6, Salzburg, Austria	100.00	66.67		
Lufthansa Leasing Austria GmbH & Co. OG Nr. 7, Salzburg, Austria	100.00	66.67		
Lufthansa Leasing Austria GmbH & Co. OG Nr. 8, Salzburg, Austria	100.00	66.67		
Lufthansa Leasing Austria GmbH & Co. OG Nr. 9, Salzburg, Austria	100.00	66.67		
Lufthansa Leasing Austria GmbH & Co. OG Nr. 10, Salzburg, Austria	100.00	66.67		
Lufthansa Leasing Austria GmbH & Co. OG Nr. 11, Salzburg, Austria	100.00	66.67		
Lufthansa Leasing Austria GmbH & Co. OG Nr. 12, Salzburg, Austria	100.00	66.67		
Lufthansa Leasing Austria GmbH & Co. OG Nr. 14, Salzburg, Austria	100.00	66.67		
Lufthansa Leasing GmbH & Co. Fox-Golf oHG, Grünwald	100.00	66.67		

Name, registered office	Equity stake in %	Voting share in %	Different reporting period
Lufthansa Malta Aircraft-Leasing Ltd., St. Julians, Malta	100.00	100.00	
Lufthansa Malta Holding Ltd., St. Julians, Malta	100.00	100.00	
Lufthansa Process Management GmbH, Neu-Isenburg	100.00	100.00	
Lufthansa WorldShop GmbH, Frankfurt/M.	100.00	100.00	
Miles & More International GmbH, Neu-Isenburg	100.00	100.00	
NBB Cologne Lease Co., Ltd., Tokyo, Japan	0.00	0.00 SPE	
ÖLB Österreichische Luftverkehrs-Beteiligungs GmbH, Vienna Airport, Austria	100.00	100.00	
ÖLH Österreichische Luftverkehrs-Holding GmbH, Vienna Airport, Austria	100.00	100.00 [2]	
ÖLP Österreichische Luftverkehrs-Privatstiftung, Vienna Airport, Austria	0.00	0.00 [3]	
Second Valley Highway Kumiai, Tokyo, Japan	0.00	0.00 SPE	
Soir Leasing Co., Ltd., Tokyo, Japan	0.00	0.00 SPE	
Swiss Aviation Software AG, Basel, Switzerland	100.00	100.00	
Swiss Aviation Training Ltd., Basel, Switzerland	100.00	100.00	
Swiss European Air Lines AG, Basel, Switzerland	100.00	100.00	
Swiss International Air Lines AG, Basel, Switzerland	100.00	100.00	
Third Valley Highway Kumiai, Tokyo, Japan	0.00	0.00 SPE	
TimBenNico Finance 2011 S.N.C., Paris, France	0.00	0.00 SPE	
TRAVIAUSTRIA Datenservice für Reise und Touristik Gesellschaft m.b.H. & Co NFG. KG, Vienna, Austria	69.00	69.00	
Tyrolean Airways Tiroler Luftfahrt GmbH, Innsbruck, Austria	100.00	100.00	
Logistics segment			
Jettainer GmbH, Raunheim	100.00	100.00	
Lufthansa Cargo AG, Frankfurt/M.	100.00	100.00	
Lufthansa Cargo Charter Agency GmbH, Frankfurt/M.	100.00	100.00	
Lufthansa Leasing GmbH & Co. Echo-Zulu oHG, Grünwald	100.00	66.67	
MRO segment			
AirLiance Materials LLC, Roselle, IL 60172, USA	100.00	100.00	
BizJet International Sales & Support, Inc., Tulsa, USA	100.00	100.00	
Hamburger Gesellschaft für Flughafenanlagen mbH, Hamburg	100.00	100.00	
Hawker Pacific Aerospace Inc., Sun Valley, USA	100.00	100.00	
JASEN Grundstücksgesellschaft mbH & Co. oHG, Grünwald	100.00	50.00 SPE	
Lufthansa Technik AERO Alzey GmbH, Alzey	100.00	100.00	
Lufthansa Technik AG, Hamburg	100.00	100.00	
Lufthansa Technik Airmotive Ireland Holdings Ltd., Co. Dublin, Ireland	100.00	100.00	
Lufthansa Technik Airmotive Ireland Leasing Ltd., Co. Dublin, Ireland	100.00	100.00	
Lufthansa Technik Airmotive Ireland Ltd., Co. Dublin, Ireland	100.00	100.00	
Lufthansa Technik Budapest Repülögép Nagyjavító Kft., Budapest, Hungary	85.00	85.00	
Lufthansa Technik Immobilien- und Verwaltungsgesellschaft mbH, Hamburg	100.00	100.00	
Lufthansa Technik Landing Gear Services UK Ltd., Kestrel Way, Hayes, UK	100.00	100.00	
Lufthansa Technik Logistik GmbH, Hamburg	100.00	100.00	
Lufthansa Technik Maintenance International GmbH, Frankfurt/M.	100.00	100.00	
Lufthansa Technik Malta Ltd., Luqa, Malta	92.00	92.00	
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	

Continued on page 218

Major subsidiaries as of 31.12.2011 (continued)	**Equity stake**	**Voting share**	**Different reporting period**
Name, registered office	in %	in %	
IT Services segment			
Lufthansa Systems Aktiengesellschaft, Kelsterbach	100.00	100.00	
Lufthansa Systems Americas, Inc., Miami, USA	100.00	100.00	
Lufthansa Systems AS GmbH, Norderstedt	100.00	100.00	
Lufthansa Systems Business Solutions GmbH, Raunheim	100.00	100.00	
Catering segment			
41 / 42 Bartlett (Pty) Ltd., Johannesburg, South Africa	100.00	100.00	
Aerococina S.A. de C.V., Mexico City, Mexico	51.98	100.00	
AIRO Catering Services Eesti OÜ, Tallinn, Estonia	100.00	100.00	
Airo Catering Services Latvija SIA, Marupe, Latvia	100.00	100.00	
AIRO Catering Services Sweden AB, Stockholm-Arlanda, Sweden	100.00	100.00	
AIRO Catering Services - Ukraine, Boryspil, Ukraine	100.00	100.00	
Arlington Services, Inc., Wilmington, USA	100.00	100.00	
Arlington Services Mexico, S.A. de C.V., Mexico City, Mexico	100.00	100.00	
Arlington Services Panama S.A., Panama City, Panama	100.00	100.00	
AVIAPIT-SOCHI OOO, Sochi, Russia	100.00	100.00	
Bahia Catering Ltda., Sao Cristovao (Salvador), Brazil	95.00	95.00	
Belém Serviços de Bordo Ltda., Belém, Brazil	70.00	70.00	
Capital Gain International (1986) Ltd., Hong Kong, China	100.00	100.00	
Caterair Servicos de Bordo e Hotelaria S.A., Rio de Janeiro, Brazil	100.00	100.00	
Caterair Taiwan In-Flight Services, Inc., Taipei, Taiwan	100.00	100.00	
Cater Suprimento de Refeições, Ltda., Rio de Janeiro, Brazil	100.00	100.00	
Charm Food Service Co. Ltd., Incheon, South Korea	80.00	100.00	
CLS Catering Services Ltd., Richmond, Canada	70.00	70.00	
Comercializadora de Servicios Limitada, Santiago de Chile, Chile	100.00	100.00	
Comisariato de Baja California, S.A. de C.V., Tijuana, Mexico	51.00	51.00	
Comisariatos Gotre, S.A. de C.V., Torreon, Mexico	51.00	51.00	
Constance Food Group, Inc., New York, USA	100.00	100.00	
Fortaleza Serviços de Bordo Ltda., Fortaleza, Brazil	70.00	70.00	
Inflight Catering (Pty) Ltd., Johannesburg, South Africa	100.00	100.00	
Inflight Catering Services Limited, Dar es Salaam, Tansania	61.99	61.99	
In-flight Management Solutions GmbH, Neu-Isenburg	100.00	100.00	
International Food Services Ltd., Hong Kong, China	100.00	100.00	
Inversiones Turisticas Aeropuerto Panama, S.A., Panama City, Panama	100.00	100.00	
LSG Asia GmbH, Neu-Isenburg	100.00	100.00	
LSG Catering China Ltd., Hong Kong, China	100.00	100.00	
LSG Catering Guam, Inc., Guam, USA	100.00	100.00	
LSG Catering Hong Kong Ltd., Hong Kong, China	100.00	100.00	
LSG Catering Saipan, Inc., Saipan, Micronesia	100.00	100.00	
LSG Catering (Thailand) Ltd., Bangkok, Thailand	100.00	100.00	
LSG-Food & Nonfood Handel GmbH, Neu-Isenburg	100.00	100.00	
LSG France SAS, Paris, France	100.00	100.00	
LSG Holding Asia Ltd., Hong Kong, China	86.88	86.88	
LSG Lufthansa Service Asia Ltd., Hong Kong, China	100.00	100.00	
LSG Lufthansa Service Cape Town (Pty) Ltd., Cape Town, South Africa	100.00	100.00	
LSG Lufthansa Service Catering- und Dienstleistungsgesellschaft mbH, Neu-Isenburg	100.00	100.00	
LSG Lufthansa Service Enterprises Ltd., Hong Kong, China	100.00	100.00	
LSG Lufthansa Service Europa / Afrika GmbH, Neu-Isenburg	100.00	100.00	
LSG Lufthansa Service Guam, Inc., Guam, USA	100.00	100.00	

Name, registered office	Equity stake in %	Voting share in %	Different reporting period
LSG Lufthansa Service Holding AG, Neu-Isenburg	100.00	100.00	
LSG Lufthansa Service Hong Kong Ltd., Hong Kong, China	41.62	47.90 [4)]	
LSG Lufthansa Service Saipan, Inc., Saipan, Micronesia	100.00	100.00	
LSG Lufthansa Service - Sky Chefs do Brasil Catering, Refeições Ltda., São Paulo, Brazil	100.00	100.00	
LSG Sky Chefs Argentina S.A., Buenos Aires, Argentina	100.00	100.00	
LSG Sky Chefs Australasia Pty Ltd., Sydney, Australia	100.00	100.00	
LSG Sky Chefs Belgium N.V., Zaventem, Belgium	100.00	100.00	
LSG Sky Chefs Berlin GmbH, Neu-Isenburg	100.00	100.00	
LSG Sky Chefs Bremen GmbH, Neu-Isenburg	100.00	100.00	
LSG Sky Chefs Building AB, Stockholm, Sweden	100.00	100.00	
LSG Sky Chefs Catering Logistics GmbH, Neu-Isenburg	100.00	100.00	
LSG Sky Chefs Culinary Service GmbH, Neu-Isenburg	100.00	100.00	
LSG Sky Chefs Danmark A/S, Kastrup, Denmark	100.00	100.00	
LSG Sky Chefs de Venezuela C.A., Caracas, Venezuela	99.99	99.93	
LSG Sky Chefs Düsseldorf GmbH, Neu-Isenburg	100.00	100.00	
LSG/Sky Chefs Europe Holdings Ltd., Horley, UK	100.00	100.00	
LSG Sky Chefs - First Catering Schweiz AG, Bassersdorf, Switzerland	60.00	60.00	
LSG Sky Chefs Frankfurt International GmbH, Neu-Isenburg	100.00	100.00	
LSG Sky Chefs Frankfurt ZD GmbH, Neu-Isenburg	100.00	100.00	
LSG Sky Chefs/GCC Ltd., Feltham, UK	50.00	50.00 [4)]	
LSG Sky Chefs Gulf Solutions W.L.L., Manama, Bahrain	60.00	60.00	
LSG Sky Chefs Hamburg GmbH, Neu-Isenburg	100.00	100.00	
LSG Sky Chefs Hannover GmbH, Neu-Isenburg	100.00	100.00	
LSG Sky Chefs Havacilik Hizmetleri A.S., Sefaköy-Istanbul, Turkey	100.00	100.00	
LSG Sky Chefs (India) Private Ltd., Mumbai, India	100.00	100.00	
LSG Sky Chefs In-Flight Logistics Asia Pacific Ltd., Hong Kong, China	100.00	100.00	
LSG Sky Chefs Istanbul Catering Hizmetleri A.S., Istanbul, Turkey	100.00	100.00 [5)]	
LSG Sky Chefs Köln GmbH, Neu-Isenburg	100.00	100.00	
LSG Sky Chefs Korea Co. Ltd., Incheon, South Korea	80.00	80.00	
LSG Sky Chefs Leipzig GmbH, Neu-Isenburg	100.00	100.00	
LSG Sky Chefs Lounge GmbH, Neu-Isenburg	100.00	100.00	
LSG Sky Chefs München GmbH, Neu-Isenburg	100.00	100.00	
LSG Sky Chefs New Zealand Ltd., Auckland, New Zealand	100.00	100.00	March
LSG Sky Chefs Norge AS, Oslo, Norway	100.00	100.00	
LSG Sky Chefs North America Solutions, Inc., Wilmington, USA	100.00	100.00	
LSG Sky Chefs Nürnberg GmbH, Neu-Isenburg	100.00	100.00	
LSG Sky Chefs Objekt- und Verwaltungsgesellschaft mbH, Neu-Isenburg	100.00	100.00	
LSG Sky Chefs (Qingdao) Co., Ltd., Laixi City, China	100.00	100.00	
LSG Sky Chefs Rus, Moskow, Russia	100.00	100.00	
LSG Sky Chefs Schweiz AG, Rümlang, Switzerland	100.00	100.00	
LSG Sky Chefs Solutions Asia Ltd., Hong Kong, China	100.00	100.00	
LSG Sky Chefs South Africa (Proprietary) Ltd., Johannesburg, South Africa	100.00	100.00	
LSG Sky Chefs S.p.A., Fiumicino (Roma), Italy	100.00	100.00	
LSG Sky Chefs Stuttgart GmbH, Neu-Isenburg	100.00	100.00	
LSG Sky Chefs Supply Chain Solutions, Inc., Wilmington, USA	100.00	100.00	
LSG Sky Chefs Sverige AB, Stockholm, Sweden	100.00	100.00	
LSG Sky Chefs (Thailand) Ltd., Bangkok, Thailand	64.30	100.00	
LSG Sky Chefs UK Ltd., Feltham, UK	100.00	100.00	
LSG Sky Chefs USA, Inc., Wilmington, USA	100.00	100.00	

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Major subsidiaries as of 31.12.2011 (continued)	**Equity stake**	**Voting share**	**Different reporting period**
Name, registered office	in %	in %	
LSG Sky Chefs Verwaltungsgesellschaft mbH, Neu-Isenburg	100.00	100.00	
LSG-Sky Food GmbH, Alzey	100.00	100.00	
LSG South America GmbH, Neu-Isenburg	100.00	100.00	
Material Marketing Solutions Limited, Feltham, UK	100.00	100.00	
Myanmar LSG Lufthansa Service Ltd., Yangon, Myanmar	100.00	100.00	
Natal Catering Ltda., Natal, Brazil	70.00	70.00	
Oakfield Farms Solutions Europe Ltd., Feltham, UK	51.00	51.00	
Oakfield Farms Solutions, L.L.C., Wilmington, Delaware, USA	51.00	51.00	
SC International Services, Inc., Wilmington, USA	100.00	100.00	
SCIS Air Security Corporation, Wilmington, USA	100.00	100.00	
ServCater Internacional Ltda., Guarulhos, Brazil	90.00	90.00	
Siam Flight Services Ltd., Bangkok, Thailand	49.00	66.67	
Sky Chefs Argentine, Inc., Wilmington, USA	100.00	100.00	
Sky Chefs Chile S.A., Santiago de Chile, Chile	100.00	100.00	
Sky Chefs De Mexico, S.A. de C.V., Mexico City, Mexico	51.00	51.00	
Sky Chefs de Panama, S.A., Panama City, Panama	100.00	100.00	
Sky Chefs, Inc., Wilmington, USA	100.00	100.00	
SkylogistiX GmbH, Neu-Isenburg	75.00	75.00	
Starfood Antalya Gida Sanayi ve Ticaret A.S., Istanbul, Turkey	51.00	51.00	
Starfood S.r.l., Fiumicino, Italy	51.00	51.00	
UAB Airo Catering Services Lietuva, Wilna (Vilnius), Lithuania	100.00	100.00	
Western Aire Chef, Inc., Wilmington, USA	100.00	100.00	
ZAO AeroMEAL, Yemelyanovo, Russia	55.00	55.00	
Other			
AirPlus Air Travel Card Vertriebsgesellschaft mbH, Vienna, Austria	66.67	66.67	
AirPlus Holding GmbH, Vienna, Austria	100.00	100.00	
AirPlus International AG, Kloten, Switzerland	100.00	100.00	
AirPlus International, Inc., Springfield, USA	100.00	100.00	
AirPlus International Limited, London, UK	100.00	100.00	
AirPlus International S.r.l., Bologna, Italy	100.00	100.00	
AirPlus Payment Management Co., Ltd., Shanghai, China	100.00	100.00	
Lufthansa AirPlus Servicekarten GmbH, Neu-Isenburg	100.00	100.00	
Lufthansa Commercial Holding GmbH, Cologne	100.00	100.00	
Lufthansa Flight Training Berlin GmbH, Berlin	100.00	100.00	
Lufthansa Flight Training GmbH, Frankfurt/M.	100.00	100.00	
Lufthansa Malta Finance p.l.c., St. Julians, Malta	100.00	100.00	
Lufthansa SICAV-FIS-Fonds, Luxembourg, Luxembourg	100.00	100.00	
Lufthansa Training & Conference Center GmbH, Seeheim-Jugenheim	100.00	100.00	
MARDU Grundstücks-Verwaltungsgesellschaft mbH & Co. oHG, Grünwald	100.00	50.00 SPE	
MUSA Grundstücks-Verwaltungsgesellschaft mbH & Co. oHG, Grünwald	100.00	50.00 SPE	
Quinto Grundstücksgesellschaft mbH & Co. oHG, Grünwald	99.73	49.75 SPE	
TGV DLH, Dusseldorf	100.00	100.00 SPE	

SPE: special-purpose entity.
[1] 2.86 per cent of the equity stakes and 65.00 per cent of the voting rights are attributed via a call option.
[2] 50.20 per cent of the equity stakes and voting rights are attributed via ÖLP.
[3] Control over ÖLP results from the ability to nominate 3 out of 5 members of the Management Board.
[4] Management responsibility for the company lies with the Group.
[5] 33.34 per cent of the equity stakes and 50.01 per cent of the voting rights are attributed via a call option.

Major joint ventures as of 31.12.2011 *	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 (SunExpress), 07300 Antalya, Turkey	50.00	50.00	
Logistics segment			
Aerologic GmbH, Leipzig	50.00	50.00	
Shanghai Pudong International Airport Cargo Terminal Co. Ltd., Shanghai, China	29.00	22.22	
MRO segment			
Aircraft Maintenance and Engineering Corp., Peking, China	40.00	42.86	
Lufthansa Bombardier Aviation Services GmbH, Schönefeld	51.00	51.00	
N3 Engine Overhaul Services GmbH & Co. KG, Arnstadt	50.00	50.00	
Spairliners GmbH, Hamburg	50.00	50.00	
Catering segment			
Brahim's - LSG Sky Chefs Holdings Sdn Bhd, Bandar Baru Bangi, Malaysia	49.00	49.00	
Other			
Diners Club Spain S.A., Madrid, Spain	25.00	25.00	

* Accounted for using the equity method.

Major associated companies as of 31.12.2011 *	Equity stake	Voting share	Different reporting period
Name, registered office	in %	in %	
Passenger Airline Group segment			
Alpar Flug- und Flugplatz-Gesellschaft AG, Belp, Switzerland	13.86	13.86	
SN Airholding SA / NV, Brussels, Belgium	45.00	45.00	
Logistics segment			
Jade Cargo International Company Limited, Shenzhen, China	25.00	28.57	
MRO segment			
BELAC LLC, Oldsmar, Florida, USA	21.05	21.05	
HEICO Aerospace Holdings Corp., Florida, USA	20.00	20.00	
Catering segment			
CateringPor - Catering de Portugal, S.A., Lisboa, Portugal	49.00	49.00	
Gansu HNA LSG Sky Chefs Co., Ltd., Lanzhou, China	49.00	40.00	
Hongkong Beijing Air Catering Ltd., Hong Kong, China	45.00	45.00	
Hongkong Shanghai Air Catering Ltd., Hong Kong, China	45.00	45.00	
Inflite Holdings (Cayman) Ltd., Grand Cayman, Cayman Islands	49.00	49.00	September
Inflite Holdings (St. Lucia) Ltd., Castries, St. Lucia	49.00	49.00	September
Nanjing Lukou International Airport LSG Catering Co Ltd., Nanjing, China	40.00	40.00	
Xian Eastern Air Catering Co. Ltd., Xian, China	30.00	28.57	
Yunnan Eastern Air Catering Co. Ltd., Kunming, China	24.90	28.57	
ZAO Aeromar, Moscow Region, Russia	49.00	49.00	

* Accounted for using the equity method.

Miscellaneous equity investments of Deutsche Lufthansa AG

Miscellaneous equity investments of Deutsche Lufthansa AG as of 31.12.2011	Equity stake	Voting share	Consolidated
Name, registered office	in %	in %	
Subsidiaries, not consolidated			
ACS Aircontainer Services Gesellschaft m.b.H., Fischamend, Austria	76.00	76.00	
Air Dolomiti Deutschland GmbH, Munich	100.00	100.00	
Airline Accounting Center de Mexico S.A. de C.V., Mexico City, Mexico	100.00	100.00	
Airline Accounting Center Sp. z o.o., Krakow, Poland	100.00	100.00	
Airline Administration Center (Thailand) Ltd., Bangkok, Thailand	100.00	100.00	
Airline Marketing Services India Private Limited, Mumbai, India	100.00	100.00	
Airline Training Center Arizona Inc., Goodyear, USA	100.00	100.00	
AirPlus International GmbH, Neu-Isenburg	100.00	100.00	
Airport Services Dresden GmbH, Dresden	100.00	100.00	
Airport Services Friedrichshafen GmbH, Friedrichshafen	100.00	100.00	
Airport Services Leipzig GmbH, Schkeudiz	100.00	100.00	
Albatros Service Center GmbH, Cologne	100.00	100.00	
Albatros Versicherungsdienste GmbH, Cologne	100.00	100.00	
AS InPro GmbH, Oldenburg	100.00	100.00	
ATC - Austrian Technik Consulting, s.r.o., Trencin, Slovakia	100.00	100.00	
AUA Versicherungs-Service Gesellschaft m.b.H., Vienna Airport, Austria	100.00	100.00	
Austrian Airlines Technik-Bratislava, s.r.o., Bratislava, Slovakia	100.00	100.00	
Austrian Airlines Technik Marketing GmbH, Vienna Airport, Austria	100.00	100.00	
Austrian Airlines Tele Sales & Service GmbH, Innsbruck, Austria	100.00	100.00	
Austrian Lufthansa Cargo GmbH, Vienna Airport, Austria	100.00	100.00	
AVICON Aviation Consult Gesellschaft m.b.H., Vienna Airport, Austria	100.00	100.00	
Aviation Quality Services GmbH, Frankfurt / M.	100.00	100.00	
AVS Privatkunden Versicherungsservice GmbH, Vienna Airport, Austria	100.00	100.00	
BM Handling Services Ltd., Derby, UK	100.00	100.00	
BMI Airways Ltd., Derby, UK	100.00	100.00	
bmibaby Ltd., Donington, Derby, UK	100.00	100.00	
British Mediterranean Airways Limited, Derby, UK	59.38	79.68	
British Midland Engineering Ltd., Derby, UK	100.00	100.00	
British Midland Holdings Ltd., Derby, UK	100.00	100.00	
British Midland Regional Ltd., Aberdeen, UK	100.00	100.00	
Cargo Future Communications (CFC) GmbH, Büchenbeuren	65.00	65.00	
Caterair Portugal - Assistencia A Bordo, Lda., Sacavém, Portugal	100.00	100.00	
City Net Catering Holdings Ltd., Alcester, UK	100.00	100.00	
Crossair AG, Basel, Switzerland	100.00	100.00	
Cross Travel Club AG i.L., Basel, Switzerland	100.00	100.00	
Diamond Insurance Company Limited, Douglas, Isle of Man, UK	100.00	100.00	
Delvag Luftfahrtversicherungs-AG, Cologne	100.00	100.00	
Delvag Rückversicherungs-AG, Cologne	100.00	100.00	
Deutsche Lufthansa Unterstützungswerk GmbH, Cologne	100.00	100.00	
DLH Fuel Company mbH, Hamburg	100.00	100.00	
DLH Malta Pension Ltd., St. Julians, Malta	100.00	100.00	
Europe Continental Airways S.A. (i.L.), Saint Louis, France	100.00	100.00	
EW Beteiligungs- und Verwaltungsgesellschaft mbH, Dortmund	100.00	100.00	
GERANOS Grundstücksgesellschaft mbH & Co. IMMOBILIEN KG, Cologne	85.00	100.00	
GGG Service for Airlines GmbH, Frankfurt / M.	100.00	100.00	
Global Tele Sales Brno s.r.o., Brno, Czech Republic	100.00	100.00	
Global Tele Sales Ltd., Contaf, Dublin, Ireland	100.00	100.00	
Global Telesales of Canada, Inc., Peterborough, Canada	100.00	100.00	
Global Tele Sales Pty Limited, Melbourne, Australia	100.00	100.00	
Global Tele Sales (PTY) Ltd., Cape Town, South Africa	100.00	100.00	

Name, registered office	Equity stake in %	Voting share in %	Consolidated
GOAL Verwaltungsgesellschaft mbH & Co. Projekt Nr. 5 KG i.L., Grünwald	100.00	83.33	
handling counts GmbH, Frankfurt / M.	100.00	100.00	
Hinduja Lufthansa Cargo Holding B.V., Amsterdam, Netherlands	100.00	100.00	
IBYKUS-KG THG Grundbuchtreuhandgesellschaft mbH & Co., Cologne	85.00	88.14	
In-Flight Management Solutions Latin America, S.A. de C.V., Mexico City, Mexico	100.00	100.00	
International Cargo Marketing Ltd., Derby, UK	100.00	100.00	
LCAG Malta Pension Ltd., St. Julians, Malta	100.00	100.00	
LCAG USA, Inc., Wilmington, USA	100.00	100.00	
LCH Grundstücksgesellschaft Berlin mbH, Cologne	100.00	100.00	
LGHS Holding (Thailand) Limited i.L., Bangkok, Thailand	49.00	90.74	
LGSP Lufthansa Ground Service Portugal, Unipessoal Lda., Maia / Oporto, Portugal	100.00	100.00	
LH Cargo Holding GmbH, Frankfurt / M.	100.00	100.00	
LHT Malta Pension Ltd., St. Julians, Malta	100.00	100.00	
LRS Lufthansa Revenue Services GmbH, Norderstedt	100.00	100.00	
LSG Malta Pension Ltd., St. Julians, Malta	100.00	100.00	
LSI Malta Pension Ltd., St. Julians, Malta	100.00	100.00	
LTMES FZE, Dubai, United Arab Emirates	100.00	100.00	
Lufthansa Cagri Merkezi ve Müsteri Hizmetleri A.S., Istanbul, Turkey	99.91	99.91	
Lufthansa Cargo India (Priv) Ltd., New Delhi, India	100.00	100.00	
Lufthansa Cargo Servicios Logisticos de Mexico, S.A. de C.V., Mexico City, Mexico	100.00	100.00	
Lufthansa City Center International GmbH, Frankfurt / M.	50.00	50.00	
Lufthansa Consulting GmbH, Cologne	93.75	100.00	
Lufthansa Consulting Managementbeteiligungs GmbH & Co. KG, Cologne	68.75	68.75	
Lufthansa Druck und Distribution GmbH, Cologne	100.00	100.00	
Lufthansa Engineering and Operational Services GmbH, Frankfurt / M.	100.00	100.00	
Lufthansa Flight Training - CST GmbH, Berlin	100.00	100.00	
Lufthansa Flight Training London Ltd., West Drayton, UK	100.00	100.00	
Lufthansa Flight Training Vienna GmbH, Vienna Airport, Austria	100.00	100.00	
Lufthansa Global Tele Sales GmbH, Berlin	100.00	100.00	
Lufthansa International Finance (Netherlands) N. V., Amsterdam, Netherlands	100.00	100.00	
Lufthansa Malta Pension Holding Ltd., St. Julians, Malta	100.00	100.00	
Lufthansa Pension Beteiligungs GmbH, Frankfurt / M.	100.00	100.00	
Lufthansa Pension GmbH & Co. KG, Frankfurt / M.	100.00	100.00	
Lufthansa Service-Center Kassel GmbH, Kassel	100.00	100.00	
Lufthansa Services (Thailand) Ltd., Bangkok, Thailand	64.19	80.00	
Lufthansa Shenzhen Management Company Limited, Shenzhen, China	100.00	100.00	
Lufthansa Systems 25. GmbH, Raunheim	100.00	100.00	
Lufthansa Systems Asia Pacific Pte. Ltd., Singapore, Singapore	100.00	100.00	
Lufthansa Systems FlightNav AG, Opfikon, Switzerland	100.00	100.00	
Lufthansa Systems Hungaria Kft, Budapest, Hungary	100.00	100.00	
Lufthansa Systems Infrastructure Services Inc., Dallas, USA	100.00	100.00	
Lufthansa Systems IS Consulting GmbH, Norderstedt	100.00	100.00	
Lufthansa Systems Network GmbH, Norderstedt	100.00	100.00	
Lufthansa Systems Network Services GmbH, Norderstedt	100.00	100.00	
Lufthansa Systems Poland sp. z o.o., Gdansk, Poland	100.00	100.00	
Lufthansa Technical Training GmbH, Hamburg	100.00	100.00	
Lufthansa Technik Brussels N.V., Steenokkerzeel-Melsbroek, Belgium	100.00	100.00	
Lufthansa Technik Component Services LLC, Dallas, USA	100.00	100.00	
Lufthansa Technik Intercoat GmbH, Kaltenkirchen	51.00	51.00	
Lufthansa Technik Logistik of America LLC, New York, USA	100.00	100.00	
Lufthansa Technik Logistik Services GmbH, Hamburg	100.00	100.00	

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Miscellaneous equity investments of Deutsche Lufthansa AG as of 31.12.2011 (continued)	**Equity stake**	**Voting share**	**Consolidated**
Name, registered office	in %	in %	
Lufthansa Technik Milan s.r.l., Somma Lombardo (VA), Italy	100.00	100.00	
Lufthansa Technik Services India Private Limited, Gurgaon - 122002 (Harayana), India	100.00	100.00	
Lufthansa Technik Shenzhen Co., Ltd., Shenzhen, China	80.00	80.00	
Lufthansa Technik Sofia OOD, Sofia, Bulgaria	75.10	75.10	
Lufthansa Technik Tulsa Corporation, Tulsa, USA	100.00	100.00	
Lufthansa Technik Turbine Shannon Limited, Shannon / Co. Clare, Ireland	100.00	100.00	
Lufthansa Technik Vostok OOO, Moscow, Russia	100.00	100.00	
Lufthansa Technik Vostok Services OOO, Moscow Region, Russia	100.00	100.00	
Lufthansa UK Pension Trustee Limited, West Drayton, Middlesex, UK	100.00	100.00	
LZ-Catering GmbH, Hamburg	100.00	100.00	
Malta Pension Investments, St. Julians, Malta	0.00	100.00	
Maptext, Inc., Monmouth Junction, USA	100.00	100.00	
Marriott Export Services, C.A., Caracas, Venezuela	99.99	100.00	
Marriott International Trade Services, C.A., Caracas, Venezuela	99.99	100.00	
OP-Fonds LVG, Cologne	88.73	88.73	
Passage Services Holding GmbH, Munich	100.00	100.00	
Pilot Training Network d.o.o. (i.L.), Zemunik Gornij, Croatia	100.00	100.00	
Pilot Training Network GmbH, Frankfurt / M.	100.00	100.00	
Quinto Grundstücks-Verwaltungsgesellschaft mbH, Grünwald	94.80	94.80	
Reservation Data Maintenance India Private Ltd., New Delhi, India	51.00	51.00	
Servicios Complementarios de Cabina, S.A. de C.V., Mexico City, Mexico	51.88	99.80	
Shared Services International India Private Limited, New Delhi, India	100.00	100.00	
Shared Services International, Singapore PTE. LTD, Singapore, Singapore	100.00	100.00	
SLL, s.r.o., Bratislava, Slovakia	100.00	100.00	
Slovenske Aerolinie, a.s. (i.L.), Bratislava, Slovakia	62.00	62.00	
Star Risk Services Inc., Southlake, Texas, USA	100.00	100.00	
Swiss Private Aviation AG, Kloten, Switzerland	100.00	100.00	
Swiss WorldCargo (India) Private Limited, Mumbai, India	100.00	100.00	
TATS - Travel Agency Technologies & Services GmbH, Frankfurt / M.	100.00	100.00	
THG Grundbuchtreuhandgesellschaft mbH, Cologne	85.00	85.00	
TRAVI Holding GmbH, Vienna, Austria	69.00	69.00	
VPF Malta Pension Ltd., St. Julians, Malta	100.00	100.00	
Wien Oberlaa Liegenschaftsentwicklungs GmbH, Vienna Airport, Austria	100.00	100.00	
XP Reisen Vertriebs GmbH, Frankfurt / M.	100.00	100.00	
Other equity investments			
Aerologic Management GmbH i.L., Bonn	50.00	50.00	
Aeroxchange Ltd., Wilmington, USA	9.46	9.46	
AFC Aviation Fuel Company mbH, Hamburg	50.00	50.00	
Airfoil Services Sdn. Bhd., Kuala Lumpur, Malaysia	50.00	50.00	
Airmail Center Frankfurt GmbH, Frankfurt / M.	40.00	40.00	
Amadeus IT Holding, S.A., Madrid, Spain	7.61	7.61	
ATLECON Fuel Corporation, Atlanta, USA	11.11	11.11	
AviationPower GmbH, Hamburg	49.00	49.00	
Beijing Lufthansa Center Co. Ltd., Peking, China	11.23	12.50	
BGB-Gesellschaft der Gesellschafter der AFC Aviation Fuel Company mbH, Hamburg	0.00	50.00	
CommuniGate Kommunikationsservice GmbH, Passau	50.00	50.00	
Deutsche Akademie für Flug- und Reisemedizin gemeinnützige GmbH, Frankfurt / M.	90.00	90.00	
EFM - Gesellschaft für Enteisen und Flugzeugschleppen am Flughafen München mbH, Freising	51.00	51.00	
Egyptian Aviation Services Company (S.A.E.), Cairo, Egypt	5.83	5.83	
ETACS GmbH, Frankfurt / M.	25.20	25.20	
Fairpartners AG, Langen	8.33	8.33	
Finairport Service S.r.l., Turin, Italy	36.00	36.00	

Name, registered office	Equity stake in %	Voting share in %	Consolidated
Flughafen München Baugesellschaft mbH, Munich Airport	40.00	40.00	
FMO Passenger Services GmbH, Greven	33.33	33.33	
FM Terminal 2 Immobilien-Verwaltungsgesellschaft mbH & Co oHG, Freising	40.00	40.00	
FraCareServices GmbH, Frankfurt/M.	49.00	49.00	
Fraport AG, Frankfurt/M.	9.95	9.95	
Global Airline Services S.r.l., Fiumicino, Italy	40.00	40.00	
Global Logistics System Worldwide Company for Development of Freight Information Network GmbH, Frankfurt/M.	25.00	25.00	
GOAL German Operating Aircraft Leasing GmbH & Co. KG, Grünwald	40.00	39.99	
GOAL German Operating Aircraft Leasing GmbH, Munich	40.00	40.00	
Guangzhou Baiyun International Airport LSG Sky Chefs Co Ltd., Guangzhou, China	30.00	28.57	
Gulf International Caterers, W.L.L., Bahrain, Bahrain	49.00	49.00	
Hangzhou Xiaoshan Airport LSG Air Catering Co Ltd., Hangzhou, China	25.00	28.57	
Idair GmbH, Hamburg	50.00	50.00	
Jetblue Airways Corporation, City of Dover, County of Kent, Delaware, USA	15.85	15.85	
Link & Learn Aviation Training GmbH, Zirl, Austria	33.33	33.33	
LSG Gate Gourmet Paris S.A.S. i.L., Roissy, France	50.00	50.00	
LSG-Hygiene Institute GmbH, Neu-Isenburg	25.00	25.00	
LSG Sky Chefs Catering Egypt S.A.E., Cairo, Egypt	15.00	15.00	
LSG Sky Chefs TAAG Angola S.A., Luanda, Angola	40.00	40.00	
LTQ Engineering Pty Limited, Tullamarine, Australia	50.00	50.00	
Luftfahrzeugverwaltungsgesellschaft GOAL mbH, Grünwald	40.00	40.00	
Lufthansa HNA Technical Training Co., Ltd., Meilan Airport, Hainan, China	50.00	1.00	
Lufthansa LAN Technical Training S.A., Santiago de Chile, Chile	50.00	50.00	
Lufthansa Leasing GmbH & Co. Bravo-Juliett KG i.L., Grünwald	100.00	50.00	
Lufthansa Leasing GmbH, Grünwald	49.00	49.00	
Luxair Société Luxembourgeoise de Navigation Aérienne S. A., Luxembourg, Luxembourg	14.44	14.44	
N3 Engine Overhaul Services Verwaltungsgesellschaft mbH, Hamburg	50.00	50.00	
Nigerian Aviation Handling Company PLC., Lagos, Nigeria	7.00	7.00	
North Hub Cleaning Services SIA, Marupe, Latvia	49.00	49.00	
Portland Fueling Facilities Corporation, Portland, USA	6.25	6.25	
Pro Flight GmbH, Bremen	50.00	50.00	
SAEMS Special Airport Equipment and Maintenance Services GmbH & Co. KG, Hamburg	40.00	40.00	
S.A.E.M.S. Verwaltungs-GmbH, Hamburg	40.00	40.00	
Sanya LSG Air Catering Co. Ltd., Sanya, China	45.00	40.00	
SCA Schedule Coordination Austria GmbH, Vienna Airport, Austria	25.00	25.00	
Shenzhen Airport International Cargo Terminal Company Limited, Shenzhen, China	50.00	50.00	
Sichuan Airlines LSG Air Catering Co. Ltd., Chengdu, China	49.00	40.00	
Sky Bird Services Ltd., Hong Kong, China	10.00	10.00	
Sky Chefs for Airlines Catering Company, Tripolis, Libya	44.50	44.50	
Star Alliance Services GmbH, Frankfurt/M.	5.56	5.56	
STARS Special Transport and Ramp Services GmbH & Co. KG, Hamburg	49.00	49.00	
S.T.A.R.S. Verwaltungs-GmbH, Hamburg	49.00	49.00	
Tanklager & Hydranten Betriebsgesellschaft mbH (THBG BBI), Schönefeld	30.00	30.00	
Terminal 2 Betriebsgesellschaft mbH & Co oHG, Oberding	40.00	40.00	
Terminal One Group Association, L.P., New York, USA	24.75	0.00	
Terminal One Management Inc., New York, USA	25.00	25.00	
The Airline Group Limited, London, UK	14.52	14.52	
time:matters Holding GmbH, Dusseldorf	49.26	49.00	
TRAINICO Training und Ausbildung Cooperation in Berlin-Brandenburg GmbH, Berlin	30.00	30.00	
Universal Air Travel Plan, Inc., Washington, DC, USA	5.26	5.26	
Xinjiang HNA LSG Sky Chefs Co Ltd., Urumqi, China	49.00	40.00	
Zentrum für Angewandte Luftfahrtforschung GmbH, Hamburg	20.00	20.00	
ZFB Zentrum für Flugsimulation Berlin GmbH i.L., Berlin	50.00	50.00	

Ten-year overview

		2011	2010[10]	2009
Income statement Lufthansa Group				
Revenue	€m	28,734	26,459	22,283
Result				
Operating result	€m	820	1,020	130
Operating margin	%	2.9	3.9	0.6
Profit/loss from operating activities[1]	€m	773	1,386	271
Profit/loss before income taxes[1)8]	€m	446	1,134	–134
Net profit/loss attributable to shareholders of Deutsche Lufthansa AG	€m	–13	1,131	–34
Main cost items				
Staff costs	€m	6,678	6,491	5,996
Fees and charges	€m	5,000	4,318	3,762
Fuel for aircraft	€m	6,276	4,964	3,645
Depreciation, amortisation and impairment	€m	1,722	1,654	1,475
Net interest	€m	–288	–346	–325
Balance sheet Lufthansa Group				
Asset structure				
Non-current assets[4]	€m	18,627	18,963	17,696
Current assets[4]	€m	9,454	10,357	8,696
of which liquid assets	€m	3,998	5,380	4,439
Capital structure				
Shareholders' equity[2]	€m	8,044	8,340	6,202
of which issued capital[3]	€m	1,172	1,172	1,172
of which reserves	€m	6,790	5,939	4,956
Liabilities	€m	20,037	20,980	20,190
of which pension provisions	€m	2,165	2,571	2,710
of which borrowing	€m	6,424	7,184	6,802
Total assets	€m	28,081	29,320	26,392
Other financial data Lufthansa Group				
Capital expenditure	€m	2,560	2,271	2,304
of which on tangible and intangible assets	€m	2,445	2,222	2,177
of which on financial investments	€m	115	49	127
Cash flow from operating activities	€m	2,356	2,992	1,991
Free cash flow	€m	713	1,542	251
Indebtedness				
gross	€m	6,440	7,207	6,860
net[7]	€m	2,328	1,596	2,195
Deutsche Lufthansa AG				
Net profit/loss for the year	€m	–116	483	–148
Transfer to/from reserves	€m	230	–208	148
Dividends proposed/paid	€m	114	275	–
Lufthansa share				
Share price at year-end	€	9.19	16.36	11.75
Earnings per share	€	–0.03	2.47	–0.07
Dividend per share proposed/paid	€	0.25	0.60	–

2008	2007	2006	2005	2004	2003	2002
24,842	22,420	19,849	18,065	16,965	15,957	16,971
1,280	1,378	845	577	383	36	718
5.2	6.1	4.3	3.2	2.3	0.2	4.2
1,309	1,586	1,078	719	954	–176	1,544
730	2,125	1,129	875	541	–814	904
542	1,655	803	453	404	–984	717
5,692	5,498	5,029	4,853	4,813	4,612	4,660
3,499	3,174	2,824	2,543	2,542	2,290	2,239
5,377	3,860	3,355	2,662	1,819	1,352	1,347
1,289	1,204	1,051	1,398	1,112	1,930	1,243
–172	–194	–254	–248	–331	–341	–415
14,975	14,076	12,969	12,318	11,543	10,885	12,103
7,433	8,244	6,492	6,954	6,527	5,847	7,034
3,278	3,607	2,538	3,598	3,788	2,721	3,638
6,594	6,900	4,903	4,522	4,014	2,696	4,172
1,172	1,172	1,172	1,172	1,172	977	977
4,817	4,018	2,648	2,707	2,398	2,660	2,431
15,814	15,420	14,558	14,750	14,056	14,036	14,965
2,400	2,461	3,814	4,022	4,132	4,327	4,020
3,581	3,345	2,956	3,563	3,306	3,240	4,713
22,408	22,320	19,461	19,272	18,070	16,732	19,137
2,152	1,737	1,929	1,829	1,783	1,155	880
1,798	1,621	1,380	1,221	1,647	992	646
354	116	549	608	136	163	234
2,473	2,862	2,105	1,956	1,881	1,581	2,312
612	2,688	584	815	1,061	1,024	2,813
3,639	3,369	2,971	3,605	3,370	3,312	4,771
–125	–768	–101	–143	–418	591	1,133
276	1,123	523	455	265	–1,223	1,111
44	–551	–202	–226	–128	1,223	–85
320	572	321	229	137	–	229
11.19	18.22	20.85	12.51	10.55	13.25	8.78
1.18	3.61	1.75	0.99	0.94	–2.51	1.88
0.70	1.25	0.70	0.50	0.30	–	0.60

Continued on page 228

Ten-year overview (continued)

		2011	2010[10]	2009
Operational ratios Lufthansa Group				
Return on sales (Profit/loss before income taxes[1,8] / revenue)	%	1.6	4.3	−0.6
Return on capital employed (Profit/loss before income taxes[1,8] plus interest on liabilities/total assets)	%	3.3	5.7	1.4
Return on equity (Profit/loss after income taxes/shareholders' equity[2])	%	0.0	13.7	−0.4
Return on equity (Profit/loss before income taxes[1,8] / shareholders' equity[2])	%	5.5	13.6	−2.2
Equity ratio (Shareholders' equity[2] / total assets)	%	28.6	28.4	23.5
Gearing[6] (Net indebtedness plus pension provisions/shareholders' equity[2])	%	55.9	50.0	79.1
Leverage (Net indebtedness/total assets)	%	8.3	5.4	8.3
Internal financing ratio (Cash flow/capital expenditure)	%	92.0	131.7	86.4
Debt repayment ratio Net indebtedness / adjusted cash flow from operating activities	%	49.7	59.7	38.1
Revenue efficiency (Cash flow/revenue)	%	8.8	11.9	8.9
Net working capital (Current assets less current liabilities)[4]	€bn	−0.3	0.5	−0.1
Non-current asset ratio (Non-current assets/total assets)	%	66.3	64.7	67.1
Depreciation ratio for aircraft/reserve engines (Accumulated depreciation/accumulated acquisition costs)	%	54.4	53.9	54.2
Staff ratios				
Average number of employees	number	119,084	117,066	112,320
Revenue/employee	€	241,292	226,018	198,384
Staff costs/revenue	%	23.2	24.5	26.9
Traffic figures Lufthansa Group[5,9,11]				
Total available tonne-kilometres	millions	40,797.9	37,664.4	35,469.4
Total revenue tonne-kilometres	millions	29,906.1	28,274.3	24,942.7
Cargo load factor	%	73.3	75.1	70.3
Available seat-kilometres	millions	258,262.6	234,376.6	208,225.7
Revenue seat-kilometres	millions	200,376.1	186,451.5	162,286.2
Passenger load factor	%	77.6	79.6	77.9
Passengers carried	millions	100.6	92.7	77.3
Revenue passenger tonne-kilometres	millions	19,045.4	17,845.0	16,236.3
Freight/mail	tonnes	2,120,191	2,022,670	1,712,167
Freight/mail tonne-kilometres	millions	10,860.7	10,429.3	8,706.3
Number of flights	number	1,050,728	1,008,988	899,928
Flight kilometres	millions	1,374.4	1,240.9	1,177.9
Aircraft utilisation (block hours)	number	2,283,051	2,061,740	1,949,857
Aircraft in service	number	696	710	722

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.

2008	2007	2006	2005	2004	2003	2002
2.9	9.5	5.7	4.8	3.2	−5.1	5.3
4.9	11.2	8.2	7.0	5.8	−1.7	7.6
8.4	25.5	18.3	13.5	10.2	−36.3	17.3
11.1	30.8	23.0	19.3	13.5	−30.2	21.7
29.4	30.9	25.2	23.5	22.2	16.1	21.8
34.5	24.5	75.7	85.8	92.5	182.4	123.5
−0.6	−3.4	−0.5	−0.7	−2.3	3.5	5.9
114.9	164.8	109.1	106.9	105.5	136.9	262.7
97.0	154.7	54.9	48.7	45.3	29.9	39.6
10.0	12.8	10.6	10.8	11.1	9.9	13.6
−0.6	0.0	−0.2	0.0	0.9	−0.3	−0.4
66.8	63.1	66.6	63.9	62.2	65.1	61.2
58.9	58.0	57.9	55.7	53.4	55.5	53.8
108,123	100,779	93,541	90,811	92,743	94,798	94,135
229,757	222,467	212,196	198,930	182,925	168,326	180,284
22.9	24.5	25.3	26.9	28.4	28.9	27.5
34,960.2	30,339.3	26,666.8	26,485.6	25,950.3	23,237.3	22,755.6
24,972.5	22,612.8	19,215.7	18,726.6	18,445.0	16,226.5	16,080.8
71.4	74.5	72.1	70.7	71.1	69.8	70.7
195,430.8	169,108.4	146,719.6	144,181.9	140,647.7	124,026.6	119,876.9
154,155.5	135,011.3	110,329.5	108,184.5	104,063.7	90,708.2	88,570.0
78.9	79.8	75.2	75.0	74.0	73.1	73.9
70.5	62.9	53.4	51.3	50.9	45.4	43.9
15,462.6	13,569.4	11,112.3	10,897.5	10,484.0	9,137.9	8,922.8
1,914,925	1,910,846	1,758,968	1,735,771	1,752,900	1,580,430	1,624,983
9,509.9	9,043.4	8,103.4	7,829.1	7,961.0	7,088.6	7,158.0
830,832	749,431	664,382	653,980	647,785	543,549	517,922
1,124.6	979.3	794.6	794.1	798.7	703.6	668.1
1,855,842	1,629,416	1,341,810	1,340,948	1,351,932	1,172,034	1,112,062
524	513	430	432	377	382	344

[4] Financial statements from 2004 according to new IAS 1 balance sheet standards; figures for previous years roughly comparable.
[5] From 2003 including Air Dolomiti, from 2006 including Eurowings.
[6] From 2004 net indebtedness plus pension provisions; previous years adjusted.
[7] From 2005 including borrower's note loans (payable at any time).
[8] Until 2008 including the discontinued business segment Leisure Travel.
[9] Lufthansa Passenger Airlines, SWISS, Austrian Airlines, Germanwings (from January 2010) and Lufthansa Cargo.
[10] The income statement for the financial year 2010 has been adjusted in line with IFRS 5 Discontinued Operations because of the planned disposal of bmi.
[11] Without bmi.

Glossary

Aviation terminology

Average yields Average revenue earned per unit of output; normally based on total passenger-kilometres or tonne-kilometres sold, but they can also be calculated per unit of traffic volume, e. g. per passenger carried or per kilometre flown.

Block hours The time from the moment an aircraft leaves its parking position ("off-blocks time") to taxi to the runway for take-off until it comes to a complete standstill at its final parking position at the destination airport ("on blocks").

Code-share A code-share is a flight segment that is sold under the flight number of one airline, while being operated either partly or entirely by another airline. Both companies maintain their own independent profile on the market.

Hub In air traffic a hub refers to an airline's transfer airport, a central connecting point for different routes. Passengers and goods are transported from the original starting point to the airport's hub. From there they are carried to their destination by a second flight alongside passengers and goods from other departure points.

IATA International Air Transport Association – the international trade association for the airline industry.

MRO Short for maintenance, repair and overhaul of aircraft.

Network carrier In contrast to no-frills carriers these airlines offer a wide-ranging, normally global route network via one or more hubs, with synchronised connecting flights.

No-frills carrier No-frills carriers are airlines which offer largely low ticket prices but with reduced service levels and sometimes additional charges on board and on the ground. Flights are mostly from secondary airports outside the major cities (e. g. Hahn in the Hunsrück area outside Frankfurt).

Passenger load factor/cargo load factor Measure of capacity utilisation in per cent. The cargo load factor expresses the ratio of capacity sold to available capacity. The passenger load factor refers to passenger transportation and the cargo load factor to freight transport or total traffic.

Passenger-kilometre/tonne-kilometre Standard output units for air transport. A revenue passenger-kilometre (RPK) denotes one fare-paying passenger transported one kilometre. A revenue tonne-kilometre (RTK) denotes one tonne of load (passengers and/or cargo) transported one kilometre.

Financial terminology

Call option The right to purchase a specific underlying security within a specified period of time at an agreed price.

Cash flow Measure of a company's financial and earnings potential. It is calculated as the difference between the inflow and outflow of cash and cash equivalents generated from ongoing business activities during the financial year, see "consolidated cash flow statement" on p. 145.

Cash value added – CVA Parameter for measuring performance of value creation. When the cash flow generated in a period (EBITDA^{plus}) is greater than the minimum cash flow required to cover the cost of capital, the CVA is positive and value is created, see "Value-based management and targets" from p. 34.

Compliance Institutionalised arrangements for ensuring that a company's management and staff duly comply with all statutory provisions and prohibitions.

Deferred taxes A balance sheet item used to show taxable and deductible temporary differences. Deferred taxes reflect the temporary differences between assets and liabilities recognised for financial reporting purposes and such amounts recognised for income tax purposes.

Directors' dealings Transactions by members of a company's supervisory, executive or divisional boards, or their family members, involving shares in "their" company. Under German law, any such dealings must be disclosed if they exceed EUR 5,000 within a calendar year.

Dividend yield Indicator for assessing the profitability of an investment in shares. It is determined by dividing the dividend by the share price at the close of the reporting year and then multiplying it by 100.

Debt repayment ratio A financial indicator. It represents the ratio of adjusted cash flow from operating activities to net indebtedness and pensions, see p. 58. The rating agencies' comparable criteria for an investment grade rating are met if a target of at least 60 per cent is achieved sustainably.

EBIT Financial indicator denoting earnings before interest and taxes.

EBITDA Financial indicator denoting earnings before interest, taxes, depreciation and amortisation. Depreciation relates to items of property, plant and equipment and amortisation to intangible assets – both terms apply equally to non-current and current assets. The figure also includes impairment losses on equity investments accounted for under the equity method and on assets held for sale.

EBITDA^{plus} EBITDA^{plus} refers to the operating result adjusted for non-cash items. It includes all cash-relevant items over which management has an influence, see "Value-based management and targets" from p. 34.

Equity method Accounting method for measuring income derived from a company's investments in associated companies and joint ventures. Under this method, investment income equals a share of net income proportional to the size of the equity investment.

Equity ratio Financial indicator expressing the ratio of shareholders' equity to total assets.

Financial covenants Covenants are obligations on the part of a borrower towards its banks that are defined in loan agreements. They can also be described as conditions relating to the company's capital structure. During the term of the loan they oblige the borrower to maintain certain financial ratios (relating to equity, debt or liquidity, for example). Deutsche Lufthansa AG's main financial liabilities do not include covenants.

Free cash flow Financial indicator expressing the cash flow from operating activities remaining in the reporting period after deducting net cash used for investing activities.

Gearing Financial indicator expressing the ratio of net indebtedness plus pension provisions to equity.

Group of consolidated companies Group of subsidiaries included in a company's consolidated financial statements.

Impairment Losses recognised on the carrying amount of assets. Impairment charges are recognised when an asset's "recoverable value" (the higher of fair value less costs to sell and value in use) is below its carrying amount. By contrast, depreciation or amortisation is the systematic allocation of the depreciable amount of an asset over its useful life.

Internal financing ratio Financial indicator expressing the degree to which capital expenditure was financed from the cash flow generated.

Jet fuel crack Price difference between crude oil and kerosene.

Lufthansa Pension Trust A fund to which Lufthansa has been contributing since 2004 to finance future retirement benefits to staff in Germany and those seconded abroad. Annual contributions are planned to build up fund assets, with the objective of funding benefit obligations in full.

Net indebtedness/net liquidity Financial indicator denoting non-current borrowing less cash, cash equivalents and current securities.

Operating result An earnings measure. The operating result is calculated as the profit from operating activities, adjusted for book gains and losses, write-backs of provisions, impairment losses, results of financial investments and the measurement of financial liabilities at the end of the period, see p. 51.

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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Claudio Rizzo
Christian Schmidt

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Contact

Frank Hülsmann
Head of Investor Relations
+49 69 696–28001

Johannes Hildenbrock
+49 69 696–28003

Gregor Schleussner
+49 69 696–28012

Deutsche Lufthansa AG
Investor Relations
LAC, Airportring
60546 Frankfurt am Main
Germany
Phone: +49 69 696–28008
Fax: +49 69 696–90990
E-mail: investor.relations@dlh.de

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Financial calendar 2012 / 2013

2012

15 March	Press Conference and Analysts' Conference on 2011 results
3 May	Release of Interim Report January – March 2012
8 May	Annual General Meeting in Cologne
2 Aug.	Release of Interim Report January – June 2012
31 Oct.	Release of Interim Report January – September 2012

2013

14 March	Press Conference and Analysts' Conference on 2012 results
2 May	Release of Interim Report January – March 2013
7 May	Annual General Meeting in Cologne
1 Aug.	Release of Interim Report January – June 2013
31 Oct.	Release of Interim Report January – September 2013

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