



**LUFTHANSA GROUP**

ANNUAL REPORT  
**2017**



# Business segments

## NETWORK AIRLINES

The Network Airlines segment comprises Lufthansa German Airlines, SWISS and Austrian Airlines. With their multi-hub strategy, the Network Airlines offer their passengers a premium product and a comprehensive route network combined with the highest level of travel flexibility.

### T002 NETWORK AIRLINES

		2017	Change in %
Revenue	€m	23,317	6.6
of which traffic revenue	€m	21,538	6.6
Adjusted EBIT	€m	2,263	45.5
Adjusted EBIT margin	%	9.7	2.6 pts
Adjusted ROCE	%	17.1	6.0 pts
EACC	€m	1,622	48.9
Segment capital expenditure	€m	1,738	19.7
Employees as of 31.12.	number	50,190	0.4

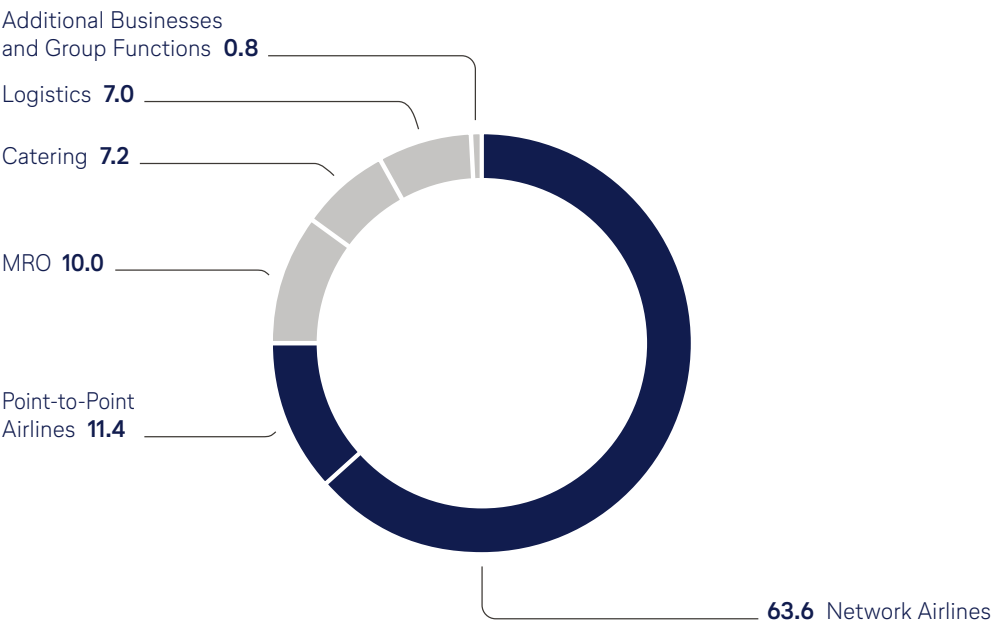
## POINT-TO-POINT AIRLINES

The Point-to-Point Airlines segment is made up of the flight operations of the Eurowings group (Eurowings, Germanwings, Eurowings Europe) as well as Brussels Airlines and the equity investment in SunExpress. The Point-to-Point Airlines provide an innovative and competitive offering for price-sensitive and service-oriented customers in the growing direct traffic segment.

### T003 POINT-TO-POINT AIRLINES

		2017	Change in %
Revenue	€m	4,041	96.2
of which traffic revenue	€m	3,927	91.7
Adjusted EBIT	€m	94	
Adjusted EBIT margin	%	2.3	7.3 pts
Adjusted ROCE	%	4.2	12.2 pts
EACC	€m	-63	-49.2
Segment capital expenditure	€m	939	134.2
Employees as of 31.12.	number	7,501	114.7

## C01 Business segments' share of Group external revenue in %



## LOGISTICS

Lufthansa Cargo is the logistics specialist within the Lufthansa Group. The freighter fleet consisted of five Boeing 777F and twelve Boeing MD-11F aircraft as of the end of the financial year. Lufthansa Cargo markets capacities on its own freighters and chartered cargo aircraft, along with belly capacities on passenger aircraft operated by Lufthansa German Airlines, Austrian Airlines and on Eurowings long-haul flights.

### T004 LOGISTICS

		2017	Change in %
Revenue	€m	2,524	21.1
of which traffic revenue	€m	2,373	19.5
Adjusted EBIT	€m	242	
Adjusted EBIT margin	%	9.6	12.0 pts
Adjusted ROCE	%	15.5	18.9 pts
EACC	€m	128	
Segment capital expenditure	€m	39	34.5
Employees as of 31.12.	number	4,511	-1.2

## MRO

Lufthansa Technik is the world's leading independent provider of maintenance, repair and overhaul services (MRO) for civilian commercial aircraft. The portfolio covers a variety of different product structures and combinations, from the repair of individual components to consultancy services and the fully integrated supply of entire fleets.

### T005 MRO

		2017	Change in %
Revenue	€m	5,404	5.1
of which external revenue	€m	3,568	1.5
Adjusted EBIT	€m	415	1.0
Adjusted EBIT margin	%	7.7	-0.3 pts
Adjusted ROCE	%	7.7	-0.9 pts
EACC	€m	147	3.5
Segment capital expenditure	€m	233	7.9
Employees as of 31.12.	number	21,502	3.2

## CATERING

The LSG group offers a complete portfolio of products related to in-flight service. Its established LSG Sky Chefs brand, the world's largest network of catering facilities and its expertise make the group the market leader for high-quality in-flight catering. The company is present at 205 airports around the world, with 198 plants and several partnerships.

### T006 CATERING

		2017	Change in %
Revenue	€m	3,219	0.8
of which external revenue	€m	2,556	0.2
Adjusted EBIT	€m	66	-36.5
Adjusted EBIT margin	%	2.1	-1.2 pts
Adjusted ROCE	%	3.9	-2.1 pts
EACC	€m	-17	13.3
Segment capital expenditure	€m	84	15.1
Employees as of 31.12.	number	34,563	-2.7

## 2017 figures

# 35.6

Revenue in EUR bn

# 2,973

Adjusted EBIT in EUR m

# 3,005

Capital expenditure in EUR m

# 2,253

Free cash flow

in EUR m

# 11.6

Adjusted ROCE in %

# 1,758

EACC in EUR m

# 154.4

Total Shareholder  
Return in %



Key figures  
Lufthansa Group  
overview

# Lufthansa Group

The Lufthansa Group is the world's leading aviation group. Its corporate portfolio consists of Network Airlines, Point-to-Point Airlines and Aviation Services.

## T001 KEY FIGURES LUFTHANSA GROUP

		2017	2016	Change in %
<b>Revenue and result</b>				
Total revenue	€m	35,579	31,660	12.4
of which traffic revenue	€m	28,399	24,661	15.2
EBITDA	€m	5,362	4,065	31.9
EBIT	€m	3,310	2,275	45.5
Adjusted EBIT	€m	2,973	1,752	69.7
Net profit/loss	€m	2,364	1,776	33.1
<b>Key balance sheet and cash flow statement figures</b>				
Total assets	€m	36,267	34,697	4.5
Equity ratio	%	26.5	20.6	5.9 pts
Net indebtedness	€m	2,884	2,701	6.8
Pension provisions	€m	5,116	8,364	- 38.8
Cash flow from operating activities	€m	5,035	3,246	55.1
Capital expenditure (gross)	€m	3,005	2,236	34.4
Free cash flow	€m	2,253	1,138	98.0
<b>Key profitability and value creation figures</b>				
EBITDA margin	%	15.1	12.8	2.3 pts
EBIT margin	%	9.3	7.2	2.1 pts
Adjusted EBIT margin	%	8.4	5.5	2.9 pts
ROCE	%	12.8	9.0	3.8 pts
Adjusted ROCE	%	11.6	7.0	4.6 pts
EACC	€m	1,758	817	115.1
<b>Lufthansa share</b>				
Share price at year-end	€	30.72	12.27	150.4
Earnings per share	€	5.03	3.81	32.0
Proposed dividend per share	€	0.80	0.50	60.0
<b>Traffic figures <sup>1)</sup></b>				
Flights	number	1,130,008	1,021,919	10.6
Passengers	thousands	130,040	109,673	18.6
Available seat-kilometres	millions	322,821	286,555	12.7
Revenue seat-kilometres	millions	261,156	226,639	15.2
Passenger load factor	%	80.9	79.1	1.8 pts
Available cargo tonne-kilometres	millions	15,619	15,117	3.3
Revenue cargo tonne-kilometres	millions	10,819	10,071	7.4
Cargo load factor	%	69.3	66.6	2.7 pts
<b>Employees</b>				
Employees as of 31.12.	number	129,424	124,306	4.1
Average number of employees	number	128,856	123,287	4.5

<sup>1)</sup> Previous year's figures have been adjusted.  
Date of publication: 15 March 2018.

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## The Executive Board

# Deutsche Lufthansa AG



### HARRY HOHMEISTER

Member of the Executive Board  
Hub Management

Born in 1964, diploma in commercial air transport, Executive Board member since 2013, with the Lufthansa Group since 1985

### DR BETTINA VOLKENS

Member of the Executive Board  
Corporate Human Resources and Legal Affairs

Born in 1963, lawyer, Executive Board member since 2013, with the Lufthansa Group since 2012

### CARSTEN SPOHR

Chairman of the Executive Board  
and CEO

Born in 1966, industrial engineer, Chairman of the Executive Board and CEO since 1 May 2014, Executive Board member since 2011, with the Lufthansa Group since 1994

### ULRIK SVENSSON

Member of the Executive Board and  
Chief Financial Officer

Born in 1961, B.Sc. in Economics, Executive Board member since 2017, with the Lufthansa Group since 2017

### THORSTEN DIRKS

Member of the Executive Board  
Eurowings and Aviation Services

Born in 1963, chartered engineer, member of the Executive Board since 2017, at the Lufthansa Group since 2017

## Ladies and gentlemen,

The Lufthansa crane that has always symbolised our brand celebrates its 100th anniversary in this year. Such a jubilee presents a good opportunity to reflect on the past and to look into the future.

Behind us lies a long, often varied and always highly eventful past, which has been defined by continuous growth and our aspiration to combine tradition and innovation. We have driven change at all times and simultaneously held on to tried and tested practices.

We took the 100-year anniversary of the crane as the opportunity to freshen up our image. This is perhaps the most visible sign of modernisation at the Lufthansa Group.

In accordance with this, in 2017 we concluded the most successful year in the history of the Lufthansa Group. Never before as many passengers have flown with our Group's airlines and never before have we generated as much revenue from special and express freight. Never before has Lufthansa Technik serviced as many aircraft and never before has our catering company LSG prepared as many meals. All this makes us confident that we have set the Lufthansa Group on the right course.

That is particularly important because our industry is currently undergoing a process of comprehensive structural change. Weaker competitors are leaving the market and the long overdue consolidation that is so important for the industry is making progress. Competition is changing significantly, particularly in the Lufthansa Group's home markets. That will be to the long-term benefit of our passenger airlines. The main drivers of the very good earnings performance last year were, on the one hand, the increased demand for flights. The year before, terrorist attacks in Europe and strikes at Lufthansa German Airlines lead to fewer bookings and lower earnings. On the other hand, we have continued to reduce our unit costs, despite rising unit revenues at the airlines.

The result is something we can be proud of: revenue went up by 12 per cent to more than EUR 35bn. Adjusted EBIT, our main performance indicator, climbed by around 70 per cent to approximately EUR 3bn. Adjusted ROCE, the return on capital employed, improved by 5 percentage points to 12 per cent. This means the Lufthansa Group created value of EUR 1.8bn after covering its cost of capital. These are all new records, too.

At the same time free cash flow doubled to EUR 2.3bn. The equity ratio improved by around 6 percentage points to 26.5 per cent. This was despite the fact that we invested EUR 3bn, around a third more than the previous year.



We view this very positive economic development not as a target, but as a starting point. These successes enable the Lufthansa Group to tackle the challenges ahead from a position of strength. We want to play an active role in the consolidation of the industry in Europe. And of course we want to keep investing in the product and the fleet, in order to justify our premium positioning over the long term. At the same time, we want to cut unit costs by 1 to 2 per cent every year.

Continuous quality improvements do not rule out cost reductions, as can be seen impressively at Lufthansa German Airlines, which was declared a Five Star Airline last year, the highest level of quality in the industry, despite ongoing cost-cutting and efficiency measures. Against this background we intend to continue last year's successes and press ahead with the strategic progress to which all our business segments contributed last year.

Due to the positive operating performance, the Supervisory Board and Executive Board of Deutsche Lufthansa AG propose in line with the existing dividend policy to distribute a dividend of EUR 0.80 per share for the 2017 financial year, which is 60 per cent more than the previous year. With a distribution of 2.6 per cent based on the closing share price for the year, this means that the Lufthansa Group is again one of the companies with the highest dividend yields in the German DAX index.

Ladies and gentlemen, we see our performance over recent years as a motivation to pursue the course we have set. Our strategic decisions and our chosen path of consistent modernisation have paid off, particularly in the context of structural change in the industry. The original goal of staying competitive, investing steadily, and also being able to grow the business as a result, has now taken on a shaping role in the rapidly advancing process of consolidation in Europe. In many parts of the Company we make targeted investments in future growth again.

The backbone of our Company's success is always the employees at our businesses, who are implementing these changes with courage and determination. They are what makes the Lufthansa Group so strong and successful. And because these successes are always the result of teamwork, we are presenting the whole Group Executive Committee in this year's report, that is the Executive Board of Deutsche Lufthansa AG and the CEOs of the major subsidiaries. Together we will lead the Lufthansa Group forward – with the aim of remaining the number one for our shareholders, customers, employees and partners.

Please continue to give us your trust and your support!

Frankfurt, March 2018



Carsten Spohr  
Chairman of the Executive Board and CEO of Deutsche Lufthansa AG



## Group Executive Committee Lufthansa Group



**BOTTOM ROW FROM THE LEFT:** Thorsten Dirks, Executive Board member of Deutsche Lufthansa AG, Ressort Eurowings and Aviation Services, Erdmann Rauer, CEO LSG group, Dr Johannes Bußmann, CEO Lufthansa Technik, Peter Gerber, CEO Lufthansa Cargo, Dr Detlef Kayser, Executive Vice President Strategy and Fleet, Ulrik Svensson, Executive Board member of Deutsche Lufthansa AG, Chief Financial Officer, Carsten Spohr, Chairman of the Executive Board and CEO of Deutsche Lufthansa AG, Dr Bettina Volkens, Executive Board member and Chief Human Resources Officer of Deutsche Lufthansa AG, Corporate Human Resources and Legal Affairs, Harry Hohmeister, Executive Board member of Deutsche Lufthansa AG, Hub Management.

**TOP ROW FROM THE LEFT:** Kay Kratky, CEO Austrian Airlines, Thomas Klühr, CEO SWISS, Wilken Bormann, CEO Lufthansa German Airlines Hub München, Klaus Froese, CEO Lufthansa German Airlines Hub Frankfurt.

**To our shareholders**

## Report of the Supervisory Board



**Dr Karl-Ludwig Kley,**  
Chairman of the Supervisory Board

## Ladies and gentlemen,

In the financial year 2017, the Supervisory Board again carried out the duties conferred on it by statute, the Company's Articles of Association and its internal regulations. We supervised the work of the Executive Board members and advised them. The Executive Board's reporting obligations and the requirement to draw up a list of transactions requiring authorisation are defined by law and have been codified in internal regulations.

The Executive Board provided us with full, timely information on the competitive environment, planned Company policy and all significant strategic and operating decisions. Larger items of projected capital expenditure and equity investments as well as planned Group financing activities were coordinated with us. As Chairman of the Supervisory Board, together with Wolfgang Mayrhofer, I read the minutes of the Executive Board meetings and discussed the current course of business with the Chairman of the Executive Board and CEO on an ongoing basis.

In 2017, the Supervisory Board held a total of five meetings, on 15 March, 4 May, 16 August, 25/26 September and 5 December. In December 2017, 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. In addition, we adopted a diversity concept for the Executive Board as well as a requirements profile for the Supervisory Board. 📄 [www.lufthansagroup.com/corporate\\_governance\\_declaration](https://www.lufthansagroup.com/corporate_governance_declaration).

No conflicts of interest were disclosed in the financial year 2017.

Our meetings focused on the economic development of Deutsche Lufthansa AG and its associated companies and on the strategy of the Lufthansa Group. Particular attention was again paid to the implementation of Company strategy, the integration of Brussels Airlines and the expansion of Eurowings' market position. At a meeting convened at short notice on 16 August 2017, the Executive Board informed us of the insolvency of Air Berlin PLC & Co. Luftverkehrs KG. In this context and having already discussed the strategy of the Lufthansa Group at length at the same meeting, we approved the purchase of all shares in Luftfahrtgesellschaft Walter mbH in the meeting on 25/26 September; we also gave our approval for the procurement of up to 61 aircraft by the Lufthansa Group and the signing of a wet-lease agreement between Eurowings and TUIfly GmbH for seven aircraft. We also approved the procurement of twelve used Airbus aircraft and measures in connection with the renewal of expiring leases at AeroLogic GmbH for eight Boeing 777 freighters.

In May 2017, the Supervisory Board agreed with the Executive Board members on an alteration to the remuneration structure for the Executive Board, which applies to all Executive Board members from the financial year 2017. The previous contractually prescribed option of a discretionary bonus was abolished. The required long-term assessment base for variable remuneration was ensured by increasing the proportion of variable Executive Board remuneration that is deferred and paid out after three years from 25 per cent to 50 per cent. ➤ **Remuneration report, p. 87ff.**

Overall, the Supervisory Board members had an attendance rate of 95 per cent. No member of the Supervisory Board was present at only half or fewer of the meetings of the Supervisory Board or the Supervisory Board committees. An overview of the attendance at individual meetings can be found at ➤ <https://investor-relations.lufthansagroup.com/en/corporate-governance/supervisory-board.html>.

The Executive Board informed us regularly of changes in the shareholder structure, the performance of the Lufthansa share, transactions with derivative financial instruments and allocations to and returns from the Lufthansa pension fund. The disclosures required by takeover law made in the combined management report by the Executive Board in accordance with Section 289a Paragraph 1 and Section 315a Paragraph 1 of the German Commercial Code require no further comment.

For the period from 1 January 2017, the Supervisory Board has confirmed the basic target of 30 per cent for the proportion of women on the Executive Board and has set 31 December 2021 as a deadline for meeting this target. Women currently account for 20 per cent of the Executive Board members. ➤ [www.lufthansagroup.com/corporate\\_governance\\_declaration](http://www.lufthansagroup.com/corporate_governance_declaration).

The Arbitration Committee did not have to be convened in the reporting period. The Steering Committee met five times in 2017 and the Nomination Committee met four times. The Audit Committee met five times in 2017, always in the presence of the auditors. The Audit Committee discussed the interim reports with the CFO before their publication. The committee also dealt with the supervision of accounting processes and the effectiveness of the internal control system, risk management and internal auditing systems. Furthermore, the members received regular reports on the compliance management system and the work of the Group's audit department. They also discussed in detail the Group operational planning for 2018 to 2020 and the combined non-financial reporting required by the CSR Directive Implementation Act, which was reviewed by PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Düsseldorf. ➤ **Combined non-financial report, p. 201ff.**

Information on the committees' work was provided at the beginning of the following Supervisory Board meeting.

Wolfgang Mayrhuber resigned from the Supervisory Board as of 24 September 2017. He had chaired our Supervisory Board since his election in May 2013. Including his time as Chairman of the Executive Board of Lufthansa Technik AG in the 1990s, and as a member and later Chairman of the Executive Board of Deutsche Lufthansa AG from 2001 to 2010, he had a major influence on the Company's fortunes for more than 20 years and the Lufthansa Group is especially grateful for his contributions. The Supervisory Board expresses its deepest appreciation and thanks, since his leadership has made a vital contribution to the financial success of the Lufthansa Group, and his personal qualities, such as his integrity and his visible appreciation of others, have had a positive and lasting effect on the culture of the Lufthansa Group.

At the meeting held on 25 September 2017, the Supervisory Board elected me as its new Chairman. On the recommendation of the Nomination Committee, Miriam E. Sapiro was appointed to the Supervisory Board by Cologne District Court to replace Wolfgang Mayrhuber in accordance with Section 104 Stock Corporation Act (Aktiengesetz – AktG) with effect from 24 October 2017. Herbert Hainer was elected as a new member of the Steering Committee and the Arbitration Committee.

Werner Brandt resigned his seat on the Supervisory Board with effect from 31 December 2017 for personal reasons. He had been a member of the Supervisory Board of Deutsche Lufthansa AG since 2008, chaired the Audit Committee since 2014 and brought his great experience as a long-standing CFO of SAP SE to the Supervisory Board. The Supervisory Board thanks him for his advice and his loyal support. On the recommendation of the Nomination Committee, Carsten Knobel was appointed to the Supervisory Board by Cologne District Court to replace him in accordance with Section 104 Stock Corporation Act with effect from 9 January 2018. Carsten Knobel was elected to the Audit Committee to replace Dr Werner Brandt. Stephan Sturm was elected as the new Chairman of the Audit Committee.

Wolfgang Mayrhuber and Dr Werner Brandt had already resigned their seats on the Nomination Committee as of the close of 15 March 2017. Herbert Hainer and Martin Koehler were elected to the committee to succeed them. In turn, Martin Koehler left the Audit Committee and was replaced by Stephan Sturm.

With Martina Merz, Monika Ribar and Miriam E. Sapiro as shareholder representatives and Christine Behle, Doris Krüger, Christina Weber and Birgit Weinreich as employee representatives, the statutory quota for female representation (i.e. 30 per cent of the Supervisory Board members) has been achieved on both the shareholder and employee side.

The Supervisory Board appointed PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Düsseldorf, who were elected as auditors for the parent company and the Group at the Annual General Meeting 2017, to audit the financial statements and the consolidated financial statements, the combined management report and the system for the early identification of risks. 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 IFRS Interpretations Committee 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 2017 in accordance with the legal requirements, and had no reservations to make. They further confirmed that the system for the early identification of risks established by the Executive Board is suitable for the early identification of developments that could endanger the Company's continued existence. During their audit, the auditors did not come across any facts that would contradict the declaration of compliance.

In early March 2018, the Audit Committee discussed the audit reports in detail with the CFO in the presence of the two auditors who had signed the auditors' report. 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, as well as the combined management report and the combined non-financial reporting, and had no objections to make. The financial statements and the consolidated financial statements were approved. The 2017 annual financial statements of Deutsche Lufthansa AG as prepared by the Executive Board have thereby been adopted. We agree with the Executive Board's proposal for profit distribution.

On 9 March 2018, the Honorary Chairman of the Supervisory Board, Dr Wolfgang Röller, died at the age of 88. He was a Member of the Supervisory Board from 1988 to 1998 and was at the top of the committee from 1993 onwards. Members of the Supervisory Board spoke of their great respect for him and expressed their deepest appreciation for the role he played during a difficult period and his ability to bring the shareholder and employee representatives on the Supervisory Board together, naming him Honorary Chairman. Dr Wolfgang Röller's name will always be synonymous with his great success in reorganising, privatising and restructuring the Company. We will always remember him with respect.

The financial year 2017 ended with the best result in the history of Deutsche Lufthansa AG. The Supervisory Board thanks the Executive Board and all employees for their contribution to this exceptionally positive performance by the Lufthansa Group.

Frankfurt, 14 March 2018



For the Supervisory Board  
Dr Karl-Ludwig Kley, Chairman

## Lufthansa share

Lufthansa share price rises 150.4 per cent. | The total shareholder return amounted to 154.4 per cent. | Dividend of EUR 0.80 per share to be proposed to the Annual General Meeting.

### Very strong performance of the Lufthansa share in 2017

In 2017, the price of the Lufthansa share increased by 150.4 per cent. The total shareholder return, which includes the dividend distribution, was 154.4 per cent. Over the same period, the DAX index increased by just 12.5 per cent. No other company in the DAX even came close to matching the positive performance of the Lufthansa share.

The main drivers of this outstanding performance were the strong earnings development at the Lufthansa Group and the successful implementation of the Company strategy, including decreasing unit costs, the resolution of outstanding collective bargaining disputes, achieving a Five Star rating for Lufthansa German Airlines and the Group's active involvement in the consolidation of the European airline industry.

The changing shape of competition in the sector gave an overall structural lift to the share price of the Lufthansa Group and those of its competitors in the airline industry. Airlines from the Middle East reported moderate growth

compared with prior years, which contributed to a normalisation of competition particularly on routes to and from South-East Asia. The Lufthansa Group's growing number of commercial joint ventures in Asia also contributed to the improved result in this region. In Europe, Monarch Airlines and Air Berlin filed for insolvency. Total capacity in many home markets of the Lufthansa Group was reduced significantly in the short-term as a result. Higher demand from passengers from the Asia/Pacific region also contributed to further normalisation. Demand had fallen significantly following numerous terrorist attacks in 2016.

The Lufthansa share price rose steadily throughout the year. At the end of the first half-year 2017, it had already increased by 62.4 per cent compared with year-end 2016. The DAX index only rose by 7.4 per cent over the same period. The Lufthansa share reached its peak daily closing price on 28 December 2017 at EUR 31.12. The lowest daily closing price for the year was EUR 11.32 on 16 January 2017. As of year-end, the Lufthansa share traded at EUR 30.72.

### T007 THE LUFTHANSA SHARE: KEY FIGURES

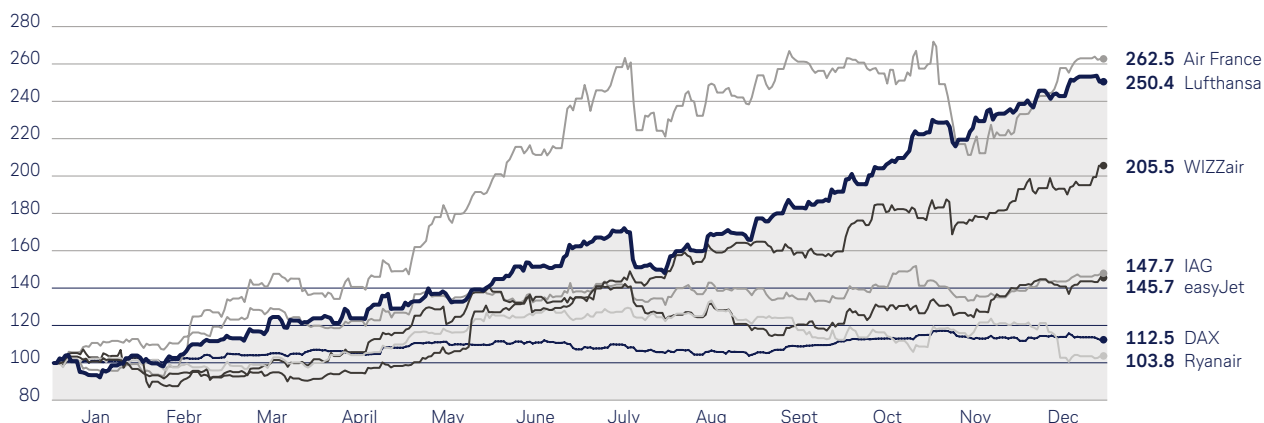
		2017	2016	2015	2014	2013
Year-end share price	€	30.72	12.27	14.57	13.83	15.42
Highest share price	€	31.12	15.29	15.35	20.26	17.10
Lowest share price	€	11.32	9.30	10.48	10.88	12.93
Number of shares	millions	471.3	468.8	464.5	462.8	461.1
Market capitalisation (at year-end)	€bn	14.5	5.8	6.7	6.4	7.1
Earnings per share	€	5.03	3.81	3.67	0.12	0.68
Cash flow from operating activities per share	€	10.68	6.92	7.30	4.27	7.15
Dividend per share	€	0.80	0.50	0.50	-	0.45
Dividend yield (gross)	%	2.6	4.1	3.4	-	2.9
Dividend payout	€m	377.0	234.4	232.3	-	207.5
Total shareholder return	%	154.4	-12.3	5.3	-7.4	8.3



**C02 PERFORMANCE OF THE LUFTHANSA SHARE 2017**

LUFTHANSA'S SHARE PRICE AS OF 31.12.2017

indexed as of 31.12.2016, compared with the DAX and competitors, in %

**30.72 €****Executive Board and Supervisory Board propose dividend of EUR 0.80 per share**

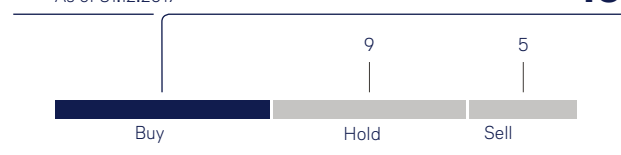
At the Annual General Meeting for the financial year 2017, the Executive Board and Supervisory Board of Deutsche Lufthansa AG will propose the distribution of a dividend of EUR 0.80 per share, in line with the current dividend policy. This represents a dividend yield of 2.6 per cent based on the Lufthansa share's closing price for the year. Shareholders will again have the option of receiving this dividend in the form of shares.

**Analysts largely recommend to buy the share**

At year-end, ten analysts recommended buying the Lufthansa share and nine recommended holding it. Only five out of 24 analysts advised selling the share. The average target price was EUR 28.51.

**C03 ANALYSTS' RECOMMENDATIONS<sup>1)</sup>**

As of 31.12.2017



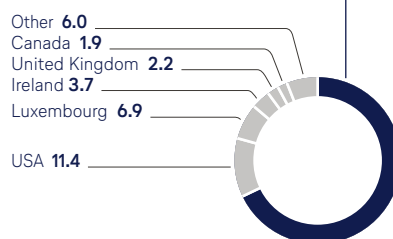
<sup>1)</sup> Average target price: EUR 28.51, average of 24 analysts.  
Range: EUR 12.00 to EUR 36.20.

**C04 SHAREHOLDER STRUCTURE BY NATIONALITY**

GERMANY

**67.9**

As of 31.12.2017 in %



Free float: 100%

**Foreign ownership ratio and shareholder structure mostly remain stable**

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

At the end of 2017, the shareholders' register showed that German investors held 67.9 per cent of the shares (previous year: 68.6 per cent). The second-largest group, with 11.4 per cent, was shareholders from the USA. Investors from Luxembourg accounted for 6.9 per cent, followed by Ireland, the United Kingdom and Canada, with 3.7 per cent, 2.2 per cent and 1.9 per cent respectively. This ensures continued compliance with the provisions of the German Aviation Compliance Documentation Act.

The free float for Lufthansa shares is 100 per cent, as per the definition of the Deutsche Börse. As of the reporting date, 52.7 per cent (previous year: 54.5 per cent) of the shares were held by institutional investors and 47.3 per cent (previous year: 45.5 per cent) were held by private individuals. Landsdowne Partners International Ltd. and BlackRock Inc. were the largest shareholders in the Lufthansa Group at year-end, with 3.62 per cent and 3.30 per cent respectively.

All of the transactions requiring disclosure and published during the financial year 2017, as well as the quarterly updates on the shareholder structure, can be viewed on our website at

[www.lufthansagroup.com/investor-relations](http://www.lufthansagroup.com/investor-relations).

### Lufthansa share is included in the DAX and other important indices

As a member of the DAX, the Lufthansa Group is one of the 30 most important publicly listed companies in Germany. At year-end, the share had an index weighting of 1.39 per cent. With a market capitalisation of EUR 14.5bn at year-end (previous year: EUR 5.8bn), the Lufthansa Group came in at number 24 (previous year: 37) in the ranking of DAX companies by market capitalisation. In terms of stock market turnover, the Lufthansa share moved up two places to number 18. The transaction volume came to EUR 21.2bn (previous year: EUR 15.8bn).

The Lufthansa share is a constituent of many international stock market indices as well as in sustainability indices, such as the MSCI Global Sustainability, FTSE4Good and ECPI.

In addition to its stock market listings in Germany, investors can also gain exposure to the Lufthansa Group via the Sponsored American Depositary Receipt Program (ADR). Since late 2011, the Lufthansa ADRs have been registered on the standardised trading and information platform OTCQX.

### T008 THE LUFTHANSA SHARE: DATA

ISIN International Security Identification Number	DE0008232125
Security identification number	823212
German stock exchange code	LHA
Stock market listings	Frankfurt, Xetra
Prime sector	Transport & Logistics
Industry	Airlines
Indices (Selection)	DivDAX Price Index, DAX, EURO Stoxx Index, Bloomberg World Airlines Index, S&P Europe 350 Index, FTSE World Index, FTSE4Good, MSCI Global Sustainability Index, ECPI

### Lufthansa Group pursues intensive dialogue with investors

As in prior years, the Lufthansa Group again provided its investors with comprehensive information about the main elements of the Company's performance in the financial year 2017. In the reporting year and in addition to the quarterly meetings, the Executive Board, Supervisory Board and Investor Relations team explained current developments in the Group to institutional investors at 34 roadshows, 24 investor conferences and other event formats. This involved around 400 one-on-one and group meetings in total. Our investor relations representatives were regularly available to answer questions at five forums organised especially for retail investors. The service for private shareholders also includes the shareholder information letter, which was published once in 2017 and can be retrieved on the Investor Relations website.

In addition to the annual and interim reports, the capital markets are provided with monthly information on the traffic figures for the Lufthansa Group's airlines. All the publications, financial reports, presentations, background information, speeches and the latest news can also be found at [www.lufthansagroup.com/investor-relations](http://www.lufthansagroup.com/investor-relations).



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## Principles of the Group

# Business activities and Group structure

The Lufthansa Group is one of the world's leading aviation companies.

| Business segments hold leading market positions in their respective

sectors. | Division of responsibilities in the Executive Board is unchanged.

### Lufthansa Group is a leading aviation group

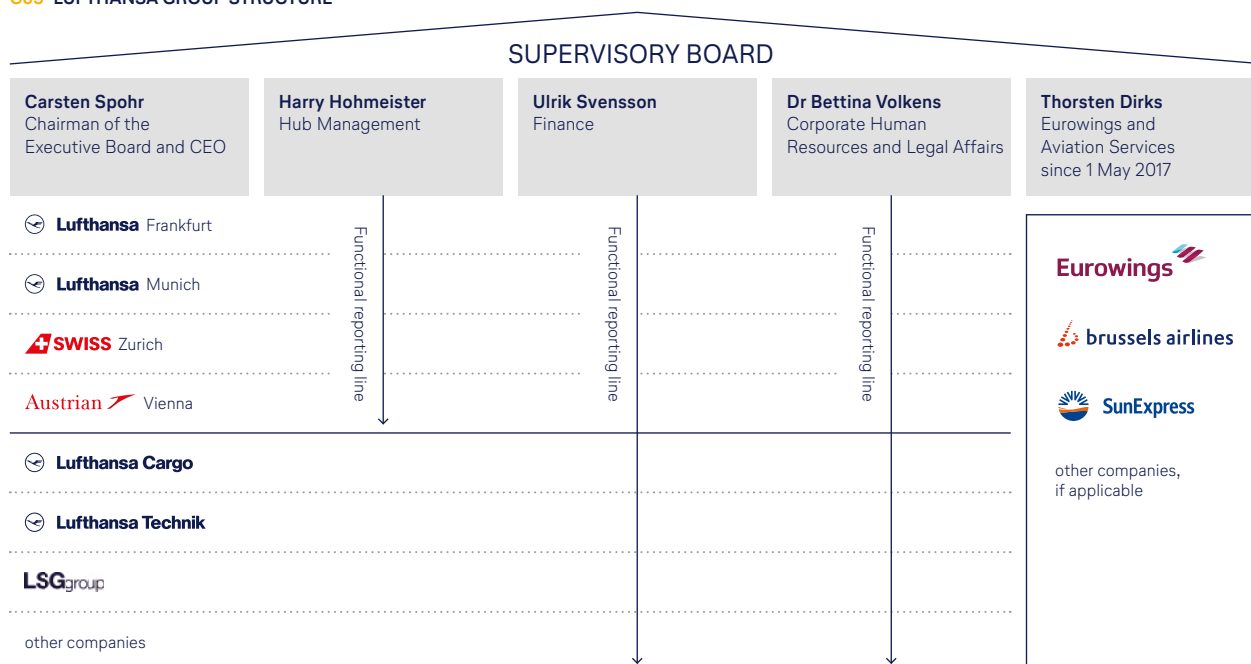
The Lufthansa Group is an aviation company with operations worldwide. In the financial year 2017, the Lufthansa Group generated revenue of EUR 35.6bn and employed an average of 128,856 staff. The structure of the business segments was adjusted in line with the three-pillar concept behind the corporate strategy at the beginning of the financial year.

➤ **Group strategy, p. 14ff.** Since then, the Lufthansa Group has been organised into the business segments Network Airlines, Point-to-Point Airlines, Aviation Services (comprising the segments Logistics, MRO and Catering), and Additional Businesses and Group Functions. All segments occupy a leading position in their respective markets. ➤ **Business segments, p. 42ff.**

### Change in Executive Board membership

There have been no changes to the division of responsibilities in the Executive Board since last year. Carsten Spohr chairs the Executive Board. Harry Hohmeister is responsible for Hub Management, i.e. the commercial management of the Network Airlines Lufthansa German Airlines, SWISS and Austrian Airlines. Since 1 January 2017, the Finance function has been led by Ulrik Svensson, who succeeded Simone Menne. Responsibility for the Corporate Human Resources and Legal Affairs function remains with Dr Bettina Volkens. Eurowings and Aviation Services was led by Karl Ulrich Garnadt until 30 April 2017, with Thorsten Dirks succeeding him in the same function as of 1 May 2017.

## C05 LUFTHANSA GROUP STRUCTURE



## Goals and strategies

Corporate strategy is based on the three pillars: Network Airlines, Point-to-Point Airlines and Aviation Services. | The focus is on developing the premium positioning, cost reductions and profitability increases. | Consolidation, flexibility and digitalisation offer great opportunities. | Financial strategy aims for sustainable increases in Company value.

### GROUP STRATEGY

#### Various activities to strengthen position as a leading aviation group

The Lufthansa Group aims to be the first choice for shareholders, customers, employees and partners in the aviation sector and to continue shaping the global aviation market as a key player in the future. In this context, the strategy aims to systematically develop the Group based on the three pillars of Network Airlines, Point-to-Point Airlines and Aviation Services.

The three pillars benefit from mutual synergies and economies of scale across business segments. Lufthansa Cargo, for example, transports a large proportion of its freight in the belly capacities of the Lufthansa Group's passenger aircraft. Lufthansa Technik, in turn, has access to maintenance licences which are negotiated with the OEMs when the Group airlines order new aircraft and performance data for modern aircraft, collected in subsequent flight operations.

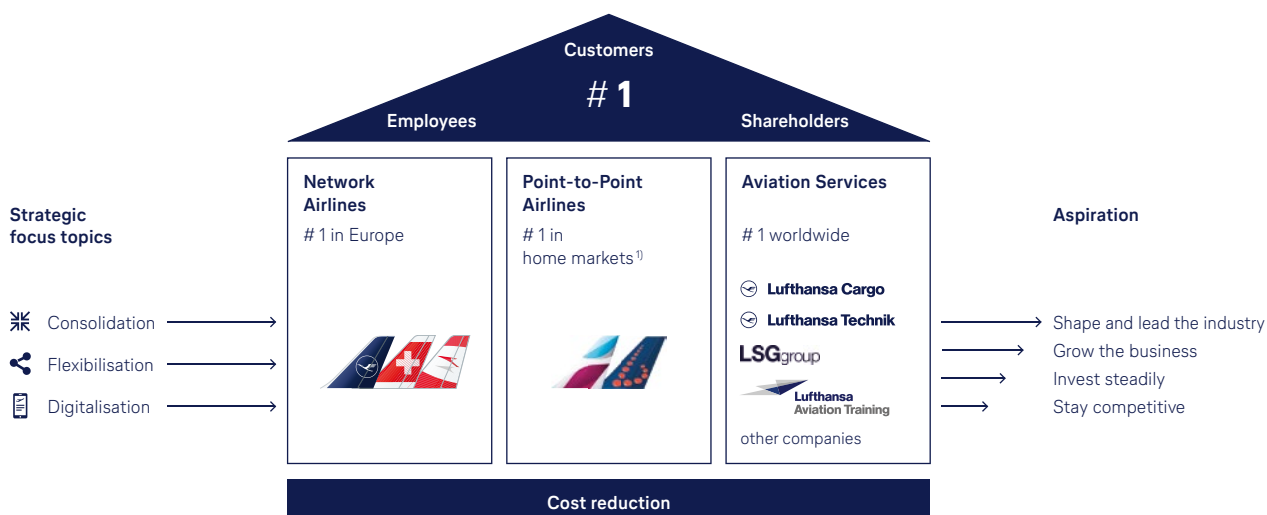
To keep refining the Group portfolio, the Lufthansa Group regularly reviews the attractiveness of individual market segments, its current competitive position, potential for future success and the synergies realised from the Group network by the individual operating segments.

The aim is to increase the revenue share of segments other than Network Airlines from around 30 per cent to around 40 per cent. This should be achieved in 2018 by strong growth in point-to-point traffic, as well as a good performance in Aviation Services.

Consolidation, flexibility and digitalisation are regarded as the key value drivers in the aviation value chain. They form core elements of the Group strategy and are advanced both across segments and within the individual operating segments.

The Lufthansa Group regularly reviews options for market consolidation in all operating segments. Consolidation opportunities that add value are exploited by means of both organic and inorganic growth in order to expand the Lufthansa Group's market position in Europe and globally. The aim is always to achieve economies of scale and further synergies.

#### C06 OBJECTIVE: NUMBER 1 FOR CUSTOMERS, SHAREHOLDERS AND EMPLOYEES



<sup>1)</sup> Germany, Austria, Switzerland and Belgium.

Changes in value chains, differentiated customer expectations and more dynamic global political conditions require rapid adaptability and flexible cost structures. For these reasons, the Group is organised into efficient and flexible organisational structures in line with production logic. Synergies from functional cooperation and a sustainable cost focus form the basis for long-term success. Thus, the set-up of a standardised A320 fleet for the Group enables capacity to be reallocated quickly and cheaply, for example, and also has a positive impact on the cost base. As well as harmonising fleet specifications, the networks and revenue of the network airlines are now also managed centrally, making use of synergies and significant improvements in flexibility.

Ongoing digitalisation makes it possible to develop new business models, solutions and products. Interfaces with the customer can be redesigned and differentiated customer needs can be better addressed by all companies in the Lufthansa Group. The Lufthansa Group actively uses the opportunities offered by digitalisation to add value for its customers and support its quality strategy. This includes an initiative to develop increasingly personalised offers according to flight status, location, interests and needs, as well as the open and neutral AVIATAR platform developed for airlines by Lufthansa Technik, which uses predictive maintenance, based on years of aircraft performance data, combined with the engineers' knowledge to significantly reduce aircraft maintenance costs. In order to identify and steer the opportunities of industry changes and digitalisation trends in a more structured way, the Lufthansa Group has set up the Innovation Hub in Berlin, which aims to further develop the existing culture and power of innovation in the Lufthansa Group and to seize opportunities as they arise.

This bundle of activities continues to successfully secure the competitiveness and ability to invest of the Lufthansa Group as a leading aviation group in a dynamic market environment, in order to enable profitable growth and support its ability to shape the industry.

#### **Network Airlines expand premium positioning, increase profitability and reduce costs**

The network airlines are pursuing a consistent quality strategy in order to make the best use of the high-quality customer potential in their home markets. One visible result of this quality strategy is the Five Star rating awarded to Lufthansa German Airlines by the renowned agency Skytrax, which for the first time has awarded an airline outside of Asia. In 2017, Lufthansa German Airlines was also rated the best airline in Europe by Skytrax on the basis of customer surveys. In the future, the focus will remain on further improving the customer's travel experience, optimising the route network and the fleet and pursuing cost reduction initiatives.

The travel experience for the customer will become even more convenient, especially through greater personalisation of the products and services along the entire travel chain. At the same time, this will make it possible to exploit new sources of revenue potential. There will also be continuous improvements to aircraft interiors and service at all points of customer contact. In order to keep offering leading product quality alongside lower unit costs, the Lufthansa Group invests continuously in its fleet. The network airlines are growing largely by replacing older aircraft with more recent models that boast higher seating capacities and greater fuel efficiency, without significantly increasing the total number of aircraft. Strategic cooperations and partnerships supplement the flight plans, which delivers a greater added value for customers. Today, the network airlines in the Lufthansa Group already have commercial joint ventures with the most attractive partners for them in key long-haul markets.

Comprehensive cost-cutting is continuing, especially in areas that have no effect on customers' perceptions of quality. They include pooling the organisational structures of the network airlines and systematically harmonising their commercial management and system landscape, cutting supplier costs and those for infrastructure providers as well as modernising wage agreements. Unit costs continue to fall despite the increasingly positive perception of product quality by customers.

#### **Eurowings is the growth platform in pan-European point-to-point traffic**

With Eurowings, the Lufthansa Group has an innovative and competitive offering in point-to-point traffic, which addresses both price-sensitive and service-oriented customers with low-cost basic fares and additional service options that can be booked flexibly. In addition to its greater efficiency and competitive cost, the Eurowings concept is based on a scalable company structure that enables the flexible integration of new partners. In 2018, after the full takeover of SN Airholding SA/NV (Brussels Airlines) and the acquisition of parts of the Air Berlin group, the focus will be on the integration of additional capacities.

This will enable significant cost savings in the years ahead. Other key drivers of cost reductions include the growth of particularly low-cost production platforms to replace less cost-effective operations within the Eurowings group, as well as the standardisation and streamlining of processes. This ensures the Company's sustainable and successful development in a market characterised by intense competition over costs.

The aim is profitable growth, both organically and in particular by means of partnerships and acquisitions, and expanding the offering of long-haul connections. This will secure its position as one of the three leading providers of direct traffic in Europe and strengthen its role as the biggest carrier of point-to-point traffic in the home markets of the Lufthansa Group.

The Eurowings group is managed largely independently of the network airlines as an integral part of the Lufthansa Group, so as not to dilute the structural cost advantages of the point-to-point model. At the same time, it benefits from belonging to the world's largest aviation group, with its wide range of aviation services.

### Leading position in aviation services to be secured and profitable growth generated

With the aviation services companies, the Lufthansa Group has several global leaders in their respective markets. These companies can exploit further growth opportunities – organic, via partnerships or through acquisitions – in a targeted way in order to secure the Lufthansa Group's leading position in these aviation services markets. The diversification of its investment portfolio of airlines and aviation services creates synergies and constitutes a key strength of the Lufthansa Group.

Clear customer focus and quality are also the key elements for the aviation services. Customers of Lufthansa Cargo, for example, benefit from innovative logistics services in an expanded route network. Lufthansa Technik is extending its offer by refining its products and services and expanding its global presence. In a highly competitive market, the customers of the LSG group benefit from flexible and individual catering offers that provide effective support for their own services and brands.

To continue delivering profitable growth, the Aviation Services in the Lufthansa Group continuously adapt their business models to changes in value chains and competitive conditions. Continuous cost-cutting and extensive individual efficiency programmes also ensure commercial success.

## FINANCIAL STRATEGY AND VALUE-BASED MANAGEMENT

### Financial strategy aims to increase Company value

The Lufthansa Group revised its financial strategy in 2017 with the aim of increasing its Company value sustainably. It will concentrate on three dimensions: increasing profitability, focusing the use of capital and safeguarding financial stability.




### Increasing profitability

#### Management system drives value creation in the Company

The Lufthansa Group applies a value-based system of management. At its centre is the profitability of the Company. In addition to the continuous improvement of revenue quality, this particularly calls for further efforts in cost management. Greater cost discipline, the increased flexibility of cost structures and improved productivity are intended to strengthen structural profitability over the entire airline industry cycle. Unit costs at the passenger airlines, adjusted for fuel costs and exchange rates, are to be reduced by 1 per cent to 2 per cent per year. In order to embed these objectives in all decision-making processes, performance-related pay for managers is tied to the financial performance of the Company.

The Company's profitability is measured by Adjusted EBIT. It is derived from EBIT (earnings before interest and tax), which is then adjusted exclusively for non-recurring effects from the valuation and disposal of assets as well as the valuation of pension provisions.

## C07 FINANCIAL STRATEGY

Sustainable increase of Company value			
			
	Improve profitability	Focus capital allocation	Maintain financial stability
<b>Focus</b>	<ul style="list-style-type: none"> <li>– Sustainable value generation</li> <li>– Intense cost management</li> </ul>	<ul style="list-style-type: none"> <li>– Continuous shareholder participation</li> <li>– Balanced investment level</li> <li>– Working capital management</li> </ul>	<ul style="list-style-type: none"> <li>– Stabilise investment grade rating</li> <li>– Hedging of financial risks</li> <li>– Access to different forms of funding and maintaining appropriate liquidity</li> </ul>
<b>Target</b>	<ul style="list-style-type: none"> <li>– Adjusted ROCE and EACC</li> <li>– Adjusted EBIT margin</li> </ul>	<ul style="list-style-type: none"> <li>– Capital expenditure</li> <li>– Dividend</li> </ul>	<ul style="list-style-type: none"> <li>– Adjusted net debt/Adjusted EBITDA</li> </ul>

The return on capital employed (Adjusted ROCE) is measured for the Lufthansa Group and the individual companies. If Adjusted ROCE exceeds the weighted average cost of capital (WACC), the Company is creating value.

In addition to the return on capital employed, the absolute amount of value added is measured by earnings after costs of capital (EACC). EBIT is the starting point for calculating EACC. It must be sufficient to cover the taxes due on earnings and the return expected by investors and lenders.

In 2017, the Lufthansa Group had an Adjusted ROCE of 11.6 per cent. This was 4.6 percentage points up on the previous year. EACC came to EUR 1.8bn in 2017 (previous year: EUR 817m).

#### T009 CALCULATION OF ADJUSTED ROCE, EACC AND COST OF CAPITAL

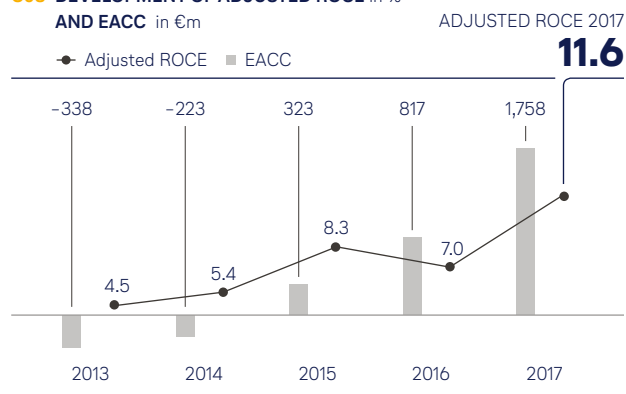
in €m	2017	2016	Change in %
Revenue	35,579	31,660	12.4
Other operating income	2,382	2,279	4.5
<b>Operating income</b>	<b>37,961</b>	<b>33,939</b>	<b>11.9</b>
Operating expenses	34,808	31,749	9.6
Result from equity investments	157	85	84.7
<b>EBIT</b>	<b>3,310</b>	<b>2,275</b>	<b>45.5</b>
<b>Adjusted EBIT</b>	<b>2,973</b>	<b>1,752</b>	<b>69.7</b>
Interest on liquidity	178	64	178.1
Taxes (assumption 25% of EBIT + Interest on liquidity)	-872	-585	49.1
Cost of capital <sup>1)</sup>	-858	-937	-8.5
<b>EACC</b>	<b>1,758</b>	<b>817</b>	<b>115.1</b>
<b>ROCE<sup>2)</sup> in %</b>	<b>12.8</b>	<b>9.0</b>	<b>3.8 pts</b>
<b>Adjusted ROCE<sup>3)</sup> in %</b>	<b>11.6</b>	<b>7.0</b>	<b>4.6 pts</b>
Balance sheet total	36,267	34,697	4.5
Non-interest bearing liabilities			
of which liabilities from unused flight documents	3,773	3,040	24.1
of which trade payables, other financial liabilities, other provisions	5,989	5,464	9.6
of which advance payments, deferred income, other non-financial liabilities	2,281	2,121	7.5
of which others	3,603	3,811	-5.5
Capital employed	20,621	20,261	1.8
<b>Average capital employed</b>	<b>20,441</b>	<b>19,533</b>	<b>4.6</b>
WACC in %	4.2	4.8	-0.6 pts

<sup>1)</sup> WACC x Average capital employed.

<sup>2)</sup> (EBIT + Interest on liquidity - 25% taxes based on EBIT + Interest on liquidity)/Average capital employed.

<sup>3)</sup> (Adjusted EBIT + Interest on liquidity - 25% taxes based on Adjusted EBIT + Interest on liquidity)/Average capital employed.

#### C08 DEVELOPMENT OF ADJUSTED ROCE in % AND EACC in €m



#### T010 ADJUSTED ROCE AND EACC PER BUSINESS SEGMENT

	Adjusted ROCE		EACC	
	2017 in %	2016 in %	2017 in €m	2016 in €m
Group	11.6	7.0	1,758	817
Network Airlines	17.1	11.1	1,622	1,089
Point-to-Point Airlines	4.2	-8.0	-63	-124
Logistics	15.5	-3.4	128	-105
MRO	7.7	8.6	147	142
Catering	3.9	6.0	-17	-15

#### Tighter cost management remains in focus

In addition to generating revenue potential, the Lufthansa Group aims to increase its profitability by continuously and sustainably reducing its costs. Cost-cutting measures are devised and implemented in all operating segments. The segments will focus on different areas in the financial year 2018.

After the successful conclusion of wage negotiations with the pilots at Lufthansa German Airlines and the initial agreement on cost reductions with Fraport, the network airlines are now concentrating above all on the integration of their commercial functions. Fleet renewal is progressing at all airlines, the network portfolio is being optimised and measures to cut fuel costs are being implemented.

Supply contracts in the Point-to-Point Airlines segment are monitored continuously to identify further potential for reducing costs. Existing capacities within the Lufthansa Group are also to be used to reduce MRO costs. Current processes are reviewed and streamlined on an ongoing basis.

The Logistics segment benefits from leaner sales structures. Making key processes more efficient and achieving cost advantages by means of savings also creates flexibility when overcapacities arise in the market. Further potential for savings lies in the analysis of the freighter fleet and handling processes.

In the MRO segment, the existing sites and the related conditions are continuously examined in order to withstand permanent pricing pressure from the market. The focus lies on the parameters of the working-time corridor and the flexible use of capacities, process efficiency and the reduction of production complexity. Agreements have already been reached and further negotiations are ongoing with the works council.

The Catering segment has already implemented wide-ranging programmes to efficiently shape its processes and structures and continues to apply them. Its focus is on transforming its business model in Europe; centralised production and the related logistics are intended to increase flexibility and improve the cost structure. In addition, the company continues to focus on merging its administrative and indirect workflows.

## Focused use of capital

### Dividend policy aims for continuous distributions

Shareholders should participate in the Company's success. The long-term dividend policy plans for a regular dividend payout ratio of 10 to 25 per cent of consolidated EBIT. One condition is that a distribution of this amount is permitted by the net profit for the year as shown in the individual financial statements of Deutsche Lufthansa AG that are drawn up under German commercial law and that there are no other opposing considerations. In addition to the regular dividend payment, the dividend policy also allows for shareholders to participate in a particularly positive performance by the Company by means of a special dividend or share buy-back.

In line with the dividend policy, the Executive Board and Supervisory Board will table a proposal at the Annual General Meeting on 8 May 2018 to distribute a dividend of EUR 0.80 per share to shareholders for the financial year 2017. This represents a total dividend payout of EUR 377m or 11.4 per cent of EBIT for 2017.

### Balanced investment rate to modernise the fleet and maintain flexibility

Going forward, the Lufthansa Group will continue to invest steadily in the renewal of its fleet, in-flight and ground products and infrastructure. Long-term investment obligations will increasingly be made more flexible, however. As a result, the aircraft ordered for the period until 2025 serve mainly to replace older aircraft. Market opportunities arising in the short and medium term can nonetheless be exploited by activating reserve aircraft or procuring used aircraft. This makes the investment profile more balanced and increases focus on the deployment of capital. It also increasingly creates greater room for manoeuvre regarding any further consolidation activity. Regular capital expenditure is financed from the Company's own cash flow. The aim is also to generate a free cash flow that is significantly positive. **➔ C14 Primary, secondary and financial investments, p. 37.**

Gross capital expenditure rose by 34.4 per cent to EUR 3.0bn in 2017. This was largely due to the acquisition of parts of the Air Berlin group and, more generally, to the significant growth of the Lufthansa Group and a corresponding increase in investment requirements.

## Safeguarding of financial stability

### Investment grade ratings secure financial room for manoeuvre

Investment grade ratings for the Company's debt secure its financial flexibility. Deutsche Lufthansa AG has an investment grade rating of BBB- at Standard and Poor's, and the outlook was once again lifted from "negative" to "stable" in April 2017 due to an expected stabilisation of the financial profile within the investment grade category. In August 2017, Moody's upgraded its rating from the non-investment grade Ba1 to the investment grade Baa3, with a "stable" outlook. Moody's based its upgraded rating on factors such as positive operating performance in 2017, the cost reductions achieved and the strengthening of the Group's financial profile. Since November 2016, Deutsche Lufthansa AG has also had a third investment grade rating of BBB- from the agency Scope Ratings, which raised its outlook from "stable" to "positive" in December 2017 as a result of the improved financial profile.

#### T011 DEVELOPMENT OF RATINGS

Rating/outlook	2017	2016	2015	2014	2013
Standard & Poor's	BBB-/stable	BBB-/negative	BBB-/stable	BBB-/stable	BBB-/stable
Moody's	Baa3/stable	Ba1/stable	Ba1/positive	Ba1/positive	Ba1/stable
Scope Ratings	BBB-/positive	BBB-/stable			



## T012 LUFTHANSA'S CREDIT RATINGS

Standard & Poor's (April 2017) <sup>1)</sup>	Long-term: BBB- Short-term: A-3 Outlook: Stable	Moody's Investors Service (August 2017) <sup>1)</sup>	Long-term: Baa3 Short-term: Prime-3 Outlook: Stable	Scope Ratings (December 2017) <sup>1)</sup>	Long-term: BBB- Short-term: S-2 Outlook: Positive
<b>Strengths</b>		<b>Strengths</b>		<b>Strengths</b>	
⊕ One of the leading global network carriers with an excellent competitive position and one of the largest route network world-wide; strong market position at hubs in Frankfurt, Munich, Zurich and Vienna		⊕ One of the largest airlines in the world and a leading position in the European airline sector with a strong diversified route network; Eurowings strategy of point-to-point traffic addresses cost competitiveness		⊕ Global network coverage, diversified route network, member of the global airline alliance Star Alliance and a high share of business travellers with a strong market position at hubs in Frankfurt, Munich, Zurich and Vienna	
⊕ Balanced exposure to high-yielding, premium long-haul traffic across its route portfolio; leading domestic market position in Germany; regional brands are well established		⊕ Robust business profile with diversified business segments reduces its exposure to volatility in passenger and cargo business		⊕ Balanced exposure to high-yielding, premium long-haul traffic across its route portfolio; leading domestic market position in Germany	
⊕ Well diversified business profile with leading market positions in maintenance, repair and overhaul (MRO) services as well as airline catering adds stability to Lufthansa Group's earnings		⊕ Diversity of business segments; maintenance, repair and overhaul (MRO) and airline catering business segments deliver stable profit contribution		⊕ Diversified operations (maintenance, repair and overhaul (MRO) and airline catering) with strong market positions mitigating cyclical risks in passenger and cargo traffic	
⊕ Strong liquidity position		⊕ Solid liquidity position		⊕ Solid liquidity position	
<b>Weaknesses</b>		<b>Weaknesses</b>		<b>Weaknesses</b>	
⊖ Cost position as a competitive disadvantage		⊖ Profitability of the Passenger Airline Group depends on external factors including uncertain fuel prices and economic development in Europe		⊖ Cyclical nature of the airline industry; Lufthansa Group's profitability below its peers'	
⊖ Significant and volatile pension obligations due to a fluctuating discount rate		⊖ Market position is challenged by Middle-Eastern airlines in the long-haul segment and low-cost carriers in the short-haul segment		⊖ Cost advantages could erode by competitive pressure	

<sup>1)</sup> Latest report.

## Adjusted net debt/Adjusted EBITDA as an indicator of the Company's ability to service its debts

The ratio of Adjusted net debt/Adjusted EBITDA will be used in future to measure the Group's ability to service its debts. It replaces the debt repayment ratio used previously. By using adjusted net debt, the new ratio also includes pension provisions as well as classic net indebtedness.

From 2019 onwards, when the new accounting standard for leases is introduced (IFRS 16), it will also include financial obligations from the Group's leases (also for property and aircraft).

At the end of 2017, the ratio was 1.7. This is an improvement of 46.9 per cent on the previous year. This is partly due to the strong earnings improvement and partly due to significant savings in pension provisions. The positive performance of this indicator shows the progress that has been made to further strengthen the financial profile of the Lufthansa Group.

## Structured risk management minimises finance risks

Integrated risk management, particularly of hedges for fuel, exchange rate and interest rate risks, minimises the short-term financial risks for the Lufthansa Group. The hedges smooth price fluctuations by means of rule-based processes.

## T013 ADJUSTED NET DEBT / ADJUSTED EBITDA

	2017 in €m	2016 in €m	Change in %
Net indebtedness <sup>1)</sup>	2,637	2,454	7.5
Pension provisions	5,116	8,364	-38.8
<b>Adjusted net debt</b>	<b>7,753</b>	<b>10,818</b>	<b>-28.3</b>
Adjusted EBIT	2,973	1,752	69.7
Amortisation	1,719	1,586	8.4
<b>Adjusted EBITDA</b>	<b>4,692</b>	<b>3,338</b>	<b>40.6</b>
<b>Adjusted net debt/ Adjusted EBITDA</b>	<b>1.7</b>	<b>3.2</b>	<b>-46.9</b>

<sup>1)</sup> In order to calculate net indebtedness, here 50% of the hybrid bond issued in 2015 (EUR 247m) has been discounted. Calculation of net indebtedness ➤ p. 40.

## Diverse forms of funding ensure liquidity

Optimising the funding mix reduces financing costs, maintains a balanced maturity profile and diversifies the Lufthansa Group's portfolio of creditors. The majority of the aircraft fleet should remain unencumbered and wholly owned by the Lufthansa Group in order to maintain its great financial and operational flexibility.

The main financing instruments are aircraft financing and unsecured financing arrangements such as borrower's note loans and publicly traded bonds. Furthermore, the Lufthansa Group has bilateral credit lines with a large number of banks, which serve as an additional liquidity reserve. As of 31 December 2017, these credit lines came to EUR 855m (previous year: EUR 869m) and had not been used.

The Group aims to maintain liquidity of at least EUR 2.3bn at all times, in order to manage liquidity and refinancing risks for the Lufthansa Group, especially at times of volatile demand and financial markets.

A total of six Japanese operating lease (JOLCO) transactions were concluded in 2017. This enabled funds totalling EUR 372m to be raised on favourable terms. These JOLCO deals are repaid continuously over the approximately eleven-year term of the respective contracts.

In December 2016, Deutsche Lufthansa AG issued borrower's note loans for a total of EUR 1.2bn to investors. A liquidity inflow from this transaction of EUR 659m was paid out to Deutsche Lufthansa AG in January 2017. The borrower's note loans have different maturities, as well as fixed and floating-rate tranches. Furthermore, a loan with a volume of EUR 49m and a maturity of seven years was arranged with a Japanese lender.

In September 2017, Deutsche Lufthansa AG relaunched its Euro Medium Term Note (EMTN) programme, a form of debt issuance programme. The programme enables the Group to issue bonds on the capital market at very short notice. It is listed on the Luxembourg stock exchange. No bonds were issued in 2017, however.

There were no significant off-balance sheet financing activities last year. However, various Lufthansa Group companies did enter into rental and/or operating lease contracts. These mainly relate to leases for aircraft and property. ➤ **Notes to the consolidated financial statements, Note 20, p.132f.**

## Fleet and route network

Fleet was significantly expanded in 2017. | Fleet size can be adapted flexibly to fluctuations in demand. | Existing aircraft orders for delivery by 2025 optimise the fleet structure. | Extensive route network optimised continuously.

### FLEET

#### **Fleet structure is optimised continuously**

At year-end 2017, the Lufthansa Group fleet consisted of 728 aircraft with an average age of 11.4 years. This is 111 aircraft more than in the previous year. This growth is exclusively due to the consolidation of Brussels Airlines and the acquisition of aircraft from the Air Berlin group.

Aircraft from Airbus and Boeing make up the majority of the fleet. Aircraft from Bombardier and Embraer are also deployed on short- and medium-haul routes. Aircraft from the manufacturers Fokker or BAE Systems are no longer in

service at the Lufthansa Group as of year-end 2017. In recent years, the number of aircraft types in operation has been continuously reduced through a corresponding fleet strategy and will continue to go down further in the years ahead.

A total of 29 new aircraft, including seven long-haul aircraft, were delivered to the Lufthansa Group in the financial year 2017. The latter consisted of five Airbus A350-900s for Lufthansa German Airlines and two Boeing 777-300ERs for SWISS. Deutsche Lufthansa AG also took out an operating lease on another A330-200 aircraft currently flying for the Eurowings group.

#### T014 GROUP FLEET – NUMBER OF COMMERCIAL AIRCRAFT AND FLEET ORDERS

Lufthansa German Airlines inclusive regional airlines (LH), SWISS inclusive Edelweiss (LX), Austrian Airlines (OS), Eurowings inclusive Germanwings (EW), Brussels Airlines (SN) and Lufthansa Cargo (LCAG) as of 31.12.2017

Manufacturer/type	LH	LX	OS	EW	SN	LCAG	Group fleet	of which finance lease	of which operating lease	Change compared with 31.12.2016	Additions 2018 to 2025	Additional options
Airbus A319	30	5	7	50	22		114	24	15	+29	1	
Airbus A320	83*	29	23	62	12		209	26	9	+55	61	50
Airbus A321	63	9	6	4			82	2		+3	45	
Airbus A330	26*	16			10		52	9	8	+10	6	
Airbus A340	42	9					51			-2		
Airbus A350	6						6			+5	19	30
Airbus A380	14						14			-		
Boeing 737										-1		
Boeing 747	32						32			-		
Boeing 767			6				6	2		-		
Boeing 777		8	5			5	18	1		+2	36	20
Boeing MD-11F						12	12			-2		
Bombardier CRJ	35						35			-		
Bombardier C Series		15					15			+10	15	30
Bombardier Q Series			18	20			38		20	+20		
Avro RJ										-8		
Embraer	26		17				43			-		
Fokker F70										-3		
Fokker F100			1				1			-7		
<b>Total aircraft</b>	<b>357</b>	<b>91</b>	<b>83</b>	<b>136</b>	<b>44</b>	<b>17</b>	<b>728</b>	<b>64</b>	<b>52</b>	<b>111</b>	<b>183</b>	<b>130</b>

\* Partly leased to Eurowings (EW).

Ten Bombardier C Series and twelve aircraft from the A320 family, including five A320neo aircraft, were delivered to the airlines in the Lufthansa Group for the short- and medium-haul fleets. In addition, a total of 58 aircraft were bought or leased from the Air Berlin group by the Eurowings group, five by Austrian Airlines and two by Edelweiss in 2017.

At year-end 2017, the Lufthansa Group's order list contains 183 aircraft for delivery by 2025. In the financial year 2018, the Lufthansa Group is again expecting to take delivery of up to 30 aircraft. A further twelve aircraft are due to be taken over in 2018 as part of the transaction with Air Berlin.

The vast majority of the fleet is still owned by the Group and is unencumbered. It is supplemented by a small proportion of leased aircraft.

New and used aircraft are generally always taken into equal consideration when the fleet is expanded. This enables the Company to respond flexibly to fluctuations in demand and to increase or reduce its capacity at short notice.

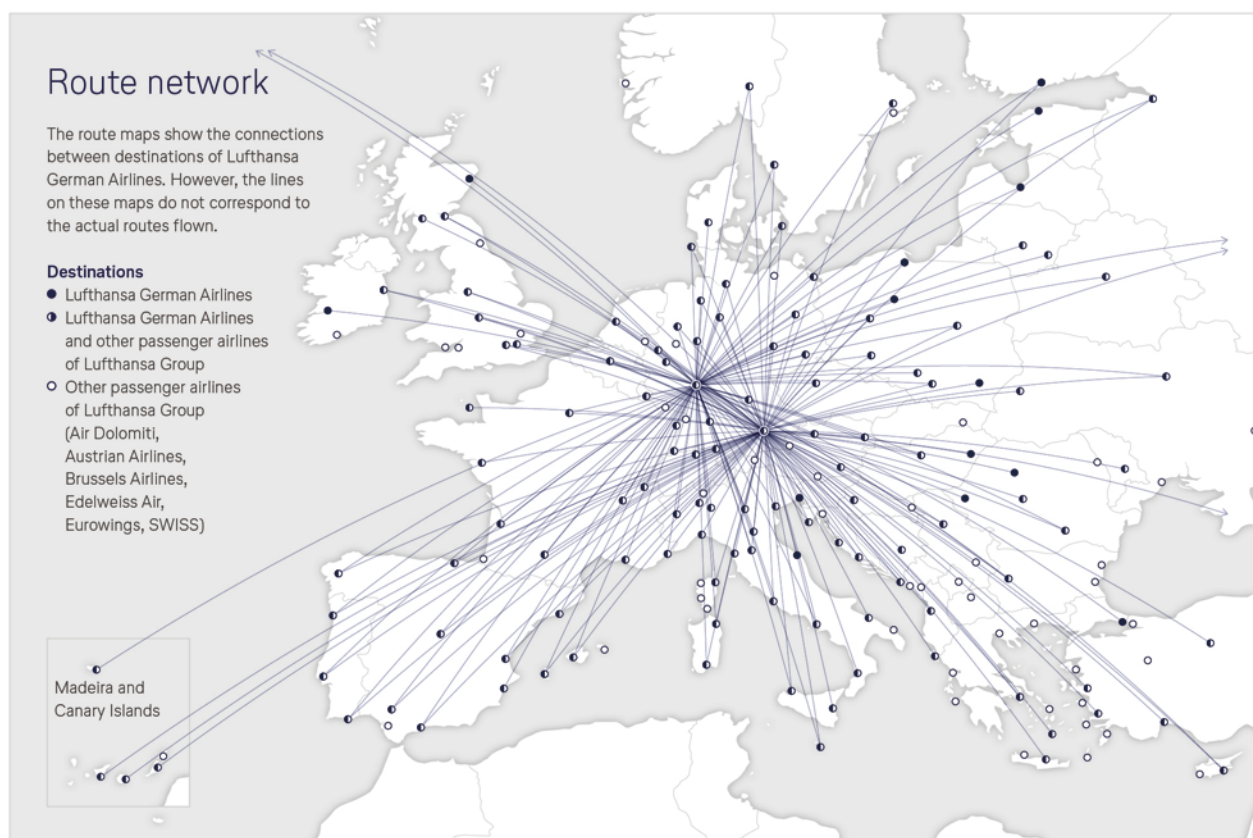
## ROUTE NETWORK

### Lufthansa Group offers extensive route network

As part of the multi-hub strategy, the network airlines Lufthansa German Airlines, SWISS and Austrian Airlines offer a broad range of flights from their hubs in Frankfurt, Munich, Zurich and Vienna. It is complemented by the networks of the alliance and joint venture partners, which offer extensive transfer connections. The point-to-point airlines provide a comprehensive range of point-to-point connections, particularly from German-speaking countries. In the 2017 summer flight timetable, the Lufthansa Group airlines operated a route network comprising 308 destinations in 103 countries overall.

#### T015 FLEET ORDERS LUFTHANSA GROUP












	Deliveries
<b>Long-haul fleet</b>	
34 Boeing 777X	2020 to 2025
2 Boeing 777-300ER	2018
19 Airbus A350	2018 to 2023
6 Airbus A330-300	2018 to 2019
<b>Short-haul fleet</b>	
106 Airbus A320neo family	2018 to 2025
15 Bombardier C Series	2018 to 2019
1 Airbus A319-100	2018



As of December 2017

## Group fleet









### Lufthansa and regional partners

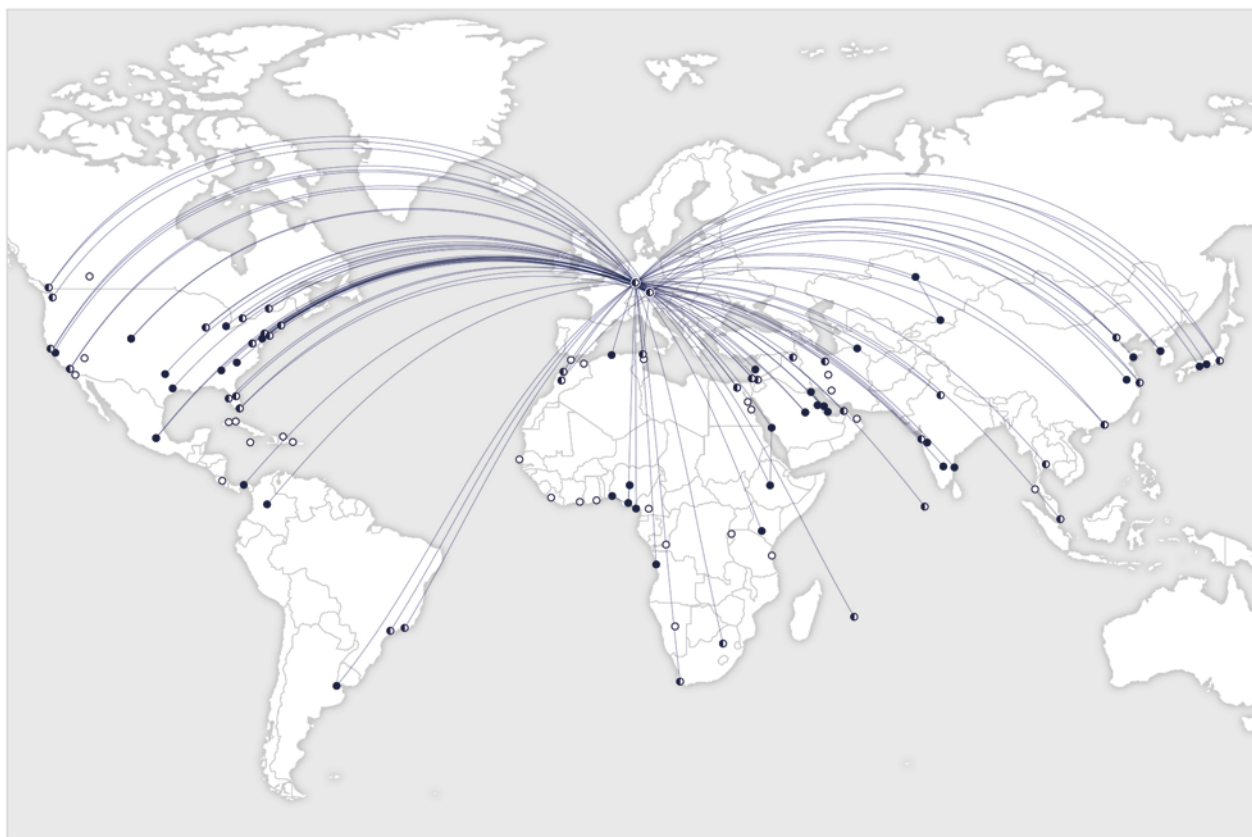
<b>Airbus A380-800</b>		LH: 14 aircraft 509 seats 12,400 km range
<b>Boeing 747-8</b>		LH: 19 aircraft 364 seats 13,000 km range
<b>Boeing 747-400</b>		LH: 13 aircraft 371 seats 11,850 km range
<b>Airbus A350-900</b>		LH: 6 aircraft 293 seats 12,650 km range
<b>Airbus A340-600</b>		LH: 24 aircraft 297 seats 12,900 km range
		LH: 12 aircraft 279 seats 11,800 km range
<b>Airbus A340-300</b>		CL: 6 aircraft 300 seats 11,500 km range
<b>Airbus A330-300</b>		LH: 19 aircraft 236 seats 9,850 km range
<b>Airbus A321-100/200</b>		LH: 63 aircraft 200 seats 4,150 km range
<b>Airbus A320-200</b>		LH: 67 aircraft 168 seats 3,200 km range
<b>Airbus A320neo</b>		LH: 10 aircraft 180 seats 3,000 km range
<b>Airbus A319-100</b>		LH: 30 aircraft 138 seats 3,350 km range

### Lufthansa and regional partners

<b>Embraer 195</b>		CL: 6 aircraft 120 seats 2,300 km range
		EN: 11 aircraft 120 seats 2,300 km range
<b>Embraer 190</b>		CL: 9 aircraft 100 seats 3,500 km range
<b>Bombardier CRJ900</b>		CL: 35 aircraft 90 seats 2,100 km range

### SWISS and Edelweiss Air

<b>Boeing 777-300ER</b>		LX: 8 aircraft 340 seats 13,650 km range
<b>Airbus A340-300</b>		LX: 7 aircraft 219 seats 13,000 km range
<b>Airbus A330-300</b>		LX: 14 aircraft 236 seats 9,850 km range
<b>Airbus A321-100/200</b>		LX: 9 aircraft 219 seats 2,100 km range
<b>Airbus A320-200</b>		LX: 21 aircraft 180 seats 2,700 km range
<b>Airbus A319-100</b>		LX: 5 aircraft 138 seats 3,350 km range
<b>Bombardier CS300</b>		LX: 7 aircraft 145 seats 4,250 km range
<b>Bombardier CS100</b>		LX: 8 aircraft 125 seats 2,850 km range





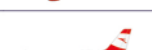





As of December 2017

#### SWISS and Edelweiss Air

Airbus A340-300		WK: 2 aircraft 314 seats 11,850 km range
Airbus A330-300		WK: 2 aircraft 315 seats 10,000 km range
Airbus A320-200		WK: 8 aircraft 174 seats 4,050 km range

#### Austrian Airlines

Boeing 777-200ER		OS: 5 aircraft 308 seats 12,100 km range
Boeing 767-300ER		OS: 6 aircraft 214 seats 10,250 km range
Airbus A321-100/200		OS: 6 aircraft 200 seats 4,150 km range
Airbus A320-200		OS: 23 aircraft 174 seats 4,100 km range
Airbus A319-100		OS: 7 aircraft 144 seats 3,350 km range
Embraer 195		OS: 17 aircraft 120 seats 2,300 km range
Fokker 100		OS: 1 aircraft 100 seats 2,100 km range
Bombardier Q400		OS: 18 aircraft 76 seats 1,350 km range

#### Eurowings and Germanwings

Airbus A330-200		EW: 7 aircraft 310 seats 10,100 km range
Airbus A320-200		EW/4U: 72 aircraft 180 seats 4,000 km range
Airbus A319-100		EW/4U: 50 aircraft 150 seats 2,900 km range
Bombardier Q400		EW/4U: 20 aircraft 76 seats 1,350 km range

#### Brussels Airlines

Airbus A330-300		SN: 6 aircraft 288 seats 7,700 km range
Airbus A330-200		SN: 4 aircraft 264 seats 10,400 km range
Airbus A320-200		SN: 12 aircraft 180 seats 3,700 km range
Airbus A319-100		SN: 22 aircraft 141 seats 3,200 km range

#### Lufthansa Cargo

Boeing MD-11F		LH: 12 aircraft 579 m³/89,4 t 6,700 km range
Boeing 777F		LH: 5 aircraft 657 m³/103 t 8,900 km range

#### Legend

LH = Lufthansa	4U = Germanwings	EW = Eurowings
German Airlines,	CL = Lufthansa CityLine	LX = SWISS
Lufthansa Cargo	EN = Air Dolomiti	OS = Austrian Airlines

SN = Brussels Airlines  
WK = Edelweiss Air

Range indicated in general with maximum number of passengers or payload, respectively. In part, different versions are in operation.



## Employees

With more than 129,000 employees around the world, the Lufthansa Group is a truly global Company. | The process reorientation of the administrative areas was completed in 2017. | Comprehensive diversity approach is strengthening competitiveness. | Long-term collective agreement reached with labour union partners in 2017.

### More employees in the Lufthansa Group

At year-end 2017, the Lufthansa Group had a total of 129,424 employees worldwide (previous year: 124,306). This growth is mainly due to the consolidation of Brussels Airlines. With 69,142 employees in Germany (previous year: 68,181), the Lufthansa Group is still one of the biggest employers in the country. At the same time, it is a global company, with 60,282 employees in 84 countries outside Germany (previous year: 56,125).

As of the reporting date, the average age of the workforce was unchanged at 42.2 years. Average seniority was 14.6 years (previous year: 14.7 years). 28.6 per cent of employees worked part-time in 2017. Personnel turnover came to 12.9 per cent (previous year: 13.7 per cent).

In the reporting year, the Lufthansa Group offered more than 50 different recruitment channels around the world for school and university students. As of year-end, around 1,100 apprentices were employed in the Lufthansa Group's 34 occupations.

#### T016 EMPLOYEES AS OF 31.12.2017

		2017	2016	Change in %
Group employees	number	129,424	124,306	4.1
of which Network airlines <sup>1)</sup>	number	50,190	49,985	0.4
of which Point-to-Point airlines	number	7,501	3,493	114.7
of which Logistics	number	4,511	4,568	-1.2
of which MRO	number	21,502	20,839	3.2
of which Catering	number	34,563	35,530	-2.7
of which Additional Businesses and Group Functions <sup>1)</sup>	number	11,157	9,891	12.8
Revenue per employee	€ thousands	275	255	7.8
Revenue per full-time equivalence	€ thousands	319	297	7.4

<sup>1)</sup> Previous year's figures have been adjusted, in particular due to the restructuring of business segments.

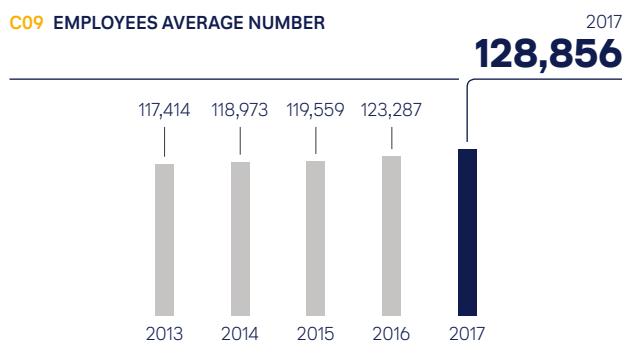
### Cultural and structural transformation continues

The continuous change process at the Lufthansa Group assigns a special role to the employees. The Group-wide employee survey carried out annually since 2015 shows that focused activities strengthened employee commitment in the reporting year. The Engagement Index rose year on year by 0.1 points to 2.3 points. Further improvements are aimed for in the years ahead. Additional information on employee concerns can be found in [Combined non-financial report, p. 201ff.](#)

The range of development and training courses to increase the focus on employees and customers is always being expanded. A programme was established in autumn 2017 to encourage managers to complete one-day placements every year in one of the operating areas of the Lufthansa Group.

Since early 2016, the Lufthansa Group has successively been reorganised along process lines, with responsibilities being pooled and hierarchies reduced. In the reporting year, the process reorientation of the administrative areas in the Lufthansa Group was completed for a total of eleven Group companies.

#### C09 EMPLOYEES AVERAGE NUMBER

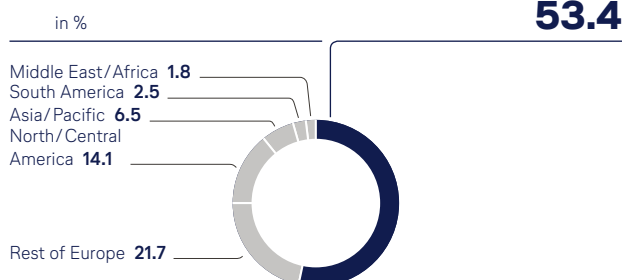


### Promotion of diversity continues

The Lufthansa Group takes a comprehensive approach to diversity and believes that diversity of gender, demography and nationality contribute to broadening perspectives and to making the Company more competitive.

Demanding goals were set to implement the German Act on Equal Participation of Men and Women in Executive Positions in the Public and Private Sectors.

## C10 EMPLOYEES BY REGION



In addition to the statutory requirement to set quotas for the ratio of female Executive Board members and for the ratio of women in the first two management levels, the companies in the Lufthansa Group have set themselves a common target to which each contributes, taking their respective operating conditions into account.

In 2016, the Lufthansa Group set targets in this regard and a deadline for achieving them of 31 December 2021. A target of 30 per cent has been set for the Executive Board of Deutsche Lufthansa AG, and for management level 1 below the Executive Board, a target of 20 per cent (17.7 per cent for the Lufthansa Group), while there is a target of 30 per cent for management level 2 below the Executive Board (23.7 per cent for the Lufthansa Group).

The Lufthansa Group will continue to intensify its efforts to remain an attractive employer – with a particular focus on modern, flexible working conditions and the compatibility of work with family obligations and with systematic talent management. Diversity targets are part of managers' responsibilities, which reflects the Lufthansa Group's self-image.

➤ **Combined non-financial report, p. 201ff.**

### Wage structures successfully developed

The Lufthansa Group aims to conclude long-term, economically viable agreements together with its collective bargaining partners. These enable sustainable success, as well as predictability and security for both the Company and its employees.

In December 2017, the Lufthansa Group and the Vereinigung Cockpit pilots' union signed an agreement on all outstanding matters for Lufthansa German Airlines, Lufthansa Cargo and Germanwings. The agreements conform substantively to the fundamental settlement reached in March 2017. They include new wage and collective agreements, as well as agreements on retirement and transitional benefits, which will remain in effect until at least June 2022. These collective agreements with the labour union partners represent a long-term solution to the risk of strikes. ➤ **Lufthansa German Airlines, p. 46f.**

## Research and development

The Lufthansa Group and its companies work continuously – both individually and across business segments – on innovative products and research and development projects. In some cases, these activities are coordinated centrally. However, most are run separately in the individual segments, since they focus on different areas.

Their individual activities to develop new services and products are described in the chapters on the ➤ **Business segments, p. 42ff.**

## Legal and regulatory factors

The Lufthansa Group and its business segments are subject to numerous complex legal and regulatory standards. The formal demands made of the Company are increasing all the time. This applies to legislation from various areas, such as that relating to financial law, data and consumer protection and corporate governance, as well as to general requirements for avoiding liability risks. Of particular relevance for the Lufthansa Group in this matter are operating restrictions

such as the night-flight ban at various airports, consumer protection, EU emissions trading, national air traffic taxes and the costs of aviation security imposed on airlines, embargo conditions, the implementation of the Single European Sky as well as a lack of competition rules at international level, as laid down by the World Trade Organisation (WTO) in other industries.



## Economic report

### Macroeconomic situation

Stronger global economic growth. | German economic growth on par with the European neighbouring countries. | Euro appreciates against all other key currencies. | Interest rates remain low. | Oil prices up significantly on the year.

#### All global regions displaying stronger growth than in the previous year

Global economic growth picked up from 2.5 per cent in 2016 to 3.2 per cent in 2017, partly due to the continuation of expansive monetary policies. All world regions saw faster growth rates than in the previous year. The fastest growth rates were in the Asia/Pacific region, which grew by 5.0 per cent (previous year: 4.8 per cent). There, the Chinese economy expanded by 6.8 per cent (previous year: 6.7 per cent). Economic growth in Europe came to 2.6 per cent (previous year: 2.0 per cent). At 2.6 per cent, the German economy expanded on par with the European neighbouring countries (previous year: 1.9 per cent). Economic growth in North America of 2.3 per cent was also higher than the previous year (previous year: 1.5 per cent). Positive growth rates were recorded again in South America for the first time since 2014. The economy in this region expanded by 1.5 per cent (previous year: -1.3 per cent).

#### T017 GDP DEVELOPMENT

in %	2017 <sup>1)</sup>	2016	2015	2014	2013
World	3.2	2.5	2.9	2.9	2.7
Europe	2.6	2.0	2.3	2.0	0.8
Germany	2.6	1.9	1.5	1.9	0.6
North America	2.3	1.5	2.7	2.6	1.8
South America	1.5	-1.3	0.0	1.1	2.9
Asia/Pacific	5.0	4.8	4.9	4.8	5.1
China	6.8	6.7	6.9	7.3	7.8
Middle East	1.4	4.0	1.7	2.7	2.7
Africa	3.2	1.9	3.2	2.6	2.1

Source: Global Insight World Overview as of 15.1.2018.

<sup>1)</sup> Forecast.

#### Euro appreciates against other key currencies

The euro went up against all other key currencies on average over the course of the year. The average exchange rate against the US dollar was 1.9 per cent up on the previous year. Against the pound sterling, the euro gained an average of 7.2 per cent, mainly because of persistent uncertainty

surrounding Brexit negotiations in 2017. The euro also gained 5.3 per cent against the Japanese yen. The euro likewise gained in value against the Chinese renminbi and the Swiss franc, by 3.7 and 1.9 per cent respectively.

#### T018 CURRENCY DEVELOPMENT EUR 1 in foreign currency

	2017	2016	2015	2014	2013
USD	1.1274	1.1062	1.1093	1.3263	1.3279
JPY	126.43	120.05	134.25	140.33	129.41
CHF	1.1104	1.0899	1.0675	1.2145	1.2306
CNY	7.6230	7.3491	6.9697	8.1742	8.1632
GBP	0.8759	0.8168	0.7259	0.8059	0.8489

Source: Bloomberg, annual average daily price.

#### Short- and long-term interest rates move in different directions

Short-term interest rates in the euro area fell again in 2017 compared with the previous year. The average six-month Euribor was -0.26 per cent (previous year: -0.17 per cent). Long-term rates rose year on year, however, with the average 10-year euro swap rate climbing from 0.53 per cent to 0.81 per cent. The discount rate, which is particularly important for measuring pension obligations and which is derived from the average return on a basket of investment-grade corporate bonds, fell slightly from 2.1 to 2.0 per cent in the financial year 2017.

#### T019 INTEREST RATE DEVELOPMENT in %

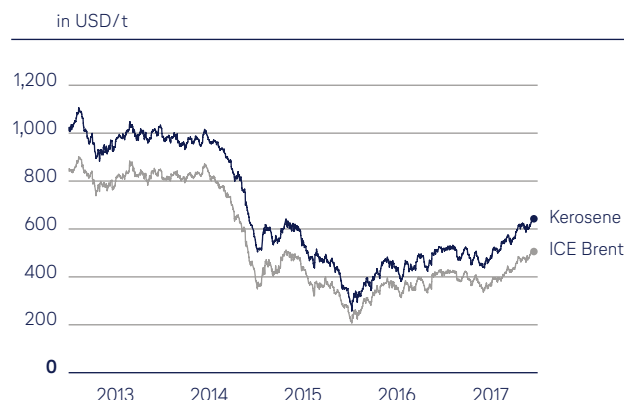
Instrument	2017	2016	2015	2014	2013
6-month Euribor	-0.26	-0.17	0.05	0.31	0.34
Average rate	-0.26	-0.17	0.05	0.31	0.34
6-month Euribor	-0.27	-0.22	-0.04	0.17	0.39
Year-end level	-0.27	-0.22	-0.04	0.17	0.39
10-year euro swap	0.81	0.53	0.88	1.46	1.91
Average rate	0.81	0.53	0.88	1.46	1.91
10-year euro swap	0.89	0.66	1.00	0.81	2.16
Year-end level	0.89	0.66	1.00	0.81	2.16

Source: Bloomberg.

**Oil prices increase again at the end of 2017**

In the first half of 2017, the average price for a barrel of Brent Crude was USD 52.74, which represents a rise of 28.0 per cent on the price for the same period in 2016. It was followed by a further price increase in the second half-year, with a barrel of Brent Crude costing an average of USD 56.84 or 15.9 per cent higher than the same period the previous year. The average price over 2017 as a whole was USD 54.79/barrel, or 21.3 per cent more than in the previous year. As of year-end 2017, a barrel of Brent Crude cost USD 66.87 (year-end 2016: USD 56.82/barrel).

The jet fuel crack, the price difference between crude oil and kerosene, moved between USD 7.97/barrel and USD 16.86/barrel in 2017. On average over the year it traded at USD 11.94/barrel and thus 41.4 per cent higher than in the previous year. The price at year-end was USD 14.09/barrel (year-end 2016: USD 10.06/barrel).

**C11 PRICE DEVELOPMENT OF CRUDE OIL AND KEROSENE**

Source: Lufthansa, based on market data.

## Sector developments

Air transport remains a growth industry. | Revenue passenger-kilometres up worldwide by 7.6 per cent. | Airfreight is growing even faster than passenger traffic. | MRO market benefits from growth in passenger traffic. | Consolidation is still ongoing in the airline catering sector.

The development of the airline industry affects the performance of all segments in the Lufthansa Group: directly, in the case of the airlines, and indirectly, via the impact on demand from key customer groups for Aviation Services.

**Global airline industry expects slight fall in earnings**

The International Air Transport Association (IATA) has raised its forecast for the global airline industry and now expects net profits of USD 34.5bn for 2017, slightly less than in the previous year (USD 35.3bn). The highest net profit of all regions is again expected for North American carriers, with a total of USD 15.6bn (previous year: USD 16.5bn). European airlines are forecast to generate a net profit of USD 9.8bn (previous year: USD 8.8bn).

**Continued growth in passenger traffic**

Ongoing global economic growth had a positive impact on worldwide demand for air travel. According to figures from the IATA, revenue passenger-kilometres went up year on year by 7.6 per cent in 2017. Air transport remains a growth industry, with an average growth rate in revenue passenger-kilometres of around 6.6 per cent between 2013 and 2017.

Regional differences persisted last year. Airlines from the Asia/Pacific region continued to record the fastest growth in revenue passenger-kilometres, at 10.1 per cent, followed by carriers from Europe, with 8.2 per cent, and Latin America, with 7.0 per cent. Airlines from the Middle East, which reported the fastest growth out of all regions in 2016, saw sales expand by 6.4 per cent in 2017.

African airlines sold 6.3 per cent more passenger-kilometres. Airlines from North America expanded by 4.2 per cent. According to the Federal Association of the German Aviation Industry (BDL), sales for airlines in Germany rose overall by 3.1 per cent.

### Yields continue to decline

Yields in global passenger traffic continued to fall, although not as much as in 2016. According to IATA estimates, they contracted by 1.5 per cent in 2017 (previous year: 8.8 per cent).

### Global markets vary

The European market for air travel remains highly fragmented. The five biggest airline groups – Lufthansa Group, Air France-KLM, International Airlines Group (IAG), Ryanair and easyJet – have a cumulative market share of 51 per cent by passenger volume. Low-cost carriers are still pushing into the higher-value business travel segment, both by offering flights to primary and secondary airports and by adapting their products and distribution channels to specific target groups. The growth of the low-cost carriers and competition in this segment is also to the detriment of transfer traffic at the hubs. This puts structural pressure on the network airlines in the Lufthansa Group, which have a relatively high proportion of transfer passengers for the industry.

In North America, the market consolidation and the capacity discipline of the players on the market continues to pay off. On long-haul routes between Europe and North America, the three large, commercial joint ventures, including the leading A++ commercial joint venture of which the Lufthansa Group is a member, have a market share of around 73 per cent. New competitors are expected to grow particularly strongly in the future.

In 2016, the European market for air travel experienced significant disruption from terrorist attacks in various countries and, therefore, a resulting decline in bookings from Asia and North America. Demand recovered in 2017 and revenue was up by a significant amount year on year, especially for the European network airlines.

Although overcapacities continue to hinder performance in some markets, a more moderate development of competition is forecast, especially for routes between Europe and Asia. The rapid growth of state-owned airlines from the Gulf and Bosphorus regions has recently slowed. In Europe, the positive effects of an incipient consolidation process can be felt, above all in the Lufthansa Group's home markets.

### T020 SALES PERFORMANCE IN THE AIRLINE INDUSTRY 2017

in % compared with previous year	Revenue passenger-kilometres	Cargo tonne-kilometres
Europe	8.2	11.8
North America	4.2	7.9
Central and South America	7.0	5.7
Asia/Pacific	10.1	7.8
Middle East	6.4	8.1
Africa	6.3	24.8
<b>Industry</b>	<b>7.6</b>	<b>9.0</b>

Source: IATA Air Passenger / Air Freight Market Analysis (12/2017).

### Airfreight is growing faster than passenger traffic

Global airfreight volumes rose by 9.0 per cent in 2017. This meant that the global freight business outperformed the passenger business. Regional developments varied. Cargo airlines from Africa reported the fastest growth, at 24.8 per cent, followed by providers from Europe, at 11.8 per cent. Cargo airlines from the Middle Eastern region grew by 8.1 per cent, while North American carriers grew by 7.9 per cent and carriers from the Asia/Pacific region grew by 7.8 per cent. Cargo airlines from Latin America saw the least growth, at 5.7 per cent. Yields in global airfreight traffic improved in 2017 for the first time since 2011, rising by 5.0 per cent (previous year: -12.5 per cent).

Competition in the global airfreight market remains intense. Lufthansa Cargo's competitors are other airlines with significant freight capacities in their long-haul passenger fleets, as well as airlines with a mix of cargo and passenger aircraft and pure freighter operators. The pace of cargo capacity growth on fleets of passenger aircraft has slowed, especially at airlines from the Middle East and the Gulf region. The relationship between supply and demand has improved significantly compared with a year ago. One reason for this is consolidation activity in the maritime transport industry, which caused a transfer of demand to airfreight.

### MRO industry continues to benefit from growth in air traffic

Growth in global air traffic keeps driving demand for maintenance, repair and overhaul services for aircraft (MRO). The volume of the MRO market increased year on year by 7.7 per cent in 2017 to some USD 80bn. Growth was particularly strong in the Asia/Pacific region, at 12.5 per cent. The EMEA region (Europe/Middle East/Africa) also reported above-average growth of 8.8 per cent, whereas North and South America only managed 1.8 per cent. Greater capacities in the MRO market, partly due to expansion by the original equipment manufacturers (OEM), result in permanently high pricing pressure in the MRO business.

Lufthansa Technik's main competitors are aircraft, engine and component manufacturers, original equipment manufacturers (OEMs), the MRO operations of other airlines as well as independent providers. The OEMs in particular want to expand their share in the maintenance business due to the higher development costs and a lower share of the profit from aircraft sales. They try to make it difficult for independent MRO providers to gain access to intellectual property and only grant the licences required for maintenance work on a very restricted basis.

#### **Growth in airline catering market weaker than in passenger traffic**

For the airline catering industry, the year 2017 was marked by further consolidation among catering companies, such as the acquisition of the Gate Group by HNA and the acquisition of shares in Servair by the Gate Group. In Europe, the increase in passenger numbers mainly came from low-cost carriers, with their limited service offering. European network airlines are also increasingly using in-flight sales programmes to generate additional income. Positive growth in passenger numbers therefore only had a limited effect on revenue development at in-flight service providers. In North America and Asia, by contrast, demand for high-quality in-flight service is growing.

## Course of business

Lufthansa Group achieves a very good result in 2017. | Main drivers are Network Airlines, Point-to-Point Airlines and Lufthansa Cargo. | Unit revenues were up, while unit costs were down. | Consolidation of the sector is advanced by the takeover of significant parts of Air Berlin group. | Success in financial year underlines the robust business model with a broad positioning.

### OVERVIEW OF THE COURSE OF BUSINESS

#### **Lufthansa Group reports very good results in 2017**

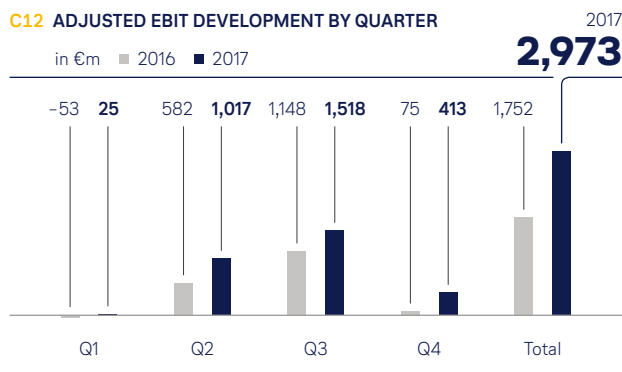
The Lufthansa Group performed very well in the 2017 financial year. Passenger numbers, load factors, revenue and earnings all went up significantly. The main drivers of the earnings increase were Network Airlines, Point-to-Point Airlines and Lufthansa Cargo, which all profited from an upsurge in demand. Margin went up significantly year on year. Lower unit costs will help to maintain the higher earnings level even over the airline industry cycle.

Key strategic decisions were also taken last year and progress was made in important areas. They include the takeover of vital parts of the Air Berlin group, which advanced the consolidation of the industry, and the new wage agreements with the Vereinigung Cockpit pilots' union. In the reporting year, Lufthansa German Airlines became the first airline from

Europe to be awarded the Five Star rating from Skytrax. The Lufthansa Group has again demonstrated that its broad positioning provides it with a very robust business model.

#### **Seasonal business again varies significantly**

Adjusted EBIT rose year on year in the first quarter of 2017 and the Lufthansa Group reported a positive figure again for this period. The positive earnings performance came primarily from the Logistics and MRO segments. Rising fuel costs and a positive non-recurring effect at Austrian Airlines in the previous year meant that the Network Airlines and Point-to-Point Airlines segments reported lower earnings overall. Within Network Airlines, only SWISS was able to improve its result. Exchange rate-adjusted unit revenues for the passenger airlines fell, whereas unit costs rose, after adjustment for exchange rate effects and fuel costs. Free cash flow was up on the previous year. The equity ratio declined in comparison with year-end 2016, mainly due to the higher volume of total assets.

**C12 ADJUSTED EBIT DEVELOPMENT BY QUARTER**

In the second quarter, Adjusted EBIT went up again year on year. All of the operating segments reported positive earnings growth, with the exception of the MRO and Catering segments. All of the network airlines improved their results. Exchange rate-adjusted unit revenues rose at the passenger airlines in the second quarter, while unit costs after adjustment for exchange rate effects and fuel costs were down. Free cash flow was again up on the year in the second quarter. The equity ratio rose over the course of the quarter.

In the third quarter, Adjusted EBIT went up again year on year. Earnings increased at the Network Airlines, Point-to-Point Airlines and Logistics segments. Once again, all of the network airlines contributed to the earnings increase. Exchange rate-adjusted unit revenues and unit costs after adjustment for exchange rate effects and fuel costs at the passenger airlines rose in the third quarter. Free cash flow was again up on the previous year in the third quarter. The equity ratio continued to rise.

In the fourth quarter, Adjusted EBIT again climbed significantly year on year. All segments contributed to this positive earnings performance, with the exception of the Catering segment. All of the network airlines were able to improve their respective results. Exchange rate-adjusted unit revenues at the passenger airlines grew faster than unit costs (after adjustment for exchange rate effects and fuel costs) in the fourth quarter. Free cash flow was down on the year for the first time, due to the high additional capital expenditure to purchase aircraft from the former Air Berlin group. The equity ratio went up again over the course of the quarter.

## SIGNIFICANT EVENTS

### New Executive Board members appointed

As of 1 January 2017, Ulrik Svensson was appointed to the Executive Board as Chief Financial Officer. He succeeded Simone Menne, who left the Company at her own request as of 31 August 2016.

Thorsten Dirks joined the Executive Board as of 1 May 2017, taking over responsibility for Eurowings and Aviation Services. He succeeded Karl Ulrich Garnadt, whose contract for his position on the Executive Board expired on 30 April 2017 and was not renewed due to reaching retirement age.

Ulrik Svensson and Thorsten Dirks were initially appointed to the Executive Board for three years.

### Remaining shares in Brussels Airlines acquired

The Lufthansa Group acquired the remaining 55 per cent of the shares in SN Airholding SA/NV on 9 January 2017 and is therefore the sole shareholder of Brussels Airlines. The acquisition is based on a purchase and option agreement signed in 2008. The strike price for the remaining shares was EUR 2.6m. Brussels Airlines was assigned to the Point-to-Point Airlines segment and is increasingly to be integrated into the Eurowings group.

### Cooperation with Cathay Pacific Airways agreed

On 27 March 2017, the Lufthansa Group and Cathay Pacific Airways signed a code-share and frequent flyer agreement. The freight operations of both airlines have successfully marketed joint capacities since February 2017.

### Lufthansa Group and Fraport sign agreement to cut costs and increase growth

On 5 July 2017, the Lufthansa Group and Fraport AG signed an initial settlement on short-term cost reductions. Both partners have thereby created the conditions for further growth of the Lufthansa Group at Frankfurt Airport. ➤ **Lufthansa German Airlines, p. 46f.**

### Investment grade rating from Moody's

After eight years, Deutsche Lufthansa AG was once again given an investment grade rating with a stable outlook by the rating agency Moody's on 24 August 2017. In the long-term rating, Deutsche Lufthansa AG was upgraded from Ba1 to Baa3 with a stable outlook. It was upgraded in the short-term rating from Not Prime to Prime-3. The outlook for the Company was also raised in the financial year for the two other investment grade ratings, from Standard & Poor's and Scope Ratings. ➤ **Financial strategy and value-based management, p. 16ff.**

### Handover in Supervisory Board completed

As of 24 September 2017 the Chairman of the Supervisory Board, Wolfgang Mayrhuber, resigned his seat. The Supervisory Board elected Dr Karl-Ludwig Kley as its new Chairman. Dr Karl-Ludwig Kley has a doctorate in law and has been a member of the Supervisory Board of Deutsche Lufthansa AG since 2013. He was the CFO of Deutsche Lufthansa AG from 1998 to 2006, before moving on to Merck KGaA, where he was a member of the management board from 2006 to 2016 and its chairman from 2007 onwards. Ambassador Miriam E. Sapiro, Managing Director at Sard Verbinen & Co., USA, was appointed by the commercial court to fill the vacant seat on the Supervisory Board as of 24 October 2017.

In addition, the former chair of the Audit Committee, Werner Brandt, resigned his seat on the Supervisory Board with effect from 31 December 2017 for personal reasons. Carsten Knobel was appointed to the Supervisory Board as of 9 January 2018 to fill the vacancy. Carsten Knobel has degrees in business studies and chemistry and has been CFO and Executive Board member of Henkel AG & Co. KGaA since 2012. Stephan Sturm was appointed to chair the Audit Committee as successor.

### Lufthansa German Airlines becomes the first European airline to receive Five Star rating

On 4 December 2017, Lufthansa German Airlines became the first airline outside Asia to receive the Five Star rating for premium service and first-rate comfort from Skytrax, a British air transport consultancy. This makes Lufthansa German Airlines one of only ten carriers worldwide to have been presented with this prestigious award. Skytrax also chose Lufthansa German Airlines as the "Best Airline in Europe" in June 2017, on the basis of a survey of 18 million passengers from over 160 countries. The airlines in the Lufthansa Group altogether won four "Skytrax World Airline Awards". According to the ranking, Lufthansa German Airlines, SWISS and Austrian Airlines are the three highest-quality airlines in Western Europe. In addition, Terminal 2 at Munich Airport, which is jointly operated by the Lufthansa Group, was also voted Best Terminal in the World in March 2017 at the World Airport Awards. ➤ **Lufthansa German Airlines, p. 46f.**

### Lufthansa Group and the Vereinigung Cockpit pilots' union sign long-term wage agreement

On 21 December 2017, the Lufthansa Group and the Vereinigung Cockpit pilots' union signed contracts on all outstanding collective bargaining matters for Lufthansa German Airlines, Lufthansa Cargo and Germanwings. They conform to the fundamental settlement reached in March 2017. They include new wage and collective agreements, as well as agreements on retirement and transitional benefits, which will remain in effect until at least June 2022. These collective agreements with the labour union partners represent a long-term solution to the risk of strikes. ➤ **Lufthansa German Airlines, p. 46f.**

### Lufthansa Group acquires parts of Air Berlin

On 13 October 2017, the Lufthansa Group and the Air Berlin group signed a contract for the purchase of NIKI Luftfahrt GmbH (NIKI) and Luftfahrtgesellschaft Walter mbH (LGW) by the Lufthansa Group. The intention was to run the two businesses as additional flight operations within the Eurowings group. When the transaction was reviewed by the European Commission in mid-December 2017, however, it turned out that permission could not be provided for the takeover and integration of NIKI by the Eurowings group at this time. On the basis of this assessment, it was decided not to pursue the takeover of NIKI by the Eurowings group. The acquisition of LGW was approved by the European Commission on 21 December 2017 and the transaction was completed in January 2018.

The original agreement was reached after the two companies had signed a wet lease for 38 aircraft in January 2017. The aircraft were integrated into the fleets of Eurowings and Austrian Airlines. In the course of this transaction, the Lufthansa Group acquired 15 Airbus A320s from Air Berlin's lessors and had, in turn, leased them out to the Air Berlin group for operation at market prices, in order to reduce the costs of the wet lease. ➤ **Point-to-Point Airlines business segment, p. 50ff.**

## EVENTS AFTER THE BALANCE SHEET DATE

### Lufthansa Group acquires Luftfahrtgesellschaft Walter

With effect from 8 January 2018 Lufthansa Commercial Holding GmbH acquired all the shares in Luftfahrtgesellschaft Walter mbH. The purchase is based on the agreement signed by the Lufthansa Group and the Air Berlin group on 13 October 2017. The preliminary purchase price is EUR 22m. ➤ **Point-to-Point Airlines business segment, p. 50ff.**

### Lufthansa Group and ver.di find long-term solution to the risk of strikes

On 7 February 2018, the Lufthansa Group and the trade union ver.di concluded long-term wage agreements for the around 28,000 ground staff employed by Lufthansa German Airlines, Lufthansa Cargo, Lufthansa Technik and the LSG group in Germany. The wage agreement prescribes a total increase in remuneration totalling 4.9 to 6.1 per cent. The increase depends on the Adjusted EBIT margin in the individual segments, with a guaranteed increase of at least 4.9 per cent, regardless of the margin that is achieved. Thus, the wage settlement takes into account the economic growth of the Group companies. The wage agreement is valid for 33 months, from 1 January 2018 until 30 September 2020.



## Earnings, assets and financial position

Revenue up by 12.4 per cent to EUR 35.6bn. | Adjusted EBIT climbed by 69.7 per cent to EUR 2,973m. | Net profit for the period improves to EUR 2,364m. | Gross capital expenditure reaches EUR 3,005m. | Free cash flow up by 98.0 per cent to EUR 2,253m. | Equity ratio up to 26.5 per cent. | Exchange rate-adjusted unit revenues at passenger airlines up by 1.9 per cent. | Exchange rate-adjusted unit costs excluding fuel costs at passenger airlines down by 0.4 per cent.

### EARNINGS POSITION

#### Revenue and income

##### T021 REVENUE AND INCOME

	2017 in €m	2016 in €m	Change in %
Traffic revenue	28,399	24,661	15.2
Other revenue	7,180	6,999	2.6
<b>Total revenue</b>	<b>35,579</b>	<b>31,660</b>	<b>12.4</b>
Changes in inventories and work performed by the entity and capitalised	106	95	11.6
Other operating income	2,276	2,184	4.2
<b>Total operating income</b>	<b>37,961</b>	<b>33,939</b>	<b>11.9</b>

Operating income in the financial year 2017 came to EUR 38.0bn, a year-on-year increase of 11.9 per cent. 3.9 percentage points of the increase stemmed from the first-time consolidation of Brussels Airlines.

##### Traffic revenue up by 15.2 per cent

Traffic revenue rose by 15.2 per cent overall to EUR 28.4bn. The increase stems mainly from the higher sales volume, taking into account Brussels Airlines (+13.9 per cent). Higher average prices also made a slight contribution to the increase in income, despite negative exchange rate effects. Network Airlines remains the segment with the highest revenue at EUR 21.5bn (+6.6 per cent). The Point-to-Point Airlines segment was nonetheless able to increase its share, thanks to internal and external growth. Traffic revenue in the segment went up by EUR 1.9bn to EUR 3.9bn. This growth trend can be seen in the total number of passengers, which rose by 18.6 per cent to 130.0 million, with the passenger load factor also improving by 1.8 percentage points. Traffic revenue in the Logistics segment was up by 19.5 per cent year on year at EUR 2.4bn. In a better market environment, average prices

increased by 13.5 per cent after negative exchange rate effects, while freight volume was up by 6.0 per cent. Further information on the regional breakdown of traffic revenue for the Network Airlines, Point-to-Point Airlines and Logistics segments can be found in the chapters [Business segments, p. 42ff.](#)

##### Other revenue up by 2.6 per cent

Other revenue went up by 2.6 per cent in total to EUR 7.2bn. Of this, the MRO segment generated EUR 3.6bn (+1.5 per cent), Catering generated EUR 2.6bn (+0.2 per cent) and Additional Businesses and Group Functions generated EUR 269m (-0.7 per cent). The airborne companies contributed EUR 787m (+19.1 per cent) to other revenue, particularly with income from customer loyalty programmes, handling services and in-flight sales.

##### Revenue up by 12.4 per cent

Revenue for the Group increased by 12.4 per cent to EUR 35.6bn, of which 4.0 percentage points were due to the first-time consolidation of Brussels Airlines. The Network Airlines segment's share of total revenue fell to 63.6 per cent (previous year: 67.0 per cent). The Point-to-Point Airlines segment contributed 11.4 per cent (previous year: 6.5 per cent) to total revenue, while all other segments cumulatively contributed 25.0 per cent (previous year: 26.5 per cent). Further information on regional distribution of revenue can be found in the [Segment reporting, p. 155ff.](#)

##### Other operating income up by 4.2 per cent

Other operating income increased by EUR 92m to EUR 2.3bn. This was mainly due to write-backs of EUR 83m on aircraft held for sale that were reactivated and returned to the fleet (EUR +73m). The aircraft concerned were seven Airbus A340-600s, one Boeing MD-11F and two Bombardier CRJ900s. Furthermore, income from the write-back of provisions was down by EUR 104m, lease income from the partnerships with SunExpress and Air Berlin was up by EUR 31m and other operating income was up by EUR 107m, partly in connection with compensation payments from service partners. [Notes to the consolidated financial statements, Note 6, p. 120.](#)



### Exchange rate-adjusted unit revenues at passenger airlines rise

All the passenger airlines in the Lufthansa Group were able to increase their exchange rate-adjusted unit revenues in the reporting period. The main drivers of this performance were continuous capital expenditure on the product, a significant year-on-year increase in demand and increasing consolidation in the markets relevant to the Lufthansa Group, especially towards the end of the financial year. The traffic regions of Europe and Asia performed particularly well. Exchange rate-adjusted unit revenues were up by 1.9 per cent overall.

## Expenses

Operating expenses rose year on year by 9.6 per cent to EUR 34.8bn, of which 4.1 percentage points were due to the first-time consolidation of Brussels Airlines.

### Cost of materials and services rises by 11.1 per cent

The cost of materials and services went up by 11.1 per cent to EUR 19bn. Within the cost of materials and services, fuel costs rose by 7.1 per cent to EUR 5.2bn, of which 5.8 percentage points were due to the consolidation of Brussels Airlines. The average price for kerosene, including fuel hedging, was USD 578.42/tonne in 2017. Fuel prices were roughly stable (–0.1 per cent) after hedging and higher volumes (+9.8 per cent) were partly offset by the cheaper US dollar (–2.6 per cent). Fuel costs included a negative result of price hedging of EUR –67m (previous year: EUR –905m). Expenses for other raw materials, consumables and supplies were up by 6.4 per cent at EUR 3.6bn.

Fees and charges went up by 10.8 per cent overall (of which 4.7 percentage points were due to consolidation) to EUR 6.4bn. In detail, handling charges rose by 11.3 per cent, passenger fees by 14.0 per cent and air traffic control charges, which are dependent on the number of flights, by 8.5 per cent. Expenses for the air traffic tax rose by 14.0 per cent to EUR 432m. Other services were up by a total of 22.9 per cent to EUR 3.9bn, especially due to the 89.8 per cent increase in charter expenses in connection with the services of SunExpress and Air Berlin in the Point-to-Point Airlines segment.

### Staff costs up by 11.1 per cent

Staff costs rose by 11.1 per cent to EUR 8.2bn. Starting from a 4.5 per cent rise in the average number of employees (mostly in the Point-to-Point Airlines segment), this change is largely due to higher expenses for performance-related salary components (+3.9 percentage points) and lower savings from the past service expense than in the previous year. The new system of retirement and transitional benefits for cockpit crew in the German Group wage agreement reduced costs by EUR 582m on a one-off basis in the reporting period. Subsequent amendments to the final agreement on changing the system of retirement benefits for cabin staff at Lufthansa German Airlines resulted in expenses of EUR 32m. Non-recurring savings of EUR 652m were recognised the previous year as a result of the change. Additions to pension provisions for the legacy system of retirement benefits led to an increase in expenses due to the fall in the discount rate used at the beginning of the financial year from 2.8 per cent to 2.1 per cent. This was largely offset by the effect of restructuring the pension plans in Germany.

## T022 EXPENSES

	2017	2016	Change	Share of operating expenses
	in €m	in €m	in %	in %
Cost of materials and services	19,013	17,109	11.1	54.6
of which fuel	5,232	4,885	7.1	15.0
of which fees and charges	6,357	5,736	10.8	18.3
of which operating lease	88	58	51.7	0.3
Staff costs	8,172	7,354	11.1	23.5
Depreciation	2,052	1,769	16.0	5.9
Other operating expenses	5,571	5,517	1.0	16.0
of which indirect staff costs and external staff	1,114	1,078	3.3	3.2
of which rental and maintenance expenses	884	888	–0.5	2.5
<b>Total operating expenses</b>	<b>34,808</b>	<b>31,749</b>	<b>9.6</b>	<b>100.0</b>

**Depreciation and amortisation up by 16.0 per cent**

Depreciation and amortisation rose by 16.0 per cent to EUR 2.1bn, of which the consolidation of Brussels Airlines accounted for 4.9 percentage points. Depreciation of aircraft increased by 9.2 per cent to EUR 1.4bn. Impairment losses of EUR 333m in total were also recognised as of 31 December 2017 (previous year: EUR 183m).

Impairment losses on aircraft of EUR 204m trace mainly back to seven Airbus A340-600s that were retired and due to be scrapped. Discontinued IT projects in Logistics, MRO and the credit card business accounted for another EUR 21m. Depreciation and amortisation of EUR 26m was also incurred due to weaker performance at some business units in the Catering segment (catering plants in South Africa, Finland and at Frankfurt Airport). The insolvency and failed acquisition of NIKI meant that a working capital loan to the company of EUR 50m and a down payment on the purchase price of NIKI to Air Berlin of EUR 20m had to be written off in full.

**Other operating expenses almost the same as the previous year**

Other operating expenses rose by 1.0 per cent to EUR 5.6bn. The first-time consolidation of Brussels Airlines accounted for a total increase of 3.9 percentage points, but this was offset almost completely by lower expenses at the other Group companies. Costs were higher for computerised sales systems (EUR +56m) and advisory and audit services (EUR +43m). Lower exchange rate losses (EUR -152m) reduced expenses, however. Including exchange rate effects in the primary items of income and expense, exchange rate movements had barely any impact on EBIT.

**Exchange rate-adjusted unit costs without fuel for passenger airlines down**

The passenger airlines in the Lufthansa Group successfully reduced their exchange rate-adjusted unit costs, excluding fuel, in the reporting period, although significantly higher load factors meant that passenger-related costs went up. This made up for higher expenses for performance-related pay as a result of the significant rise in earnings and for important expenses in connection with the acquisition of parts of the Air Berlin group. The Eurowings group and SWISS reported the most significant reductions in unit costs. Total exchange rate-adjusted unit costs excluding fuel fell by 0.4 per cent.

**Earnings performance****EBIT increased by 45.5 per cent to EUR 3,310m**

The result from operating activities improved year on year by EUR 963m to EUR 3.2bn. Including the result from equity investments of EUR 157m, EBIT came to EUR 3,310m.

**Adjusted EBIT up by 69.7 per cent to EUR 2,973m**

To calculate Adjusted EBIT, EBIT was adjusted for book gains and losses from the disposal of non-current assets, impairment losses and write-ups, as well as the measurement of pension obligations totalling EUR -337m (previous year: EUR -523m). This produced an Adjusted EBIT of EUR 2,973m (previous year: EUR 1,752m). The Adjusted EBIT margin was 8.4 per cent (previous year: 5.5 per cent).

**➤ T023 Reconciliation of results, p. 35**

The Network Airlines segment increased its Adjusted EBIT by EUR 708m, or 45.5 per cent, to EUR 2.3bn. This performance was driven mainly by increasing unit revenues and simultaneously decreasing unit costs. The passenger business at the point-to-point airlines improved its Adjusted EBIT by EUR 198m to EUR 94m, mainly thanks to particularly strong volume growth. Brussels Airlines, which was consolidated for the first time, thus reported earnings of EUR 15m (previous year: earnings contribution of EUR 3m, accounted for using the equity method). Adjusted EBIT for the Logistics segment went up by EUR 292m to EUR 242m, mostly due to positive changes in sales and average prices. The MRO segment reported Adjusted EBIT of EUR 415m, which was virtually unchanged from the previous year (EUR +4m). Partly due to significantly higher reorganisation expenses and write-downs on receivables, Adjusted EBIT for the Catering segment fell by EUR 38m to EUR 66m. The other Group companies, which under IFRS 8 do not require separate reporting, and the Group functions reduced the Group's Adjusted EBIT by a total of EUR -130m (previous year: EUR -182m).

The results of the individual segments in the Group also have their own variations and ranges of fluctuation. The Aviation Services segment again generated a stable, positive earnings contribution. Once again, however, the earnings of the airlines, which are much more volatile over the long-term, were largely responsible for the good earnings level.

**Financial result down to EUR 34m**

The financial result fell by EUR 24m to EUR 34m. Whereas the result from equity investments went up by EUR 72m to EUR 157m, in particular due to better earnings at the joint ventures, net interest only increased slightly by EUR 23m to EUR -195m. Higher interest expenses for financing were largely offset by higher interest income, mostly from short-term investments in securities.

### T023 RECONCILIATION OF RESULTS

in €m	2017		2016	
	Income statement	Reconciliation Adjusted EBIT	Income statement	Reconciliation Adjusted EBIT
<b>Total revenue</b>	<b>35,579</b>	<b>–</b>	<b>31,660</b>	<b>–</b>
Changes in inventories	106	–	95	–
Other operating income	2,276	–	2,184	–
of which book gains et al.	–	–43	–	–64
of which write-ups on capital assets	–	–83	–	–10
of which badwill	–	0*	–	–2
<b>Total operating income</b>	<b>37,961</b>	<b>–126</b>	<b>33,939</b>	<b>–76</b>
Cost of materials and services	–19,013	–	–17,109	–
Staff costs	–8,172	–	–7,354	–
of which past service costs/settlement	–	–551	–	–678
Depreciation	–2,052	–	–1,769	–
of which impairment losses	–	333	–	183
Other operating expenses	–5,571	–	–5,517	–
of which impairment losses on assets held for sale	–	1	–	22
of which expenses incurred from book losses	–	6	–	26
<b>Total operating expenses</b>	<b>–34,808</b>	<b>–211</b>	<b>–31,749</b>	<b>–447</b>
<b>Profit/loss from operating activities</b>	<b>3,153</b>	<b>–</b>	<b>2,190</b>	<b>–</b>
Result from equity investments	157	–	85	–
<b>EBIT</b>	<b>3,310</b>	<b>–</b>	<b>2,275</b>	<b>–</b>
Total amount of reconciliation Adjusted EBIT	–	–337	–	–523
<b>Adjusted EBIT</b>	<b>–</b>	<b>2,973</b>	<b>–</b>	<b>1,752</b>
Write-downs (included in profit from operating activities)	2,052	–	1,769	–
Write-downs on financial investments, securities and assets held for sale	0*	–	21	–
<b>EBITDA</b>	<b>5,362</b>	<b>–</b>	<b>4,065</b>	<b>–</b>

\* Rounded below EUR 1m.

The result of other financial items was down significantly (EUR –119m). The negative trading result (EUR –318m) was caused primarily by the cross-currency swaps, which are recognised through profit or loss. However, they were offset by income of EUR 288m (EUR +348m) from the measurement of financial liabilities in US dollars. A change to the fair value components of the measurement of hedging instruments (options) was recognised through profit or loss in line with IAS 39 and had a negative impact of EUR 149m.

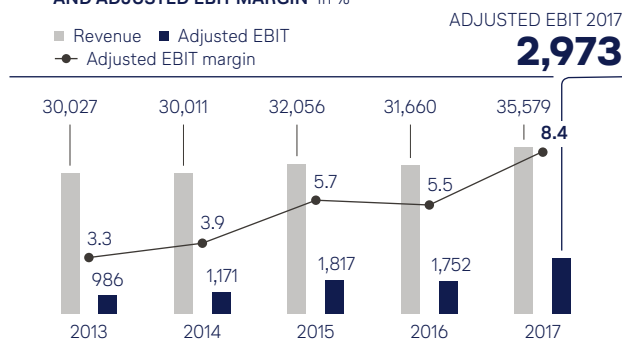
#### Net profit for the period up to EUR 2,364m

Adding depreciation and amortisation to EBIT of EUR 3,310m produced EBITDA of EUR 5,362m (previous year: EUR 4,065m). The profit from operating activities and the financial result added up to a profit before income taxes of EUR 3,187m, compared with EUR 2,248m in the previous year. Deducting income taxes of EUR 789m (previous year: EUR 445m) and earnings attributable to minority interests of EUR 34m (previous year: EUR 27m), the net profit for the period attributable to the shareholders of Deutsche Lufthansa AG was EUR 2,364m (previous year: EUR 1,776m).

Earnings per share amount to EUR 5.03 (previous year: EUR 3.81). ➤ **Notes to the consolidated financial statements, Note 15, p. 124.**

### T024 PROFIT BREAKDOWN OF THE LUFTHANSA GROUP

	2017 in €m	2016 in €m	Change in %
Operating income	37,961	33,939	11.9
Operating expenses	–34,808	–31,749	9.6
<b>Profit from operating activities</b>	<b>3,153</b>	<b>2,190</b>	<b>44.0</b>
Financial result	34	58	–41.4
<b>Profit/loss before income taxes</b>	<b>3,187</b>	<b>2,248</b>	<b>41.8</b>
Income taxes	–789	–445	–77.3
<b>Profit/loss from continuing operations</b>	<b>2,398</b>	<b>1,803</b>	<b>33.0</b>
Profit/loss attributable to minority interests	–34	–27	–25.9
<b>Net profit/loss attributable to shareholders of Deutsche Lufthansa AG</b>	<b>2,364</b>	<b>1,776</b>	<b>33.1</b>

**C13 DEVELOPMENT OF REVENUE, ADJUSTED EBIT  
AND ADJUSTED EBIT MARGIN** in %**Long-term earnings reveal continuous profitability growth**

The Lufthansa Group and its segments operate in a volatile environment, which is severely exposed to economic cycles and other external factors. Despite this, the Company is confident of its ability to generate stable income, even during times of crisis, and to benefit particularly strongly from economic upswings. Earnings for 2013 and 2014 were deflated by many non-recurring factors, which in some cases were necessary to improve productivity for more demanding economic times. In 2015, the Lufthansa Group benefited from much lower fuel costs, among other factors. Even during the very demanding conditions that prevailed in financial year 2016, the higher profitability was maintained at the previous year's good level, although terrorist attacks in Europe and ongoing collective bargaining disputes at Lufthansa German Airlines had caused demand to fall significantly. Demand returned to normal in 2017 and exchange rate-adjusted unit costs, excluding fuel, were reduced at the same time. The higher earnings level is essentially due to cost-cutting measures previously implemented at the passenger airlines and the incipient consolidation of the market.

**Dividend****Dividend policy aims for continuous distributions**

Shareholders should participate in the Company's success. The long-term dividend policy plans for a regular dividend payout ratio of 10 to 25 per cent of consolidated EBIT. One condition is that a distribution of this amount is permitted by the net profit for the year as shown in the individual financial statements of Deutsche Lufthansa AG that are drawn up under German commercial law and that there are no other reasons not to pay a dividend. In addition to the regular dividend payment, the dividend policy also allows for shareholders to participate in a particularly positive performance by the Company by means of a special dividend or share buy-back.

**T025 DEVELOPMENT OF EARNINGS AND DIVIDENDS**

		2017	2016	2015	2014	2013
EBIT	€m	3,310	2,275	1,676	1,000	936
Net profit/loss (Group)	€m	2,364	1,776	1,698	55	313
Dividend per share	€	0.8	0.5	0.5	-	0.45
Dividend ratio (based on EBIT)	%	11.4	10.3	13.9	-	22.1

**Executive Board and Supervisory Board propose dividend of EUR 0.80 per share**

A net profit for the year of EUR 2,455m was reported for 2017. Following the transfer of EUR 1,228m to retained earnings, distributable profit comes to EUR 1,227m.

In line with the dividend policy, the Executive Board and Supervisory Board will table a proposal at the Annual General Meeting on 8 May 2018 to distribute a dividend of EUR 0.80 per share to shareholders for the financial year 2017. This represents a total dividend payout of EUR 377m or 11.4 per cent of EBIT for 2017. The remaining amount of EUR 850m is to be transferred to retained earnings.

**FINANCIAL POSITION****Capital expenditure**

Capital expenditure in 2017 was 34.4 per cent higher than the previous year at EUR 3,005m.

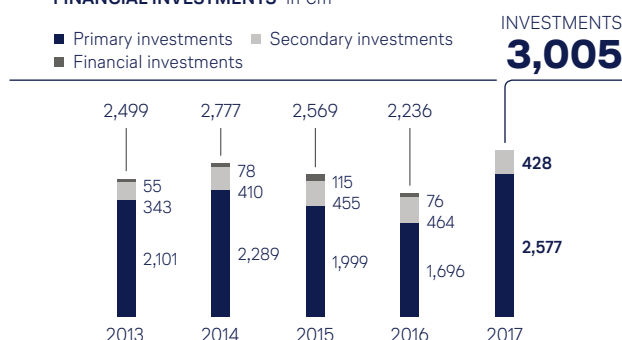
**Investment volume significantly up on previous year**

Primary investment in down payments and final payments for aircraft, aircraft overhauls and equipment rose by 51.9 per cent to EUR 2.6bn. Capital expenditure for other items of property, plant and equipment and for intangible assets, known collectively as secondary investment, fell by 7.8 per cent to EUR 428m. Of the total, EUR 322m (previous year: EUR 345m) was on property, plant and equipment, such as technical equipment and machinery, and on operating and office equipment. EUR 106m (previous year: EUR 119m) was invested in intangible assets such as licences and IT software. Financial investments of EUR 0m (previous year: EUR 76m) related mainly to cash outflows for share purchases, loans and fixed interest rate deposits, which were offset in the current financial year by the cash acquired, in particular from the purchase of the remaining shares in Brussels Airlines (EUR -200m).

Network Airlines accounted for the bulk of capital expenditure at EUR 1.7bn (previous year: EUR 1.5bn). Capital expenditure at Point-to-Point Airlines came to EUR 0.9bn (previous year: EUR 0.4bn). This includes capital expenditure of EUR 757m in aircraft that were acquired from the previous lessors to the Air Berlin group. The bulk of capital expenditure was on new aircraft and down payments on aircraft. ➔ **Fleet, p. 20f.**

Capital expenditure at the Logistics segment of EUR 39m (previous year: EUR 29m) was partly for financial assets and other items of plant, property and equipment. In the MRO segment, capital expenditure of EUR 233m (previous year: EUR 216m) included the purchase of reserve engines, operating and office equipment and shares, as well as the granting of loans. Capital expenditure of EUR 84m (previous year: EUR 73m) in the Catering segment consisted mainly of maintaining existing production facilities.

#### C14 PRIMARY, SECONDARY AND FINANCIAL INVESTMENTS in €m<sup>1)</sup>



<sup>1)</sup> Excluding acquired net assets from changes in group of consolidated companies.

## Cash flow

Cash flow from operating activities rose by 55.1 per cent to EUR 5,035m. Free cash flow increased to EUR 2,253m despite the higher capital expenditure (previous year: EUR 1,138m).

#### Cash flow from operating activities up to EUR 5,035m

The Group's cash flow from operating activities was 55.1 per cent above the figure for the previous year at EUR 5,035m. An improvement of EUR 3,187m was seen initially in the profit before income taxes. Correcting for earnings contributions from investing and financing activities and material non-cash earnings contributions, as well as deducting significantly higher tax payments, results in a 21.8 per cent increase in the cash contribution towards the operating result of EUR 4,091m. Cash changes in trade working capital and other assets and liabilities added up to an inflow of EUR 944m in the reporting year (EUR +770m year on year), which was partly due to cash inflows from as yet unused flight documents (EUR +423m). Overall, this improved cash flow from operating activities by EUR 1,789m.

#### Free cash flow up to EUR 2,253m

Gross capital expenditure for the Lufthansa Group came to EUR 3,005m. This included the primary, secondary and financial investment listed above. Payments of EUR 210m were also made for repairable spare parts for aircraft. Asset disposals gave rise to income of EUR 149m (previous year: EUR 120m).

Aircraft disposals accounted for EUR 63m, while repayments received for loans accounted for EUR 43m. Interest and dividend income went up slightly by 4.4 per cent to EUR 284m. This brought total net cash used for investing activities to EUR 2.8bn (previous year: EUR 2.1bn).

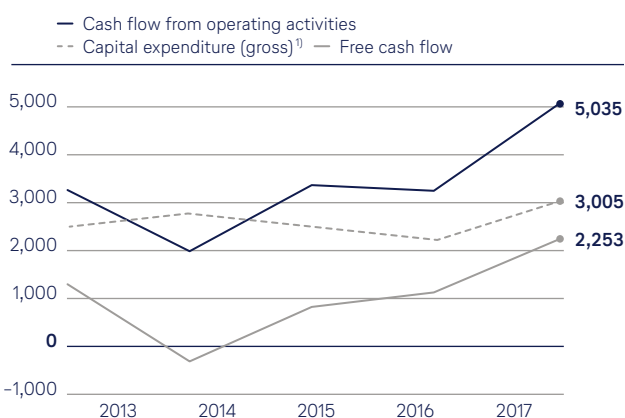
After deducting this net cash used for investing activities, free cash flow for the financial year 2017 was positive at EUR 2,253m (previous year: EUR 1,138m).

#### Financing activities result in net cash outflow

The purchase of securities for EUR 2.7bn and the sale of securities for EUR 905m resulted in a net cash outflow of EUR 1.8bn (previous year: EUR 721m).

The balance of financing activities was a net cash outflow of EUR 381m (previous year: EUR 272m). New borrowing of EUR 1.1bn, partly from a borrower's note loan (EUR 0.7bn in total) and several aircraft financing transactions, was offset by cash outflows of EUR 1.0bn in total for scheduled capital repayments. Other cash outflows were for interest payments (EUR 289m) and the payment of dividends to the shareholders of Deutsche Lufthansa AG and minority shareholders (EUR 232m) in particular.

#### C15 CASH FLOW AND CAPITAL EXPENDITURE in €m



<sup>1)</sup> Capital expenditure shown without pro rata profit/loss from the equity valuation.

**T026 ABBREVIATED CASH FLOW STATEMENT OF THE LUFTHANSA GROUP**

	2017 in €m	2016 in €m	Change in %
Profit/loss before income taxes	3,187	2,248	41.8
Depreciation and amortisation/reversals	2,009	1,820	10.4
Net proceeds on disposal of non-current assets	-37	-38	-2.6
Net interest/result from equity investments	38	133	-71.4
Income tax payments	-385	-54	613.0
Significant non-cash expenses/income	-721	-1,037	-30.5
Change in trade working capital	259	-140	
Change in other assets and liabilities	685	314	118.2
<b>Cash flow from operating activities</b>	<b>5,035</b>	<b>3,246</b>	<b>55.1</b>
Investments and additions to repairable spare parts	-3,215	-2,500	28.6
Purchase/disposal of shares/non-current assets	149	120	24.2
Dividends and interest received	284	272	4.4
<b>Net cash from/used in investing activities</b>	<b>-2,782</b>	<b>-2,108</b>	<b>32.0</b>
<b>Free cash flow</b>	<b>2,253</b>	<b>1,138</b>	<b>98.0</b>
<b>Purchase/disposal of securities/fund investments</b>	<b>-1,755</b>	<b>-721</b>	<b>143.4</b>
Capital increase	-	-	
Transactions with minority interests	1	1	0.0
Non-current borrowing and repayment of non-current borrowing	139	202	-31.2
Dividends paid	-232	-233	-0.4
Interest paid	-289	-242	19.4
<b>Net cash from/used in financing activities</b>	<b>-381</b>	<b>-272</b>	<b>40.1</b>
Changes due to currency translation differences	-37	-3	1,133.3
<b>Cash and cash equivalents 1.1.</b>	<b>1,138</b>	<b>996</b>	<b>14.3</b>
<b>Cash and cash equivalents 31.12.</b>	<b>1,218</b>	<b>1,138</b>	<b>7.0</b>

**Liquidity broadly unchanged at EUR 3.8bn**

Cash and cash equivalents went up by EUR 80m to EUR 1.2bn as of year-end. This includes a decrease of EUR 37m in cash and cash equivalents due to exchange rate movements. In total, cash and cash equivalents plus current securities came to EUR 3.8bn (previous year: EUR 3.8bn). Higher net cash inflows in the current financial year were also used to pay EUR 1.7bn into the defined-contribution pension system for the flight attendants at Lufthansa German Airlines. This reduced pension liabilities by the same amount.

**ASSETS**

The Group's total assets rose by EUR 1.6bn to EUR 36.3bn as of 31 December 2017. As a result, current and non-current assets increased by EUR 0.8bn each. Shareholders' equity climbed by EUR 2.4bn to EUR 9.6bn.

**Assets****Non-current assets up by EUR 0.8bn**

Within non-current assets, the item Aircraft and reserve engines rose by EUR 1.2bn to EUR 16.0bn in conjunction with increased investment activity. The decline of EUR 832m in derivative financial instruments relates mostly to the measurement of non-current exchange rate hedges.

**Current assets up by EUR 0.8bn**

Within current assets, receivables rose by EUR 744m to EUR 5.3bn. Cash and cash equivalents, consisting of current securities, bank balances and cash-in-hand, were virtually unchanged at EUR 3.9bn. Free cash flow largely matched the contribution to the new system of transitional benefits for cabin crew at Lufthansa German Airlines.



## Shareholders' equity and liabilities

### Shareholders' equity increases by EUR 2.4bn, equity ratio up by 26.5 per cent

Shareholders' equity (including minority interests) went up year on year by EUR 2.4bn, or 34.3 per cent, to EUR 9.6bn. Starting from a positive after-tax result of EUR 2.4bn, the decline in pension provisions recognised directly in equity (EUR 1.1bn), offset by dividend payments of EUR 255m, resulted in higher shareholders' equity. However, a decline of EUR 388m in total was reported in the market value reserve for financial instruments – due, in particular, to the lower market values of exchange-rate hedges. Exchange-rate movements also caused the carrying amount of consolidated companies denominated in foreign currencies to fall by some EUR 404m.

With a year-on-year increase of 4.5 per cent in total assets, the equity ratio went up from 20.6 per cent at year-end 2016 to 26.5 per cent.

#### T027 DEVELOPMENT OF EARNINGS, EQUITY, EQUITY RATIO AND RETURN ON EQUITY

		2017	2016	2015	2014	2013
Result <sup>1)</sup>	€m	2,398	1,803	1,722	75	326
Equity <sup>1)</sup>	€m	9,598	7,149	5,845	4,031	6,108
Equity ratio <sup>1)</sup>	%	26.5	20.6	18.0	13.2	21.0
Return on equity	%	25.0	25.2	29.5	1.9	5.3

<sup>1)</sup> Including minority interests.

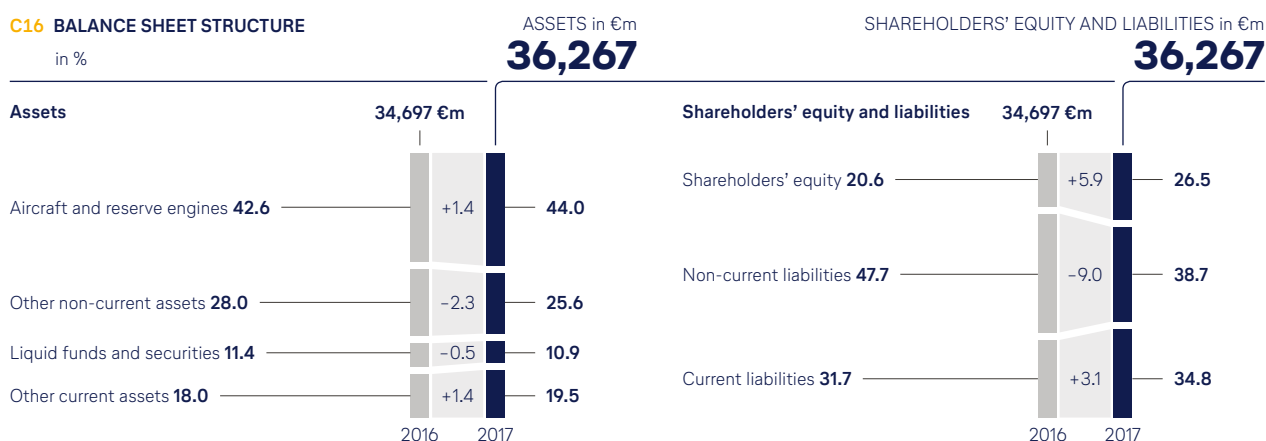
### Non-current liabilities and provisions down by EUR 2.5bn to EUR 14.0bn

Within non-current liabilities, pension provisions decreased by EUR 3.2bn to EUR 5.1bn. This was largely due to the initial contribution of EUR 1.7bn made in the financial year to plan assets for the new transitional benefits scheme for cabin crew at Lufthansa German Airlines, the one-off effect of EUR 1.3bn from changing the benefit plans for cockpit crew in the German Group wage agreement (of which EUR 582m is recognised through profit or loss), as well as neutral changes of EUR 910m to plan assets due to the good market performance. By contrast, current service costs and costs arising from accrued interest on provisions increased the amount by EUR 830m. Non-current borrowing increased by EUR 331m to EUR 6.1bn. A borrower's note loan with a volume of EUR 660m, as well as six aircraft financing models using structured entities with a total value of EUR 333m and EUR 298m from new or newly consolidated finance leases at Brussels Airlines were offset by financial liabilities reclassified as current in view of their outstanding maturities.

### Current liabilities and provisions up by EUR 1.6bn

Within the current portion of financial liabilities, scheduled repayments of EUR 246m in total, including partial amounts of three borrower's note loans, were offset almost in full by reclassifications due to maturities (decline of EUR 92m in total). By contrast, current trade payables and other financial liabilities went up overall by EUR 561m to EUR 5.3bn.

#### C16 BALANCE SHEET STRUCTURE



Liabilities from unused flight documents went up by EUR 733m to EUR 3.8bn. Altogether, current liabilities and provisions rose by EUR 1.6bn to EUR 12.6bn.

Non-current funding accounted for 65.2 per cent of the total assets (previous year: 68.3 per cent). Non-current financing now covers 93.6 per cent of non-current assets (previous year: 96.7 per cent).

#### Net indebtedness virtually unchanged at EUR 2.9bn

Net indebtedness was up by EUR 183m on the previous year at EUR 2.9bn. This is the balance of gross financial debt and available financial assets. Free cash flow of EUR 2.3bn was largely matched by the initial contribution to pension fund assets for the new system of transitional benefits for cabin crew and interest and dividend payments of EUR 1.7bn and EUR 521m respectively. Borrowing went up only slightly to EUR 6.8bn. Adding pension obligations produced a figure of EUR 8.0bn as of the reporting date, which is EUR 3.1bn lower than a year ago.

#### T028 CALCULATION OF NET INDEBTEDNESS

	2017 in €m	2016 in €m	Change in %
Liabilities to banks	2,044	1,775	15.2
Bonds	1,005	1,009	-0.4
Other non-current borrowing	3,765	3,791	-0.7
	<b>6,814</b>	<b>6,575</b>	<b>3.6</b>
Other bank borrowing	18	63	-71.4
<b>Group indebtedness</b>	<b>6,832</b>	<b>6,638</b>	<b>2.9</b>
Cash and cash equivalents	1,397	1,256	11.2
Securities	2,551	2,681	-4.8
<b>Net indebtedness</b>	<b>2,884</b>	<b>2,701</b>	<b>6.8</b>
Pension provisions	5,116	8,364	-38.8
<b>Net indebtedness and pensions</b>	<b>8,000</b>	<b>11,065</b>	<b>-27.7</b>

## Target achievement and overall statement by the Executive Board on the economic position

Lufthansa Group achieves and exceeds earnings and financial targets.

### TARGET ACHIEVEMENT

#### Lufthansa Group achieves overall forecast

In July 2017, the Lufthansa Group raised its full-year forecast for Adjusted EBIT from “slightly below previous year” to “above previous year”. As opposed to the previous forecast, in particular revenue and profit developed better than expected in the first half-year due to strong demand. The outlook for pre-bookings at the passenger airlines for the economically very important third quarter had stabilised. Over the course of the year, the revenue forecast remained unchanged at “significantly above previous year”.

This forecast was achieved, with Adjusted EBIT 69.7 per cent higher at EUR 2,973m, and revenue 12.4 per cent higher at EUR 35.6bn.

#### T029 TARGET ACHIEVEMENT AND DEVELOPMENT OF SIGNIFICANT KPIs

	Result 2016	Forecast for 2017 <sup>1)</sup>	Result 2017
Revenue		significantly above previous year	
€m	31,660		35,579
Adjusted EBIT		slightly below previous year	
€m	1,752		2,973
Adjusted EBIT margin	%		8.4
Adjusted ROCE	%		11.6
Capital expenditure (gross)	€m	2,700	3,005
Net indebtedness and pension provisions	€m		8,000
Free cash flow	€m	positive	2,253
Net profit/loss		significantly lower than previous year	
€m	1,776		2,364
EACC		lower than previous year	
€m	817		1,758
Equity ratio	%	increase	26.5
Debt repayment ratio	%	stable	52.8
Liquidity		lower than previous year	
€bn	3.9		3.9

<sup>1)</sup> As stated in the Annual Report 2016.

The targets for the key performance indicators were achieved or exceeded with few exceptions. Negative deviations from the original forecast mainly stemmed from the better-than-expected demand at the passenger airlines and the increasing consolidation in the airline industry. As a result, greater improvements in load factors than forecast at the airlines also resulted in higher passenger-related costs. This meant that total costs increased for the same capacity. Combined with increasing performance-related pay due to the improved earnings situation and project-related costs that arose from the insolvency and partial takeover of the Air Berlin group, this led to higher-than-forecast earnings at the passenger airlines, with unit costs going down less than expected and unit revenues going up by more than forecast.

#### Segment targets and operational targets at passenger airlines achieved with few exceptions

All operating segments achieved or exceeded their revenue and earnings targets. Adjusted EBIT in the MRO segment rose slightly, defying expectations that it would be lower than the previous year.

The operating indicators for the passenger airlines performed better than expected, in particular due to strong demand.

This was also the main reason for raising the forecast in July 2017. Although unit revenues performed particularly well as a result, the load factor for the passenger airlines was significantly higher than expected and this resulted in additional passenger-related costs, which had a significant adverse effect on unit costs. Overall, however, the higher load factor had a positive impact on earnings, in line with the higher forecast.

#### T030 TARGET ACHIEVEMENT TRAFFIC FIGURES PASSENGER AIRLINES

		Result 2016	Forecast for 2017 <sup>1)</sup>	Result 2017
<b>Flights</b>				
Network Airlines	number	841,982	+2%	+0.1%
<b>Flights</b>				
Point-to-Point Airlines	number	170,732	0%	+62.7%
<b>Capacity (ASK)</b>				
Network Airlines	million	261,291	+3%	+3.1%
<b>Capacity (ASK)</b>				
Point-to-Point Airlines	million	25,264	+19% + 95 pts	+111.3%
<b>Unit revenues (RASK)</b>				
	€ cent	8.6	less negative than in 2016	8.7
<b>Unit costs (CASK)</b>				
	€ cent	8.1	negative, in line with previous year	7.9

<sup>1)</sup> As stated in the Annual Report 2016.

#### T031 TARGET ACHIEVEMENT REVENUE AND RESULT

	Revenue			Adjusted EBIT		
	Revenue 2016	Forecast for 2017 <sup>1)</sup>	Revenue 2017	Adjusted EBIT 2016	Forecast for 2017 <sup>1)</sup>	Adjusted EBIT 2017
	in €m		in €m	in €m		in €m
Lufthansa German Airlines	15,412		16,441	1,090	slightly below previous year	1,627
SWISS	4,471		4,727	405	slightly below previous year	542
Austrian Airlines	2,153		2,358	58	slightly below previous year	94
Network Airlines	21,864	slightly above previous year	23,317	1,555	slightly below previous year	2,263
Point-to-Point Airlines	2,060	significantly above previous year	4,041	-104	significantly above previous year	94
Logistics	2,084	slightly above previous year	2,524	-50	slightly above previous year	242
MRO	5,144	significantly above previous year	5,404	411	slightly below previous year	415
Catering	3,194	slightly above previous year	3,219	104	significantly below previous year	66
Additional Businesses and Group Functions	436		446	-182	slightly above previous year	-130
Internal revenue/Reconciliation	-3,122		-3,372	18		23
<b>Lufthansa Group</b>	<b>31,660</b>	<b>significantly above previous year</b>	<b>35,579</b>	<b>1,752</b>	<b>slightly below previous year</b>	<b>2,973</b>

<sup>1)</sup> As stated in the Annual Report 2016.

## OVERALL STATEMENT BY THE EXECUTIVE BOARD ON ECONOMIC GROWTH

The Lufthansa Group performed very well in the 2017 financial year. With the aviation industry in flux, the Company showed once again that its business model is robust and flexible enough to respond to challenges at short notice and to seize opportunities. The Lufthansa Group made and implemented successfully important entrepreneurial decisions that will further improve the Company's current and future productivity.

Many of the financial indicators reached record levels. It is particularly important that this was also achieved thanks to further reductions in exchange rate-adjusted unit costs, excluding fuel costs. This makes it possible to increase the Company's long-term structural profitability and to reduce the cyclical fluctuations in margins.

Revenue was lifted by the strong ongoing economic growth in the sales markets of the Lufthansa Group and the normalisation of demand, which declined in the previous year due to terrorist attacks and strikes at Lufthansa German Airlines. Furthermore, the passenger airlines in the Lufthansa Group profited primarily from the increasing consolidation in their home markets, especially towards the end of the financial year.

The Five Star award, received for outstanding product and service quality, served as an impressive proof of the Lufthansa Group's position as a qualitative market leader. Lufthansa German Airlines is the only airline in the western world that can claim this seal of quality. The very good result shows that there is no contradiction between this demand for quality and successful cost reductions.

This is especially evident from the modern and customer-friendly but, above all, efficient fleet. Various aircraft were once again replaced by modern aircraft over the course of the year. Of particular note were the introduction of the Airbus A350 at Lufthansa German Airlines and the ongoing deployment of the Bombardier C Series and the Boeing 777 at SWISS.

After several years of wage conflicts, a comprehensive overhaul of retirement and transitional benefits was agreed upon and a long-term collective agreement was reached with the Vereinigung Cockpit pilots' union for the commercial aircraft pilots at Lufthansa German Airlines, Lufthansa Cargo and Germanwings. The resulting cost reductions lead to a sustainable strengthening of the balance sheet and provide long-term planning security.

Signing the wet-lease agreement with the Air Berlin group before its insolvency and the complete takeover of Brussels Airlines gave the Point-to-Point Airlines segment a significant boost in 2017, making it the third largest provider in European point-to-point traffic; in German-speaking markets, the Eurowings group is the clear market leader. This position will be further strengthened by the upcoming integration of the flight operations of Luftfahrtgesellschaft Walter (LGW). Integrating new capacities and the new competitive landscape in its home market will nevertheless represent an extraordinary operational challenge for the year ahead.

The individual efficiency and growth programmes were successfully implemented and continued in the Aviation Services segment. The Lufthansa Group is working to advance its digitalisation across the Group. In addition to continuously expanding its market share and delivering sustainable cost reductions, this is an important cornerstone for enhancing the future viability of the Lufthansa Group.

## Business segments

As part of the restructuring of the Lufthansa Group, the new Point-to-Point Airlines segment has been reported on since 1 January 2017, consisting of Eurowings (including Germanwings), Brussels Airlines and the equity investment in SunExpress. Since then, the former Passenger Airline Group segment has been known as the Network Airlines segment, and consists of the airlines Lufthansa German Airlines, SWISS and Austrian Airlines.

The training activities that were previously included within the Passenger Airline Group (largely Lufthansa Flight Training and Swiss Aviation Training) have been merged to form the Lufthansa Aviation Training group as of the beginning of 2017 and are being reported in the Additional Businesses and Group Functions segment. The figures for the previous year have been adjusted accordingly.

## Network Airlines business segment

Network Airlines segment comprises Lufthansa German Airlines, SWISS and Austrian Airlines. | Focus on premium positioning, cost-cutting and expanding the route network. | Wide-ranging activities contribute to greater profitability. | 97 million passengers represent a new record. | Revenue and earnings up year on year.

**23.3** **2,263**  
€bn **Revenue** €m **Adjusted EBIT**

### T032 KEY FIGURES NETWORK AIRLINES

		2017	2016 <sup>1)</sup>	Change in %
Revenue	€m	23,317	21,864	6.6
of which with companies of the Lufthansa Group	€m	673	661	1.8
EBITDA <sup>2)</sup>	€m	4,134	3,437	20.3
EBIT	€m	2,720	2,122	28.2
Adjusted EBIT	€m	2,263	1,555	45.5
Adjusted EBIT margin	%	9.7	7.1	2.6 pts
Adjusted ROCE	%	17.1	11.1	6.0 pts
EACC	€m	1,622	1,089	48.9
Segment capital expenditure	€m	1,738	1,452	19.7
Employees as of 31.12.	number	50,190	49,985	0.4
Average number of employees	number	49,679	50,959	-2.5
Passengers	thousands	97,426	91,243	6.8
Flights	number	842,736	841,982	0.1
Available seat-kilometres	millions	269,441	261,291	3.1
Revenue seat-kilometres	millions	218,509	206,531	5.8
Passenger load factor	%	81.1	79.0	2.1 pts
Yields	€ cent	9.9	9.8	0.7
Unit revenue (RASK)	€ cent	8.8	8.6	2.3
Unit cost (CASK)	€ cent	8.0	8.0	-0.5

<sup>1)</sup> Previous year's figures have been adjusted, in particular due to the restructuring of business segments.

<sup>2)</sup> Before profit/loss transfer from other intra-Group companies.

### Business activities

#### Network Airlines offer an extensive route network

The Network Airlines segment comprises Lufthansa German Airlines, SWISS and Austrian Airlines. All the airlines offer their customers a premium product in order to maximise their realisation of the high income potential in their home markets. Customers rate them as the three best-quality airlines in Western Europe, according to the important Skytrax ranking. The airline group generates significant synergies by way of close coordination and increasingly centralised management of the airlines.

With their multi-hub strategy, the Network Airlines can offer their passengers a comprehensive route network combined with the highest level of travel flexibility. In the 2017 summer flight timetable, the route network comprised 263 destinations in 86 countries, served via the international hubs in Frankfurt, Munich, Zurich and Vienna.

#### Focus on premium positioning and strengthening the market position

The Network Airlines in the Lufthansa Group secure their leading competitive position at the four major hubs. They pursue a profitable strategy of growing associated European and long-haul route networks and ensuring their premium position by exploiting synergies between themselves and continuously improving their products and services for their customers. The route network is also increasingly being expanded to include short and long-haul tourist destinations.

Commercial joint ventures with leading international airlines make connections more attractive for customers, also by adding new destinations to the Network Airlines' route networks. Joint ventures cover the most important long-haul markets and so around 70 per cent of the Network Airlines' income from long-haul connections. This also supports the performance of unit revenues.

Commercial joint ventures exist with United Airlines and Air Canada on routes between Europe and North America, and with All Nippon Airways (ANA), Singapore Airlines and Air China on routes between Europe and Japan as well as Singapore and China respectively. On 27 March 2017, the Lufthansa Group and Cathay Pacific Airways also signed a code-share and frequent flyer agreement.

## Course of business and operating performance

### Network airlines work continuously on measures to increase profitability

The network airlines are taking a wide range of steps to cut costs and exploit income potential as much as possible. Further advances were made in the organisational integration of the airlines' commercial functions. All the airlines are continuing to modernise their fleets, optimise their network portfolio and implement steps to reduce fuel costs. Costs are to be continuously reduced by a number of measures, particularly by the current successful conclusion of the wage agreement with the Vereinigung Cockpit pilots' union at Lufthansa German Airlines and the comparable settlement with Fraport. The cost-cutting measures by the individual airline are described in detail in the respective chapters.

### Online services to be relaunched and standardised

The Network Airlines are implementing the merging of individual technologies for online sales and online self-services on a step-by-step basis. The digitalisation of key service processes (check-in, rebooking, cancellation) will be continued together. This is also intended to ensure the customer has a seamless online experience across all websites. In the future, they will also be offered the entire product range of all of the Network Airlines on their individual websites.

### Passenger numbers once again at record level

The Network Airlines carried 97 million passengers in 2017. This represents a year-on-year increase of 6.8 per cent and sets another new record for passenger numbers. The number of flights went up by 0.1 per cent. Capacity increased by 3.1 per cent, mainly by deploying larger aircraft. Sales rose by 5.8 per cent. The passenger load factor rose by 2.1 percentage points to 81.1 per cent. Yields improved by 0.7 per cent. Traffic revenue was up by 6.6 per cent.

From a regional perspective, capacity was increased in all traffic regions. The increase was greatest in the Middle East/Africa traffic region, followed by the Europe traffic region. Capacity grew less significantly, and less than the market, in the Asia/Pacific and the Americas traffic regions. The passenger load factor improved in all traffic regions, particularly in Asia/Pacific. Traffic revenue also increased in all traffic regions. Yields rose in Europe and America, while they fell in Asia/Pacific and Middle East/Africa.

## Revenue and earnings development

### Revenue performed well

Traffic revenue for the segment rose by 6.6 per cent on the previous year to EUR 21.5bn thanks to higher traffic. While sales volumes (+5.8 percentage points) and higher average prices (+2.1 percentage points) increased income, negative exchange rate movements (−1.3 percentage points) had the opposite effect.

Revenue increased by 6.6 per cent to EUR 23.3bn. Other operating income shrank by 9.8 per cent to EUR 0.9bn. Total operating income went up by 5.9 per cent to EUR 24.2bn.

Unit revenues went up by 2.3 per cent. Exchange rate-adjusted unit revenues rose by 3.5 per cent.

### T033 TRENDS IN TRAFFIC REGIONS

Network Airlines

	Net traffic revenue external revenue		Number of passengers		Available seat-kilometres		Revenue seat-kilometres		Passenger load factor	
	2017 in €m	Change in %	2017 in thousands	Change in %	2017 in million	Change in %	2017 in million	Change in %	2017 in %	Change in pts
Europe	9,081	8.6	74,554	6.9	77,473	4.3	59,190	6.8	76.4	1.8
America	6,957	9.2	11,275	3.6	102,874	2.1	85,526	4.0	83.1	1.5
Asia/Pacific	3,922	5.1	6,784	5.7	64,782	1.4	54,594	5.5	84.3	3.2
Middle East/ Africa	1,578	6.2	4,813	13.7	24,311	8.6	19,199	12.5	79.0	2.7
<b>Total</b>	<b>21,538</b>	<b>6.6</b>	<b>97,426</b>	<b>6.8</b>	<b>269,441</b>	<b>3.1</b>	<b>218,509</b>	<b>5.8</b>	<b>81.1</b>	<b>2.1</b>



### Expenses up in absolute terms

Operating expenses rose by 3.7 per cent to EUR 21.5bn, which was less than revenue. The cost of materials and services was 1.3 per cent up on last year at EUR 12.9bn in total. Fuel costs fell by 2.6 per cent to EUR 4.2bn. The 1.9 per cent decline in fuel prices (after hedging) was offset by the higher volumes (+1.8 per cent), whereas the change in the US dollar (–2.5 per cent) reduced costs. By contrast, fees and charges went up by a total of 2.5 per cent to EUR 4.7bn, largely due to volumes. Other purchased services were up by 5.3 per cent at EUR 3.8bn. Key contributors were external MRO services (+6.9 per cent) and other purchased services (+16.3 per cent).

Over the past two years, employees who worked in the individual Network Airlines were pooled successively in Group Functions as part of the move to centralise commercial processes. The costs of airline-specific processes are now incurred centrally and charged to the individual Network Airlines. This resulted in significant changes to employee numbers and thus to the cost structure, from primary expenses (particularly staff costs) to intra-Group charges, recognised in other operating expenses. The average number of employees fell accordingly to 49,679 (–2.5 per cent). The reason for the 4.6 per cent increase in staff costs to EUR 3.6bn is, above all, higher expenses for profit-related salary components. Furthermore, savings from the past service expense that are not relevant to Adjusted EBIT were below the previous year, with a total effect on staff costs of 3.1 per cent. A one-off effect of EUR –592m was achieved by the adjustments to the retirement and transitional benefits for cockpit crew at Lufthansa German Airlines. In the previous year, the one-off effect from the changes for cabin crew came to EUR –652m. Further adjustments arising from the specific contractual arrangements increased expenses by EUR 32m in the current financial year.

Other operating expenses went up by 10.8 per cent to EUR 3.5bn. The main reason for this were the effects of the reorganisation described above and the related higher intra-Group cost charges of EUR 356m (EUR +318m), which are included in miscellaneous operating expenses. Higher exchange rate losses (EUR +88m) were offset by lower other staff-related expenses (EUR –46m) and lower rent and maintenance expenses (EUR –39m).

### T034 EXPENSES NETWORK AIRLINES

	2017 in €m	2016 <sup>1)</sup> in €m	Change in %
Cost of materials and services	12,918	12,755	1.3
of which fuel	4,172	4,283	–2.6
of which fees	4,737	4,622	2.5
of which operating lease	36	35	2.9
of which MRO services	1,938	1,813	6.9
Staff costs	3,644	3,483	4.6
Depreciation and amortisation	1,414	1,315	7.5
Other operating expenses	3,543	3,198	10.8
<b>Total operating expenses</b>	<b>21,519</b>	<b>20,751</b>	<b>3.7</b>

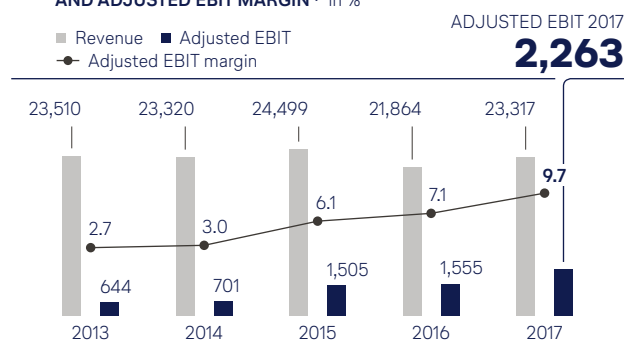
<sup>1)</sup> Previous year's figures have been adjusted, in particular due to the restructuring of business segments.

### Adjusted EBIT and EBIT significantly higher than previous year

Including the result from equity investments of EUR 19m (previous year: EUR 8m), EBIT came to EUR 2.7bn (+28.2 per cent). Adjusted EBIT for the Network Airlines rose year on year by 45.5 per cent to EUR 2.3bn. This represents an Adjusted EBIT margin of 9.7 per cent (previous year: 7.1 per cent). Comments on the earnings of the individual airlines can be found in the following sections.

### C17 NETWORK AIRLINES:

#### DEVELOPMENT OF REVENUE, ADJUSTED EBIT AND ADJUSTED EBIT MARGIN<sup>1)</sup> in %



<sup>1)</sup> Values for 2013 to 2015 in accordance with the former segment Passenger Airline Group.

Net income of EUR 457m overall was eliminated in the reconciliation from EBIT to Adjusted EBIT. It includes savings from the valuation of pension provisions (EUR 559m), which relate largely to the restructuring of retirement and transitional benefits for the cockpit crew at Lufthansa German Airlines, as mentioned above. In addition, impairment losses of EUR 203m on seven Airbus A340-600s, which were decommissioned and set for scrapping, write-backs on seven reactivated A340-600s and two Bombardier CRJ900s (EUR 77m), as well as positive net income from book gains and losses on the disposal of assets (EUR 23m), were eliminated in the reconciliation to Adjusted EBIT.

### Segment capital expenditure increases

Segment capital expenditure went up by 19.7 per cent to EUR 1.7bn. It included the purchase of 32 aircraft, capital expenditure on cabin layouts, aircraft overhauls and down payments on aircraft. ➤ **Financial position, p. 36ff.**

## LUFTHANSA GERMAN AIRLINES



### T035 KEY FIGURES LUFTHANSA GERMAN AIRLINES<sup>1)</sup>

		2017	2016 <sup>2)</sup>	Change in %
Revenue	€m	16,441	15,412	6.7
EBITDA <sup>3)</sup>	€m	3,082	2,639	16.8
EBIT	€m	2,067	1,678	23.2
Adjusted EBIT	€m	1,627	1,090	49.3
Employees as of 31.12.	number	33,779	34,126	-1.0
Average number of employees	number	33,428	35,523	-5.9
Passengers	thousands	66,234	62,418	6.1
Flights	number	542,668	544,422	-0.3
Available seat-kilometres	millions	187,762	184,428	1.8
Revenue seat-kilometres	millions	153,168	145,878	5.0
Passenger load factor	%	81.6	79.1	2.5 pts

<sup>1)</sup> Including regional partners.

<sup>2)</sup> Previous year's figures have been adjusted, in particular due to the restructuring of business segments.

<sup>3)</sup> Before profit/loss transfer from other intra-Group companies.

Lufthansa German Airlines is the largest airline in Germany. It has hubs at the two biggest German airports in Frankfurt and Munich. The Lufthansa CityLine and Air Dolomiti regional airlines are also part of Lufthansa German Airlines. Overall, Lufthansa German Airlines operates a fleet of 357 aircraft and serves a route network comprising 205 destinations in 74 countries.

### Lufthansa German Airlines continuously renews fleet

Lufthansa German Airlines continued its fleet renewal programme in 2017. This enables it to reduce unit costs as well as its CO<sub>2</sub> and noise emissions. As part of this programme, Lufthansa German Airlines stationed the first Airbus A350-900, the world's most modern and environmentally friendly long-haul aircraft, in Munich. They use around 25 per cent less fuel, produce around 25 per cent less emissions and are much quieter than comparable aircraft types on take-off and landing. Customer comfort is also enhanced significantly by the wider cabin, new seats in Economy Class and larger monitors. Six aircraft were in service in Munich as of year-end 2017.

Lufthansa German Airlines also put six A320neo aircraft into service in 2017. Compared with its predecessor, the A320neo uses about 21 per cent less fuel and has reduced noise emissions.

Lufthansa German Airlines is moving five of its total of 14 A380 aircraft from Frankfurt to Munich. They are scheduled to fly to Los Angeles, Hong Kong and Beijing in the summer timetable 2018. This is a further contribution towards pursuing growth at the Munich hub, where capacity is limited.

### Digitalisation contributes to quality leadership

Lufthansa German Airlines continues to strive consistently for quality leadership in its markets. To achieve this, it continually identifies and implements measures to refine customer services along the entire travel chain. As a result, broadband internet had been installed on board 87 A320 aircraft on short- and medium-haul routes by the end of 2017. The entire A320 fleet will receive this innovative technology by the end of 2018. For a fee, passengers can then access the internet with their own mobile devices using on-board Wi-Fi. All long-haul aircraft at Lufthansa German Airlines already have internet on board. An even greater focus on the customer, along with personalised offers, are intended to generate additional revenue.

### **Lufthansa German Airlines is one of the ten best airlines in the world and is the best in Europe**

The quality offensive was also acknowledged by the market research institute Skytrax in 2017. Lufthansa German Airlines was the first airline in Europe to be awarded Five Stars. It is one of only ten airlines worldwide to hold this seal of quality for premium service and first-rate comfort. Earlier in the year, Lufthansa German Airlines was voted "Best Airline in Europe" in a survey by Skytrax of 18 million passengers from 160 countries, and also won the award for "Best First Class Lounge Dining". Terminal 2 at Munich Airport, which is jointly operated by the Lufthansa Group and the Munich Airport, was voted the best airport terminal in the world at the World Airport Awards 2017. In addition, IATA gave Lufthansa German Airlines its "Most digital airline" platinum award for its mobile service offerings.

### **Lufthansa Group and the Vereinigung Cockpit pilots' union sign long-term wage agreement**

The Lufthansa Group and the Vereinigung Cockpit pilots' union signed contracts on all outstanding collective bargaining matters for Lufthansa German Airlines, Lufthansa Cargo and Germanwings on 21 December 2017. They include new wage and framework agreements, as well as agreements on retirement and transitional benefits, and will remain in effect until at least June 2022. These collective agreements with the labour union partners represent a long-term solution to the risk of strikes.

Retirement benefits will be switched from a defined-benefit to a defined-contribution system. The new agreements deliver structural savings of 15 per cent in staff costs for cockpit crew, subject to future pay increases. Pension liabilities were also reduced by EUR 1.2bn on a non-recurring basis in the 2017 financial year, lifting EBIT by a one-off amount of EUR 592m. The successful conclusion of the wage agreement gives pilots new entry and development prospects. More than 700 trainee pilots are to be recruited to replace those that retire and at least 600 captain positions will be filled.

### **Lufthansa Group and Fraport sign agreement to cut costs and increase growth**

On 5 July 2017, the Lufthansa Group and Fraport AG signed an initial settlement on short-term cost reductions. Both partners have thereby created the conditions for further growth of the Lufthansa Group at Frankfurt Airport. At the same time, the agreement allows talks to start on a medium- and long-term partnership. The Lufthansa Group and Fraport

seek to make full use of the potential for efficiency gains and cost reductions, jointly and in a systematic way. Thus, the utilisation of existing infrastructure is to be improved and costs are to be reduced by better forward planning of passenger numbers, for example. The Lufthansa Group and Fraport will also coordinate customer communications more closely, in order to optimise the non-aviation products and services.

### **Continued focus on reducing costs**

Lufthansa German Airlines develops and implements measures to deliver continuous improvement and efficiency increases on an ongoing basis. To support and accelerate these, a corresponding top management initiative was started in 2017. The themes it focuses on include the ongoing fleet renewal, steps to reduce fuel consumption, optimising the network portfolio and the cost structure with key suppliers and deploying staff more efficiently. For the 2018 financial year, Lufthansa German Airlines sees the greatest potential for further cost-cutting in the implementation of the wage agreement for cockpit crew, further improvements to the structure of staff costs for cabin crew, the introduction of four more A350s, further reductions in sales costs and the implementation of the short-term cost-cutting agreement with Fraport.

### **Further increases in passenger numbers and load factor**

Lufthansa German Airlines increased the number of passengers it carried by 6.1 per cent to 66 million in 2017, while the number of flights declined by 0.3 per cent. Its capacity went up by 1.8 per cent and sales rose by 5.0 per cent. The passenger load factor rose by 2.5 percentage points to 81.6 per cent. Yields increased by 1.7 per cent and traffic revenue climbed by 6.8 per cent.

### **Positive revenue and earnings performance**

Revenue at Lufthansa German Airlines rose by 6.7 per cent to EUR 16.4bn in 2017. Higher sales, much higher additional income, faster growth in European traffic and a higher proportion of First and Business Class tickets were particularly behind the increase. Adjusted EBIT rose by 49.3 per cent to EUR 1.6bn. This was due to the positive sales and revenue performance, as well as lower fuel costs and roughly stable staff costs. Cost-cutting measures also contributed to the positive result, particularly the wage settlement for cabin crew, the reduction in air traffic control costs, the settlement with Fraport AG and the fleet renewal based on short-term cost reductions. EBIT rose by EUR 23.2 per cent to EUR 2.1bn.

## SWISS

T036 KEY FIGURES SWISS<sup>1)</sup>

		2017	2016	Change in %
Revenue	€m	4,727	4,471	5.7
EBITDA <sup>2) 3)</sup>	€m	821	667	23.1
EBIT <sup>2)</sup>	€m	550	403	36.5
Adjusted EBIT <sup>2)</sup>	€m	542	405	33.8
Employees as of 31.12. <sup>2)</sup>	number	9,497	9,409	0.9
Average number of employees <sup>2)</sup>	number	9,510	9,147	4.0
Passengers	thousands	18,933	17,972	5.3
Flights	number	164,492	169,016	-2.7
Available seat-kilometres	millions	55,966	52,731	6.1
Revenue seat-kilometres	millions	45,597	42,290	7.8
Passenger load factor	%	81.5	80.2	1.3 pts

<sup>1)</sup> Including Edelweiss Air.Further information on SWISS can be found at [www.swiss.com](http://www.swiss.com).<sup>2)</sup> Previous year's figures have been adjusted.<sup>3)</sup> Before profit/loss transfer from other intra-Group companies.

SWISS is the biggest airline in Switzerland. Together with its sister company Edelweiss Air it serves from airports in Zurich and Geneva a global route network of 142 destinations in 54 countries with a fleet of 91 aircraft. The separately managed Swiss WorldCargo division uses the belly capacities of SWISS aircraft to offer a comprehensive range of airport-to-airport services for high-value goods and sensitive freight to 130 destinations in more than 80 countries. SWISS bases its brand image on traditional Swiss values and undertakes to provide the best in product and service quality.

**Fleet renewal underlines premium position**

SWISS continued the biggest fleet modernisation programme in its company history in 2017, further strengthening its premium position. Since 2016, eight Boeing 777-300ER aircraft have joined the long-haul fleet as replacements for the Airbus A340-300s. Eight Bombardier CS100s and seven Bombardier CS300s went into service on short-haul routes, replacing Avro RJ100 aircraft. Primarily, the C Series aircraft deployed in Geneva and Zurich, set new standards for comfort, cost-effectiveness and environmental impact thanks to the latest technologies. SWISS plans to complete the integration of a further two B777s, two Bombardier CS100s and 13 Bombardier CS300s by the beginning of 2019. It will then have one of the most recent fleets in Europe.

**Market presence in Geneva to be strengthened**

SWISS intends to become more competitive in the long run at its base in Geneva. To this end, it has thus far stationed one CS100 and five CS300s at Geneva Airport. Furthermore, SWISS is also working on the introduction of new services in order to further optimise passengers' travel experience on the ground. SWISS customers can use a priority check-in service, for instance. SWISS improved its profitability in Geneva significantly in 2017.

**New digital offerings improve customer service**

In March 2017, SWISS introduced a digital reading app, expanding its in-flight service portfolio for travellers in all classes. The offering comprises more than 250 titles in ten languages and can be downloaded seven days before departure and up to three days after the flight. It enables a significant weight reduction on board, which in turn also means an annual saving of some 450 tonnes of CO<sub>2</sub>.

As part of a wide-ranging digitalisation initiative, SWISS has also started to equip all its cabin crew with tablets. This will enable SWISS to offer its passengers an even more personalised service in the future.

**Systematic efficiency gains**

In 2018, SWISS will continue to work consistently on becoming more efficient. Key cost reductions will come from the introduction of additional Bombardier C Series aircraft and the greater efficiency of the B777 fleet. It will also reduce the need for external capacities. In addition, SWISS will increase the productivity of cabin and cockpit crew. Lower training expenses thanks to the advanced fleet renewal will contribute to this goal. Last but not least, the reorganisation of maintenance infrastructure will deliver cost savings. Since April 2017, SWISS has carried out all "A Checks" on the Airbus fleet at its own sites in Zurich or Geneva.

**SWISS sets new passenger record**

SWISS set another new record for passenger numbers in 2017. The number of passengers carried increased by 5.3 per cent to 18.9 million, while the number of flights declined by 2.7 per cent. Capacity went up by 6.1 per cent and sales rose by 7.8 per cent. The passenger load factor rose by 1.3 percentage points to 81.5 per cent. Yields fell by 3.2 per cent. Traffic revenue went up by 4.4 per cent.

**Positive revenue and earnings performance**

Both revenue and earnings at SWISS performed well in 2017. Revenue improved due to higher volumes by 5.7 per cent to EUR 4.7bn, while Adjusted EBIT rose by 33.8 per cent to EUR 542m. Cost-cutting measures, such as the fleet renewal and the insourcing of MRO services, also contributed to the positive result. EBIT climbed by 36.5 per cent to EUR 550m.

## AUSTRIAN AIRLINES

T037 KEY FIGURES AUSTRIAN AIRLINES<sup>1)</sup>

		2017	2016	Change in %
Revenue	€m	2,358	2,153	9.5
EBITDA <sup>3)</sup>	€m	231	177	30.5
EBIT	€m	101	64	57.8
Adjusted EBIT	€m	94	58	62.1
Employees as of 31.12.	number	6,914	6,450	7.2
Average number of employees	number	6,741	6,289	7.2
Passengers <sup>2)</sup>	thousands	12,850	11,387	12.8
Flights	number	143,999	136,112	5.8
Available seat-kilometres	millions	26,075	24,451	6.6
Revenue seat-kilometres <sup>2)</sup>	millions	20,024	18,615	7.6
Passenger load factor	%	76.8	76.1	0.7 pts

<sup>1)</sup> Further information on Austrian Airlines can be found at [www.austrian.com](http://www.austrian.com).

<sup>2)</sup> Previous year's figures have been adjusted.

<sup>3)</sup> Before profit/loss transfer from other intra-Group companies.

Austrian Airlines is Austria's largest airline. It operates a global route network to 116 destinations in 46 countries with its own fleet of 83 aircraft.

#### Austrian Airlines advances fleet modernisation

The introduction of 17 modern Embraer medium-haul aircraft to replace the 17 Fokker 100s that began in 2015 was completed in August 2017. In December 2017, the last Fokker 100 left the flight operations of the Austrian Airlines fleet. Austrian Airlines also acquired five Airbus A320s on a wet lease from Air Berlin in 2017.

#### Focus remains on expanding tourist destinations

Austrian Airlines continues to develop its network. Los Angeles and the Seychelles were added as long-haul destinations in 2017, while Shiraz and Gothenburg joined the short- and medium-haul network. Flights to Tokyo are planned to start in May 2018, with Cape Town following in October 2018. This is made possible by an additional Boeing 777 that Austrian Airlines will integrate into its long-haul fleet in 2018.

#### Premium Economy Class introduced on all long-haul routes

On 6 March 2018, Premium Economy Class will be brought in for the entire long-haul route network at Austrian Airlines. It gives passengers seats with a greater reclining angle, a bigger seat pitch, a broader seat area and a larger screen for on-demand entertainment, as well as providing higher-quality catering than in Economy Class. The product is based on the successful introduction of Premium Economy Class at

Lufthansa German Airlines and is an example of successful cooperation within the Lufthansa Group. A standardised seat model made it possible to reduce the development costs significantly. Passengers have been able to book the new Premium Economy Class since September 2017.

#### Airbus fleet receives Wi-Fi and in-flight entertainment

The installation of in-flight connectivity on the entire Airbus fleet was completed in May 2017. "myAustrian Flynet" enables passengers to go online while on board the aircraft with their own mobile devices using Wi-Fi. The next step will be to extend this service to wireless in-flight entertainment, with which films, documentaries and TV series, among others, can be streamed to passengers' own mobile devices. The launch is scheduled for the first half-year of 2018.

#### Product and service improvements acknowledged

The continuous service and product improvements were again confirmed by two top rankings in 2017. At the Skytrax World Airline Awards 2017, Austrian Airlines took first place in the category "Best Airline Staff Service Europe" for the fourth time in a row. In March 2017, Austrian Airlines was also declared the world's most punctual airline by flightstats.com, a US company specialising in the analysis of flight data.

#### Unit costs to be further reduced

Austrian Airlines is aiming for further reductions in its unit costs in 2018. The focus is on increasing fleet productivity by optimising and condensing the flight timetable, as well as by increasing the productivity of operational staff. New contracts with system partners led to a further reduction in unit costs.

#### Passenger numbers at record level

At almost 12.9 million, Austrian Airlines carried 12.8 per cent more passengers than in 2016 and more than ever before in its 60-year history. Capacity was increased by 6.6 per cent and sales were up by 7.6 per cent. The load factor was 0.7 percentage points higher year on year, at 76.8 per cent. Yields improved by 1.7 per cent. Traffic revenue was increased by 9.4 per cent.

#### Positive revenue and earnings performance

At EUR 2.4bn, Austrian Airlines' revenue in 2017 was up by 9.5 per cent on the previous year. Adjusted EBIT rose by 62.1 per cent to EUR 94m. Above all, the expansion of European traffic, accompanied by very strong demand, had a positive effect on earnings. Other contributions came from cost-cutting measures, primarily the conclusion of a framework agreement with a key stakeholder and the optimisation of the European traffic network, which led to greater productivity. EBIT went up by 57.8 per cent year on year to EUR 101m.

## Point-to-Point Airlines business segment

Point-to-Point Airlines segment consists of the Eurowings group, Brussels Airlines and the equity investment in SunExpress. | Market position of the Eurowings group to be developed as Europe's leading provider of direct flights. | Concept is based on the central steering of various flight operations. | Revenue almost doubled. | Earnings up significantly on previous year.

# 4.0

€bn **Revenue**

# 94

€m **Adjusted EBIT**



### T038 KEY FIGURES POINT-TO-POINT AIRLINES

		2017	2016	Change in %	thereof Brussels Airlines
Revenue	€m	4,041	2,060	96.2	1,345
of which with companies of the Lufthansa Group	€m	-4	-		-
EBITDA <sup>1)</sup>	€m	275	-36		101
EBIT	€m	9	-103		15
Adjusted EBIT	€m	94	-104		15
Adjusted EBIT margin	%	2.3	-5.0	7.3 pts	1.1
Adjusted ROCE	%	4.2	-8.0	12.2 pts	12.0
EACC	€m	-63	-124	-49.2	7
Segment capital expenditure	€m	939	401	134.2	82
Employees as of 31.12.	number	7,501	3,493	114.7	3,628
Average number of employees	number	7,190	3,410	110.9	3,590
Passengers	thousands	32,613	18,430	77.0	9,072
Flights	number	277,804	170,732	62.7	80,924
Available seat-kilometres	millions	53,381	25,264	111.3	19,418
Revenue seat-kilometres	millions	42,647	20,107	112.1	15,258
Passenger load factor	%	79.9	79.6	0.3 pts	78.6
Yields	€ cent	9.2	10.2	-9.6	-
Unit revenue (RASK)	€ cent	7.9	8.3	-4.6	7.1
Unit cost (CASK)	€ cent	7.8	8.6	-9.9	7.1

<sup>1)</sup> Before profit/loss transfer from other intra-Group companies.

## Business activities

### Point-to-Point Airlines segment pursues for growth and consolidation

The Point-to-Point Airlines segment consists of the airlines Eurowings, Germanwings and Eurowings Europe, which are consolidated under the umbrella of the Eurowings group. Brussels Airlines and the equity investment in SunExpress are also part of this segment. The route network of the

Point-to-Point Airlines is served from a total of eleven bases and in the summer flight timetable 2017 comprised 192 destinations in 62 countries. From the financial year 2018 onwards, the segment will be expanded to include the flight operations of Luftfahrtgesellschaft Walter (LGW).

With the Eurowings group, the Lufthansa Group has an innovative and competitive offering for price-sensitive and service-oriented customers in the growing direct traffic



segment. In addition to its greater efficiency and competitive costs, the concept is based on a scalable company structure that enables the flexible integration of new partners on the basis of various cooperation models. The Eurowings concept is based on the central management of different flight operations. In addition to organic growth, this primarily enables the Eurowings group to consolidate other flight operations and therefore to alleviate overcapacities in the market. The Eurowings group is to be developed into a leading European player in direct traffic in the years ahead. It will thereby also secure the Lufthansa Group's leading position in European traffic, particularly in its home markets of Germany, Austria, Switzerland and Belgium.

## Course of business and operating performance

### Increasing integration of Brussels Airlines planned

Brussels Airlines was acquired in full as of 9 January 2017 and is to be integrated from 2018. A first step was to implement cost-cutting measures and raise revenue in the financial year 2017. The market position was strengthened by the decision to take over the business of Thomas Cook Belgium and to modernise Brussels Airlines' long-haul fleet. Brussels Airlines will be responsible for operating the aircraft when long-haul routes are expanded from Dusseldorf in the summer flight timetable 2018.

### Parts of Air Berlin acquired

On 13 October 2017, the Lufthansa Group and the Air Berlin group signed a contract for the purchase of NIKI Luftfahrt GmbH (NIKI) and Luftfahrtgesellschaft Walter (LGW). The two businesses have competitive cost structures and the intention was to run them as additional flight operations within the Eurowings group. When the transaction was reviewed by the European Commission in mid-December 2017, however, it turned out that the takeover and integration of NIKI by the Eurowings group could not be approved at this time. On the basis of this assessment, it was decided not to pursue the takeover of NIKI by the Eurowings group. The acquisition of LGW was approved by the European Commission on 21 December 2017 and the transaction was completed in January 2018.

Acquiring LGW will give the Eurowings group another approximately 870 employees, 20 Bombardier Dash 8 Q400s and 13 Airbus A320s aircraft. Furthermore, the Lufthansa Group intends to operate seven Boeing 737-800s from TUIfly on a wet-lease agreement and to take on up to 45 A320s aircraft from Air Berlin. The Eurowings group is looking to recruit more than 1,000 additional employees, mostly to operate these aircraft, on top of the 870 employees taken on from LGW. This means that the Eurowings group will offer attractive employment opportunities to around 2,000 new employees in the financial year 2018.

The two companies signed a wet-lease agreement for 38 aircraft in January. Under this agreement, the Eurowings group has leased 33 aircraft, including cockpit and cabin crew and maintenance, which are to fly in the Eurowings livery. In the financial year 2017, 30 aircraft were successfully integrated into the operating processes. In the course of the transaction, the Lufthansa Group had acquired ten Airbus A320s from Air Berlin's lessors for the Eurowings group and, in turn, leased them to Air Berlin for operation at market prices, in order to reduce the costs of the wet lease.

Greater organic growth is also planned for the Point-to-Point Airlines segment.

### Eurowings group develops bases, fleet and route network

The Eurowings group is now market leader at the four German sites Cologne/Bonn, Stuttgart, Hamburg and Dusseldorf. This was helped by the replacement of the 23 Bombardier CRJ900 aircraft with an equal number of A320s, which was successfully completed in the first half-year of 2017. Performance at Munich Airport, where four aircraft have been stationed since late 2016, is also positive. From summer 2018, the plan is to establish Munich Airport as a second long-haul base with three A330 aircraft at its disposal. Long-haul flights have also been offered from Dusseldorf since early November 2017 and will start from Berlin in summer 2018. In its winter flight timetable for 2018, the Eurowings group is pooling its long-haul network from the Rhineland at Dusseldorf Airport. In April 2018, three more long-haul aircraft will be stationed in Dusseldorf, and four wide-bodied jets previously based at Cologne/Bonn Airport will follow in November 2018. Short and medium-haul connections will be developed from Cologne/Bonn.

## T039 TRENDS IN TRAFFIC REGIONS

### Point-to-Point Airlines

	Net traffic revenue external revenue		Number of passengers		Available seat-kilometres		Revenue seat-kilometres		Passenger load factor	
	2017 in €m	Change in %	2017 in thousands	Change in %	2017 in million	Change in %	2017 in million	Change in %	2017 in %	Change in pts
Short-haul	3,141	66.5	30,010	68.5	35,523	72.0	27,999	75.9	78.8	1.7
Long-haul	786	382.2	2,604	322.7	17,858	287.2	14,648	249.5	82.0	-8.8
<b>Total</b>	<b>3,927</b>	<b>91.7</b>	<b>32,613</b>	<b>77.0</b>	<b>53,381</b>	<b>111.3</b>	<b>42,647</b>	<b>112.1</b>	<b>79.9</b>	<b>0.3</b>

### Wage agreements have been signed

The agreement reached in March 2017 with the collective bargaining partners for cockpit crew also applies to Germanwings. ➔ **Lufthansa German Airlines, p. 46f.** The Eurowings group, Germanwings and the UFO flight attendants' union also signed wage agreements for the two airlines' German cabin crew in September 2017. The Eurowings group has concluded wage agreements with all relevant trade unions regarding the flight operations of Eurowings Germany. These wage agreements allow the prior aeronautical experience of newly appointed pilots and flight attendants to be taken into account when grouping them into wage tariffs, meaning the strong growth arising from the takeover of the former Air Berlin aircraft and the associated new hires can be ideally configured from an operational perspective.

### Lasting improvements to cost structures

The Eurowings group is working hard to cut costs. Continuous reviews and the optimisation of existing supply contracts play a particularly important role. MRO costs are to be reduced by using existing capacities within the Lufthansa Group. Furthermore, existing processes and structures are being streamlined and made more efficient.

### Point-to-Point Airlines remain on growth track

In 2017, the Point-to-Point Airlines increased the number of passengers carried by 77.0 per cent year on year. The number of flights rose by 62.7 per cent. Capacity was increased by 111.3 per cent. Sales were 112.1 per cent higher than the previous year. As a result, the passenger load factor rose by 0.3 percentage points to 79.9 per cent. Growth stemmed, among others, from the first-time consolidation of Brussels Airlines, as well as the deployment of additional aircraft as part of the wet lease with the Air Berlin group. The latter contributed capacity growth of 33.7 per cent and also increased the passenger load factor by 1.1 percentage points. Yields fell by 9.6 per cent as a result of the growth and consolidation. Traffic revenue went up by 91.7 per cent. The first-time consolidation of Brussels Airlines contributed 60.3 percentage points of the increase. Higher volumes (+36.2 percentage points) also increased revenue at the Point-to-Point Airlines, whereas lower prices (-4.5 percentage points) and negative exchange rate movements (-0.3 percentage points) had the opposite effect. From a regional perspective, both capacity and traffic revenue were up for short and long-haul routes. The passenger load factor only increased for short-haul routes. Yields on short-haul routes fell by 5.3 per cent as a result of the consolidation changes. On long-haul routes, by contrast, the addition of Brussels Airlines contributed to most of the improvement of 38.0 per cent.

## Revenue and earnings development

### Revenue almost doubled

Growth at the Eurowings group, the first-time consolidation of Brussels Airlines and the related increase in traffic meant that revenue of the Point-to-Point Airlines almost doubled compared with the previous year. It rose by 96.2 per cent to EUR 4.0bn. Other operating income increased by 271.1 per cent to EUR 282m. The increase stemmed from the consolidation of Brussels Airlines as well as from effects in connection with the wet lease with, and the insolvency of, the Air Berlin group. Total operating income was 102.4 per cent higher at EUR 4.3bn.

### Expenses up due to growth

Operating expenses climbed year on year by 95.2 per cent to EUR 4.3bn. The cost of materials and services rose by 88.2 per cent to EUR 3.1bn. Within the cost of materials and services, fuel costs were up by 115.0 per cent and leasing expenses increased by 196.2 per cent. The increase is primarily due to the first-time consolidation of Brussels Airlines and the wet lease with the Air Berlin group. Staff costs rose year on year by 80.1 per cent to EUR 499m. The takeover of Brussels Airlines contributed EUR 195m to the increase and the growth of the Point-to-Point Airlines contributed a further EUR 27m. The average number of employees rose to 7,190 at year-end 2017, which represented an increase of 110.9 per cent.

Depreciation and amortisation was up by 297.0 per cent to EUR 266m, both from the increase of EUR 115m in depreciation of aircraft to EUR 178m and from other depreciation and amortisation, which increased by EUR 84m to EUR 88m. Higher other depreciation and amortisation was mainly due to impairment losses on financial investments of EUR 70m following the EU competition authorities vetoing the NIKI acquisition.

### Adjusted EBIT and EBIT improve

The result from equity investments of EUR 32m was up by EUR 44m on the previous year. Adjusted EBIT improved by EUR 198m to EUR 94m. EBIT improved by EUR 112m to EUR 9m. Compared with Adjusted EBIT, it was reduced by impairment losses on financial investments of EUR 70m and a revaluation effect of EUR 15m on pensions for cockpit crew resulting from the settlement with the Vereinigung Cockpit pilots' union. EBIT and Adjusted EBIT both also primarily include project expenses for the wet lease with the Air Berlin group and for acquiring aircraft from the Air Berlin fleet.

### Increase in segment capital expenditure

Segment capital expenditure climbed to EUR 939m in 2017, a year-on-year increase of EUR 538m. Investments were mainly for the purchase of aircraft in connection with the wet lease from Air Berlin, the purchase of aircraft in connection with the insolvency of Air Berlin and the takeover of LGW, as well as the completed exchange of regional aircraft between Eurowings and Brussels Airlines.

## Logistics business segment

Lufthansa Cargo is Europe's leading freight airline. | Quality improvements and global partnerships to strengthen market position. | More efficient processes lead to lower costs and a much higher level of flexibility. | Customers profit from increasing digitalisation. | Revenue and earnings improve thanks to volumes and higher yields.

# 2.5

€bn **Revenue**

# 242

€m **Adjusted EBIT**

### T040 KEY FIGURES LOGISTICS

		2017	2016	Change in %
Revenue	€m	2,524	2,084	21.1
of which with companies of the Lufthansa Group	€m	27	25	8.0
EBITDA <sup>1)</sup>	€m	335	44	661.4
EBIT	€m	240	-64	
Adjusted EBIT	€m	242	-50	
Adjusted EBIT margin	%	9.6	-2.4	12.0 pts
Adjusted ROCE	%	15.5	-3.4	18.9 pts
EACC	€m	128	-105	
Segment capital expenditure	€m	39	29	34.5
Employees as of 31.12.	number	4,511	4,568	-1.2
Average number of employees	number	4,504	4,559	-1.2
Available cargo tonne-kilometres	millions	12,867	12,548	2.5
Revenue cargo tonne-kilometres	millions	8,886	8,385	6.0
Cargo load factor	%	69.1	66.8	2.3 pts

<sup>1)</sup> Before profit/loss transfer from other intra-Group companies.

### Business activities

#### Lufthansa Cargo is Europe's leading freight airline

Lufthansa Cargo is the logistics specialist within the Lufthansa Group. The freighter fleet consisted of five Boeing 777F and twelve Boeing MD-11F aircraft as of the end of the financial year.

In addition to Lufthansa Cargo AG, the Logistics segment includes the airfreight container management specialist Jettainer group, the time:matters subsidiary, which specialises in particularly urgent consignments, and the equity investment in the cargo airline AeroLogic. AeroLogic is based in Leipzig and operates its ten B777 freighters to 27 destinations around the world on behalf of its two shareholders, Lufthansa Cargo and DHL Express. Lufthansa Cargo also has equity investments in various handling companies.

Lufthansa Cargo markets capacities on its own freighters and chartered cargo aircraft, along with belly capacities on passenger aircraft operated by Lufthansa German Airlines, Austrian Airlines and on Eurowings long-haul flights. Freighters and passenger aircraft each carried about half of the total cargo. Altogether, Lufthansa Cargo offers connections to more than 300 destinations in around 100 countries.

The focus of Lufthansa Cargo's operations lies in the air-port-to-airport airfreight business. Its product portfolio encompasses standard and express freight as well as highly specialised products. These include the transport of living animals, valuable cargo, post and dangerous goods, as well as the growing sector of temperature-sensitive goods. The company has specialised infrastructure at Frankfurt Airport to handle these sensitive goods, including the Frankfurt Animal Lounge and the Lufthansa Cargo Cool Centre.

### Leading position to be further extended

Lufthansa Cargo aims to further simplify and automate airfreight processes and to sustainably reduce unit costs. Similarly, continuous quality enhancements and global partnerships should help the company to build on its leading position in the airfreight industry.

### International partnerships to be expanded

The existing partnership with All Nippon Airways (ANA) from Japan continues to operate successfully. The cooperation agreement signed in 2016 with Cathay Pacific Cargo from Hong Kong is also working well. The first joint shipments were transported in February 2017. In the future, Lufthansa Cargo will also be cooperating with the US carrier United Cargo. Customers should benefit here from a larger network and standardised processes.

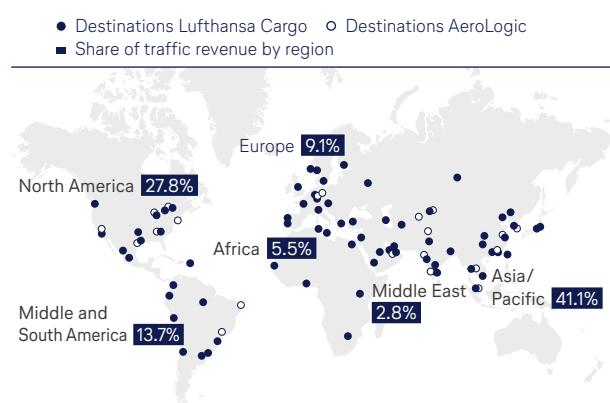
## Course of business and operating performance

### Efficiency measures pay off, active cost management will continue

The strategic cost-cutting programme adopted in 2016 is already having an effect in its current stage of implementation. Sales and other areas were streamlined at the beginning of 2017, reducing the headcount. More efficient processes and the cost advantage sought through making sustainable savings of EUR 80m make it possible to respond flexibly during periods of overcapacity, as in 2016. They also pave the way for a rapid response to market opportunities, such as those arising in 2017.

Multiple steps to cut costs are planned for 2018. Implementing the strategic cost-cutting programme will make the largest contributions. Further cost-cutting potential exist in optimising the freighter fleet and savings on handling. The core element here is the closure of the unprofitable Lufthansa Cargo Service Center.

### C18 DESTINATIONS LUFTHANSA CARGO FREIGHTERS FLEET



### Increasing digitalisation brings many advantages for customers

In the years ahead, the company intends to digitalise its relationships with all of the players in the transport chain, from bookings to deliveries. In the long run, customers will benefit from greater transparency, higher speeds, better quality and more flexibility as well as greater efficiency. In 2017, Lufthansa Cargo modernised its revenue management to enable greater differentiation. The response times in sales were further improved by a significant reduction in the number of manual processes. At the same time, Lufthansa Cargo is working closely with start-ups as part of its strategic Cargo Evolution programme, in order to make its business more customer-friendly along the entire transport chain. The first step in 2017 was for Lufthansa Cargo to invest in the start-up Fleet Logistics, founded in 2014 as a neutral online marketplace for brokering international seafreight and air-freight services, which takes care of all payment processing.

### Further modernisation of ground infrastructure

The freight centre in Frankfurt is being continually modernised. Further improvements were made to the entire infrastructure of the Cool Center. A new service, Road Feeder Service Cool, was also introduced. A special thermal foil was included in the service portfolio and the range of container services was expanded again.

### T041 TRENDS IN TRAFFIC REGIONS

Lufthansa Cargo

	Net traffic revenue external revenue		Available cargo-tonne-kilometers		Revenue cargo tonne-kilometres		Cargo load factor	
	2017 in €m	Change in %	2017 in millions	Change in %	2017 in millions	Change in %	2017 in %	Change in pts
Europe	198	11.2	688	-3.4	339	-0.4	49.3	1.5
America	1,007	22.2	5,905	1.8	3,830	5.9	64.9	2.5
Asia/Pacific	991	20.9	5,116	4.5	4,117	6.6	80.5	1.6
Middle East/Africa	177	7.9	1,158	1.8	600	5.4	51.8	1.8
<b>Total</b>	<b>2,373</b>	<b>19.5</b>	<b>12,867</b>	<b>2.5</b>	<b>8,886</b>	<b>6.0</b>	<b>69.1</b>	<b>2.3</b>

**Wage agreement reached with the Vereinigung Cockpit pilots' union**

The agreement reached in March 2017 with the collective bargaining partners for cockpit staff also applies to Lufthansa Cargo. ➔ **Lufthansa German Airlines, p. 46f.**

**Positive trend in capacity and load factor**

Lufthansa Cargo's capacity (freighter and belly capacities) rose by 2.5 per cent. Sales increased by 6.0 per cent. The cargo load factor increased by 2.3 percentage points to 69.1 per cent. Freighter capacity was up by 3.8 per cent. It was accompanied by an increase in sales volumes of 6.9 per cent. Compared with the previous year, the cargo load factor on freighter aircraft improved by 2.2 percentage points to 75.1 per cent. Available belly capacity was expanded by 1.1 per cent. Sales rose by 4.9 per cent. The cargo load factor on belly services was up year on year by 2.3 percentage points to 63.9 per cent. Yields increased by 12.7 per cent and traffic revenue rose by 19.5 per cent.

From a regional perspective, capacity developed very well in Lufthansa Cargo's most important traffic regions, Asia/Pacific and America. Only the Europe traffic region declined slightly year on year. The cargo load factor rose in all traffic regions. Traffic revenue and yields increased in all traffic regions. Yields in the Asia/Pacific and America traffic regions performed particularly well due to strong sales from Germany, Europe and Asia.

**Revenue and earnings development****Revenue up on previous year**

Lufthansa Cargo's revenue rose year on year by 21.1 per cent to EUR 2.5bn in the 2017 financial year. The increase is due to increased cargo tonnage and much higher yields in the express business in particular. At EUR 80m, other operating income was up by 23.1 per cent compared with the previous year due especially to compensation received for damages. Total operating income was 21.2 per cent higher at EUR 2.6bn.

**Expenses up due to growth**

Operating expenses climbed year on year by 6.7 per cent to EUR 2.4bn. The cost of materials and services went up by 11.7 per cent to EUR 1.6bn. Within this item, the cost of fuel increased to EUR 326m (+25.9 per cent), primarily as a result of higher prices. Charter expenses went up by 10.5 per cent to EUR 683m. Staff costs were stable at EUR 431m (previous year: EUR 428m). Depreciation and amortisation was down by 12.0 per cent to EUR 95m due to the impairment of two MD-11 aircraft at year-end 2016 and their subsequent

disposal in July 2017. Other operating expenses declined to EUR 248m (–3.5 per cent). Cost reductions were achieved in particular by streamlining sales and other areas; the number of employees went down.

**T042 OPERATING EXPENSES LOGISTICS**

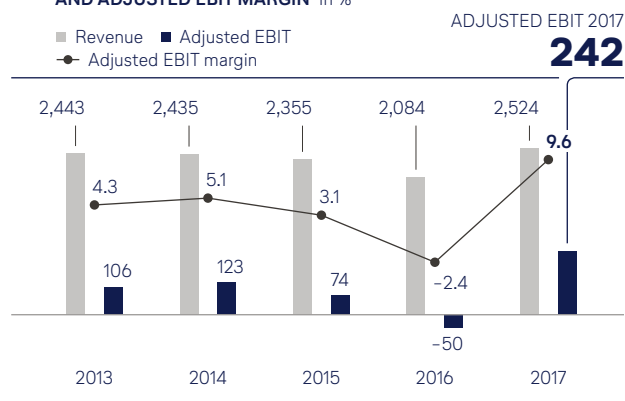
	2017 in €m	2016 in €m	Change in %
Cost of materials and services	1,613	1,444	11.7
of which fuel	326	259	25.9
of which fees	302	295	2.4
of which charter expenses	683	618	10.5
of which MRO services	161	135	19.3
Staff costs	431	428	0.7
Depreciation and amortisation	95	108	–12.0
Other operating expenses	248	257	–3.5
<b>Total operating expenses</b>	<b>2,387</b>	<b>2,237</b>	<b>6.7</b>

**Adjusted EBIT and EBIT up significantly**

The result from equity investments was virtually unchanged at EUR 23m (previous year: EUR 24m). Adjusted EBIT improved by EUR 292m to EUR 242m. EBIT improved by EUR 304m to EUR 240m. The reasons for the minor difference between Adjusted EBIT and EBIT are the offsetting effects of an impairment loss, a write-back for an MD-11F reactivated in June and the change to the benefits schemes for cockpit staff following the new wage agreement. Having incurred a loss in the previous year, the Logistics segment reported an outstanding result from a long-term perspective.

**Increase in segment capital expenditure**

Capital expenditure rose by 34.5 per cent to EUR 39m in the reporting period. The increase in financial assets was due to the purchase of an equity investment and the increase in property, plant and equipment related to Jettainer GmbH.

**C19 LOGISTICS: DEVELOPMENT OF REVENUE, ADJUSTED EBIT AND ADJUSTED EBIT MARGIN in %**

## MRO business segment

Lufthansa Technik is a leading global provider of maintenance, repair and overhaul services for civil, commercial aircraft. | Strategic focus on innovation and strategic partnerships. | Continuous cost reductions implemented. | Revenue up, primarily due to higher intra-Group income. | Earnings up on the previous year.

# 5.4

€bn **Revenue**

# 415

€m **Adjusted EBIT**

### T043 KEY FIGURES MRO

		2017	2016	Change in %
Revenue	€m	5,404	5,144	5.1
of which with companies of the Lufthansa Group	€m	1,836	1,627	12.8
EBITDA <sup>1)</sup>	€m	531	517	2.7
EBIT	€m	411	410	0.2
Adjusted EBIT	€m	415	411	1.0
Adjusted EBIT margin	%	7.7	8.0	-0.3 pts
Adjusted ROCE	%	7.7	8.6	-0.9 pts
EACC	€m	147	142	3.5
Segment capital expenditure	€m	233	216	7.9
Employees as of 31.12.	number	21,502	20,839	3.2
Average number of employees	number	21,200	20,708	2.4
Fully consolidated companies	number	23	23	0.0

<sup>1)</sup> Before profit/loss transfer from other intra-Group companies.

### Business activities

#### Lufthansa Technik is the world's leading MRO provider

Lufthansa Technik is the world's leading independent provider of maintenance, repair and overhaul services (MRO) for civilian commercial aircraft. The Lufthansa Technik group consists of 31 technical maintenance operations around the world. The company also holds direct and indirect stakes in 60 companies. Lufthansa Technik takes care of some 800 customers around the world, mostly airlines and aircraft leasing companies, but also operators of VIP jets and public-sector clients.

Lufthansa Technik's range of services is provided by eight divisions: maintenance, aircraft overhaul, engines, components, aircraft systems, development and manufacture of cabin products, development of digital products, and completion and servicing of VIP aircraft. The portfolio covers a variety of different structured products and combinations, from the repair of individual components to consultancy services and the fully integrated supply of entire fleets.

#### Innovations and digital products expand portfolio

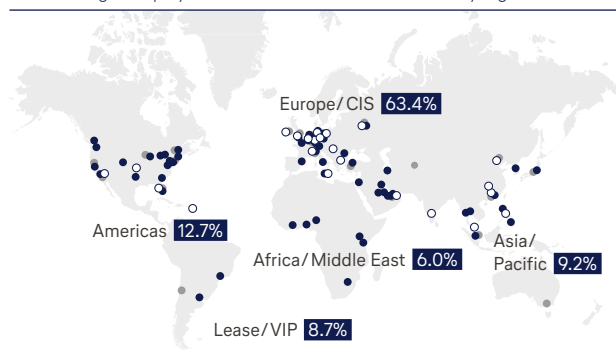
In 2017, Lufthansa Technik presented AVIATAR, an innovative platform for offering many digital maintenance, repair and overhaul (MRO) products and services via many different apps. AVIATAR supports customers in real-time with the management of complex fleet operations and helps to diagnose errors in individual components. Information is pooled and summarised centrally. New insights, recommendations and reports are created with the help of analytical models, enabling customers to make the necessary decisions faster and with better information.

Lufthansa Technik has developed localisation software to optimise its internal processes. A highly flexible repair process developed by Lufthansa Technik for structures made of fibre composite material is also due for its industrial launch.



## C20 LOCATIONS LUFTHANSA TECHNIK

- Largest maintenance stations
- Largest equity investments
- Sales offices
- Share of revenue by region



Lufthansa Technik is tackling demanding competition with more innovative products and technologies, such as the online service “SafeDrone” that enables manufacturers and users to monitor the technical condition of their drones after a mission has been completed, and a radome for using the Ka frequency band.

### Further international growth for Lufthansa Technik

Lufthansa Technik, together with its partners, is establishing new sites for its engine division. XEOS, a company jointly operated by GE Aviation, laid the foundations in 2017 for the construction of a cutting-edge maintenance centre in Poland, where the engine models GENx-2B and GE9X will be overhauled in the future.

In December 2017, Lufthansa Technik and MTU Aero Engines signed a contract establishing a joint maintenance company for geared turbofan engines, in which both partners hold 50 per cent of the shares. The joint venture is called Engine Maintenance Europe (EME Aero); it is based in Poland and will have some 800 employees in the future. Both joint venture partners will invest a total of EUR 150m in the period up to 2020. After starting operations in 2020, the plant is planned to have the capacity for maintenance work on more than 400 of the geared turbofan engines in the PW1000G series every year. In Asia, the component division further expanded its presence in this key growth market with its subsidiary Lufthansa Technik Asia Pacific. In Dubai, Lufthansa Technik Middle East became the first company to start aviation supply chain operations in the Dubai South Aviation District. It provides services for airframe-related components, AOG support, landing gear and engines.

## Course of business and operating performance

### Important contracts have been renewed and signed

The number of aircraft serviced under exclusive contracts went up by 10.2 per cent to 4,556 in the reporting period. This means that around one in seven commercially operated aircraft worldwide is serviced by Lufthansa Technik. In the financial year 2017, the company won eleven new customers and signed 440 contracts with a volume of EUR 11.8bn for 2017 and the following years.

### Global capacities to be expanded in line with demand

Capacities are to be continuously expanded to meet increasing demand. As a result, Lufthansa Technik Shannon will be the first MRO company in Ireland capable of maintaining the Boeing 787, for instance. The Shannon-based company will modify its existing maintenance hangar for wide-bodied aircraft, enabling it to offer comprehensive overhaul services for the Dreamliner.

Lufthansa Technik was also licensed by the Chinese aviation authority to carry out maintenance operations on the Airbus A319. This means the company can carry out maintenance and overhaul services, as well as cabin refits, on aircraft of this type that are registered in China. Lufthansa Technik received the licence as part of its first project to overhaul an ACJ319.

WIZZair, the largest low-cost carrier in Central and Eastern Europe, chose Lufthansa Technik's AVIATAR platform as its partner for future digital fleet support. Air Canada and Lufthansa Technik are also strengthening their trusted partnership with an agreement on an integrated component supply for the airline's future Boeing 737 MAX fleet. The airline also renewed an existing contract for maintaining CFM56 engines by another eight years to 2026.

In late September, the new wheel and brake workshop was opened at the Lufthansa Technik site in Frankfurt Osthafen. In the course of its two-year construction, around EUR 60m was invested in an industrial facility that meets the latest standards and currently provides some 200 jobs.

### Aircraft overhaul has been closed in Hamburg

Aircraft overhaul operations at the Hamburg site were discontinued in June 2017. Despite intensive negotiations, the collective bargaining partners could not find a solution that would have allowed work in Hamburg to proceed in an economical manner. All of the employees affected by the closure were offered the opportunity of moving to other areas of the company at the Hamburg site.

### Focus on continuous cost reductions

One of the key cost-cutting measures is to secure the future of the engine division at the Hamburg site. This entails, among other steps, increasing time worked on the product, making processes more efficient and streamlining the production environment. Collective agreements have been reached with the works council and the trade union ver.di, such as increasing weekly working hours. In addition, costs must be reduced in the component business in order to cope with ongoing price pressure in this market. Among other things, the focus is on optimising key processes, renegotiating contracts and reducing turnaround times. Costs in the fleet services division must also be reduced significantly, partly by making processes more efficient, reducing overheads and enabling more flexible use of capacities.

## Revenue and earnings development

### Europe is most important sales market

The company's most important sales market is still the European region, including the Middle East and Africa. This region accounted for 65.2 per cent above previous year (+1.7 percentage points). Market share in the Asia/Pacific region remained unchanged at 11.0 per cent. The revenue share of the Americas region sank to 16.2 per cent (-1.4 percentage points). Total revenue with leasing companies and operators of VIP jets was roughly stable at 7.6 per cent (-0.3 percentage points).

### Revenue increased

Lufthansa Technik increased its revenue by 5.1 per cent to EUR 5.4bn in 2017. External revenue was up by 1.5 per cent to EUR 3.6bn, as was internal revenue, which rose by 12.8 per cent to EUR 1.8bn, driven by a larger number of engine events for Lufthansa German Airlines' customers.

Lufthansa Technik AG, whose successful growth strategy more than made up in volume for the fall in prices due to competition, accounted for 86.8 per cent of total revenue. Other operating income of EUR 327m was 47.3 per cent up on the previous year. Total income for the MRO segment rose by 6.8 per cent to EUR 5.7bn.

### Expenses up in 2017

Total operating expenses were 7.4 per cent higher at EUR 5.4bn. The cost of materials and services increased by 11.8 per cent to EUR 3.0bn due to higher costs, more overall services in the components and engines division and external services. Staff costs were 6.6 per cent up on the previous year at EUR 1.4bn. Depreciation and amortisation was up by 12.1 per cent to EUR 120m, Other operating

expenses went down by 5.8 per cent to EUR 835m. Cost-cutting measures had a positive effect on total expenses, such as the projects to optimise support costs and to reduce production costs by applying new maintenance principles.

### T044 OPERATING EXPENSES MRO

	2017 in €m	2016 in €m	Change in %
Cost of materials and services	3,039	2,718	11.8
of which raw materials, consumables and supplies	1,970	1,760	11.9
of which external services	847	762	11.2
Staff costs	1,356	1,272	6.6
Depreciation and amortisation	120	107	12.1
Other operating expenses	835	886	-5.8
<b>Total operating expenses</b>	<b>5,350</b>	<b>4,983</b>	<b>7.4</b>

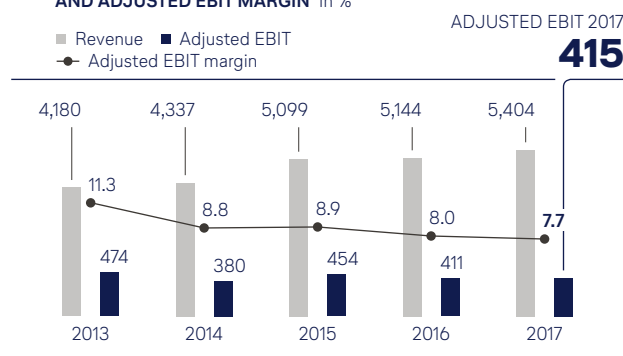
### Adjusted EBIT and EBIT up slightly

At EUR 30m, the result from equity investments was 11.1 per cent above previous year. Lufthansa Technik generated Adjusted EBIT of EUR 415m in 2017, which was therefore 1.0 per cent higher than in the previous year. Good earnings by the equity investments were responsible for the result, as well as a positive performance in component maintenance. EBIT climbed by 0.2 per cent to EUR 411m. In a long-term comparison, this represents another good result for Lufthansa Technik.

### Segment capital expenditure increased

Capital expenditure rose by 7.9 per cent to EUR 233m. Major items of capital expenditure were the procurement of tools as well as workshop and warehouse equipment for new aircraft and engine models, the development of engine joint ventures and the purchase of reserve engines by Lufthansa Technik Airmotive Ireland Leasing.

### C21 MRO: DEVELOPMENT OF REVENUE, ADJUSTED EBIT AND ADJUSTED EBIT MARGIN in %



## Catering business segment

The LSG group is a leading global provider of airline catering.

| Transformation of business model leads to greater flexibility and agility. | Revenue higher. | Adjusted EBIT down, mainly because of higher transformation expenses.

**3.2**

€bn **Revenue**

**66**

€m **Adjusted EBIT**

### T045 KEY FIGURES CATERING

		2017	2016	Change in %
Revenue	€m	3,219	3,194	0.8
of which with companies of the Lufthansa Group	€m	663	644	3.0
EBITDA <sup>1)</sup>	€m	135	166	-18.7
EBIT	€m	45	60	-25.0
Adjusted EBIT	€m	66	104	-36.5
Adjusted EBIT margin	%	2.1	3.3	-1.2 pts
Adjusted ROCE	%	3.9	6.0	-2.1 pts
EACC	€m	-17	-15	13.3
Segment capital expenditure	€m	84	73	15.1
Employees as of 31.12.	number	34,563	35,530	-2.7
Average number of employees	number	35,122	35,571	-1.3
Fully consolidated companies	number	120	121	-0.8

<sup>1)</sup> Before profit/loss transfer from other intra-Group companies.

### Business activities

#### Wide-ranging portfolio based on core expertise in catering and logistics

The LSG group offers a complete portfolio of products related to in-flight service. Its established LSG Sky Chefs brand, the world's largest network of catering facilities and its expertise make the group the market leader for high-quality in-flight catering. Global culinary competence and precise logistics form a strong foundation for the LSG group's continued growth and successful expansion. The company is present at 205 airports around the world, with 198 plants and several partnerships. The activities of the LSG group are managed by the parent company LSG Lufthansa Service Holding AG. As of year-end 2017, the group comprised 156 companies.

In addition, the LSG group helps its customers to meet permanently changing needs as a result of increasing digitalisation and individualisation. This includes the development and management of airline-specific in-flight sales programmes by Retail inMotion, the purchasing and design of in-flight service equipment by SPIRIANT, the management and optimisation of warehouse and transport logistics by SkylogistiX and the operation of lounges under the LSG Sky Chefs brand. In the USA, the company also offers security concepts under the SCIS Air Security brand. In Germany, the LSG group operates the Ringeltaube retail markets at airports.

The LSG group has also made consistent use of its strengths to expand into new sectors. Services for train operators in Europe and retail products are now also part of its core business segment.

### Transformation of the business model ensures continued viability

The LSG group is responding to the rapid changes in the airline catering market. As well as acquiring and expanding the in-flight sales specialist Retail inMotion, it has successfully adapted its existing operating structures, particularly in Europe, adding a central production facility with an intelligent logistics solution. The pilot plant in the Czech Republic has been running successfully since spring 2017 and will be continued in order to gain further insights for transforming the European production environment. In this way, the operating and commercial business models for airlines can be made more flexible and more agile. Company structures are to be comprehensively brought up to date, especially in Germany. Further growth will come particularly from expanding activities in the in-flight services equipment and retail supplies segments.

## Course of business and operating performance

### In-flight sales programmes increasingly replacing traditional catering

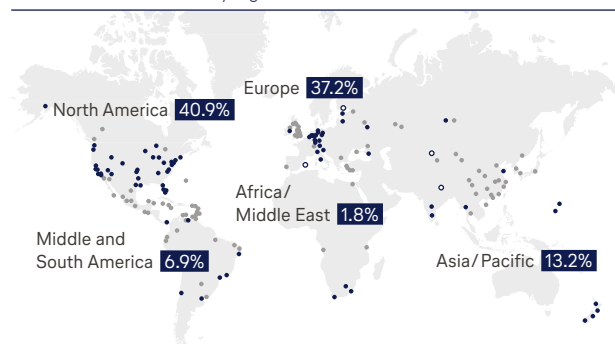
A continuous growth in passenger numbers, rising demand for in-flight sales programmes and the successful entry into new market segments are the key parameters for the development of the LSG group.

Wide-ranging contracts were renewed in 2017 with Air France-KLM, Alaska Airlines, American Airlines, COPA Airlines, Eurowings, JetBlue, Lufthansa, Ryanair and SunExpress. By contrast, the unprofitable catering contract with Thomas Cook/Condor in Germany, Scandinavia and Finland expired in the spring. LATAM and Aer Lingus are using the expertise of Retail inMotion to switch their service concept to in-flight sales. TGV Lyria and TGV France-Italie were gained as new customers in the rail business. SPIRIANT's global expansion continued with the acquisition of Hong Kong Airlines and Qatar Airways as new customers.

By the middle of 2017, the technology from Retail inMotion was already in use for 10 per cent of all flights worldwide, i.e. for more than 500 million passengers.

### C22 LOCATIONS LSG GROUP

- LSG Sky Chefs ● Joint ventures ○ Strategic partnerships
- Share of revenue by region



### Ongoing changes to network and structures

The LSG group has handed management responsibility for the catering facility in Helsinki, Finland, back to Finnair. The company signed a new agreement for technical support with AAS Catering, based in Osaka, Japan. A facility in Ufa via Aeromar, the Russian joint venture with Aeroflot, strengthens its presence in Russia. Existing partnerships in Chengdu and Shanghai, both in China, were renewed for 20 years and ten years respectively, and the joint venture in Cairo, Egypt, was renewed for seven years.

The process-oriented global restructuring of the company is continuing according to plan and provides a good basis for standardising and optimising further operational and administrative processes.

### Greater efficiency thanks to company-wide measures

In 2018, the LSG group will continue its extensive programme of continuous optimisation in processes and structures, adding further measures on a continuous basis. One programme standardises and optimises workflows in administrative and indirect areas, in order to make products and services more consistent across all regions and sectors, as well as increasing quality and efficiency. At the same time the company continues to work hard to transform its business model, focused on Europe, by using central production facilities and an intelligent logistics network to deliver greater flexibility and range in supplies and services and so to optimise the cost structure. Productivity in the plants is also being increased by means of transparent process management.

## Revenue and earnings development

### Revenue up on previous year

Revenue in the Catering segment rose by 0.8 per cent despite negative exchange rate effects in the 2017 financial year compared with the previous year to EUR 3.2bn. Changes in the group of consolidated companies contributed EUR 7m to revenue growth. External revenue improved by 0.2 per cent to EUR 2.6bn, and internal revenue climbed by 3.0 per cent to EUR 663m. Other operating income was 9.0 per cent down on the year at EUR 61m. Total revenue went up by 0.6 per cent to EUR 3.3bn.

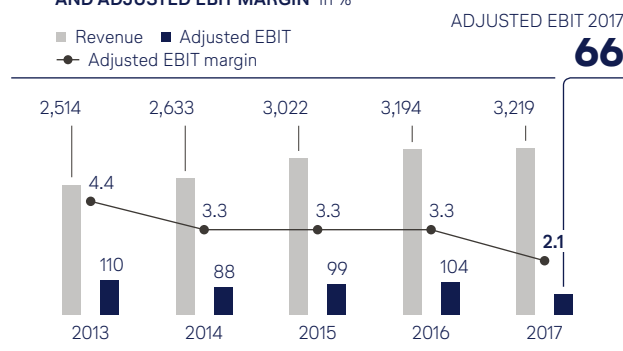
### Expenses up in 2017

Total operating expenses were 1.4 per cent up on the year at EUR 3.3bn. The cost of materials and services increased by 0.9 per cent to EUR 1.4bn, largely due to volumes. Staff costs increased by 3.1 per cent to EUR 1.2bn. Transformation expenses in the European region were the main reason for the increase in staff costs. Depreciation and amortisation of EUR 90m was 15.1 per cent below last year's figure, mainly due to lower impairment losses on property, plant and equipment in Europe. The 1.8 per cent increase in other operating expenses to EUR 560m stemmed mainly from write-downs on receivables.

#### T046 OPERATING EXPENSES CATERING

	2017 in €m	2016 in €m	Change in %
Cost of materials and services	1,396	1,383	0.9
Staff costs	1,221	1,184	3.1
Depreciation and amortisation	90	106	-15.1
Other operating expenses	560	550	1.8
<b>Total operating expenses</b>	<b>3,267</b>	<b>3,223</b>	<b>1.4</b>

#### C23 CATERING: DEVELOPMENT OF REVENUE, ADJUSTED EBIT AND ADJUSTED EBIT MARGIN in %



### Adjusted EBIT and EBIT down on previous year

At EUR 32m, the result from equity investments was 45.5 per cent up on the figure for the previous year. Adjusted EBIT fell by 36.5 per cent to EUR 66m, particularly due to higher transformation expenses. EBIT was down by 25.0 per cent at EUR 45m. The difference between EBIT and Adjusted EBIT of EUR 21m is mainly due to impairment losses on property, plant and equipment. Not including the transformation expenses mentioned above and the impairment losses, earnings would have risen year on year. For these reasons, the LSG group's earnings were average by long-term standards.

### Increase in segment capital expenditure

Segment capital expenditure was up by 15.1 per cent to EUR 84m, primarily for the modernisation of production facilities.

## Additional Businesses and Group Functions

AirPlus profits from strong growth in international business travel.

| Adjusted EBIT up significantly on previous year. | Earnings of Lufthansa Aviation Training decline year on year. | IT companies continue to develop their business successfully. | Adjusted EBIT grows by 4.9 per cent.

### T047 KEY FIGURES ADDITIONAL BUSINESSES AND GROUP FUNCTIONS

		2017	2016 <sup>1)</sup>	Change in %
Total operating income	€m	2,702	2,321	16.4
EBITDA <sup>2)</sup>	€m	-63	-98	35.7
EBIT	€m	-133	-167	20.4
Adjusted EBIT	€m	-130	-182	28.6
Segment capital expenditure	€m	62	39	59.0
Employees as of 31.12.	number	11,157	9,891	12.8
Average number of employees	number	11,161	8,080	38.1

<sup>1)</sup> Previous year's figures have been adjusted, in particular due to the restructuring of business segments.

<sup>2)</sup> Before profit/loss transfer from other intra-Group companies.

This segment comprises the service and financial companies as well as the Group functions of the Lufthansa Group. They particularly include AirPlus, Lufthansa Aviation Training and the IT companies.

### AirPlus expands product portfolio and market presence

Lufthansa AirPlus Servicekarten GmbH (AirPlus) is a leading international provider of solutions for the everyday management of business travel. Under the AirPlus International brand, the company offers market-specific solutions in over 60 countries worldwide. The company served more than 50,000 corporate customers in total in the reporting year.

Since July 2017, AirPlus has also been present on the Japanese market. AirPlus and Japan Airlines (JAL) signed a partnership agreement to offer corporate customers and travel agents the joint JAL-AirPlus Company Account and the AirPlus Information Manager.

As of October 2017, the virtual payment solution AirPlus A.I.D.A. Virtual Cards is also part of the product portfolio in the US. Its entry into the second largest travel market worldwide enables AirPlus to offer its global and multinational customers a standard product range for their business travel expenses.

In the years ahead, AirPlus will continue to invest substantially in the modernisation of its IT and process environment in order to bring product developments and innovations to market faster. At the same time, this will reduce operating costs and boost profitability.

The 2017 financial year saw strong growth in international business travel. AirPlus customers spent a total of 9.3 per cent more on business trips than in the previous year.

Adjusted EBIT for AirPlus was 21.2 per cent up on the previous year at EUR 48.8m. Because of non-recurring income in the previous year, EBIT was 42.1 per cent down year on year at EUR 44m.

### Lufthansa Aviation Training offers vocational and professional training of the highest quality

Lufthansa Flight Training and Swiss Aviation Training were merged to form Lufthansa Aviation Training GmbH (LAT) at the beginning of 2017. The company is one of the leading global providers of flight training, applying its competence in the vocational and professional training of cockpit and cabin crew at twelve modern training centres and simulator sites.

LAT has pooled all of its flight schools in Germany, Switzerland and the US under the European Flight Academy (EFA) brand. The company is based in Munich, has a total of 1,000 employees and not only trains the future pilots for the Lufthansa Group airlines – as a full-service provider, with newly developed training concepts, it also teaches the airborne staff of more than 200 national and international customers.

Its range of modern training courses was continually expanded in 2017, with capital expenditure on the latest generation of flight simulators, for instance, and the purchase of 25 new Cirrus SR20 training aircraft for the flight school in Phoenix, Arizona, USA.

Adjusted EBIT for LAT, including all of its equity investments, fell by 22.4 per cent in the financial year 2017 to EUR 42m. The change was primarily due to extraordinary project and restructuring expenses following the merger of the two companies. However, earnings were also burdened by valuation effects from pension obligations and losses relating to pilot training.



### **IT companies continue to develop their business successfully**

Lufthansa Systems GmbH & Co. KG continued to expand its range of solutions and advisory services relating to improving the efficiency and differentiating all areas of an airline, and to optimising passengers' entire travel experience. Lufthansa Systems' customer base includes more than 300 airlines around the world.

Lufthansa Industry Solutions continued to expand its business, reporting success in the highly competitive IT market with its services, as well as in new technology areas, such as the Internet of Things and data analytics, and in its focus sectors of logistics, industry and the automotive sector. Its customer base comprises entities within the Lufthansa Group and more than 200 companies from a variety of sectors.

Including all of their equity investments, the IT companies generated Adjusted EBIT of EUR 33m in the reporting period, which was 4.9 per cent higher than last year. EBIT was up by EUR 33.3 per cent at EUR 32m. The change is largely attributable to a subsequent purchase price adjustment connected to the sale of the Infrastructure segment of the former Lufthansa Systems AG to the IBM group.

### **Group functions report improved result**

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

Total operating income for the Group functions increased by 38.8 per cent to EUR 1.4bn. Operating expenses were 22.3 per cent higher at EUR 1.6bn. Adjusted EBIT improved by 21.7 per cent to EUR -270m and EBIT was up by 22.6 per cent to EUR -278m. The improved result is mainly due to lower exchange rate losses compared with the previous year, offset by higher IT expenses.

### **Result for Additional Businesses and Group Functions improves again**

Total operating income for the Additional Businesses and Group Functions business segment rose by 16.4 per cent to EUR 2.7bn. Other operating expenses rose by 13.9 per cent to EUR 2.9bn. Adjusted EBIT improved by 28.6 per cent to EUR -130m. EBIT went up by 20.4 per cent to EUR -133m.

## Opportunities and risk report

The management of opportunities and risks is integrated into all business processes. | Opportunities and risks are identified early and are managed and monitored proactively. | Group risk management was expanded to include CSR-relevant issues and their risks for external stakeholders.

As an international aviation company, the Lufthansa Group is exposed to a number of macroeconomic, sector-specific, financial and Company-specific opportunities and risks. The Lufthansa Group defines opportunities and risks as the possible positive or negative deviations from a forecast figure or a defined objective for possible future developments or events. Opportunities and risks are an ever present part of doing business; their active management is deliberately integrated into business processes.

## OPPORTUNITY AND RISK MANAGEMENT

### Opportunity management process

For the highly dynamic global airline industry, opportunities can arise both externally – from new customer wishes, market structures, ongoing consolidation or the regulatory environment, for instance – and internally – from new products, innovations, quality improvements and competitive differentiation.

Employees and managers in the Lufthansa Group identify opportunities in the course of day-to-day processes and market observation. They are supported by a regular strategy and planning process, which is managed by the strategy and controlling departments. Scenario analyses and accurate return calculations are used to precisely examine opportunities and the associated risks. Opportunities that, in an overall assessment, are considered advantageous for the development of the Lufthansa Group, and so for the interests of shareholders, are pursued and implemented by means of defined steps. They are managed by the established planning and forecasting processes as well as by projects.

### Objectives and strategy of the risk management system

Risk management at the Lufthansa Group aims to fully identify risks, to present and compare them transparently and to assess and manage them. Risk owners are obliged to monitor and manage risks proactively and to include relevant information in the planning, steering and control processes. The Group guidelines on risk management adopted by the Executive Board define all the binding methodological and organisational standards for dealing with opportunities and risks.

### Structure of the risk management system

The scope of consideration covered by the Lufthansa Group's risk management system comprises all of the airlines in the Lufthansa Group, the MRO, Logistics and Catering segments, as well as Lufthansa Aviation Training GmbH, Lufthansa AirPlus, Miles & More, Lufthansa Global Business Services, the IT companies and the Delvag group.

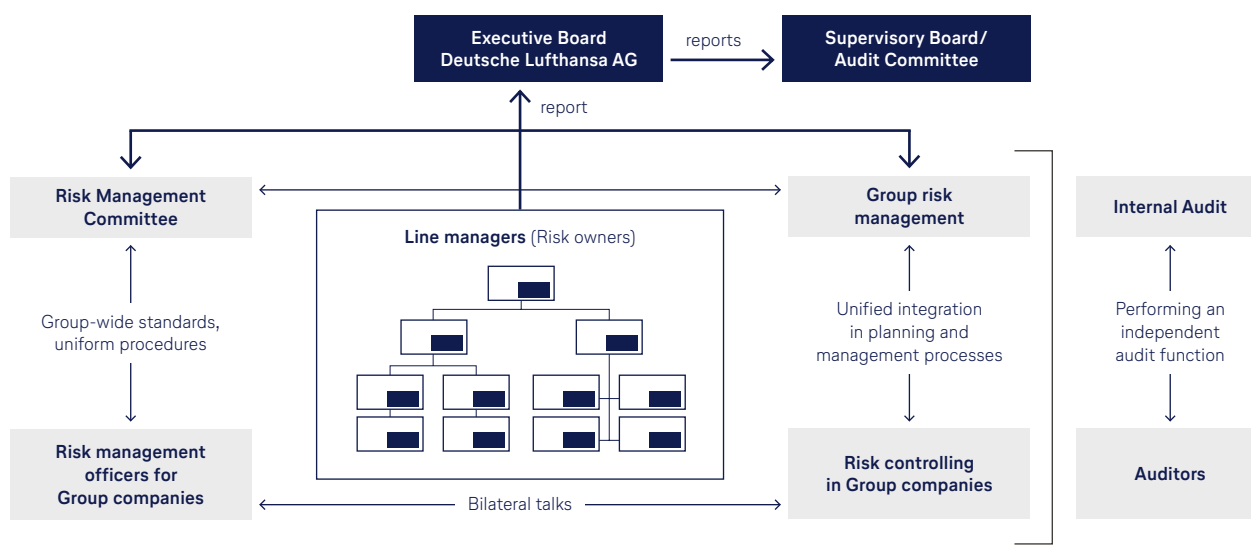
➤ **C24 Risk management in the Lufthansa Group on p. 65** shows the different functions involved.

The Supervisory Board's Audit Committee monitors the existence and the effectiveness of the Lufthansa Group's risk management.

The Risk Management Committee ensures, on behalf of the Executive Board, that business risks are always identified at an early stage, evaluated and managed across all functions and processes. It is also responsible for ensuring that the risk management system is always up to date and for making improvements to its effectiveness and efficiency. Appointments to and the responsibilities of the committee are defined in internal regulations.

The "Risk Management, Internal Control System and Data Protection" staff unit has functional responsibility for ensuring that the risk management system is standardised across the Group. It reports directly to the Chief Financial Officer and is responsible for implementing Group-wide standards and methods for the coordination and ongoing development of the risk management process.

The managing directors or management boards of all the companies covered by the risk management system also appoint risk managers. They are responsible for implementing the Group guidelines within their own companies and are in close, regular contact with the Lufthansa Group's risk management function. In addition, they ensure that risk-relevant information is agreed with the planning and forecasting processes in their company (risk controlling).

**C24 RISK MANAGEMENT IN THE LUFTHANSA GROUP**

As risk owners, managers with budgetary and/or disciplinary responsibility are obliged to implement risk management at a segment level. The identification, evaluation, monitoring and management of risks are therefore fundamental aspects of every management role.

The Internal Audit department carries out internal, independent system audits focusing on the effectiveness, appropriateness and cost-effectiveness of the risk management system practised in the Lufthansa Group.

During its annual audit of the financial statements, the auditor examines the system for the early identification of risks in place at Deutsche Lufthansa AG with regard to statutory requirements. In 2017, the review came to the conclusion that all statutory requirements were met in full.

#### Stages of the risk management process

The closed and continuous risk management process, which is supported by IT, begins with the identification of current and future, existing and potential risks from all material internal and external areas. The risks identified are checked for plausibility by the companies' risk coordinators and gathered together in the Group's risk portfolio. The risk portfolio documents the systematic entirety of all individual risks and constitutes the quality-assured result of the identification phase. As the risk landscape is dynamic and subject to change, the identification of risks is a continuous task for the risk owners.

Risk owners are obliged at least once a quarter to verify that the risks for which they are responsible are complete and up to date. They also evaluate the extent to which circumstances involving risk have already been included in the forecast results and to what extent there are additional opportunities or risks of achieving a better or worse result than the one forecast. On this basis, the Executive Board is informed about the current risk situation of the Lufthansa Group and of the operating segments every quarter. The Executive Board reports annually to the Audit Committee on the performance of the risk management system, the current risk situation of the Lufthansa Group and on significant individual risks and their management. In the event of significant changes to previously or recently identified top risks, mandatory ad hoc reporting processes have been defined in addition to these standard reports.

#### Evaluation methodology in the risk management process

Once the risks have been identified, they are evaluated. Evaluation principles are applied uniformly across the Lufthansa Group. Wherever possible, objective criteria or figures derived from past experience are used. Risk measurement forms the basis for consolidating similar individual risks into an aggregate risk. Suitable instruments for risk management are defined with the aim of proactively limiting the risk position. Continuous risk monitoring identifies changes in individual risks and any required adjustments to risk management at an early stage. Steps necessary to manage and monitor risks are initiated as required. Steps, in this sense, mean clearly defined activities with a fixed duration, responsibility and time frame, which serve to develop control instruments. The progress made is also monitored continuously.

The methodological evaluation of risks at the Lufthansa Group distinguishes between qualitative and quantitative risks. Risks are evaluated on a net basis, i.e. taking implemented and effective management and monitoring instruments into account.

Qualitative risks are mostly long-term developments with potentially adverse consequences for the Lufthansa Group. As concrete information is often not available, these risks cannot or cannot yet be quantified. In the context of qualitative risks, risk management amounts to a strategic approach to uncertainty. Qualitative risks are often identified in the form of “weak signals”. In order to evaluate such risks as systematically as possible in spite of this, estimates are made about their significance and their magnitude. Significance describes the potential impact of the individual risk – for example, on the Group’s reputation, business model or earnings. The estimate of magnitude assesses how pronounced or intense the (weak) signals are that indicate a potential risk to the Lufthansa Group or a specific company. ➔ **C25 Lufthansa risk evaluation for qualitative and quantitative risks** shows the different categories used.

Quantitative risks are those whose potential effect on earnings can be estimated. A distinction is made between different probabilities of occurrence. The extent of loss is given as the potential monetary impact on the planned Adjusted EBIT. Depending on the type of risk, this may relate either to relatively infrequent event risks, such as an airspace closure, or to risks from deviations from planned business developments, such as fuel price volatility. Quantitative risks therefore form the basis for the overarching verification of potential deviations from plans and forecasts. The thresholds for classifying the monetary Adjusted EBIT effect are defined centrally for the Lufthansa Group and the Group companies according to standardised criteria.

The individual qualitative and quantitative risks are divided into classes A, B, C, D and other risks to assess their materiality. In accordance with DRS 20, all quantitative A and B risks as well as all qualitative A and B risks that are at least of a “substantial” significance and a “high” magnitude count as material risks for the Lufthansa Group. ➔ **C25 Lufthansa risk evaluation for qualitative and quantitative risks.**

Risks for the Lufthansa Group that meet this materiality criterion are presented in a table in the order of their significance for the Lufthansa Group in the section ➔ **Opportunities and risks at an individual level, p. 67ff.**, and are described in detail below. In some cases, equivalent risks are shown here in a more aggregated form than that used for internal

management purposes. Unless stated otherwise, all the operating segments in the Lufthansa Group are exposed to a greater or lesser degree to the risks described.

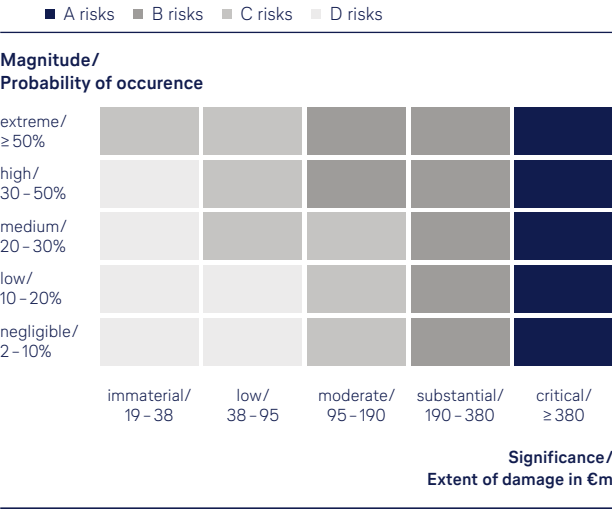
**Inclusion of CSR Directive Implementation Act in risk management**

When the CSR Directive Implementation Act (CSR-RUG) came into effect in April 2017, the Lufthansa Group’s risk management was expanded to cover aspects relevant to CSR (environmental, employee and social concerns, as well as human rights, anti-corruption measures and bribery) and their risks for external stakeholders. The risk management methodology remains unchanged, however. Risks are reported in the non-financial report in line with CSR-RUG if they would have a severely adverse impact on the Company and their occurrence is highly likely.

**Internal Control System for monitoring the risk management process**

The risk management process in the Lufthansa Group is monitored by an internal control system (ICS). This entails systematically reviewing the effectiveness of control measures for substantial risks as part of the Lufthansa Group’s ICS. The relevant risks are selected annually. The review includes an assessment of the structure and its functionality. Reporting on the results of the review forms part of the report to the supervisory boards of the individual companies on the effectiveness of the ICS, and to the Audit Committee of the Deutsche Lufthansa AG Supervisory Board on an overall basis.

**C25 LUFTHANSA RISK EVALUATION FOR QUALITATIVE AND QUANTITATIVE RISKS**



## OPPORTUNITIES AND RISKS AT AN INDIVIDUAL LEVEL

The table, below, shows the top risks for the Lufthansa Group. They comprise all quantitative A and B risks, as well as qualitative risks with a rating of at least “substantial and high” in the order of their significance. Detailed explanations can be found in the following sections.

### Macroeconomic opportunities and risks

#### Uncertain economic environment

The Lufthansa Group's forecast for 2018 is based on the expectation that future macroeconomic conditions and sector developments will correspond to the description given in the [Forecast, p. 78ff.](#) If the global economy performs better than forecast, this is expected to have a positive effect on the Lufthansa Group's business. Future revenue and earnings for the Lufthansa Group may, in this case, exceed the current forecast. As a global company, the Lufthansa Group can also benefit from positive developments outside its own core market. The same applies if the performance of the global economy and of individual markets that are relevant for the Lufthansa Group is worse than forecast.

Risks with potential effects on global economic growth, and thereby for the Lufthansa Group's sales, primarily arise from increasing uncertainty about political developments, such as the ongoing protectionist economic policy of the USA. There is still great uncertainty concerning the effects of Brexit. The currently resurgent economy in Europe offers the Lufthansa Group opportunities to participate in this development.

#### Crises, wars, political unrest or natural disasters

The current deterioration in the security situation, particularly in the Middle East and North Africa but also in Europe and Germany, as well as the latent risk of terrorist attacks on air traffic and aviation infrastructure could have concrete effects on business operations and on the safety of the Lufthansa Group's flight operations, customers and employees. Potential losses could result from primary effects, such as not being able to fly to individual destinations, but also from significant secondary effects, including a fall in passenger numbers, higher insurance premiums, higher fuel costs due to airspace closures or more stringent statutory security requirements.

Because of its strong symbolic effect, civil aviation is still a potential target of terrorist attacks, which have to be evaluated in the context of the wider regional environment.

#### T048 TOP RISKS LUFTHANSA GROUP

	Magnitude	Significance	Trend	Description
<b>Quantitative risks</b>				
Fuel price movements	critical	extreme	→	<a href="#">p. 70f.</a>
Exchange rate movements	critical	extreme	↑	<a href="#">p. 71f.</a>
Earnings risks	moderate	extreme	→	<a href="#">p. 69</a>
Breaches of compliance requirements	critical	medium	→	<a href="#">p. 75</a>
Loss of the investment grade rating	critical	negligible	↓	<a href="#">p. 72</a>
Exchange rate losses on pension fund investments	critical	negligible	→	<a href="#">p. 72</a>
Credit risks	substantial	low	→	<a href="#">p. 72</a>
<b>Qualitative risks</b>				
Cyber and IT risks	critical	extreme	→	<a href="#">p. 74f.</a>
Pandemic diseases	substantial	high	↓	<a href="#">p. 68</a>
Flight operations risks	critical	negligible	→	<a href="#">p. 73f.</a>
Human resources	substantial	high	→	<a href="#">p. 73</a>
Crises, wars, political unrest or natural disasters	substantial	high	→	<a href="#">p. 67f.</a>
Increased noise legislation	substantial	high	→	<a href="#">p. 70</a>
Market entry Original Equipment Manufacturer <sup>1)</sup>	critical	high	→	<a href="#">p. 69</a>
Contaminated foods <sup>1)</sup>	critical	low	→	<a href="#">p. 74</a>

<sup>1)</sup> Risk evaluation on segment level.

Threats to civil aviation from complex anti-aircraft systems, especially in the hands of non-state forces, and greater challenges in the use and coordination of airspace as a result of increasing military activity still require comprehensive measures to assess and manage the risks to flights over areas of conflict. Overall, the demands made of the security functions of international companies have risen significantly in view of the political environment and the continuous development of new technology. Increasing security regulations due to the greater threat potential, as well as a tightening of entry requirements for air passengers around the world, could lead to further restrictions in international air traffic and thereby to adverse effects for the air transport industry.

In order to analyse, track and manage these risks, the Lufthansa Group carries out comprehensive monitoring of the global security situation and current events that may affect the Lufthansa Group. This relates both to immediate action and to the anticipation of possible dangers and the implementation of effective protective measures in advance. The Lufthansa Group prepares comprehensive security analyses on an ongoing basis in order to assess developments in advance and so to draw up preventive scenarios in the event of any disruptions. It can draw on an extensive network of national and international security services and specialised security advisers to do so. The necessary security measures depend on the probability and consequences of the event.

To evaluate security-relevant events in the context of the regional environment, the Lufthansa Group uses a quality management system, which helps with the continuous evaluation of local security procedures, both in existing operations and with new destinations. In order to ensure compliance with national, European and international aviation security legislation and the Lufthansa Group's own security standards, these sites are inspected regularly in the course of risk audits for aviation security and country risks. If necessary, deficits are compensated for by additional measures that may affect all relevant functional areas. In addition, perceptions of Germany in certain regions of the world and the profile of the Lufthansa Group compared with other, particularly exposed Western airlines are taken into account when choosing infrastructure and processes abroad.

### **Pandemic diseases**

Risks exist around the world from the transmission of pathogens from animals to humans, from humans to humans and by other means. Epidemics, pandemics or other causes such as bioterrorism could cause high rates of disease in various countries, regions or continents, which could lead to drastic falls in passenger numbers in the short, medium or long term due to a fear of contagion. Furthermore, it is possible that staff are not willing to fly to the countries concerned for fear of infection and that local employees want to leave these countries. A high prevalence of sickness among employees may endanger operations.

The risk has not changed compared with the previous year.

The Lufthansa Group permanently reviews information from the World Health Organisation (WHO), the Robert Koch Institute in Germany and other institutions in order to identify risks of an epidemic or pandemic as early as possible. Employees receive detailed information, risk groups are given personal protective equipment and preventive vaccination campaigns against influenza are offered throughout the Lufthansa Group every year.

## **Sector-specific opportunities and risks**

### **Market growth and competition**

The airline industry remains on a long-term growth path, with above-average growth rates at low-cost carriers in particular and in specific growth regions such as Asia/Pacific. Strong capacity growth at the low-cost carriers and competitors on North Atlantic routes is increasingly affecting demand and price trends in Europe.

The Lufthansa Group is broadly positioned, which enables it to benefit from global growth across all of its business segments. At the same time, the ongoing consolidation of the industry plays an important role. The Lufthansa Group can strengthen its competitive position in a fragmented market environment, stabilise pricing and seize growth opportunities by means of strategic acquisitions and partnerships. The current fleet orders and delivery slots for aircraft with new technology allow the airlines in the Lufthansa Group to participate actively in this global growth and respond flexibly to changes in the market and in competition by adjusting capacity.



### Market consolidation

For some years, an increased trend towards consolidation in the highly fragmented European airline sector has been apparent. Examples include the insolvencies of Air Berlin, Monarch and Alitalia. In this environment, the Lufthansa Group positions itself as an active consolidator, by means of M&A transactions, for instance. It aims to exploit opportunities from the ongoing market consolidation, such as economies of scale or efficiency gains. At the same time, the Lufthansa Group emphasises a careful analysis and assessment of the risks of such transactions, including complexity and integration risks.

### Converging business models and new customer requirements

In the European market, the business models of low-cost carriers and full-service airlines are increasingly converging. This is resulting in increasing cost pressure in the full-service airline segment, which is being addressed by the use of new technologies and efficient resources. In a price-sensitive, growth-oriented market, the Lufthansa Group is also concentrating on high-quality products and discerning customers in its strong home markets as well as on expanding Eurowings.

Customers are increasingly seeking a personalised travel experience. Here, the Lufthansa Group invests continuously in employees and systems in order to offer every customer the right product at the right time. The Company's clear aim remains to fulfil this premium product promise.

### Service companies

With its service companies in the Logistics, MRO and Catering segments, the Lufthansa Group has a broad base from which it can participate in the global growth of the airline industry. Lufthansa Cargo is pursuing growth opportunities through innovative products, digitalisation and further airfreight joint ventures. Lufthansa Technik is concentrating on extending its service and customer portfolio, seizing development opportunities in the growth markets of Asia and America and expanding partnerships with OEMs (Original Equipment Manufacturers). The catering specialist LSG group is developing new business models in established and existing markets; its regional challenges range from comprehensive restructuring in Europe to rapid growth in Asia and North America.

### Earnings risks

Changes in available capacity have a decisive influence on the risk-return profile of the airline industry. Given the many orders for new aircraft within the industry and the forecast growth, the risk of sustained overcapacities has also increased. Pressure on yields therefore remains high and offsets the generally positive developments in demand and load factors. Complex forecasting methods to estimate unpredictable changes in demand, sales management techniques and active capacity management are used to counter this. In view of structural shifts in demand, there is the possibility in the short and medium term of responding by deploying aircraft with different configurations of travel class and flexible compartment sizes in Business and Economy Class.

Price erosion, overcapacities, cyclical fluctuations, current developments in the markets and competition, geopolitical changes and unpredictable events with a global impact all create earnings risks for the entire Lufthansa Group. Earnings risks still remain, particularly at the service companies. Earnings performance is monitored continuously. Sales, product, capacity and cost-cutting measures are taken as needed. Unit costs and efficiency are improved systematically and sustainably by continuous efficiency gains and as the result of segment-specific restructuring projects.

### Developments and competition in the supply market

Aircraft manufacturers now only want to work with a limited number of systems integrators (known as "risk-sharing partners") on their new aircraft models, which has led to a significant concentration on the supply market. This concentration gives rise to monopoly situations for Lufthansa Technik and new dependencies, with corresponding effects in terms of material supplies and access to information.

There is a persistent trend towards an ever smaller number of manufacturers for each aircraft and engine type. This stronger market position for OEMs results in barriers to entry for independent providers of aircraft-related maintenance, repair and overhaul (MRO) services, especially for new aircraft models, and makes it more difficult to gain access to licences and intellectual property. Maintaining their market position in this environment is a key challenge for MRO providers.

Lufthansa Technik works to address these risks by means of strategic partnerships and joint ventures.

## Opportunities and risks from the regulatory environment

Political decisions at national and European level continue to have a strong influence on the international aviation sector. This is particularly the case when countries or supranational organisations unilaterally intervene in the competition within a submarket, for example, by way of regional or national taxes, emissions trading, fees and charges, restrictions or subsidies. The Lufthansa Group campaigns actively to influence these developments in the appropriate boards and forums and in cooperation with other companies and industry associations.

### Increased noise legislation

Stricter noise standards may apply to airlines or airports. They may cause, for example, higher costs for retrofitting aircraft, bans on specific aircraft models, higher fees and/or charges or higher monitoring expenses. The still outstanding revision of the directive on environmental noise at European level is relevant here. In the short term, legislation is not expected to be tightened at the federal level in Germany. In November 2017, the Lufthansa Group, Fraport, Condor, the Board of Airline Representatives in Germany (BARIG) and the government of Hesse came to a voluntary agreement on noise limits at Frankfurt Airport. This framework still allows for growth and does not provide for any interference with operating licences as long as the limits are respected. Introducing a voluntary noise limit in Frankfurt could have an effect on other sites in Germany.

The limits set in the Aircraft Noise Abatement Act were reviewed as scheduled in 2017. Any changes to the Act are expected to be made in the coming legislative period. Although the latest results of noise research do not show any significant changes in health risks, the way in which noise is perceived as a nuisance by those affected has changed radically, even when noise levels at airports are stable. New legislative initiatives are therefore to be expected.

The Lufthansa Group develops coordinated strategies by means of targeted communications in collaboration with trade associations and other industry stakeholders. In the course of research projects, the Lufthansa Group is involved in active noise abatement measures and closely monitors research into the effects of noise.

## Financial opportunities and risks

### System of financial risk management for fuel prices, exchange rates and interest rates

Financial and commodity risks are managed systematically. Derivative financial instruments are used exclusively for hedging underlying transactions. Prices are averaged by means of layered hedging. Financial liabilities are either at floating rates from the outset or are swapped into floating rates using derivatives. This enables the Lufthansa Group to minimise average long-term interest expense. Foreign currency risks from financing are always hedged to 100 per cent.

Here, the Lufthansa Group works with partners that have at least an investment grade rating equal to Standard & Poor's BBB rating or a similar long-term rating. All hedged items and hedging transactions are tracked in treasury systems so that they can be valued at any time.

Appropriate management and control systems are used to manage financial and commodity risks, which measure, manage and monitor risks. They cannot be eliminated altogether, however. The functions of trading, settlement and controlling of financial risk are strictly separated at an organisational level, which the Lufthansa Group achieves through the use of internal guidelines that are continuously developed. The executive departments, Group Financial Risk Controlling and Corporate Audit departments ensure compliance with these guidelines. Furthermore, the current hedging policies are also discussed regularly in management board meetings across the business areas. The Supervisory Board is regularly informed of the amounts of risk. ➤ **Note 41, p. 161ff.**

### Fuel price movements

Oil prices were higher in 2017 than in 2016 altogether. There has been no material, year-on-year change in the risk of price fluctuations.

In the reporting year, the Lufthansa Group consumed around 10.2 million tonnes of kerosene. At around EUR 5.2bn, fuel expenses constituted a major item of expense for the Lufthansa Group in 2017. Severe fluctuations in fuel prices can have a significant effect on the operating result. A change in the fuel price of +10 per cent (–10 per cent) at year-end 2018 would increase (reduce) fuel costs for the Lufthansa Group by EUR 265.1m (EUR –284.6m) after hedging.

The Lufthansa Group therefore hedges fuel prices with a time horizon of up to 24 months. This is aimed at reducing fluctuations in fuel prices. Limited protection against higher prices is accepted in exchange for maximising the benefits derived from any fall in prices.

The hedging level and hedging 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 chart **C27, p. 71**, are applied to Lufthansa German Airlines, SWISS and the scheduled operations of Austrian Airlines. Transactions for some other Group companies are hedged to a lesser extent, and are therefore more exposed to the risk of a price increase. Conversely, they also profit more if prices go down. Charter business is hedged in full using forward transactions as soon as the contract has been signed. This largely eliminates the risk of fuel price increases. On the other hand, this also eliminates the chance of benefiting from a fall in prices.

The Lufthansa Group uses standard market instruments in the form of option combinations for its fuel hedging. Hedges are mainly in crude oil for reasons of market liquidity. The hedging transactions are based on fixed rules and map the average of crude oil prices over time. Depending on the company in the Group, the amounts hedged each month result in a hedging level of up to 85 per cent.

As of 23 February 2018, there were crude oil and kerosene hedges for around 74 per cent of the forecast fuel requirement for 2018, in the form of futures and options. For 2019, around 27 per cent of the forecast fuel requirement was hedged at that time. The fuel required in the event that the takeover of parts of Air Berlin is successful had not been hedged at the time of the acquisition. It will be hedged gradually over the coming months.

In the context of fuel supplies, there are opportunities in the development of new production techniques, both for crude oil and for other energy sources. This could have a direct or indirect effect on the Lufthansa Group's kerosene expenses, by reducing both prices and volatility.

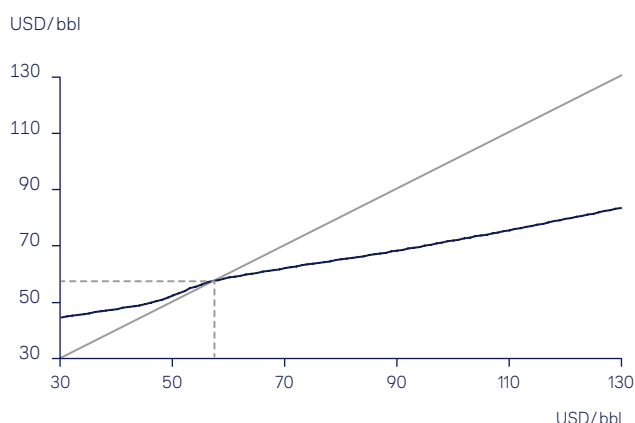
As fuel is priced in US dollars, fluctuations in the euro/US dollar exchange rate can have a positive or a negative effect on reported fuel prices. US dollar exposure from planned fuel requirements is included in currency hedging.

### Exchange rate movements

Foreign exchange risks for the Lufthansa Group arise in particular from international ticket sales and the purchasing of fuel, aircraft and spare parts. All subsidiaries report their planned currency exposure 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. 23 of the 62 currencies in total are hedged because their exposure is particularly relevant to the Lufthansa Group. **Note 41, p. 161ff.**

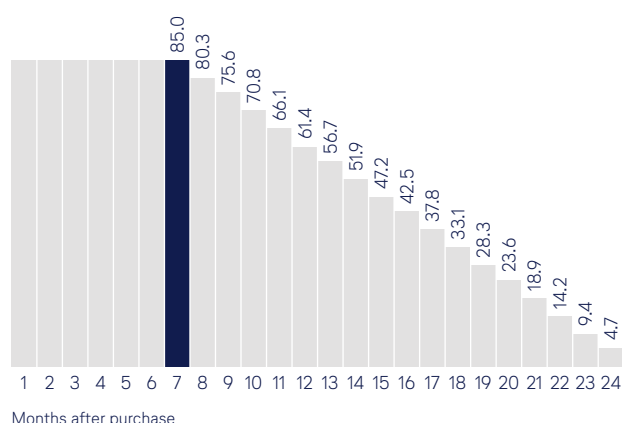
### C26 OIL PRICE SCENARIO FOR THE LUFTHANSA GROUP 2018

in USD/bbl (As of 23.2.2018)  
■ Market price ■ Lufthansa price



### C27 LUFTHANSA'S HEDGING POLICY

Medium-term crude oil hedging in %  
■ Hedging exposure ■ Hedge (average Brent price)



Financial developments also represent opportunities for the Lufthansa Group. Volatility in fuel prices, exchange rates and interest rates can result in lower costs and/or higher income if the direction taken is better than the assumptions used for planning and forecasting. There were no significant changes to this estimate compared with the previous year.

#### Loss of the investment grade rating

Deutsche Lufthansa AG has an investment grade rating from Standard & Poor's (BBB-) and Moody's (Baa3), both with a stable outlook. Since November 2016, Deutsche Lufthansa AG has also had a third investment grade rating of BBB- with a positive outlook from the agency Scope Ratings. A downgrade in the credit rating to non-investment grade could lead to a significant deterioration in funding terms and financial risk management and restrict access to new funding and hedging instruments.

The financial indicators relevant to the rating have stabilised in the investment grade range for all three rating agencies. The measures included in the planning are all aimed at strengthening the financial profile by means of investment discipline and earnings improvement, and provide the opportunity to further reduce the Group's debt. Accounting standard IFRS 16, which is applicable from 2019 onwards, means that lease liabilities must be recognised in the statement of financial positions. If the figures calculated on the basis of the standard differ from the rating agencies' estimates, this could have a positive or negative impact on their ratings.

#### Capital investments and liquidity risks

Capital investments at the Lufthansa Group are managed from the point of view of operating and strategic liquidity. Investments are also made by the Lufthansa Pension Trust and other pension funds in the Lufthansa Group. The risks mainly consist of potential price changes for shares, fixed-income securities and interest rates, as well as credit risks.

Capital investments to ensure the Lufthansa Group's operating liquidity are generally made in accordance with the Group's financial guidelines. The investment period is limited to a maximum of 24 months, whereby at least EUR 300m

should be in investments that can be liquidated on a daily basis. For its operating liquidity, the Lufthansa Group mainly uses money market funds that can be liquidated daily, overnight deposits, fixed-term deposits and short-term securities, especially commercial papers, from creditworthy issuers.

The investment structure of the strategic minimum liquidity for the Lufthansa Group has been determined using a stochastic allocation study. During its development, the Lufthansa Group's high liquidity requirements and conservative investment principles were taken into account. These investments are largely made in money markets and fixed-income securities. A mixture of European shares is also included. Active risk management restricts the absolute share price risk to 2 per cent per annum. Asset management and management of hedges is undertaken by external service providers, taking into consideration the need for instant liquidability, i.e. within a maximum of four weeks.

#### Exchange rate losses on pension fund investments

Pension fund investments are subject to price fluctuations on international capital markets. However, the broad diversification across many asset classes (including global equities and fixed-income securities) does reduce the overall investment risk to capital investments. An investment manager also monitors and manages risk using a stop-loss system. Due to the decreasing correlation between asset classes, high share prices and especially low interest rates, market risk and the risk of market fluctuations are generally higher than last year. ➤ **Financial strategy and value-based management, p. 16ff.** Further information on opportunities from changes to retirement benefits ➤ **Human resources, p. 73.**

#### Credit risks

The transactions completed in the course of financial management give rise to default risks. The counterparty default risk is continuously assessed using a system of counterparty limits.

In times of broad economic swings, the default risk for trade receivables also increases. Here, too, their performance is tracked constantly at the level of the Group and the individual business segments. Preventive measures are also taken.

➤ **Note 36, p. 151ff.**

## Company-specific opportunities and risks

### Broader process-based organisation creates potential

Expanding the process-oriented matrix organisational structure is a key element of the Group's continuous improvement initiatives. This step has already been taken at the network airlines and will be implemented in administrative areas and in other operating segments from 2018 onwards, which will create additional potential for efficiency gains and cost reductions.

Potential opportunities and risks to forecast economic developments, in the form of unforeseen internal and external factors, both positive and negative, must be identified and managed during the course of the year.

### Human resources

#### INTERNAL AND EXTERNAL LABOUR DISPUTES

Deutsche Lufthansa AG, Lufthansa Cargo, Germanwings and the Vereinigung Cockpit pilots' union signed agreements on all outstanding collective bargaining topics in December 2017. They remain in effect until mid 2022 and so represent a sustainable and long-term solution to the risk of strikes. The risk of strikes by the cockpit crew at the companies mentioned is therefore considered to be low. Eurowings, Germanwings and the trade union UFO signed wage agreements for the German cabin crew at the two airlines in September 2017. This reduces the risk of strikes at these companies. Through talks, collective bargaining and arbitration, the Lufthansa Group attempts to achieve its policy objectives through agreements with the trade unions and to ensure a working relationship in the spirit of trust. External strikes are also a risk, since the Lufthansa Group depends on a large number of companies and public-sector entities, such as the security staff at airports, which all negotiate with their own collective bargaining partners. Here, the Lufthansa Group is working to ensure that its voice is heard in the legislative process.

#### REDUCED EMPLOYEE COMMITMENT

Implementing structural changes may reduce the commitment of employees and their loyalty to the Lufthansa Group. Change management initiatives are therefore increasingly being implemented and communications activities initiated to improve employees' commitment. The Lufthansa Group also continues to strive to offer attractive employment terms. This includes continuing to develop the pay structure, fringe benefits and non-monetary remuneration components, including flights at reduced prices, in different ways depending on the employee group.

### STAFF STRUCTURE

Differences between strategic HR requirements and the existing competences of employees and how they are distributed across the companies in the Lufthansa Group constitute a structural HR risk. The Lufthansa Group addresses this risk by means of strategic human resources planning, drawing up a skills model and offering training courses for all the employees in the Group.

### NEW LABOUR LEGISLATION

Depending on the way it is drafted and structured, new labour legislation may affect operating workflows and entrepreneurial freedom of action. This will depend on the specific composition of a new government coalition and their key objectives (e.g. the right to switch back from part-time to full-time employment). Here, too, the Lufthansa Group works to ensure that its interests are taken into account by policymakers.

Overall, human resources risks are largely unchanged compared with last year. The strike risk is significantly lower, however.

### Flight operations risks

The airlines in the Lufthansa Group are exposed to potential flight and technical operating risks. One of these is the risk of not being able to carry out regular flight operations for technical or external reasons. If flights do not take off or land on time, due to weather conditions, for instance, this may have a negative effect on customer satisfaction and future purchase decisions. Airlines' liability for delays has also been broadened significantly.

Another flight and technical risk is the risk of an accident, with the possibility of damage to people and property; it is divided into environmental factors (for example, weather or bird strike), technical factors (for example, engine failure), organisational factors (such as contradictory instructions) and the human factor.

The companies in the Lufthansa Group search for these dangers systematically and in a forward-looking manner in order to manage the resulting risk by means of suitable countermeasures and to increase the level of flight safety further. This takes place in the course of the safety management system, which is focused on proactively addressing any threats to the organisation, identifying risks, defining mitigation measures and thus minimising risks. For example, every single flight made by an airline in the Lufthansa Group is routinely analysed using the parameters recorded in the flight recorder (black box) in order to identify any peculiarities at an early stage and to act on them, such as in the context of

training courses, for example. Other sources of information, e.g. accidents and hazardous situations around the world that come to light, are also analysed and the results are integrated into prevention measures, such as training courses, where relevant. The safety management systems are continuously improved and refined.

Networking between the airlines in the Lufthansa Group in terms of flight safety was advanced, resulting in the drafting of Group-wide process standards and a coordinated Group Safety Policy as the basis for sustainably implementing uniform flight safety standards across the Lufthansa Group, supported by the implementation of a process-oriented organisational structure from early 2018. Ongoing dialogue between the airlines in the Lufthansa Group provides an opportunity to consolidate information gained in an operational setting and factor it into the development of the corresponding standards. This kind of higher-level analysis requires standardised measurement parameters, which is why the first step was to agree on a uniform, standardised risk classification matrix for the entire Group. This "Event Severity Classification" has since been adopted and is applied at all flight operations in the Lufthansa Group.

The organisational structure continues to evolve, since the demands made with regard to risk identification have increased and there is much greater public awareness of topics relating to safety. Reorganising the "Corporate Safety & Security" process underlines this importance and raises its visibility inside and outside of the Lufthansa Group.

### Other operating risks

In the Catering segment, it is vital that food is produced to the highest quality and in accordance with all hygiene and food safety standards. Standardised quality management systems are used to identify potential quality defects at an early stage. Furthermore, the LSG group invests continuously in its production facilities and equipment as well as in modern technology. The modernisation process is supported by intensive training courses as well as learning and problem-solving workshops in the individual companies.

### Cyber and IT risks

Cyber-risks are all risks to which computer and information networks, ground and flight infrastructure as well as all IT-enabled commercial and production processes are exposed from sabotage, espionage or other criminal acts. If established security measures fail, the Lufthansa Group may suffer reputational damage and be obliged to make payment on the basis of contractual and statutory claims by customers, contract partners and public authorities. A loss of income is also conceivable if operating systems should fail.

The business processes in the Lufthansa Group are supported by IT components in virtually all areas. The use of IT inevitably entails risks for the stability of business processes and for the availability, confidentiality and integrity of information and data, and such risks ultimately cannot be fully eliminated.

The dimension of cyber-attacks is increasing drastically world-wide in terms of their quantity and professionalism. This is borne out by the Group's own experience of security incidents and by information from other companies and public agencies. At the same time, the digitalisation of business processes in the Lufthansa Group is increasing, meaning that the potential effects of cyber-attacks may continue to escalate. As a result, cyber-risks will become an ever greater potential risk for the Lufthansa Group in the foreseeable future.

In 2017, the Lufthansa Group implemented numerous projects to address this growing IT risk adequately. In the previous year, the Executive Board adopted a programme to strengthen the Lufthansa Group's resilience in the face of cyber-attacks. Technological instruments were introduced to identify cyber-attacks at an early stage and prevent them, processes were adapted to evolving threats and a campaign was carried out to raise awareness among employees. An extensive cyber-crisis exercise was also conducted in order to implement improvements in a focused and realistic way.

The area that prepares the airlines in the Lufthansa Group for the next generation of avionic IT was further strengthened. Potential cyber-risks that may arise from connecting aircraft to the internet were also analysed as a preventative measure. Corporate security also worked closely with information management to develop a function that systematically investigates cyber-risks to the business areas of the Lufthansa Group, regardless of the technology involved.

IT risk and IT security processes are organised across operating segments. The status of IT risks and IT security is compiled annually, consolidated at Group level and discussed by the Risk Management Committee for the Lufthansa Group. The risk and security management systems and selected other measures are also reviewed regularly by the Internal Audit department.

The Lufthansa Group sources most of its IT infrastructure from external service providers. The operational and commercial risks that by nature accompany this kind of outsourcing are assessed and managed on a continuous basis. The transition to the new provider is taking place within an independent, wide-ranging programme.



Data protection became even more important and extensive documentation obligations were introduced when the General Data Protection Regulation (GDPR) took effect in 2016, with an obligation for companies based in the EU and public authorities to implement its provisions by May 2018. Protecting the privacy of its customers, employees, shareholders and suppliers has always been an important and self-evident concern for the Lufthansa Group. To meet the higher requirements of the GDPR in an era of increasing digitalisation, the Lufthansa Group has launched a project and strengthened the data protection function in order to identify and manage potential risks from these more stringent demands.

### Breaches of compliance requirements

Compliance refers to the observance of legally binding requirements, and is intended to ensure that the Company, its executive bodies and its employees act in accordance with the law. The effectiveness of its compliance programme is therefore vital to the Lufthansa Group. ➤ **Corporate Governance, p. 83ff.**

The Lufthansa Group is active in many countries and is therefore subject to various legal norms and jurisdictions with different, and sometimes hard to interpret, legal frameworks, including for criminal law on corruption. In addition, all activities not only have to be judged against local criminal law, the laws applicable in the sales area and the local cultural customs and social conventions, but also need to take into consideration extraterritorial regulations, such as the US Foreign Corrupt Practices Act (FCPA) or the UK Bribery Act. Any infringements are investigated rigorously; they may result in criminal prosecution for the individuals involved and could expose the Company to hefty fines. There would also be reputational damage that is difficult to measure and the Company would be put at a distinct disadvantage when competing for public tenders. The Lufthansa Group has put processes in place that are intended to identify specific compliance risks and, in particular, to prevent corruption.

The Lufthansa Group is also exposed to risks arising from competition and antitrust law. They stem, in particular, from the fact that the Lufthansa Group operates in highly oligopolistic markets, cooperates with competitors in alliances, may have to deal with changes in the legal parameters for certain flight routes and that in some of its segments the suppliers, competitors and clients are the same legal person. The Lufthansa Group's Competition Compliance function addresses the risks of collusive behaviour and provides employees with extensive training.

The Lufthansa Group, in particular Deutsche Lufthansa AG as a publicly listed company, is also exposed to risks from capital market compliance. Since July 2016, the EU Market Abuse Regulation (MAR) and many other national and European regulations have codified bans on insider trading and market manipulation, the obligation to make ad hoc announcements as well as other obligations relating to capital markets. These regulations are directly applicable in Germany. At times, it can be difficult to predict how these new European regulations will be interpreted and administered by the public authorities. The Lufthansa Group takes many organisational precautions to comply with the provisions of the MAR. It uses a specific software solution, for example, and has corresponding guidelines, information circulars and process descriptions. In addition, the Group Compliance Office conducts training courses for individuals specifically affected by the laws applicable to insider trading and market abuse.

Despite the existence of a compliance management system and its risk-mitigating activities, individual breaches, the related investigations by public authorities and penalties cannot be ruled out completely, particularly in the fields of integrity, competition and capital market compliance.

Heavy penalties are also possible if emissions reporting is even slightly inaccurate or not submitted exactly on time. Under some circumstances, the airlines in the Lufthansa Group may not be able to rule out these risks altogether, even when the reporting is compiled with the utmost care.

### Litigation, administrative proceedings and arbitration

The Lufthansa Group is exposed to risks from legal, administrative and arbitration proceedings in which it is currently involved or which may take place in the future. It cannot be ruled out that the outcome of these proceedings may cause significant damage to the business of the Lufthansa Group or to its net assets, financial and earnings position. Appropriate provisions have been made for any financial losses that may be incurred as a result of legal disputes. More information on provisions for litigation risks and contingent liabilities can be found in the Notes to the consolidated financial statements

➤ **Note 33, p. 143ff., and Note 40, p. 159f.**

Furthermore, the Lufthansa Group has taken out liability insurance for an amount that the management considers appropriate and reasonable for the industry in order to defend itself against unjustified private third-party claims and to settle such claims it considers justified. Even in such cases, however, this insurance cover does not protect the Lufthansa Group against possible damage to its reputation.

Such legal disputes and proceedings may also give rise to expenses in excess of the insured amount, expenses not covered by the insurance, or those which exceed any provisions previously recognised. Finally – and depending on the type and extent of future losses – it cannot be guaranteed that the Lufthansa Group will continue to obtain adequate insurance cover on commercially acceptable terms in future.

There are insurance contracts in place for Germanwings and Deutsche Lufthansa AG as well as for other Lufthansa Group companies, covering various liability claims in connection with the Germanwings accident on 24 March 2015. This also applies to lawsuits filed in the USA against Germanwings, Lufthansa German Airlines and other Group companies. The Lufthansa flying school in Arizona (formerly Airline Training Center Arizona, Inc. (ATCA), now Lufthansa Aviation Training USA, Inc. (LAT US)), has also been sued for material and non-material damages. In the lawsuit, the claimants are arguing, among other things, that the flying school doubted the co-pilot's mental stability but still trained him nonetheless. Overall, the US lawsuits are estimated as having little chance of success, if indeed they do result in a court ruling in the US. Companies in the Lufthansa Group may still be faced with costs, however, since in France at least, public prosecution and judicial investigations into the case are still underway.

➤ **Earnings, assets and financial position, p. 32ff.** Costs for legal defence cannot be ruled out. Costs for investigations and voluntary payments to the victims' dependants have already been incurred and there is a risk that there are more to come.

The Lufthansa Group is subject to tax legislation in many countries. Changes in tax laws and case law, as well as different interpretations as part of tax audits, can result in risks and opportunities affecting tax expenses, income, claims and liabilities. The Corporate Taxation department identifies, evaluates and monitors tax risks and opportunities systematically and at the earliest possible stage and initiates steps to mitigate the risks as necessary.

## OVERALL STATEMENT ON OPPORTUNITIES AND RISKS

In a volatile environment, the Lufthansa Group relies on adjusting its capacities and resources flexibly to changing market conditions. To compete successfully over the long term, the Lufthansa Group focuses on promising product strategies, a solid financial position, a competitive cost structure and participates in the consolidation of the industry.

Continuous efficiency improvements are established as a permanent task in the Company. In order to seize opportunities for making lasting, structural improvements to efficiency, productivity and competitiveness, a process-oriented organisation has been implemented for the network airlines. It is also being implemented in the administrative areas and other operating segments. The Company is also working in other key strategic areas to drive its development by means of consolidation, flexibility and digitalisation.

The implementation risks for projects aimed at increasing efficiency and factors countervailing this, among them rising costs for fuel or fees and charges and declining yields particularly at the airlines, are mitigated by means of systematic risk management.

Although individual risks have been assessed differently in 2017, there has been no general material change to the internal risk landscape for the Lufthansa Group compared with the previous year. The airline industry is under pressure to change and is subject to competitive pressure, even though the economic environment continues to be good.

The Executive Board of the Lufthansa Group does not currently consider that the continued existence of the Company is at risk. It assumes that the Company will still be able to exploit opportunities as they arise in the future without having to incur unreasonably high risks. The Executive Board of the Lufthansa Group aims to achieve a balance between opportunities and risks, and is convinced that the opportunities and risk management system is effective.

## DESCRIPTION OF THE ACCOUNTING-RELATED INTERNAL CONTROL SYSTEM AND RISK MANAGEMENT SYSTEM IN ACCORDANCE WITH SECTION 289 PARAGRAPH 4 AND SECTION 315 PARAGRAPH 4 HGB

The Lufthansa Group's Internal Control System (ICS) 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 framework (Committee of the Sponsoring Organizations of the Treadway Commission).

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 Corporate Audit department of Deutsche Lufthansa AG as well as the decentralised internal audit departments at Group companies are embedded in the internal monitoring system for the Lufthansa Group and act independently of business processes. In addition, the effectiveness of those areas of the Internal Control System relevant to financial reporting are reviewed by the auditors as part of a risk-oriented approach to their audit.

The Audit Committee of the Deutsche Lufthansa AG Supervisory Board monitors the effectiveness of the Internal Control System and risk management system on the basis of Section 107 Paragraph 3 German Stock Corporation Act (AktG).

The objective of the Internal Control System for accounting processes is, by making checks, to provide a reasonable degree of certainty that the financial statements and the consolidated financial statements of Deutsche Lufthansa AG comply with the rules, despite the risks identified.

The following preventative and investigative checks are embedded in the accounting process:

- IT-supported and manual cross-checks,
- functional separation,
- dual signatures and
- monitoring checks.

Operational accounting processes are carried out locally at the Group companies and increasingly also using the Group's own and external Shared Service centres. Expert opinions for determining the amount of pension provisions are prepared by external consultants.

Corporate Accounting is functionally responsible for preparing the consolidated financial statements and draws up binding regulations for the Group companies that pertain to form, content and deadlines. The Lufthansa Group's accounting guidelines are updated regularly and define uniform accounting standards for the domestic and foreign companies included in the Lufthansa consolidated financial statements in accordance with International Financial Reporting Standards (IFRS). For Deutsche Lufthansa AG and other German companies in the Group, a guideline defines rules for drawing up individual financial statements in line with the German Commercial Code (HGB). This ensures that standardised Group accounting practices are applied to the recognition, measurement and presentation of balance sheet items, with as little room for discretion as possible. 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. Individual financial statements that contain errors are selected and restated as necessary at company or Group level on the basis of control mechanisms already defined in the SAP SEM-BCS consolidation software 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.

The IT systems used for accounting are protected against unauthorised access by special security precautions.

By means of the organisational, control and monitoring structures defined for the Lufthansa Group, the Internal Control System and risk management system as it relates to accounting ensures that all matters affecting the Company are captured, processed and evaluated, and are presented adequately in the Group's financial reporting. In particular, the use of individual discretion, faulty checks, criminal acts by those involved and other circumstances may compromise the effectiveness and reliability of the Internal Control System and risk management system in place. This means that even the Group-wide application of these systems cannot guarantee with complete certainty that facts are presented correctly, fully and promptly in the consolidated financial statements. These statements only relate to Deutsche Lufthansa AG and the major subsidiaries included in the consolidated financial statements of Deutsche Lufthansa AG.

## Forecast

Positive global economic performance should continue in 2018.

| IATA projects growth of 6.0 per cent in global revenue passenger-kilometres. | Earnings of airline industry set to rise. | Lufthansa Group expects Adjusted EBIT in 2018 to be slightly below previous year.

## MACROECONOMIC OUTLOOK

### T049 GDP DEVELOPMENT<sup>1)</sup>

Forecast 2017 to 2021 compared with previous year

in %	2017	2018	2019	2020	2021
World	3.2	3.3	3.2	3.0	3.1
Europe	2.6	2.3	1.9	1.8	1.8
Germany	2.6	2.8	2.0	1.5	1.5
North America	2.3	2.6	2.5	2.1	1.8
South America	1.5	1.6	2.1	2.3	2.6
Asia/Pacific	5.0	5.0	4.8	4.7	4.9
China	6.8	6.6	6.3	6.1	6.2
Middle East	1.4	2.7	3.8	4.0	4.2
Africa	3.2	3.4	3.5	3.7	3.7

Source: Global Insight World Overview as of 15.1.2018.

<sup>1)</sup> Forecast.

### Continued positive development of global economic growth expected

For 2018, the expectation is that the global economic growth that has been underway since 2011 and that accelerated in 2017 will continue. The current forecast for global growth in 2018 is 3.3 per cent. Risks for this expected growth include the danger of increasing global protectionism, as well as uncertainties surrounding the structure of Brexit, the effects of the US tax reform and reforms of the Chinese economy. Despite the rise in 2017, the oil price began 2018 on moderate level by long-term standards. This increase alleviates the problems of oil-producing countries without causing excessive inflationary pressure for countries with a demand for oil.

Economic growth in 2018 is predicted to be strongest in the Asia/Pacific region at 5.0 per cent (previous year: 5.0 per cent). China remains one of the fastest growing countries in the world, despite again slower pace of expansion than in recent years. The North America region is expected to expand by 2.6 per cent (previous year: 2.3 per cent).

Higher employment figures and positive developments on property and stock markets in the US will contribute to this. Negative effects from increasing inflation rates, a strengthening US dollar and interest rate rises are only expected for a period after 2018.

A total growth of 2.3 per cent is forecast for Europe in 2018, which is more modest than in 2017. Continued stabilisation on the labour markets, the ongoing supportive monetary policy and global demand for European exports will contribute to achieving this growth. However, there is uncertainty concerning the effects of the upcoming Brexit, the independence movement in Spain and the election in Italy.

### Positive development of interest and exchange rates expected, but political risks persist

The current strength of the euro in comparison with other key currencies is expected to continue in 2018. Political risks still remain, however, which may have an adverse impact on the euro exchange rate. In 2018, the focus will be on the further Brexit negotiations and the election in Italy.

A slow change in interest policy is expected at the European Central Bank. Long-term interest rates started to rise in 2017. The expectation is that this trend will gradually continue. No great interest rate hikes are predicted for 2018, however.

### Slight fall in oil prices expected

Overall, market participants are anticipating a slight fall in oil prices over the medium term. With prices just below USD 67/barrel as of 2 January 2018, futures contracts for delivery in December 2018 were trading at USD 62.89/barrel, and for December 2019 at USD 59.82/barrel.

## SECTOR OUTLOOK

### Sector outlook for 2018 is positive

The International Air Transport Association (IATA) forecasts global growth in revenue passenger-kilometres of 6.0 per cent (previous year: 7.5 per cent) for 2018. Growth is expected to vary from one region to another. The fastest growth, at 8.0 per cent, is expected for the regions of Latin America and Africa, followed by Asia/Pacific and the Middle East each with 7.0 per cent. Growth of 6.0 per cent is projected for Europe. International passenger traffic in North America is again forecast to grow more slowly, at 3.5 per cent.

For the first time since 2011, IATA is also predicting an improvement in yields in global passenger traffic of 3.0 per cent in 2018.

### Airfreight traffic continues to grow

IATA is forecasting an increase of 4.5 per cent in revenue cargo tonne-kilometres for global airfreight traffic in 2018 (previous year: 9.3 per cent). Yields in the cargo business are expected to go up by 4.0 per cent.

### New growth and further consolidation expected for service companies

The MRO market is forecast to grow by an average of approximately 7.3 per cent per annum in the period up to 2026. The Asia/Pacific region will see the biggest increase in MRO demand. The North American market will, however, remain the largest single market. Although they have risen in recent months, comparatively low oil prices could have an additionally positive impact on demand for MRO services, since airlines may increase the size of their fleets or use less fuel-efficient aircraft for longer than planned.

Demand for airline catering (for both classic and innovative in-flight service concepts) will keep rising and the main industry trends – consolidation, cost and price pressure, higher customer expectations and digitalisation – will continue. In addition to flexibility, quality and culinary excellence, the decisive criteria for the future success of in-flight service providers will include innovation and the ability to integrate products into existing systems.

### Earnings for the airline industry expected to increase

The global airline industry forecasts profits of USD 34.5bn in 2017, which IATA expects to rise to USD 38.4bn in 2018. Higher earnings are forecast for all regions to different extents. Only the Africa region is again predicted to make a loss of USD 0.1bn. Airlines from North America are again expected to take the largest share of the profits, with forecast earnings of USD 16.4bn. Profits of USD 11.5bn are forecast for European carriers, while profits of USD 9.0bn are forecast for airlines in the Asia/Pacific region. Airlines from Latin America are expected to report profits of USD 0.9bn, with profits amounting to USD 0.6bn predicted for Middle Eastern carriers.

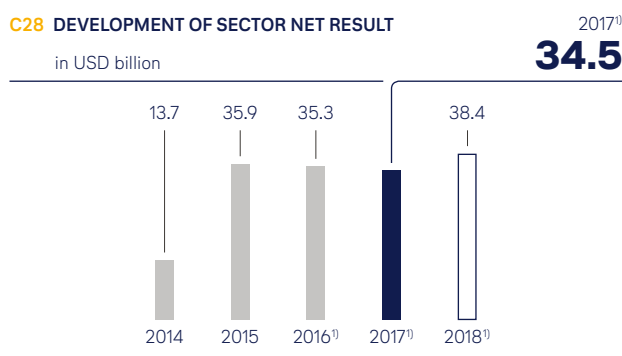
## CHANGES IN BUSINESS AND ORGANISATION

The Lufthansa Group regularly reviews its organisational structure and adapts it to changes in the business environment. Opportunities to increase efficiency in the course of continuous improvements are being seized in all of the Lufthansa Group's operating segments and are reflected in the planning.

In the 2017 financial year, the process-oriented matrix organisation was successively implemented, first at the Network Airlines and then in the administrative areas and other operating segments. The interconnection of all areas continues as synergies are identified on an ongoing basis.

The biggest changes in the 2018 financial year will affect the Point-to-Point Airlines segment. Luftfahrtgesellschaft Walter (LGW) and other aircraft in the portfolio of the insolvent Air Berlin group are to be integrated into the existing organisational structure of the Eurowings group. The segment will see significant growth again. At the same time, the integration of Brussels Airlines will continue. Identifying synergies and implementing them as smoothly as possible will also be at the centre of organisational activities.

### C28 DEVELOPMENT OF SECTOR NET RESULT



<sup>1)</sup> Forecast.

Source: IATA Airline Industry Economic Performance (12/2017).

## OUTLOOK FOR THE LUFTHANSA GROUP

The Lufthansa Group achieved the best result in its history in 2017. Factors that contributed to this included structural changes in the Company and the industry, a strong macroeconomic performance in the markets of the Lufthansa Group and, above all, the normalisation of demand at the airlines, after a downturn in the previous year due to terrorist attacks in Europe and strikes at Lufthansa German Airlines. Towards the end of the year in particular, the Lufthansa Group also benefited from increasing consolidation in its home markets. The insolvency of the Air Berlin group suddenly caused a unique reduction of capacity in the German-speaking market, which is not sustainable on this scale.

Although macroeconomic developments – and thus demand – remain positive at the start of the year, the basis for comparison will become increasingly challenging for the Lufthansa Group over the course of 2018. The significantly higher oil price puts pressure on costs and the weaker US dollar reduces demand for flights from North America to Europe. Through the increasing consolidation arises a competitive environment, which is shaped by numerous exits from the market but likewise by an even greater number of entries to the market by competitive airlines. Competition is becoming more intense while the market is at the start of a restructuring process.

In view of this dynamic competition and the changes in capacity, the Lufthansa Group assumes that the course of its business will be subject to significant fluctuations in 2018. The strong volatility of key variables will require assumptions to be reviewed continuously over the course of the year, in order to be able to respond appropriately and promptly to changes with suitable management measures.

### **Lufthansa Group expects Adjusted EBIT in 2018 slightly below previous year**

Based on the market price for crude oil and the US dollar exchange rate as of 23 February 2018, the Lufthansa Group anticipates a year-on-year increase in fuel costs of around EUR 700m. These additional costs will probably be offset to a significant extent, though not completely, by good operating performance at the passenger airlines, with further reductions in unit costs and roughly stable unit revenues. Inorganic growth from the insolvency of the Air Berlin group and the earnings performance of the other operating segments will not have a significant effect on the overall results.

Based on these assumptions and from today's perspective, the Lufthansa Group expects revenue to be significantly above and Adjusted EBIT to be slightly below previous year in 2018.

The main influence factors on earnings remain the oil price, the euro exchange rate, especially against the US dollar and the Swiss franc, as well as unit revenues at the Network Airlines and Point-to-Point Airlines segments. Overall risks from underlying macroeconomic and from geopolitical developments, in particular, have increased in recent months and represent a key uncertainty for the development of revenue and earnings, especially for the Network Airlines.

At the time of this forecast, restructuring costs across all segments are expected to be at a similar high level to the previous year. If progress with the restructuring efforts differs from what was planned at the beginning of the year, this figure may further increase or decrease over the course of the year, increasing or decreasing earnings accordingly.

### **Network Airlines expect slight reduction in earnings**

The network airlines Lufthansa German Airlines, SWISS and Austrian Airlines will continue to adapt their respective operating processes in order to optimise the competitiveness of the entire segment in the financial year. Changes will be made to organisational structures and workflows. Varying – possibly also negative – developments in unit revenues and costs are possible at the individual airlines in order to generate overall synergies for the entire Network Airlines segment.

The market environment will remain very challenging as a result of significant increases in fuel prices, exchange rate fluctuations and further increases in competition. Significantly higher fuel costs will be a particular burden for the airlines' earnings. Unit revenues will come under increasing pressure over the course of the year. Key drivers for this are, as well as the demanding comparison with the previous year, also the once-again increasing capacities on the market and divergent hedging profiles that continue to give individual competitors the scope for an aggressive pricing policy.

For the Network Airlines segment overall, revenue is expected to be slightly above and Adjusted EBIT is expected to be slightly below previous year.

Lufthansa German Airlines expects Adjusted EBIT to be slightly below previous year. The focus will remain on continuous unit cost reductions, which are to be achieved by a broad set of activities.



SWISS expects Adjusted EBIT slightly below previous year. Efficiency gains from the fleet renewal will have a positive impact on the result, but competition in the Swiss market is increasing particularly strongly.

Austrian Airlines expects Adjusted EBIT slightly below previous year. Ongoing revenue and cost initiatives as well as strict management of capacities and marketing activities will remain in focus in the new year.

#### Start-up and fuel costs to weigh on earnings for the Point-to-Point Airlines segment

The Point-to-Point Airlines segment expects revenue to be significantly above and Adjusted EBIT to be slightly below previous year. The main reasons are the costs involved in takeover of Luftfahrtgesellschaft Walter and further strong growth following the insolvency of the Air Berlin group.

For the Network Airlines and the Point-to-Point Airlines segments together, exchange rate-adjusted unit revenues are expected to be roughly stable, being slightly positive at the beginning of the year before becoming increasingly negative towards the end of the year. Unit costs excluding fuel and currency effects are expected to fall by 1 to 2 per cent. The implementation for the first time of the new provisions in IFRS 15 will reduce both unit costs and unit revenues significantly, while having no effect on absolute profits for the passenger airlines.

#### Other business segments to make stable earnings contributions overall

The Logistics segment is expecting revenue to be slightly above and Adjusted EBIT to be slightly below previous year. The ongoing strategic cost-cutting programme at Lufthansa Cargo and the wage settlement with the Vereinigung Cockpit pilots' union will make lasting contributions to improving the cost position. Higher fuel and capacity costs will have a particularly disproportionate negative impact on earnings however.

The MRO segment is expecting revenue to be significantly above and Adjusted EBIT to be slightly above previous year. The main drivers of this performance will be growth in external customer business and the successful implementation of numerous cost-cutting measures.

The Catering segment is expecting revenue to be slightly below and Adjusted EBIT to be slightly above previous year. Negative exchange rate movements are responsible for the forecast decline in revenue. Higher Adjusted EBIT is mainly due to lower planned transformation costs. Measures to achieve structural improvements to earnings will continue to be carried out consistently and as planned.

#### T050 FORECAST OPERATING FIGURES PASSENGER AIRLINES

	Values 2017	Forecast for 2018
<b>Capacity (ASK)</b>		+ 7.0% from organic growth plus + 2.5% from inorganic growth
	322,821	
<b>Unit revenues</b> (RASK, at constant currency)	+ 1.9%	roughly stable
<b>Unit costs</b> (CASK, at constant currency and constant fuel costs)	- 0.4%	- 1.0% to - 2.0%

#### T051 FORECAST REVENUE AND RESULT

	Revenue		Adjusted EBIT	
	Revenue 2017 in €m	Forecast for 2018	Adjusted EBIT 2017 in €m	Forecast for 2018
Lufthansa German Airlines	16,441		1,627	slightly below previous year
SWISS	4,727		542	slightly below previous year
Austrian Airlines	2,358		94	slightly below previous year
Network Airlines	23,317	slightly above previous year	2,263	slightly below previous year
Point-to-Point Airlines	4,041	significantly above previous year	94	slightly below previous year
Logistics	2,524	slightly above previous year	242	slightly below previous year
MRO	5,404	significantly above previous year	415	slightly above previous year
Catering	3,219	slightly below previous year	66	slightly above previous year
Additional Businesses and Group Functions	446		-130	slightly below previous year
Internal revenue/Reconciliation	-3,372		23	
<b>Lufthansa Group reported</b>	<b>35,579</b>	<b>significantly above previous year</b>	<b>2,973</b>	<b>slightly below previous year</b>

**Strategic financial KPIs are expected to improve**

The Lufthansa Group is planning for a total capital expenditure of EUR 3.4bn in the financial year 2018. This includes capital expenditure by purchasing aircraft in connection with the insolvency of Air Berlin and the market opportunities in this context. Adjusted ROCE is predicted to be slightly lower than in the previous year, in line with the change in Adjusted EBIT. Significant positive value creation (EACC) is expected once again. The ratio of Adjusted Net Debt, including the effect of pension provisions, to Adjusted EBITDA should remain significantly below the threshold of 3.5. The intention is to also pay a dividend for the 2018 financial year, as long as the conditions defined in the dividend policy are met.

**T052 FORECAST FINANCIAL KPIs**

	Result 2017	Forecast for 2018
Capital expenditure (gross)	€ 3.0bn	€ 3.4bn
Adjusted ROCE	11.6%	slightly below previous year
EACC	€ 1.8bn	significantly positive
Adjusted Net Debt/ Adjusted EBITDA	1.7	significantly below 3.5

## OVERALL STATEMENT BY THE EXECUTIVE BOARD ON THE EXPECTED DEVELOPMENT OF THE LUFTHANSA GROUP

The Lufthansa Group's home markets are undergoing a process of dynamic change. The consolidation of passenger airlines in Europe is picking up speed and the remaining competitors are starting to fight for market share. A period of consolidation is also on the horizon for the Aviation Services markets. In this changing environment, the Executive Board sees the companies in the Lufthansa Group as well prepared to derive long-term benefits from this transformation and to emerge as one of the structural winners of the consolidation process.

The Executive Board sees the broadly based Lufthansa Group as being in a good position to meet current and future market challenges. Diversification of the Network Airlines, Point-to-Point Airlines and Aviation Services segments is just as important in this context as the solid financial profile of the Lufthansa Group. These features enable the airlines and the companies in the Aviation Services segment to initiate the ongoing processes of structural change from a position of strength and to actively participate in the consolidation.

The increasing financial strength of the Lufthansa Group remains crucial, as does the continuous improvement of its profitability across the cycle. This is the fundamental prerequisite for the Lufthansa Group's sustained successful development, not least due to persistent cost pressure and shifting competitive structures.

In the year ahead, the Executive Board will therefore be relentlessly in initiating activities to reach this goal. An intensive phase of far-reaching changes still lies ahead of the Company, a phase in which the new organisational structure will be put into practice and the corporate structure and culture will be developed further. The Executive Board is confident that staff and managers together will make and implement the right decisions to equally add value for customers, employees and shareholders.

## Corporate Governance

Executive Board and Supervisory Board work together closely to sustainably increase Company value. | The recommendations of the German Corporate Governance Code were complied with, with one exception. | Comprehensive management system helps ensure compliance.

## SUPERVISORY BOARD AND EXECUTIVE BOARD

### Supervisory Board

#### **Dr Wolfgang Röllner**

Former Chairman of the Supervisory Board Deutsche Lufthansa AG  
Honorary Chairman  
(died on 9 March 2018)

#### **Dipl.-Ing. Dr.-Ing. E.h. Jürgen Weber**

Former Chairman of the Supervisory Board Deutsche Lufthansa AG  
Honorary Chairman

#### **Voting members**

#### **Wolfgang Mayrhuber**

Former Chairman of the Executive Board Deutsche Lufthansa AG  
Chairman  
(until 24 September 2017)

#### **Dr Karl-Ludwig Kley**

Chairman of the Supervisory Board E.ON SE  
Chairman (since 25 September 2017)

#### **Christine Behle**

Member of the National Executive Board of the trade union ver.di  
Employee representative  
Deputy Chairwoman

#### **Nicoletta Baublies**

Purser and Member of the Executive Board of the trade union UFO e.V. and Chairman of the Executive Board Industriegewerkschaft Luftverkehr (IGL)  
Employee representative

#### **Dr Werner Brandt**

Former Member of the Executive Board SAP SE  
(until 31 December 2017)

#### **Jörg Cebulla**

Flight captain  
Employee representative

#### **Herbert Hainer**

Former Chairman of the Executive Board adidas AG

#### **Dr h.c. Robert Kimmitt**

Senior International Counsel Wilmer Cutler Pickering Hale and Dorr LLP, USA

#### **Carsten Knobel**

Member of the Executive Board and CFO Henkel AG & Co. KGaA (since 9 January 2018)

#### **Martin Koehler**

Independent management consultant and former head of the Aviation Competence Center at The Boston Consulting Group

#### **Doris Krüger**

Senior Director Future Innovation Strategy, Lufthansa Group  
Employee representative

#### **Eckhard Lieb**

Training Coordinator  
Employee representative

#### **Jan-Willem Marquardt**

Flight captain and member of the Cockpit pilots' union  
Employee representative

#### **Martina Merz**

Former CEO Chassis Brakes International, Netherlands

#### **Ralf Müller**

State certified technician  
Employee representative

#### **Monika Ribar**

President of Board of Directors (VRP) Schweizerische Bundesbahnen SBB AG, Switzerland

#### **Miriam E. Sapiro**

Managing Director at Sard Verbinen & Co., USA, (since 24 October 2017)

#### **Andreas Strache**

Flight manager  
Employee representative

#### **Stephan Sturm**

Chairman of the Executive Board Fresenius Management SE

#### **Christina Weber**

Administrative staff member  
Employee representative

#### **Birgit Weinreich**

Flight attendant  
Employee representative

#### **Matthias Wissmann**

President of the International Organization of Motor Vehicle Manufacturers (OICA)

### Executive Board

#### **Carsten Spohr**

Chairman of the Executive Board and CEO

#### **Thorsten Dirks**

Member of the Executive Board Eurowings and Aviation Services (since 1 May 2017)

#### **Karl Ulrich Garnadt**

Member of the Executive Board Eurowings and Aviation Services (until 30 April 2017)

#### **Harry Hohmeister**

Member of the Executive Board Hub Management

#### **Ulrik Svensson**

Member of the Executive Board Finances

#### **Dr Bettina Volkens**

Member of the Executive Board Corporate Human Resources and Legal Affairs

## MANDATES

### Other mandates of the Supervisory Board members of Deutsche Lufthansa AG

(As of 31 December 2017)

#### Wolfgang Mayrhuber

(As of date of departure on 24 September 2017)

- a) Infineon Technologies AG (Chairman)
- b) HEICO Corp.

#### Dr Karl-Ludwig Kley

- a) BMW AG (Deputy Chairman)  
E.ON SE (Chairman)
- b) Verizon Communications Inc., USA (until 3 May 2018)

#### Christine Behle

- a) Bochum-Gelsenkirchener Straßenbahnen AG  
BREMER LAGERHAUS-GESELLSCHAFT – Aktiengesellschaft von 1877 – (Deputy Chairwoman)  
Hapag Lloyd AG (Deputy Chairwoman)

#### Dr Werner Brandt<sup>1)</sup>

- a) innogy SE (Chairman) (until 31 December 2017)  
Osram Licht AG (until 31 December 2017)  
ProSiebenSat.1 Media AG (Chairman)  
RWE AG (Chairman)

#### Herbert Hainer

- a) Allianz SE  
FC Bayern München AG (Deputy Chairman)
- b) Accenture plc., Ireland  
Sportradar AG, Switzerland (Chairman)

#### Carsten Knobel

- (As of date of appointment in Supervisory Board on 9 January 2018)
- b) Henkel Central Eastern Europe GmbH, Austria (Chairman)  
Henkel (China) Investment Co. Ltd., China  
Henkel & Cie. AG, Switzerland  
Henkel Consumer Goods, Inc., USA (Chairman)  
Henkel Ltd., Great Britain  
Henkel of America Inc. (Chairman)

#### Martin Koehler

- a) Delton AG
- b) American Funds Investment-Fonds, managed by the Capital Group, USA  
Enfold Inc., USA  
FlixBus GmbH

#### Eckhard Lieb

- b) Albatros Versicherungsdienste GmbH

#### Martina Merz

- b) AB Volvo, Sweden  
Imerys SA, France  
NV Bekaert SA, Belgium  
SAF-HOLLAND SA, Luxembourg (Chairwoman)

#### Ralf Müller

- a) Lufthansa Cargo AG (until 31 December 2017)

#### Monika Ribar

- b) Chain IQ Group AG, Switzerland  
Schweizerische Bundesbahnen SBB AG, Switzerland (President of the Board of Directors, VRP)  
Sika AG, Switzerland

#### Miriam E. Sapiro

- b) Project HOPE, USA

#### Stephan Sturm

- a) Fresenius Kabi AG (Chairman)  
Fresenius Medical Care Management AG (Chairman)
- b) VAMED AG, Austria (Deputy Chairman)

#### Christina Weber

- a) LSG Lufthansa Service Holding AG

### Mandates of the Executive Board members of Deutsche Lufthansa AG

(As of 31 December 2017)

#### Carsten Spohr

- a) Lufthansa Technik AG<sup>2)</sup> (Chairman)  
ThyssenKrupp AG
- b) Dr August Oetker KG  
SN Airholding SA/NV, Belgium

#### Thorsten Dirks

- a) Eurowings GmbH<sup>2)</sup> (Chairman)  
Germanwings GmbH<sup>2)</sup> (Chairman)
- b) Günes Ekspres Havacilik A.S. (SunExpress), Turkey  
SN Airholding SA/NV, Belgium

#### Karl Ulrich Garnadt

(As of date of departure on 30 April 2017)

- a) Eurowings GmbH<sup>2)</sup> (Chairman)  
Germanwings GmbH<sup>2)</sup> (Chairman)  
LSG Lufthansa Service Holding AG<sup>2)</sup>  
Lufthansa Aviation Training Germany GmbH<sup>2)</sup> (Chairman)  
Lufthansa CityLine GmbH<sup>2)</sup> (Chairman)

- b) Air Dolomiti S.p.A. Linee Aeree Regionali Europee (BoD), Italy  
Austrian Airlines AG, Austria (Deputy Chairman)  
Edelweiss Air AG, Schweiz (Chairman)  
Günes Ekspres Havacilik A.S. (SunExpress), Turkey (Deputy Chairman)  
ÖLH Österreichische Luftverkehrs-Holding GmbH, Austria  
SN Airholding SA/NV, Belgium

#### Harry Hohmeister

- a) Lufthansa Cargo AG<sup>2)</sup> (Chairman)
- b) Aircraft Maintenance and Engineering Corporation (AMECO), China  
Austrian Airlines AG, Austria (Chairman)  
Miles & More GmbH (Chairman)  
Swiss International Air Lines AG, Switzerland

#### Ulrik Svensson

- a) Delvag Versicherungs-AG<sup>2)</sup> (Chairman)  
LSG Lufthansa Service Holding AG<sup>2)</sup>  
Lufthansa Cargo AG<sup>2)</sup>  
Lufthansa Technik AG<sup>2)</sup>
- b) Austrian Airlines AG, Austria (Deputy Chairman)  
Lufthansa AirPlus Servicekarten GmbH (Chairman)  
Miles & More GmbH (Deputy Chairman)  
ÖLH Österreichische Luftverkehrs-Holding GmbH, Austria (Deputy Chairman)  
SN Airholding SA/NV, Belgium  
Swiss International Air Lines AG, Switzerland

#### Dr Bettina Volkens

- a) LSG Lufthansa Service Holding AG<sup>2)</sup> (Chairman)

a) Membership of supervisory boards required by law.

b) Membership of comparable supervisory bodies at companies in Germany and abroad.

<sup>1)</sup> Until 31 December 2017.

<sup>2)</sup> Group mandate in accordance with Section 100 Paragraph 2 Sentence 2 AktG.

## CORPORATE GOVERNANCE REPORT

### The Executive Board and Supervisory Board have a close and trusting working relationship

The common aim of the Executive Board and the Supervisory Board is to achieve lasting increases in the value of the Company. To this end, they cultivate a close and trusting working relationship in the interests of the Company.

The Supervisory Board has adopted internal regulations governing the work of the Executive Board and the Supervisory Board as well as the cooperation between them. The five 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 at least four times a year on business developments at the Group and its affiliated companies, as well as once a year on operational planning and financial planning for the Group. The Executive Board presents the Company's quarterly reports to the Supervisory Board. Furthermore, the Chairman of the Executive Board informs the Chairman of the Supervisory Board and the Supervisory Board of important matters.

The Executive Board makes decisions by a simple majority of votes cast. There are a number of transactions for which the Executive Board requires the approval of the Supervisory Board. These include (above a certain value threshold) borrowing, capital expenditure on aircraft and other non-current assets, long-term leasing of aircraft, establishing companies and the acquisition or disposal of shares.

The Supervisory Board has formed a Steering Committee from among its members made up of equal numbers of shareholder and employee representatives, consisting of the Chairman of the Supervisory Board and his deputy, each exercising their equivalent function, as well as two other Supervisory Board members to be elected by the Supervisory

Board. The Steering Committee makes recommendations to the Supervisory Board on appointing Executive Board members, nominating the Chairman of the Executive Board, setting total remuneration for individual Executive Board members, including salary and all other benefits, on any capital reductions in accordance with Section 87 Paragraph 1 and Paragraph 2 Sentence 1 and 2 of the German Stock Corporation Act (AktG) and on determining objectives and deadlines for the ratio of female Executive Board members. Furthermore, the Steering Committee is responsible for all other human resources matters involving Executive Board members not reserved for the full Supervisory Board. The Steering Committee represents the Company in dealings with the members of the Executive Board. It is also responsible for contracts with Supervisory Board members (including loans). In the event of an equal number of votes, the Chairman of the Supervisory Board has the deciding vote.

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 Supervisory Board elects the Committee Chair, who nominates a deputy to represent them in case of absence. The members of the Audit Committee should have specialist knowledge in the area of accounting, management and financial management. The task of the Audit Committee is to discuss matters pertaining to accounting, risk management, the Internal Control System and the Compliance Management System, the necessary independence of the external auditors, the appointment of external auditors, the focus of the audits and the remuneration agreement; it must also ensure the quality of the audit and make recommendations 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.

### C29 SUPERVISORY BOARD COMMITTEES

Steering Committee	Audit Committee	Nomination Committee	Arbitration Committee in accordance with Section 27 Paragraph 3 Co-determination Act (MitbestG)
<b>Dr Karl-Ludwig Kley,</b> Chairman  <b>Christine Behle,</b> Deputy Chairwoman  <b>Herbert Hainer</b>  <b>Birgit Weinreich</b>	<b>Dr Werner Brandt</b> (until 31.12.2017), Chairman  <b>Stephan Sturm,</b> Chairman (since 31.12.2017)  <b>Carsten Knobel</b> (since 9.1.2018)  <b>Doris Krüger</b>  <b>Eckhard Lieb</b>  <b>Jan-Willem Marquardt</b>  <b>Monika Ribar</b>	<b>Herbert Hainer</b>  <b>Dr Karl-Ludwig Kley</b>  <b>Martin Koehler</b>	<b>Dr Karl-Ludwig Kley,</b> Chairman  <b>Christine Behle,</b> Deputy Chairwoman  <b>Herbert Hainer</b>  <b>Birgit Weinreich</b>
Five meetings in 2017	Five meetings in 2017	Four meetings in 2017	No meetings in 2017


The Supervisory Board has elected a Nomination Committee from among its shareholder representatives, consisting of three members. The Committee's task is to propose to the Supervisory Board suitable candidates to recommend for election to the Supervisory Board at the Annual General Meeting.

The selection process carried out by the Nomination Committee is based on the requirements profile for Supervisory Board members, as adopted by the Supervisory Board.

 [www.lufthansagroup.com/corporate\\_governance\\_declaration](http://www.lufthansagroup.com/corporate_governance_declaration).

The Arbitration Committee required under Section 27 Paragraph 3 of the Co-determination Act and formed in line with Section 9 Paragraph 2 of the Company's Articles of Association 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. In accordance with Section 31 Paragraph 3 Sentence 1 of the Co-determination Act, the Committee then has one month to make a corresponding proposal to the Supervisory Board.

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

**Executive Board and Supervisory Board members and their responsibilities, as well as members and duties of committees set up by the Supervisory Board**  p. 83ff.

### **Compliance with the German Corporate Governance Code with one exception**

At their meeting on 5 December 2017, the Executive Board and Supervisory Board issued the following declaration of compliance with the German Corporate Governance Code:

"In accordance with Section 161 AktG, the Executive Board and the Supervisory Board of Deutsche Lufthansa AG declare that since the last declaration of compliance, the recommendations of the German Corporate Governance Code as amended have, with the following exception, been complied with and, with the following exception, will continue to be complied with in the future.

In accordance with Clause 4.2.3 Paragraph 2 of the Code, the total remuneration of the Executive Board members and the variable bonus components are to be capped. The service contracts with Board members cap all the main elements of remuneration, including the fixed salary, the variable bonus and the retirement benefit commitment. Ancillary benefits at Deutsche Lufthansa AG are not subject to an overall cap,

however. In particular, private flights in line with IATA regulations and with restricted booking status due to full-paying passengers should not be capped for members of the Executive Board of Deutsche Lufthansa AG. Since the booking status is restricted, the related ancillary benefit is small. The members of the Executive Board should be able to use the Company's main product and the opportunity to meet employees and passengers on board as widely as possible in line with international practice, including for private travel."

### **Shareholders and Annual General Meeting have wide-ranging rights**

Lufthansa shares are registered shares with transfer restrictions. Every share has identical voting rights. A peculiarity at Deutsche Lufthansa AG is that in addition to the German Stock Corporation Act, the registration requirements of the German Aviation Compliance Documentation Act (LuftNaSiG) must also be met. This relates in particular to the disclosure of nationality for people and of domicile for companies and for entities with disclosure obligations under the German Securities Trading Act (WpHG) of any majority stake or controlling interest held by a non-German owner.

All shareholders listed in the shareholders' register can exercise their voting rights at the Annual General Meeting. The electronic service for the registration process required under stock corporation law includes the option of appointing proxies, banks and shareholder associations to exercise these voting rights via the internet and by postal vote. Shareholders can also follow the speeches made at the Annual General Meeting by the Chairmen of the Supervisory and Executive Boards online.

### **Transparent accounting and financial communications conform to international standards**

The Lufthansa Group prepares its consolidated financial statements and interim reports in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), taking account of interpretations by the IFRS Interpretations Committee as applicable in the European Union (EU).

The individual financial statements for Deutsche Lufthansa AG, which are required by law and are relevant for the dividend payment, are prepared according to the German Commercial Code (HGB). PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft in Düsseldorf has been appointed to audit the financial statements for 2017. The auditors' fees for the 2017 financial year are summarised in the Notes to the consolidated financial statements.  **Note 44, p. 173.**

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



This also applies to people and companies closely related to the group mentioned above. <https://investor-relations.lufthansagroup.com/en/meldungen/directors-dealings.html>. As of 31 December 2017, the value of all shares, options or derivatives held by members of the Executive and Supervisory Boards did not exceed that of 1 per cent of all shares issued by the Company. The Lufthansa Group informs shareholders, analysts and the general public in a timely and equitable manner. More information on these activities can be found in the chapter [Lufthansa share, p. 9ff.](#), and on the website [www.lufthansagroup.com/investor-relations](http://www.lufthansagroup.com/investor-relations).

### Comprehensive management system helps ensure compliance

Compliance describes all measures taken to ensure the correct conduct of companies, their management and their employees with respect to statutory and the Company's own obligations and prohibitions. The Lufthansa Group Compliance Management System is intended to prevent employees and the Company from coming into conflict with the law and at the same time to help them to apply statutory regulations correctly. The Lufthansa Compliance Programme is made up of the following elements: Competition, Capital Markets, Integrity, Embargo and Corporate Compliance. An ombudsman system gives staff the opportunity to report any suspicion of criminal activity or breaches of the compliance regulations. The central Compliance Office, which reports to the Executive Board member responsible for Human Resources and Legal Affairs, the various central and local compliance committees in the Lufthansa Group and the Compliance Officers in Group companies are to ensure that the Lufthansa Compliance Management System is enforced throughout all companies in the Lufthansa Group. The effectiveness of the Compliance Management System is monitored by means of regular independent reviews by the internal audit department. The Audit Committee of the Supervisory Board is notified semi-annually of incidents and progress concerning compliance. <http://investor-relations.lufthansagroup.com/en/corporate-governance.html>.

## REMUNERATION REPORT

The complexity of the presentation in this remuneration report of the principles of the remuneration system for the Executive Board and Supervisory Board of Deutsche Lufthansa AG, as well as the structure and amount of benefits, is required to comply with all statutory requirements and the recommendations of the German Corporate Governance Code, with the exception presented in the declaration of compliance. The remuneration report forms part of the combined management report.

### Structure of Executive Board remuneration

Executive Board remuneration consists of a basic salary, variable remuneration components, other benefits and a retirement pension. In May 2017, the Supervisory Board agreed with the Executive Board members on an alteration to the remuneration structure for the Executive Board, which applies to all Executive Board members from the financial year 2017. The previous contractually prescribed option of a discretionary bonus was abolished. The required long-term assessment base for variable remuneration was ensured by increasing the proportion of variable Executive Board remuneration that is deferred and paid out after three years from 25 per cent to 50 per cent.

The Executive Board's remuneration consists of the following components:

- **Fixed annual salary.** Basic remuneration, paid monthly as a salary.
- **Variable annual remuneration.** The variable remuneration is based on the EBIT margin for the Lufthansa Group. As of 2017, 50 per cent of the remuneration is multiplied by an individual performance factor, which varies from 0.8 to 1.2. It is paid the following year and so on an annual basis. The remaining 50 per cent is carried forward for another two years. At the end of the full three-year assessment period, the amount carried forward is multiplied by a factor determined on the basis of objective indicators, of which cumulative three-year EACC accounts for 70 per cent and the sustainability parameters of environmental protection, customer satisfaction and staff commitment account for 30 per cent. The factor can vary between 0.0 and 2.0 and is applied uniformly for the entire Executive Board to the amount carried forward before it is paid out. The multiplier based on EACC increases on a linear basis from a value of 0.0, which corresponds to EACC of EUR –1,000m or lower, to a maximum value of 2.0, which is attained when EACC reaches EUR 1,000m. The sustainability factor, which can also vary between 0.0 and 2.0, is determined by the Supervisory Board on the basis of a recommendation from the Steering Committee and represents a discretionary assessment of changes in the figures "Reduction of CO<sub>2</sub> emissions", "Customer satisfaction at Lufthansa German Airlines (CPI)" and "Employee survey indices in the Group". The total amount of variable remuneration that can be paid for a given financial year is capped at 175 per cent of fixed annual salary.

- **Share-based remuneration.** Executive Board members are also required to participate in the share programmes for managers (with their own parameters, which are structured differently from those of the general managers' programme). ➤ **Note 36, p. 151ff.** The Act on Appropriate Executive Board Remuneration (VorstAG) defines a vesting period of at least four years for stock option programmes; this period is also given as a general orientation and recommendation for long-term incentive models. The duration of the LH-Performance programme is therefore set at four years, even though it is not a stock option programme within the meaning of the Act.
- **Other benefits.** Other benefits include, in particular, the non-cash benefit of using company cars, the discount granted in connection with share programme issues (➤ **Note 36, p. 151ff.**), 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.

#### End-of-service benefits

- **Retirement benefits.** 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 investment 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.

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. Deutsche Lufthansa AG 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 by the number of full years by which the claimant is short of the age of 60 from the time a disability pension entitlement arises.

The pension credit is paid out in ten instalments. On application by the Executive Board member or his/her surviving dependants, a payment as a lump sum or in fewer than ten instalments or as an annuity may also be made, subject to approval by the Company.

The dependant's pension is 60 per cent of the deceased's pension entitlement. If the Board member dies while in the Company's employment, his/her surviving dependants will be paid his/her full salary until the end of the financial year for a period of at least six months.

Under his contract as a pilot, which is currently not active, Carsten Spohr is entitled to a transitional pension in accordance with the wage agreement "Transitional pensions for cockpit staff". If Carsten 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.

- **Cap on severance pay.** 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.
- **Change of control.** If the contract between an 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.

## Amount of Executive Board remuneration

**Executive Board remuneration in the financial year.** Total remuneration paid to the active members of the Executive Board for their work in 2017 came to EUR 14,731k (previous year: EUR 10,389k). EUR 5,280k (previous year: EUR 5,044k) of the total was paid as a fixed salary and EUR 9,451k (previous year: EUR 5,345k) was paid as performance-related remuneration. The current service costs for pension commitments came to EUR 3,119k (previous year: EUR 2,253k).

The following remuneration was paid to the individual active members of the Executive Board in 2017:

### T053 TOTAL REMUNERATION OF THE EXECUTIVE BOARD (HGB) 2017

In € thousands	Basic remuneration	Other <sup>1)</sup>	One-year variable remuneration	Long-term variable remuneration	Option programme <sup>2)</sup>	Total remuneration
Carsten Spohr	1,380	117	1,551	318	827	4,193
Thorsten Dirks <sup>3)</sup>	575	68	646	-	551	1,840
Karl Ulrich Garnadt <sup>4)</sup>	287	20	323	224	-	854
Harry Hohmeister	863	87	970	224	551	2,695
Ulrik Svensson	863	78	970	-	551	2,462
Dr Bettina Volkens	863	79	970	224	551	2,687
<b>Total (HGB)</b>	<b>4,831</b>	<b>449</b>	<b>5,430</b>	<b>990</b>	<b>3,031</b>	<b>14,731</b>

<sup>1)</sup> Other remuneration includes in particular the non-cash benefit of using company cars, the discount granted in connection with option programme issues (Notes to the consolidated financial statements, Note 36, p. 151ff.), 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.

<sup>2)</sup> Fair value of the option programme 2017 at the time the options are granted.

<sup>3)</sup> Pro rata temporis since 1.5.2017.

<sup>4)</sup> Pro rata temporis until 30.4.2017.

The following remuneration was paid to the individual active members of the Executive Board in 2016:

### T053 TOTAL REMUNERATION OF THE EXECUTIVE BOARD (HGB) 2016

In € thousands	Basic remuneration	Other <sup>1)</sup>	One-year variable remuneration	Long-term variable remuneration	Option programme <sup>2)</sup>	Total remuneration
Carsten Spohr	1 380	117	797	141	685	3,120
Karl Ulrich Garnadt	863	86	532	74	456	2,011
Harry Hohmeister	863	143	532	110	456	2,104
Simone Menne <sup>3)</sup>	575	16	354	110	-	1,055
Dr Bettina Volkens	863	138	532	110	456	2,099
<b>Total (HGB)</b>	<b>4,544</b>	<b>500</b>	<b>2,747</b>	<b>545</b>	<b>2,053</b>	<b>10,389</b>

<sup>1)</sup> Other remuneration includes in particular the non-cash benefit of using company cars, the discount granted in connection with option programme issues (Notes to the consolidated financial statements, Note 36, p. 151ff.), 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.

<sup>2)</sup> Fair value of the option programme 2016 at the time the options are granted.

<sup>3)</sup> Pro rata temporis until 31.8.2016.

As of 31 December 2017 (2016), the members of the Executive Board held the following shares and option packages from current share programmes:

#### T054 SHARE PROGRAMMES

Number of shares	2014 programme		2015 programme		2016 programme		2017 programme	
	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
Thorsten Dirks (Executive Board member since 1.5.2017)	- (-)	- (-)	- (-)	- (-)	- (-)	- (-)	4,350 (-)	30 (-)
Karl Ulrich Garnadt (Executive Board member until 30.4.2017)	10,170 (10,170)	30 (30)	8,910 (8,910)	30 (30)	10,080 (10,080)	30 (30)	- (-)	- (-)
Harry Hohmeister	10,170 (10,170)	30 (30)	8,910 (8,910)	30 (30)	10,080 (10,080)	30 (30)	4,350 (-)	30 (-)
Carsten Spohr	15,255 (15,255)	45 (45)	13,365 (13,365)	45 (45)	15,120 (15,120)	45 (45)	6,525 (-)	45 (-)
Ulrik Svensson (Executive Board member since 1.1.2017)	- (-)	- (-)	- (-)	- (-)	- (-)	- (-)	4,350 (-)	30 (-)
Dr Bettina Volkens	10,170 (10,170)	30 (30)	8,910 (8,910)	30 (30)	10,080 (10,080)	30 (30)	4,350 (-)	30 (-)

In accordance with the terms of the share programmes, payments are only made under the options if the respective Executive Board member is still an active member of the Executive Board of Deutsche Lufthansa AG at the end of the programme. If the Executive Board member has retired, the options are paid out pro rata temporis for the portion of the programme during which they were still an active member of the Executive Board.

The current share programmes performed as follows in the financial year:

#### T055 PERFORMANCE SHARE PROGRAMMES

in €	Financial year 2017			Financial year 2016		
	Payments from maturing share programmes	Change in fair value of ongoing share programmes	Total	Payments from maturing share programmes	Change in fair value of ongoing share programmes	Total
Carsten Spohr	-1,110,000	3,320,063	2,210,063	-	211,982	211,982
Thorsten Dirks (Executive Board member since 1.5.2017)	-	22,980	22,980	-	-	-
Karl Ulrich Garnadt (Executive Board member until 30.4.2017)	-	948,709	948,709	-	244,361	244,361
Harry Hohmeister	-1,110,000	2,552,849	1,442,849	-	251,848	251,848
Ulrik Svensson (Executive Board member since 1.1.2017)	-	22,980	22,980	-	-	-
Dr Bettina Volkens	-1,110,000	2,552,849	1,442,849	-	251,848	251,848
	<b>-3,330,000</b>	<b>9,420,430</b>	<b>6,090,430</b>	<b>-</b>	<b>960,039</b>	<b>960,039</b>

More information on payment caps can be found in the Notes to the consolidated financial statements. ➤ **Note 36, p. 151ff.**

The total amount of pension entitlements earned by Executive Board members in 2017 was EUR 3.1m (previous year: EUR 2.3m) according to HGB and EUR 3.2m (previous year: EUR 2.4m) according to IFRS and was recognised in staff

costs (current service cost). The individual current service cost and present values of pension entitlements are as follows:

#### T056 PENSION ENTITLEMENTS ACCORDING TO HGB AND IFRS

in € thousands	HGB		HGB		IFRS		IFRS	
	Current service costs		Settlement amount of pension obligations		Current service costs		Present value of pension obligations	
	2017	2016	31.12.2017	31.12.2016	2017	2016	31.12.2017	31.12.2016
Carsten Spohr	841	702	5,126	3,951	890	710	4,837	3,668
Thorsten Dirks (Executive Board member since 1.5.2017)	455	-	455	-	395	-	395	-
Karl Ulrich Garnadt (Executive Board member until 30.4.2017)	159	424	1,240	1,004	159	448	1,240	1,005
Harry Hohmeister	514	434	2,005	1,385	555	463	1,888	1,261
Simone Menne (Executive Board member until 31.8.2016)	-	263	-	2,326	-	302	-	2,328
Ulrik Svensson (Executive Board member since 1.1.2017)	637	-	637	-	620	-	593	-
Dr Bettina Volkens	513	430	1,953	1,336	547	457	1,888	1,261
	<b>3,119</b>	<b>2,253</b>	<b>11,416</b>	<b>10,002</b>	<b>3,166</b>	<b>2,380</b>	<b>10,841</b>	<b>9,523</b>

#### Other agreements

Karl Ulrich Garnadt was a member of the Executive Board until 30 April 2017. He receives his variable remuneration for the financial year 2017 pro rata temporis for the period from 1 January 2017 to 30 April 2017. Payments from the LH-Performance programmes are made pro rata temporis for the portion of the programme during which he was an active member of the Executive Board. His employment contract continued until 15 June 2017 and his basic remuneration continued to be paid on a pro rata temporis basis.

#### Benefits paid to former Executive Board members

Current payments and other benefits for former members of the Executive Board and their surviving dependants came to EUR 5.2m (previous year: EUR 5.7m). This includes payments by subsidiaries as well as benefits in kind and concessionary travel. Pension obligations towards former Executive Board members and their surviving dependants amount to EUR 71.0m (previous year: EUR 70.4m).

#### Recommendations of the German Corporate Governance Code

The following tables show the individual payments, allocations and retirement benefit commitments granted to each individual member of the Executive Board in line with the recommendations of 4.2.5 Paragraph 3 of the German Corporate Governance Code.

The figures for benefits granted and allocated are divided into fixed and variable components and supplemented by the

figures for retirement benefit commitments. This corresponds to the current service cost as defined in IAS 19 for pensions and other retirement benefit commitments. The fixed remuneration components include the fixed salary and ancillary benefits that are not performance-related. The variable, performance-related remuneration components are divided into the one-year variable remuneration and the two long-term components, variable remuneration and option programmes.

The figure shown for "Benefits granted" is the value of the variable remuneration at the time it was granted (for a performance against targets of 100 per cent). For share-based remuneration, the figure shown is the value of the shares when they are granted. Individual caps and floors for these remuneration elements are also shown.

The figure shown for "Allocations" in the reporting year comprises the fixed remuneration components actually paid in the reporting year, plus the amounts of the one-year and long-term variable remuneration that have been determined at the time the remuneration report is prepared and that are to be paid out in the following year. The figures for the option programmes relate to programmes ending in the reporting period; these correspond to the amount paid. Total remuneration also includes the annual current service cost of pension commitments, although it is not strictly speaking an allocation.

In 2017, the members of the Executive Board received no benefits or promises of benefits from third parties relating to their work on the Executive Board.

**T057 BENEFITS GRANTED**

in € thousands	Carsten Spohr, Chairman of the Executive Board Chairman since 1.5.2014; Member of the Executive Board since 1.1.2011				Thorsten Dirks Member of the Executive Board since 1.5.2017			
	2017	2016	2017 (min)	2017 (max)	2017	2016	2017 (min)	2017 (max)
Fixed salary	1,380	1 380	1,380	1,380	575	-	575	575
Ancillary benefits	117	117	117	117	68	-	68	68
<b>Total</b>	<b>1,497</b>	<b>1,497</b>	<b>1,497</b>	<b>1,497</b>	<b>643</b>	<b>-</b>	<b>643</b>	<b>643</b>
One-year variable remuneration <sup>1)</sup>	679	636	0	2,415	283	-	0	1,006
Long-term variable remuneration								
Three-year variable remuneration <sup>2)</sup>	679	212	0	0 - 1,610	283	-	0	0 - 671
Option programme (4 years)	827	685	0	1,800	551	-	0	1,200
<b>Total</b>	<b>2,185</b>	<b>1,533</b>	<b>0</b>	<b>4,215</b>	<b>1,117</b>	<b>-</b>	<b>0</b>	<b>2,206</b>
Service cost	890	710	890	890	395	-	395	395
<b>Total remuneration</b>	<b>4,472</b>	<b>3,740</b>	<b>2,387</b>	<b>6,602</b>	<b>2,155</b>	<b>-</b>	<b>1,038</b>	<b>3,244</b>

in € thousands	Karl Ulrich Garnadt Member of the Executive Board until 30.4.2017				Harry Hohmeister Member of the Executive Board since 1.7.2013			
	2017	2016	2017 (min)	2017 (max)	2017	2016	2017 (min)	2017 (max)
Fixed salary	287	863	287	287	863	863	863	863
Ancillary benefits	20	86	20	20	87	143	87	87
<b>Total</b>	<b>307</b>	<b>949</b>	<b>307</b>	<b>307</b>	<b>950</b>	<b>1,006</b>	<b>950</b>	<b>950</b>
One-year variable remuneration <sup>1)</sup>	141	424	0	503	424	424	0	1,509
Long-term variable remuneration								
Three-year variable remuneration <sup>2)</sup>	141	141	0	0 - 336	424	141	0	0 - 1,006
Option programme (4 years)	-	456	0	-	551	456	0	1,200
<b>Total</b>	<b>282</b>	<b>1,021</b>	<b>0</b>	<b>503</b>	<b>1,399</b>	<b>1,021</b>	<b>0</b>	<b>2,709</b>
Service cost	159	448	159	159	555	463	555	555
<b>Total remuneration</b>	<b>748</b>	<b>2,418</b>	<b>466</b>	<b>969</b>	<b>2,904</b>	<b>2,490</b>	<b>1,505</b>	<b>4,214</b>

in € thousands	Simone Menne Member of the Executive Board until 31.8.2016				Ulrik Svensson Member of the Executive Board since 1.1.2017			
	2017	2016	2017 (min)	2017 (max)	2017	2016	2017 (min)	2017 (max)
Fixed salary	-	575	-	-	863	-	863	863
Ancillary benefits	-	16	-	-	78	-	78	78
<b>Total</b>	<b>-</b>	<b>591</b>	<b>-</b>	<b>-</b>	<b>941</b>	<b>-</b>	<b>941</b>	<b>941</b>
One-year variable remuneration <sup>1)</sup>	-	283	-	-	424	-	0	1,509
Long-term variable remuneration								
Three-year variable remuneration <sup>2)</sup>	-	94	-	-	424	-	0	0 - 1,006
Option programme (4 years)	-	-	-	-	551	-	0	1,200
<b>Total</b>	<b>-</b>	<b>377</b>	<b>-</b>	<b>-</b>	<b>1,399</b>	<b>-</b>	<b>0</b>	<b>2,709</b>
Service cost	-	302	-	-	620	-	620	620
<b>Total remuneration</b>	<b>-</b>	<b>1,270</b>	<b>-</b>	<b>-</b>	<b>2,960</b>	<b>-</b>	<b>1,561</b>	<b>4,270</b>

<sup>1)</sup> The maximum amount shown here corresponds to the maximum amount of total variable remuneration payable for a financial year (175 per cent of the annual basic salary).

<sup>2)</sup> The maximum amount of three-year variable remuneration depends on the effect of the bonus cap (175 per cent of the annual basic salary) on the one-year variable remuneration and on the weighting applied to the three-year variable remuneration.



**T057 BENEFITS GRANTED** (continued)

Dr Bettina Volkens  
Member of the Executive Board since 1.7.2013

in € thousands	2017	2016	2017 (min)	2017 (max)
Fixed salary	863	863	863	863
Ancillary benefits	79	138	79	79
<b>Total</b>	<b>942</b>	<b>1,001</b>	<b>942</b>	<b>942</b>
One-year variable remuneration	424	424	0	1,509
Long-term variable remuneration				
Three-year variable remuneration	424	141	0	0 - 1,006
Option programme (4 years)	551	456	0	1,200
<b>Total</b>	<b>1,399</b>	<b>1,021</b>	<b>0</b>	<b>2,709</b>
Service cost	547	457	547	547
<b>Total remuneration</b>	<b>2,888</b>	<b>2,479</b>	<b>1,489</b>	<b>4,198</b>

**T058 ALLOCATIONS**

	Carsten Spohr, Chairman of the Executive Board Chairman since 1.5.2014; Member of the Executive Board since 1.1.2011		Thorsten Dirks  Member of the Executive Board since 1.5.2017		Karl Ulrich Garnadt  Member of the Executive Board until 30.4.2017		Harry Hohmeister  Member of the Executive Board since 1.7.2013	
in € thousands	2017	2016	2017	2016	2017	2016	2017	2016
Fixed salary	1,380	1,380	575	-	287	863	863	863
Ancillary benefits	117	117	68	-	20	86	87	143
<b>Total</b>	<b>1,497</b>	<b>1,497</b>	<b>643</b>	<b>-</b>	<b>307</b>	<b>949</b>	<b>950</b>	<b>1,006</b>
One-year variable remuneration	1,551	797	646	-	323	532	970	532
Long-term variable remuneration								
Three-year variable remuneration	318	141	-	-	224	74	224	110
Option programme (4 years)	1,110	-	-	-	-	-	1,110	-
<b>Total</b>	<b>2,979</b>	<b>938</b>	<b>646</b>	<b>-</b>	<b>547</b>	<b>606</b>	<b>2,304</b>	<b>642</b>
Service cost	890	710	395	-	159	448	555	463
<b>Total remuneration</b>	<b>5,366</b>	<b>3,145</b>	<b>1,684</b>	<b>-</b>	<b>1,013</b>	<b>2,003</b>	<b>3,809</b>	<b>2,111</b>

	Simone Menne Member of the Executive Board until 31.8.2016		Ulrik Svensson Member of the Executive Board since 1.1.2017		Dr Bettina Volkens Member of the Executive Board since 1.7.2013	
in € thousands	2017	2016	2017	2016	2017	2016
Fixed salary	-	575	863	-	863	863
Ancillary benefits	-	16	78	-	79	138
<b>Total</b>	<b>-</b>	<b>591</b>	<b>941</b>	<b>-</b>	<b>942</b>	<b>1,001</b>
One-year variable remuneration	-	354	970	-	970	532
Long-term variable remuneration						
Three-year variable remuneration	-	110	-	-	224	110
Option programme (4 years)	-	-	-	-	1,110	-
<b>Total</b>	<b>-</b>	<b>464</b>	<b>970</b>	<b>-</b>	<b>2,304</b>	<b>642</b>
Service cost	-	302	620	-	547	457
<b>Total remuneration</b>	<b>-</b>	<b>1,357</b>	<b>2,531</b>	<b>-</b>	<b>3,793</b>	<b>2,100</b>

### Structure of Supervisory Board remuneration

In accordance with the resolution taken at the Annual General Meeting on 8 May 2012, the members of the Supervisory Board have received only fixed remuneration since the financial year 2013.

Ordinary Supervisory Board members receive remuneration of EUR 80k for each financial year in accordance with Section 13 Paragraph 1 of the Articles of Association. The Chairman receives EUR 240k and the Deputy Chairman receives EUR 120k. The Chairman of the Audit Committee receives an additional EUR 60k; other members of the Audit Committee receive an additional EUR 30k. Chairs of other committees will receive an additional EUR 40k and other members of other committees an additional EUR 20k. Remuneration for committee work is subject to the proviso that the committee must have met at least once in the financial year.

If Supervisory Board members leave the Supervisory Board or a post in one of its committees for which additional remuneration is paid during the course of a financial year, they receive their remuneration pro rata temporis. Pro rata temporis remuneration for committee work is subject to the proviso that the committee must have met at least once before their departure.

### Amount of Supervisory Board remuneration

Expenses for fixed remuneration and remuneration for committee work for the Supervisory Board amounted to EUR 2,164k in 2017 (previous year: EUR 2,170k).

The figures for the individual Supervisory Board members are shown in the following table.

#### T059 REMUNERATION SUPERVISORY BOARD

in € thousands	2017			2016		
	Fixed remuneration	Remuneration for committee work	Total Supervisory Board remuneration	Fixed remuneration	Remuneration for committee work	Total Supervisory Board remuneration
Wolfgang Mayrhober (until 24.9.2017)	176	33	209	240	60	300
Dr Karl-Ludwig Kley	123	45	168	80	40	120
Christine Behle	120	20	140	120	20	140
Nicolety Baublies	80	-	80	80	-	80
Dr Werner Brandt	80	64	144	80	80	160
Jörg Cebulla	80	-	80	80	-	80
Herbert Hainer	80	21	101	80	-	80
Dr h.c. Robert Kimmitt	80	-	80	80	-	80
Martin Koehler	80	22	102	80	30	110
Doris Krüger	80	30	110	80	30	110
Dr Nicola Leibinger-Kammüller (until 28.4.2016)	0	-	-	26	-	26
Eckhard Lieb	80	30	110	80	30	110
Jan-Willem Marquardt	80	30	110	80	30	110
Martina Merz	80	-	80	54	-	54
Ralf Müller	80	-	80	80	-	80
Monika Ribar	80	30	110	80	30	110
Miriam Sapiro (since 24.10.2017)	15	-	15	-	-	-
Andreas Strache	80	-	80	80	-	80
Stephan Sturm	80	24	104	80	-	80
Christina Weber	80	-	80	80	-	80
Birgit Weinreich	80	20	100	80	20	100
Matthias Wissmann	80	-	80	80	-	80
<b>Total</b>	<b>1,794</b>	<b>370</b>	<b>2,164</b>	<b>1,800</b>	<b>370</b>	<b>2,170</b>


Other remuneration, mainly attendance fees, amounted to EUR 89k (previous year: EUR 111k). Deutsche Lufthansa AG Supervisory Board members were also paid EUR 17k (previous year: EUR 17k) for work on supervisory boards of Group companies.

## DISCLOSURES IN ACCORDANCE WITH SECTION 289A PARAGRAPH 1 HGB AND SECTION 315A PARAGRAPH 1 HGB

### Composition of issued capital, types of shares, rights and duties

Deutsche Lufthansa AG's issued capital amounts to EUR 1,206,424,688.64 and is divided into 471,259,644 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. 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. Each share is entitled to one vote.

### Voting and share transfer restrictions

To preserve international air traffic rights and air traffic rights to fly to various international destinations, the proportion of German/European shareholders must be at least 50 per cent of the Company's issued capital. If the proportion of foreign shareholders reaches 40 per cent, Deutsche Lufthansa AG is granted special permission 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. 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 8 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). Furthermore, the Company is authorised, according to Section 5 Paragraph 2 LuftNaSiG and subject to the approval of the Supervisory Board, to require the most recently registered shareholders to sell their shares. From the fourth day after this requirement has been published, the shareholders concerned can no longer exercise the rights conferred by the shares concerned. If they do not comply with the 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. On 31 December 2017, foreign shareholders held 32.1 per cent of the shares in the shareholders' register of the Company. Further information on the German Aviation Compliance Documentation Act (LuftNaSiG) and the quarterly update on our shareholder structure  [www.lufthansagroup.com/investor-relations](http://www.lufthansagroup.com/investor-relations).

The annual share investment programmes for employees, managers and Executive Board members have time-based restrictions on trading in shares, particularly lock-up periods of up to four years.

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

As of 31 December 2017, the Company had received no notification of direct or indirect shareholdings with more than 10 per cent of voting rights.

### Holders of shares with special controlling rights

The Company has no shares that confer special controlling rights.

### Control of voting rights for employee shares when control rights are exercised indirectly

Where the Company issues shares to its staff as part of its employee programmes, these shares are transferred to the employees directly. The staff beneficiaries can exercise the controlling rights accruing to them from the employee shares directly in the same way as other shareholders, in accordance with statutory regulations and the provisions of the Articles of Association.

### 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. The Supervisory Board is authorised to adopt changes to the Articles of Association that only relate to wording (Section 11 Paragraph 5 of the Articles of Association). Furthermore, the Supervisory Board is entitled to amend Section 4 of the Articles of Association if authorised capital is exercised or expires.

### Rights of the Executive Board to issue or repurchase shares

As of 31 December 2017, Deutsche Lufthansa AG has Authorised Capital A amounting to EUR 553,310,730.08 and Authorised Capital B amounting to EUR 10,776,673.28:

A resolution passed at the Annual General Meeting on 29 April 2015 authorised the Executive Board until 28 April 2020, subject to approval by the Supervisory Board, to increase the Company's issued capital 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). According to this resolution, EUR 3,728,550.40 was used in the reporting period to issue 1,456,465 new shares and thus, in total, EUR 7,849,361.92 was used to issue 3,066,157 new shares, each as part of a share dividend.

A resolution passed by the Annual General Meeting on 29 April 2014 authorised the Executive Board until 28 April 2019, subject to approval by the Supervisory Board, to increase the Company's issued capital on one or more occasions by up to EUR 29,000,000 by issuing new registered shares to employees (Authorised Capital B) for payment in cash.

Existing shareholders' subscription rights are excluded. In the reporting period, the Company used EUR 2,521,920.00 of this authorised amount to issue 985,125 new shares to employees and thus, in total, EUR 18,223,326.72 of this amount was used to issue 7,118,487 new shares to employees.

A resolution passed at the Annual General Meeting on 28 April 2016 authorised the Executive Board until 27 April 2021, 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) for a total nominal value of up to EUR 1,500,000,000. To grant shares to the holders or creditors of the bonds mentioned above, the Company's contingent capital was increased by up to EUR 237,843,840 by issuing up to 92,907,750 new registered shares. The contingent capital increase will only be carried out to the extent that the holders or creditors of conversion and/or option rights from convertible bonds, bond/warrant packages, profit-sharing rights or participating bonds (or any combination of these instruments) issued by the Company or its Group companies for cash pursuant to the authorisation given at the Annual General Meeting for the period 28 April 2016 to 27 April 2021 exercise their conversion or option rights or that the holders or creditors of convertible bonds issued by the Company or its Group companies pursuant to the authorisation given at the Annual General Meeting for the period 28 April 2016 to 27 April 2021 (or of profit-sharing rights or other forms of mezzanine capital with obligatory conversion) meet their conversion obligations or shares are delivered and to the extent that the debt is not settled using treasury shares or other rights. The Executive Board is authorised to determine the further details of the way in which the contingent capital increase is to be carried out.

Deutsche Lufthansa AG is entitled to repurchase shares and to sell repurchased shares in those cases defined in Section 71 AktG. In addition, the Company is authorised by resolutions of the Annual General Meeting on 29 April 2015 to buy back its own shares until 28 April 2020. The resolutions can be used, among other things, 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 ➤ **Note 30, p. 138f.**

### **Important Company agreements subject to a change-of-control clause in the event of a takeover offer**

The EMTN programme operated by the Company to issue bonds includes a change-of-control clause, according to which holders of bonds issued thereunder can demand redemption of the bond in the event of a change of control. The change of control is tied to the concepts of control, which are defined in detail in the EMTN programme, and of a rating downgrade resulting from the change of control within a change-of-control period. A bond for EUR 500m maturing on 12 September 2019 is currently outstanding under this programme.

In August 2015, Deutsche Lufthansa AG issued a hybrid bond for EUR 500m, due on 12 August 2075, which also includes the change-of-control clause described above. In addition, Deutsche Lufthansa AG issued borrower's note loans for EUR 475m and EUR 1.2bn, with terms of three, five, seven and ten years, in April and December 2016 respectively, which also include similar change-of-control clauses.

### **Compensation agreements with Executive Board members or employees in the event of a takeover offer**

In the event of a change of control at Deutsche Lufthansa AG defined more precisely in the employment contract, the Executive Board members and the Company are entitled to terminate the contract within twelve months of this change of control.

If the contract ends because the special termination right is exercised or the contract is revoked amicably within twelve months of and in connection with the change of control, the Executive Board member is entitled to compensation for remuneration outstanding for the remainder of the contract. In accordance with the relevant recommendation of the German Corporate Governance Code, compensation may not exceed 150 per cent of the maximum compensation of two annual salaries agreed in the contract (including fringe benefits). ➤ **Remuneration report, p. 87ff.**

## **DECLARATION ON CORPORATE GOVERNANCE IN ACCORDANCE WITH SECTION 289F HGB AND SECTION 315D HGB**

The declaration on corporate governance required under Section 289f HGB and Section 315d HGB has been issued and made publicly available on the Company's website at [www.lufthansagroup.com/corporate\\_governance\\_declaration](http://www.lufthansagroup.com/corporate_governance_declaration).

## Notes to the individual financial statements of Deutsche Lufthansa AG (HGB)

Revenue of Deutsche Lufthansa AG rises to EUR 16.2bn. | Net profit for the year up to EUR 2.5bn. | Total assets climb to EUR 28.5bn.

The financial statements of Deutsche Lufthansa AG have been prepared in accordance with the German Commercial Code (HGB), the supplementary provisions of the German Stock Corporation Act (AktG) and the Articles of Association, and have been audited by PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Düsseldorf. They are published in the electronic Federal Gazette. The financial statements are permanently available online. <http://investor-relations.lufthansagroup.com/en/finanzberichte.html>.

In this annual report, the management report for Deutsche Lufthansa AG has been combined with the 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, as well as Data Security, Safety and Procurement. The economic environment for Deutsche Lufthansa AG is essentially the same as for the Group. **Macroeconomic situation, p. 26f.; Sector developments, p. 27ff.; Course of business, p. 29ff.**

and a EUR 222m year-on-year decline in net interest, burdening earnings.

### Revenue and income

#### 65 million passengers transported

The number of passengers in 2017 was 6.0 per cent up on the previous year at 65 million. Capacity increased by 1.8 per cent and sales were up by 5.0 per cent. The load factor rose by 2.5 percentage points to 81.6 per cent. Yields climbed by 1.7 per cent compared with a year ago.

#### Revenue up by 6.4 per cent

The change in operating income was mainly characterised by a 6.7 per cent increase in traffic revenue to EUR 15.0bn, whereas other operating income of EUR 1.2bn was roughly the same as the previous year. In total, revenue rose by 6.4 per cent to EUR 16.2bn. By contrast, other operating income fell by 7.8 per cent to EUR 1.5bn, mainly due to lower exchange rate gains.

### EARNINGS POSITION

Deutsche Lufthansa AG increased its net profit for the financial year 2017 by 110.0 per cent to EUR 2.5bn. This performance is due partly to a significant increase in traffic revenue (6.7 per cent) and partly to a very significant year-on-year increase by EUR 1.2bn in the result from equity investments. These were offset principally by a significant increase in the cost of materials and services (5.2 per cent)

### Expenses

#### Expenses up by 3.6 per cent

Operating expenses came to EUR 16.6bn, or EUR 575m more than the previous year. The cost of materials and services was the main reason for the increase, rising year on year by 5.2 per cent to EUR 10.3bn. This is partly due to higher fuel expenses, which rose by 2.2 per cent to

#### T060 TRENDS IN TRAFFIC REGIONS OF DEUTSCHE LUFTHANSA AG

	Traffic revenue		Number of passengers		Available seat-kilometres		Revenue seat-kilometres		Passenger load factor	
	2017 in €m	Change in %	2017 in thousands	Change in %	2017 in millions	Change in %	2017 in millions	Change in %	2017 in %	Change in pts
in € thousands										
Europe	5,871	8.2	48,940	6.3	49,318	4.8	37,631	7.0	76.3	1.6
America	5,228	6.3	8,354	2.7	76,021	0.4	63,698	2.8	83.8	1.9
Asia/Pacific	2,816	5.2	4,844	4.7	45,237	-0.9	38,397	4.2	84.9	4.2
Middle East/Africa	1,097	5.8	3,182	11.4	16,551	7.6	13,024	13.0	78.7	3.7
<b>Total</b>	<b>15,012</b>	<b>6.7</b>	<b>65,320</b>	<b>6.0</b>	<b>187,127</b>	<b>1.8</b>	<b>152,750</b>	<b>5.0</b>	<b>81.6</b>	<b>2.5</b>

EUR 2.9bn. Most of the increase is due to larger volumes (1.3 per cent), as well as a significant price increase on the previous year (21.2 per cent before hedging). Price changes were partially mitigated by the significantly improved on the previous year, but still negative, result of price hedging amounting to EUR –40m (previous year: EUR –659m).

The costs of purchased services rose by 6.6 per cent to EUR 7.3bn. Fees and charges, at EUR 2.9bn, still constitute the largest expense item under purchased services. Overall, they were 2.6 per cent up on the year, mainly due to volumes and prices. Increases in landing fees (2.9 per cent), handling charges (4.5 per cent) and passenger fees (8.9 per cent) were offset by a decline of 6.2 per cent in air traffic control charges.

The costs of external MRO services rose by 17.0 per cent on the year to EUR 1.7bn. The increase stems largely from a provision of EUR 167m for expected compensation payments due to the premature termination of aircraft leases. Charter expenses were up year on year by 14.6 per cent at EUR 627m. The increase is due to additional flying time at the regional airlines Lufthansa CityLine and Air Dolomiti. Expenses for operating leases went down by 2.2 per cent to EUR 815m. Changes in the US dollar exchange rate were the main cause, since the lease payments for the Maltese sale-and-lease-back model are to be made in US dollars.

Staff costs fell by 1.3 per cent to EUR 2.8bn. With a 2.3 per cent increase in the average number of employees compared with the previous year, expenses for wages and salaries rose by 6.6 per cent. Social security contributions went up by 3.1 per cent. Expenses for retirement benefits fell, however, by 68.7 per cent to EUR 90m. This decline is partly due to one-off effects the previous year from restructuring the Company's transitional pension benefits plan for cabin crew. In addition, restructuring the Company's retirement and transitional benefits for cockpit crew served to bring down staff costs this year.

Depreciation and amortisation rose year on year by 12.6 per cent to EUR 482m. The acquisition of parts of the Air Berlin group's fleet was mainly responsible for the increase, together with an impairment loss recognised on a retired Airbus A340-600 aircraft.

Other operating expenses were up by 1.7 per cent to EUR 3.0bn. This increase can be explained by higher expenses for the use of reservation systems as well as provisions for various legal risks.

#### T061 INCOME STATEMENT FOR DEUTSCHE LUFTHANSA AG IN ACCORDANCE WITH HGB

in €m	2017	2016
Traffic revenue	15,012	14,063
Other revenue	1,172	1,146
<b>Total revenue</b>	<b>16,184</b>	<b>15,209</b>
Other operating income	1,521	1,649
Cost of materials and services	–10,289	–9,780
Staff costs	–2,818	–2,855
Depreciation, amortisation and impairment	–482	–428
Other operating expenses	–2,995	–2,946
<b>Result from operating activities</b>	<b>1,121</b>	<b>849</b>
Result from other equity investments	1,845	598
Net interest	–128	94
Impairment on investments and current securities	–38	–26
<b>Financial result</b>	<b>1,679</b>	<b>666</b>
<b>Result from ordinary activities</b>	<b>2,800</b>	<b>1,515</b>
Current income taxes	–650	–233
Deferred income taxes	353	–62
Other taxes	–48	–51
<b>Net profit/loss for the year</b>	<b>2,455</b>	<b>1,169</b>
Transfers to retained earnings	–1,228	–935
<b>Distributable earnings</b>	<b>1,227</b>	<b>234</b>

## Earnings performance

### Result from operating activities up by EUR 272m

The result from operating activities rose by 32.0 per cent to EUR 1.1bn in the financial year 2017. An increase of 5.0 per cent in operating income to EUR 17.7bn was offset by a smaller increase of 3.6 per cent in operating expenses to EUR 16.6bn. Adjusted EBIT, calculated as for the Group, came to EUR 1.8bn in the financial year.

### Financial result up by EUR 1.0bn

The financial result increased by EUR 1.0bn to EUR 1.7bn. It was made up of the result from equity investments of EUR 1.8bn (previous year: EUR 598m), net interest of EUR –128m (previous year: EUR 94m) and other financial items of EUR –38m (previous year: EUR –26m).

The result from equity investments includes profit and loss transfers of EUR 1.1bn (previous year: EUR 107m) and other investment income of EUR 713m (previous year: EUR 491m). Higher profit and loss transfers than the previous year are mainly due to the profit transferred by Lufthansa Commercial Holding (EUR 882m), which particularly resulted from dividend paid by Lufthansa Malta Aircraft-Leasing in 2017 of EUR 862m



in total. Earnings varied year on year at the other companies with profit and loss transfer agreements. Whereas Eurowings GmbH (EUR -74m), Lufthansa CityLine GmbH (EUR -90m) and LSG Lufthansa Service Holding AG (EUR -113m) reported higher losses than in the previous year, Lufthansa Cargo AG (EUR 136m), Lufthansa Technik AG (EUR 257m) and Delvag GmbH (EUR 11m) all improved on their results for the previous year, in some cases by a significant margin. The biggest positive year-on-year change in other investment income related to the profit transfer from Air Trust (EUR 248m).

Net interest came to EUR -128m in the financial year (previous year: EUR 94m). Positive net interest in the previous year was particularly due to the lower valuation of pension provisions following the change in the discount rate. The interest rate used to discount the pension provisions in the reporting year was 3.68 per cent (previous year: 4.01 per cent), which produced interest expense of EUR 729m (previous year: EUR 189m). It was offset by the significantly higher year-on-year market valuation of EUR 733m for the pension assets used to fund retirement benefit obligations (previous year: EUR 335m), burdening earnings.

Impairment losses on investments and current securities were included in other financial items and came to EUR 38m, EUR 12m more than in the previous year. They are partly due to impairments on the carrying amounts of the Austrian leasing company Lufthansa Leasing Austria GmbH & Co. OG Nr. 29 and Crane Strategic Investment S.C.S. of EUR 19m and EUR 5m respectively.

#### Net profit for the year up by EUR 1.3bn

Operating result and financial result add up to EUR 2.8bn (previous year: EUR 1.5bn). Income tax expenses in the financial year (including deferred taxes) came to EUR 297m and other tax expenses to EUR 48m. Altogether, a net profit of EUR 2.5bn was recognised for the financial year 2017 (previous year: EUR 1.2bn).

## FINANCIAL POSITION

### Cash flow from operating activities

#### Cash flow from operating activities up to EUR 1.9bn

Cash flow from operating activities rose by EUR 657m to EUR 1.9bn. Deutsche Lufthansa AG invested EUR 1.8bn (previous year: EUR 559m) in aircraft and advance payments for aircraft in the 2017 reporting year. Of the total, EUR 180m was for advance payments (previous year: EUR 122m).

To finance future payment of retirement benefit obligations to its employees, Deutsche Lufthansa AG transferred a total of EUR 1.7bn in 2017 (previous year: EUR 14m) to various ring-fenced funds. There was an overall cash outflow of EUR 1.7bn from net cash used for investing in fixed and financial assets. Cash flow for financing activities came to EUR 330m in the financial year.

## ASSETS

Total assets rose by 13.7 per cent, or EUR 3.4bn, to EUR 28.5bn. Non-current assets account for 76.5 per cent of total assets (previous year: 80.2 per cent).

#### T062 BALANCE SHEET FOR DEUTSCHE LUFTHANSA AG IN ACCORDANCE WITH HGB

in €m	31.12.2017	31.12.2016
<b>Assets</b>		
Intangible assets	326	339
Aircraft	6,043	4,933
Property, plant and other equipment	101	103
Financial investments	15,319	14,702
<b>Non-current assets</b>	<b>21,789</b>	<b>20,077</b>
Inventories	67	77
Trade receivables	416	448
Other receivables	2,383	1,384
Securities	685	805
Cash and cash equivalents	763	641
<b>Current assets</b>	<b>4,314</b>	<b>3,355</b>
<b>Prepaid expenses</b>	<b>53</b>	<b>51</b>
<b>Deferred tax assets</b>	<b>1,430</b>	<b>1,077</b>
<b>Excess of plan assets over provisions for pensions</b>	<b>885</b>	<b>489</b>
<b>Total assets</b>	<b>28,471</b>	<b>25,049</b>
<b>Shareholders' equity and liabilities</b>		
Issued capital	1,206	1,200
Capital reserve	263	223
Retained earnings	5,094	3,865
Distributable earnings	1,227	234
<b>Shareholders' equity</b>	<b>7,790</b>	<b>5,522</b>
<b>Provisions</b>	<b>6,858</b>	<b>7,343</b>
Bonds	1,000	1,000
Liabilities to banks	2,024	1,673
Payables to affiliated companies	6,359	5,447
Other liabilities	4,435	4,059
<b>Liabilities</b>	<b>13,818</b>	<b>12,179</b>
<b>Deferred income</b>	<b>5</b>	<b>5</b>
<b>Total shareholders' equity and liabilities</b>	<b>28,471</b>	<b>25,049</b>

## Assets

### Non-current assets up by EUR 1.7bn

Non-current assets increased by EUR 1.7bn to EUR 21.8bn. The rise is mainly due to the acquisition of new aircraft in connection with the takeover of part of the Air Berlin group's fleet. In addition to the increase of EUR 1.1bn in the Aircraft item, financial assets also rose year on year by EUR 617m. This primarily results from capital increases at Lufthansa Technik AG (EUR 250m) and Lufthansa Commercial Holding GmbH (EUR 103m). The balance of additional and new loans to affiliated companies (EUR 469m) and repayments from these companies (EUR 155m) also increased non-current financial assets. Financial assets were increased by the write-back on the carrying amount for Air Dolomiti S.p.A. (EUR 11m), but reduced by the impairment losses on the carrying amounts for Lufthansa Austria GmbH & Co. OG Nr. 29 (EUR 19m) and Crane Strategic Investments S.C.S. (EUR 5m).

### Current assets up by EUR 1.0bn

Current assets rose by nearly EUR 1.0bn to EUR 4.3bn. The increase is due almost entirely to receivables from affiliated companies, which went up year on year by EUR 882m to EUR 1.6bn. Positive results from equity investments at companies with profit and loss transfer agreements were the reason for the increase. An increase of EUR 121m in other assets stemmed largely from higher security deposits for interest derivatives. Securities valued at EUR 685m were held at the end of the financial year (previous year: EUR 805m). Cash balances amounted to EUR 763m (previous year: EUR 641m).

## Shareholders' equity and liabilities

### Equity up by EUR 2.3bn

Shareholders' equity rose by EUR 2.3bn, primarily as a result of net profit for the year 2017, totalling EUR 7.8bn as of the reporting date. As a result, the equity ratio, as a proportion of higher total assets, rose to 27.4 per cent (previous year: 22.0 per cent). The information required according to Section 160 Paragraph 1 No. 2 AktG on the portfolio development of treasury shares is provided in the Notes to the financial statements, Note 11, p. 122. ➤ **Note 11, p. 122.**

### Non-current borrowing down by EUR 1.2bn

The Company's non-current liabilities sank by EUR 1.2bn in the reporting year to EUR 6.9bn, mainly due to the decrease in pension provisions.

The combination of higher equity and lower non-current liabilities caused non-current funds to fall as a percentage of total assets to 51.7 per cent (previous year: 54.5 per cent). Non-current funds cover 67.5 per cent of non-current assets (previous year: 68.1 per cent).

### Net debt up to EUR 454m

Net indebtedness rose by EUR 454m to EUR 3.1bn due to higher non-current liabilities to banks and higher aircraft lease liabilities.

## OTHER DISCLOSURES

### Risk report

Business at Deutsche Lufthansa AG is subject to essentially the same risks and opportunities as business at the Network Airlines 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. ➤ **Network Airlines business segment, p. 43ff.**

### Supplementary report

The main events taking place after the reporting date are those described in the consolidated financial statements pertaining to the Network Airlines segment.

### Forecast

Future business performance at Deutsche Lufthansa AG is subject to essentially the same factors as Lufthansa German Airlines as presented in the consolidated financial statements.

Further information on anticipated macroeconomic developments and the performance of the segments, as well as the assumptions on which the Group forecast is based, can be found in ➤ **Forecast, p. 78ff.**

# CONSOLIDATED FINANCIAL STATEMENTS

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## Consolidated income statement for the financial year 2017

### T063 CONSOLIDATED INCOME STATEMENT

in €m	Notes	2017	2016
Traffic revenue	3	28,399	24,661
Other revenue	4	7,180	6,999
<b>Total revenue</b>		<b>35,579</b>	<b>31,660</b>
Changes in inventories and work performed by entity and capitalised	5	106	95
Other operating income	6	2,276	2,184
Cost of materials and services	7	-19,013	-17,109
Staff costs	8	-8,172	-7,354
Depreciation, amortisation and impairment	9	-2,052	-1,769
Other operating expenses	10	-5,571	-5,517
<b>Profit/loss from operating activities</b>		<b>3,153</b>	<b>2,190</b>
Result of equity investments accounted for using the equity method	11	118	58
Result of other equity investments	11	39	27
Interest income	12	178	64
Interest expenses	12	-373	-282
Other financial items	13	72	191
<b>Financial result</b>		<b>34</b>	<b>58</b>
<b>Profit/loss before income taxes</b>		<b>3,187</b>	<b>2,248</b>
Income taxes	14	-789	-445
<b>Profit/loss after income taxes</b>		<b>2,398</b>	<b>1,803</b>
Profit/loss attributable to minority interests		-34	-27
<b>Net profit/loss attributable to shareholders of Deutsche Lufthansa AG</b>		<b>2,364</b>	<b>1,776</b>
<b>Basic/diluted earnings per share in €</b>	15	<b>5.03</b>	<b>3.81</b>

## Statement of comprehensive income for the financial year 2017

### T064 STATEMENT OF COMPREHENSIVE INCOME

in €m	2017	2016
<b>Profit/loss after income taxes</b>	<b>2,398</b>	<b>1,803</b>
<b>Other comprehensive income</b>		
<b>Other comprehensive income with subsequent reclassification to the income statement</b>		
Differences from currency translation	-404	66
Subsequent measurement of available-for-sale financial assets	21	-3
Subsequent measurement of cash flow hedges	-546	1,497
Other comprehensive income from investments accounted for using the equity method	3	3
Other expenses and income recognised directly in equity	-3	9
Income taxes on items in other comprehensive income	137	-337
<b>Other comprehensive income without subsequent reclassification to the income statement</b>		
Revaluation of defined-benefit pension plans	1,186	-2,066
Other comprehensive income from investments accounted for using the equity method	-	-17
Income taxes on items in other comprehensive income	-136	554
<b>Other comprehensive income after income taxes</b>	<b>258</b>	<b>-294</b>
<b>Total comprehensive income</b>	<b>2,656</b>	<b>1,509</b>
Comprehensive income attributable to minority interests	-34	-33
<b>Comprehensive income attributable to shareholders of Deutsche Lufthansa AG</b>	<b>2,622</b>	<b>1,476</b>

## Consolidated balance sheet

### as of 31 December 2017

#### T065 CONSOLIDATED BALANCE SHEET – ASSETS

in €m	Notes	31.12.2017	31.12.2016
Intangible assets with an indefinite useful life <sup>1)</sup>	16	1,343	1,265
Other intangible assets	17	492	472
Aircraft and reserve engines	18 20	15,959	14,798
Repairable spare parts for aircraft		1,758	1,604
Property, plant and other equipment	19 20	2,186	2,199
Investments accounted for using the equity method	21	585	516
Other equity investments	22 41	221	212
Non-current securities	22 41	32	23
Loans and receivables	23 41	475	513
Derivative financial instruments	41	642	1,474
Deferred charges and prepaid expenses	26	9	11
Effective income tax receivables		12	4
Deferred tax assets	14	1,523	1,413
<b>Non-current assets</b>		<b>25,237</b>	<b>24,504</b>
Inventories	24	907	816
Trade receivables and other receivables	25 41	5,314	4,570
Derivative financial instruments	41	600	534
Deferred charges and prepaid expenses	26	197	167
Effective income tax receivables		58	37
Securities	27 41	2,551	2,681
Cash and cash equivalents	28 41	1,397	1,256
Assets held for sale	29	6	132
<b>Current assets</b>		<b>11,030</b>	<b>10,193</b>
<b>Total assets</b>		<b>36,267</b>	<b>34,697</b>

<sup>1)</sup> Including Goodwill.



**T066 CONSOLIDATED BALANCE SHEET – SHAREHOLDERS' EQUITY AND LIABILITIES**

in €m	Notes	31.12.2017	31.12.2016
Issued capital	30	1,206	1,200
Capital reserve	31	263	222
Retained earnings	31	4,141	1,549
Other neutral reserves	31	1,521	2,313
Net profit/loss		2,364	1,776
<b>Equity attributable to shareholders of Deutsche Lufthansa AG</b>		<b>9,495</b>	<b>7,060</b>
Minority interests		103	89
<b>Shareholders' equity</b>		<b>9,598</b>	<b>7,149</b>
Pension provisions	32	5,116	8,364
Other provisions	33	601	503
Borrowings	34 41	6,142	5,811
Other financial liabilities	35	243	124
Advance payments received, deferred income and other non-financial liabilities	36	1,289	1,246
Derivative financial instruments	41	190	54
Deferred tax liabilities	14	449	437
<b>Non-current provisions and liabilities</b>		<b>14,030</b>	<b>16,539</b>
Other provisions	33	990	1,066
Borrowings	34 41	672	764
Trade payables and other financial liabilities	37 41	5,250	4,689
Liabilities from unused flight documents		3,773	3,040
Advance payments received, deferred income and other non-financial liabilities	38	992	875
Derivative financial instruments	41	124	185
Effective income tax obligations		838	390
<b>Current provisions and liabilities</b>		<b>12,639</b>	<b>11,009</b>
<b>Total shareholders' equity and liabilities</b>		<b>36,267</b>	<b>34,697</b>

## Consolidated statement of changes in shareholders' equity as of 31 December 2017

### T067 CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	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
in €m												
<b>As of 31.12.2015</b>	<b>1,189</b>	<b>187</b>	<b>-76</b>	<b>604</b>	<b>236</b>	<b>318</b>	<b>1,082</b>	<b>1,612</b>	<b>1,698</b>	<b>5,768</b>	<b>77</b>	<b>5,845</b>
Capital increases/reductions	11	35	-	-	-	-	-	-	-	46	1	47
Reclassifications	-	-	-	-	-	2	2	1,466	-1,466	2	-2	-
Dividends to Lufthansa shareholders/minority interests	-	-	-	-	-	-	-	-	-232	-232	-20	-252
Transactions with minority interests	-	-	-	-	-	-	-	-	-	-	-	-
Consolidated net profit/loss attributable to Lufthansa shareholders/minority interests	-	-	-	-	-	-	-	-	1,776	1,776	27	1,803
Other expenses and income recognised directly in equity	-	-	1,157	66	-	6	1,229	-1,529	-	-300	6	-294
<b>As of 31.12.2016</b>	<b>1,200</b>	<b>222</b>	<b>1,081</b>	<b>670</b>	<b>236</b>	<b>326</b>	<b>2,313</b>	<b>1,549</b>	<b>1,776</b>	<b>7,060</b>	<b>89</b>	<b>7,149</b>
Capital increases/reductions	6	41	-	-	-	-	-	-	-	47	1	48
Reclassifications	-	-	-	-	-	-	-	1,542	-1,542	-	-	-
Dividends to Lufthansa shareholders/minority interests	-	-	-	-	-	-	-	-	-234	-234	-21	-255
Transactions with minority interests	-	-	-	-	-	-	-	-	-	-	-	-
Consolidated net profit/loss attributable to Lufthansa shareholders/minority interests	-	-	-	-	-	-	-	-	2,364	2,364	34	2,398
Other expenses and income recognised directly in equity	-	-	-388	-404	-	-	-792	1,050	-	258	-	258
<b>As of 31.12.2017</b>	<b>1,206</b>	<b>263</b>	<b>693</b>	<b>266</b>	<b>236</b>	<b>326</b>	<b>1,521</b>	<b>4,141</b>	<b>2,364</b>	<b>9,495</b>	<b>103</b>	<b>9,598</b>

## Consolidated cash flow statement for the financial year 2017

### T068 CONSOLIDATED CASH FLOW STATEMENT

in €m	Notes	2017	2016
<b>Cash and cash equivalents 1.1.</b>		<b>1,138</b>	<b>996</b>
Net profit/loss before income taxes		3,187	2,248
Depreciation, amortisation and impairment losses on non-current assets (net of reversals)	9 13	1,970	1,765
Depreciation, amortisation and impairment losses on current assets (net of reversals)		39	55
Net proceeds on disposal of non-current assets	6	-37	-38
Result of equity investments	11	-157	-85
Net interest	12	195	218
Income tax payments/reimbursements		-385	-54
Significant non-cash-relevant expenses/income		-721	-1,037
Change in trade working capital		259	-140
Change in other assets/shareholders' equity and liabilities		685	314
<b>Cash flow from operating activities</b>		<b>5,035</b>	<b>3,246</b>
Capital expenditure for property, plant and equipment and intangible assets	17 - 20	-3,005	-2,160
Capital expenditure for financial investments	22 23	-136	-34
Additions/loss to repairable spare parts for aircraft		-210	-264
Proceeds from disposal of non-consolidated equity investments		7	26
Proceeds from disposal of consolidated equity investments		0*	0*
Cash outflows for acquisitions of non-consolidated equity investments	21 22 41	-55	-36
Cash outflows for acquisitions of consolidated equity investments	45	191	-6
Proceeds from disposal of intangible assets, property, plant and equipment and other financial investments		142	94
Interest income		197	192
Dividends received		87	80
<b>Net cash from/used in investing activities</b>		<b>-2,782</b>	<b>-2,108</b>
Purchase of securities/fund investments		-2,660	-1,302
Disposal of securities/fund investments		905	581
<b>Net cash from/used in investing and cash management activities</b>		<b>-4,537</b>	<b>-2,829</b>
Capital increase	30 31	0*	-
Transactions by minority interests		1	1
Non-current borrowing		1,106	1,685
Repayment of non-current borrowing		-967	-1,483
Dividends paid		-232	-233
Interest paid		-289	-242
<b>Net cash from/used in financing activities</b>		<b>-381</b>	<b>-272</b>
<b>Net increase/decrease in cash and cash equivalents</b>		<b>117</b>	<b>145</b>
Changes due to currency translation differences		-37	-3
<b>Cash and cash equivalents 31.12.<sup>1)</sup></b>	28	<b>1,218</b>	<b>1,138</b>
Securities	27	2,551	2,681
<b>Liquidity</b>		<b>3,769</b>	<b>3,819</b>
Net increase/decrease in liquidity		-50	829

\* Rounded below EUR 1m.

<sup>1)</sup> Excluding fixed-term deposit with terms of three to twelve months (2017: EUR 179m, 2016: EUR 118m).

Further details can be found in the section 📌 **Notes to the consolidated cash flow statement, p. 159f.**

# Notes to the consolidated financial statements

## Deutsche Lufthansa AG 2017

### GENERAL REMARKS

#### 1 Company information

The Lufthansa Group is a global aviation group whose subsidiaries and equity investments were organised into five operating segments in the financial year 2017: Network Airlines, Point-to-Point Airlines, Logistics, MRO and Catering.

Deutsche Lufthansa AG has its headquarters in Cologne, Germany, and is filed in the Commercial Register of Cologne District Court under HRB 2168.

The declaration on the German Corporate Governance Code required by Section 161 of the German Stock Corporation Act (AktG) was issued and made available to shareholders on the internet at [www.lufthansagroup.com/declaration-of-compliance](http://www.lufthansagroup.com/declaration-of-compliance).

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 IFRS Interpretations Committee as applicable in the European Union (EU).

The commercial law provisions of Section 315e Paragraph 1 of the German Commercial Code (HGB) have also been applied. All IFRSs issued by the IASB and in effect at the time that these financial statements were prepared and applied by Deutsche Lufthansa AG have been adopted by the European Commission for application in the EU. The consolidated financial statements of Deutsche Lufthansa AG, denominated in EUR millions, therefore comply with the IFRSs as applicable in the EU and with the further commercial law provisions of Section 315e Paragraph 1 HGB. Its financial year is the calendar year.

With the exception of the changes required by new or amended standards, the accounting policies applied in the previous year have been retained.

The consolidated financial statements for 2017 were examined and approved for publication by the Supervisory Board of Deutsche Lufthansa AG in its meeting on 14 March 2018.

#### 2 New international accounting standards in accordance with IFRS and interpretations and summary of the significant accounting policies and valuation methods

##### INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) AND INTERPRETATIONS (IFRIC) TO BE APPLIED FOR THE FIRST TIME IN THE FINANCIAL YEAR AND AMENDMENTS TO STANDARDS AND INTERPRETATIONS

The first-time application of the following amended accounting standards had no or no material effect on the presentation of the net assets, financial and earnings position or on earnings per share.

##### T069 IFRS-PRONOUNCEMENT (APPLICABLE FROM FINANCIAL YEAR 2017)

Amendments to IAS 7, Statement of Cash Flows – Disclosure Initiative

Amendments to IAS 12, Recognition of Deferred Tax Assets for Unrealised Losses

Annual Improvements to IFRS, 2014 – 2016 Cycle for amendments to IFRS 12, Disclosures on investments in other companies

In view of the amendments to IAS 7, which require additional disclosures on changes in liabilities from financing activities, an additional reconciliation of the difference between the opening and closing balance sheet amounts for liabilities from financing activities was included in the notes to the consolidated cash flow statement. ➔ **Note 40, p. 159f.**

##### PUBLISHED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) AND INTERPRETATIONS (IFRIC) NOT YET APPLIED/APPLICABLE AND AMENDMENTS TO STANDARDS AND INTERPRETATIONS

The following standards and amendments have already been adopted by the European Union but are only mandatory for financial statements after 31 December 2017:

##### T070 IFRS-PRONOUNCEMENT (ADOPTED BY THE EU)

	Mandatory application for financial years beginning on or after
Annual Improvements to IFRS, 2014 – 2016 Cycle for amendments to IFRS 1, First-time application of the International Financial Reporting Standards, and IAS 28, Investments in associated companies and joint ventures	1.1.2018
IFRS 9, Financial Instruments	1.1.2018
IFRS 15, Revenue from Contracts with Customers	1.1.2018
Clarification of IFRS 15, Revenue from Contracts with Customers	1.1.2018
Amendments to IFRS 4, Insurance Contracts	1.1.2018
IFRS 16, Leases	1.1.2019

**IFRS 9, Financial Instruments**, includes guidelines for recognition and measurement, derecognition and hedge accounting. The International Accounting Standards Board published the final version of IFRS 9 Financial Instruments in July 2014. All accounting for financial instruments can now take place in accordance with IFRS 9, which replaces IAS 39, Financial Instruments: Recognition and Measurement. The published version of IFRS 9 supersedes all previous versions. IFRS 9 is applicable for the first time for reporting periods beginning on or after 1 January 2018, whereby early application is allowed. The Group will apply IFRS 9 for the first time as of 1 January 2018.

In accordance with the transitional provisions, the Lufthansa Group will not adjust the prior-year figures and will present the cumulative transitional effects in retained earnings.

In the phase I classification, the transition of share items held as securities from the IAS 39 category “available for sale” (AfS) to the IFRS 9 category “fair value through profit or loss” (FVTPL), leads to a transfer from the cumulative market value reserve to retained earnings. Another transfer effect is caused due to the reclassification of a share item from AfS to fair value without effect on profit and loss (without recycling). Debt instruments are still generally classified as at fair value without effect on profit and loss. There are no reclassification effects in phase I for loans and receivables, either: they are still held at amortised cost.

The impairment rules, revised in phase II, mean that expected losses will be recognised as impairments earlier and in profit or loss under IFRS 9. The forward-looking recognition of impairments principally affects the Trade receivables item at the Lufthansa Group. The initial application of the expected loss model according to IFRS 9 gives rise to the additional need to recognise an impairment as of 1 January 2018 in the lower double-digit million euro range, which is recognised when the change is made in equity without effect on profit and loss.

For hedging transactions, however, there will be changes in the accounting treatment, particularly of fuel hedges using options. For fuel hedging, the Group will use the component approach, with crude oil as the designated component and regular rebalancing. This will reduce volatility in the income statement from changes in the market value of derivatives. Accounting for the time values of options without effect on profit and loss under IFRS 9 means that the changes in time value in the lower double-digit million euro range will be transferred to the market value reserve as of 1 January 2018.

The first-time application of IFRS 9 will therefore have no significant effect on retained earnings as of 1 January 2018. The investigation into the effects of applying IFRS 9 to the classification and definition of measurement methods and the recognition of impairment suggests that no significant earnings effects are expected for the consolidated financial statements, including from its continued use.

In addition, the Lufthansa Group is expecting further quantitative and qualitative disclosures on financial instruments in the Notes. Material new or expanded disclosures will ensue from the reclassification of assets, impairment tables and rebalancing.

The IASB published the standard **IFRS 15, Revenue from Contracts with Customers**, on 28 May 2014. The core principle of IFRS 15 for the recognition of revenue consists of recognising the delivery of goods and services to customers at an amount that corresponds to the consideration the company can expect to receive in exchange for these goods or services. Revenue is recognised when the goods or services have been transferred to the customer. IFRS 15 also includes guidance on the presentation of contract balances, that is, assets and liabilities arising from contracts with customers, depending on the relationship between the entity’s performance and the customer’s payment. Furthermore, the new standard requires a set of quantitative and qualitative disclosures to enable users of the company’s consolidated financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. IFRS 15 replaces IAS 11, Construction Contracts, and IAS 18, Revenue, including their respective interpretations. In addition, the Group is taking into consideration the clarifications published by the IASB in April 2016 and will follow the further developments in the interpretation of IFRS 15.

The Group will apply IFRS 15 using the modified retrospective method for the first time as of 1 January 2018, so that any changes as of 1 January 2018 will be recognised cumulatively in retained earnings. As a result, the Group will not apply the requirements of IFRS 15 to every comparative period shown. As of 1 January 2018, retained earnings will go down by an amount in the mid three-digit million range.

This effect is mainly due to a revaluation of obligations under the customer loyalty programme because of the introduction of a redesigned data model in accordance with IFRS 15 for the total amount of miles outstanding. The resulting contractual liability from bonus programmes will be higher than the current obligation. In addition, the miles that expire in a given year will no longer be recognised directly through profit or loss in the year of collection, but rather recognised as collected pro rata. They will no longer be accounted for as deferred income together with a non-financial obligation, but rather in a single item as a contractual liability under IFRS 15.

Another effect stems from shifting the recognition date for certain items of other revenue (particularly rebooking fees) from the transaction date to the date of use. In addition, there is the fact that from financial year 2018 onwards, for ticket revenue, the airport fees received and corresponding airport invoices will no longer be recognised in the income statement. Applied to the financial year 2017, this approach would reduce revenue and expenses by EUR 2.1bn. In connection with IFRS 15, the plan is to reclassify income from training and travel management of around EUR 340m in total from other operating income to revenue.

The review of maintenance, repair and overhaul services in the MRO segment is complete. Accounting to date has largely been based on the percentage-of-completion method as defined in IAS 11, which is to be replaced by the recognition of revenue over time. The construction contracts meet the requirements for recognition of revenue over time in line with IFRS 15 so that there will be no material effects on the time at which revenue is recognised.

The new rules require additional quantitative and qualitative disclosures in the Notes, such as separate items for contractual assets and liabilities and the cumulative amount of unfulfilled performance obligations from all relevant customer contracts as of the balance sheet date.

On 13 January 2016, the IASB published the new standard **IFRS 16, Leases**. IFRS 16 replaces IAS 17, Leases, and the respective interpretations. The standard is binding from 1 January 2019. Early application is permitted, but only if IFRS 15, Revenue from Contracts with Customers, is also applied at the same time. The Group will not apply the standard ahead of time. IFRS 16 introduces a standard lease accounting model for lessees, under which a right-of-use asset and a lease liability at the present value of the contractually agreed lease payments are recognised in the lessee's balance sheet for leases with a term of more than twelve months. Recognition exemptions exist for short-term leases and leases for low-value assets. For the most part, there are no changes to the rules for lessors.

Here, too, the Lufthansa Group has set up a Group-wide project to implement the new leasing standard.

The Group has decided to apply the modified retroactive approach. In the modified retroactive approach, the comparable figures for the previous year are not adjusted and all adjustment effects as of 1 January 2019 are therefore to be presented as adjustments to retained earnings. Upon initial application, the Lufthansa Group has also decided to recognise right-of-use assets corresponding to the lease liabilities. This will therefore not have any impact on equity as of the effective date.

The most important change identified to date is that the Group will recognise new assets and liabilities for its operating leases. Since leased aircraft still only make up a small proportion of the total fleet, the right-of-use assets will mainly relate to properties and other operating and office equipment. Furthermore, the type of expenses connected with these leases will change, since IFRS 16 replaces linear expenses for operating leases with depreciation and amortisation for right-of-use assets and interest expenses for lease liabilities. This will have corresponding effects on the presentation of results in the income statement, total assets, debt and the equity ratio. It is still too early to reliably quantify the concrete impact this will have on the consolidated financial statements. The current volume of operating leases is shown in

➤ **Note 20, p. 132f.**

The IASB and the IFRS Interpretations Committee have adopted other standards and interpretations whose application is not mandatory for the financial year 2017.

**T071 IFRS-PRONOUNCEMENT  
(NOT YET ENDORSED BY THE EU)**

	Mandatory application for financial years beginning on or after
Amendments to IFRS 2, Share-based Payment	1.1.2018
Amendments to IAS 40, Investment Property	1.1.2018
IFRIC 22, Foreign Currency Transactions and Advance Consideration	1.1.2018
IFRIC 23, Uncertainty over Income Tax Treatments	1.1.2019
Amendments to IFRS 9, Prepayment Features with Negative Compensation	1.1.2019
Amendments to IAS 28, Non-current equity investments in associated companies and joint ventures	1.1.2019
Annual Improvements to IFRS, 2015–2017 Cycle	1.1.2019
Amendments to IAS 19, Admndments, curtailments and settlements	1.1.2019
IFRS 17, Insurance Contracts	1.1.2021

At the present time, the new or amended IFRS pronouncements listed in the table are not considered to have a material effect on the presentation of the net assets, financial and earnings position.

The Group has not voluntarily applied any of the new or amended regulations mentioned above before their binding date of application. If the effective dates of the standards and interpretations mentioned above fall within the year, they are applied as of 1 January of the following financial year. This is subject to the endorsement of the standards by the EU.

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
AND VALUATION METHODS**

The companies included in the consolidated financial statements use uniform accounting policies to prepare their financial statements.

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 IFRSs 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.

Amendments to accounting policies as a result of revised and new standards are applied retrospectively unless provided otherwise for a specific standard. The income statement for the previous year and the opening balance sheet for the comparable period are adjusted as if the new accounting policies had always been applied.

**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 Network Airlines, Point-to-Point Airlines 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 segment and the IT services presented under Other 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.

Operating expenses are recognised when the product or service is used or the expense arises. Provisions for warranties are generally formed when the corresponding revenue is recognised, while provisions for onerous contracts are generally formed when they are identified. Interest income and expenses are accrued in the appropriate period. Dividends from shareholdings not accounted for using the equity method are recognised when a legal claim to them arises.



**Initial consolidation and goodwill**

The initial consolidation of Group companies takes place using the purchase method. This involves measuring the fair value of the assets, liabilities and contingent liabilities, identified in accordance with the provisions of IFRS 3, of the company acquired at the acquisition date, and allocating the acquisition costs to them. The proportion of fair value of assets and liabilities not acquired is shown under minority interests. The ancillary acquisition costs are recognised as expenses in the periods in which they occur.

Any excess of cost over the value of equity acquired is capitalised as goodwill. If the value of the acquirer's interest in the shareholders' equity exceeds the purchase price paid by the acquiring company, the difference is recognised immediately in profit or loss.

Differences from minority interests acquired after control has been gained are set off directly against equity.

Goodwill is not amortised, but is tested annually for impairment. The impairment tests applied to goodwill are carried out using recognised discounted cash flow methods. This is done on the basis of expected future cash flows from the latest management planning, which are extrapolated on the basis of long-term revenue growth rates and assumptions with regard to margin development and are 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 2017 → **Note 16, p. 125ff.**

Additional impairment tests are also applied during the course of the year if events give reason to believe that goodwill could be permanently impaired.

Once an impairment loss has been recognised on goodwill, it is not reversed in subsequent periods.

Notwithstanding the principles described above, Group companies that have no material impact on the Group's net assets, financial and earnings position are not consolidated, but rather recognised in the consolidated financial statements at cost less any impairments.

**Currency translation and consolidation methods**

The financial statements of the foreign Group companies are prepared in the relevant functional currency and translated into euros before consolidation. 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. Any translation differences are recognised directly in equity without effect on profit and loss and are only recognised in profit or loss when control is lost or the equity investment is disposed of.

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 acquired after 2005 is held in the functional currency of the purchased entity and translated at the middle rates on the reporting date.

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.

Translation differences for non-monetary items for which changes in fair value are recognised in equity (e.g. available-for-sale equity instruments) are not reflected in profit or loss.

The most important exchange rates used in the consolidated financial statements have developed in relation to the euro as follows:

**T072 EXCHANGE RATES**

	2017		2016	
	Balance sheet exchange rate	Income statement average rate	Balance sheet exchange rate	Income statement average rate
AUD	0.64984	0.67792	0.68423	0.67222
CAD	0.66404	0.68083	0.70498	0.68244
CHF	0.85440	0.90106	0.93203	0.91566
CNY	0.12774	0.13050	0.13665	0.13627
GBP	1.12499	1.13930	1.17030	1.22157
HKD	0.10648	0.11318	0.12229	0.11656
INR	0.01303	0.01356	0.01396	0.01343
JPY	0.00739	0.00788	0.00813	0.00834
KRW	0.00078	0.00078	0.00079	0.00078
NOK	0.10161	0.10740	0.10997	0.10764
PLN	0.23952	0.23505	0.22704	0.22898
SEK	0.10170	0.10382	0.10435	0.10581
USD	0.83184	0.88200	0.94814	0.90466

The effects of intra-Group transactions are completely eliminated in the course of consolidation. Receivables and liabilities between consolidated companies are offset against one another and intra-Group provisions are reversed through profit or loss. Intra-Group profits and losses in non-current assets and inventories are eliminated – mostly in connection with the internal resale of aircraft. 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, while 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 indefinite useful lives (mainly brands and purchased, resalable take-off and landing rights) are not amortised, but rather subjected to a regular annual impairment test, as is goodwill.

#### 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.

Key components of a tangible asset that have different useful lives are recognised and depreciated separately. Seats and in-flight entertainment systems installed in civilian aircraft are recognised separately. If costs are incurred in connection with regular extensive maintenance work (e.g. overhauling aircraft), these costs are recognised as a separate component insofar as they meet the criteria for recognition.

The following useful lives are applied throughout the Group:

#### T073 USEFUL LIVES OF PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment	Useful life
Buildings	45 years
New commercial aircraft and reserve engines	20 years to a residual value of 5%
Technical equipment and machinery	8 to 20 years
Other equipment, operating and office equipment	3 to 20 years

Buildings, fixtures and fittings on rented premises are depreciated according to the terms of the lease or over a shorter useful life.

Assets acquired second-hand are depreciated over their expected remaining useful life.

When assets are sold, closed down or scrapped, the difference between the net proceeds and the net carrying amount of the assets is recognised as a gain or loss in the other operating income or expenses, respectively.

In addition to the impairment tests for goodwill, slots and brands, individual items of property, plant and equipment and intangible assets are also tested for impairment if they are no longer intended for future use, either because they are damaged, retired or due to be sold. In this case, the assets are measured individually in line with the applicable standard (full write-down to scrap value, or disposal proceeds less costs to sell). The lowest level at which assets can form a CGU is a production facility, to the extent that separate product lines or customer (groups) can be assigned to it. When aircraft are held for service in the Group fleet and there is no immediate intention to sell them, they are combined with the assets of the respective operating unit for the purposes of impairment testing.

#### Impairment losses on intangible assets and property, plant and equipment

In addition to depreciation and amortisation on property, plant and equipment and intangible assets, 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 up to the amount of the asset's amortised cost.

#### **Repairable spare parts for aircraft**

Initial supply of spare parts for aircraft that can be reused after repair are classified as non-current assets.

Repairable spare parts for aircraft are held at continually adjusted prices based on average acquisition costs. For measurement purposes, spare parts to be allocated to a maintenance pool are assigned to individual aircraft models and depreciated on a straight-line basis depending on the life phase of the fleet models for which they can be used. Other spare parts, mainly intended for replacement, are recognised in the balance sheet at a discount to their acquisition costs, depending on how common they are.

#### **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 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 non-amortised residual value of the asset over the term of the lease. Insofar as its economic ownership is deemed to be with the Lufthansa Group, the asset is capitalised at the start of the leasing contract at the lower of the present value of the leasing instalments and the asset's time value, plus any incidental expenses borne by the lessee. Depreciation methods and useful economic lives correspond to those applied to comparable purchased assets.

#### **Operating leases**

With an operating lease, the lease payment made by the lessee is recognised as an expense and the payment received by the lessor as income. The leased asset is still recognised in the consolidated balance sheet as a tangible asset.

#### **Equity investments accounted for using the equity method**

Equity investments accounted for using the equity method are capitalised at cost at the time of acquisition.

In subsequent periods, the carrying amounts are either increased or reduced annually by changes in the shareholders' equity of the associated company or joint venture that is held by the Lufthansa Group. The principles of purchase price allocation that apply to full consolidation are applied accordingly to the initial measurement of any difference between the acquisition cost of the investment and the pro rata share of shareholders' equity of the company in question. An impairment test is only carried out in subsequent periods if there are indications of a potential impairment in the entire investment valuation.

#### **Financial instruments**

**Financial assets** are classified within the Lufthansa Group as "at fair value through profit or loss", "loans and receivables", "available-for-sale financial assets" and "derivative financial instruments as an effective part of a hedging relationship".

The category "**at fair value through profit or 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 that are not traded in an active market, as well as cash and bank balances. 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 and equity investments count as available for sale.

Derivatives that qualify as hedging transactions within a hedging relationship are classified in a separate category.

Financial instruments are recognised on the settlement date, i.e. on the date that they are created or transferred. Financial assets are capitalised at fair value plus transaction costs. Unrealised gains and losses are recognised directly in equity, taking deferred taxes into account. 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.

Receivables denominated in foreign currencies are measured at the balance sheet date rate.

Subsequent measurement of **loans and receivables** is at amortised cost using the effective interest method.

If there are doubts as to the recoverability of receivables then they are recognised at the lower recoverable amount. Subsequent reversals (write-backs) are recognised in profit or loss.

**Available-for-sale financial assets** are recognised at fair value in subsequent periods to the extent that this can be measured reliably.

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 and 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 was recognised in previous years due to fair value falling below the carrying amount and a reversal later becomes necessary, it is indeed reversed – without effect on profit and loss for securities classified as equity instruments, through profit or loss for debt securities.

By contrast, subsequent measurement is at **cost for equity investments for which no quoted price exists on an active market and for which fair value cannot be measured reliably**. If the recoverable amount falls below the carrying amount on the balance sheet date, 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 that independent, knowledgeable market participants would consider in arriving at a price and that 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.

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 (fair value hedge) or future cash flows (cash flow hedge).

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 or loss in the corresponding reserve. According to IAS 39, Financial Instruments: Recognition and Measurement, it is not possible to recognise the change in total market value of an option used as a hedge (full fair value method) in equity as part of hedge accounting, but only the change in the “intrinsic value” of the option. The change in the time value of the option is recognised in the financial result.

If the hedged cash flow is an investment, the result of the hedging transaction that 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.

Derivatives which do not or no longer meet the documentation or effectiveness requirements for hedge accounting or for which the hedged item no longer exists are shown in the category “at fair value through profit or loss”. Changes in fair value are then recognised directly in profit or loss.

Embedded derivatives – to the extent that they should, but cannot, be separated from the financial host contract – are also considered with these as trading transactions for measurement purposes. Changes in market value are also recognised directly as profit or loss in the income statement. Both types must be classified as financial assets stated “at fair value through profit or loss”.

It is the Group’s hedging policy, ➤ **Note 41, p. 161ff.**, only to enter into effective derivatives for the purpose of hedging interest rate, exchange rate and fuel price risks.

Hedging transactions with non-consolidated Group companies and interest/currency swaps generally do not satisfy the strict criteria for effectiveness as defined in IAS 39, however. Changes in the value of these transactions are therefore recognised directly in profit or loss.

**Financial guarantees** given to third parties are recognised for the first time at fair value. Thereafter, financial guarantees are either measured “at fair value through profit or loss” or at the higher of the originally recognised amount, less any cumulative amortisation through profit or loss in line with IAS 18, and the value of the contractual obligation measured in line with IAS 37.

#### **Emissions certificates**

CO<sub>2</sub> emissions certificates are recognised as intangible assets and presented under other receivables. Rights, both those purchased and allocated free of charge, are measured at cost and not amortised.

#### **Inventories**

The item “Inventories” comprises non-repairable spare parts and assets used in production or the provision of services (raw materials, consumables and supplies), purchased merchandise, finished and unfinished goods and advance payments for them. They are measured at cost, determined on the basis of average prices, or at production costs. The cost of production includes all costs directly attributable to the production process, including borrowing costs as required under IAS 23, as well as appropriate portions of production-related overheads. Average capacity utilisation of 96 per cent (previous year: 98 per cent) is assumed in determining the costs of production. Measurement on the balance sheet date is at the lower of cost and net realisable value. Net realisable value is defined as the estimated selling price less the estimated cost of completion and the estimated costs necessary to make the sale.

#### **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. Fair value less costs to sell is derived from recent market transactions, if available.

Property, plant and equipment and intangible assets are no longer depreciated or amortised and affiliated companies accounted for using the equity method are no longer accounted for in this way once they are classified as held for sale or held for distribution. While the impairment charge from the last measurement before reclassification is recognised as an impairment loss, all subsequent changes in the measurement of current assets held for sale, e.g. due to exchange rate movements, are shown in other operating expenses or income.

### Cash and cash equivalents

Cash and cash equivalents comprise cash-in-hand, cheques received and credit balances at banks. Cash equivalents are financial investments that can be liquidated at short notice. At the time of purchase or investment, they have a maturity of three months or less.

### Pension provisions

Pension provisions relate to defined-benefit and defined-contribution plans. The pension provisions for defined-benefit plans correspond to the present value of the defined-benefit obligation (DBO) on the reporting date less the fair value of plan assets, if necessary taking the rules on the maximum surplus of plan assets over the obligation (asset ceiling) into account.

The DBO is calculated annually by independent actuaries using the projected unit credit method prescribed in IAS 19 for defined-benefit pension plans. The measurement of pension provisions within the balance sheet is based on a number of actuarial assumptions.

Capital account plans are measured using the assets of the capital accounts as of the reporting date, whereby the present value of the minimum benefit payable when the beneficiary becomes entitled to the benefit is compared with the amount of contributions already paid in, measured using the assumptions for the benefit plans. Additional risk premiums that the employer contributes to insure against early entitlements are included in current service expense.

They include, in particular, assumptions about long-term salary and pension trends as well as 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 to discount the individual future payment obligations is based on the return from investment grade corporate bonds in the same currency and with a similar term to maturity. The discount rate is determined by reference to high-quality corporate bonds with an issue volume of at least EUR 100m and an AA rating from at least one of the rating agencies Moody's Investor Service, Fitch Ratings or Standard & Poor's Rating Services.

Actuarial gains and losses arising from the regular adjustment of actuarial assumptions are recognised directly in equity in the period in which they arise, taking deferred taxes into account. Also presented without effect on profit and loss are differences between the interest income at the beginning of the period calculated on plan assets based on the interest rate used to discount the pension obligations and the earnings from plan assets actually recorded at the end of the period. The actuarial gains and losses and any difference between the forecast result and the actual result from plan assets form part of the remeasurement.

Past service costs are recognised immediately in profit or loss.

Payments to pension providers for defined-contribution retirement benefit commitments for which the pension provider or the beneficiary assumes the financial risks are recognised in staff costs as they fall due.

### Other provisions and provisions for taxes

**Other provisions** are recognised for present legal and constructive obligations to third parties arising from past events that will probably give rise to a future outflow of resources, provided that a reliable estimate can be made of the amount of the obligations as of the reporting date.

The amount of the provision is determined by the best estimate of the amount required to settle the present obligation. Past experience, current cost and price information as well as estimates from internal and external experts are used to determine the amount of provisions.

The management regularly analyses the current information on legal risks and makes provisions for probable obligations. These provisions cover estimated payments to the claimant, the costs of the court and proceedings, the costs of lawyers and of any out-of-court settlement. Internal and external lawyers assist with the estimate. When deciding on the necessity of a provision for litigation, the management takes into account the probability of an unfavourable outcome and the chance of making a sufficiently accurate estimate of the amount of the obligation. The commencement of legal proceedings, the formal assertion of a claim against the Group or the disclosure of certain litigation in the Notes does not automatically mean that a provision was made for the risk concerned. A ruling in court proceedings, a decision by a public authority or an out-of-court settlement may cause the Group to incur expenses for which no provision was made because the amount could not be reliably determined or for which the provision made and the insurance coverage is not sufficient.

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.

If no provision could be recognised because one of the stated criteria was not fulfilled, the corresponding obligations are shown as contingent liabilities and discussed in the relevant section.

Obligations towards tax authorities that are uncertain with regard to their occurrence, probability and amount are recorded as **tax provisions** on the basis of reasonable estimates. Existing contingent liabilities in connection with this are addressed separately.

#### Liabilities

Liabilities arising from finance leases are recognised at the present value of the lease payments at the inception of the lease term. Other financial liabilities are recognised at fair value. Liabilities for which interest is not payable at a market rate are recognised at present values.

Measurement in subsequent periods is at amortised cost using the effective interest rate method.

Liabilities in foreign currencies are measured at the balance sheet date.

Obligations from share programmes were measured at fair value as cash-settled share-based payment transactions in accordance with IFRS 2. Fair value was measured using a Monte Carlo simulation.

The liability is recognised on the basis of the resulting fair value, taking the term of the programme into account. Changes are recognised as staff costs in profit or loss.

Details of the assumptions used for the model and the structure of the share programmes can be found in

➤ **Note 36, p. 151ff.**

#### Liabilities from unused flight documents

Until they are used, sold flight documents are recognised as an obligation from unused flight documents. Coupons that are unlikely to be used any more are recognised as traffic revenue in the income statement at their estimated value at the end of the year. The estimate is based on historical statistical data.

#### Obligations under bonus mile programmes

The 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 unused bonus miles are deferred using the deferred revenue method to the extent that they are to be accumulated on flights by airlines in the Lufthansa Group. Bonus entitlements are measured at fair value. The fair value of the air miles is determined as the value for which the miles could be sold separately, i.e. the average revenue, taking booking class and traffic region into account. If existing miles are expected to be used with cooperation partners, the fair value depends on the price payable to these partners, including the profit margin. Miles collected with cooperation partners (partner airlines or non-airlines) are measured at the price paid to Lufthansa by these partners for the miles credited. A contract governs the netting of miles between Lufthansa and its cooperation partners.



No provisions are recognised for miles that are expected to lapse. The quota of miles that have lapsed in the past is used to estimate the number of miles that will probably lapse subject to current expiry rules.

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.

#### Deferred tax items

In accordance with IAS 12, deferred taxes are recognised for all temporary differences between the balance sheets with regard to tax 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 planning period used to assess this probability is determined by the individual Group company according to the specific circumstances and lies generally between three and five years.

#### Effective income taxes

The Lufthansa Group is liable for income taxes in various countries. Material assumptions are necessary to calculate the income tax liabilities. For certain transactions and calculations, the final taxation cannot be assessed definitively in the course of normal business. The amount of the liability for future tax inspections is based on estimates of whether additional income taxes will be owed, and if so, at which amount. Estimates will be corrected as necessary in the period in which taxation is definitively assessed.

## NOTES TO THE CONSOLIDATED INCOME STATEMENT

### 3 Traffic revenue

#### T074 TRAFFIC REVENUE BY SECTOR

in €m	2017	2016
Passenger	25,467	22,256
Freight and mail	2,932	2,405
	<b>28,399</b>	<b>24,661</b>

EUR 2,371m of freight and mail revenue (previous year: EUR 1,986m) was generated in the Logistics segment. Other freight and mail revenue of EUR 561m (previous year: EUR 419m) mainly comes from marketing belly capacities on passenger flights at SWISS and Brussels Airlines and is shown in the segment reporting as other revenue from the Network Airlines and Point-to-Point Airlines segments.

### 4 Other revenue

#### T075 REVENUE BY SECTOR

in €m	2017	2016
MRO services	3,228	3,184
Catering services	2,193	2,240
Travel services (commissions)	64	60
IT services	298	297
Ground services	134	121
Other services	1,263	1,097
	<b>7,180</b>	<b>6,999</b>

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. The Catering segment also generates revenue, particularly in the areas of in-flight sales, air security concepts, in-flight service equipment, transport/warehouse logistics and lounge operations, which does not relate to catering services and is thus presented under other services.

Other revenue includes revenue of EUR 414m (previous year: EUR 317m) from work in progress in connection with long-term production and service contracts. This revenue has been recognised in accordance with the percentage of completion method. If earnings from the whole contract could not be estimated reliably, the costs incurred for the contract were recognised. If the realisable revenue in these cases was below the costs incurred for the contract, write-downs were made accordingly. The percentage of completion was calculated on the basis of the ratio of contract costs incurred by the balance sheet date to the estimated total costs for the contract.

Accumulated costs for unfinished contracts, i.e. including amounts recognised in previous years, amounted to EUR 356m (previous year: EUR 341m). Profits of EUR 49m were set off against them (previous year: EUR 27m). Advance payments by customers amounted to EUR 290m (previous year: EUR 191m). Unfinished contracts with a net credit balance – less any write-downs – are disclosed in trade receivables.

➤ **Note 25, p. 137.** Unfinished contracts for which advance payments by customers exceed the costs plus any offset pro rata profit are recognised as advance payments. ➤ **Note 38, p. 154.** No monies were withheld by customers.

## 5 Changes in inventories and work performed by entity and capitalised

### T076 CHANGES IN INVENTORIES AND WORK PERFORMED BY ENTITY AND CAPITALISED

in €m	2017	2016
Increase/decrease in finished goods and work in progress	5	-3
Other internally produced and capitalised assets	101	98
	<b>106</b>	<b>95</b>

## 6 Other operating income

### T077 OTHER OPERATING INCOME

in €m	2017	2016
Foreign exchange gains	885	886
Commission income	272	250
Income from the reversal of provisions and accruals	151	255
Income from the reversal of impairment losses on fixed assets	83	10
Compensation received for damages	64	45
Reversal of write-downs on receivables	46	27
Income from operating-leasing aircraft	44	13
Income from the disposal of non-current assets	38	13
Rental income	33	31
Services provided by the Group	27	34
Income from staff secondment	26	28
Income from the disposal of non-current available-for-sale financial assets	5	51
Income from sub-leasing aircraft	1	3
Miscellaneous other operating income	601	538
	<b>2,276</b>	<b>2,184</b>

Foreign exchange gains (excluding financial liabilities) mainly include gains from differences between the average rate for the month on the transaction date and on the payment date, along with foreign exchange gains from measurement at the closing date rate. Income from exchange rate hedging is also recognised here. Foreign exchange losses from these transactions are reported under other operating expenses.

➤ **Note 10, p. 122.** Effects of exchange rates on borrowings and the corresponding hedging results are recognised in other financial items.

Income from the release of provisions relates to a number of provisions recognised in previous years that have not been fully used. In contrast, expenses from insufficient provisions recognised in previous years are recognised together with the primary expense item to which they relate.

Income from the disposal of property, plant and equipment also includes EUR 24m from aircraft sold (previous year: EUR 10m). Write-backs on assets mainly relate to seven Airbus A340-600s, two Bombardier CRJ900s and one Boeing MD-11F, which were no longer intended for sale due to changes to capacity planning.

Miscellaneous other operating income includes items not attributable to any of the aforementioned categories, such as income from training.

## 7 Cost of materials and services

### T078 COST OF MATERIALS AND SERVICES

in €m	2017	2016
Aircraft fuel and lubricants	5,232	4,885
Other raw materials, consumables and supplies	3,095	2,896
Purchased goods	460	444
<b>Total cost of raw materials, consumables and supplies and of purchased goods</b>	<b>8,787</b>	<b>8,225</b>
Fees and charges	6,357	5,736
Charter expenses	651	343
External MRO services	1,519	1,335
In-flight services	379	343
Operating lease payments	88	58
External IT services	381	329
Other services	851	740
<b>Total cost of purchased services</b>	<b>10,226</b>	<b>8,884</b>
	<b>19,013</b>	<b>17,109</b>

## 8 Staff costs

### T079 STAFF COSTS

in €m	2017	2016
Wages and salaries	7,015	6,478
Social security contributions	938	849
Expenses for pension plans and other employee benefits	219	27
	<b>8,172</b>	<b>7,354</b>

Expenses for retirement benefits principally consist of additions to the pension provisions. ➤ **Note 32, p. 140ff.**

Lower savings from past service expenses compared with the previous year were responsible for the increase in expenses for retirement benefits and other support payments. In the financial year, a saving of EUR 582m came largely from changing the retirement benefits system for cockpit staff as part of the Group wage settlement. In the previous year, a saving of EUR 652m was achieved by altering the system of retirement and transitional benefits for cabin crew at Lufthansa German Airlines.

### T080 EMPLOYEES

	Average for the year 2017	Average for the year 2016	As of 31.12.2017	As of 31.12.2016
Ground staff	86,304	84,735	86,044	84,694
Flight staff	41,496	37,494	42,279	38,434
Trainees	1,056	1,058	1,101	1,178
	<b>128,856</b>	<b>123,287</b>	<b>129,424</b>	<b>124,306</b>

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 2,052m (previous year: EUR 1,769m).

### T081 DEPRECIATION, AMORTISATION AND IMPAIRMENT

in €m	2017	2016
Amortisation of other intangible asset	98	92
Depreciation of aircraft	1,382	1,266
Depreciation of other tangible assets	239	228
<b>Total amortisation/depreciation</b>	<b>1,719</b>	<b>1,586</b>
Impairment of goodwill	3	0
Impairment of other intangible assets	24	1
Impairment of aircraft	204	127
Impairment of other tangible assets	19	38
Impairment of financial assets	83	17
<b>Total impairment</b>	<b>333</b>	<b>183</b>
<b>Total depreciation, amortisation and impairment</b>	<b>2,052</b>	<b>1,769</b>

Impairment losses of EUR 333m were recognised in the financial year 2017. EUR 204m related mainly to seven Airbus A340-600s that had been retired and were intended to be scrapped, and two A320-200s that have since been sold. Impairment losses of EUR 21m were recognised on discontinued IT projects in the Logistics and MRO segments and in the credit card business. Impairment losses of

EUR 26m in total were also recognised on intangible assets, including goodwill, as well as other items of property, plant and equipment due to weaker performance at some business units in the Catering segment (especially catering plants at Frankfurt Airport, in South Africa and in Finland). Impairment testing of the LSG companies resulted in losses of EUR 44m that could not be recognised. The impairment tests performed here because of a concrete indication determined the recoverable amount on the basis of the value in use, using the discounted cash flow method and the current company planning. The valuation of the business entities concerned was based on discount rates (before taxes) of between 5.3 per cent and 9.6 per cent.

From other impairment losses of EUR 70m in total, EUR 50m related to a working capital loan to NIKI Luftfahrt GmbH (NIKI) and EUR 20m to an advance payment on the purchase price for NIKI to Air Berlin, which was written off when the company became insolvent and the acquisition was abandoned. A further EUR 11m related to a loan made to Lufthansa Super Star gGmbH.

No other impairment losses on assets held for sale were recognised in other operating expenses in the reporting year (previous year: EUR 21m).

## 10 Other operating expenses

### T082 OTHER OPERATING EXPENSES

in €m	2017	2016
Sales commission paid to agencies	335	316
Rental and maintenance expenses	884	888
Staff-related expenses	1,114	1,078
Expenses for computerised distribution systems	505	449
Advertising and sales promotions	400	387
Foreign exchange losses	758	910
Auditing, consulting and legal expenses	272	229
Other services	137	135
Insurance premiums for flight operations	56	51
Write-downs on receivables	98	88
Communications costs	77	70
Other taxes	87	90
Losses on disposal of non-current assets	6	26
Commissions for credit cards	227	208
Impairment on assets held for sale	0*	21
Miscellaneous other operating expenses	615	571
	<b>5,571</b>	<b>5,517</b>

\* Rounded below EUR 1m.

Foreign exchange losses (excluding financial liabilities) mainly consist of losses from differences between the monthly average rates on the transaction date and on the payment date, expenses from exchange rate hedges and translation losses from measurement at the exchange rate on the balance sheet date. ➤ **Note 6, p. 120.** Effects of exchange rates on borrowings are recognised in other financial items.

Staff-related expenses also include travel and training costs for Group employees and the costs of outside staff.

## 11 Result from equity investments

### T083 RESULT FROM EQUITY INVESTMENTS

in €m	2017	2016
Result of joint ventures accounted for using the equity method	79	26
Result of associated companies accounted for using the equity method	39	32
<b>Result of equity investments accounted for using the equity method</b>	<b>118</b>	<b>58</b>
Dividends from other joint ventures	11	6
Dividends from other associated companies	8	6
Income from profit transfer agreements	24	22
Expenses from loss transfer agreements	-16	-19
Dividends from other equity investments	12	12
<b>Result of other equity investments</b>	<b>39</b>	<b>27</b>
	<b>157</b>	<b>85</b>

Income and expenses from profit and loss transfer agreements are shown including tax contributions.

## 12 Net interest

### T084 NET INTEREST

in €m	2017	2016
Income from other securities and non-current financial loans	115	6
Other interest and similar income	63	58
<b>Interest income</b>	<b>178</b>	<b>64</b>
Interest expenses on pensions obligations	-159	-151
Interest expenses on other provisions	-6	-1
Interest and other similar expenses	-208	-130
<b>Interest expenses</b>	<b>-373</b>	<b>-282</b>
	<b>-195</b>	<b>-218</b>

Net interest comprises interest income and expenses – calculated using the effective interest method in accordance with IAS 39 – from financial assets and liabilities not classified as at fair value through profit or loss.

### 13 Other financial items

#### T085 OTHER FINANCIAL ITEMS

in €m	2017	2016
Gains/losses on fair value changes of hedged items	20	1
Gains/losses on fair value changes of derivatives used as fair value hedges	-20	-1
Result of derivatives held for trading classified as at fair value through profit or loss	-234	84
Ineffective portion of derivatives used as cash flow hedges	18	167
Exchange rates effects from financial liabilities	288	-60
	<b>72</b>	<b>191</b>

Net valuations of derivatives held for trading include the change in the market value of cross-currency swaps used for hedging purposes, in which the currency component corresponds to the effect of exchange rates on financial liabilities.

### 14 Income taxes

#### T086 INCOME TAXES

in €m	2017	2016
Current income taxes	812	368
Deferred income taxes	-23	77
	<b>789</b>	<b>445</b>

Current income taxes for 2017 include corporation tax, the solidarity surcharge, trade tax and other income taxes paid outside Germany totalling EUR 628m (previous year: EUR 323m). Tax expenses of EUR 184m (previous year: EUR 45m) were also incurred for prior years.

Deferred foreign tax rates in the 2017 financial year ranged from 3.5 to 41.4 per cent (previous year: 3.5 to 41.5 per cent). For measuring deferred taxes, the relevant taxation rules in force or adopted at the balance sheet date are used.

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 15.825 per cent for corporation tax and the solidarity surcharge (previous year: 15.825 per cent) and 9.175 per cent for trade tax (previous year: 9.175 per cent). The portion of trade tax related to the foreign air transport operations is deducted when calculating the tax rate for trade tax.

#### T087 TAX RECONCILIATION

	2017		2016	
	Basis of assessment	Tax expenses	Basis of assessment	Tax expenses
in €m				
Expected income tax expenses/refund	3,187	797	2,248	562
Tax free gains/losses	-	-2	-	-11
Non-deductible costs	-	42	-	15
Non-taxable income	-	-75	-	-72
Non-taxable income from equity investments	-	-37	-	-19
Difference between local taxes and the deferred tax rates of the parent company as well as effects of changes in tax rates	-	-3	-	-13
Taxes from other periods <sup>1)</sup>	-	72	-	20
Effects from use or deferred tax assets not recognised	-	-5	-	-37
Other	-	0*	-	0*
<b>Recognised income tax expenses</b>	<b>-</b>	<b>789</b>	<b>-</b>	<b>445</b>

\* Rounded below EUR 1m.

<sup>1)</sup> Deferred tax income of EUR 112m for other periods (previous year: EUR 25m) and effective tax expenses of EUR 184m for other periods (previous year: EUR 45m).

Deferred tax liabilities of EUR 37m (previous year: EUR 22m) were not recognised on temporary differences in connection with shares in subsidiaries, as the temporary differences are not expected to reverse in the foreseeable future.

Deferred tax assets and liabilities in 2017 and 2016 were allocable to the following items in the statement of financial positions:

#### T088 DEFERRED TAX ASSETS AND LIABILITIES

in €m	31.12.2017		31.12.2016	
	Assets	Liabilities	Assets	Liabilities
Tax loss carry-forwards and tax credits	196	-	269	-
Pension provisions	1,949	-	2,150	-
Finance leases aircraft	17	-	-	25
Intangible assets, property, plant and equipment	-	1,069	-	1,059
Non-current financial assets	-	4	-	34
Fair value measurement of financial instruments	-	227	-	427
Provisions for contingent losses	34	-	35	-
Receivables/liabilities/other provisions	-	7	22	-
Inventories	173	-	132	-
Assets held for sale	-	-	-	4
Other	12	-	-	83
Offset amounts	-858	-858	-1,195	-1,195
	<b>1,523</b>	<b>449</b>	<b>1,413</b>	<b>437</b>

The deferred tax assets and liabilities in the category receivables/liabilities/other provisions and inventories are expected to reverse within twelve months of the reporting date.

A deferred tax receivable of EUR 18m (previous year: EUR 267m) was recognised for companies incurring a net loss in the reporting year or in the previous year, because tax and earnings planning indicates that there is a high probability that the tax receivable will be realised.

In addition to recognised deferred tax assets from tax loss carry-forwards, non-deductible interest carry-forwards and tax credits, further tax loss carry-forwards and temporary differences totalling EUR 3,095m (previous year: EUR 2,792m) exist for which no deferred tax assets could be recognised. The total amount of deferred tax assets from tax loss carry-forwards that could not be capitalised as of 31 December 2017 was EUR 684m (previous year: EUR 657m).

Of the unrecognised tax loss carry-forwards, EUR 9m can only be used until 2021, EUR 20m until 2022, EUR 17m until 2023, EUR 15m until 2024, EUR 5m until 2025, EUR 5m until 2026, while EUR 2,669m can be used after 2026.

#### 15 Earnings per share

Basic/diluted 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.

#### T089 EARNINGS PER SHARE

		2017	2016
Basic/diluted earnings per share	€	<b>5.03</b>	<b>3.81</b>
Consolidated net profit/loss	€m	2,364	1,776
Weighted average number of shares		469,820,411	465,936,921

As the parent company of the Group, Deutsche Lufthansa AG reported a distributable profit according to HGB of EUR 1,227m for the 2017 financial year. The Executive Board and Supervisory Board will table a proposal at the Annual General Meeting to be held on 8 May 2018 to pay a dividend of EUR 0.80 per share. This represents a total dividend payout of EUR 377m or 11.4 per cent of EBIT for 2017. The remaining amount of EUR 850m is to be transferred to other retained earnings.

In 2017, EUR 0.50 per share was distributed as a dividend to shareholders from the net profit for 2016.

## NOTES TO THE CONSOLIDATED BALANCE SHEET

### Assets

#### 16 Goodwill and intangible assets with an indefinite useful life

##### T090 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 1.1.2016	924	625	1,549
Accumulated impairment losses	-312	-2	-314
<b>Carrying amount 1.1.2016</b>	<b>612</b>	<b>623</b>	<b>1,235</b>
Currency translation differences	2	3	5
Additions due to changes in consolidation	23	2	25
Additions	0*	-	0*
Reclassifications	-1	1	-
Disposals due to changes in consolidation	-	-	-
Disposals	-	0*	0*
Reclassifications to assets held for sale	-	-	-
Impairment losses	-	0*	0*
Reversal of impairment losses	-	-	-
<b>Carrying amount 31.12.2016</b>	<b>636</b>	<b>629</b>	<b>1,265</b>
Cost as of 1.1.2017	949	631	1,580
Accumulated impairment losses	-313	-2	-315
<b>Carrying amount 1.1.2017</b>	<b>636</b>	<b>629</b>	<b>1,265</b>
Currency translation differences	-2	-34	-36
Additions due to changes in consolidation	-	37	37
Additions	82	-	82
Reclassifications	-	0*	0*
Disposals due to changes in consolidation	-	-	-
Disposals	-	-1	-1
Reclassifications to assets held for sale	-	-	-
Impairment losses	-3	-1	-4
Reversal of impairment losses	-	-	-
<b>Carrying amount 31.12.2017</b>	<b>713</b>	<b>630</b>	<b>1,343</b>
Cost as of 31.12.2017	1,027	634	1,661
Accumulated impairment losses	-314	-4	-318

\* Rounded below EUR 1m.

All goodwill and intangible assets with an indefinite useful life were subjected to a regular impairment test in 2017 as required by IAS 36. Furthermore, there is the obligation to perform an impairment test if there is an indication of impairment. For impairment testing following an indication of impairment ➤ **Note 9, p. 121f.**

Acquired brands and slots have an indefinite useful life due to their lasting legal and economic significance. The tests were performed at the level of the smallest cash generating unit (CGU) on the basis of fair value less costs to sell or value in use. As part of the strategic restructuring of the Group in the previous year, the goodwill from the acquisition of Air Dolomiti S.p.A. and the Eurowings group was divided among the segments concerned, Lufthansa German Airlines and the Eurowings group, proportionate to their fair value and tested separately for impairment.



The following table provides an overview of the goodwill tested and the assumptions made in the respective impairment tests regarding the smallest possible cash-generating unit (CGU) in each case.

#### T091 IMPAIRMENT TESTS OF GOODWILL 2017

Name of the CGU	Lufthansa German Airlines	Eurowings group	Brussels Airlines	LSG Sky Chefs USA group	LSG Sky Chefs Korea	Other <sup>1)</sup>
Segment	Network Airlines	Point-to-Point Airlines	Point-to-Point Airlines	Catering	Catering	Catering/Service and financial companies
Carrying amount of goodwill (31.12.)	€ 238m	€ 11m	€ 82m	€ 277m	€ 60m	€ 45m
Impairment losses	–	–	–	–	–	€ 3m
Duration of planning period	3 years	3 years	3 years	3 years	3 years	3 years
Revenue growth p.a. after end of planning period	2.2%	2.2%	2.2%	2.0%	3.0%	2.0% to 4.0%
Discount rate	4.7% <sup>2)</sup>	4.7% <sup>2)</sup>	5.3% <sup>3)</sup>	5.4% <sup>3)</sup>	5.4% <sup>3)</sup>	4.7% <sup>2)</sup> to 9.7% <sup>3)</sup>

<sup>1)</sup> Goodwill of less than EUR 25m in any individual instance.

<sup>2)</sup> Pre-tax rate.

<sup>3)</sup> After-tax rate.

The assumptions on revenue growth used for the impairment tests are based on approved internal budgets and 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. The 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. Costs of the central functions were charged to the individual units based on their use of these functions.

Assuming sustained revenue growth by the CGUs as described in the table, the recoverable amounts would exceed the carrying amount by a significant figure, even if the growth assumptions were reduced by one percentage point in each case. Worsening the scenarios by one percentage point in each case, in terms of planned margins or the discount rates used for the impairment tests, would also not reduce the recoverable amounts below the respective carrying amounts for the CGUs. The sensitivity analysis takes into account changes in one assumption at a time, whereby the other assumptions remain unchanged from the original calculation.

The following table shows the assumptions used for the previous year's impairment tests.

**T091 IMPAIRMENT TESTS OF GOODWILL 2016**

Name of the CGU	Deutsche Lufthansa AG and regional partners	Eurowings group	LSG Sky Chefs USA group	LSG Sky Chefs Korea	Other <sup>1)</sup>
Segment	Network Airlines	Point-to-Point Airlines	Catering	Catering	Catering/Service and financial companies
Carrying amount of goodwill (31.12.)	€ 238m	€ 11m	€ 277m	€ 61m	€ 49m
Impairment losses	-	-	-	-	-
Duration of planning period	3 years	3 years	3 years	3 years	3 years
Revenue growth p.a. after end of planning period	2.2%	2.2%	2.0%	3.0%	2.0% to 4.0%
Discount rate	4.3% <sup>2)</sup>	4.3% <sup>2)</sup>	6.0% <sup>3)</sup>	6.1% <sup>3)</sup>	4.3% <sup>2)</sup> to 10.9% <sup>3)</sup>

<sup>1)</sup> Goodwill of less than EUR 25m in any individual instance.

<sup>2)</sup> After-tax rate.

<sup>3)</sup> Pre-tax rate.

The intangible assets with indefinite useful lives consist of slots purchased as part of company acquisitions (insofar as they are tradeable) 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.

**T092 IMPAIRMENT TESTS OF SLOTS 2017**

Group company	SWISS	Austrian Airlines
Carrying amount for slots (31.12.)	€ 124m	€ 23m
Impairment losses	€ 0m*	€ 0m*
Duration of planning period	3 years	3 years
Revenue growth p.a. after end of planning period	2.2%	2.2%
Discount rate	4.8% <sup>1)</sup>	4.7% <sup>1)</sup>

\* Rounded below EUR 1m.

<sup>1)</sup> After-tax rate.

The slots purchased by Deutsche Lufthansa AG with a carrying amount of EUR 112m as of 31 December 2017, unchanged from the previous year, were subjected to an impairment test on the same assumptions as those used for impairment testing the goodwill of the CGU Lufthansa German Airlines.

Based on sustainable revenue growth as described in the table, the recoverable amounts significantly exceed the carrying amounts. Even if the assumptions on revenue growth, the discount rate and margins are all reduced by one percentage point, the recoverable amounts are still higher than the carrying amounts.

The sensitivity analysis takes into account changes in one assumption at a time, whereby the other assumptions remain unchanged from the original calculation.

The following table shows the assumptions used for the previous year's impairment tests.

**T092 IMPAIRMENT TESTS OF SLOTS 2016**

Group company	SWISS	Austrian Airlines
Carrying amount for slots (31.12.)	€ 137m	€ 23m
Impairment losses	€ 0m*	€ 0m*
Duration of planning period	3 years	3 years
Revenue growth p.a. after end of planning period	2.2%	2.2%
Discount rate	4.3% <sup>1)</sup>	4.3% <sup>1)</sup>

\* Rounded below EUR 1m.

<sup>1)</sup> After-tax rate.

The regular impairment test for the brands acquired was carried out on the basis of the revenue generated from each brand.

The following assumptions were used in the impairment test for the acquired brands:

#### T093 IMPAIRMENT TESTS OF BRANDS 2017

Group company	SWISS	Austrian Airlines	Brussels Airlines	Other
Carrying amount for brand (31.12.)	€ 221m	€ 107m	€ 37m	€ 6m
Impairment losses	-	-	-	€ 1m
Duration of planning period	3 years	3 years	3 years	3 years
Revenue growth p.a. after end of planning period	2.2%	2.2%	1.0%	0% to 2.2%
Savings in hypothetical leasing payments before taxes (royalty rate)	0.63%	0.35%	0.20%	0.23% to 0.50%
Discount rate	4.8% <sup>1)</sup>	4.7% <sup>1)</sup>	4.5% <sup>1)</sup>	4.5% to 5.7% <sup>1)</sup>

<sup>1)</sup> After-tax rate.

Assuming sustained brand-related revenue growth at the end of the planning period as described in the table, the recoverable amounts for the brands would exceed their carrying amounts significantly. Even if the assumptions for sustained brand-related revenue growth were to be reduced or the discount rate were to be increased by one percentage point in each case, the recoverable amounts would exceed the carrying amounts.

Among the other brands, there were impairment charges of EUR 1m on brand rights at one company belonging to the LSG group that will no longer be using the brands concerned.

The sensitivity analysis takes into account changes in one assumption at a time, whereby the other assumptions remain unchanged from the original calculation.

The assumptions used for the previous year's impairment tests can be derived from the following table.

#### T093 IMPAIRMENT TESTS OF BRANDS 2016

Group company	SWISS	Austrian Airlines	Edelweiss
Carrying amount for brand (31.12.)	€ 241m	€ 107m	€ 4m
Impairment losses	-	-	-
Duration of planning period	3 years	3 years	3 years
Revenue growth p.a. after end of planning period	2.2%	2.2%	2.2%
Savings in hypothetical leasing payments before taxes (royalty rate)	0.63%	0.35%	0.20%
Discount rate	4.3% <sup>1)</sup>	4.3% <sup>1)</sup>	4.3% <sup>1)</sup>

<sup>1)</sup> After-tax rate.

17 Other intangible assets

T094 OTHER INTANGIBLE ASSETS

	Concessions, industrial property rights and similar rights and licences to such rights and assets	Internally developed software	Advance payments	Total
in €m				
Cost as of 1.1.2016	1,091	102	93	1,286
Accumulated amortisation	-746	-101	-17	-864
<b>Carrying amount 1.1.2016</b>	<b>345</b>	<b>1</b>	<b>76</b>	<b>422</b>
Currency translation differences	1	1	1	3
Additions due to changes in consolidation	9	14	0*	23
Additions	40	0*	79	119
Reclassifications	18	8	-21	5
Disposals due to changes in consolidation	-	-	-	-
Disposals	-3	-	-3	-6
Reclassifications to assets held for sale	-	-	-	-
Amortisation	-91	-3	-	-94
Reversal of impairment losses	-	-	-	-
<b>Carrying amount 31.12.2016</b>	<b>319</b>	<b>21</b>	<b>132</b>	<b>472</b>
Cost as of 1.1.2017	1,135	124	147	1,406
Accumulated amortisation	-816	-103	-15	-934
<b>Carrying amount 1.1.2017</b>	<b>319</b>	<b>21</b>	<b>132</b>	<b>472</b>
Currency translation differences	-12	-	-3	-15
Additions due to changes in consolidation	56	-	4	60
Additions	31	4	62	97
Reclassifications	81	8	-86	3
Disposals due to changes in consolidation	-	-	-	-
Disposals	-4	0*	0*	-4
Reclassifications to assets held for sale	-	-	-	-
Amortisation	-102	-7	-12	-121
Reversal of impairment losses	-	-	-	-
<b>Carrying amount 31.12.2017</b>	<b>369</b>	<b>26</b>	<b>97</b>	<b>492</b>
Cost as of 31.12.2017	1,230	133	112	1,475
Accumulated amortisation	-861	-107	-15	-983

\* Rounded below EUR 1m.

Non-capitalised research and development expenses for intangible assets of EUR 30m (previous year: EUR 24m) were incurred in the period. Fixed orders have been placed for intangible assets worth EUR 9m (previous year: EUR 17m), but they are not yet at the Group's economic disposal.

**18 Aircraft and reserve engines****T095 AIRCRAFT AND RESERVE ENGINES**

in €m	Aircraft and reserve engines	Advance payments for aircraft and reserve engines	Total
Cost as of 1.1.2016	26,006	2,017	28,023
Accumulated amortisation	-13,432	-	-13,432
<b>Carrying amount 1.1.2016</b>	<b>12,574</b>	<b>2,017</b>	<b>14,591</b>
Currency translation differences	70	-4	66
Additions due to changes in consolidation	-	-	-
Additions	1,409	287	1,696
Reclassifications	1,003	-1,003	-
Disposals due to changes in consolidation	-	-	-
Disposals	-14	-3	-17
Reclassifications to assets held for sale	-146	-	-146
Depreciation	-1,392	-	-1,392
Reversal of impairment losses	-	-	-
<b>Carrying amount 31.12.2016</b>	<b>13,504</b>	<b>1,294</b>	<b>14,798</b>
Cost as of 1.1.2017	26,836	1,294	28,130
Accumulated amortisation	-13,332	-	-13,332
<b>Carrying amount 1.1.2017</b>	<b>13,504</b>	<b>1,294</b>	<b>14,798</b>
Currency translation differences	-236	-30	-266
Additions due to changes in consolidation	259	3	262
Additions	2,201	376	2,577
Reclassifications	352	-351	1
Disposals due to changes in consolidation	-	-	-
Disposals	-30	-3	-33
Reclassifications to assets held for sale	122	-	122
Depreciation	-1,585	-	-1,585
Reversal of impairment losses	82	-	82
<b>Carrying amount 31.12.2017</b>	<b>14,669</b>	<b>1,289</b>	<b>15,958</b>
Cost as of 31.12.2017	29,649	1,289	30,938
Accumulated amortisation	-14,980	-	-14,980

Of the additions to and changes in the group of consolidated companies relating to the item "Aircraft and reserve engines", the first-time consolidation of Brussels Airlines at the beginning of the financial year accounted for 32 aircraft, while 42 aircraft were added that were previously used by the Air Berlin group.

Under the "Aircraft" item, after the underlying contracts expired, no aircraft were held in cross-border leasing constructions in the reporting year (previous year: three aircraft, with a carrying amount of EUR 23m).

The item also includes 77 aircraft carried at EUR 2,498m (previous year: 79 aircraft carried at EUR 2,568m), which mostly have been sold to and leased back from foreign leasing companies with the main aim of obtaining favourable financing conditions. The leasing companies were fully consolidated as structured entities. The Group is entitled to buy the aircraft back at a fixed price and at a given point in time.

In the reporting year, debt capital costs of EUR 20m (previous year: EUR 32m) were capitalised. The financing rate used was 1.7 per cent (previous year: 2.4 per cent).

Order commitments for aircraft and reserve engines amount to EUR 12.8bn (previous year: EUR 15.5bn).

Aircraft worth EUR 2,660m (previous year: EUR 2,740m) serve as collateral for current financing arrangements and aircraft carried at EUR 437m (previous year: EUR 289m) were also acquired under finance leases. ➔ **Note 20, p.132f.**

19 Property, plant and other equipment

T096 PROPERTY, PLANT AND OTHER EQUIPMENT

	Land and buildings	Technical equipment and machinery	Other equipment, operating and office equipment	Advance payments and plant under construction	Total
in €m					
Cost as of 1.1.2016	2,557	1,195	1,288	183	5,223
Accumulated depreciation	-1,277	-874	-899	0*	-3,050
<b>Carrying amount 1.1.2016</b>	<b>1,280</b>	<b>321</b>	<b>389</b>	<b>183</b>	<b>2,173</b>
Currency translation differences	7	2	3	1	13
Additions due to changes in consolidation	-	-	0*	0*	0*
Additions	120	32	100	93	345
Reclassifications	72	47	24	-152	-9
Disposals due to changes in consolidation	-	-	-	-	-
Disposals	-48	-2	-3	-5	-58
Reclassifications to assets held for sale	-	-	-	-	-
Depreciation	-117	-54	-94	-	-265
Reversal of impairment losses	-	-	-	-	-
<b>Carrying amount 31.12.2016</b>	<b>1,314</b>	<b>346</b>	<b>419</b>	<b>120</b>	<b>2,199</b>
Cost as of 1.1.2017	2,680	1,263	1,384	120	5,447
Accumulated depreciation	-1,366	-917	-965	0*	-3,248
<b>Carrying amount 1.1.2017</b>	<b>1,314</b>	<b>346</b>	<b>419</b>	<b>120</b>	<b>2,199</b>
Currency translation differences	-28	-14	-11	-9	-62
Additions due to changes in consolidation	6	1	2	1	10
Additions	25	31	120	147	323
Reclassifications	40	38	8	-90	-4
Disposals due to changes in consolidation	-	-	-	-	-
Disposals	-7	-5	-6	-2	-20
Reclassifications to assets held for sale	-	-	-	-	-
Depreciation	-90	-56	-102	-12	-260
Reversal of impairment losses	-	-	-	-	-
<b>Carrying amount 31.12.2017</b>	<b>1,260</b>	<b>341</b>	<b>430</b>	<b>155</b>	<b>2,186</b>
Cost as of 31.12.2017	2,648	1,247	1,409	167	5,471
Accumulated depreciation	-1,388	-906	-979	-12	-3,285

\* Rounded below EUR 1m.

As in the previous year, charges of EUR 4m exist over land and property. Pre-emption rights are registered for land held at EUR 205m (previous year: EUR 214m). Other property, plant and equipment carried at EUR 13m (previous year: EUR 18m) serves as collateral for existing financing arrangements. Other equipment carried at EUR 102m was acquired by means of finance leases (previous year: EUR 152m).

➤ Note 20, p.132f.

The following items of property, plant and equipment have been ordered, but are not yet at the Group's economic disposal:

T097 ORDERS OF PROPERTY, PLANT AND EQUIPMENT  
AS OF THE REPORTING DATE

in €m	31.12.2017	31.12.2016
Land and buildings	30	9
Technical equipment and vehicles	35	32
Operating and office equipment	44	59
	<b>109</b>	<b>100</b>

**20 Assets for which the Group is lessor or lessee**

Property, plant and equipment also includes leased assets that are deemed to be the property of the Group since the underlying contracts are structured as finance leases. The following table shows leased assets for which the Group is either lessor or lessee:

**T098 ASSETS FOR WHICH THE GROUP IS LESSOR OR LESSEE**

in €m	Lessee of aircraft and reserve engines	Lessee and lessor of aircraft and reserve engines	Lessee of buildings	Lessee of intangible assets and technical equipment	Lessee of other equipment, operating and office equipment
Cost as of 1.1.2016	805	-	271	1	3
Accumulated depreciation	-488	-	-142	-1	-2
<b>Carrying amount 1.1.2016</b>	<b>317</b>	<b>-</b>	<b>129</b>	<b>-</b>	<b>1</b>
Currency translation differences	1	-	0*	-	-
Additions due to changes in consolidation	-	-	-	0*	-
Additions	41	-	89	-	-
Reclassifications	2	-	9	-	-
Disposals due to changes in consolidation	-	-	-	-	-
Disposals	-	-	-43	-	-
Reclassifications to assets held for sale	-	-	-	-	-
Depreciation	-72	-	-33	-	-
Reversal of impairment losses	-	-	-	-	-
<b>Carrying amount 31.12.2016</b>	<b>289</b>	<b>-</b>	<b>151</b>	<b>-</b>	<b>1</b>
Cost as of 1.1.2017	695	-	299	1	3
Accumulated depreciation	-406	-	-148	-1	-2
<b>Carrying amount 1.1.2017</b>	<b>289</b>	<b>-</b>	<b>151</b>	<b>-</b>	<b>1</b>
Currency translation differences	-8	-	-3	-	-
Additions due to changes in consolidation	227	-	-	-	-
Additions	61	19	5	-	6
Reclassifications	1	-	-41	-	-
Disposals due to changes in consolidation	-	-	-	-	-
Disposals	-15	-	-4	-	-
Reclassifications to assets held for sale	-	-	-	-	-
Depreciation	-118	-1	-12	-	-1
Reversal of impairment losses	-	-	-	-	-
<b>Carrying amount 31.12.2017</b>	<b>437</b>	<b>18</b>	<b>96</b>	<b>-</b>	<b>6</b>
Cost as of 31.12.2017	843	19	248	1	10
Accumulated depreciation	-406	-1	-152	-1	-4

\* Rounded below EUR 1m.

The carrying amount of leased aircraft attributed to the Group's economic ownership under IAS 17 is EUR 437m (previous year: EUR 289m) and relates to 24 Airbus A319s, 26 A320s, two A321s, nine A330s, two Boeing 767s and one B777.



## FINANCE LEASES

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 20 years.

At the end of the lease term, the lessee sometimes has the right to buy the asset or renew the lease. If the lessee does not exercise this option, the lessor will sell the aircraft at the best possible market price.

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. In some cases, the leases have purchase or renewal options for the lessee at the end of the lease term. The agreements cannot generally be terminated.

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:

### T099 LEASE PAYMENTS DUE UNDER FINANCE LEASES, AS OF 2017

in €m	2018	2019–2022	from 2023
Lease payments	131	328	98
Discounted amounts	4	28	20
Present values	127	300	78

In the previous year, the following figures were given for finance leases:

### T099 LEASE PAYMENTS DUE UNDER FINANCE LEASES, AS OF 2016

in €m	2017	2018–2021	from 2022
Lease payments	89	241	98
Discounted amounts	4	28	23
Present values	85	213	75

## OPERATING LEASES

In addition to the finance leases, a large number of leases were signed which, on the basis of their economic parameters, qualify as operating leases, i.e. the leased asset is deemed to belong to the lessor. In addition to 62 aircraft on operating leases (previous year: 25), which includes 23 aircraft that were previously in service at the Air Berlin group, they consist of leases for land and buildings.

The operating leases for aircraft have a term of between one and twelve 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 run for up to 30 years.

The following payments are due in the years ahead:

### T100 LEASE PAYMENTS DUE UNDER OPERATING LEASES, AS OF 2017

in €m	2018	2019–2022	from 2023
Aircraft	119	338	41 p.a.
Various buildings	307	1,026	223 p.a.
Other leases	102	322	69 p.a.
	<b>528</b>	<b>1,686</b>	<b>333 p.a.</b>
Payments from sub-leasing (Sublease)	56	183	24 p.a.

In the previous year, the following figures were given for operating leases:

### T100 LEASE PAYMENTS DUE UNDER OPERATING LEASES, AS OF 2016

in €m	2017	2018–2021	from 2022
Aircraft	60	158	25 p.a.
Various buildings	286	968	214 p.a.
Other leases	112	390	88 p.a.
	<b>458</b>	<b>1,516</b>	<b>327 p.a.</b>
Payments from sub-leasing (Sublease)	28	111	27 p.a.

34 aircraft in the economic ownership of Lufthansa, mostly taken over from companies of the Air Berlin group, and 13 reserve engines are used on the basis of non-terminable operating leases. These leases, which have remaining terms of up to six years, result in the following forecast payments:

### T101 FORECAST PAYMENTS FROM OPERATING LEASES, AS OF 2017

in €m	2018	2019–2022	from 2023
Payments received from operating leases	24	47	10

Seven aircraft, reserve engines and other non-current assets, legally and economically the property of the Group at the end of 2016, have been leased to third parties under non-terminable operating leases. These leases resulted in the following forecast payments:

### T101 FORECAST PAYMENTS FROM OPERATING LEASES, AS OF 2016

in €m	2017	2018–2021	from 2022
Payments received from operating leases	6	15	–

**21 Investments accounted for using the equity method****T102 EQUITY INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD**

in €m	Investments in joint ventures	Investments in associated companies	Total
Cost as of 1.1.2016	269	256	525
Accumulated impairment losses	-	-5	-5
<b>Carrying amount 1.1.2016</b>	<b>269</b>	<b>251</b>	<b>520</b>
Currency translation differences	-	8	8
Additions due to changes in consolidation	-	-	-
Additions	21	2	23
Changes with and without an effect on profit and loss	20	17	37
Reclassifications	0*	0*	0*
Disposals due to changes in consolidation	-	-	-
Disposals	-	-19	-19
Dividends paid	-36	-17	-53
Reclassifications to assets held for sale	-	-	-
Impairment losses	-	-	-
Reversal of impairment losses	-	-	-
<b>Carrying amount 31.12.2016</b>	<b>274</b>	<b>242</b>	<b>516</b>
Cost as of 1.1.2017	274	247	521
Accumulated impairment losses	-	-5	-5
<b>Carrying amount 1.1.2017</b>	<b>274</b>	<b>242</b>	<b>516</b>
Currency translation differences	-12	-25	-37
Additions due to changes in consolidation	-	-	-
Additions	55	-	55
Changes with and without an effect on profit and loss	81	41	122
Reclassifications	-	-	-
Disposals due to changes in consolidation	-	-	-
Disposals	-	-	-
Dividends paid	-48	-23	-71
Reclassifications to assets held for sale	-	-	-
Impairment losses	-	-	-
Reversal of impairment losses	-	-	-
<b>Carrying amount 31.12.2017</b>	<b>350</b>	<b>235</b>	<b>585</b>
Cost as of 31.12.2017	350	239	589
Accumulated impairment losses	-	-4	-4

\* Rounded below EUR 1m.

**Individual interests in companies accounted for using the equity method**

The following tables contain summarised data from the income statements and balance sheet data for the individual material joint ventures accounted for using the equity method.

**T103 BALANCE SHEET DATA****GÜNES EKSPRES HAVACILIK ANONİM ŞİRKETİ  
(SUNEXPRESS), ANTALYA, TURKEY**

in €m	31.12.2017	31.12.2016
Current assets	449	270
of which cash and cash equivalents	234	86
Non-current assets	844	719
Current liabilities	362	305
Non-current liabilities	719	530
Current financial liabilities (except trade and other payables and provisions)	96	63
Non-current financial liabilities (except trade and other payables and provisions)	477	376
<b>Shareholders' equity</b>	<b>212</b>	<b>154</b>
Share of equity	106	77
Other	21	21
<b>Carrying amount</b>	<b>127</b>	<b>98</b>

**T104 INCOME STATEMENT DATA****GÜNES EKSPRES HAVACILIK ANONİM ŞİRKETİ  
(SUNEXPRESS), ANTALYA, TURKEY**

in €m	2017	2016
Revenue	1,157	991
Depreciation and amortisation	48	35
Interest income	4	4
Interest expenses	21	13
Income tax expense or income	18	-
<b>Profit or loss from continuing operations</b>	<b>65</b>	<b>-31</b>
Profit or loss after tax from discontinued operations	-	-
Other comprehensive income	-7	3
<b>Total comprehensive income</b>	<b>58</b>	<b>-28</b>
Share of profit or loss from continuing operations	33	-16
Share of comprehensive income	29	-14

**T105 BALANCE SHEET DATA**  
**TERMINAL 2 GESELLSCHAFT MBH & CO. OHG,**  
**MUNICH AIRPORT, GERMANY**

in €m	2017	2016
Current assets	84	60
of which cash and cash equivalents	-	-
Non-current assets	1,472	1,538
Current liabilities	277	221
Non-current liabilities	1,210	1,348
Current financial liabilities (except trade and other payables and provisions)	136	84
Non-current financial liabilities (except trade and other payables and provisions)	1,182	1,311
<b>Shareholders' equity</b>	<b>69</b>	<b>29</b>
Share of equity	28	12
Other	-	-
<b>Carrying amount</b>	<b>28</b>	<b>12</b>

After Brussels Airlines was fully consolidated for the first time in the financial year, the Group has no longer any individually material associated companies accounted for using the equity method.

The item "Other" in the reconciliation with the carrying amount for SunExpress includes the difference from the first-time consolidation of the company. In 2016, the earnings of Terminal 2 Gesellschaft were offset against a negative difference from the previous year, resulting from the fact that the dividend in 2015 was higher than the carrying amount of the investment at the time.

The following table contains summarised aggregated data from the income statements and carrying amounts for the individual immaterial joint ventures accounted for using the equity method.

**T107 INCOME STATEMENTS DATA AND CARRYING AMOUNTS**  
**OF JOINT VENTURES ACCOUNTED FOR USING**  
**THE EQUITY METHOD**

in €m	2017	2016
Profit or loss from continuing operations	31	34
Profit or loss after tax from discontinued operations	-	-
Other comprehensive income	-	-
<b>Total comprehensive income</b>	<b>31</b>	<b>34</b>
<b>Carrying amount</b>	<b>195</b>	<b>163</b>

The following table contains summarised aggregated data from the income statements and carrying amounts for the individual immaterial associated companies accounted for using the equity method.

**T108 INCOME STATEMENTS DATA AND CARRYING AMOUNTS**  
**OF ASSOCIATED COMPANIES ACCOUNTED FOR USING**  
**THE EQUITY METHOD**

in €m	2017	2016
Profit or loss from continuing operations	39	27
Profit or loss after tax from discontinued operations	-	-
Other comprehensive income	-	-
<b>Total comprehensive income</b>	<b>39</b>	<b>27</b>
<b>Carrying amount</b>	<b>235</b>	<b>242</b>

**T106 INCOME STATEMENT DATA**  
**TERMINAL 2 GESELLSCHAFT MBH & CO. OHG,**  
**MUNICH AIRPORT, GERMANY**

in €m	2017	2016
Revenue	317	285
Depreciation and amortisation	86	74
Interest income	-	-
Interest expenses	42	40
Income tax expense or income	5	5
<b>Profit or loss from continuing operations</b>	<b>37</b>	<b>32</b>
Profit or loss after tax from discontinued operations	-	-
Other comprehensive income	17	3
<b>Total comprehensive income</b>	<b>54</b>	<b>35</b>
Share of profit or loss from continuing operations	15	6
Share of comprehensive income	22	7
Dividends received	55	42

**22 Other equity investments and non-current securities****T109 OTHER EQUITY INVESTMENTS AND NON-CURRENT SECURITIES**

in €m	31.12.2017	31.12.2016
Investments in affiliated companies	204	191
Investments	17	21
Other investments	221	212
Non-current securities	32	23

Shares in related parties are held at amortised cost.

Equity investments and securities are recognised at fair value if there is an active market for them with publicly available prices. For equity investments carried at EUR 16m (previous year: EUR 21m) and non-current securities carried at EUR 8m (previous year: 5m) there is no active market with publicly available prices. In the reporting year, other equity investments held at EUR 5m (previous year: EUR 2m) were sold for a profit of EUR 2m (previous year: EUR 1m), which had previously not been held at fair value as there was no active market for them.

**23 Non-current loans and receivables****T110 NON-CURRENT LOANS AND RECEIVABLES**

in €m	31.12.2017	31.12.2016
Loans to and receivables from affiliated companies	89	117
Loans to and receivables from other equity investments	0*	0*
Other loans and receivables	358	369
Pre-financed rental property	–	–
Emissions certificates	28	27
	<b>475</b>	<b>513</b>

\* 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) Lufthansa German Airlines, SWISS, Austrian Airlines, the Eurowings group and Brussels Airlines in [Note 16, p. 125ff.](#)

Other receivables include expected reimbursements for obligations for which provisions have been made amounting to EUR 2m (previous year: EUR 4m). Of the non-current receivables, EUR 32m (previous year: EUR 22m) serve as collateral for liabilities.

**24 Inventories****T111 INVENTORIES**

in €m	31.12.2017	31.12.2016
Raw materials, consumables and supplies	663	643
Finished goods and work in progress	156	163
Advance payments	88	10
	<b>907</b>	<b>816</b>

No inventories have been pledged as collateral for loans (previous year: EUR 1.0m).

The gross value of written-down inventories as of 31 December 2017 was EUR 855m (previous year: EUR 734m). Inventories valued at EUR 611m (previous year: EUR 518m) are held at their net realisable value. Impairments of EUR 211m (previous year EUR 201m) had been made to net realisable value at the beginning of the financial year. In the reporting period, new impairments were recognised for EUR 40m (previous year: EUR 32m). Impairments of EUR 8m (previous year: EUR 17m) made in previous years were reversed.

**25 Trade receivables and other receivables**

**T112 TRADE RECEIVABLES AND OTHER RECEIVABLES**

in €m	31.12.2017	31.12.2016
<b>Trade receivables</b>		
Trade receivables from affiliated companies	80	118
Trade receivables from other equity investments	4	3
Trade receivables from third parties	3,901	3,191
	<b>3,985</b>	<b>3,312</b>
of which from unfinished orders less advance payments received	(185)	(188)
<b>Other receivables</b>		
Receivables from affiliated companies	58	66
Receivables from other equity investments	1	0*
Other receivables	1,239	1,164
Emissions certificates	31	28
	<b>1,329</b>	<b>1,258</b>
<b>Total</b>	<b>5,314</b>	<b>4,570</b>

\* Rounded below EUR 1m.

The carrying amount of these receivables corresponds to their fair value.

For the impairment test for emissions certificates, we refer to the disclosures on the cash-generating units (CGU) Lufthansa German Airlines, SWISS, Austrian Airlines, the Eurowings group and Brussels Airlines in [Note 16, p. 125ff.](#)

Collateral received for trade receivables has a fair value of EUR 2m, as in the previous year. Other receivables include expected reimbursements for obligations for which provisions have been made amounting to EUR 11m (previous year: EUR 1m).

Other receivables include claims of EUR 171m (previous year: EUR 200m) against insurers in connection with the accident involving the Germanwings aircraft on 24 March 2015. As of the reporting date, these receivables are offset by provisions of EUR 149m for outstanding obligations relating to this accident (previous year: EUR 176m).

Other receivables of EUR 77m (previous year: EUR 0m) serve to secure negative market values of derivatives.

**26 Deferred charges and prepaid expenses**

Deferred charges and prepaid expenses consist mainly of rents and insurance premiums paid in advance for subsequent periods.

**27 Current securities**

Current securities are fixed income securities, participation certificates, shares and investments in money market funds.

**28 Cash and cash equivalents**

The bank balances denominated in euros with various banks earned interest at rates of 0.0 to 0.3 per cent (previous year: mostly 1.0 per cent). US dollar balances were invested at an average interest rate of 1.6 per cent (previous year: 1.4 per cent) and balances in Swiss francs at an average rate of 0.2 per cent (previous year: 0.6 per cent). This item includes EUR 179m (previous year: EUR 118m) in fixed-term deposits with terms of three to twelve months.

Bank balances in foreign currencies are translated at the exchange rate on the balance sheet date.

**29 Assets held for sale**

As of year-end 2017, the Group's only assets held for sale were one aircraft (Fokker 100 from Austrian Airlines) with a carrying amount of EUR 0m, buildings with a carrying amount of EUR 4m and spare parts for aircraft with a carrying amount of EUR 2m.

In the previous year, this item included seven Airbus A340-600s, two CRJ900s, one Boeing 737-300, three Boeing MD-11Fs (total carrying amount of EUR 128m) and buildings (carrying amount of EUR 4m) classified as held for sale.

## Shareholders' equity and liabilities

### Issued capital

#### ISSUED CAPITAL

Deutsche Lufthansa AG's issued capital totals EUR 1,206m. Issued capital is divided into 471,259,644 registered shares, with each share representing EUR 2.56 of issued capital.

#### AUTHORISED CAPITAL

A resolution passed at the Annual General Meeting on 29 April 2015 authorised the Executive Board until 28 April 2020, 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). In certain cases, the shareholders' subscription rights can be excluded with the approval of the Supervisory Board. In order to issue new shares to settle dividend entitlements, the Executive Board of Deutsche Lufthansa AG decided, with the approval of the Supervisory Board, to make partial use of the authorisation voted at the Annual General Meeting on 29 April 2015 (Authorised Capital A) and increase the Company's issued capital by EUR 3,728,550.40 by issuing 1,456,465 new registered shares with transfer restrictions and profit entitlement from 1 January 2017. The capital increase was entered in the Commercial Register of Cologne District Court (HRB 2168) on 1 June 2017. As of 31 December 2017, Authorised Capital A amounted to EUR 553,310,730.08.

A resolution passed at the Annual General Meeting on 29 April 2014 authorised the Executive Board until 28 April 2019, subject to approval by the Supervisory Board, to increase the issued capital by up to EUR 29m, by issuing new registered shares to employees (Authorised Capital B) for payment in cash. Existing shareholders' subscription rights are excluded. In order to issue new shares to employees of Deutsche Lufthansa AG and its affiliated companies, the Executive Board of Deutsche Lufthansa AG decided, with the approval of the Supervisory Board, to make partial use of the authorisation voted at the Annual General Meeting on 29 April 2014 (Authorised Capital B) and increase the Company's issued capital by EUR 2,521,920.00, excluding shareholders' subscription rights, by issuing 985,125 new registered shares with transfer restrictions and profit entitlement from 1 January 2017 for payment in cash. The capital increase was entered in the Commercial Register of Cologne District Court (HRB 2168) on 23 October 2017. As of 31 December 2017, Authorised Capital B amounted to EUR 10,776,673.28.

#### CONTINGENT CAPITAL

A resolution passed at the Annual General Meeting on 28 April 2016 authorised the Executive Board until 27 April 2021, 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 237,843,840 by issuing up to 92,907,750 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.

#### AUTHORISATION TO PURCHASE TREASURY SHARES

A resolution passed at the Annual General Meeting held on 29 April 2015 authorised the Executive Board pursuant to Section 71 Paragraph 1 No. 8 Stock Corporation Act (AktG) to purchase treasury shares until 28 April 2020. 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. The authorisation states that the Executive Board can use the shares, in particular, for the purposes defined in the resolution passed at the Annual General Meeting. According to the resolution of the Annual General Meeting held on 28 April 2016, the Executive Board is also authorised to purchase treasury shares by means of derivatives and to conclude corresponding derivative transactions.

In 2017, Deutsche Lufthansa AG bought back 28,539 of its own shares at an average price of EUR 26.08. This is equivalent to 0.01 per cent of issued capital.

The shares purchased or created by means of the capital increase were used as follows:

- 625,673 shares were transferred to the employees of Deutsche Lufthansa AG and 38 other affiliated companies and equity investments as part of the profit-sharing scheme for 2016, at a share price of EUR 23.66.
- 381,079 shares were transferred as part of performance-related variable remuneration in 2017 to managers and non-payscale employees of Deutsche Lufthansa AG and to 40 further affiliated companies and equity investments at a price of EUR 27.47.

- 4,368 shares were transferred to Executive Board members at a price of EUR 27.47 as part of the share programme for 2017.
- 2,273 shares were transferred for previous years' programmes (performance-related variable remuneration for 2016 to managers, non-payscale employees and other employees of Deutsche Lufthansa AG and to further affiliated companies and equity investments from profit-sharing for 2015) at a price of EUR 11.13.
- 1,456,465 shares were transferred to shareholders to settle dividend entitlements for 2016.

271 shares were resold at a price of EUR 13.93.

As in the previous year, treasury shares were no longer held as of the balance sheet date.

#### CAPITAL MANAGEMENT

The Lufthansa Group continues to aim for a sustainable equity ratio of 25 per cent, in order to ensure long-term financial flexibility and stability as a basis for its growth targets. As of 31 December 2017 and 2016, equity and total assets were as follows:

#### T113 EQUITY AND LIABILITIES

in €m	31.12.2017	31.12.2016
Shareholders' equity	9,598	7,149
in % of total assets	26.5	20.6
Liabilities	26,669	27,548
in % of total assets	73.5	79.4
<b>Total capital</b>	<b>36,267</b>	<b>34,697</b>

In the financial year 2017, the equity ratio improved year on year by 5.9 percentage points to 26.5 per cent. Starting from a positive after-tax result of EUR 2.4bn, the decrease in provisions for pensions recognised directly in equity caused shareholders' equity to go up by EUR 1.1bn. However, a decline of EUR 388m in total was reported in the market value reserve for financial instruments – due, in particular, to the lower market values of exchange rate hedges. Currency translation effects of EUR 404m without effect on profit and loss also reduced shareholders' equity.

Lufthansa's Articles of Association do not stipulate any capital requirements.

#### 31 Reserves

Capital reserves only include the share premium paid on capital increases and a convertible bond that was redeemed in full in previous years. 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 2017:

#### T114 NOTES ON OTHER COMPREHENSIVE INCOME

in €m	2017	2016
<b>Other comprehensive income after income taxes</b>		
Currency translation differences		
Profit/loss for the period	-406	66
Reclassification adjustments recognised in profit or loss	2	-
Subsequent measurement of available-for-sale financial assets		
Profit/loss for the period	139	26
Reclassification adjustments recognised in profit or loss	-118	-29
Subsequent measurement of cash flow hedges		
Profit/loss for the period	-457	849
Reclassification adjustments recognised in profit or loss	-31	682
Transfer to cost of hedged items	-58	-34
<b>Other comprehensive income from investments accounted for using the equity method</b>		
Profit/loss for the period – reclassifiable	3	3
Profit/loss for the period – non-reclassifiable	-	-17
Transfer to cost of hedged items	-	-
Revaluation of defined-benefit pension plans	1,186	-2,066
Revaluation of defined-benefit pension plans within disposal groups	-	-
Other expenses and income recognised directly in equity	-3	9
Income taxes on items in other comprehensive income	1	217
<b>Other comprehensive income after income taxes</b>	<b>258</b>	<b>-294</b>



**T115 NOTE ON INCOME TAXES RECOGNISED FOR OTHER COMPREHENSIVE INCOME**

in €m	2017			2016		
	Amount before income taxes	Tax expenses/ income	Amount after income taxes	Amount before income taxes	Tax expenses/ income	Amount after income taxes
Currency translation differences	-404	-	-404	66	-	66
Subsequent measurement of available-for-sale financial assets	21	-1	20	-3	-	-3
Subsequent measurement of cash flow hedges	-546	138	-408	1,497	-337	1,160
Other comprehensive income from investments accounted for using the equity method – reclassifiable	3	-	3	3	-	3
Other comprehensive income from investments accounted for using the equity method – non-reclassifiable	-	-	-	-17	-	-17
Revaluation of defined-benefit pension plans	1,186	-136	1,050	-2,066	554	-1,512
Revaluation of defined-benefit pension plans within disposal groups	-	-	-	-	-	-
Other expenses and income recognised directly in equity	-3	-	-3	9	-	9
<b>Other comprehensive income</b>	<b>257</b>	<b>1</b>	<b>258</b>	<b>-511</b>	<b>217</b>	<b>-294</b>

The overall change in equity is shown in the **consolidated statement of changes in shareholders' equity, p. 106.**

**32 Pension provisions**

The Group's pension obligations comprise both defined-benefit and defined-contribution plans and include both obligations to make current payments and entitlements to future pension payments.

Obligations under defined-benefit pension plans for Group employees related mostly to pension obligations in Germany, Switzerland, Austria and the USA. Various commitments have been made to different groups of employees.

For the employees in Germany and for staff posted abroad by German companies who joined the Company before 1995, the supplementary pension scheme for state employees (VBL) was retained as the Company's pension scheme. Employees who joined after 1994 received a retirement benefit commitment based on an average salary plan, which provided for pension units to be granted annually, depending on the employee's age and pension components based on salary. In 2003, the VBL pension scheme was changed to the average salary plan applicable to the employees recruited after 1995. Since 2015, the existing domestic retirement benefit commitments to the individual groups of employees have been converted successively into defined-contribution schemes.

The Lufthansa collective agreement on benefits for ground staff established a new company retirement benefit plan in the form of a defined-contribution benefit commitment for the ground staff in Germany, in particular those at Deutsche Lufthansa AG, Lufthansa Cargo AG, the Lufthansa Technik group and the LSG group. For employees recruited before 1 January 2016, the entitlements vested up until 31 December 2015 are maintained. For service periods starting from 1 January 2016, employees can reach the same level of benefits by making contributions from their own pocket. For employees recruited from 1 January 2016, the contributions to the new model will be invested on the capital market. When the employee reaches retirement age, the entire account balance is converted into an annuity on the basis of the applicable BilMoG interest rate, subject to a pension adjustment of 1 per cent per annum and while guaranteeing the contributions that were originally made.

On 17 March 2017, the "Lufthansa Pension Cabin" wage agreement was signed with the trade union UFO for cabin crew at Deutsche Lufthansa AG (DLH). It replaces the agreements on the "Lufthansa Company Pension" for cabin crew and the "Lufthansa Transitional Benefit for cabin crew".

For employees recruited up to 5 July 2016, the pension entitlements vested up until 30 June 2016 are maintained. For service periods from 1 July 2016, these employees receive employer contributions to the company pension scheme depending on their eligible gross salary. An initial contribution to the transitional benefit scheme was calculated for the staff concerned as of 30 June 2016 on the basis of parameters and valuation methods defined by the collective bargaining partners. This initial transitional benefit

contribution will replace all existing claims by the employees concerned under the collective agreement on “Transitional Benefit for cabin crew” and will be switched to a contribution commitment with a minimum guaranteed payment. All employees are free to make their own contributions on a voluntary basis. Contributions from both employer and employee, as well as the initial transitional benefit contribution, are invested on the capital markets with a capital guarantee. When the employee reaches retirement age, the available account balance is converted into an annuity on the basis of the applicable BilMoG interest rate, subject to a pension adjustment of 1 per cent per annum and while guaranteeing the contributions that were originally made.

On 21 December 2017, the “Lufthansa Pension Cockpit” wage agreement for cockpit staff was signed with the Vereinigung Cockpit pilots’ union. At the same time, a new “Transitional Benefit Cockpit” wage agreement was signed.

For employees recruited before 1 January 2017, the pension entitlements vested up until 31 December 2016 are maintained. For service periods from 1 January 2017, the employees receive employer contributions to the company pension scheme depending on their eligible gross salary. All employees are free to make their own contributions on a voluntary basis. The capital is invested on capital markets with a capital guarantee and the guaranteed interest rate offered by the life insurance companies (currently 0.9 per cent p.a.) as an additional commitment. When the employee reaches retirement age, the available account balance is converted into an annuity on the basis of the applicable BilMoG interest rate, subject to a pension adjustment of 1 per cent per annum and while guaranteeing the contributions that were originally made.

In the new company retirement benefit scheme for ground, cabin and cockpit staff, the obligations from the capital market components are recognised at the time value of the corresponding assets, insofar as the assets exceed the minimum guaranteed amount. Plan assets and benefit obligations are presented on a net basis. The employer contributions constitute service expense.

Cockpit staff are still additionally entitled to a transitional pension arrangement covering the period from the end of their active in-flight service until the beginning of their statutory/Company pension plans. Benefits depend on the number of years of service and the final salary before retirement (final salary plans). Pension entitlements continue to accrue while transitional benefits are being received.

In line with the revised version of the wage agreement, the old rules continue to apply to transitional benefits for cockpit staff. The collective retirement age for pilots will go up in stages from 58 to 60 by 2021. Rules on transitional benefits were extended to cover the cockpit staff at Germanwings who were recruited before 1 January 2005.

Defined-benefit company pension schemes and transitional pension arrangements for Germany are funded by plan assets, while amounts that have not yet been transferred are covered by pension provisions.

There are no minimum funding requirements in Germany.

In the course of acquiring Swiss International Air Lines AG, pension obligations, mainly statutory obligations, were taken on in Switzerland. The retirement benefits are funded via pension funds known as collective foundations. In addition to retirement benefits, the plans cover invalidity and dependant persons’ benefits. Beneficiaries can choose between an annuity and a lump-sum payment. The retirement age for the plans lies between 58 and 63 years. Contributions to the pension funds are made by employers and employees, whereby the company contributions must be at least equal to the employee contributions defined in the terms of the plan. Contributions are deducted from the qualifying salary according to a sliding scale. If there is a deficit of plan assets, employer and employee contributions can be increased, a lower return can be determined or other steps permissible by law can be taken. The decision is taken by the trustees of the pension fund concerned. The trustees’ strategies for making good a deficit are based on the report by a pension fund expert and must be presented to the regulatory authority. The approval of the authority is not required, however.

The pension obligations for employees of Austrian Airlines AG are mostly on a defined-contribution basis and have been outsourced to a pension fund. They consist of retirement, invalidity and dependant persons’ benefits.

Obligations under defined-benefit plans at Austrian Airlines AG relate to former directors and Executive Board members and others already drawing their pensions. Obligations under defined-benefit plans for ground staff are now contribution-free and are determined by converting plan assets into an annuity. There are no defined-benefit plans but only defined-contribution pension obligations for active pilots, flight attendants and members of the top management level.

The defined-benefit pension plans at LSG Sky Chefs in the USA are largely closed to new entrants and no further benefits are being granted to beneficiaries still in service. Benefit payments are based on average salary and the years of service acquired before the plan was closed or frozen. The retirement age is 65. Pension payments are funded externally. Retirement benefits have been switched to defined-contribution plans.

Other staff abroad are also entitled to minor retirement benefits and in some cases to medical care based mainly on length of service and salary earned. As a rule, benefits are financed by means of external funds.

Contributions for defined-contribution retirement benefit commitments came to EUR 426m in 2017 (previous year: EUR 396m).

In the financial year 2004, work began on building up plan assets to fund and safeguard future pension payments. The aim was to fund the pension obligations under existing plans in Germany in full. Contractual trust arrangements (CTAs) in the form of a mutual two-stage trusteeship were set up for this purpose.

The main trustee is Lufthansa Pension Trust e.V., a separate legal entity subject to German regulations. Deutsche Lufthansa AG and the trustees/other trustors agree on contributions, and if such a contribution is determined, make a payment to Lufthansa Pension Trust e.V. Deutsche Lufthansa AG and its Lufthansa Technik AG and Lufthansa Cargo AG subsidiaries are parties to the contractual trust arrangement. The trust assets have largely been held by a Maltese corporate vehicle since 2007.

The Investment Board of Lufthansa Malta Pension Holding decides on the fund's asset allocation. The asset management itself is delegated to fund management companies, who invest the assets in accordance with the general investment

principles defined by the Investment Board. In view of an extraordinary contribution made in 2017 to transitional benefits for cabin crew within the trust structure created for defined-contribution benefits schemes, contributions to the Lufthansa Pension Trust will be suspended temporarily.

The assets to fund pension obligations in the new Lufthansa Pension Ground, Lufthansa Pension Cabin and Lufthansa Pension Cockpit capital-market-based benefits system were transferred to an external trustee, Deutsche Treuinvest Stiftung, as part of a contractual trust arrangement. Capital is invested in what is known as age group funds, whose investment strategy is based on a life cycle model. As employees get older, less and less is invested in asset classes with a higher risk-return profile and a greater percentage in more conservative assets classes. The Company has set up an Investment Committee that is responsible for defining and monitoring the investment strategy, e.g. how the age group funds are composed and how the asset allocation changes over time.

Assets to fund pension obligations for other German subsidiaries have also been invested with Deutsche Treuinvest Stiftung.

EUR 1,824m was contributed for employees in Germany in the reporting year (previous year: EUR 33m).

Amounts shown in the balance sheet for defined-benefit commitments are made up as follows:

#### T116 DEFINED-BENEFIT RETIREMENT BENEFIT COMMITMENTS

	31.12.2017				31.12.2016			
	Defined-benefit obligations (DBO)	Fair value of plan assets	Effect of asset ceiling	Net carrying amount for defined-benefit obligations	Defined-benefit obligations (DBO)	Fair value of plan assets	Effect of asset ceiling	Net carrying amount for defined-benefit obligations
in €m								
Retirement benefits Germany	13,449	-10,075	-	3,374	13,401	-9,111	-	4,290
Transitional benefits Germany	3,130	-2,126	-	1,004	3,343	-388	-	2,955
Switzerland	3,251	-2,867	2	386	3,600	-2,825	-	775
Austria	402	-193	-	209	409	-197	-	212
USA	350	-293	-	57	391	-305	-	86
Other countries	424	-363	-	61	298	-266	-	32
<b>Carrying amounts</b>	<b>21,006</b>	<b>-15,917</b>	<b>2</b>	<b>5,091</b>	<b>21,442</b>	<b>-13,092</b>	<b>-</b>	<b>8,350</b>
of which pension provisions	-	-	-	5,116	-	-	-	8,364
of which other assets	-	-	-	25	-	-	-	14

Reconciliation between the funding status and the amounts shown in the consolidated balance sheet is as follows:

**T117 RECONCILIATION FUNDING STATUS**

in €m	2017	2016
Present value of funded pension obligations	20,444	20,920
Plan assets	-15,917	-13,092
<b>Funding status (net)</b>	<b>4,527</b>	<b>7,828</b>
<b>Present value of unfunded pension obligations</b>	<b>562</b>	<b>522</b>
Adjustment for asset ceiling	2	-
<b>Carrying amounts</b>	<b>5,091</b>	<b>8,350</b>
of which pension provisions	5,116	8,364
of which other assets	25	14

During the reporting period, the present value of defined-benefit pension obligations changed as follows:

**T118 CHANGE IN PRESENT VALUE OF PENSION OBLIGATIONS**

in €m	2017	2016
Balance on 1.1.	21,442	18,979
Current service costs	671	626
Interest expenses	404	452
Past service cost/effects of curtailments	-551	-670
Effects of settlements	-	-8
Revaluations		
Actuarial gains/losses from changes in demographic assumptions	6	119
Actuarial gains/losses from changes in financial assumptions	-602	2,093
Experience adjustments	317	235
Currency translation differences	-358	9
Changes in the group of consolidated companies	120	3
Plan contributions - employees	56	42
Pension payments	-431	-432
Settlement payments	-4	-32
Other <sup>1)</sup> /reclassifications	-64	26
<b>As of 31.12.</b>	<b>21,006</b>	<b>21,442</b>

<sup>1)</sup> The amounts are partly for benefit obligations which were measured in accordance with IAS 19 for the first time.

Actuarial gains/losses from changes in financial assumptions include losses due to the reduction in the discount rate compared with the previous year. On 21 December 2017, the "Lufthansa Pension Cockpit" wage agreement and the "Transitional Benefit Cockpit" wage agreement for cockpit crew were signed with the Vereinigung Cockpit pilots' union. Allocations were adjusted following the switch to a defined-contribution system, which led to actuarial gains of EUR 381m, thereby reducing the amount of the obligation. This was also offset by a reduction in the pension trend from 1.5 per cent to 1.0 per cent for this group of employees, which reduced the amount of provisions by an actuarial gain of EUR 345m.

The following table provides a detailed reconciliation of changes in the fair value of plan assets:

**T119 CHANGE IN FAIR VALUE OF PLAN ASSETS**

in €m	2017	2016
Balance on 1.1.	13,092	12,366
Interest income	245	301
Revaluations		
Income from plan assets, without amounts included in interest	910	384
Currency translation differences	-300	-2
Changes in the group of consolidated companies	88	-
Plan contributions - employers	1,950	153
Plan contributions - employees	56	42
Pension payments	-123	-135
Settlement payments	-4	-32
Administrative costs related to obligations	-3	-3
Other <sup>1)</sup> /reclassifications	6	18
<b>As of 31.12.</b>	<b>15,917</b>	<b>13,092</b>

<sup>1)</sup> The amounts are partly for benefit obligations which were measured in accordance with IAS 19 for the first time.

In the financial years 2017 and 2016, pension provisions developed as follows:

#### T120 PENSION PROVISIONS

in €m	2017	2016
Balance on 1.1.	8,364	6,626
Currency translation differences carried forward	-58	11
Changes in the group of consolidated companies	32	3
Pensions payments	-308	-297
Current service costs	671	626
Interest expenses	404	452
Interest income	-245	-301
Effects of amendments incl. curtailments, settlements and administrative costs	-548	-675
Revaluations		
Actuarial gains/losses and experience adjustments	-279	2,447
Income from plan assets, without amounts included in interest	-910	-384
Net effect of adjustments for asset ceiling	2	-
Plan contributions/reclassifications	-2,009	-144
<b>As of 31.12.</b>	<b>5,116</b>	<b>8,364</b>

Expenses and income for defined-benefit plans are made up as follows:

#### T121 EXPENSES AND INCOME FOR DEFINED-BENEFIT PENSION PLANS

in €m	2017	2016
Current service costs	671	626
Past service cost/effects of curtailments	-551	-670
Income from settlements	-	-8
Accrued interest on projected pension obligations	404	452
Interest income on plan assets	-245	-301
Administrative costs related to obligations	3	3
<b>Balance of expenses and income recognised in the income statement</b>	<b>282</b>	<b>102</b>
Income from plan assets, without amounts included in interest	-910	-384
Actuarial gains and losses	-279	2,447
Net effect of adjustment for asset ceiling	2	-
<b>Other comprehensive income</b>	<b>-1,187</b>	<b>2,063</b>
	<b>-905</b>	<b>2,165</b>

Interest expenses on pension provisions and interest income on plan assets are shown in the financial result. Current service expense and past service expense are recognised in staff costs.

Income of EUR 1,155m was generated from plan assets in the financial year 2017. This amount is made up of the interest income recognised in the income statement and the revaluation component for plan assets. Total income of EUR 685m was recognised in the previous year.

There were no significant effects from the asset ceiling defined in IAS 19.64.

Past service expense incurred in the reporting year results mainly from the agreement on core elements of future retirement and transitional benefits for the cockpit crew of Deutsche Lufthansa AG.

The main actuarial assumptions used to calculate pension obligations and the corresponding plan assets are shown below:

#### T122 MAIN ACTUARIAL ASSUMPTIONS FOR GERMAN COMPANIES

in %	31.12.2017	31.12.2016
Interest rate		
Retirement benefits	2.0	2.1
Transitional benefits	2.0	2.1
Salary increase		
Retirement benefits	2.5	2.5
Transitional benefits	2.5	2.5
Pension increase		
Retirement benefits	1.0	1.0
Transitional benefits	1.0	1.0 <sup>1)</sup>

<sup>1)</sup> In the previous year, a different annual pension increase of 1.5 per cent for company retirement benefits and of 2.5 per cent for transitional benefits was used for retirement benefit commitments for cockpit staff.

As in the previous year, the "Actuarial Tables 2005 G" compiled by Prof. Dr Klaus Heubeck were used in the biometric calculations for the German companies in the Group.

### T123 MAIN ACTUARIAL ASSUMPTIONS FOR FOREIGN COMPANIES

in %	31.12.2017	31.12.2016
Interest rates		
Austria	2.0	2.1
Switzerland	0.7	0.6
USA	3.7	4.2
Salary increase		
Austria	1.8	1.9
Switzerland	1.5	1.5
USA	-	-
Pension increase		
Austria	1.7	1.7
Switzerland	0.0	0.25
USA	-	-

The BVG 2015 generation tables are used for the biometric calculations for Switzerland. Country-specific mortality tables are used in the other countries.

The following table shows how the present value of defined-benefit obligations would have been affected by changes in the relevant actuarial assumptions for the main pension plans described above:

### T124 CHANGE IN ACTUARIAL ASSUMPTIONS, AS OF 2017

	Effect on the defined-benefit contribution as of 31.12.2017 in €m	Change in %
Present value of the obligation <sup>1)</sup>	21,006	-
Interest rate		
Increase by 0.5 percentage points	19,289	-8.2
Decrease by 0.5 percentage points	22,998	+9.5
Salary trend		
Increase by 0.5 percentage points	21,158	+0.7
Decrease by 0.5 percentage points	20,868	-0.7
Pension trend		
Increase by 0.5 percentage points	21,274	+1.3
Decrease by 0.5 percentage points	20,758	-1.2

<sup>1)</sup> Present value of the obligation using the assumptions shown in the "Actuarial assumptions" tables.

### T124 CHANGE IN ACTUARIAL ASSUMPTIONS, AS OF 2016

	Effect on the defined-benefit contribution as of 31.12.2016 in €m	Change in %
Present value of the obligation <sup>1)</sup>	21,442	-
Interest rate		
Increase by 0.5 percentage points	19,590	-8.6
Decrease by 0.5 percentage points	23,605	+10.1
Salary trend		
Increase by 0.5 percentage points	21,662	+1.0
Decrease by 0.5 percentage points	21,235	-1.0
Pension trend		
Increase by 0.5 percentage points	22,132	+3.2
Decrease by 0.5 percentage points	20,817	-2.9

<sup>1)</sup> Present value of the obligation using the assumptions shown in the "Actuarial assumptions" tables.

A reduction of 10 per cent in the mortality rates used to calculate the pension obligations increases the life expectancy of the beneficiaries by a different amount depending on their individual ages. It roughly corresponds to an increase of one year in the life expectancy of a male employee who is 55 years old today. A 10 per cent reduction in the mortality rate would therefore increase the present value of the main benefit obligations in Germany and Switzerland by EUR 148m as of 31 December 2017 (previous year: EUR 372m).

The sensitivity analysis examines changes in one assumption and leaves the other assumptions unchanged compared with the original calculation. The effects of any correlation between the individual assumptions are therefore not taken into account.

Plan assets for funded defined-benefit pension obligations consist mainly of fixed-income securities, equities and cash and cash equivalents. They do not include financial instruments issued by companies in the Group nor properties used by Group companies.

Plan assets serve solely to meet the defined-benefit obligations. Funding these benefit obligations with assets provides security for future payments. In some countries, this takes place on the basis of statutory regulations, while in others, (Germany, for example) this takes place on a voluntary basis.

Lufthansa aims to completely cover its German pension obligations by means of capital contributions and positive capital market returns in the medium term. Regular annual contributions to the trustee have been made for this purpose to date. Investment performance plays a crucial role in meeting this target.

The investment strategy for the capital-market-based pension plans is initially defined by the Company and is regularly reviewed in the course of an allocation study. Where necessary, it is adjusted by the Investment Committee to reflect changes in capital market requirements. This may result in changes to the investment strategy for amounts that have already been invested.

Lufthansa manages and monitors the financial risks that arise from outsourcing the defined-benefit pension obligations. There was no change in the risk management and monitoring processes compared with the previous year. Derivative financial instruments are used, especially to manage foreign exchange risks.

The allocation of the funds to asset classes (e.g. equities) for the defined-benefit plans is carried out on the basis of asset-liability matching studies performed by Lufthansa.

The Asset-Liability Matching (ALM) study is conducted every three years with an external adviser in order to review the funding strategy on a regular basis and to make adjustments as necessary. The results of the study should indicate what combination of investments (annuities, equities, etc.) can be used to cover the long-term pension obligations. Step one of this process is for the actuary to draft a long-term forecast charting how the pension obligations will develop.

In addition to this, target figures are needed for the relative return and relative risk as regards coverage of the obligations. Last but not least, a risk budget must also be defined.

A simulation is used to test all permissible investment allocations for their future compliance with these objectives. Those which do not fulfil the criteria are eliminated. Preference is given to allocations that are return-oriented yet conservative and that have a high probability of achieving the investment target.

The results of the ALM study show whether there will be strategic shifts in the existing allocation. Alternative investments (e.g. property, private equity, infrastructure) are currently being further developed.

Plan assets are made up as follows:

#### T125 COMPOSITION OF PLAN ASSETS

	31.12.2017				31.12.2016			
	Listed price in an active market in €m	No listed price in an active market in €m	Total  in €m	in %	Listed price in an active market in €m	No listed price in an active market in €m	Total  in €m	in %
Equities			4,358	27.4			3,839	29.3
Europe	2,993	–			2,551	–		
Other	1,365	–			1,288	–		
Fixed-income securities			5,959	37.4			5,507	42.1
Government bonds	2,542	2			2,982	–		
Corporate bonds	3,415	–			2,525	–		
Share funds	593	–	593	3.7	274	–	274	2.1
Fixed-income funds	1,016	–	1,016	6.4	453	–	453	3.5
Mixed funds <sup>1)</sup>	161	–	161	1.0	136	–	136	1.0
Money market investments	1,958	–	1,958	12.3	799	–	799	6.1
Property			753	4.7			723	5.5
Direct investments	302	6			–	8		
Indirect investments	319	126			649	66		
Insurance contracts	0	147	147	0.9	–	52	52	0.4
Bank balances	480	–	480	3.0	240	2	242	1.8
Other investments <sup>2)</sup>	242	250	492	3.1	162	905	1,067	8.2
<b>Total</b>	<b>15,386</b>	<b>531</b>	<b>15,917</b>	<b>100.0</b>	<b>12,059</b>	<b>1,033</b>	<b>13,092</b>	<b>100.0</b>

<sup>1)</sup> Includes equities and interest-bearing securities.

<sup>2)</sup> Other investments include, in particular, alternative investments such as hedge funds, commodities and private equity funds.



In addition to various actuarial risks such as interest rate risk, life-expectancy risk and the risk of salary increases, the pension plans expose the Group primarily to financial risks in connection with plan assets.

The return on plan assets is assumed at the beginning of the period to be the discount rate, which is determined on the basis of investment grade corporate bonds. For the old pension plans, if the actual return on plan assets is less than the discount rates applied, the net obligation from the pension plan goes up. With the new capital-market-based pension plans, a gross obligation is recognised for the time value of the corresponding plan assets, taking the minimum guaranteed amount into account.

The share price risk that arises from the proportion of plan assets invested in equities is considered to be reasonable. The risk of default by bond issuers is limited, because investments are only made in investment grade bonds.

The amount of the net obligation under the old pension plans depends to a large extent on the rates of interest, whereby the current low-interest environment results in a relatively high net obligation. If yields on corporate bonds continue to decline, this would lead to a further increase in defined-benefit obligations, which could probably only be partly offset by positive developments in the market value of the corporate bonds held in plan assets.

Based on current knowledge, an estimated EUR 1.1bn is expected to be transferred to pension plans in 2018 (previous year: EUR 2.4bn). The transfers are made up of planned allocations and benefit payments that are not covered by equivalent reimbursements from plan assets.

The weighted duration of pension obligations was 18 years as of 31 December 2017 (previous year: 19 years).

Over the next ten years, the following pension payments are forecast for the defined-benefit commitments in existence as of the reporting date:

**T126 FORECAST MATURITIES OF UNDISCOUNTED PENSION PAYMENTS, AS OF 2017**

in €m	Forecast pension payments 31.12.2017
2018	514
2019	526
2020	545
2021	559
2022	567
2023 - 2027	3,224

**T126 FORECAST MATURITIES OF UNDISCOUNTED PENSION PAYMENTS, AS OF 2016**

in €m	Forecast pension payments 31.12.2016
2017	462
2018	469
2019	477
2020	497
2021	519
2022 - 2026	2,898

**33 Other provisions**

Provisions for ongoing legal proceedings were based on an assessment of the likely outcome of the proceedings.

**T127 NON-CURRENT AND CURRENT OTHER PROVISIONS**

in €m	31.12.2017			31.12.2016		
	Total	Non-current	Current	Total	Non-current	Current
Obligations under partial retirement contracts	30	14	16	21	14	7
Other staff costs	186	145	41	167	125	42
Obligation to return emissions certificates	31	-	31	28	-	28
Onerous contracts	103	54	49	115	56	59
Environmental restoration	28	25	3	28	25	3
Legal proceedings	119	21	98	104	20	84
Restructuring/severance payments	208	94	114	219	82	137
Fixed-price customer maintenance contracts	148	42	106	167	5	162
Maintenance of operating lease aircraft	292	149	143	291	124	167
Warranties	41	-	41	50	-	50
Other provisions	405	57	348	379	52	327
<b>Total</b>	<b>1,591</b>	<b>601</b>	<b>990</b>	<b>1,569</b>	<b>503</b>	<b>1,066</b>

Provisions for staff costs mainly relate to staff anniversary bonuses and other current obligations.

A provision for the obligation to submit CO<sub>2</sub> emissions certificates to the relevant authorities is recognised for an amount equivalent to the carrying amount of the capitalised CO<sub>2</sub> certificates. If the obligation is not fully covered by available certificates, the outstanding amount of the provision is measured using the market price of the emissions certificates as of the reporting date.

Expected losses from onerous contracts result from ongoing obligations or other contractual relationships in which performance and consideration are out of balance.

Provisions for environmental restoration are based on surveyors' findings and the assumption that all contamination is removed within ten years without any further legal requirements.

Provisions for ongoing legal proceedings were based on an assessment of the likely outcome of the proceedings.

The provisions for the overhaul of aircraft on leases mainly relate to obligations for the maintenance, overhaul and repair of aircraft.

Other provisions of EUR 149m (previous year: EUR 176m) relate to outstanding obligations in connection with the accident involving the Germanwings aircraft on 24 March 2015.

Changes in groups of individual provisions in 2017 were as follows:

#### T128 CHANGES IN OTHER PROVISIONS 2017

in €m	Obligations under partial retirement contracts	Other staff costs	Obligation to return emissions certificates	Onerous contracts	Environmental restoration	Legal proceedings
As of 1.1.2017	21	167	28	115	28	104
Changes in the group of consolidated companies	-	2	8	-	-	15
Currency translation differences	-	-3	-	-	-	6
Utilisation	-58	-26	-30	-41	-2	-31
Increase/addition	62	47	25	37	2	59
Interest added back	4	0*	-	-	-	-
Reversal	0*	-2	-	-2	-	-16
Transfers	1	1	0*	-6	-	-18
<b>As of 31.12.2017</b>	<b>30</b>	<b>186</b>	<b>31</b>	<b>103</b>	<b>28</b>	<b>119</b>

\* Rounded below EUR 1m.

#### T128 CHANGES IN OTHER PROVISIONS 2017 (continued)

in €m	Restructuring/severance payments	Fixed-price customer maintenance contracts	Maintenance of lease aircraft	Warranties	Other provisions	Total
As of 1.1.2017	219	167	291	50	379	<b>1,569</b>
Changes in the group of consolidated companies	2	-	61	-	13	<b>101</b>
Currency translation differences	0*	-2	-20	-1	-3	<b>-23</b>
Utilisation	-72	-97	-194	-17	-110	<b>-678</b>
Increase/addition	63	88	168	16	135	<b>702</b>
Interest added back	-	-	-	-	0*	<b>4</b>
Reversal	-4	-7	-14	-7	-11	<b>-63</b>
Transfers	0*	-1	0*	-	2	<b>-21</b>
<b>As of 31.12.2017</b>	<b>208</b>	<b>148</b>	<b>292</b>	<b>41</b>	<b>405</b>	<b>1,591</b>

\* Rounded below EUR 1m.

Changes in groups of individual provisions in the previous year were as follows:

**T128 CHANGES IN OTHER PROVISIONS 2016**

in €m	Obligations under partial retirement contracts	Other staff costs	Obligation to return emissions certificates	Onerous contracts	Environmental restoration	Legal proceedings
As of 1.1.2016	23	164	28	91	29	119
Changes in the group of consolidated companies	-	0*	-	-	-	-
Currency translation differences	-	-3	0*	0*	-	1
Utilisation	-48	-30	-27	-16	-2	-37
Increase/addition	45	33	27	69	1	34
Interest added back	-4	3	-	0*	0*	0*
Reversal	-3	-1	0*	-29	0*	-13
Transfers	8	1	-	-	-	0*
<b>As of 31.12.2016</b>	<b>21</b>	<b>167</b>	<b>28</b>	<b>115</b>	<b>28</b>	<b>104</b>

\* Rounded below EUR 1m.

**T128 CHANGES IN OTHER PROVISIONS 2016 (continued)**

in €m	Restructuring/severance payments	Fixed-price customer maintenance contracts	Maintenance of lease aircraft	Warranties	Other provisions	Total
As of 1.1.2016	218	129	327	44	429	<b>1,601</b>
Changes in the group of consolidated companies	0*	-	-	-	2	<b>2</b>
Currency translation differences	0*	0*	3	0*	-1	<b>0*</b>
Utilisation	-74	-76	-180	-12	-138	<b>-640</b>
Increase/addition	79	114	169	26	97	<b>694</b>
Interest added back	1	1	0*	-	-	<b>1</b>
Reversal	-6	-1	-28	-8	-19	<b>-108</b>
Transfers	1	-	0*	0*	9	<b>19</b>
<b>As of 31.12.2016</b>	<b>219</b>	<b>167</b>	<b>291</b>	<b>50</b>	<b>379</b>	<b>1,569</b>

\* Rounded below EUR 1m.

The funding status for provisions for obligations to employees under partial retirement agreements is as follows:

**T129 FUNDING STATUS**

in €m	2017	2016
Present value of funded obligations under partial retirement agreements	167	166
External plan assets	-162	-163
	<b>5</b>	<b>3</b>
of which pension provisions	30	21
of which other assets	25	18

A total of EUR 175m has been transferred to an external trust fund as insolvency insurance for employer's performance arrears as part of phased retirement agreements under which the employee at first works full-time for less pay and then retires early on the same reduced pay. These assets, which fulfil the requirements for plan assets and therefore reduce the gross amount of obligations accordingly, are measured at market value on the balance sheet date.

Obligations under partial retirement agreements were measured in 2017 using an interest rate of 0.03 per cent (previous year: 0.15 per cent).

The following cash outflows are estimated for the non-current portion of the other groups of provisions:

#### T130 CASH OUTFLOWS FOR NON-CURRENT PROVISIONS, AS OF 2017

in €m	2019	2020	2021	2022 and thereafter
Onerous contracts	25	15	4	10
Environmental restoration	3	3	3	17
Restructuring/severance payments	19	19	40	15
Fixed-price customer maintenance contracts	22	21	-	-
Maintenance of aircraft on leases	73	54	21	11
Other provisions	23	20	9	31

At the end of 2016, the corresponding cash outflows were estimated as follows:

#### T130 CASH OUTFLOWS FOR NON-CURRENT PROVISIONS, AS OF 2016

in €m	2018	2019	2020	2021 and thereafter
Onerous contracts	31	16	9	0*
Environmental restoration	3	3	3	17
Restructuring/severance payments	46	5	3	27
Fixed-price customer maintenance contracts	5	-	-	-
Maintenance of aircraft on leases	34	38	40	14
Other provisions	20	22	8	31

\* Rounded below EUR 1m.

### 34 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:

#### T131 BORROWINGS 31.12.2017

in €m	Total	Non-current	Current
Bonds	1,005	1,005	-
Liabilities to banks	2,044	1,881	163
Leasing liabilities and other loans	3,765	3,256	509
	6,814	6,142	672

#### T131 BORROWINGS 31.12.2016

in €m	Total	Non-current	Current
Bonds	1,009	1,009	-
Liabilities to banks	1,775	1,416	359
Leasing liabilities and other loans	3,791	3,386	405
	6,575	5,811	764

Collateral was provided for EUR 101m of the liabilities to banks (previous year: EUR 145m).

There were no delays or defaults on payment obligations under these loan agreements in either 2017 or 2016.

Leasing liabilities and other loans relate almost exclusively to finance leases described in [Note 20, p. 132f.](#), and to aircraft financing arrangements in [Note 18, p. 130](#).

### 35 Other non-current financial liabilities

#### T132 OTHER NON-CURRENT FINANCIAL LIABILITIES

in €m	31.12.2017	31.12.2016
Other financial liabilities	243	124
	243	124

The carrying amount for financial liabilities is equivalent to their fair value, as they pay interest at a floating or market standard rate.

**36 Non-current advance payments received, deferred income and other non-financial liabilities**

**T133 NON-CURRENT ADVANCE PAYMENTS RECEIVED, DEFERRED INCOME AND OTHER NON-FINANCIAL LIABILITIES**

in €m	31.12.2017	31.12.2016
Advance payments received	4	4
Deferred income	752	755
Other non-financial liabilities	533	487
	<b>1,289</b>	<b>1,246</b>

A total of 220 billion miles from bonus miles programmes (previous year: 212 billion miles) were to be measured as of 31 December 2017. Non-current deferred income includes EUR 739m (previous year: EUR 743m) of deferred income relating to obligations under bonus mile programmes. Other non-current, non-financial liabilities include EUR 499m (previous year: EUR 473m) in obligations under bonus mile programmes. Including the corresponding current items, obligations under bonus mile programmes come to EUR 1.8bn (previous year: EUR 1.7bn).

In addition, deferred income includes EUR 8m (previous year: EUR 8m) for grants and subsidies received for capital expenditure, which are realised over the useful life of the assets.

As in the previous year, other non-financial liabilities include obligations to return materials valued at EUR 1m.

The 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 employees was EUR 33m (previous year: EUR 12m). A further EUR 27m (previous year: EUR 3m) 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 employee investment in Lufthansa shares to Executive Board members, managers and non-payscale employees. The option packages granted in 2014, 2015, 2016 and 2017 consist of an outperformance option and a performance option. At the end of the programme, the participants receive a cash payment if the conditions are met.

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. For the 2017 option programme, the basket of peer group companies was adjusted so that Air Berlin is no longer included, whereas Norwegian and WIZZair were added. 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 2014 results in a cash payment if the share price goes up by more than 33 per cent. This is capped at a share price increase of more than 50 per cent. The performance option for 2015 results in a cash payment if the share price goes up by more than 29 per cent. This is capped at a share price increase of more than 44 per cent. The performance option for 2016 results in a cash payment if the share price goes up by more than 27 per cent. This is capped at a share price increase of more than 41 per cent. The performance option for 2017 results in a cash payment if the share price goes up by more than 23 per cent; the maximum cash payment will be made if there is a share price increase of more than 35 per cent.

**T134 2014, 2015, 2016 AND 2017 PROGRAMMES OUTPERFORMANCE OPTION**

	€ per percentage point from 1%	Maximum per tranche in €
Board member	1,000	20,000
Managers	400	8,000
Non-payscale staff (per 5 pts)	200	1,000

**T135 2014 PROGRAMME PERFORMANCE OPTION**

	€ per performance unit from 33% performance	Maximum per tranche in €
Board member	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

**T136 2015 PROGRAMME PERFORMANCE OPTION**

	€ per performance unit from 29% performance	Maximum per tranche in €
Board member	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

**T137 2016 PROGRAMME PERFORMANCE OPTION**

	€ per performance unit from 27% performance	Maximum per tranche in €
Board member	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

**T138 2017 PROGRAMME PERFORMANCE OPTION**

	€ per performance unit from 23% performance	Maximum per tranche in €
Board member	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 programmes are scheduled to run for four years.

All options can be exercised at a fixed time in the final year. The performance and outperformance in all programmes are calculated on the principle of total shareholder return. The shares invested in personally may not be sold until the option is exercised.

The outperformance option for the year 2013 resulted in a relative performance of +17.8 per cent and total payments of EUR 17m. The performance option for that year gave rise to the maximum payment of EUR 19m because the cap was exceeded (performance of +81.9 per cent).

In the previous year, no payments were made to Executive Board members, managers and non-payscale employees under the outperformance option and the performance option for 2012.

**T139 RESULTS OF LH-PERFORMANCE AS OF 31.12.2017**

in %	End of programme	Out- performance as of 31.12.2017	Performance as of 31.12.2017
LH-Performance 2017	2021	24	24
LH-Performance 2016	2020	120	179
LH-Performance 2015	2019	126	147
LH-Performance 2014	2018	95	143

**T139 RESULTS OF LH-PERFORMANCE AS OF 31.12.2016**

in %	End of programme	Out- performance as of 31.12.2016	Performance as of 31.12.2016
LH-Performance 2016	2020	13	17
LH-Performance 2015	2019	26	4
LH-Performance 2014	2018	4	2
LH-Performance 2013	2017	-12	-7

Over the financial years 2017 and 2016, the number of options changed as follows:

**T140 CHANGE IN NUMBER OF OPTIONS**

	2017		2016	
	Number of options/ option packages	Cash settlement in € thousands	Number of options/ option packages	Cash settlement in € thousands
Outstanding options on 1.1.	18,277	-	17,146	-
Options issued	5,313	-	5,125	-
Expired or unused options	156	-	156	-
Options exercised	4,132	36,191	3,838	-
Outstanding options on 31.12.	19,302	-	18,277	-

On 1 January 2017, members of the Executive Board, managers and non-payscale employees held 4,236,239 shares under the various programmes, and on 31 December 2017, they held 3,907,293 shares.

The fair values of the twelve share programmes still running were calculated using Monte Carlo simulations. This involves simulating the future returns of the shares in the comparative index and of Deutsche Lufthansa AG and calculating the value of the option rights as the forecast amount of a dividend.

The following fair values were measured in total:

**T141 FAIR VALUE OF SHARE PROGRAMMES**

in € per option	Own investment	Fair value as of 31.12.2017	Fair value as of 31.12.2016
<b>Board member</b>			
Options 2013	2,000	-	3,856
Options 2014	2,000	39,180	10,973
Options 2015	2,000	37,671	16,714
Options 2016	2,000	35,697	15,216
Options 2017	2,000	18,384	-
<b>Managers</b>			
Options 2013	2,000	-	1,540
Options 2014	2,000	15,671	4,386
Options 2015	2,000	15,102	6,683
Options 2016	2,000	14,277	6,084
Options 2017	2,000	7,351	-
<b>Non-payscale staff</b>			
Options 2013	1,000	-	200
Options 2014	1,000	1,958	554
Options 2015	1,000	1,887	839
Options 2016	1,000	1,784	764
Options 2017	1,000	922	-

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 were used as the interest rate for the remaining term of the outperformance option 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:

**T142 REFERENCE PRICE**

		Options 2014	Options 2015	Options 2016	Options 2017
Lufthansa	EUR	12.59	12.34	10.55	23.00
Air France-KLM	EUR	7.45	6.32	5.00	13.12
IAG	GBP	363.46	574.73	400.94	612.70
Ryanair	EUR	7.25	13.05	12.40	17.25
easyJet	GBP	1,376.98	1,733.22	1,018.21	1,240.72
Air Berlin	EUR	1.31	1.00	0.68	-
Norwegian	NOK	-	-	-	218.45
WIZZair	GBP	-	-	-	2,991.52

**T143 PROJECTED VOLATILITIES**

in % for:	Options 2014 as of 31.12.2017	Options 2014 as of 31.12.2016	Options 2015 as of 31.12.2017	Options 2015 as of 31.12.2016	Options 2016 as of 31.12.2017	Options 2016 as of 31.12.2016	Options 2017 as of 31.12.2017	Options 2017 as of 31.12.2016
Lufthansa	27.07	33.07	31.66	33.10	31.30	32.01	31.78	-
Air France-KLM	36.67	36.15	36.78	37.78	36.45	37.51	37.58	-
IAG	25.36	39.00	36.90	37.01	35.04	36.03	34.45	-
Ryanair	24.55	33.64	31.14	32.39	30.89	32.19	30.59	-
easyJet	29.94	37.19	37.15	35.44	34.96	34.70	34.15	-
Air Berlin	133.62	40.97	100.16	44.39	84.39	45.78	-	-
Norwegian	-	-	-	-	-	-	42.08	-
WIZZair	-	-	-	-	-	-	34.44	-
Risk-free interest rate	-0.77% respectively -0.72% for euro zone; 0.45% respectively 0.49% for UK (previous year: -0.80% respectively -0.84% for euro zone; 0.04% respectively 0.11% for UK)				-0.60% respectively -0.46% for euro zone; 0.58% respectively 0.69% for UK; 0.89% for Norway (previous year: -0.71% respectively -0.59% for euro zone; 0.27% respectively 0.46% for UK)			
Fluctuation	5.1% (previous year: 5.1%)				5.1% (previous year: 5.1%)			

Staff costs include total expenses of EUR 80m for share programmes (previous year: EUR 12m).



**37 Trade payables and other current financial liabilities****T144 TRADE PAYABLES AND OTHER CURRENT FINANCIAL LIABILITIES**

in €m	31.12.2017	31.12.2016
<b>Trade payables</b>		
Trade payables to affiliated companies	74	46
Trade payables to other equity investments	0*	0*
Trade payables to third parties	3,358	3,021
	<b>3,432</b>	<b>3,067</b>
<b>Other liabilities</b>		
Liabilities to banks	18	63
Other liabilities to affiliated companies	233	228
Other liabilities to equity investments	0*	-
Liabilities from equity investments	591	350
Other financial liabilities	976	981
	<b>1,818</b>	<b>1,622</b>
<b>Total</b>	<b>5,250</b>	<b>4,689</b>

\* Rounded below EUR 1m.

The carrying amount of these liabilities corresponds to their fair value.

**38 Current advance payments received, deferred income and other non-financial liabilities****T145 CURRENT ADVANCE PAYMENTS RECEIVED, DEFERRED INCOME AND OTHER NON-FINANCIAL LIABILITIES**

in €m	31.12.2017	31.12.2016
Advance payments received	51	39
Net debit balance of advance payments received and receivables from unfinished contracts	39	18
Deferred income	341	325
Other non-financial liabilities	561	493
	<b>992</b>	<b>875</b>

Obligations of EUR 290m (previous year: EUR 284m) under bonus mile programmes (➤ **Note 36, p. 151ff.**) are recognised in current deferred income, and obligations of EUR 242m (previous year: EUR 234m) in other current non-financial liabilities. Other liabilities include deferrals of EUR 286m (previous year: EUR 249m) for outstanding holiday allowance and overtime, and EUR 27m (previous year: EUR 3m) for the current portion of fair value obligations under share-based remuneration agreements (➤ **Note 36, p. 151ff.**).

## NOTES TO THE SEGMENT REPORTING

### 39 Notes to the reportable segments and segment data

#### NOTES TO THE REPORTABLE SEGMENTS

As of 31 December 2017, the Lufthansa Group operates in five reporting segments, which make up its Group activities. The segments are defined in line with the internal reporting and management structure.

In the course of restructuring the Lufthansa Group, one organisational step carried out since the beginning of the reporting year was the creation of the Point-to-Point Airlines segment. The Point-to-Point Airlines segment comprises Eurowings, Germanwings and Brussels Airlines, as well as the equity investment in SunExpress. The former Passenger Airline Group segment is now known as Network Airlines segment and reports on the airlines Lufthansa German Airlines, SWISS and Austrian Airlines. In addition, the training activities that previously formed part of the Passenger Airline Group (largely Lufthansa Flight Training and Swiss Aviation Training) were merged in the Lufthansa Aviation Training group from 2017 and reported in the Additional Businesses and Group Functions segment. The figures for the previous year have been adjusted accordingly. Further information about the individual airlines can be found in the Group management report [starting on p. 12](#).

The airline activities were combined in their respective reporting segments based on the similarity between the economic characteristics of the individual airlines, such as network and sales structures, as well as customers and services.

The Logistics segment comprises the scheduled airfreight activities of the Lufthansa Cargo group. Lufthansa Cargo is Europe's leading cargo airline.

The MRO segment is a leading global provider of maintenance, repair and overhaul services for civil and commercial aircraft and is represented by the Lufthansa Technik group.

The Catering segment, represented by the LSG Lufthansa Service/Sky Chefs group, is the global market leader in airline catering.

Business activities not allocated to a reportable segment are presented in the "Additional Businesses and Group Functions" column of the segment reporting along with the income and expenses of central Group functions. They include income and expenses of Lufthansa Commercial Holding GmbH, Lufthansa AirPlus Servicekarten GmbH, the Lufthansa Systems group, the Lufthansa Aviation Training group and other Group companies.

#### NOTES TO SEGMENT DATA AND INTERNAL MANAGEMENT

The accounting policies of the reportable segments are the same as those described in [Note 2, p. 108ff](#).

The Group measures the performance of its segments using two segment result indicators: EBIT and Adjusted EBIT. EBIT is made up of the IFRS operating result and the result from equity investments. Adjusted EBIT is obtained by correcting EBIT for gains and losses on the disposal of assets and impairment losses and earnings attributable to other periods in connection with pension obligations (plan adjustments and plan settlements).

Sales and revenue between reportable segments are based on arm's length prices. Administrative services are charged as cost allocations.

For information on external traffic revenue [Note 3, p. 119](#).

Capital employed largely comprises segment assets, adjusted for derivative financial instruments and deferred tax items less non-interest-bearing debt.

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.

**T146 SEGMENT INFORMATION FOR THE 2017 REPORTING SEGMENTS**

	Network Airlines	Point-to- Point Airlines	Logistics	MRO	Catering	Total reportable operating segments	Additional Businesses and Group Functions	Reconciliation		Group
in €m								Not allocated	Consoli- dation	
External revenue	22,644	4,045	2,497	3,568	2,556	35,310	269	-	-	35,579
of which traffic revenue	21,538	3,927	2,373	-	-	27,838	-	561	-	28,399
Inter-segment revenue	673	-4	27	1,836	663	3,195	177	-	-3,372	-
<b>Total revenue</b>	<b>23,317</b>	<b>4,041</b>	<b>2,524</b>	<b>5,404</b>	<b>3,219</b>	<b>38,505</b>	<b>446</b>	<b>-</b>	<b>-3,372</b>	<b>35,579</b>
Other operating income	903	282	80	327	61	1,653	2,256	-	-1,527	2,382
<b>Total operating income</b>	<b>24,220</b>	<b>4,323</b>	<b>2,604</b>	<b>5,731</b>	<b>3,280</b>	<b>40,158</b>	<b>2,702</b>	<b>-</b>	<b>-4,899</b>	<b>37,961</b>
<b>Operating expenses</b>	<b>21,519</b>	<b>4,346</b>	<b>2,387</b>	<b>5,350</b>	<b>3,267</b>	<b>36,869</b>	<b>2,855</b>	<b>-</b>	<b>-4,916</b>	<b>34,808</b>
of which cost of materials and services	12,918	3,076	1,613	3,039	1,396	22,042	231	-	-3,260	19,013
of which staff costs	3,644	499	431	1,356	1,221	7,151	1,029	-	-8	8,172
of which depreciation and amortisation	1,414	266	95	120	90	1,985	70	-	-3	2,052
of which other operating expenses	3,543	505	248	835	560	5,691	1,525	-	-1,645	5,571
<b>Results of equity investments</b>	<b>19</b>	<b>32</b>	<b>23</b>	<b>30</b>	<b>32</b>	<b>136</b>	<b>20</b>	<b>-</b>	<b>1</b>	<b>157</b>
of which result of investments accounted for using the equity method	15	32	20	24	26	117	-	-	1	118
<b>EBIT</b>	<b>2,720</b>	<b>9</b>	<b>240</b>	<b>411</b>	<b>45</b>	<b>3,425</b>	<b>-133</b>	<b>-</b>	<b>18</b>	<b>3,310</b>
<b>of which reconciliation items</b>										
Impairment losses/gains	-125	-70	-7	-4	-26	-232	-16	-	-3	-251
Effects from pension provisions	559	-15	4	-	-	548	2	-	1	551
Results of disposal of assets	23	-	1	-	5	29	11	-	-3	37
<b>Adjusted EBIT<sup>1)</sup></b>	<b>2,263</b>	<b>94</b>	<b>242</b>	<b>415</b>	<b>66</b>	<b>3,080</b>	<b>-130</b>	<b>-</b>	<b>23</b>	<b>2,973</b>
Total adjustments										337
Other financial result	-	-	-	-	-	-	-	-	-	-123
Profit/loss before income taxes	-	-	-	-	-	-	-	-	-	3,187
Capital employed <sup>2)</sup>	9,660	2,066	1,253	4,226	1,219	18,424	2,233	-	-44	20,613
of which from investments accounted for using the equity method	48	131	48	247	129	603	6	-	-	585
Segment capital expenditure	1,738	939	39	233	84	3,033	62	-	-90	3,005
of which from investments accounted for using the equity method	-	-	-	38	-	38	-	-	-	38
Number of employees at end of period	50,190	7,501	4,511	21,502	34,563	118,267	11,157	-	-	129,424
Average number of employees	49,679	7,190	4,504	21,200	35,122	117,695	11,161	-	-	128,856

<sup>1)</sup> For reconciliation from Adjusted EBIT to EBIT → T023, p. 35, in the Group management report.

<sup>2)</sup> The capital employed results from total assets adjusted for non-operating items (deferred taxes, positive market values, derivatives) less non-interest bearing liabilities (including trade payables and liabilities from unused flight documents).

**T146 SEGMENT INFORMATION FOR THE 2016 REPORTING SEGMENTS**

	Network Airlines	Point-to- Point Airlines	Logistics	MRO	Catering	Total reportable operating segments	Additional Businesses and Group Functions	Reconciliation		Group
in €m								Not allocated	Consoli- dation	
External revenue	21,203	2,060	2,059	3,517	2,550	31,389	271	-	-	31,660
of which traffic revenue <sup>3)</sup>	20,207	2,049	1,986	-	-	24,242	-	419	-	24,661
Inter-segment revenue	661	-	25	1,627	644	2,957	165	-	-3,122	-
<b>Total revenue</b>	<b>21,864</b>	<b>2,060</b>	<b>2,084</b>	<b>5,144</b>	<b>3,194</b>	<b>34,346</b>	<b>436</b>	<b>-</b>	<b>-3,122</b>	<b>31,660</b>
Other operating income	1,001	76	65	222	67	1,431	1,885	-	-1,037	2,279
<b>Total operating income</b>	<b>22,865</b>	<b>2,136</b>	<b>2,149</b>	<b>5,366</b>	<b>3,261</b>	<b>35,777</b>	<b>2,321</b>	<b>-</b>	<b>-4,159</b>	<b>33,939</b>
<b>Operating expenses</b>	<b>20,751</b>	<b>2,227</b>	<b>2,237</b>	<b>4,983</b>	<b>3,223</b>	<b>33,421</b>	<b>2,504</b>	<b>-</b>	<b>-4,176</b>	<b>31,749</b>
of which cost of materials and services	12,755	1,634	1,444	2,718	1,383	19,934	192	-	-3,017	17,109
of which staff costs	3,483	277	428	1,272	1,184	6,644	716	-	-6	7,354
of which depreciation and amortisation	1,315	67	108	107	106	1,703	69	-	-3	1,769
of which other operating expenses	3,198	249	257	886	550	5,140	1,527	-	-1,150	5,517
<b>Results of equity investments</b>	<b>8</b>	<b>-12</b>	<b>24</b>	<b>27</b>	<b>22</b>	<b>69</b>	<b>16</b>	<b>-</b>	<b>-</b>	<b>85</b>
of which result of investments accounted for using the equity method	6	-12	22	24	17	57	1	-	-	58
<b>EBIT</b>	<b>2,122</b>	<b>-103</b>	<b>-64</b>	<b>410</b>	<b>60</b>	<b>2,425</b>	<b>-167</b>	<b>-</b>	<b>17</b>	<b>2,275</b>
<b>of which reconciliation items</b>										
Impairment losses/gains	-119	-	-18	-	-40	-177	-15	-	-1	-193
Effects from pension provisions	669	1	-	-	8	678	-1	-	1	678
Results of disposal of assets	17	-	4	-1	-12	8	31	-	-1	38
<b>Adjusted EBIT<sup>1)</sup></b>	<b>1,555</b>	<b>-104</b>	<b>-50</b>	<b>411</b>	<b>104</b>	<b>1,916</b>	<b>-182</b>	<b>-</b>	<b>18</b>	<b>1,752</b>
Total adjustments	-	-	-	-	-	-	-	-	-	523
Other financial result	-	-	-	-	-	-	-	-	-	-27
Profit/loss before income taxes	-	-	-	-	-	-	-	-	-	2,248
Capital employed <sup>2)</sup>	10,232	1,268	1,084	3,826	1,317	17,727	2,531	-	-30	20,228
of which from investments accounted for using the equity method	12	98	51	216	132	509	6	-	-	516
Segment capital expenditure	1,452	401	29	216	73	2,171	39	63	-38	2,236
of which from investments accounted for using the equity method	-	-	-	-	2	2	-	-	-	2
Number of employees at end of period	49,985	3,493	4,568	20,839	35,530	114,415	9,891	-	-	124,306
Average number of employees	50,959	3,410	4,559	20,708	35,571	115,207	8,080	-	-	123,287

<sup>1)</sup> For reconciliation from Adjusted EBIT to EBIT → T023, p. 35, in the Group management report.

<sup>2)</sup> The capital employed results from total assets adjusted for non-operating items (deferred taxes, positive market values, derivatives) less non-interest bearing liabilities (including trade payables and liabilities from unused flight documents).

<sup>3)</sup> Previous year's figures have been adjusted due to the new reporting 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 segment revenue generated with other consolidated segments is shown in the reconciliation column for revenue.

The amounts in the reconciliation column for Group EBIT 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.

#### NOTES ON GEOGRAPHICAL REGIONS IN 2017

The allocation of traffic revenue to geographic regions is based on the original location of sale. Non-current assets are allocated according to the location of the relevant asset. The allocation of other revenue to the individual regions 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 Network Airlines, Point-to-Point Airlines 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.

External revenue, non-current assets and capital expenditure are as follows:

#### T147 EXTERNAL REVENUE AND NON-CURRENT ASSETS BY REGION FOR 2017

in €m	Europe	North America	Central and South America	Asia/Pacific	Middle East	Africa	Group
Traffic revenue <sup>1)</sup>	19,040	4,338	676	3,174	681	490	28,399
Other revenue	2,888	2,103	312	1,375	294	208	7,180
Non-current assets <sup>2) 3)</sup>	19,444	261	42	210	3	20	19,980
Capital expenditure on non-current assets <sup>3)</sup>	3,051	34	2	9	-	2	3,098

The figures for the main countries are as follows:

#### T148 EXTERNAL REVENUE AND NON-CURRENT ASSETS BY COUNTRIES FOR 2017

in €m	Germany	USA
Traffic revenue <sup>1)</sup>	8,761	3,889
Other revenue	946	1,766
Non-current assets <sup>2) 3)</sup>	13,670	247
Capital expenditure on non-current assets <sup>3)</sup>	2,280	32

<sup>1)</sup> Traffic revenue is allocated according to the original location of sale.

<sup>2)</sup> Non-current assets include property, plant and equipment and intangible assets with the exception of repairable spare parts for aircraft.

<sup>3)</sup> Aircraft are allocated according to their location of registration.

## NOTES ON GEOGRAPHICAL REGIONS IN 2016

External revenue, non-current assets and capital expenditure are as follows:

### T147 EXTERNAL REVENUE AND NON-CURRENT ASSETS BY REGION FOR 2016

in €m	Europe	North America	Central and South America	Asia/Pacific	Middle East	Africa	Group
Traffic revenue <sup>1)</sup>	16,234	3,948	609	2,902	650	318	<b>24,661</b>
Other revenue	2,686	2,076	310	1,383	329	215	<b>6,999</b>
Non-current assets <sup>2) 3)</sup>	18,167	267	44	219	11	25	<b>18,733</b>
Capital expenditure on non-current assets <sup>3)</sup>	2,143	27	4	13	-	6	<b>2,193</b>

The figures for the main countries are as follows:

Revenue from transactions with a single customer in no case exceeded 10 per cent of Lufthansa Group sales in 2017.

### T148 EXTERNAL REVENUE AND NON-CURRENT ASSETS BY COUNTRIES FOR 2016

in €m	Germany	USA
Traffic revenue <sup>1)</sup>	7,669	3,565
Other revenue	950	1,715
Non-current assets	13,241	254
Capital expenditure on non-current assets	1,191	25

<sup>1)</sup> Traffic revenue is allocated according to the original location of sale.

<sup>2)</sup> Non-current assets include property, plant and equipment and intangible assets with the exception of repairable spare parts for aircraft.

<sup>3)</sup> Aircraft are allocated according to their location of registration.

## NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

### 40 Notes to cash flow from operating, investing and financing activities

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 comprise the balance sheet items bank balances and cash-in-hand, without fixed-term deposits with terms of three to twelve months, amounting to EUR 179m (previous year: EUR 118m). The amount of liquidity in the broader sense is reached by adding securities that can be liquidated at short notice.

### ADDITIONAL INFORMATION ON THE CASH FLOW STATEMENT

#### Cash flow from operating activities

Cash flow from operating activities is derived from profit/loss before income taxes using the indirect method. It is adjusted for non-cash income and expenses as well as changes in trade working capital and in other assets/liabilities that are not attributable to investing or financing activities.

In the current financial year, the Group primarily recognised the following non-cash income and expenses:

#### T149 SIGNIFICANT NON-CASH INCOME AND EXPENSES

in €m	2017	2016
Measurement of financial derivatives	217	-250
Measurement of financial debts	-288	59
Write-downs on receivables	98	88
Reversal of write-downs on receivables	-46	-27
Income from the reversal of provisions and accruals	-151	-255
Restructuring of retirement and transitional benefits for cabin crew	-551	-652
<b>Total</b>	<b>-721</b>	<b>-1,037</b>

Trade working capital consists of changes in the carrying amounts of inventories, trade receivables and payables, half-finished goods and down payments, other current assets and other current liabilities, current deferrals and prepaid expenses and obligations from unused flight documents.

Other assets/liabilities mainly include corrections between pensions expenses and payments, changes in other provisions and corrections for non-cash effects from currency translation.

#### Cash flow from investing (and cash management) activities

Cash flows from investing and financing activities are calculated on the basis of payments.

Cash flow from investing activities results mainly from investments and disinvestments in non-current assets.

Assets capitalised by the Lufthansa Group that meet the criteria for finance leases are categorised as cash flow from investing activities. In the reporting year, they amounted to EUR 91m (previous year: EUR 130m).

The Group contributed EUR 2.0bn to pension assets in 2017 (previous year: EUR 153m). These payments were categorised as cash flow from investing and cash management activities. By contrast, pension payments from fund assets lead to cash inflows from investments. They correspond to cash outflows from operating activities.

#### Cash flow from financing activities

Cash flow from financing activities includes outflows for the repayment of finance lease liabilities. Inflows of EUR 69m from new borrowing (previous year: EUR 46m) are shown corresponding to cash outflows from investing activities for new finance lease transactions.

Borrowing and the instruments used to hedge it changed as follows in the financial year:

#### T150 FINANCIAL LIABILITIES

	31.12.2016	Cash effective	Non-cash effective					31.12.2017
			Addition due to changes in consolidation	Currency translation differences	Accrued interest	Reclassification	Changes in fair value	
Non-current borrowings	5,811	1,104	199	-290	0	-682	-	6,142
Current borrowings	764	-921	155	-10	2	682	-	672
Other borrowings	63	-44	-	-1	-	-	-	18
Interest rate swaps and currency futures used for hedging – assets	-98	6	-	-	-	-	9	-83
Interest rate swaps and currency futures used for hedging – liabilities	0*	-	-	-	-	-	2	2

\* Rounded below EUR 1m.



## OTHER DISCLOSURES

### 41 Additional disclosures on financial instruments

#### FINANCIAL ASSETS BY MEASUREMENT CATEGORY

The financial assets can be divided into measurement categories with the following carrying amounts:

#### T151 FINANCIAL ASSETS IN THE BALANCE SHEET AS OF 31.12.2017

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	-	-	221	-
Non-current securities	-	-	32	-
Loans	158	-	-	-
Non-current receivables	289	-	-	-
Non-current derivative financial instruments	-	77	-	565
Trade receivables and other current receivables	5,284	-	-	-
Current derivative financial instruments	-	56	-	544
Current securities	-	-	2,551	-
Cash and cash equivalents	1,397	-	-	-
<b>Total</b>	<b>7,128</b>	<b>133</b>	<b>2,804</b>	<b>1,109</b>

#### T151 FINANCIAL ASSETS IN THE BALANCE SHEET AS OF 31.12.2016

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	-	-	212	-
Non-current securities	-	-	23	-
Loans	189	-	-	-
Non-current receivables	297	-	-	-
Non-current derivative financial instruments	-	252	-	1,222
Trade receivables and other current receivables	4,542	-	-	-
Current derivative financial instruments	-	89	-	445
Current securities	-	-	2,681	-
Cash and cash equivalents	1,256	-	-	-
<b>Total</b>	<b>6,284</b>	<b>341</b>	<b>2,916</b>	<b>1,667</b>

The financial assets in the category “at fair value through profit or loss” include assets held for trading and time values of options used for hedging of EUR 62m (previous year: EUR 87m), which 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 and liabilities is made up as follows:

#### T152 NET RESULT 2017

in €m	Interest expenses	Interest income	Depreciation	Result from trading transactions	Currency result	Net result
Loans and receivables	-	8	135	-	-135	<b>8</b>
Financial assets held for sale	-	130	-	-	-26	<b>104</b>
Assets held for trading	-	-	-	-216	-	<b>-216</b>
Liabilities at continued acquisition cost	-127	-	-	-	510	<b>383</b>
<b>Total</b>	<b>-127</b>	<b>138</b>	<b>135</b>	<b>-216</b>	<b>349</b>	<b>279</b>

**T152 NET RESULT 2016**

in €m	Interest expenses	Interest income	Depreciation	Result from trading transactions	Currency result	Net result
Loans and receivables	-	6	78	-	-5	<b>79</b>
Financial assets held for sale	-	26	-	-	2	<b>28</b>
Assets held for trading	-	-	-	251	0	<b>251</b>
Liabilities at continued acquisition cost	-135	-	-	-	-74	<b>-209</b>
<b>Total</b>	<b>-135</b>	<b>32</b>	<b>78</b>	<b>251</b>	<b>-77</b>	<b>149</b>

**FINANCIAL LIABILITIES BY MEASUREMENT CATEGORY**

The financial liabilities can be divided into measurement categories with the following carrying amounts:

**T153 FINANCIAL LIABILITIES IN THE BALANCE SHEET AS OF 31.12.2017**

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
Financial liabilities	-	-	6,814
Derivative financial instruments	123	191	-
Trade payables	-	-	3,432
Other financial liabilities	-	-	2,061
<b>Total</b>	<b>123</b>	<b>191</b>	<b>12,307</b>

**T153 FINANCIAL LIABILITIES IN THE BALANCE SHEET AS OF 31.12.2016**

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
Financial liabilities	-	-	6,575
Derivative financial instruments	54	185	-
Trade payables	-	-	3,067
Other financial liabilities	-	-	1,746
<b>Total</b>	<b>54</b>	<b>185</b>	<b>11,388</b>

The following table shows the carrying amounts and market values for individual classes of financial liabilities. The market values given for the bonds are their quoted prices. The market values for other types of financial liability 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).

**T154 FINANCIAL LIABILITIES**

in €m	31.12.2017		31.12.2016	
	Carrying amount	Market value	Carrying amount	Market value
Bonds	1,005	1,063	1,009	1,037
Liabilities to banks	2,044	2,113	1,775	1,775
Leasing liabilities and other loans	3,765	3,722	3,791	3,820
<b>Total</b>	<b>6,814</b>	<b>6,898</b>	<b>6,575</b>	<b>6,632</b>

The measurement of derivative financial instruments held at fair value was made on the basis of observable market data.

#### FINANCIAL ASSETS HELD AT FAIR VALUE BY LEVEL OF FAIR VALUE HIERARCHY

The following table shows financial assets and liabilities 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.

#### T155 ASSETS 31.12.2017

in €m	Level 1	Level 2	Level 3	Total
<b>Financial assets at fair value through profit and loss</b>				
Financial derivatives classified as held for trading	–	131	–	131
Current securities	–	–	–	–
<b>Total financial assets through profit and loss</b>	<b>–</b>	<b>131</b>	<b>–</b>	<b>131</b>
<b>Derivative financial instruments which are an effective part of a hedging relationship</b>	<b>–</b>	<b>1,110</b>	<b>–</b>	<b>1,110</b>
<b>Available-for-sale financial assets</b>				
Equity instruments	410	13	–	423
Debt instruments	–	2,160	–	2,160
	<b>410</b>	<b>2,173</b>	<b>–</b>	<b>2,583</b>
<b>Total assets</b>	<b>410</b>	<b>3,414</b>	<b>–</b>	<b>3,824</b>

#### T156 LIABILITIES 31.12.2017

in €m	Level 1	Level 2	Level 3	Total
Derivative financial instruments at fair value through profit or loss	–	123	–	123
Derivative financial instruments which are an effective part of a hedging relationship	–	191	–	191
<b>Total liabilities</b>	<b>–</b>	<b>314</b>	<b>–</b>	<b>314</b>

In the financial year 2016, the fair value hierarchy for assets and liabilities held at fair value was as follows:

#### T155 ASSETS 31.12.2016

in €m	Level 1	Level 2	Level 3	Total
<b>Financial assets at fair value through profit and loss</b>				
Financial derivatives classified as held for trading	–	341	–	341
Current securities	–	–	–	–
<b>Total financial assets through profit and loss</b>	<b>–</b>	<b>341</b>	<b>–</b>	<b>341</b>
<b>Derivative financial instruments which are an effective part of a hedging relationship</b>	<b>–</b>	<b>1,667</b>	<b>–</b>	<b>1,667</b>
<b>Available-for-sale financial assets</b>				
Equity instruments	576	10	–	586
Debt instruments	–	2,113	–	2,113
	<b>576</b>	<b>2,123</b>	<b>–</b>	<b>2,699</b>
<b>Total assets</b>	<b>576</b>	<b>4,131</b>	<b>–</b>	<b>4,707</b>

#### T156 LIABILITIES 31.12.2016

in €m	Level 1	Level 2	Level 3	Total
Derivative financial instruments at fair value through profit or loss	–	54	–	54
Derivative financial instruments which are an effective part of a hedging relationship	–	185	–	185
<b>Total liabilities</b>	<b>–</b>	<b>239</b>	<b>–</b>	<b>239</b>

**T157 ADDITIONAL DISCLOSURES ON FINANCIAL ASSETS IN LEVEL 3**

in €m	1.1.2017	Recognised in result for the period	Change in market value recognised in equity	Additions/ disposals	31.12.2017
Available-for-sale financial assets	-	-	-	-	-
<b>Total</b>	-	-	-	-	-

**T157 ADDITIONAL DISCLOSURES ON FINANCIAL ASSETS IN LEVEL 3**

in €m	1.1.2016	Recognised in result for the period	Change in market value recognised in equity	Additions/ disposals	31.12.2016
Available-for-sale financial assets	24	-	-	-24	0
<b>Total</b>	<b>24</b>	<b>-</b>	<b>-</b>	<b>-24</b>	<b>0</b>

**NETTING OF FINANCIAL ASSETS AND LIABILITIES**

The following financial assets and liabilities are subject to global netting agreements and other agreements.

**T158 ASSETS 31.12.2017**

in €m	Gross amount	Netted amounts	Reported net amount	Amounts not netted	Net amount
Trade receivables and other current receivables	5,434	151	5,283	-	5,283
Derivative financial instruments – assets	1,242	-	1,242	79	1,163
Cash and cash equivalents	1,422	25	1,397	-	1,397
<b>Total assets</b>	<b>8,098</b>	<b>176</b>	<b>7,922</b>	<b>79</b>	<b>7,843</b>

**T159 LIABILITIES 31.12.2017**

in €m	Gross amount	Netted amounts	Reported net amount	Amounts not netted	Net amount
Trade payables and other financial liabilities	3,608	176	3,432	-	3,432
Derivative financial instruments – liabilities	314	-	314	79	235
<b>Total liabilities</b>	<b>3,922</b>	<b>176</b>	<b>3,746</b>	<b>79</b>	<b>3,667</b>

In the previous year, the net balances were as follows:

**T158 ASSETS 31.12.2016**

in €m	Gross amount	Netted amounts	Reported net amount	Amounts not netted	Net amount
Trade receivables and other current receivables	4,645	103	4,542	-	4,542
Derivative financial instruments – assets	2,008	-	2,008	52	1,956
Cash and cash equivalents	1,284	28	1,256	-	1,256
<b>Total assets</b>	<b>7,937</b>	<b>131</b>	<b>7,806</b>	<b>52</b>	<b>7,754</b>

**T159 LIABILITIES 31.12.2016**

in €m	Gross amount	Netted amounts	Reported net amount	Amounts not netted	Net amount
Trade payables and other financial liabilities	5,099	131	4,968	-	4,968
Derivative financial instruments – liabilities	239	-	239	52	187
<b>Total liabilities</b>	<b>5,338</b>	<b>131</b>	<b>5,207</b>	<b>52</b>	<b>5,155</b>

**PRINCIPLES OF HEDGING POLICY**

As an aviation group with worldwide operations, the Lufthansa Group is exposed to exchange rate, interest rate and fuel price movement risks, as well as to credit and liquidity risks. It is Company policy to limit these risks by systematic financial management.

**Market risk**

The major market and 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.

**Foreign exchange risk**

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. There is always a net surplus for other currencies. The main risks in this respect stem from the Chinese renminbi, the Swiss franc, British pound sterling, the Japanese yen, and the Indian rupee. Depending

on market liquidity, currency risks from projected operational exposure are hedged gradually over a period of 24 months by means of futures contracts. The target hedging level is defined in the Group's internal guidelines. At the end of 2017, exposure from operations for the next 24 months was as follows:

**T160 CURRENCY EXPOSURE, AS OF 2017**

in millions	USD	CNY	JPY	GBP	INR
Exposure (currency)	-6,702	9,336	131,216	671	58,910
Exposure (EUR at spot rate)	-5,588	1,196	972	756	769
Hedges (currency)	2,372	-3,762	-45,266	-281	-12,329
Hedging level	35%	40%	34%	42%	21%

50 per cent of the currency risks from capital expenditure are hedged when the contract is signed. The hedging level is reviewed and increased, where necessary, 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 half-yearly steps of 10 per cent, reaching 90 per cent by the end. Spread options and futures may be used as hedging instruments.

At year-end 2017, exposure for capital expenditure was as follows:

#### T161 INVESTMENT EXPOSURE, AS OF 2017

in millions	2018	2019	2020	2021	2022	2023	2024	2025
Exposure from net capital expenditure (USD)	-1,730	-1,502	-1,816	-1,898	-1,858	-1,588	-1,317	-578
Exposure from net capital expenditure (EUR at spot rate)	-1,439	-1,249	-1,510	-1,578	-1,545	-1,321	-1,096	-480
Hedges (USD)	1,572	1,187	1,349	1,326	1,626	1,411	1,023	396
Hedging level	91%	79%	74%	70%	88%	89%	78%	68%

The following sensitivity analysis required by IFRS 7 shows how net profit and equity would change if the currencies identified as price risk variables had been different from those at the balance sheet date.

#### T162 SENSITIVITY ANALYSIS BY CURRENCY

in €m	Effects on earnings after taxes <sup>1)</sup>	Effects on equity <sup>1)</sup>
<b>Currency – USD</b>		
+10%	53	751
-10%	-43	-614
<b>Currency – JPY</b>		
+10%	1	-28
-10%	0*	23
<b>Currency – CHF</b>		
+10%	-15	-82
-10%	13	67
<b>Currency – GBP</b>		
+10%	2	-26
-10%	-1	21
<b>Currency – CNY</b>		
+10%	2	-39
-10%	-1	32
<b>Currency – INR</b>		
+10%	2	-13
-10%	-2	11

\* Rounded below EUR 1m.

<sup>1)</sup> All amounts after deferred tax effects; +/- signs relate to net profit and/or equity.

#### Interest rate risk

Lufthansa aims to finance 100 per cent of its financial liabilities at floating rates of interest. This approach minimises average interest expenses, since short-term interest rates have been statistically observed to be lower than long-term rates. Interest rate swaps are therefore used for borrowing and lease liabilities at fixed rates of interest, whereby interest rate swaps denominated in euros are designated as fair value hedges. Cross-currency interest rate swaps are used to hedge liabilities in foreign currencies. The cash flow risk that this approach entails is monitored constantly; strategic interest rate hedges are used as needed in response to different market situations.

At the end of 2017, the ratio of floating to fixed interest rates for long-term borrowing was as follows:

#### T163 INTEREST RATE EXPOSURE

in €m	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Fix	664	543	336	231	180	179	162	113	105	96	10
Variabel	5,997	5,467	4,545	3,948	1,859	1,555	1,009	741	673	468	251
Float/Fix-Ratio	90%	91%	93%	94%	91%	90%	86%	87%	87%	83%	96%

The following sensitivity analysis required by IFRS 7 shows how net profit and equity would change if the interest rate identified as a price risk variable had been different from the perspective of the balance sheet date. In view of the current low interest rates, a reduction of more than 50 basis points is not considered likely, which is why the analysis was limited to this figure.

#### T164 SENSITIVITY ANALYSIS BY INTEREST RATE

in €m	Effects on earnings after taxes <sup>1)</sup>	Effects on equity <sup>1)</sup>
<b>Interest</b>		
+100 basis points	-23	-26
-50 basis points	12	15

<sup>1)</sup> All amounts after deferred tax effects; +/- signs relate to net profit and/or equity.

#### Fuel price risk

In 2017, fuel costs accounted for 15.0 per cent of the Lufthansa Group's operating expenses (previous year: 15.4 per cent). Significant changes in fuel prices can therefore have a significant 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. Executive Board approval may be obtained to extend the hedging period and to increase the monthly hedging volume in order to exploit market opportunities. The target hedging level is up to 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:

#### T165 FUEL EXPOSURE

		2018	2019
Fuel requirement	in 1,000 tonnes	10,751	10,875
Hedges	in 1,000 tonnes	7,482	2,181
Hedging level	in %	70	20

The following sensitivity analysis required by IFRS 7 shows how net profit and equity would change if the fuel price identified as a risk variable had been different from the perspective of the balance sheet date.

#### T166 SENSITIVITY ANALYSIS BY FUEL PRICE

in €m	Effects on earnings after taxes <sup>1)</sup>	Effects on equity <sup>1)</sup>
<b>Fuel price</b>		
+10%	-26	282
-10%	14	-249

<sup>1)</sup> All amounts after deferred tax effects; +/- signs relate to net profit and/or equity.

#### Market values of the derivative financial instruments used for hedging

At the balance sheet date, exchange rate, interest and fuel price risks are hedged by means of the following hedging transactions:

#### T167 DERIVATIVE FINANCIAL INSTRUMENTS USED FOR HEDGING

in €m	31.12.2017		31.12.2016	
	Positive market value	Negative market value	Positive market value	Negative market value
<b>Fair value hedge</b>				
Interest rate swaps	83	-2	98	0*
<b>Cash flow hedge</b>				
Spread options for fuel hedging	408	-	62	-7
Swaps for fuel hedging	7	-	20	-
Hedging combinations for fuel hedging	67	-	190	-30
Futures contracts for currency hedging	544	-189	1,297	-148
<b>Total</b>	<b>1,109</b>	<b>-191</b>	<b>1,667</b>	<b>-185</b>
of which current	544	-118	445	-146

\* Rounded below EUR 1m.

The market values stated for financial derivatives correspond to the price at which an independent third party would assume the rights and/or obligations from the financial instrument.

The fair values of interest rate derivatives correspond to their respective market values, which are measured using appropriate mathematical methods, such as discounting 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:

#### T168 EFFECTS OF HEDGING TRANSACTIONS ON EARNINGS AND ACQUISITION COSTS

Financial year	Result for the period in €m	First-time measurement of acquisition costs <sup>1)</sup> in €m	Total in €m
2018	397	16	413
2019	66	25	91
2020	-	61	61
2021	-	52	52
2022	-	92	92
2023	-	72	72
2024	-	47	47
2025	-	11	11
<b>Total</b>	<b>463</b>	<b>376</b>	<b>839</b>

<sup>1)</sup> Positive signs mean reduced acquisition costs.

In the 2017 financial year, EUR 46m was transferred for maturing interest rate swaps from equity to fuel expenses, decreasing these expenses (previous year: EUR 760m in additional expenses). For currency hedges, EUR 260m (previous year: EUR 372m) was transferred from equity to other operating income and EUR 274m (previous year: EUR 293m) to other operating expenses. A further EUR 58m (previous year: EUR 34m) was recognised by reducing acquisition costs for aircraft.

Derivative financial instruments measured at fair value through profit or loss are shown in the following table:

#### T169 DERIVATIVE FINANCIAL INSTRUMENTS TRADING

in €m	31.12.2017	31.12.2016
Positive market value – non-current	77	252
Positive market value – current	56	89
Negative market value – non-current	-117	-15
Negative market value – current	-6	-39
	<b>10</b>	<b>287</b>

The positive and negative market values shown are from derivatives that do not qualify under IAS 39 as effective hedging instruments within a hedging relationship as well as the time values of options used for hedging. Derivatives that do not qualify as effective hedging instruments within a hedging relationship include cross-currency swaps. These instruments are used explicitly for hedging existing hedged items, in particular fixed-interest financial liabilities in foreign currencies. Solely on the basis of the criteria defined in IAS 39, however, these cross-currency swaps cannot be presented as effective hedging instruments.

Fair values are all calculated solely on the basis of recognised financial and mathematical methods, using publicly available market information.

Changes in the market values of derivatives that do not qualify as effective hedging transactions under IAS 39 can be seen in the income statement and in [Note 13, p. 123](#).

#### 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 differentiated by currency is drawn up with a planning horizon of 24 months. This planning method offers an up-to-date picture of anticipated liquidity developments within the company and corresponding currency effects.

In principle, Lufthansa holds a liquidity reserve of at least EUR 2.3bn that is available at short notice. In addition, the Lufthansa Group held confirmed unused lines of credit as of 31 December 2017 totalling EUR 0.9bn (previous year: EUR 0.9bn).

A maturity analysis for the financial liabilities and the derivative financial instruments 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 of 31 December 2017. As a result of the hedges used, there are generally direct connections between the cash inflows and outflows for the derivative financial instruments shown.

#### T170 MATURITY ANALYSIS FOR DERIVATIVE FINANCIAL INSTRUMENTS

in €m	Inflows	Outflows	Net
1st quarter	2,492	-2,330	<b>162</b>
Up to 1 year <sup>1)</sup>	4,544	-4,215	<b>329</b>
1–5 years	7,013	-6,242	<b>771</b>
Later	3,489	-3,012	<b>477</b>

<sup>1)</sup> Without payments in 1st quarter.

**T171 MATURITY ANALYSIS FOR NON-DERIVATIVE FINANCIAL INSTRUMENTS**

in €m	Outflows
1st quarter	-3,968
Up to 1 year <sup>1)</sup>	-1,934
1-5 years	-3,847
Later	-1,916

<sup>1)</sup> 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 responsible clearing system. Due to the broad diversification, credit risk for the agencies is relatively low worldwide. Nonetheless, credit terms for agents in some markets were tightened significantly in cooperation with the International Air Transport Association (IATA) in order to reduce credit risks even further.

Receivables and liabilities between airlines are offset through bilateral arrangements or via the 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 are reviewed daily. To reduce risks even further, a permanent analysis process examines whether to tighten credit terms for some settlement partners. 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 impaired accordingly.

As of 31 December 2017, the maximum credit risk from the potential insolvency of debtors for loans and receivables was EUR 5,731m, made up as follows:

**T172 MAXIMUM CREDIT RISK**

in €m	31.12.2017	31.12.2016
Loans	158	189
Non-current receivables	289	297
Trade receivables and other current receivables	5,284	4,542
	<b>5,731</b>	<b>5,028</b>

Impairments on loans and receivables developed as follows:

**T173 IMPAIRMENT ON LOANS AND RECEIVABLES**

in €m	1.1.2017	31.12.2017
Gross amount	218	187
Impairment charges	-179	-181
<b>Carrying amount</b>	<b>39</b>	<b>6</b>

A further EUR 321m (previous year: EUR 174m) were overdue but not written down.

The term structure of overdue receivables is as follows:

**T174 OVERDUE RECEIVABLES**

in €m	
Up to 90 days	226
Between 90 and 180 days	16
Over 180 days	79

There is a credit risk on available-for-sale financial assets in the amount of the securities that do not represent equity instruments.

Securities classified as non-current and current are made up as follows:

**T175 CLASSIFICATION OF SECURITIES**

in €m	31.12.2017
Debt instruments	2,160
Equity instruments	423
<b>Total securities</b>	<b>2,583</b>

Securities representing debt are rated as follows (Standard & Poor's):

#### T176 SECURITIES RATINGS – DEBT

in €m	
AAA	322
AA+	48
AA	105
AA–	97
A+	225
A	328
A–	155
BBB+	175
BBB	74
Below BBB or unrated	631
<b>Total</b>	<b>2,160</b>

The “Below BBB or unrated” category includes EUR 600m in money market funds for which there is no rating.

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 2017, the credit risk from derivative financial instruments, which are an effective part of a hedging relationship, was EUR 1,109m (previous year: EUR 1,667m). 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):

#### T177 CONTRACTUAL PARTNER RATINGS – CREDIT RISK FROM HEDGING RELATIONSHIPS

in €m	
A+	134
A	420
A–	148
AA	36
AA–	53
BBB+	268
Below BBB or unrated	50
<b>Total</b>	<b>1,109</b>

The credit risk arising from financial derivatives shown at fair value through profit or loss amounted to EUR 131m as of 31 December 2017 and consisted of the total amount of business with contractual partners that on balance showed a positive market value. The contractual partners have the following ratings (Standard & Poor's):

#### T178 CONTRACTUAL PARTNER RATINGS – CREDIT RISK RECOGNISED IN THE INCOME STATEMENT

in €m	
A+	12
A	49
A–	22
AA	8
AA–	2
BBB+	31
Below BBB or unrated	7
<b>Total</b>	<b>131</b>

### 42 Contingencies and events after the balance sheet date

#### T179 CONTINGENT LIABILITIES

in €m	31.12.2017	31.12.2016
From guarantees, bills of exchange and cheque guarantees	881	909
From warranty contracts	354	733
From providing collateral for third-party liabilities	39	35
	<b>1,274</b>	<b>1,677</b>

Warranty agreements included EUR 267m (previous year: EUR 420m) in contingent liabilities towards creditors of joint ventures. Liabilities under collateral agreements included contingent liabilities of EUR 4m (previous year: EUR 4m) towards creditors of joint ventures. A total of EUR 1,137m (previous year: EUR 1,319m) relates to joint and several guarantees and warranties. These are matched by compensatory claims against the other co-debtors amounting to EUR 1,048m (previous year: EUR 1,190m). Insofar as annual financial statements have yet to be published, these figures are preliminary.

Otherwise, several provisions for other risks could not be made because an outflow of resources was not sufficiently probable. The potential financial effect of these provisions on the result would have been EUR 80m (previous year: EUR 103m).

No profits or cash inflows are expected in the financial year ahead from contracts for the sale of aircraft. Profits of EUR 7m and financial inflows of EUR 9m were expected in the previous year.

#### LEGAL RISKS

The Group is exposed to a number of legal risks in the course of its normal business. Based on current knowledge, the assumption is that these will not have any major lasting effects on net assets, financial and earnings position, beyond those for which provisions for litigation risks have been made. ➤ **Note 33, p. 147ff.**

Legal disputes and other claims made against the Group are always subject to uncertainty, however. Management estimates of these risks may also change over time. The actual outcome of these legal disputes may differ from earlier management estimates, which could have significant effects on the net assets, financial and earnings position and the reputation of our Company.

Due to the existing uncertainties and to those described below, we cannot make an assessment of the amount of the respective contingent liabilities or of the group of contingent liabilities. The legal disputes that these statements refer to include, among other things:

#### **Risk of successful claims for damages in ongoing antitrust proceedings**

Various cargo airlines, including Lufthansa Cargo AG and Swiss International Air Lines AG, were involved in a cargo cartel in the period between December 1999 and February 2006. Deutsche Lufthansa AG, Lufthansa Cargo AG and Swiss International Air Lines AG are at risk of civil claims for damages in Germany, the United Kingdom, Norway, Israel, Korea and the Netherlands. The lawsuits have been brought by both direct and indirect customers and are addressed to the airlines as co-debtors.

In Germany, a lawsuit against Lufthansa Cargo AG and others for information and damages was filed with Cologne regional court by a subsidiary of Deutsche Bahn AG. Litigation proceedings were started in late 2013 and expanded in late 2014. The lawsuit is addressed to a total of eleven cargo airlines and claims for purported damages of around EUR 3bn in total, including interest. Most recently, the respondents filed extensive separate replies to the extended suit on 30 November 2016. Many of the respondent airlines have since reached

a settlement with the claimant. As a result, the lawsuit was withdrawn for the portion of revenue supposedly attributable to these airlines, so the disputed amount is now approximately EUR 1.6bn including interest.

At present, it is not possible to give a concrete assessment of the outcome of the lawsuits already pending and of the number and amount of any other claims. When evaluating the risk, it should nonetheless be borne in mind that the European Commission's decision on the cargo cartel, which the claimants in the civil lawsuits refer to, among others, is still not definitive. Following the appeal of this 2010 decision by the European Court of Justice (ECJ) in December 2015, the European Commission sent revised penalty notices in March 2017 in which the content was the same but the reasoning had been altered. The airlines concerned, including Lufthansa, again contested them, so the penalty notices are still not effective.

Moreover, an expert economic opinion commissioned by Lufthansa Cargo AG and Swiss International Air Lines AG has come to the conclusion that the cartel did not inflict any actual damage on customers. Even if there were damages (i.e. allegedly higher cartel prices), the court will have to examine whether the claimants did not pass them on to their own customers (in the case of the freight forwarders) or whether they were indeed passed on to them (in the case of the final customers). Based on current assessments, there is nonetheless a slight probability of losing some of these lawsuits, which could have not insignificant effects on the Group's net assets, financial and earnings position.

#### **Introduction of the Distribution Cost Charge (DCC)**

The fee of EUR 16.00 introduced in 2015 for all bookings via computerised reservation systems (CRS) and known as the distribution cost charge (DCC) is being reviewed by regulators and the courts in various jurisdictions.

Four complaints from travel agents' associations and online agents have been filed with the European Commission (DG Mobility and Transport). By introducing the DCC for CRS bookings, Deutsche Lufthansa AG (LH) is accused of breaching EU Regulation 80/2009, because the DCC is not levied on its own LHGroup-agent.com distribution channel. It is currently unclear whether the Commission will open formal proceedings against Deutsche Lufthansa AG by sending a list of the complaints.

Following the negative ruling by the Austrian Federal Competition Authority (BWB), the travel agents' trade association in the Austrian Federal Economic Chamber has filed a private claim with the competition court against Deutsche Lufthansa AG applying for removal of abuse of significant market power. The substance of the application is largely the same as in the unsuccessful appeal to the BWB; the applicants are claiming that the DCC constitutes obstructive and discriminatory market abuse, as well as "margin squeezing". In December 2017, the competition court in Vienna largely dismissed the lawsuit, but upheld the claim of abusive discrimination. Deutsche Lufthansa AG has appealed against this part of the ruling to the Austrian Supreme Court.

In this context, the Lufthansa Group airlines intend to provide their customers with various other technical and commercial sales channels in the future, in addition to sales via the classic GDS, including direct connections to the Lufthansa Group systems. There was an out-of-court dispute between the Sabre GDS and the Lufthansa Group over the question of whether this expanded offering from the Lufthansa Group corresponds to the function of a GDS as defined in the contract. The Lufthansa Group has filed an application for a declaratory judgement on the matter with the District Court of Tarrant County, Texas. By making the application, the Lufthansa Group is seeking a judicial ruling on the different interpretations of this contractual clause.

#### **Lawsuits for termination of a transport contract (Section 648 German Civil Code [BGB])**

Deutsche Lufthansa AG (LH) is facing lawsuits from numerous customers in Germany before district courts (approx. 150) and regional courts (7) in connection with the termination of transport contracts. These proceedings are about whether the customer can cancel free of charge at any time and still have the price refunded, despite choosing a non-refundable fare. Under certain circumstances, Section 648 BGB (previously Section 649 BGB) gives customers of a work contract such a right. In this case, the work contractor must refund the saved expenses because of the customer's early termination, whereby the law includes the (refutable) presumption that the contractor is generally only left with expenses totalling 5 per cent of the agreed payment for the work, which he may therefore keep.

Case law generally applies the law of work contracts to transport contracts. Deutsche Lufthansa AG is referring in these proceedings – mostly with success – to the fact that the terms and conditions of the fare effectively rule out the application of Section 648 in the disputed cases. Customers also have a choice between various fares. Non-refundable tickets are offered at a particularly attractive price, for which the customer makes a conscious choice. Customers are explicitly advised of the restrictions associated with the fare before they make the booking. If it is important to the customer to have the option of cancelling or rebooking a ticket, there are other products on offer at any time that enable just that. In one of the cases, in which the two lower courts both ruled in favour of Deutsche Lufthansa AG but the regional court gave the parties leave to appeal, Deutsche Lufthansa AG is now continuing the litigation before the German Federal Court of Justice (BGH). Structural consequences would follow, were Deutsche Lufthansa AG to lose. If customers could cancel any ticket free of charge and have the price refunded even for non-refundable fares (apart from the 5 per cent mentioned above), Deutsche Lufthansa AG would be forced to restructure a key element of its fare pricing mechanism. Cancellation (at will or with restrictions) would then no longer be available as a pricing criterion. In this case, the appeal aims to clarify the fundamental legal position.

#### **Investigations in connection with work and service contracts**

The investigations by the customs authorities in the previous year into possible breaches of the German Law on Labour Leasing (Arbeitnehmerüberlassungsgesetz – AÜG) concerning the procurement of services by the Lufthansa Group have been settled amicably. No penalties were imposed on individual Lufthansa employees nor on companies in accordance with Section 30 of the Administrative Offences Act (Gesetz über Ordnungswidrigkeiten – OWiG). Administrative proceedings with the German Statutory Pension Insurance Scheme concerning the legal status of two workers have been submitted for judicial review to the Social Court in Berlin.

## TAX RISKS

Tax risks exist largely because of differences in legal opinions between the German tax authorities and the Company. In tax audits for the financial years 2001 to 2012, the tax authorities came to a number of different conclusions to those on which the Company had based its tax returns, relating, in particular, to partial write-downs on shareholder loans, the treatment of various lease structures and the acquisition of a foreign subsidiary, as well as the recognition and measurement of certain provisions and assets. The Lufthansa Group has appealed against the resulting tax assessments. Some of the disputed claims by the tax authorities were paid in the financial year, without prejudicing the appeal. The Lufthansa Group still assumes, however, that there is a very strong likelihood of winning in all the matters being disputed. Provisions have therefore not been made for the outstanding points as of the reporting date. There is, however, the risk of a possible subsequent payment totalling some EUR 500m for the circumstances mentioned. The assessment of the amount is subject to uncertainty. Should Deutsche Lufthansa AG's legal position be upheld, there is no risk.

## EVENTS AFTER THE BALANCE SHEET DATE

### Lufthansa Group acquires Luftfahrtgesellschaft Walter

With effect from 8 January 2018 Lufthansa Commercial Holding GmbH acquired all the shares in Luftfahrtgesellschaft Walter mbH. The purchase is based on the agreement signed by the Lufthansa Group and the Air Berlin group on 13 October 2017. The preliminary purchase price is EUR 22m.

➤ Note 45, p. 174ff.

### Lufthansa Group and ver.di find long-term solution to the risk of strikes

On 7 February 2018, the Lufthansa Group and the trade union ver.di concluded long-term wage agreements for the around 28,000 ground staff employed by Lufthansa German Airlines, Lufthansa Cargo, Lufthansa Technik and the LSG group in Germany. The wage agreement prescribes a total increase in remuneration totalling 4.9 to 6.1 per cent. The increase depends on the Adjusted EBIT margin in the individual segments, with a guaranteed increase of at least 4.9 per cent, regardless of the margin that is achieved. Thus, the wage settlement takes into account the economic growth of the Group companies. The wage agreement is valid for 33 months, from 1 January 2018 until 30 September 2020.

## 43 Other financial obligations

As of 31 December 2017, there were order commitments for EUR 13.0bn (previous year: EUR 15.6bn) for capital expenditure on property, plant and equipment, including repairable spare parts, and for intangible assets. There were also capital and shareholder loan commitments of EUR 475m towards equity investments (previous year: EUR 93m).

## 44 Auditors' fees

The fees paid to the auditors in the financial year and charged to expenses in accordance with Section 314 Paragraph 1 No. 9 HGB are made up as follows:

### T180 AUDITORS' FEES

in €m	2017	2016
Annual audit	4.1	3.6
Other assurance services	0.3	0.4
Tax advisory services	0.7	1.2
Other services	0.4	1.4
<b>Total</b>	<b>5.6</b>	<b>6.6</b>

The auditing services mainly consist of fees for auditing the consolidated financial statements, the review of the half-yearly financial statements and the audit of the financial statements of Deutsche Lufthansa AG and its consolidated subsidiaries. Other certification services relate in particular to various reviews in connection with changes to IT systems and advisory work in connection with the introduction of SAP HANA. Tax advisory services mainly comprise tax advice on transfer pricing and international tax matters. Other services primarily concern other consultancy work on the use of biometric identification methods.

The following fees paid to the global PricewaterhouseCoopers network, especially abroad, were additionally recognised as expenses.

### T181 ADDITIONAL AUDITORS' FEES

in €m	2017	2016
Annual audit	3.6	3.2
Other assurance services	0.2	0.2
Tax advisory services	0.4	0.8
Other services	0.5	0.4
<b>Total</b>	<b>4.6</b>	<b>4.6</b>

Dr Bernd Roesé is the German Public Auditor responsible for Lufthansa at PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft. Dr Bernd Roesé has fulfilled this role in seven audits so far.

## COMPOSITION OF THE GROUP

### 45 Group of consolidated companies

The consolidated financial statements of Deutsche Lufthansa AG include all major subsidiaries, joint ventures and associated companies.

Subsidiaries are entities over which Deutsche Lufthansa AG has rights that give it the ability to control the entity's relevant activities. Relevant activities are those activities that have a significant influence on the return from the entity. Deutsche Lufthansa AG therefore only has control over a company when it is exposed to variable returns from the company and its power over the company's relevant activities enables it to influence these returns. This definition of control also applies to structured entities that are identified as such in the list of significant Group companies. In general, the ability to control subsidiaries arises when Deutsche Lufthansa AG holds a direct or indirect majority of voting shares. In structured entities, the ability to control does not come from holding the majority of voting shares, but rather from contractual agreements. Entities are consolidated from the time that the ability to control begins. They cease to be consolidated when the ability to control ends.

Joint arrangements are classified either as joint ventures or as joint operations. A joint arrangement exists for when the Lufthansa Group carries on joint business activities with third parties on the basis of a contractual agreement. Joint management or control only exists when decisions on activities that have a significant effect on the returns from an agreement require the unanimous approval of the parties sharing control.

Significant interests in companies that are managed jointly with one or more partners (joint ventures) are accounted for using the equity method. Joint operations are defined by the fact that the parties exercising joint control over the arrangement have rights to the assets attributed to the arrangement and are liable for its debts. Assets and liabilities, revenue and expenses from the significant joint operations are recognised in the consolidated financial statements of the Lufthansa Group in proportion to these rights and obligations.

Associated companies are companies in which Deutsche Lufthansa AG has the power to exercise major influence over financial and operating policy based on an interest of between 20 per cent and 50 per cent. Significant associated companies are accounted for in the consolidated financial statements using the equity method.

A list of major subsidiaries, joint arrangements and associated companies can be found in ↗ **T189 – T192**, p. 189 – 196, the list of shareholdings in ↗ **T193**, p. 197 – 200.

In addition to Deutsche Lufthansa AG as the parent company, the group of consolidated companies includes 63 domestic and 268 foreign companies, including structured entities (previous year: 71 domestic and 262 foreign companies).

One material joint operation was also included in the consolidated financial statements on a pro rata basis in accordance with IFRS 11. It consists of a German cargo airline operated jointly by Deutsche Post AG and Deutsche Lufthansa AG, which each hold 50 per cent of the share capital and voting rights. The two shareholders are also customers of the company and use the capacities of its cargo aircraft. In contrast to its capital and voting rights, the company's assets and liabilities, as well as its income and expense, are allocated based on the user relationship.



Changes in the group of consolidated companies during the 2017 financial year are shown in the following table:

**T182 CHANGES IN THE GROUP OF CONSOLIDATED COMPANIES FROM 1.1.2017 TO 31.12.2017**

Name, registered office	Additions	Disposals	Reasons
<b>Network Airlines</b>			
LHAMIS LIMITED, Dublin, Ireland		26.1.2017	Merger
LHAMIW LIMITED, Dublin, Ireland		26.1.2017	Merger
Common Ground CGN GmbH, Frankfurt/Main		24.2.2017	End of operations
Lufthansa Leasing Austria GmbH & Co. OG Nr. 4, Salzburg, Austria		17.3.2017	Merger
SMLC Circinus Co. Ltd., Tokyo, Japan		19.4.2017	Liquidation
SMLC Antila Co. Ltd., Tokyo, Japan		19.4.2017	Liquidation
Bremen Leasing Co., Ltd., Tokyo, Japan	12.4.2017		Established
Bayern Leasing Co., Ltd., Tokyo, Japan	21.4.2017		Established
Dia Flamingo Ltd., Tokyo, Japan	21.4.2017		Established
Dia Adler Ltd., Tokyo, Japan	26.4.2017		Established
Dia Falke Ltd., Tokyo, Japan	26.4.2017		Established
Dia Ibis Ltd., Tokyo, Japan	26.4.2017		Established
Lufthansa Leasing Austria GmbH & Co. OG Nr. 34, Salzburg, Austria	6.7.2017		Beginning of operations
Lufthansa Leasing Austria GmbH & Co. OG Nr. 35, Salzburg, Austria	6.7.2017		Beginning of operations
Lufthansa Leasing Austria GmbH & Co. OG Nr. 36, Salzburg, Austria	6.7.2017		Beginning of operations
Lufthansa Leasing Austria GmbH & Co. OG Nr. 37, Salzburg, Austria	6.7.2017		Beginning of operations
Lufthansa Leasing Austria GmbH & Co. OG Nr. 38, Salzburg, Austria	6.7.2017		Beginning of operations
Lufthansa Leasing Austria GmbH & Co. OG Nr. 39, Salzburg, Austria	6.7.2017		Beginning of operations
Yamasa Aircraft LH1 Kumiai (AIKG), Okayama, Japan		14.7.2017	Liquidation
Yamasa Aircraft LH2 Kumiai (AIKH), Okayama, Japan		14.7.2017	Liquidation
SMFL Alphard Co. Ltd., Tokyo, Japan		29.11.2017	Liquidation
<b>Point-to-Point Airlines</b>			
Brussels Airlines NV/SA, Brussels, Belgium	9.1.2017		Increase in shareholdings
SN Airholding SA/NV, Brussels, Belgium	9.1.2017		Increase in shareholdings
Eurowings Technik GmbH, Cologne	24.2.2017		Established
<b>Logistics segment</b>			
LHAMIC LIMITED, Dublin, Ireland		26.1.2017	Merger
<b>Catering segment</b>			
Retail in Motion Latin America SpA, Santiago de Chile, Chile	1.3.2017		Beginning of operations
LSG Sky Chefs Finland Oy, Vantaa, Finland		13.4.2017	Loss of control
Sky Chefs Things Remembered Services FZE, Lagos, Nigeria	1.8.2017		Beginning of operations
LSG Helvetia SAS, Paris, France	10.8.2017		Acquisition
LSG Sky Chefs Heathrow Limited i.L., Sidcup, UK		8.9.2017	Liquidation
LSG Sky Chefs München GmbH, Neu-Isenburg		8.9.2017	Merger
Retail in Motion (International) Limited, Dublin, Ireland		30.11.2017	Merger
<b>Additional Businesses and Group Functions</b>			
BCC Corporate NV/SA, Brussels, Belgium	2.5.2017		Acquisition
Common Ground BER GmbH, Frankfurt/Main		5.7.2017	Merger
Common Ground BRE GmbH, Frankfurt/Main		5.7.2017	Merger
Common Ground DUS GmbH, Frankfurt/Main		5.7.2017	Merger
Common Ground HAJ GmbH, Frankfurt/Main		5.7.2017	Merger
Common Ground HAM GmbH, Frankfurt/Main		5.7.2017	Merger
Common Ground NUE GmbH, Frankfurt/Main		5.7.2017	Merger
Common Ground STR GmbH, Frankfurt/Main		5.7.2017	Merger
Crane Strategic Investments S.C.S., Grevenmacher, Luxembourg	6.7.2017		Established
Lufthansa Malta Finance Ltd., St. Julian, Malta		5.10.2017	Liquidation

**ACQUISITION OF SUBSIDIARIES**

Deutsche Lufthansa AG acquired the remaining 55 per cent of the shares in SN Airholding SA/NV (Brussels, Belgium) with effect from 9 January 2017 and is therefore the sole shareholder of the Brussels Airlines group. From this point onwards, the company will be fully consolidated in the Deutsche Lufthansa Group. The acquisition is based on the purchase and option agreement dating from 2008. The option was exercised on the basis of a new agreement between the previous shareholders and Lufthansa on 15 December 2016. Brussels Airlines was allocated to the new operating segment Point-to-Point Airlines. At the time of acquisition, the carrying amount for the equity investment, which was held as shares in associated companies, was zero. The company generated revenue of EUR 1.3bn and a net profit of EUR 4m in 2017. The following table shows the main assets and liabilities of SN Airholding immediately before and after the acquisition date: Goodwill is determined as the difference between the acquisition costs incurred of EUR 2.6m (the shares acquired in the past were held at a market value of EUR 0m) and the net assets according to the purchase price allocation of EUR -71m.

**T183 ASSETS AND LIABILITIES  
SN AIRHOLDING SA/NV**

in €m	before acquisition	after acquisition
Non-current assets	351	486
of which Goodwill	-	74
of which customer relation	-	21
of which brand name	-	37
Current assets	364	366
of which liquid assets	211	211
of which other current assets	153	155
<b>Total assets</b>	<b>715</b>	<b>852</b>
Shareholders' equity	-101	3
Non-current liabilities	391	411
of which financial liabilities	247	244
Current liabilities	425	438
of which financial liabilities	81	80
<b>Total liabilities</b>	<b>715</b>	<b>852</b>

Brussels Airlines signed an agreement with Thomas Cook Airlines Belgium NV, Brussels, Belgium (TC), to take over 160 employees and the operation of two Airbus A320-200s, including the related take-off and landing rights, with effect from 28 October 2017. Brussels Airlines assumed all the rights and obligations under the existing aircraft leases. In this context, it also signed a partnership agreement for five years, by which Brussels Airlines will provide TC with seating

capacities on flights to European holiday destinations. The entire transaction is classified as a business combination according to IFRS 3. The purchase price was EUR 8m. No assets capable of recognition in the balance sheet were acquired in the course of the transaction. Brussels Airlines has assumed pension obligations of EUR 0.7m for the staff affected by the transition. An analysis of the transaction showed that the difference between the agreed purchase price and the obligations assumed is to be allocated in full to the entire business acquired, since no separable individual assets could be identified. The goodwill resulting from the acquisition therefore amounted to EUR 8m and was allocated to the CGU of Brussels Airlines, since the synergies expected from the transaction come from the improved use of capacities at the Brussels Airlines fleet.

AirPlus GmbH acquired the shares in BCC Corporate NV/SA, Brussels, Belgium, by contract dated 2 May 2017. The company mainly distributes Visa and MasterCard corporate cards in Belgium. The purchase price, including the estimated variable purchase price components, was EUR 10m. BCC generated revenue of EUR 13m and net income of EUR -1m in the reporting year. Revenue of EUR 9m and earnings of EUR -0.8m were generated after the acquisition. The company's assets and liabilities were remeasured in the course of the transaction, and its net assets were found to be EUR 10m. In addition to receivables and liabilities on its current account, the main liabilities assumed were EUR 75m in current liabilities to banks. A customer base of EUR 7m was identified in the course of the purchase price allocation.

**ACQUISITION OF SUBSIDIARIES AFTER THE BALANCE SHEET DATE**

Lufthansa Commercial Holding GmbH acquired all the shares in Luftfahrtgesellschaft Walter mbH with effect from 8 January 2018. The purchase is based on the purchase agreement signed by the Lufthansa Group and the Air Berlin group on 13 October 2017. The preliminary purchase price is EUR 22m. Within the Point-to-Point Airlines segment the company will act as a platform with its own air operator certificate (AOC) and provide services to the Eurowings group on the basis of wet leases for 20 Bombardier DH-8 Q400s and 13 Airbus A320/A319s on current plans. In the 2017 financial year, the company generated revenue of EUR 106m and a loss of EUR 3m. The effects of consolidating the company on the Group's net assets, financial and earnings position depend fundamentally on the purchase price allocation and the associated market valuation of the company's assets and liabilities. The purchase price allocation has not yet been completed, as the underlying financial information is still being collected and reviewed. However, since the company owns no aircraft, it can be assumed that the impact on the assets and financial position will not be material.

## USE OF EXEMPTION PROVISIONS

The following fully consolidated German Group companies made use of the exemption provisions in Section 264 Paragraph 3 and Section 264b HGB in 2017.

### T184 USE OF EXEMPTION PROVISIONS

Company name	Registered office
Germanwings GmbH	Cologne
Eurowings GmbH	Düsseldorf
Eurowings Aviation GmbH	Cologne
Eurowings Technik GmbH	Cologne
Hamburger Gesellschaft für Flughafenanlagen mbH	Hamburg
LSG Sky Chefs Europe GmbH	Neu-Isenburg
LSG Asia GmbH	Neu-Isenburg
LSG-Food & Nonfood Handel GmbH	Neu-Isenburg
LSG Lufthansa Service Catering- und Dienstleistungsgesellschaft mbH	Neu-Isenburg
LSG Lufthansa Service Europa/Afrika GmbH	Neu-Isenburg
LSG Lufthansa Service Holding AG	Neu-Isenburg
Spiriant 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 Objekt- und Verwaltungsgesellschaft mbH	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 Asset Management Leasing GmbH	Frankfurt/Main
Lufthansa Technik AERO Alzey GmbH	Alzey
Lufthansa Cargo AG	Frankfurt/Main
Jettainer GmbH	Raunheim
Lufthansa CityLine GmbH	Munich
Lufthansa Commercial Holding GmbH	Cologne
time:matters Holding GmbH	Neu-Isenburg
time:matters GmbH	Neu-Isenburg
time:matters Spare Parts Logistics GmbH	Neu-Isenburg
Lufthansa Aviation Training GmbH	Hallbergmoos
Lufthansa Aviation Training Berlin GmbH	Berlin
Lufthansa Aviation Training Germany GmbH	Frankfurt/Main
LSY GmbH	Norderstedt
Lufthansa Industry Solutions AS GmbH	Norderstedt
Lufthansa Industry Solutions BS GmbH	Raunheim
Lufthansa Industry Solutions GmbH & Co. KG	Norderstedt
Lufthansa Systems GmbH & Co. KG	Raunheim
Lufthansa AirPlus Servicekarten GmbH	Neu-Isenburg
Lufthansa Process Management GmbH	Neu-Isenburg
Lufthansa Technik AG	Hamburg
Lufthansa Technik Immobilien- und Verwaltungsgesellschaft mbH	Hamburg
Lufthansa Technik Logistik GmbH	Hamburg

### T184 USE OF EXEMPTION PROVISIONS (continued)

Company name	Registered office
Lufthansa Technik Maintenance International GmbH	Frankfurt/Main
Lufthansa Technik Objekt- und Verwaltungsgesellschaft mbH	Hamburg
Lufthansa Seeheim GmbH	Seeheim-Jugenheim
Lufthansa Global Business Services GmbH	Frankfurt/Main
Miles & More GmbH	Neu-Isenburg
Lufthansa Asset Management GmbH	Frankfurt/Main
Lufthansa Technik Logistik Services GmbH	Hamburg

The companies are affiliated with Deutsche Lufthansa AG by means of direct or indirect profit and loss transfer agreements respectively.

Furthermore, LHBD Holding Limited, London, UK, registration number 06939137, is exempt from the obligation to have its individual financial statements audited pursuant to Section 479A of the UK Companies Act 2006.

The consolidated financial statements include investments in 38 joint ventures and 35 associated companies (previous year: 35 joint ventures and 37 associated companies), of which ten joint ventures (previous year: nine) and 15 associates (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.

## 46 Related party disclosures

Balances and transactions between the Company and its fully consolidated subsidiaries, which constitute related parties, have been eliminated in the course of consolidation and are not commented on in this Note. Details of transactions between the Group and other related parties are disclosed below.

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 at market conditions.

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:

#### T185 VOLUME OF SIGNIFICANT SERVICES PROVIDED TO OR BY RELATED PARTIES

in €m	Volume of services rendered		Volume of services received	
	2017	2016	2017	2016
<b>Non-consolidated subsidiaries</b>				
Airport Services Dresden GmbH, Germany	0*	0*	5	4
Albatros Versicherungsdienste GmbH, Germany	1	1	53	55
Austrian Airlines Technik-Bratislava, s.r.o., Slovakia	3	1	6	4
Austrian Airlines Tele Sales & Service GmbH, Austria	0*	0*	5	4
Delvag Versicherungs-AG, Germany	8	6	5	4
DLH Fuel Company mbH, Germany	0*	0*	429	423
Global Load Control (PTY) LTD, South Africa	1	1	7	7
handling counts GmbH, Germany	1	0*	9	13
LGSP Lufthansa Ground Service Portugal, Unipessoal Lda., Portugal	0*	0*	9	8
Lufthansa Aviation Training Operations Germany GmbH, Germany	3	4	12	12
Lufthansa Aviation Training USA Inc., USA	0*	0*	11	10
Lufthansa Consulting GmbH, Germany	1	1	7	6
Lufthansa Engineering and Operational Services GmbH, Germany	3	5	25	25
Lufthansa Global Business Services Hamburg GmbH, Germany	7	7	26	26
Lufthansa Global Business Services S.A. de C.V., Mexico	1	1	5	5
Lufthansa Global Business Services Sp. z o. o., Poland	2	3	27	23
Lufthansa Global Tele Sales GmbH, Germany	4	4	60	59
Lufthansa Industry Solutions TS GmbH, Germany	0*	0*	9	8
Lufthansa Services (Thailand) Ltd., Thailand	0*	0*	5	4
Lufthansa Services Philippines, Inc., Philippines	2	0*	5	3
Lufthansa Super Star gemeinnützige Gesellschaft mit beschränkter Haftung, Germany	13	14	11	14
Lufthansa Systems FlightNav AG, Switzerland	1	0*	23	23
Lufthansa Systems Hungaria Kft., Hungary	0*	0*	17	15
Lufthansa Systems Poland sp. z o.o., Poland	1	1	21	19
Lufthansa Technical Training GmbH, Germany	6	6	17	18
Lufthansa Technik Logistik of America LLC, USA	7	6	33	28
Lufthansa Technik Shenzhen Co., Ltd., China	23	26	28	20
Lufthansa Technik Turbine Shannon Limited, Ireland	6	5	18	17
LZ-Catering GmbH, Germany	6	6	13	14

**T185 VOLUME OF SIGNIFICANT SERVICES PROVIDED TO OR BY RELATED PARTIES** (continued)

in €m	Volume of services rendered		Volume of services received	
	2017	2016	2017	2016
<b>Joint ventures</b>				
Airfoil Services Sdn. Bhd., Malaysia	0*	0*	8	8
FraCareServices GmbH, Germany	6	8	1	1
Lufthansa Bombardier Aviation Services GmbH, Germany	2	1	7	8
N3 Engine Overhaul Services GmbH & Co. KG, Germany	4	5	0*	1
Shanghai Pudong International Airport Cargo Terminal Co. Ltd., China	1	0*	7	13
Spairliners GmbH, Germany	52	58	45	47
Terminal 2 Gesellschaft mbH & Co. oHG, Germany	1	0*	13	12
Terminal One Group Association, L.P., USA	5	6	5	5
XEOS Sp. z o.o., Poland	6	-	-	-
<b>Associated companies</b>				
Aircraft Maintenance and Engineering Corp., China	13	108	4	2
Airmail Center Frankfurt GmbH, Germany	0*	0*	8	8
AviationPower GmbH, Germany	1	0*	35	37
HEICO Aerospace Holdings Corp., USA	0*	6	11	11
<b>Other affiliated companies</b>				
Shanghai Pudong International Airport Public Cargo Terminal Co. Ltd. (West), China	-	-	77	47
SunExpress Germany GmbH, Germany	28	23	103	20

\* Rounded below EUR 1m.

The following tables show receivables owed by and liabilities to related parties:

**T186 RECEIVABLES FROM AFFILIATED COMPANIES**

in €m	2017	2016
Trade receivables from non-consolidated subsidiaries	52	40
Trade receivables from joint ventures	16	19
Trade receivables from associated companies	6	6
Trade receivables from other affiliated companies	6	53
<b>Total trade receivables</b>	<b>80</b>	<b>118</b>
Other receivables from non-consolidated subsidiaries	12	41
Other receivables from joint ventures	36	20
Other receivables from associated companies	10	5
<b>Total other receivables</b>	<b>58</b>	<b>66</b>
Loans to non-consolidated subsidiaries	66	53
Loans to joint ventures	23	35
Loans to associated companies	-	29
<b>Total non-current receivables</b>	<b>89</b>	<b>117</b>

**T187 LIABILITIES TO AFFILIATED COMPANIES**

in €m	2017	2016
Trade payables to non-consolidated subsidiaries	53	30
Trade payables to joint ventures	14	8
Trade payables to associated companies	4	6
Trade payables to other affiliated companies	3	2
<b>Total trade payables</b>	<b>74</b>	<b>46</b>
Other liabilities to non-consolidated subsidiaries	233	228
Other liabilities to joint ventures	0*	0*
<b>Total other liabilities</b>	<b>233</b>	<b>228</b>

\* Rounded below EUR 1m.

No individual shareholders of Deutsche Lufthansa AG exercise significant influence over the Group. For related party transactions with members of the Executive Board and the Supervisory Board. ➤ **Note 47, p.180.**

## 47 Supervisory Board and Executive Board

The disclosure of remuneration for key managers required by IAS 24 includes the remuneration of the active members of the Executive Board and Supervisory Board.

The members of the Executive Board and the Supervisory Board as well as the other offices that they hold are named in the combined management report in the section [Corporate Governance, p. 83ff.](#)

The principles of the remuneration system and the amount of remuneration paid to Executive Board and Supervisory Board members are shown and explained in detail in the remuneration report. The **remuneration report** forms part of the combined management report, [p. 87–94.](#)

Total Executive Board remuneration under IFRS was EUR 23.0m (previous year: EUR 12.2m), including current service costs for pensions of EUR 3.2m (previous year: EUR 2.4m).

The active members of the Executive Board in past reporting years were remunerated as follows:

### T188 EXECUTIVE BOARD REMUNERATION (IFRS)

in € thousands	2017	2016
Basic salary	4,831	4,544
Other	449	500
One-year variable remuneration	5,430	2,747
<b>Total short-term remuneration</b>	<b>10,710</b>	<b>7,791</b>
Long-term variable remuneration <sup>1)</sup>	3,014	1,419
Share-based remuneration	6,090	615
Current service cost for retirement benefits	3,166	2,380
<b>Total long-term remuneration</b>	<b>12,270</b>	<b>4,414</b>
Severance payments	–	–
<b>Total</b>	<b>22,980</b>	<b>12,205</b>

<sup>1)</sup> Expenses recognised in the reporting year for long-term variable remuneration for the financial years 2015 to 2017.

Pension provisions for Executive Board members active in the 2017 financial year came to EUR 10.8m (previous year: EUR 9.5m).

In addition to the provision for the one-year variable remuneration of EUR 5,430k (previous year: EUR 2,747k), provisions totalling EUR 3,014k (previous year: EUR 1,419k) were recognised for the future payment of long-term variable remuneration for the Executive Board members active in the 2017 financial year. In addition, provisions of EUR 7,911k in total (previous year: EUR 1,821k) were recognised for the future payment of long-term, share-based remuneration for the Executive Board members active as of 31 December 2017.

Total remuneration (HGB) paid to the Executive Board of Deutsche Lufthansa AG in the financial year 2017 came to EUR 14,731k (previous year: EUR 10,389k). This includes EUR 3,031k for the new share programme, in which the Executive Board acquired a total of 23,925 shares.

Current payments and other benefits for former members of the Executive Board and their surviving dependants came to EUR 5.2m (previous year: EUR 5.7m). This includes payments by subsidiaries as well as benefits in kind and concessionary travel.

Pension obligations towards former Executive Board members and their surviving dependants amount to EUR 71.0m (previous year: EUR 70.4m). These amounts are included in pension provisions. [Note 32, p. 140ff.](#)

Expenses for the fixed remuneration of Supervisory Board members came to EUR 2,164k in 2017 (previous year: EUR 2,170k). Other remuneration, mainly attendance fees, amounted to EUR 89k (previous year: EUR 111k). The Deutsche Lufthansa AG Supervisory Board members were also paid EUR 17k (previous year: EUR 17k) for work on supervisory boards of Group companies.

In the reporting year, as in the previous year, no loans or advance payments were made to members of the Executive Board and to members of the Supervisory Board.

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 1.0m in total for 2017 (previous year: EUR 0.9m).

## 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 view of the course of business, including the business result, and the situation of the Group, and suitably presents the principal opportunities and risks to its future development.

Frankfurt, 7 March 2018  
Executive Board



Carsten Spohr  
Chairman of the  
Executive Board and CEO



Thorsten Dirks  
Member of the Executive Board  
Eurowings and Aviation Services



Harry Hohmeister  
Member of the Executive Board  
Hub Management



Ulrik Svensson  
Member of the Executive Board  
Chief Financial Officer



Dr Bettina Volkens  
Member of the Executive Board  
Corporate Human Resources  
and Legal Affairs



## Independent Auditor's Report

To Deutsche Lufthansa AG, Cologne

### REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE GROUP MANAGEMENT REPORT

#### Audit Opinions

We have audited the consolidated financial statements of Deutsche Lufthansa AG, Cologne, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from 1 January to 31 December 2017, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of Deutsche Lufthansa AG, which is combined with the Company's management report, for the financial year from 1 January to 31 December 2017. We have not audited the content of those parts of the group management report listed in the "Other Information" section of our auditor's report in accordance with the German legal requirements.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to § [Article] 315e Abs. [paragraph] 1 HGB [Handelsgesetzbuch: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at 31 December 2017, and of its financial performance for the financial year from 1 January to 31 December 2017, and
- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the group management report does not cover the content of those parts of the group management report listed in the "Other Information" section of our auditor's report.

Pursuant to § 322 Abs. 3 Satz [sentence] 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

#### Basis for the Audit Opinions

We conducted our audit of the consolidated financial statements and of the group management report in accordance with § 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). We performed the audit of the consolidated financial statements in supplementary compliance with the International Standards on Auditing (ISAs). Our responsibilities under those requirements, principles and standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and on the group management report.

#### Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from 1 January to 31 December 2017. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

In our view, the matters of most significance in our audit were as follows:

1. Recognition of traffic revenue, including obligations in respect of unused flight documents and bonus miles programmes
2. Pension provisions
3. Recoverability of non-current assets, in particular goodwill and intangible assets with indefinite useful lives
4. Accounting treatment of hedging transactions

Our presentation of these key audit matters has been structured in each case as follows:

- a. Matter and issue
- b. Audit approach and findings
- c. Reference to further information

Hereinafter we present the key audit matters:

**1. Recognition of traffic revenue, including liabilities in respect of unused flight documents and bonus miles programmes**

- a. Until they are used due to departure, sold flight documents are recognized as liabilities from unused flight documents in the Company's consolidated financial statements. Once a passenger coupon or an airfreight document has been used due to departure, the corresponding traffic revenue is recognized as revenue in the income statement. First of all, the part of the flight documents that has not yet been used in the financial year and is still valid in the following year is added to the liabilities for unused flight documents. In addition, based on historical data, the amount of expired flight documents which are expected to not be used is estimated; this amount is also recognized under liabilities for unused flight documents. In the financial year 2017, the Lufthansa Group realized a total of EUR 28.4 billion in traffic revenue, of which EUR 25.5 billion was attributable to passenger airlines. As of 31 December 2017, EUR 3.8 billion was recognized in the consolidated balance sheet as liabilities from unused flight documents.

In accordance with IFRIC Interpretation 13, until they are redeemed bonus miles awarded to Miles & More members are deferred and measured at the fair value of the miles. Where bonus miles are collected with external cooperation partners, these are deferred until redeemed and measured at the prices paid to Lufthansa by the external cooperation partners. Deferrals for bonus miles which have been awarded but are no longer expected to be

used are transferred to profit or loss. The liabilities from bonus miles programmes amounted to EUR 1.8 billion in total as of the balance sheet date.

From our point of view, these matters were of particular significance for our audit, as recognition and measurement of these items, which are specific to the business model and significant in amount, are highly dependent on the estimates and assumptions of the executive directors regarding the use behavior of flight documents, to which calculation processes that are, in some cases, complex are applied.

- b. We also included our specialists in the Risk Assurance Service (RAS) to audit traffic revenue. With their assistance, we evaluated, among other things, the appropriateness and effectiveness of the established internal control system used to settle and realize traffic revenue, including the IT systems used. To the extent that we were not able to conduct our own evaluation of the internal control system of services relating to IT systems or processes outsourced to third parties, we obtained an assurance report attesting to the appropriateness and effectiveness of the internal control system established by the service provider (ISAE 3402 Type II or SSAE 16), which our specialists assessed. In our audit of the obligations from unused flight documents, we reconstructed among other things the individual steps used in the calculations. Specifically, we examined the open flight documents and their measurement by year of sale and validity. Furthermore, we considered the consistency and continuity of the methods used to calculate the flight prices, fees, taxes and other levies attributable to the flight documents no longer expected to be used. In order to assess the appropriateness of the liability from bonus miles programmes accounted for as of the balance sheet date, we evaluated among other things the fair value measurement for each category of use and the underlying assumptions and parameters derived therefrom. Furthermore, we assessed the consistency of the measurement method used and the mathematical accuracy of the calculation of the liability from bonus miles programmes. We were able to satisfy ourselves that the estimates and assumptions of the executive directors were consistently derived and sufficiently documented.
- c. The disclosures on traffic revenue, liabilities from unused flight documents and from bonus miles programmes are contained in notes 2, 3, 36 and 38 to the consolidated financial statements.

## 2. Pension provisions

- a. In the Company's consolidated financial statements pension provisions amounting to EUR 5.1 billion are reported, comprising the net amount of the obligations under various plans, amounting to EUR 21.0 billion, and the fair value of the plan assets, amounting to EUR 15.9 billion. The majority of these provisions relates to old-age and transitional pension commitments in Germany and Switzerland. The obligations from defined benefit pension plans were measured using the projected unit credit method in accordance with IAS 19. This requires in particular that assumptions be made as to long-term salary and pension trends and average life expectancy. The discount rate must be determined by reference to market yields on high-quality corporate bonds with matching currencies and consistent maturities. The plan assets are measured at fair value, which in turn involves making estimates that are subject to uncertainty.

The measurement had to take into consideration that the retirement and transitional pension arrangement commitments to the cockpit personnel of Deutsche Lufthansa AG and other Group companies were renegotiated during the reporting period. Occupational pension commitments arising after the conversion date correspond, with a paid-in contribution guarantee and a minimum interest rate corresponding to the maximum technical interest rate of the life insurers, to the market values of the corresponding plan assets from mandatory employer and employee contributions and returns on plan assets. In addition, the collective payment period for the transitional pension provision was shortened by two years. The remeasurement of the retirement provision obligations including the transitional pension provision and taking into account the change in individual measurement assumptions, resulted in pension provisions that were EUR 1,308 million lower on the conversion date. Of that amount, EUR 726 million related to the change in measurement assumptions which were recognized in equity, and EUR 582 million related to the change in the pension plans, which were recognized through profit or loss.

From our point of view, these matters were of particular significance as part of our audit, as the agreed changes to the pension and transitional pension arrangements materially impact the Lufthansa Group's assets, liabilities and financial performance. In addition, the recognition and measurement of these items, which are significant in amount overall, are to a large extent based on the estimates and assumptions of the Company's executive directors.

- b. As part of our audit, we evaluated the actuarial expert reports obtained and the professional qualifications of the external experts. Due to the specific features of the actuarial calculations, we were assisted by specialists from Pension Consulting. Together with them, we evaluated the numerical data, the actuarial parameters and the valuation methods and assumptions on which the valuations were based for compliance with standards and appropriateness. On this basis, we then assessed the calculations of the figures presented on the balance sheet, the accounting entries for the provisions and the disclosures in the notes to the consolidated financial statements based on the expert opinions. We also assessed in detail the principles used by the expert for the measurement of the retirement and transitional pension provision for cockpit personnel and verified the measurement by carrying out plausibility tests and performing individual checks on a sample basis. Our evaluation of the fair values of plan assets was based on bank confirmations submitted to us. Based on our audit procedures, we were able to satisfy ourselves that the estimates and assumptions made by the executive directors were substantiated and adequately documented.
- c. The disclosures about pension provisions are contained in section 32 of the notes to the consolidated financial statements.

## 3. Recoverability of non-current assets, in particular goodwill and intangible assets with indefinite useful lives

- a. In the Company's consolidated financial statements a total amount of EUR 1.3 billion is reported under the line item "Intangible assets with an indefinite useful life, incl. goodwill" of the consolidated statement of financial position. Goodwill and intangible assets with an indefinite useful life are regularly tested for impairment ("impairment test") once per financial year or if there are indications of an impairment. In addition, items of property, plant and equipment are tested for impairment if there are respective indications of impairment. The carrying amount of the relevant cash-generating units, including goodwill, is compared with the corresponding recoverable amount in the context of the impairment test. These measurements are generally based on the present value of future cash flows of the cash-generating unit/group of cash-generating units to which the respective asset is to be allocated. The present values are calculated using discounted cash flow models. The measurements are based on projections that were also used to prepare the three-year budget for the Lufthansa Group prepared by the executive directors and acknowledged by the supervisory board.

The discount rate used is the weighted average cost of capital for the relevant cash-generating unit. Impairment tests on non-current assets, excl. goodwill, were carried out due to indications of impairment for the Catering segment in particular. The impairment tests resulted in impairments totaling EUR 26 million for the Catering segment.

The outcome of this valuation exercise is dependent to a large extent on the estimates made by the executive directors with respect to the future cash inflows, the discount rate used, the rate of growth and other assumptions, and is therefore subject to considerable uncertainty. Against this background and due to the complex nature of the valuation, this matter was of particular significance in the context of our audit.

- b. As part of our audit, we assessed the methodology employed for the purposes of performing the impairment test, among other things. After matching the future cash inflows used for the calculation against the adopted three-term plan of the Group, we assessed the appropriateness of the calculation, in particular by reconciling it with general and sector-specific market expectations. We also assessed the appropriate consideration of the costs of Group functions.

In the knowledge that even relatively small changes in the discount rate applied can have a material impact on the value of the entity calculated in this way, we also focused our testing on the parameters used to determine the discount rate applied, and evaluated the calculation model. In order to reflect the uncertainty inherent in the projections, we assessed the sensitivity analyses performed by the Company and carried out our own additional sensitivity analyses with respect to those cash-generating units with low headroom (recoverable amount compared with the carrying amount). Taking into account the information available, we determined that the carrying amounts of the cash-generating units, including the allocated goodwill, were adequately covered by the discounted future net cash inflows. Overall, the measurement inputs and assumptions used by the executive directors are in line with our expectations and are also within the ranges considered by us to be reasonable.

- c. The Company's disclosures relating to impairment testing are contained in sections 2 and 16 of the notes to the consolidated financial statements.

#### 4. Accounting treatment of hedging transactions

- a. The entities of the Lufthansa Group use a number of different derivative financial instruments to hedge against currency, fuel price and interest rate risks associated with ordinary business activities. The hedging policy defined by the executive directors serves as the basis for these transactions and is documented in corresponding internal guidelines. Currency risks arise primarily from sale transactions, procurement transactions (in particular fuel and investments in aircraft) and financing denominated in foreign currencies. The risk associated with changes in fuel prices results from future procurement transactions that are subject to market price risks. The risk of changes in interest rates results from changes in the fair values of fixed-rate financing.

Derivative financial instruments are recognized at fair value as of the balance sheet date. The positive fair values of the derivative financial instruments used as hedges amounted to EUR 1.2 billion as of the balance sheet date and the negative fair value amounted to EUR 0.3 billion. If the financial instruments used by the Lufthansa Group are effective hedges of future cash flows in the context of hedging relationships in accordance with the requirements of IAS 39, the effective portion of the changes in fair value are recognized over the duration of the hedging relationships directly in equity. As of the balance sheet date, a cumulative EUR 0.8 billion were recognized outside profit or loss as expenses and income before taxes on income.

In our view, these matters were of particular significance for our audit due to the high complexity and number of hedging transactions as well as the extensive accounting requirements.

- b. We involved specialists from Corporate Treasury Solutions (CTS) to assist in the audit of the accounting including the effects of the various hedging transactions on equity and profit or loss. Together with these specialists, we assessed, among other things, the internal control system related to derivative financial instruments, including the internal activities to monitor compliance with the hedging policy. In our audit of the fair values, we also evaluated the measurement methods based on market data and the underlying data used. With respect to the hedging of expected future cash flows, we essentially carried out

a retrospective assessment of the past hedge effectiveness and of the expected future hedge effectiveness and assessed the corresponding effectiveness tests. We obtained bank confirmations in order to assess the completeness of and to examine the fair values of the recorded transactions. In doing so, we were able to satisfy ourselves that, overall, the hedging transactions were appropriately accounted for and measured.

- c. The disclosures about hedging transactions are contained in note 41 to the consolidated financial statements.

#### Other Information

The executive directors are responsible for the other information. The other information comprises the following non-audited parts of the group management report:

- the statement on corporate governance pursuant to § 289f HGB and § 315d HGB included in section “Corporate Governance” of the group management report
- the corporate governance report pursuant to No. 3.10 of the German Corporate Governance Code

The other information comprises further the remaining parts of the annual report – excluding cross-references to external information – with the exception of the audited consolidated financial statements, the audited group management report and our auditor's report.

Our audit opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

#### Responsibilities of the Executive Directors and the Supervisory Board for the Consolidated Financial Statements and the Group Management Report

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The supervisory board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

### **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with § 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) and supplementary compliance with the ISAs will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.
- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.
- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.
- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.

- Perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions.

We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

## OTHER LEGAL AND REGULATORY REQUIREMENTS

### Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as group auditor by the annual general meeting on 5 May 2017. We were engaged by the supervisory board on 24 October 2017. We have been the group auditor of the Deutsche Lufthansa AG, Cologne, without interruption since the financial year 1955.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

### GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

The German Public Auditor responsible for the engagement is Dr. Bernd Roesse.

Düsseldorf, 7 March 2018

PricewaterhouseCoopers GmbH  
Wirtschaftsprüfungsgesellschaft

Petra Justenhoven  
Wirtschaftsprüferin  
(German Public Auditor)

Dr. Bernd Roesse  
Wirtschaftsprüfer  
(German Public Auditor)



## Major subsidiaries

### T189 MAJOR SUBSIDIARIES AS OF 31.12.2017

Name, registered office	Equity stake in %	Voting share in %	Different reporting period
<b>Network Airlines business segment</b>			
A319 LDD-LDE-LDF Ltd., George Town, Grand Cayman, Cayman Islands	0.00	0.00 <sup>1)</sup>	
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 <sup>1)</sup>	
Air Sylph Ltd., Tokyo, Japan	0.00	0.00 <sup>1)</sup>	
AirTrust AG, Zug, Switzerland	100.00	100.00	June
AirUtopia Ltd. Japan, Tokyo, Japan	0.00	0.00 <sup>1)</sup>	
ALIP No. 4 Co. Ltd., Tokyo, Japan	0.00	0.00 <sup>1)</sup>	
ALIP No. 5 Co. Ltd., Tokyo, Japan	0.00	0.00 <sup>1)</sup>	
ALIP No. 6 Co. Ltd., Tokyo, Japan	0.00	0.00 <sup>1)</sup>	
ALIP No. 7 Co. Ltd., Tokyo, Japan	0.00	0.00 <sup>1)</sup>	
All Nippon Airways Trading Sky Leasing Ltd., Tokyo, Japan	0.00	0.00 <sup>1)</sup>	
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 <sup>1)</sup>	
Aura Leasing Co. Ltd., Tokyo, Japan	0.00	0.00 <sup>1)</sup>	
Auslese Leasing Co. Ltd., Tokyo, Japan	0.00	0.00 <sup>1)</sup>	
Austrian Airlines AG, Vienna Airport, Austria	100.00	100.00	
Austrian Airlines Lease and Finance Company Ltd., Guernsey, UK	100.00	100.00	
Bayern Leasing Co. Ltd., Tokyo, Japan	0.00	0.00 <sup>1)</sup>	
Benjamin LH6 Kumiai Japan, Okayama, Japan	0.00	0.00 <sup>1)</sup>	
Bremen Leasing Co. Ltd., Tokyo, Japan	0.00	0.00 <sup>1)</sup>	
Canary Ltd., Tokyo, Japan	0.00	0.00 <sup>1)</sup>	
CASTOR Ltd., Tokyo, Japan	0.00	0.00 <sup>1)</sup>	
Dia Adler Ltd., Tokyo, Japan	0.00	0.00 <sup>1)</sup>	
Dia Falke Ltd., Tokyo, Japan	0.00	0.00 <sup>1)</sup>	
Dia Flamingo Ltd., Tokyo, Japan	0.00	0.00 <sup>1)</sup>	
Dia Himmel Ltd., Tokyo, Japan	0.00	0.00 <sup>1)</sup>	
Dia Ibis Ltd., Tokyo, Japan	0.00	0.00 <sup>1)</sup>	
Dia Kranich Ltd., Tokyo, Japan	0.00	0.00 <sup>1)</sup>	
Dia Vogel Ltd., Tokyo, Japan	0.00	0.00 <sup>1)</sup>	
Dunkel Leasing Co. Ltd., Tokyo, Japan	0.00	0.00 <sup>1)</sup>	
Edelweiss Air AG, Kloten, Switzerland	100.00	100.00	
Eifel Leasing Co. Ltd., Tokyo, Japan	0.00	0.00 <sup>1)</sup>	
Ellen Finance 2010 S.N.C., Paris, France	0.00	0.00 <sup>1)</sup>	
Emprée S.A.S., Paris, France	0.00	0.00 <sup>1)</sup>	
Evans Leasing Co. Ltd., Tokyo, Japan	0.00	0.00 <sup>1)</sup>	
FG Honest Leasing Co. Ltd., Tokyo, Japan	0.00	0.00 <sup>1)</sup>	
FG Unity Leasing Co. Ltd., Tokyo, Japan	0.00	0.00 <sup>1)</sup>	
FG Vision Leasing Co. Ltd., Tokyo, Japan	0.00	0.00 <sup>1)</sup>	
FI Beauty Leasing Ltd., Tokyo, Japan	0.00	0.00 <sup>1)</sup>	
First Valley Highway Kumiai, Tokyo, Japan	0.00	0.00 <sup>1)</sup>	
Fleur Leasing Co. Ltd., Tokyo, Japan	0.00	0.00 <sup>1)</sup>	
FL Falcon Leasing Co. Ltd., Tokyo, Japan	0.00	0.00 <sup>1)</sup>	
FL Uranus Leasing Co. Ltd., Tokyo, Japan	0.00	0.00 <sup>1)</sup>	
Gabriela Finance 2012 Limited, Dublin, Ireland	0.00	0.00 <sup>1)</sup>	
Gina Leasing Co. Ltd., Tokyo, Japan	0.00	0.00 <sup>1)</sup>	
Global Brand Management AG, Basel, Switzerland	100.00	100.00	
Heike LH8 Kumiai Ltd., Okayama, Japan	0.00	0.00 <sup>1)</sup>	
Helles Leasing Co. Ltd., Tokyo, Japan	0.00	0.00 <sup>1)</sup>	
Hummels Leasing Co. Ltd., Tokyo, Japan	0.00	0.00 <sup>1)</sup>	

**T189 MAJOR SUBSIDIARIES AS OF 31.12.2017** (continued)

Name, registered office	Equity stake in %	Voting share in %	Different reporting period
Ingrid Finance 2010 S.N.C., Paris, France	0.00	0.00 <sup>1)</sup>	
Jour Leasing Co. Ltd., Tokyo, Japan	0.00	0.00 <sup>1)</sup>	
Lahm Leasing Co. Ltd., Tokyo, Japan	0.00	0.00 <sup>1)</sup>	
Lark Ltd., Tokyo, Japan	0.00	0.00 <sup>1)</sup>	
LHBD Holding Limited, London, UK	100.00	100.00 <sup>2)</sup>	
Lily Port Leasing Co. Ltd., Tokyo, Japan	0.00	0.00 <sup>1)</sup>	
Lufthansa CityLine GmbH, Munich Airport	100.00	100.00	
Lufthansa Leasing Austria GmbH & Co. OG Nr. 10, Salzburg, Austria	100.00	100.00	
Lufthansa Leasing Austria GmbH & Co. OG Nr. 12, Salzburg, Austria	100.00	100.00	
Lufthansa Leasing Austria GmbH & Co. OG Nr. 14, Salzburg, Austria	100.00	100.00	
Lufthansa Leasing Austria GmbH & Co. OG Nr. 15, Salzburg, Austria	100.00	100.00	
Lufthansa Leasing Austria GmbH & Co. OG Nr. 16, Salzburg, Austria	100.00	100.00	
Lufthansa Leasing Austria GmbH & Co. OG Nr. 17, Salzburg, Austria	100.00	100.00	
Lufthansa Leasing Austria GmbH & Co. OG Nr. 18, Salzburg, Austria	100.00	100.00	
Lufthansa Leasing Austria GmbH & Co. OG Nr. 20, Salzburg, Austria	100.00	100.00	
Lufthansa Leasing Austria GmbH & Co. OG Nr. 21, Salzburg, Austria	100.00	100.00	
Lufthansa Leasing Austria GmbH & Co. OG Nr. 22, Salzburg, Austria	100.00	100.00	
Lufthansa Leasing Austria GmbH & Co. OG Nr. 23, Salzburg, Austria	100.00	100.00	
Lufthansa Leasing Austria GmbH & Co. OG Nr. 24, Salzburg, Austria	100.00	100.00	
Lufthansa Leasing Austria GmbH & Co. OG Nr. 25, Salzburg, Austria	100.00	100.00	
Lufthansa Leasing Austria GmbH & Co. OG Nr. 26, Salzburg, Austria	100.00	100.00	
Lufthansa Leasing Austria GmbH & Co. OG Nr. 27, Salzburg, Austria	100.00	100.00	
Lufthansa Leasing Austria GmbH & Co. OG Nr. 28, Salzburg, Austria	100.00	100.00	
Lufthansa Leasing Austria GmbH & Co. OG Nr. 29, Salzburg, Austria	100.00	100.00	
Lufthansa Leasing Austria GmbH & Co. OG Nr. 30, Salzburg, Austria	100.00	100.00	
Lufthansa Leasing Austria GmbH & Co. OG Nr. 32, Salzburg, Austria	100.00	100.00	
Lufthansa Leasing Austria GmbH & Co. OG Nr. 33, Salzburg, Austria	100.00	100.00	
Lufthansa Leasing Austria GmbH & Co. OG Nr. 34, Salzburg, Austria	100.00	100.00	
Lufthansa Leasing Austria GmbH & Co. OG Nr. 35, Salzburg, Austria	100.00	100.00	
Lufthansa Leasing Austria GmbH & Co. OG Nr. 36, Salzburg, Austria	100.00	100.00	
Lufthansa Leasing Austria GmbH & Co. OG Nr. 37, Salzburg, Austria	100.00	100.00	
Lufthansa Leasing Austria GmbH & Co. OG Nr. 38, Salzburg, Austria	100.00	100.00	
Lufthansa Leasing Austria GmbH & Co. OG Nr. 39, Salzburg, Austria	100.00	100.00	
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	
Matterhorn Leasing Co. Ltd., Tokyo, Japan	0.00	0.00 <sup>1)</sup>	
Miles & More GmbH, Neu-Isenburg	100.00	100.00	
Muller Leasing Co. Ltd., Tokyo, Japan	0.00	0.00 <sup>1)</sup>	
MUSA Grundstücks-Verwaltungsgesellschaft mbH & Co. oHG, Grünwald	100.00	50.00 <sup>1)</sup>	
NBB Cologne Lease Co. Ltd., Tokyo, Japan	0.00	0.00 <sup>1)</sup>	
NBB Harz Lease Co. Ltd., Tokyo, Japan	0.00	0.00 <sup>1)</sup>	
NBB Koblenz Lease Co. Ltd., Tokyo, Japan	0.00	0.00 <sup>1)</sup>	
NBB Rhine Valley Lease LLC, Tokyo, Japan	0.00	0.00 <sup>1)</sup>	
NBB Saxon Lease Co. Ltd., Tokyo, Japan	0.00	0.00 <sup>1)</sup>	
Nicolai LH7 Kumiai Japan, Okayama, Japan	0.00	0.00 <sup>1)</sup>	
ÖLB Österreichische Luftverkehrs-Beteiligungs GmbH, Vienna Airport, Austria	100.00	100.00	
ÖLH Österreichische Luftverkehrs-Holding GmbH, Vienna Airport, Austria	100.00	100.00 <sup>3)</sup>	
ÖLP Österreichische Luftverkehrs-Privatstiftung, Vienna Airport, Austria	0.00	0.00 <sup>4)</sup>	

**T189 MAJOR SUBSIDIARIES AS OF 31.12.2017** (continued)

Name, registered office	Equity stake in %	Voting share in %	Different reporting period
ORIX Himalia Corporation Ltd., Tokyo, Japan	0.00	0.00 <sup>1)</sup>	
ORIX Miranda Corporation Ltd., Tokyo, Japan	0.00	0.00 <sup>1)</sup>	
Schloss Leasing Co. Ltd., Tokyo, Japan	0.00	0.00 <sup>1)</sup>	
Second Valley Highway Kumiai, Tokyo, Japan	0.00	0.00 <sup>1)</sup>	
SJ Frankfurt Co. Ltd., Tokyo, Japan	0.00	0.00 <sup>1)</sup>	
SL Aurora Ltd., Tokyo, Japan	0.00	0.00 <sup>1)</sup>	
SL Crane Ltd., Tokyo, Japan	0.00	0.00 <sup>1)</sup>	
SL Opal Ltd., Tokyo, Japan	0.00	0.00 <sup>1)</sup>	
SL Prairie Ltd., Tokyo, Japan	0.00	0.00 <sup>1)</sup>	
SL Victoria Ltd., Tokyo, Japan	0.00	0.00 <sup>1)</sup>	
SMFL Y Lease Nin-i-Kumiai, Tokyo, Japan	0.00	0.00 <sup>1)</sup>	
SMFL Y Lease Nin-i-Kumiai Two, Tokyo, Japan	0.00	0.00 <sup>1)</sup>	
SMLC Crater Co. Ltd., Tokyo, Japan	0.00	0.00 <sup>1)</sup>	
Soir Leasing Co. Ltd., Tokyo, Japan	0.00	0.00 <sup>1)</sup>	
Stork Ltd., Tokyo, Japan	0.00	0.00 <sup>1)</sup>	
Swiss Aviation Software AG, Basel, Switzerland	100.00	100.00	
Swiss Global Air Lines AG, Basel, Switzerland	100.00	100.00	
Swiss International Air Lines AG, Basel, Switzerland	100.00	100.00	
Sylvaner Leasing Co. Ltd., Tokyo, Japan	0.00	0.00 <sup>1)</sup>	
Third Valley Highway Kumiai, Tokyo, Japan	0.00	0.00 <sup>1)</sup>	
TI DC Leasing Co. Ltd., Tokyo, Japan	0.00	0.00 <sup>1)</sup>	
TI DD Leasing Co. Ltd., Tokyo, Japan	0.00	0.00 <sup>1)</sup>	
TimBenNico Finance 2011 S.N.C., Paris, France	0.00	0.00 <sup>1)</sup>	
Tim LH5 Kumiai Japan, Okayama, Japan	0.00	0.00 <sup>1)</sup>	
TLC Amaryllis Ltd., Tokyo, Japan	0.00	0.00 <sup>1)</sup>	
TLC Petunia Ltd., Tokyo, Japan	0.00	0.00 <sup>1)</sup>	
TLC Saffron Ltd., Tokyo, Japan	0.00	0.00 <sup>1)</sup>	
TLC Salvia Ltd., Tokyo, Japan	0.00	0.00 <sup>1)</sup>	
Tyrolean Airways Luftfahrzeuge Technik GmbH, Innsbruck, Austria	100.00	100.00	
Warbler Leasing Ltd., Tokyo, Japan	0.00	0.00 <sup>1)</sup>	
Yamasa Aircraft LH3 Kumiai (AIKK), Okayama, Japan	0.00	0.00 <sup>1)</sup>	
Yamasa Aircraft LH4 Kumiai (AIKM), Okayama, Japan	0.00	0.00 <sup>1)</sup>	
Yamasa Aircraft LH9 Kumiai Ltd., Okayama, Japan	0.00	0.00 <sup>1)</sup>	
Yamasa Aircraft LH10 Kumiai Ltd., Okayama, Japan	0.00	0.00 <sup>1)</sup>	
Yamasa Aircraft LH11 Kumiai Ltd., Okayama, Japan	0.00	0.00 <sup>1)</sup>	
Yamasa Aircraft LH12 Kumiai Ltd., Okayama, Japan	0.00	0.00 <sup>1)</sup>	
Yamasa Aircraft LH13 Kumiai, Okayama, Japan	0.00	0.00 <sup>1)</sup>	
<b>Point-to-Point Airlines business segment</b>			
Brussels Airlines NV/SA, Brussels, Belgium	100.00	100.00	
Eurowings Aviation GmbH, Cologne	100.00	100.00	
Eurowings Europe GmbH, Vienna Airport, Austria	100.00	100.00	
Eurowings GmbH, Dusseldorf	100.00	100.00	
Eurowings Technik GmbH, Cologne	100.00	100.00	
Germanwings GmbH, Cologne	100.00	100.00	
LeaseAir GmbH & Co. Verkehrsflugzeuge V KG, Dusseldorf	100.00	100.00	
Lufthansa Asset Management Leasing GmbH, Frankfurt/Main	100.00	100.00	
Lufthansa Leasing Austria GmbH & Co. OG Nr. 19, Salzburg, Austria	100.00	100.00	
Lufthansa Leasing Austria GmbH & Co. OG Nr. 31, Salzburg, Austria	100.00	100.00	
SN Airholding SA/NV, Brussels, Belgium	100.00	100.00	

**T189 MAJOR SUBSIDIARIES AS OF 31.12.2017** (continued)

Name, registered office	Equity stake in %	Voting share in %	Different reporting period
<b>Logistics business segment</b>			
Jettainer Americas, Inc., Wilmington, USA	100.00	100.00	
Jettainer GmbH, Raunheim	100.00	100.00	
Lufthansa Cargo AG, Frankfurt/Main	100.00	100.00	
Lufthansa Leasing Austria GmbH & Co. OG Nr. 50, Salzburg, Austria	100.00	100.00	
time:matters GmbH, Neu-Isenburg	100.00	100.00	
time:matters Holding GmbH, Neu-Isenburg	100.00	100.00	
time:matters Spare Parts Logistics GmbH, Neu-Isenburg	100.00	100.00	
<b>MRO business segment</b>			
BizJet International Sales & Support, Inc., Tulsa, USA	100.00	100.00	
Hamburger Gesellschaft für Flughafenanlagen mbH, Hamburg	100.00	100.00	
Hawker Pacific Aerospace, Sun Valley, USA	100.00	100.00	
JASEN Grundstücksgesellschaft mbH & Co. oHG, Grünwald	100.00	50.00 <sup>1)</sup>	
Lufthansa Technik AERO Alzey GmbH, Alzey	100.00	100.00	
Lufthansa Technik AG, Hamburg	100.00	100.00	
Lufthansa Technik Airmotive Ireland Holdings Ltd., Dublin, Ireland	100.00	100.00	
Lufthansa Technik Airmotive Ireland Leasing Ltd., Dublin, Ireland	100.00	100.00	
Lufthansa Technik Airmotive Ireland Ltd., Dublin, Ireland	100.00	100.00	
Lufthansa Technik Budapest Repülőgépi Nagyjavító Kft., Budapest, Hungary	100.00	100.00	
Lufthansa Technik Component Services LLC, Tulsa, USA	100.00	100.00	
Lufthansa Technik Immobilien- und Verwaltungsgesellschaft mbH, Hamburg	100.00	100.00	
Lufthansa Technik Landing Gear Services UK Ltd., Kestrel Way, Hayes, UK	100.00	100.00	
Lufthansa Technik Logistik GmbH, Hamburg	100.00	100.00	
Lufthansa Technik Logistik Services GmbH, Hamburg	100.00	100.00	
Lufthansa Technik Maintenance International GmbH, Frankfurt/Main	100.00	100.00	
Lufthansa Technik Malta Limited, Luqa, Malta	92.00	92.00	
Lufthansa Technik North America Holding Corp., Tulsa, USA	100.00	100.00	
Lufthansa Technik Objekt- und Verwaltungsgesellschaft mbH, Hamburg	100.00	100.00	
Lufthansa Technik Philippines, Inc., Manila, Philippines	51.00	51.00	
Lufthansa Technik Puerto Rico LLC, San Juan, Puerto Rico	100.00	100.00	
Lufthansa Technik Shannon Limited, Claire, Ireland	100.00	100.00	
Lufthansa Technik Sofia OOD, Sofia, Bulgaria	75.10	75.10	
<b>Catering business segment</b>			
Aerococina S.A. de C.V., Mexico City, Mexico	100.00	100.00	
AIRO Catering Services Eesti OÜ, Tallinn, Estonia	100.00	100.00	
Airo Catering Services Latvija SIA, Marupe, Latvia	100.00	100.00	
AIRO Catering Services Sweden AB, Stockholm-Arlanda, Sweden	100.00	100.00	
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, Sotschi, Russia	100.00	100.00	
Bahia Catering Ltda., Sao Cristovao (Salvador), Brazil	100.00	100.00	
Belém Serviços de Bordo Ltda., Belém, Brazil	70.00	70.00	
Capital Gain International (1986) Ltd., Hong Kong, China	100.00	100.00	
Caterair Serviços de Bordo e Hotelaria Ltda., Rio de Janeiro, Brazil	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	

**T189 MAJOR SUBSIDIARIES AS OF 31.12.2017** (continued)

Name, registered office	Equity stake in %	Voting share in %	Different reporting period
CLS Catering Services Ltd., Vancouver, British Columbia, 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	
International Food Services Ltd., Hong Kong, China	100.00	100.00	
Inversiones Turísticas 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 Helvetia SAS, Paris, France	100.00	100.00	
LSG Holding Asia Ltd., Hong Kong, China	86.88	80.00	
LSG Linearis S.A.S., Paris, France	100.00	100.00	
LSG Lufthansa Service Asia Ltd., Hong Kong, China	100.00	100.00	
LSG Lufthansa Service Cape Town (Pty) Ltd., Capetown, South Africa	100.00	100.00	
LSG Lufthansa Service Catering- und Dienstleistungsgesellschaft mbH, Neu-Isenburg	100.00	100.00	
LSG Lufthansa Service Enterprises Ltd., Hong Kong, China	100.00	100.00	
LSG Lufthansa Service Europa/Afrika GmbH, Neu-Isenburg	100.00	100.00	
LSG Lufthansa Service Guam, Inc., Guam, USA	100.00	100.00	
LSG Lufthansa Service Holding AG, Neu-Isenburg	100.00	100.00	
LSG Lufthansa Service Hong Kong Ltd., Hong Kong, China	47.90	50.00 <sup>4)</sup>	
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 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 Brussels International BVBA, Zaventem, Belgium	100.00	100.00	
LSG Sky Chefs Czechia spol. s.r.o., Bor, Czechia	100.00	100.00	
LSG Sky Chefs Danmark A/S, Dragør, 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 GmbH, Neu-Isenburg	100.00	100.00	
LSG/Sky Chefs Europe Holdings Ltd., West Drayton, 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 Hamburg 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	March
LSG Sky Chefs Istanbul Catering Hizmetleri A.S., Istanbul, Turkey	100.00	100.00 <sup>6)</sup>	

**T189 MAJOR SUBSIDIARIES AS OF 31.12.2017** (continued)

Name, registered office	Equity stake in %	Voting share in %	Different reporting period
LSG Sky Chefs Kenya Limited, Nairobi, Kenya	50.20	50.20	
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 Malmö AB, Stockholm, Sweden	100.00	100.00	
LSG Sky Chefs München GmbH, Neu-Isenburg	100.00	100.00	
LSG Sky Chefs New Zealand Limited, Auckland, New Zealand	100.00	100.00	March
LSG Sky Chefs Norge AS, Gardermoen, Norway	100.00	100.00	
LSG Sky Chefs North America Solutions, Inc., Wilmington, USA	100.00	100.00	
LSG Sky Chefs Objekt- und Verwaltungsgesellschaft mbH, Neu-Isenburg	100.00	100.00	
LSG Sky Chefs (Qingdao) Co. Ltd., Laixi City, China	100.00	100.00	
LSG Sky Chefs Rus, Moscow, Russia	100.00	100.00	
LSG Sky Chefs Schweiz AG, Bassersdorf, Switzerland	100.00	100.00	
LSG Sky Chefs Solutions Asia Limited, Hong Kong, China	100.00	100.00	
LSG Sky Chefs South Africa (Proprietary) Ltd., Johannesburg, South Africa	100.00	100.00	
LSG Sky Chefs S.p.A., Fiumicino, Italy	100.00	100.00	
LSG Sky Chefs Spain, S.A., Madrid, Spain	100.00	100.00	
LSG Sky Chefs Supply Chain Solutions, Inc., Wilmington, USA	100.00	100.00	
LSG Sky Chefs Sverige AB, Stockholm, Sweden	100.00	100.00	
LSG Sky Chefs TAAG Angola S.A., Luanda, Angola	40.00	40.00 <sup>4)</sup>	
LSG Sky Chefs (Thailand) Ltd., Bangkok, Thailand	100.00	100.00	
LSG Sky Chefs UK Ltd., West Drayton, UK	100.00	100.00	
LSG Sky Chefs USA, Inc., Wilmington, USA	100.00	100.00	
LSG Sky Chefs Verwaltungsgesellschaft mbH, Neu-Isenburg	100.00	100.00	
LSG-Sky Food GmbH, Alzey	100.00	100.00	
LSG South America GmbH, Neu-Isenburg	100.00	100.00	
MIM IFE Limited, Dublin, Ireland	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., West Drayton, UK	51.00	51.00	
Oakfield Farms Solutions, L.L.C., Wilmington, Delaware, USA	100.00	100.00	
Retail in Motion GmbH, Neu-Isenburg	100.00	100.00	
Retail in Motion Latin America SpA, Santiago de Chile, Chile	100.00	100.00	
Retail in Motion Limited, Dublin, Ireland	100.00	100.00	
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	
Silver Wings Bulgaria OOD, Sofia, Bulgaria	28.75	28.75 <sup>5)</sup>	
Sky Chefs Argentine, Inc., Wilmington, USA	100.00	100.00	
Sky Chefs Chile SpA, 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	
Sky Chefs Things Remembered Services FZE, Lagos, Nigeria	51.00	51.00	
Sky Chefs Things Remembered Services Limited, Lagos, Nigeria	51.00	51.00	
SkylogistiX GmbH, Neu-Isenburg	51.00	51.00	
Spiriant Asia Pacific Limited, Hong Kong, China	100.00	100.00	
Spiriant Bahrain Limited W.L.L., Manama, Bahrain	60.00	60.00	

**T189 MAJOR SUBSIDIARIES AS OF 31.12.2017** (continued)

Name, registered office	Equity stake in %	Voting share in %	Different reporting period
Spiriant GmbH, Neu-Isenburg	100.00	100.00	
Starfood Finland Oy, Vantaa, Finland	100.00	100.00	
Starfood S.r.l., Fiumicino, Italy	100.00	100.00	
Supply Chain S.à.r.l., Senningerberg, Luxembourg	100.00	100.00	
Western Aire Chef, Inc., Wilmington, USA	100.00	100.00	
ZAO AeroMEAL, Yemelyanovo, Russia	100.00	100.00	
<b>Additional Businesses and Group Functions</b>			
AirPlus Air Travel Card Vertriebsgesellschaft mbH, Vienna, Austria	100.00	100.00	
AirPlus Holding GmbH, Vienna, Austria	100.00	100.00	
AirPlus International AG, Kloten, Switzerland	100.00	100.00	
AirPlus International, Inc., Alexandria, 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	
BCC Corporate NV/SA, Brussels, Belgium	100.00	100.00	
Crane Strategic Investment S.C.S., Grevenmacher, Luxembourg	100.00	100.00	
LHAMIH LIMITED, Dublin, Ireland	100.00	100.00	
LHAMI LEASING LIMITED, Dublin, Ireland	100.00	100.00	
LSY GmbH, Norderstedt	100.00	100.00	
Lufthansa AirPlus Servicekarten GmbH, Neu-Isenburg	100.00	100.00	
Lufthansa Asset Management GmbH, Frankfurt/Main	100.00	100.00	
Lufthansa Aviation Training Berlin GmbH, Berlin	100.00	100.00	
Lufthansa Aviation Training Germany GmbH, Frankfurt/Main	100.00	100.00	
Lufthansa Aviation Training GmbH, Hallbergmoos	100.00	100.00	
Lufthansa Aviation Training Switzerland AG, Kloten, Switzerland	100.00	100.00	
Lufthansa Commercial Holding GmbH, Frankfurt/Main	100.00	100.00	
Lufthansa Global Business Services GmbH, Frankfurt/Main	100.00	100.00	
Lufthansa Industry Solutions AS GmbH, Norderstedt	100.00	100.00	
Lufthansa Industry Solutions BS GmbH, Raunheim	100.00	100.00	
Lufthansa Industry Solutions GmbH & Co. KG., Norderstedt	100.00	100.00	
Lufthansa Leasing Austria 1. Beteiligungs GmbH, Salzburg, Austria	100.00	100.00	
Lufthansa Malta Blues LP, St. Julians, Malta	99.99	99.99	
Lufthansa Malta Corporate Finance Limited, St. Julians, Malta	100.00	100.00	
Lufthansa Malta Finance Holding Limited, St. Julians, Malta	100.00	100.00	
Lufthansa Malta Working Capital Solutions Limited, St. Julians, Malta	100.00	100.00	
Lufthansa Seeheim GmbH, Seeheim-Jugenheim	100.00	100.00	
Lufthansa SICAV-FIS-Fonds, Saint-Josse-ten-Noode, Belgium	100.00	100.00	
Lufthansa Systems Americas, Inc., Irving, USA	100.00	100.00	
Lufthansa Systems GmbH & Co. KG, Raunheim	100.00	100.00	
MARDU Grundstücks-Verwaltungsgesellschaft mbH & Co. oHG, Grünwald	100.00	50.00 <sup>1)</sup>	
Quinto Grundstücksgesellschaft mbH & Co. oHG, Grünwald	100.00	49.75 <sup>1)</sup>	
TGV DLH, Dusseldorf	100.00	100.00	

<sup>1)</sup> Fully consolidated structured entity in accordance with IFRS 10.

<sup>2)</sup> The Companies House registration number is: 06939137.

<sup>3)</sup> 50.20% of the equity stakes and voting rights are attributed via ÖLP.

<sup>4)</sup> Management responsibility for the company lies with the Group.

<sup>5)</sup> 28.75% equity shares and voting rights are attributed via a call option.

<sup>6)</sup> 33.34% of the equity stakes and 50.01% voting rights are attributed via a call option.



**T190 MAJOR JOINT VENTURES AS OF 31.12.2017<sup>1)</sup>**

Name, registered office	Equity stake in %	Voting share in %	Different reporting period
<b>Network Airlines business segment</b>			
Terminal 2 Gesellschaft mbH & Co oHG, Munich Airport	40.00	40.00	
<b>Point-to-Point Airlines business segment</b>			
Günes Ekspres Havacilik Anonim Sirketi (Sun Express), Antalya, Turkey	50.00	50.00	
<b>Logistics business segment</b>			
Shanghai Pudong International Airport Cargo Terminal Co. Ltd., Shanghai, China	29.00	22.22	
<b>MRO business segment</b>			
EME Aero Sp. z o.o., Jasionka, Poland	50.00	50.00	
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	
XEOS Sp. z o.o., Warsaw, Poland	51.00	50.00	
<b>Catering business segment</b>			
Alpha LSG Limited, Manchester, UK	50.00	50.00	
<b>Additional Businesses and Group Functions</b>			
Diners Club Spain S.A., Madrid, Spain	25.00	25.00	

**T191 JOINT OPERATIONS AS OF 31.12.2017<sup>2)</sup>**

Aerologic GmbH, Leipzig	50.00	50.00	
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**T192 MAJOR ASSOCIATED COMPANIES AS OF 31.12.2017<sup>1)</sup>**

<b>MRO business segment</b>			
Aircraft Maintenance and Engineering Corp., Beijing, China	25.00	28.57	
HEICO Aerospace Holdings Corp., Florida, USA	20.00	20.00	
<b>Catering business segment</b>			
CateringPor – Catering de Portugal, S.A., Lissabon, Portugal	49.00	49.00	
Cosmo Enterprise Co. Ltd., Narita City, Japan	20.00	20.00	March
Gansu HNA LSG Sky Chefs Co., Ltd., Lanzhou, China	49.00	40.00	
Hongkong Beijing Air Catering Ltd., Hong Kong, China	45.00	40.00	
Hongkong Shanghai Air Catering Ltd., Hong Kong, China	45.00	40.00	
Inflite Holdings (Cayman) Ltd., Grand Cayman, Cayman Islands	49.00	49.00	September
Inflite Holdings (St. Lucia) Ltd., Castries, St. Lucia	49.00	49.00	September
Nanjing Lukou International Airport LSG Catering Co. Ltd., Nanjing, China	40.00	40.00	
Tolmachevo Catering OOO, Novosibirsk, Russia	26.00	26.00	
Wenzhou Longwan International Airport LSG Sky Chefs Co. Ltd, Wenzhou City, 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	

<sup>1)</sup> Accounted for using the equity method.<sup>2)</sup> Included on a pro rata basis in accordance with IFRS 11.

## Miscellaneous equity investments

### T193 MISCELLANEOUS EQUITY INVESTMENTS AS OF 31.12.2017

Name, registered office	Equity stake in %	Voting share in %
<b>Subsidiaries, not consolidated</b>		
ACS Aircontainer Services Gesellschaft m.b.H., Fischamend, Austria	76.00	76.00
AIRBEL N.V./S.A., Brussels, Belgium	50.50	50.50
Air Dolomiti Deutschland GmbH, Munich	100.00	100.00
Airline Marketing Services India Private Limited, Mumbai, India	100.00	100.00
AirPlus International Marketing Services Limitada, São Paulo, Brazil	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, Schkeuditz	100.00	100.00
Albatros Service Center GmbH, Cologne	100.00	100.00
Albatros Versicherungsdienste GmbH, Cologne	100.00	100.00
Austrian Airlines Technik-Bratislava, s.r.o., Bratislava, Slovakia	100.00	100.00
Austrian Airlines Tele Sales & Service GmbH, Innsbruck, Austria	100.00	100.00
Aviation Quality Services GmbH, Frankfurt/Main	100.00	100.00
Avionic Design GmbH, Hamburg	100.00	49.00
Cargo Future Communications (CFC) GmbH, Büchenbeuren	65.00	65.00
Caterair Portugal – Assistencia A Bordo, Lda., Sacavém, Portugal	100.00	100.00
Crossair AG, Basel, Switzerland	100.00	100.00
Delvag Versicherungs-AG, Cologne	100.00	100.00
Deutsche Lufthansa Unterstützungswerk GmbH, Frankfurt/Main	100.00	100.00
DLH Fuel Company mbH, Hamburg	100.00	100.00
DLH Malta Pension Ltd., St. Julians, Malta	100.00	100.00
DLH Malta Transition Limited, St. Julians, Malta	100.00	100.00
EW Beteiligungs- und Verwaltungsgesellschaft mbH, Düsseldorf	100.00	100.00
Flydocs Systems (TOPCO) Limited, Staffordshire, UK	100.00	100.00
Gen2 Systems Limited, Tamworth, UK	100.00	100.00
GERANOS Grundstücksgesellschaft mbH & Co. IMMOBILIEN KG, Cologne	85.00	100.00
German-American Aviation Heritage Foundation, Washington, USA	100.00	100.00
Global Load Control (PTY) LTD, Capetown, South Africa	100.00	100.00
Global Tele Sales Brno s.r.o., Brno, Czechia	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., Capetown, South Africa	100.00	100.00
handling counts GmbH, Frankfurt/Main	100.00	100.00
help alliance gGmbH, Frankfurt/Main	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
IND Beteiligungs GmbH, Raunheim	100.00	100.00
In-Flight Management Solutions Latin America, S.A. de C.V., Mexico City, Mexico	100.00	100.00
Korongo Air SPRL i.L., Lubumbashi Airport, Congo	40.40	80.00
LCAG Malta Pension Ltd., St. Julians, Malta	100.00	100.00
LCAG Malta Transition Limited, St. Julians, Malta	100.00	100.00
LCH Grundstücksgesellschaft Berlin mbH, Cologne	100.00	100.00
LGSP Lufthansa Ground Service Portugal, Unipessoal Lda., Maia/Oporto, Portugal	100.00	100.00
LH Cargo Holding GmbH, Frankfurt/Main	100.00	100.00
LHT Malta Pension Ltd., St. Julians, Malta	100.00	100.00
LSG Malta Pension Ltd., St. Julians, Malta	100.00	100.00
LSG Sky Chefs Lounge, Inc., Wilmington, USA	100.00	100.00

**T193 MISCELLANEOUS EQUITY INVESTMENTS AS OF 31.12.2017** (continued)

Name, registered office	Equity stake in %	Voting share in %
LSG Transalpino SAS, Paris, France	100.00	100.00
LSI Malta Pension Ltd., St. Julians, Malta	100.00	100.00
Lufthansa Aviation Training Austria GmbH, Vienna Airport, Austria	100.00	100.00
Lufthansa Aviation Training Crew Academy GmbH, Frankfurt/Main	100.00	100.00
Lufthansa Aviation Training Operations Germany GmbH, Berlin	100.00	100.00
Lufthansa Aviation Training Pilot Academy GmbH, Frankfurt/Main	100.00	100.00
Lufthansa Aviation Training USA Inc., Goodyear, USA	100.00	100.00
Lufthansa Blues Beteiligungs GmbH, Frankfurt/Main	100.00	100.00
Lufthansa Cagri Merkezi ve Müsteri Hizmetleri A.S., Istanbul, Turkey	100.00	100.00
Lufthansa Cargo India (Priv) Ltd., New Delhi, India	100.00	100.00
Lufthansa Cargo Servicios Logísticos de Mexico, S.A. de C.V., Mexico City, Mexico	100.00	100.00
Lufthansa City Center International GmbH, Frankfurt/Main	50.00	50.00
Lufthansa Consulting Brasil Ltda., Rio de Janeiro, Brazil	95.71	99.90
Lufthansa Consulting GmbH, Frankfurt/Main	95.80	100.00
Lufthansa Consulting Managementbeteiligungs GmbH & Co. KG, Cologne	79.01	79.01
Lufthansa Engineering and Operational Services GmbH, Frankfurt/Main	100.00	100.00
Lufthansa Global Business Services Hamburg GmbH, Hamburg	100.00	100.00
Lufthansa Global Business Services Ltd., Bangkok, Thailand	100.00	100.00
Lufthansa Global Business Services S.A. de C.V., Mexico City, Mexico	100.00	100.00
Lufthansa Global Business Services Sp. z o.o., Krakow, Poland	100.00	100.00
Lufthansa Global Tele Sales GmbH, Berlin	100.00	100.00
Lufthansa Industry Solutions TS GmbH, Oldenburg	100.00	100.00
Lufthansa Innovation Hub GmbH, Berlin	100.00	100.00
Lufthansa International Finance (Netherlands) N.V., Amsterdam, Netherlands	100.00	100.00
Lufthansa Job Services Norderstedt GmbH, Norderstedt	100.00	100.00
Lufthansa Malta Blues General Partner GmbH & Co. KG, Frankfurt/Main	100.00	100.00
Lufthansa Malta Pension Holding Ltd., St. Julians, Malta	100.00	100.00
Lufthansa Pension Beteiligungs GmbH, Frankfurt/Main	100.00	100.00
Lufthansa Pension GmbH & Co. KG, Frankfurt/Main	100.00	100.00
Lufthansa Services Philippines, Inc., Manila, Philippines	100.00	100.00
Lufthansa Services (Thailand) Ltd., Bangkok, Thailand	100.00	100.00
Lufthansa Super Star gemeinnützige Gesellschaft mit beschränkter Haftung, Berlin	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 Poland sp. z o.o., Danzig, Poland	100.00	100.00
Lufthansa Systems Verwaltungs GmbH, Raunheim	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 Asia Pacific Limited, Hong Kong, China	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 Middle East FZE, Dubai, United Arab Emirates	100.00	100.00
Lufthansa Technik Milan s.r.l., Somma Lombardo (VA), Italy	100.00	100.00
Lufthansa Technik Services India Private Limited, New Delhi, India	100.00	100.00
Lufthansa Technik Shenzhen Co. Ltd., Shenzhen, China	80.00	80.00
Lufthansa Technik Turbine Shannon Limited, Shannon, Ireland	100.00	100.00
Lufthansa Technik Vostok Services OOO, Moscow, Russia	100.00	100.00
Lufthansa UK Pension Trustee Limited, West Drayton, Middlesex, UK	100.00	100.00

**T193 MISCELLANEOUS EQUITY INVESTMENTS AS OF 31.12.2017** (continued)

Name, registered office	Equity stake in %	Voting share in %
LZ-Catering GmbH, Hamburg	100.00	100.00
Malta Pension Investments, St. Julians, Malta	0.00	100.00
Maptext, Inc., Princeton, 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
Quinto Grundstücks-Verwaltungsgesellschaft mbH, Grünwald	94.80	94.80
Reservation Data Maintenance India Private Ltd., New Delhi, India	51.00	51.00
Retail inMotion Asia Pacific Limited, Hong Kong, China	100.00	100.00
Retail In Motion Mexico S. de R.L. de C.V., Mexico City, Mexico	51.00	100.00
Servicios Complementarios de Cabina, S.A. de C.V., Mexico City, Mexico	51.88	99.80
Shared Services International India Private Limited, Gurgaon, India	100.00	100.00
Shared Services International, Singapore, Singapore	100.00	100.00
Skeyos GmbH, Hamburg	100.00	100.00
Star Risk Services Inc., Southlake, USA	100.00	100.00
Swiss European Air Lines 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/Main	100.00	100.00
TFC Flugbetrieb und -technik Beratungsgesellschaft mbH, Essen	100.00	100.00
THG Grundbuchtreuhandgesellschaft mbH, Cologne	85.00	85.00
time:matters Asia Pacific Pte. Ltd., Singapore, Singapore	100.00	100.00
time:matters Austria GmbH, Vienna Airport, Austria	100.00	100.00
time:matters Belgium BVBA, Mechelen, Belgium	100.00	100.00
time:matters GmbH, Zurich, Switzerland	100.00	100.00
time:matters Netherlands B.V., Luchthaven Schiphol, Netherlands	100.00	100.00
VPF Malta Pension Ltd., St. Julians, Malta	100.00	100.00
ZeroG GmbH, Raunheim	100.00	100.00
<b>Other equity investments</b>		
3D.aero GmbH, Hamburg	50.00	50.00
Aerexchange Ltd., Wilmington, USA	9.46	9.46
AFC Aviation Fuel Company oHG, Hamburg	50.00	50.00
Airfoil Services Sdn. Bhd., Kuala Lumpur, Malaysia	50.00	50.00
Airmail Center Frankfurt GmbH, Frankfurt/Main	40.00	40.00
ATLECON Fuel LLC, Atlanta, USA	11.11	11.11
AviationPower GmbH, Hamburg	49.00	49.00
Beijing Lufthansa Center Co. Ltd., Beijing, China	11.23	12.50
Chelyabinsk Catering Service OOO, Chelyabinsk, Russia	26.00	26.00
CommuniGate Kommunikationsservice GmbH, Passau	50.00	50.00
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
Entebbe Handling Services limited (ENHAS), Entebbe, Uganda	5.00	5.00
FFS Frankfurt Fuelling Services (GmbH & Co) OHG, Hamburg	33.33	33.33
Finairport Service S.r.l. i.L., Turin, Italy	36.00	36.00
Fleet Logistics Inc., Wilmington, USA	18.33	18.33
Flight Training Alliance GmbH, Frankfurt/Main	50.00	50.00
Flughafen Düsseldorf Tanklager GmbH, Dusseldorf	20.00	20.00
Flughafen München Baugesellschaft mbH, Munich Airport	40.00	40.00
FMO Passenger Services GmbH, Greven	33.33	33.33
FraCareServices GmbH, Frankfurt/Main	49.00	49.00
FSH Flughafen Schwechat-Hydranten-Gesellschaft GmbH & Co OG, Vienna Airport, Austria	14.29	14.29
GOAL German Operating Aircraft Leasing GmbH & Co. KG, Grünwald	40.00	39.99

**T193 MISCELLANEOUS EQUITY INVESTMENTS AS OF 31.12.2017** (continued)

Name, registered office	Equity stake in %	Voting share in %
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
Hydranten-Betriebs OHG, Frankfurt/Main	49.00	20.00
Idair GmbH, Hamburg	50.00	50.00
INAIRVATION GmbH, Edlitz-Thomasberg, Austria	50.00	50.00
Jade Cargo International Company Limited i.L., Shenzhen, China	25.00	28.57
LSG Gate Gourmet Paris S.A.S. i.L., Roissy, France	50.00	50.00
LSG Sky Chefs Catering Egypt S.A.E., Cairo, Egypt	15.00	15.00
Luftfahrzeugverwaltungsgesellschaft GOAL mbH, Grünwald	40.00	40.00
Lufthansa HNA Technical Training Co. Ltd., Meilan Airport, Hainan, China	50.00	1.00
Lufthansa Leasing GmbH, Grünwald	49.00	49.00
Lumics GmbH & Co. KG, Hamburg	50.00	50.00
Lumics Verwaltungs GmbH, Hamburg	50.00	0.00
N3 Engine Overhaul Services Verwaltungsgesellschaft mbH, Hamburg	50.00	50.00
Nigerian Aviation Handling Company PLC., Lagos, Nigeria	6.00	6.00
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	40.00	40.00
Sky Chefs for Airlines Catering Company, Tripolis, Lybia	44.50	44.50
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
Terminal One Group Association, L.P., New York, USA	24.75	0.00
Terminal One Management Inc., New York, USA	25.00	25.00
THBG BBI GmbH, Schönefeld	30.00	30.00
Turbo Fuel Services Sachsen (TFSS) GbR, Hamburg	20.00	20.00
UBAG Unterflurbetankungsanlage Flughafen Zürich AG, Rümlang, Switzerland	12.00	12.00
Universal Air Travel Plan, Inc., Washington, USA	5.26	5.26
Verimi GmbH, Frankfurt/Main	11.11	11.11
Xinjiang HNA LSG Sky Chefs Co. Ltd., Urumqi, China	49.00	40.00
Zentrum für Angewandte Luftfahrtforschung GmbH, Hamburg	20.00	20.00

# COMBINED NON-FINANCIAL REPORT

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This combined non-financial report is based on the Sustainability Reporting Standards of the Global Reporting Initiative (GRI Standards 2016). This information relates to the disclosures displayed in the overview on [p. 214](#). Extensive reporting on non-financial subjects can also be found in the [Annual sustainability report "Balance"](#), which includes a GRI table of contents. [www.lufthansagroup.com/en/responsibility.html](https://www.lufthansagroup.com/en/responsibility.html)

## Combined non-financial report

Lufthansa Group intends to fulfil its role as a leading player in the aviation industry also in terms of sustainability. | Corporate responsibility is an integral part of the corporate culture. | The combined non-financial report focuses on the aspects of environmental concerns, employee concerns, anti-corruption and bribery, human rights and social concerns. | The report is based on the Sustainability Reporting Standards of the Global Reporting Initiative (GRI Standards 2016).

## About this combined non-financial report

In accordance with CSR Directive Implementation Act (CSR-Richtlinie-Umsetzungsgesetz – CSR-RUG) passed on 19 April 2017, Deutsche Lufthansa AG is publishing a separate combined non-financial report in accordance with Sections 315b and 315c German Commercial Code (HGB) in conjunction with Sections 289c to 289e HGB for the first time for the financial year 2017 and thereafter annually. Deutsche Lufthansa AG will publish a separate non-financial report at Company level and a separate non-financial Group report together as a combined non-financial report. It combines reporting on the following five key issues: environmental concerns, employee concerns, anti-corruption and bribery, human rights and social concerns. In addition, measures and initiatives taken by the Lufthansa Group that demonstrate the Company's wide-ranging engagement to corporate responsibility are described in the combined management report. References to these passages are made in this report.

The Lufthansa Group has extended its Group risk management system to cover the effects of non-financial aspects on external stakeholders. ➤ **Opportunities and risk report, p. 64ff.**

Taking into account the measures and concepts described and using the net method, there are currently no indications of risks that would have a severe negative impact on these aspects and that are highly likely to occur. This applies to the Lufthansa Group and also to its supply chain.

Unless otherwise stated, the disclosures made here relate to the group of consolidated companies referred to in the consolidated financial statements. Unless stated otherwise, the disclosures reflect the perspective of both the Group and Deutsche Lufthansa AG. This combined non-financial report was the subject of a voluntary limited assurance engagement in accordance with ISAE 3000 (revised). ➤ **Independent Practitioner's Report on a Limited Assurance Engagement on Non-Financial Reporting, p. 215f.**

References to disclosures outside the combined management report are additional information and do not form part of the combined non-financial report.

### Disclosures on the business model


The Lufthansa Group is a global aviation group with a total of more than 550 subsidiaries and equity investments. The business model of the Lufthansa Group is described in detail in the combined management report. ➤ **Principles of the Group, p. 13ff.**



## Sustainability strategy is firmly established within the Company

Responsible conduct in compliance with legislation is a key element of the Lufthansa Group's corporate culture and the principles of its day-to-day work. Since 2002, the Company has supported the principles of the UN Global Compact for sustainable and responsible corporate governance. In addition, it supports the Sustainable Development Goals (SDGs) of the Agenda 2030, as adopted by the UN member states in 2015.

A binding Code of Conduct was introduced in 2017 for all bodies, managers and employees of the Lufthansa Group in order to perpetuate the corporate culture of trust and integrity and to secure the Company's sustainable success.

 <https://investor-relations.lufthansagroup.com/en/corporate-governance/compliance/code-of-conduct.html>. The standards at its core are not only the basis for fair competition, but also seek to identify and avoid legal and reputational risks. The Lufthansa Group also expects compliance with these standards from its business partners and suppliers.

The highest monitoring body in the area of sustainable management is the Supervisory Board. Coordinating and developing activities related to sustainability is the task of the Corporate Responsibility Council (CRC). This was established at the senior management level and consists of the heads of Group Strategy, Policy, Environmental Concepts, Investor Relations, Controlling, Legal, Human Resources, Communications and Corporate Sourcing. Individual managers are responsible for implementing concrete activities and projects.

## Definition of material aspects

Continuous dialogue with stakeholders delivers an important contribution to refining the sustainability strategy of the Lufthansa Group. A broad-based stakeholder survey was carried out in 2016 and its findings were used to draw up a comprehensive materiality analysis. ➔ **Sustainability report "Balance 2016"**.

In addition, the findings were analysed in terms of the materiality criteria defined in Section 289c (3) HGB, i.e. in terms of the extent to which they are material for understanding the course of business, the financial results and the position of the Lufthansa Group, as well as its effect on the five aspects of sustainability.

This forms the basis for selecting the aspects and examples described in this combined non-financial report.

Environmental concerns and employee concerns are particularly important for the business of the Lufthansa Group. Existing flight operations are not possible without kerosene and so without CO<sub>2</sub> and noise emissions. As a service company, the financial success of the Lufthansa Group also depends largely on the dedication and motivation of its employees. Furthermore, the fight against corruption and bribery, respect for human rights and the sustainability in the supply chain are of great relevance to the Lufthansa Group.

Value-based management is also an integral element of sustainable corporate governance for the Lufthansa Group. The concept and the associated performance indicators are described in detail in the chapter ➔ **Financial strategy and value-based management, p. 16ff.**

## C30 ASPECTS, ISSUES AND PERFORMANCE INDICATORS

Environmental concerns	Employee concerns	Fighting corruption and bribery	Respect for human rights	Social concerns <sup>1)</sup>
<b>Climate protection</b> CO <sub>2</sub> emissions	<b>Attractiveness as an employer</b> LH Engagement Index	Integral part of the Lufthansa Group Compliance Management System	Important part of the corporate culture – embedded in the Code of Conduct	<b>Corporate citizenship</b> help alliance gGmbH
<b>Active noise abatement</b> Percentage of aircraft that meet the 10dB criterion of ICAO Chapter 4	<b>Health and safety at work</b> Health Index			
<b>Sustainability in the supply chain:</b> concerns multiple areas, qualitative representation with its own chapter in the non-financial report				

<sup>1)</sup> Immaterial as defined in Section 289c Paragraph 3 German Commercial Code (HGB), voluntary presentation at specific request of addressees.

# Environmental concerns

## Concepts

### Climate protection and active noise abatement are cornerstones of the environmental strategy

Global aviation is a growth industry and for the foreseeable future, it will require the use of fossil fuels. The primary environmental impacts of flight operations are therefore primarily climate effects due to the CO<sub>2</sub> emissions produced by burning kerosene and the noise caused by aircraft taking off and landing.

For many years, the Lufthansa Group has taken steps to minimise the environmental impact of its business operations. This is consistent with its economic interests, since fuel consumption, the purchase of CO<sub>2</sub> emissions certificates and noise-related fees all represent costs for the Group.

This is another reason why the Lufthansa Group pursues a strategic environmental programme. Its core action areas are the reduction of emissions, active noise abatement, energy and resource management, research and the implementation of environmental management systems in line with ISO 14001 and EMAS (Eco-Management and Audit Scheme). The environmental strategy is thus applied in all areas of the Lufthansa Group – from operations and technical maintenance to purchasing, facility management and administration.

### Environmental management is established across all Group companies

The Environmental Concepts department reports to the Chairman of the Executive Board and CEO and is responsible for defining, coordinating and determining overarching objectives and measures for the Lufthansa Group. In addition, all larger subsidiaries have their own environmental departments, an environmental officer or a coordinator. The environmental officers and coordinators meet at least once a year at the Group-wide Environmental Forum to coordinate strategies, activities and processes and to exchange experiences. New and planned legislation and its effects on the Lufthansa Group are also discussed here.

For many years, the Lufthansa Group has operated a central environmental database to collect and process relevant information, such as information on CO<sub>2</sub> emissions, and to use them as relevant factors in commercial decisions.

## CLIMATE PROTECTION

### Targets

#### Lufthansa Group supports climate protection goals of the aviation sector

According to the International Energy Agency (IEA), air traffic currently accounts for around 2.6 per cent of anthropogenic CO<sub>2</sub> emissions, making them one of the industry's principal effects on the environment. Given that demand for mobility is predicted to keep growing, air traffic and so emissions will continue to increase in the future. The aviation sector has responded to this and in 2009 agreed on the following global targets:

1. Fuel efficiency should be increased by 1.5 per cent per year until 2020.
2. Growth in air traffic should be CO<sub>2</sub> neutral from 2020 onwards.
3. By 2050, air traffic's net CO<sub>2</sub> emissions are to decline by 50 per cent compared with 2005.

The Lufthansa Group was highly involved in setting these targets and shares these industry goals. The Company took part in various working groups at the International Air Transport Association (IATA), such as the Environmental Committee and the Industry Affairs Committee, and has a seat on the Board of Governors.

### Measures





#### Four-pillar strategy defines climate protection measures

The targets mentioned above are to be met by combining various activities of different players (manufacturers, airports, air traffic control, airlines, politics). At the IATA General Meeting in 2007, they were formulated as the four-pillar climate protection strategy for the air transport industry. This strategy also forms the basis of the fuel efficiency activities at the Lufthansa Group.

#### 1. TECHNOLOGICAL PROGRESS

The most important driver for reducing CO<sub>2</sub> emissions from flight operations is investing continuously in modern, particularly economical aircraft and engine technologies. In 2017, the airlines in the Lufthansa Group took delivery of 29 new aircraft. Five more Airbus A350-900s went into service, for instance, which emissions are around 25 per cent lower than those of comparable aircraft types.

## C31 THE FOUR PILLARS FOR ENVIRONMENTAL PROTECTION

			
Technological progress	Improved infrastructure	Operational measures	Economic measures
Innovation in aircraft and engine technology Alternative fuels	Better use of airspace Needs-based airport infrastructure	Efficient aircraft sizes Optimum flight routes and speeds Optimised processes on the ground	A sensible, global, market-based system of emissions reduction to complement the other three pillars

By the end of 2025, the Lufthansa Group shall receive 176 new aircraft, which are characterised primarily by their low fuel consumption and noise emissions. ➤ **Fleet, p. 20f.**

The Lufthansa Group has also been involved in researching and using alternative fuels in air transport for many years. This includes the research project airegEM, which investigated the properties of biofuels and was sponsored by the Federal Ministry of Economic Affairs and Energy.

## 2. IMPROVED INFRASTRUCTURE

According to data from Eurocontrol, improved organisation of European air traffic control systems and authorities, including the creation of a single European airspace, would enable airlines to make fuel savings of up to 10 per cent and reduce their CO<sub>2</sub> emissions accordingly. The Single European Sky EU project should achieve just this. The airlines of the Lufthansa Group clearly demonstrate the benefits of the Single European Sky and thus drive along the process of convergence. As an IT provider, Lufthansa Systems brings in its expertise in a number of research and demonstration projects as well as standardisation initiatives.

## 3. OPERATIONAL MEASURES

The Lufthansa Group's operational measures include the deployment of efficiently sized aircraft, improvements to load factors, testing and introduction of new flight procedures, as well as the determination of optimum flight routes and flight speeds. Additionally there are programmes to sustainably reduce weight and make greater use of flight operating data and software, as well as more efficient ground processes that contribute to reducing kerosene consumption. One example of this is the OMEGA IT system. In the future, it will support pilots in the Lufthansa Group's flight operations with better, digitally refined information. In addition, OMEGA enables data to be analysed systematically, which helps to increase efficiency and security.

Lufthansa implemented a total of 34 fuel-saving projects across the Group in 2017, which sustainably reduced CO<sub>2</sub> emissions by some 64.4 thousand tonnes. The quantity of kerosene saved amounted to 25.2 million litres – this is equivalent to approximately 250 return flights between Munich and New York with an Airbus A350-900. The positive financial impact of these measures came to EUR 7.7m.

## 4. ECONOMIC MEASURES

The Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA) aims to offset growth-related CO<sub>2</sub> emissions in international air traffic using climate protection projects from 2020 onwards. This Scheme was agreed upon with the International Civil Aviation Organization (ICAO) in October 2016. If CO<sub>2</sub> emissions are not limited accordingly, from 2020, the Lufthansa Group will have to pay carbon offsetting costs for the increase in CO<sub>2</sub> emissions from international flights.

The EU Emissions Trading Scheme for air traffic has managed and limited CO<sub>2</sub> emissions by means of certificate trading since 2012. All flights carried out by the Lufthansa Group within Europe are subject to this scheme. They emit around 7.6 million tonnes of CO<sub>2</sub>, of which 60 per cent is offset and neutralised by the purchase of certificates. Within Europe, the aim of carbon-neutral growth has therefore already been achieved. To recognise provisions associated with the obligation to submit CO<sub>2</sub> emissions certificates to the relevant authorities ➤ **Notes to the consolidated financial statements, Note 33, p. 147ff.**

In large parts of its operations, the Lufthansa Group already offers its customers the opportunity to offset their carbon emissions on a voluntary basis.

## Performance indicator

### CO<sub>2</sub> emissions up by 6.9 per cent

The Lufthansa Group determines the absolute amount of its CO<sub>2</sub> emissions every year. For the aircrafts of the Lufthansa Group airlines, they came to 30.4 million tonnes in 2017 (previous year: 28.5 million tonnes).

This increase is mainly due to the larger group of consolidated companies following the full acquisition of Brussels Airlines. It was offset by positive effects arising from the implementation of operational measures to reduce fuel consumption, as well as efficiency gains from the use of new aircraft types.

## ACTIVE NOISE ABATEMENT

### Targets

#### Flight noise to be reduced at its source

The Lufthansa Group has numerous ongoing activities and measures intended to achieve a noticeable reduction in flight noise. The primary goal is to reduce noise at its source sustainably and to develop optimised flight procedures together with system partners.

### Measures

#### Active noise abatement comprises five dimensions

Since 2001, the Lufthansa Group has played an active and continuous role in research projects and noise abatement activities organised by discussion forums, such as the Noise Protection Alliance in Frankfurt. Members of the alliance include the Hesse state government, Fraport AG, Deutsche Lufthansa AG, the Airport and Region Forum (FFR), German

air traffic control and the airline association BARIG. Active noise abatement at the Lufthansa Group comprises the following five dimensions:

#### 1. INVESTMENTS IN MORE MODERN AND THUS QUIETER AIRCRAFT

The most significant lever for reducing flight noise is the modernisation of the fleet. The Lufthansa Group modernises its fleet continuously. In 2017, 29 new aircraft went into service, including five more Airbus A320neos and eleven Bombardier C Series aircraft, which are powered by modern engines. The same applies to the Airbus A350-900, which is one of the most modern and environmentally friendly long-haul aircraft in the world and is much quieter than comparable aircraft types. A total of 36 older aircraft were removed from the Group fleet in exchange. ➔ **Fleet, p. 20f.**

#### 2. RETROFITTING OF AIRCRAFT IN THE EXISTING FLEET

In addition to modernising the fleet, retrofitting existing aircraft can also result in measurable noise reduction. At the beginning of 2014, Lufthansa German Airlines became the first airline worldwide to start operations with an Airbus A320 equipped with noise-reducing vortex generators, thus setting an industry standard. Aircraft with vortex generators are up to four decibels quieter on their approach and so these aircraft are classified lower in accordance with the agreement on noise charges in Frankfurt than comparable aircraft without these components.

In the meantime, all A320 family aircraft at Lufthansa German Airlines and SWISS have now been fitted with these vortex generators. In autumn 2016, Austrian Airlines also launched the retrofit of its A320 aircraft with vortex generators and decided in 2017 to fit their A319 and A321 aircraft with this improved technology. The modification will be carried out in the course of routine technical maintenance cycles.

### C32 ACTIVE NOISE ABATEMENT



#### Investments in quieter aircraft

Introduction of the latest aircraft, such as the Airbus A320neo and A350-900  
Retirement of older models



#### Noise-reducing technologies for the existing fleet

Retrofitting of noise-reducing vortex generators to the existing fleet



#### Participation in noise research

Continuous collaboration and exchange with partners from research and industry  
Development and analysis of new noise-reduction measures



#### Optimisation of approach and departure procedures

Cooperation with system partners  
Development and testing of new methods  
Use of new navigation technology



#### Dialogue with residents near airports and other stakeholders

Continuous exchange with residents, as in the Forum Flughafen und Region in Frankfurt  
Active participation to aircraft noise commissions

### 3. PARTICIPATION IN NOISE RESEARCH

For many years, the Lufthansa Group has engaged in noise research via projects such as MODAL (models and data for the development of active aviation noise abatement measures) and EffFlug (efficiency gains in flight operations), which prepare the ground for successful active noise abatement. This intensive research and development work makes a major contribution to optimising the existing fleet.

### 4. DEVELOPMENT OF OPTIMISED FLIGHT PROCEDURES IN COOPERATION WITH SYSTEM PARTNERS

Optimising flight procedures and flight routes also helps to reduce noise. The Lufthansa Group is active in many ways in this area, with international partners such as Eurocontrol.

➤ **Environmental concerns/Climate protection, p. 204ff.**

### 5. DIALOGUE WITH RESIDENTS

In addition to technical and operating procedures, the Lufthansa Group also takes part in various discussion groups, including in Frankfurt and Vienna. The Lufthansa Group also works in some of the aircraft noise commissions required in Germany by the Air Traffic Act (Luftverkehrsgesetz – LuftVG).

## Performance indicator

### 99.5 per cent of the operational Group fleet meets standard for aircraft noise

Improvements in noise abatement from modernising the operational Group fleet can be seen in the number of aircraft that meet or exceed the ten decibel criterion set by the ICAO Chapter 4 standard. This standard defines noise limits and stipulates that all aircraft newly licensed after 2006 must cumulatively fulfil the older Chapter 3 noise limits by a margin of at least ten decibels or more. Almost the entire operational Group fleet – 99.5 per cent – met this criterion in 2017.

# Employee concerns

## Concepts

### Focus on employer attractiveness and employee health

The success of the Lufthansa Group depends largely on the ideas, the competence, the enthusiasm, the commitment and the health of its employees. It is therefore particularly important to strengthen the commitment of its employees, to have a modern human resources strategy, to offer tailor-made training courses and to take steps to increase employer attractiveness. The Lufthansa Group therefore places great importance on offering its employees an attractive working environment with transparent structures and processes in order to be able to meet future requirements and to help the Company become more innovative.

### Reorganisation of the Lufthansa Group moves forward

Since January 2016, the Lufthansa Group has been successfully reorganising its business along process lines, in order to pool responsibilities and to streamline hierarchies. The number of management levels below the Executive Board has been reduced from four to three. In the reporting year, the number of management positions across the Group was reduced.

The aim is to manage the different units in the Lufthansa Group consistently and based on defined processes and to maintain aligned standards. In this context, binding common performance indicators such as the Engagement Index were

developed to increase transparency and enable precise management, and have since been compiled every year. The Executive Board is informed regularly by means of standardised reports and detailed analyses.

## ATTRACTIVENESS AS AN EMPLOYER

### Targets

The employees in the Lufthansa Group make a decisive contribution to customer satisfaction. The Lufthansa Group therefore aims to position itself over the long term as an attractive employer. Responsibilities in the areas of Corporate Cultural Transformation, Corporate HR Steering & Labour Relations and HR Management & People were reorganised along process lines in 2017 in order to support continuous employee development. They report directly to the Executive Board member for Corporate Human Resources and Legal Affairs.

### Measures

A number of steps have been taken to further increase employee satisfaction and so to increase the Lufthansa Group's attractiveness as an employer.

### Flexible working time models

For many years, the Lufthansa Group has supported its employees and managers by offering flexible working time models, including various arrangements for part-time and remote work. Modern working time models, sabbaticals and shared leadership programmes have also been offered and encouraged in a targeted manner for managers since 2016. A variety of communication methods were used to make the available options more transparent and increase demand for them.

### Encouraging diversity

The Lufthansa Group pursues a comprehensive management approach that understands diversity also in the sense of versatility, variety of ideas, the blending of perspectives to strengthen competitiveness. Thus, there are collective agreements for new positions that support the promotion of women to leadership positions, for instance. Diversity and equal opportunities are key elements of the corporate strategy. They are also embedded in the current human resources strategy. Today, the Lufthansa Group already illustrates the core idea of diversity: Lufthansa's workforce around the world has 147 different nationalities. ➤ **Employees, p. 24ff.**

### Talent management

In 2014, the Lufthansa Group implemented its talent management philosophy using the motto, "Everyone has talent!". This gives all employees the opportunity to shape their own career in the Group according to their individual talents and interests. A standardised potential identification process for the Group and subsequent training programmes help them to do so. This both increases transparency and brings talents to the fore.

Furthermore, the Lufthansa Group strives to become ever more attractive to external talent. Talent management is vital for finding and developing the right staff for all management and employee levels, both from inside and outside the Group. It enables the Company to address an increasing shortage of qualified staff and to secure sought-after competences.

### Training courses and change management

Well-qualified, committed employees are indispensable for the sustainable success of the Lufthansa Group. Established in 2016, the Lufthansa Group CAMPUS continually offers formats for developing individual (leadership) competences as well as those for supporting team development and organisational change. It focuses on training courses that promote lifelong learning and enable employees to tackle the challenges of the modern working world successfully.

### Ongoing development of social partnerships and remuneration strategy

The Lufthansa Group aims to conclude long-term, economically viable agreements with its social partners. These allow for sustainable success, as well as predictability and security for both the Company and its employees. Flexibility plays an increasingly important role in this.

As a result, the fundamental agreement with the Vereinigung Cockpit pilots' union, which was concluded in October 2017 and will apply for more than five years, represents an important milestone. ➤ **Lufthansa German Airlines, p. 46f.**

## Performance indicator

### Engagement Index creates transparency regarding attractiveness as an employer

The Engagement Index is the key performance indicator for employer attractiveness. It is measured by the annual employee survey, "involve me!", and enables a comparison with employers from many different sectors.

The Engagement Index measures the extent to which employees identify with the Company, as well as their commitment and willingness to recommend the Company to others. A standardised voluntary staff survey was conducted for the first time in 2015 and it was extended to the main companies in the Group in 2017 (excluding the LSG Group). The results are measured on a scale from 1 (best) to 5 (worst).

An Engagement Index of 2.3 was recorded for the reporting period. This is slightly below average in Germany but is an improvement of 0.1 points on the previous year, despite numerous strikes in the past years.

In the years ahead, the aim is to increase the Engagement Index every year and to reach the average level for comparable companies in Germany by 2020.

The results of the employee survey are also presented to the Supervisory Board and the Executive Board. The results are also communicated and discussed at management level and within each teams, in order to identify and implement strategic activities for the entire Lufthansa Group and individual organisational units.

## HEALTH AND SAFETY AT WORK

Occupational health and safety has been a core action area at the Lufthansa Group for several decades; it is managed jointly by the Medical Services (including psychosocial counselling), health and safety officers and the health management function. These three areas report directly and regularly on current developments to the Executive Board member for Corporate Human Resources and Legal Affairs.

### Targets

#### Health management to be further developed across the Group

One of the Medical Services' core tasks is to ensure that the employees of the Lufthansa Group are fit for work and so to safeguard its business activities and dependable flight operations.

A central steering body for all issues concerning health and safety in the Lufthansa Group is the Occupational Safety Committee (OSC), which meets regularly and monitors the implementation of all aspects of health and safety across the Group.

The programme Health Management@Lufthansa Group was successfully launched in 2016 to further develop health management for all the companies in the Group. It aims to maintain the long-term health and productivity of employees and to encourage them to take responsibility for their own wellbeing.

### Measures

#### Numerous activities to promote employee health

The units involved have implemented various measures to promote the health of Lufthansa Group employees.

#### MEDICAL SERVICES

The Medical Services at Lufthansa German Airlines, SWISS and Austrian Airlines are holistic centres of excellence, offering permanently the full range of services for aviation and occupational medicine, vaccinations and travel medicine, outpatient care, a comprehensive social and medical advisory service and other preventive and healthcare treatments. Beyond these individual treatments, the Medical Services provide advice to decision-makers, committees and employee representatives concerning all issues of occupational health and safety.

Psychological and psychosocial factors have an important influence on health, safety and productivity at work. Since 1985, the Lufthansa Group has offered confidential individual advice to employees, teams and organisational units, referring individuals to other services or for other treatment as well as providing various psychosocial advisory services.

#### OCCUPATIONAL SAFETY

The occupational safety function has existed for many years; it consistently implements preventive measures to avoid accidents, health risks and occupational illnesses. By means of risk assessments and regular safety inspections, the Group's occupational safety experts check all professional activities in the Group companies in Germany.

#### HEALTH MANAGEMENT

The programme Health Management@Lufthansa Group creates a framework and structures that have a particular influence on the development of the organisation and the leadership skills of managers. They include advisory services and information events for employees and managers. Specific activities are partly derived from the results of the employee survey "involve me!".

### Performance indicator

#### Health Index as key performance indicator for employee health

A Health Index was compiled for the first time in 2017, as the primary performance indicator for measuring the individual health levels of employees. It is based on the relevant questions in the "involve me!" survey.

At present, the Health Index is used as the key performance indicator for health management within the Lufthansa Group. The results serve to identify aspects of work that require adjustment and to develop focused measures to strengthen individual health resources and minimise the risk of occupational hazards. As with the Engagement Index, they are communicated to top management, team managers and the entire workforce, and will form the basis of the joint development of measures in the central steering committee, "Health", which was established in 2016. The Health Index uses a scale from 1 (best) to 5 (worst).

In 2017, the Health Index stood at 2.3, which corresponds exactly to the external benchmark for the Germany, Austria and Switzerland region and for each individual country in this region. Since the Health Index was compiled for the first time in 2017, targets and activities based on it will be devised and defined for the first time in 2018.



# Fighting corruption and bribery

## Concepts

### Fighting corruption and bribery is an integral part of the Lufthansa Group Compliance Management System

The Lufthansa Group endeavours to manage the Company effectively, as required by the principles of good corporate governance. In particular, they imply integrity on the part of the employees as a prerequisite for the Company's sustainable success.

Its global operations mean that the Lufthansa Group is obliged to comply with national anti-corruption legislation around the world and in some cases with anti-corruption laws that have extraterritorial application. Infringements may not only result in criminal and civil penalties for the individuals and companies involved, but may also result in incalculable reputational damage. Combating and preventing corruption and bribery is also an integral part of the Lufthansa Code of Conduct and is essential for the business operations of the Lufthansa Group. <https://investor-relations.lufthansagroup.com/en/corporate-governance/compliance/code-of-conduct.html>.

To ensure its effectiveness, the Lufthansa Group has a Compliance Management System, which prevents employees and the Company from violating laws and at the same time helps them to apply statutory regulations correctly. It consists of the following elements: Competition, Capital Markets, Integrity (Anti-Corruption), Embargo and Corporate Compliance.

➤ **Corporate Governance Report, p. 85ff.** The Group-wide implementation, development and communication of the Lufthansa Group Compliance Management System is within the responsibility of the Corporate Compliance Office, which is part of the central Legal department. The head of the Legal department and Chief Compliance Officer reports directly to the Executive Board member for Human Resources and Legal Affairs and presents two Compliance Reports a year to the Executive Board. The Corporate Compliance Office is supported by a worldwide network of compliance managers at the Group companies.

## Targets

### Compliance Management System aims to prevent unlawful conduct

The aim of the Compliance Management System is to ensure lawful conduct throughout the Group and so to avoid unlawful conduct that, in addition to reputational and financial risks, may also have consequences for the individual regarding criminal and labour law. ➤ **Opportunities and risk report, p. 64ff.**

## Measures

### Anti-corruption training raises awareness

All managers, team leaders and employees from relevant areas undergo mandatory IT-based anti-corruption training every two years to raise awareness of potential risks.

### Ombudsman system enables confidential handling of suspicious incidents

The Lufthansa Group set up an ombudsman system in 2008 to enable information to be provided confidentially about suspected criminal offences, particularly potential breaches of anti-corruption legislation and regulations. An external, independent lawyer who is not an employee of the Lufthansa Group acts as the ombudsman. Whistle-blowers can provide information to the ombudsman by phone, in writing or in person. <https://investor-relations.lufthansagroup.com/en/corporate-governance/compliance/ombudsman-system.html>.

### Risk-based, third-party due diligence aims to ensure integrity of suppliers and service providers

A risk-based, third-party due diligence process is intended to ensure the integrity of suppliers and service providers. In the course of the review, the employees in the Corporate Compliance Office carry out compliance screenings. First of all, this entails determining the identity of the business partner in order to then carry out a check against databases in the compliance, embargo, sanctions, PEP (politically exposed person) and watch lists categories, ensuring that there are no relevant entries. Depending on the result, various measures proposed jointly by the Corporate Compliance Office and Corporate Security may be necessary to deal with the business partner.

### All Group companies worldwide are reviewed for corruption risks

In addition to the measures mentioned above, all companies in the Group are currently reviewed for corruption and antitrust risks by means of a compliance risk assessment. Final results with recommendations for further improvements will be available in 2018 for all reviewed units.


# Respect for human rights

## Concepts

### **Respect for human rights is embodied in the Code of Conduct**


As a global company, respect for human rights is self-evident and forms an integral part of the corporate culture of the Lufthansa Group. This is also reflected in working conditions, the freedom of association and assembly, rules to ensure gender equality and the inclusion of minorities as a matter of course.

The Code of Conduct adopted in 2017 also expresses the importance of human rights for the Lufthansa Group.

 <https://investor-relations.lufthansagroup.com/en/corporate-governance/compliance/code-of-conduct.html>.

## Targets

### **Respect for human rights is the overarching goal**

The overarching goal is to avoid human rights breaches by means of organisational and process-based measures. The Code of Conduct is binding for all bodies, managers and employees of the Lufthansa Group. The Group's procurement policy ( **Sustainability in the supply chain, p. 213**) also states that the Lufthansa Group expects its suppliers to respect human rights, too. Contracts should therefore include the possibility of penalties up to and including the immediate termination of the business relationship.


## Measures

### **Working group ensures awareness**

A Human Rights working group was established within the Human Resources and Legal Affairs board function in 2017 and comprises representatives of all relevant head office functions as well as Group companies that are potentially at risk. Based on an analysis carried out by Maplecroft, an advisory company, an overview was drawn up of all Group companies operating in high-risk and extreme-risk countries, i.e. where the risk of human rights violations is particularly high. Managers and Human Resources departments at these companies should be made aware of their duty of care to avoid human rights violations.

### **Processes for reporting human rights violations to be implemented**

The companies concerned are called on to identify human rights risks and to report them centrally. Individual complaints may be addressed to managers or to the Human Resources department. The Executive Board is to be notified annually of the type and number of suspicious incidents.

An internal complaints procedure is already in place at the Lufthansa Group and is governed by a works agreement for employees in Germany. It is already used for many different kinds of complaints and is to be extended to complaints about human rights violations. Third parties will also be able to use the ombudsman system, as well as being able to report issues via a separate email address.  <https://investor-relations.lufthansagroup.com/en/corporate-governance/compliance/ombudsman-system.html>.

# Social concerns

## Concepts

### Lufthansa Group is committed to social issues

As an international aviation company, the Lufthansa Group also assumes responsibility for social concerns. Following a comprehensive analysis and valuation of its engagement portfolio to date, the Lufthansa Group will, in the future, focus its corporate citizenship activities on the core topics of education/enabling and life/health.

The focus of the corporate citizenship activities is on social and humanitarian projects around the world, which are pooled and managed under the umbrella of the help alliance, the Lufthansa Group's non-profit aid organisation. The help alliance was established in 1999 as a registered association funded by of Lufthansa employees. As of 1 January 2017, it was restructured as a non-profit limited liability company (gGmbH) with its headquarter in Frankfurt/Main and under the umbrella of the Lufthansa Group. Prior to this, the Lufthansa Group had provided both moral and financial support and sponsorship for the work of the employee initiative help alliance e.V. 📧 [www.helpalliance.org](http://www.helpalliance.org).

The importance of the help alliance is emphasised by the fact that it belongs to the resort of the Chairman of the Executive Board and CEO.

## Targets

### To contribute to sustainable social development

The aim of the Group's charitable activities and projects is to make a contribution to the sustainable development of society that reflects the importance and size of the Lufthansa Group and is transparent, credible and verifiable all at the same time.

## Measures

### help alliance focuses on social and humanitarian projects

The help alliance acts as a catalyst for greater social engagement, combining proven projects initiated by employees with the power and network of the Lufthansa Group. Predefined criteria ensure that the supported projects are sustainable.

The decision to focus on social and humanitarian projects in the core areas of education/enabling and life/health has made it possible to harmonise the charitable initiatives of the companies in the Group. At the same time, it enables the efficient and targeted use of available funds. Fundraising models can be made more systematic and donations can be acquired more effectively.

The main objective in the field of education/enabling is to help disadvantaged people lead a successful, healthy and self-determined life. The help alliance particularly provides educational opportunities. In 2017, the help alliance was responsible for 37 aid projects with a total project volume of EUR 2.0m. One of its biggest projects was the iThemba project in South Africa, which enables children in the townships of Cape Town to receive a high-quality pre-school education.

Permanent monitoring and regular evaluation of the projects using a fixed catalogue of criteria ensure that the sponsored projects and programmes improve the living conditions of children, their families and the community sustainably and effectively and that the funding is used effectively and efficiently.

In the second field of life/health, the Group has for many years used its flights to provide fast and professional emergency relief during humanitarian crises and disasters. Lufthansa Cargo cooperates with well-known emergency aid organisations to provide quick, straightforward assistance in the logistics of initial relief.

For example, on 30 September 2017, Lufthansa Cargo carried out a relief flight from Frankfurt to Aguadilla in Puerto Rico. Some 80 tonnes of emergency aid, including drinking water, clothing and food, were distributed to the around 400 employees of Lufthansa Technik at this location and to the neighbouring communities who were struggling in the aftermath of Hurricane Maria.

### Financing concept for help alliance gGmbH

In 2017 and 2018, the Lufthansa Group will cover all of the costs of administration, project assistance, fundraising and communication of the help alliance gGmbH. This ensures that 100 per cent of all other donations can be used to fund aid projects. This also applies to voluntary donations made via salary deduction by employees of the Lufthansa Group: In the initial phase, introduced in early 2017, some 80,000 employees and pensioners on the joint payroll accounting system of the Lufthansa Group can make use of the "payroll giving" option.

# Sustainability in the supply chain

## Concepts

### Reorganisation supports sustainability in the supply chain

To meet the standards it sets for the sustainability of its own products, the Lufthansa Group relies on close collaboration with suppliers who share and implement these standards. This also forms part of the Lufthansa Group's Code of Conduct.

 <https://investor-relations.lufthansagroup.com/en/corporate-governance/compliance/code-of-conduct.html>. Since October 2017, the purchasing units in the Lufthansa Group have been organised within a single reporting line under the Chief Financial Officer. They inform the Executive Board about current developments on a regular basis. In some cases, the purchasing units are centralised, especially for airline-specific processes such as purchasing aircraft or kerosene, and in others, they are decentralised throughout the Group companies (for more specialised products). Reporting lines are based on responsibilities for different product groups and Group companies. Defining product groups optimises the purchasing function in the procurement markets. Reporting on the basis of Group companies ensures the security of the supply.

### Building and expanding a sustainable supply chain is of strategic importance for the Lufthansa Group

The introduction of a process-based matrix organisation makes it easier to establish sustainability standards because it means that standardised processes and IT systems are increasingly used. The goal is also to improve the enforcement of sustainability standards. The restructuring of the organisation that came into effect on 1 October 2017 serves to increase efficiency, cut costs sustainably and avoid risks in the supply chain by means of strict process management.

## Targets

The Lufthansa Group expects from its suppliers that they fully comply with current law, guidelines and regulations concerning fair competition, integrity and responsible practices.

## Measures

The Group procurement policy includes the obligation to assume social and ecological responsibility. It is to be understood as an overriding specification for all procurement guidelines at the Group companies. In addition, it serves as a handbook for buyers and all employees with contacts in the procurement markets. Among other considerations, it requires that these obligations be included in contracts with suppliers:

- to comply with the ten principles of the UN Global Compact;
- to comply with the four basic principles of the International Labour Organisation (ILO);
- to consent to announced and unannounced audits by companies of the Lufthansa Group;
- to accept the termination of the contract in the event that these contractual obligations are breached.

By imposing these obligations, the Lufthansa Group endeavours to ensure responsible practices by its direct suppliers and so to meet its own standards for corporate responsibility.

## Summary

In addition to the long-term financial stability it delivers, the responsible and sustainable treatment of resources, the environment and employees inside and outside of the Company ensures acceptance of its business model and makes the Lufthansa Group attractive for customers, employees, shareholders and partners.

With the activities and concepts described above, the Lufthansa Group underlines its intention to fulfil its role as a leading player in the aviation industry, including in terms of sustainability.

This combined non-financial report is based on the GRI Standards 2016. The information in this report relates to the following disclosures and management approaches.

## GRI references

### T194 GRI REFERENCES

	Disclosures refer to		Page
<b>About this combined non-financial report</b>	GRI 102-1	Name of the organisation	➤ p. 202
	GRI 102-50	Reporting period	➤ p. 202
	GRI 102-52	Reporting cycle	➤ p. 202
	GRI 102-56	External audit	➤ p. 202
	GRI 102-16	Values, guidelines, standards and behavioural norms	➤ p. 203
	GRI 102-46	Determination of reporting content and topic differentiation	➤ p. 203
<b>Environmental concerns</b>			
Climate protection	GRI 103-1, 103-2, 103-3	Management approach	➤ p. 204f.
	GRI 305-1	Direct GHG emissions Scope 1	➤ p. 206
	GRI 305-5	Reducing GHG emissions	➤ p. 205
Active noise abatement	GRI 103-1, 103-2, 103-3	Management approach	➤ p. 206f.
<b>Employee concerns</b>			
Attractiveness as an employer	GRI 103-1, 103-2, 103-3	Management approach	➤ p. 207f.
Health and safety at work	GRI 103-1, 103-2, 103-3	Management approach	➤ p. 209
<b>Fighting corruption and bribery</b>			
	GRI 103-1, 103-2, 103-3	Management approach	➤ p. 210
	GRI 205-1	Business locations reviewed for corruption risks	➤ p. 210
	GRI 205-2	Information and training on anti-corruption strategies and activities	➤ p. 210
<b>Respect for human rights</b>	GRI 103-1, GRI 103-2	Management approach	➤ p. 211
<b>Social concerns</b>	GRI 103-1, GRI 103-2	Management approach	➤ p. 212
<b>Sustainability in the supply chain</b>	GRI 103-1, 103-2	Management approach	➤ p. 213

## Independent Practitioner's Report on a Limited Assurance Engagement on Non-Financial Reporting<sup>1)</sup>

To Deutsche Lufthansa AG, Cologne

We have performed a limited assurance engagement on the separate combined non-financial report pursuant to §§ (Articles) 289b Abs. (paragraph) 3 and 315b Abs. 3 HGB ("Handelsgesetzbuch": "German Commercial Code") of Deutsche Lufthansa AG, Cologne, (hereinafter the "Company") for the period from 1 January 2017 to 31 December 2017 (hereinafter the "Non-financial Report").

### Responsibilities of the Executive Directors

The executive directors of the Company are responsible for the preparation of the Non-financial Report in accordance with §§ 315b and 315c in conjunction with 289c to 289e HGB.

This responsibility of Company's executive directors includes the selection and application of appropriate methods of non-financial reporting as well as making assumptions and estimates related to individual non-financial disclosures which are reasonable in the circumstances. Furthermore, the executive directors are responsible for such internal control as they have considered necessary to enable the preparation of a Non-financial Report that is free from material misstatement whether due to fraud or error.

### Independence and Quality Control of the Audit Firm

We have complied with the German professional provisions regarding independence as well as other ethical requirements.

Our audit firm applies the national legal requirements and professional standards – in particular the Professional Code for German Public Auditors and German Chartered Auditors ("Berufssatzung für Wirtschaftsprüfer und vereidigte Buchprüfer": "BS WP/vBP") as well as the Standard on Quality Control 1 published by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany; IDW): Requirements to quality control for audit firms (IDW Qualitätssicherungs-

standard 1: Anforderungen an die Qualitätssicherung in der Wirtschaftsprüferpraxis – IDW QS 1) – and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

### Practitioner's Responsibility

Our responsibility is to express a limited assurance conclusion on the Non-financial Report based on the assurance engagement we have performed.

Within the scope of our engagement we did not perform an audit on external sources of information or expert opinions, referred to in the Non-financial Report.

We conducted our assurance engagement in accordance with the International Standard on Assurance Engagements (ISAE) 3000 (Revised): Assurance Engagements other than Audits or Reviews of Historical Financial Information, issued by the IAASB. This Standard requires that we plan and perform the assurance engagement to allow us to conclude with limited assurance that nothing has come to our attention that causes us to believe that the Company's Non-financial Report for the period from 1 January 2017 to 31 December 2017 has not been prepared, in all material aspects, in accordance with §§ 315b and 315c in conjunction with 289c to 289e HGB.

In a limited assurance engagement the assurance procedures are less in extent than for a reasonable assurance engagement, and therefore a substantially lower level of assurance is obtained. The assurance procedures selected depend on the practitioner's judgment.

Within the scope of our assurance engagement, we performed amongst others the following assurance procedures and further activities:

- Obtaining an understanding of the structure of the sustainability organization, of the stakeholder engagement and of the conduction of the materiality analysis
- Inquiries of relevant personnel involved in the preparation of the Non-financial Report regarding the preparation process, the internal control system relating to this process and selected disclosures in the Non-financial Report
- Identification of the likely risks of material misstatement of the Non-financial Report
- Analytical evaluation of disclosures in the Non-financial Report
- Comparison of disclosures with corresponding data in the annual and consolidated financial statements and in the group management report
- Evaluation of the presentation of the non-financial information

### Assurance Conclusion

Based on the assurance procedures performed and assurance evidence obtained, nothing has come to our attention that causes us to believe that the Company's Non-financial Report for the period from 1 January 2017 to 31 January 2017 has not been prepared, in all material aspects, in accordance with §§ 315b and 315c in conjunction with 289c to 289e HGB.

### Intended Use of the Assurance Report

We issue this report on the basis of the engagement agreed with the Company. The assurance engagement has been performed for purposes of the Company and the report is solely intended to inform the Company about the results of the limited assurance engagement.

The report is not intended for any third parties to base any (financial) decision thereon. Our responsibility lies only with the Company. We do not assume any responsibility towards third parties.

Frankfurt am Main, 7 March 2018

PricewaterhouseCoopers GmbH  
Wirtschaftsprüfungsgesellschaft

Hendrik Fink  
Wirtschaftsprüfer  
[German public auditor]

ppa. Nicolette Behncke  
Wirtschaftsprüfer  
[German public auditor]



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## Ten-year overview

### T195 TEN-YEAR OVERVIEW

		2017	2016	2015
<b>Income statement Lufthansa Group</b>				
Revenue	€m	35,579	31,660	32,056
<b>Result</b>				
Adjusted EBIT (since 2014)/Operating result (until 2013)	€m	2,973	1,752	1,817
Adjusted EBIT margin (since 2014)/Operating margin (until 2013)	%	8.4	5.5	5.7
Profit/loss from operating activities	€m	3,153	2,190	1,555
Profit/loss before income taxes <sup>1)</sup>	€m	3,187	2,248	2,026
Income taxes <sup>1)</sup>	€m	- 789	- 445	- 304
Net profit/loss attributable to shareholders of Deutsche Lufthansa AG	€m	2,364	1,776	1,698
<b>Main cost items</b>				
Staff costs	€m	8,172	7,354	8,075
Fees and charges	€m	6,357	5,736	5,651
Fuel for aircraft	€m	5,232	4,885	5,784
Depreciation, amortisation and impairment	€m	2,052	1,769	1,715
Net interest	€m	- 195	- 218	- 170
<b>Balance sheet Lufthansa Group</b>				
<b>Asset structure</b>				
Non-current assets	€m	25,237	24,504	23,526
Current assets	€m	11,030	10,193	8,936
of which liquid assets	€m	3,948	3,937	3,093
<b>Capital structure</b>				
Shareholders' equity	€m	9,598	7,149	5,845
of which issued capital	€m	1,206	1,200	1,189
of which reserves	€m	5,925	4,084	2,881
Liabilities	€m	26,669	27,548	26,617
of which pension provisions	€m	5,116	8,364	6,626
of which borrowing	€m	6,814	6,575	6,370
Total assets	€m	36,267	34,697	32,462
<b>Other financial data Lufthansa Group</b>				
Capital expenditure	€m	3,196	2,231	2,568
of which on tangible and intangible assets	€m	3,005	2,160	2,454
of which on financial investments	€m	191	71	114
Cash flow from operating activities	€m	5,035	3,246	3,393
Free cash flow	€m	2,253	1,138	834
<b>Indebtedness</b>				
gross	€m	6,832	6,638	6,440
net	€m	2,884	2,701	3,347
<b>Deutsche Lufthansa AG</b>				
Net profit/loss for the year	€m	2,455	1,169	1,034
Transfer to/from reserves	€m	2,078	- 935	- 802
Dividends proposed/paid	€m	377	234	232
Dividend per share proposed/paid	€	0.80	0.50	0.50

	2014 <sup>6)</sup>	2013 <sup>5)</sup>	2012 <sup>4)</sup>	2011	2010 <sup>3)</sup>	2009	2008
	30,011	30,027	30,135	28,734	26,459	22,283	24,842
	1,171	699	839	820	1,020	130	1,280
	3.9	2.3	2.8	2.9	3.9	0.6	5.2
	879	851	1,622	773	1,386	271	1,309
	180	546	1,296	446	1,134	-134	730
	-105	-220	-91	-157	-161	-112	178
	55	313	1,228	-13	1,131	-34	542
	7,335	7,356	6,741	6,678	6,491	5,996	5,692
	5,265	5,167	5,167	5,000	4,318	3,762	3,499
	6,751	7,115	7,392	6,276	4,964	3,645	5,377
	1,528	1,767	1,839	1,722	1,654	1,475	1,289
	-256	-346	-372	-288	-346	-325	-172
	22,227	19,419	18,782	18,627	18,963	17,696	14,975
	8,247	9,689	9,777	9,454	10,357	8,696	7,433
	2,738	4,698	4,966	3,998	5,380	4,439	3,278
	4,031	6,108	4,839	8,044	8,340	6,202	6,594
	1,185	1,180	1,177	1,172	1,172	1,172	1,172
	2,728	4,563	2,374	6,790	5,939	4,956	4,817
	26,443	23,000	23,720	20,037	20,980	20,190	15,814
	7,231	4,718	5,844	2,165	2,571	2,710	2,400
	5,958	6,337	6,910	6,424	7,184	6,802	3,581
	30,474	29,108	28,559	28,081	29,320	26,392	22,408
	2,773	2,499	2,358	2,560	2,271	2,304	2,152
	2,699	2,444	2,291	2,445	2,222	2,177	1,798
	74	55	67	115	49	127	354
	1,977	3,290	2,842	2,356	2,992	1,991	2,473
	-297	1,307	1,397	713	1,542	251	612
	6,156	6,393	6,919	6,440	7,207	6,860	3,639
	3,418	1,695	1,953	2,328	1,596	2,195	-125
	-732	407	592	-116	483	-148	276
	732	-200	-592	230	-208	148	44
	-	207	-	114	275	-	320
	-	0.45	-	0.25	0.60	-	0.70

**T195 TEN-YEAR OVERVIEW** (continued)

		2017	2016	2015
<b>Operational ratios Lufthansa Group</b>				
Return on sales (Profit/loss before income taxes <sup>1)</sup> /revenue)	%	9.0	7.1	6.3
Return on capital employed (Profit/loss before income taxes <sup>1)</sup> plus interest on liabilities/total assets)	%	9.8	7.3	7.3
Return on equity (Profit/loss after income taxes/shareholders' equity)	%	25.0	25.2	29.5
Return on equity (Profit/loss before income taxes <sup>1)</sup> /shareholders' equity)	%	33.2	31.4	34.7
Equity ratio (Shareholders' equity/total assets)	%	26.5	20.6	18.0
Gearing (Net indebtedness plus pension provisions/shareholders' equity)	%	83.4	154.8	170.6
Leverage (Net indebtedness/total assets)	%	8.0	7.8	10.3
Internal financing ratio (Cash flow/capital expenditure)	%	157.5	145.5	132.1
Debt repayment ratio (Net indebtedness/adjusted cash flow from operating activities)	%	52.8	28.7	30.7
Revenue efficiency (Cash flow/revenue)	%	14.2	10.3	10.6
Net working capital (Current assets less current liabilities)	€bn	- 1.6	- 0.8	- 3.5
Non-current asset ratio (Non-current assets/total assets)	%	69.6	70.6	72.5
Depreciation ratio for aircraft/reserve engines (Accumulated depreciation/accumulated acquisition costs)	%	50.5	49.7	51.6
<b>Staff ratios</b>				
Average number of employees	number	128,856	123,287	119,559
Revenue/employee	€	276,114	256,799	268,119
Staff costs/revenue	%	23.0	23.2	25.2
<b>Traffic figures Lufthansa Group <sup>2)</sup></b>				
Passengers	millions	130.0	109.7	107.7
Available seat-kilometres	millions	322,821	286,555	273,975
Revenue seat-kilometres	millions	261,156	226,639	220,396
Passenger load factor	%	80.9	79.1	80.4
Available cargo tonne-kilometres	millions	15,619	15,117	14,971
Revenue cargo tonne-kilometres	millions	10,819	10,071	9,930
Cargo load factor	%	69.3	66.6	66.3
Number of flights	number	1,130,008	1,021,919	1,003,660
Aircraft in service	number	728	617	600

<sup>1)</sup> Until 2008 including the discontinued business segment Leisure Travel.<sup>2)</sup> Lufthansa German Airlines, SWISS, Austrian Airlines and Lufthansa Cargo.<sup>3)</sup> 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.<sup>4)</sup> The figures for the financial year 2012 were adjusted retrospectively due to the application of the revised IAS 19.<sup>5)</sup> The figures for the financial year 2013 were adjusted retrospectively due to IFRS 11.<sup>6)</sup> The figures for the financial year 2014 were adjusted retrospectively due to the new reporting method.

	2014 <sup>6)</sup>	2013 <sup>5)</sup>	2012 <sup>4)</sup>	2011	2010 <sup>3)</sup>	2009	2008
	0.6	1.8	4.3	1.6	4.3	- 0.6	2.9
	2.0	3.6	6.4	3.3	5.7	1.4	4.9
	1.9	5.3	25.6	0.0	13.7	- 0.4	8.4
	4.5	8.9	26.8	5.5	13.6	- 2.2	11.1
	13.2	21.0	16.9	28.6	28.4	23.5	29.4
	264.2	105.0	161.1	55.9	50.0	79.1	34.5
	11.2	5.8	6.8	8.3	5.4	8.3	- 0.6
	71.3	131.7	120.5	92.0	131.7	86.4	114.9
	20.8	37.0	34.4	49.7	59.7	38.1	97.0
	6.6	11.0	9.7	8.8	11.9	8.9	10.0
	- 2.7	- 1.3	0.0	- 0.3	0.5	- 0.1	- 0.6
	72.9	66.7	65.8	66.3	64.7	67.1	66.8
	51.4	52.6	54.2	54.4	53.9	54.2	58.9
	118,973	117,414	118,368	119,084	117,066	112,320	108,123
	252,251	255,736	254,587	241,292	226,018	198,384	229,757
	24.4	24.5	22.4	23.2	24.5	26.9	22.9
	106.0	104.6	103.6	100.6	92.7	77.3	70.5
	268,104	262,682	260,169	258,263	234,377	208,226	195,431
	214,643	209,649	205,015	200,376	186,452	162,286	154,156
	80.1	79.8	78.8	77.6	79.6	77.9	78.9
	14,659	14,893	14,749	16,260	15,298	14,372	15,141
	10,249	10,285	10,240	10,861	10,429	8,706	9,510
	69.9	69.1	69.4	66.8	68.2	60.6	62.8
	1,001,961	1,028,260	1,067,362	1,050,728	1,008,988	899,928	830,832
	615	622	627	696	710	722	524

## Glossary

### Aviation terminology

**Hub** In air traffic a hub refers to an airline's transfer airport, a central connecting point for different routes. Passengers and goods are transported from the original starting point to the airport's hub. From there they are carried to their destination by a second flight alongside passengers and goods from other departure points.

**IATA** International Air Transport Association – the international trade association for the airline industry.

**Low-cost carrier** Low-cost carrier are airlines which offer largely low ticket prices but with reduced service levels and sometimes additional charges on board and on the ground. Flights are mostly from secondary airports outside the major cities (e.g. Hahn in the Hunsrück area outside Frankfurt).

**MRO** Short for maintenance, repair and overhaul of aircraft.

**Network airlines** In contrast to low-cost carriers these airlines offer a wide-ranging, normally global route network via one or more hubs, with synchronised connecting flights.

**Passenger-kilometre/tonne-kilometre** Standard output units for air transport. An available seat-kilometre (ASK) denotes one seat offered flown for one kilometre; a revenue passenger-kilometre (RPK) denotes one paying passenger transported for one kilometre. An offered tonne-kilometre (TKO) denotes the offered capacity equivalent of one tonne of load (passengers and/or cargo) for one kilometre; a revenue tonne-kilometre (RTK) denotes one tonne of load (passengers and/or cargo) transported one kilometre.

**Passenger load factor/cargo load factor** Measure of capacity utilisation in per cent. The cargo load factor expresses the ratio of capacity sold to available capacity. The passenger load factor refers to passenger transportation and the cargo load factor to freight transport or total traffic.

**Unit costs/unit revenues** Key performance indicator for air transport. Unit costs (CASK) denote the operating expenses divided by offered seat kilometres. Unit revenue (RASK) denotes the revenue divided by offered seat kilometres.

**Yields** Average traffic 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.

### Financial terminology

**Adjusted EBIT** Main earnings metric for the Company's forecast. This relates to EBIT adjusted for asset valuations and disposals and for the measurement of pension provisions. ➔ p. 34ff.

**Adjusted Net Debt/Adjusted EBITDA** Measure of the Group's debt-servicing capacity. By using adjusted net debt, it also includes pension provisions as well as classic net indebtedness.

**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. ➔ T067 Consolidated cash flow statement, p. 107.

**Compliance** Institutionalised arrangements for ensuring that a company's management and staff duly comply with all statutory provisions and prohibitions.

**Debt repayment ratio** A financial indicator. It represents the ratio of adjusted cash flow from operating activities to net indebtedness and pensions. ➔ p. 40.

**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.

**Earnings After Cost of Capital – EACC** Main indicator of value creation. This is calculated from EBIT plus interest income on liquidity less taxes of 25 per cent and costs of capital. A positive EACC means that the Company has created value in a given financial year. ➔ Financial strategy and value-based management, p. 16ff.

**EBIT** Financial indicator denoting earnings before interest and taxes. From financial year 2015 main earnings indicator. This is calculated from total operating income less operating expenses plus the result from equity investments.

**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.

**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.

**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.

**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.

**Jet fuel crack** Price difference between crude oil and kerosene.

**Net indebtedness/net liquidity** Financial indicator denoting non-current borrowing less cash, cash equivalents and current securities.

**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.

**Return On Capital Employed – ROCE** Indicator of value creation. EBIT, to which interest income on liquidity has been added and taxes of 25 per cent subtracted, is divided by the average capital employed. The resulting value reflects the relative return on the capital employed.

**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.

**Trade working capital** Financial indicator for assessing a company's liquidity, measured as the difference between its current assets and its current liabilities.

**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.

**Wet lease** Lease of an aircraft from another airline, including its cockpit and cabin crew as well as maintenance and insurance.



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## Financial calendar 2018/2019

### 2018

**15 March** Release of Annual Report 2017

**26 April** Release of Interim Report  
January – March 2018

**8 May** Annual General Meeting

**31 July** Release of Interim Report  
January – June 2018

**30 Oct.** Release of Interim Report  
January – September 2018

### 2019

**14 March** Release of Annual Report 2018

**30 April** Release of Interim Report  
January – March 2019

**7 May** Annual General Meeting

**30 July** Release of Interim Report  
January – June 2019

**6 Nov.** Release of Interim Report  
January – September 2019

#### Disclaimer in respect of forward-looking statements

Information published in the Annual Report 2017, with regard to the future development of the Lufthansa Group and its subsidiaries consists purely of forecasts and assessments and not of definitive facts. Its purpose is exclusively informational, and can be identified by the use of such cautionary terms as “believe”, “expect”, “forecast”, “intend”, “project”, “plan”, “estimate”, “anticipate”, “can”, “could”, “should” or “endeavour”. These forward-looking statements are based on discernible information, facts and expectations available at the time that the statements were made. They are therefore subject to a number of risks, uncertainties and factors, including, but not limited to, those described in disclosures, in particular in the Opportunities and risk report in the Annual Report. Should one or more of these risks occur, or should the underlying expectations or assumptions fail to materialise, this could have a significant effect (either positive or negative) on the actual results.

It is possible that the Group’s actual results and development may differ materially from the results forecast in the forward-looking statements. Lufthansa does not assume any obligation, nor does it intend, to adapt forward-looking statements to accommodate events or developments that may occur at some later date. Accordingly, it neither expressly nor conclusively accepts liability, nor gives any guarantee, for the actuality, accuracy and completeness of this data and information.

#### Note

Unless stated otherwise, all change figures refer to the corresponding period from the previous year. Due to rounding, some of the figures may not add up precisely to the stated totals, and percentages may not precisely reflect the absolute figures.

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