Logistics and MRO business segments to be aligned with market needs

With its Logistics and MRO business segments, the Lufthansa Group has additional companies that are global leaders in their respective sectors. In order to secure and build on their successful positioning, these companies are permanently adapting their business models to changing market and competitive conditions. Lufthansa Technik is moving forward with the digitalisation and modularisation of its products in a targeted manner and continuing to expand its product portfolio in related business segments such as Defence and CleanTech Solutions (including AeroSHARK). Lufthansa Cargo is continuously adjusting its product portfolio in line with increasingly specialised demand and responding to the changing nature of globalisation with a broader geographical focus. This includes its entry into the transpacific market. The Company is moreover modernising and expanding its cargo centre in Frankfurt, in order to participate more strongly in the growth of the airfreight market.

Consistent alignment of the Group as an airline group

All Lufthansa Group companies are continuously reviewed with regard to the value they contribute within the Group. As well as assessing the attractiveness of individual market segments, the Lufthansa Group also analyses whether it is still the best owner for the respective company on the basis of existing or expected synergies. It may therefore make sense for certain companies to continue their development outside of the Lufthansa Group or together with partners.

In order to fully exploit potential synergies and minimise the need for coordination, the organisational structure and governance processes of the Lufthansa Group are being continuously developed and adjusted in line with current requirements. The aim is to achieve lean, flexible and efficient structures as well as quicker decision-making processes. These changes are being accompanied by an expansion of agile and cross-functional work methods. This expansion is also intended to support cultural change and promote a flexible and enterprise-based mentality.

C05 FINANCIAL STRATEGY

	Sustainable increase of Company value		
	Sustainable value creation	**Generation of strong free cash flows**	**Maintain financial stability**
Focus	– Improved return on capital – Improved profitability – Continuous reduction of environmental impacts	– Increase in operating result – Working capital management – Focused investing activities	– Adequate liquidity – Reduction in net indebtedness – Maintaining investment grade rating – Minimisation of financial risks
Targets	– Adjusted ROCE – Adjusted EBIT margin[1] – Specific CO_2 emissions	– Adjusted free cash flow[1]	– Adjusted net debt /Adjusted EBITDA

[1] Derivation ↗ **Earnings position, Financial position**

Financial strategy and value-based management

Financial strategy builds on three pillars

The financial strategy of the Lufthansa Group seeks to increase its company value in a sustainable manner. Three dimensions form the pillars for this: sustainable value creation, generating strong free cash flows and maintaining financial stability. In successfully implementing its financial strategy, the Lufthansa Group aims to contribute to the further strengthening of its balance sheet and the Group's investment in profitable growth, enabling it to successfully overcome crises.

Finance Transformation Programme is intended to deliver improvements in the area of finance

The Lufthansa Group initiated a Finance Transformation Programme in the 2022 financial year to drive the structural development of the Group's finance function and to strengthen it. The aim of this programme is to enhance the Company's commercial performance and competitiveness. Its cornerstones are the review and improvement of financial steering, increased efficiency, the ongoing development of talent and other employees as well as the modernisation of the finance IT landscape.

Several measures have already been successfully implemented in the reporting year. They include the definition of structures for financial data, which is set to be standardised in the future. In addition, a joint, consolidated financial IT target architecture has been adopted for the optimal exploitation of Group-wide synergies. The launch of the Finance Academy has helped to advance professional training courses and targeted talent development measures. At the end of the reporting year, the Lufthansa Group began work on detailed planning for future standardised Group-wide financial processes. Comprehensive use of existing process, IT and industry standards form a central component of this Finance Transformation Programme. The aim behind this is to reduce the level of complexity, minimise implementation risks and accelerate the execution of projects.

Sustainable value creation

Sustainable value creation requires adequate profitability
The Lufthansa Group applies a value-based system of management. At its core is the return on capital, measured as the adjusted return on capital employed (Adjusted ROCE), whereby the underlying capital base is adjusted for the Group's cash and cash equivalents. If Adjusted ROCE exceeds the weighted average cost of capital (WACC), this means that the Company is creating value. The Company's value creation was negative in the 2024 financial year. Adjusted ROCE after tax was 7.2% (previous year: 13.1%), while WACC increased to 8.5% (previous year: 8.1%) in the 2024 financial year. The system of calculating the Adjusted ROCE and WACC will be adjusted in financial year 2025, with the aim of showing the Company's value creation before tax in future. In the years ahead the declared aim is to achieve an Adjusted ROCE that is at least equal to WACC.

T008 CALCULATION OF ADJUSTED ROCE

in €m	2024	2023	Change in %
Total revenue	37,581	35,442	6
Changes in inventories, other own work capitalised and other operating income	3,186	3,140	1
Operating income	**40,767**	**38,582**	**6**
Operating expenses	39,225	36,126	9
Result from equity investments	189	213	–11
EBIT	**1,731**	**2,669**	**–35**
Adjusted EBIT	**1,645**	**2,682**	**–39**
Taxes (flat rate of 25% of EBIT)	–433	–667	35
ROCE[1] in %	**7.6**	**13.1**	**–5.5 pts**
Adjusted ROCE[2] in %	**7.2**	**13.1**	**–5.9 pts**
Total assets	47,052	45,321	4
Non-interest bearing liabilities			
of which liabilities from unused flight documents	5,183	4,981	4
of which trade payables, other current financial liabilities, other current provisions	6,751	6,465	4
of which advance payments, deferred income, other non-financial liabilities	3,714	3,585	4
of which other non-interest bearing liabilities	5,079	5,826	–13
of which liquid funds	8,488	8,265	
Capital employed	17,837	16,199	10
Average capital employed	**17,018**	**15,334**	**11**
WACC in %[3]	8.5	8.1	0.4 pts

[1] (EBIT –25% taxes on EBIT)/Average capital employed.
[2] (Adjusted EBIT –25% taxes on Adjusted EBIT)/Average capital employed.
[3] Internal management metric. Last year's figures adjusted.

Sustainable value creation requires adequate profitability. This will in turn provide scope for entrepreneurial freedom and enable key stakeholders – investors in particular – to participate in the Company's success.

The Company's profitability is measured on the basis of its Adjusted EBIT margin, i.e. the ratio of Adjusted EBIT to revenue. Calculating the underlying Adjusted EBIT entails adjusting EBIT for write-downs and write-backs, earnings effects from disposals of non-current assets, effects of pension plan changes, restructuring expenses in the form of severance payments, significant costs of legal procedures and company transactions not arising in the normal course of business and other material non-recurring expenses caused directly by extraordinary external factors.

Adjustments were made in the reporting year, in particular due to book gains from the sale of the AirPlus group, sale-and-lease-back transactions and impairment losses on equity investments and loans in the MRO segment and aircraft held for sale. ↗ T022 **Reconciliation of results.**

Adjusted EBIT came to EUR 1,645m in the 2024 financial year (previous year: EUR 2,682m). The Adjusted EBIT margin was therefore 4.4% (previous year: 7.6%). ↗ **Earnings position.**

To increase future profitability the Group initiated comprehensive measures in 2024, such as a turnaround programme at Lufthansa Airlines and a Group-wide efficiency programme. In addition to the ongoing fleet renewal, the Lufthansa turnaround programme constitutes the main lever for improving profitability in future. The goal of safeguarding the Company's future value creation underpins all of its investment and strategic decisions. ↗ **Forecast.**

Furthermore, the Lufthansa Group incorporates the specific carbon emissions into its management system to lower the associated costs by reducing environmental impacts. This facilitates sustainable value creation, positively affects financing conditions and is also factored into management remuneration. Specific carbon emissions per passenger-kilometre were 87.5 grammes in 2024, 1% lower than in the previous year (previous year: 88.7 grammes). Information about the long-term goals for reducing carbon emissions can be found in the ↗ **Combined non-financial declaration.**

Cost and efficiency management

Over the next few years, the Lufthansa Group envisages significant cost increases, in particular due to sustainability-related expenses which will arise on regulatory grounds, such as the SAF quota and the loss of free emissions certificates. Other cost items such as taxes, fees and charges and staff costs are also expected to significantly increase. The Lufthansa Group therefore expects its unit costs to remain under pressure due to factors including ongoing cost inflation.

In response to unavoidable cost increases and in order to ensure the Company's value creation, it is focusing on increasing unit revenues through targeted revenue-increasing measures. The ongoing capacity restrictions in the market are expected to make an additional contribution to stabilising yields across the market.

It is therefore necessary to carefully weigh up the different options of increasing market shares, boosting yields or allocating production capacity to different flight operations.

Ultimately, the goal is for flight operations with high productivity levels and low unit costs to increasingly deliver growth.

In order to preserve its competitiveness, the Company has also reviewed and implemented programmes to increase its cost-related efficiency and productivity as well as further cost-reduction measures. Operational units – from the Company's fleet to its staff – and administrative functions must both contribute to this.

In response to the immense cost pressure, efficiency improvement programmes were launched for the passenger airlines in 2024. These mainly target the efficient use of crews and the fleet and particularly include a turnaround programme at Lufthansa Airlines with measures planned to impact earnings by EUR 2.5bn in 2028. From 2025, the Group-wide efficiency and earnings improvement programmes will be combined under a central unit, which will report to the Executive Board directly on a regular basis.

Generation of strong free cash flows and effective capital allocation

Financial management aims for strong free cash flows

The generation of strong free cash flows is a clear focus of the Lufthansa Group's financial strategy, with the aim of creating value for its shareholders, further reducing its volume of debt in the long term and pursuing necessary capital expenditure. In addition to increasing the operating result, the key levers for this are strict cash and working capital management as well as focused investing activities.

Free cash flow also plays a major role for the variable remuneration of many employees, particularly of managers, and in the performance dialogues with the business entities. With this, the organisation is continuously made aware of its influence on company value and incentives are established to increase the level of free cash flows.

The Lufthansa Group achieved a positive Adjusted free cash flow of EUR 840m in the 2024 financial year (previous year: EUR 1,846m). The year-on-year decline stems mainly from the lower earnings volume, which has partly been offset by positive effects from the working capital trend. ↗ **Financial position.**

Improvements in working capital management support cash flow generation

Working capital management is to be further intensified. This includes targeted measures such as strict receivables management, optimising payment terms with suppliers, improvements to procurement processes and maintenance of inventories, in particular at Lufthansa Technik.

Focused investments are intended to increase return on capital employed

The strategic goals of the Group and its business segments, and the portfolio roles of the different Group companies provide the framework for the allocation of capital and for investment decisions. All investment projects should contribute to sustainable value creation, i.e. profitability above the weighted average cost of capital (WACC).

The Lufthansa Group is extensively investing in the modernisation of its fleet, on-board and ground products, digitalisation and infrastructure. It is largely replacing older, less efficient aircraft with new models and thereby sustainably increasing its profitability through increased fuel efficiency and reduced maintenance costs, for example. The allocation of new aircraft to the different airlines and bases follows value-based criteria and is continuously optimised.

Sale-and-lease-back transactions to finance the modernisation of the fleet were completed in the reporting year: a total of 15 short- and medium-haul aircraft were sold to lessors and then leased back.

The Lufthansa Group reduced the volume of its investments year-on-year in the reporting year. Compared with the previous year, net capital expenditure declined by 14% to EUR 2,392m (previous year: EUR 2,771m). Advance and final payments for aircraft and aircraft components along with aircraft and engine overhauls account for most of this. ↗ C12 **Primary, secondary and financial investments.**

Continuous dividend distribution aimed for

The Company plans for its shareholders to regularly participate directly in its success via an attractive dividend. This is intended to make the Company more attractive on the capital market, including for investors with a long-term investment horizon.

The Lufthansa Group's dividend policy is to distribute to its shareholders 20% to 40% of the Group's net profit, adjusted for non-recurring gains and losses. One condition for the payment of a dividend is that 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 allows for a distribution of the relevant amount.

In line with the dividend policy, the Executive Board and Supervisory Board will table a proposal at the Annual General Meeting on 6 May 2025 to distribute a dividend of EUR 0.30 per share to shareholders for financial year 2024. This represents a total dividend payment of EUR 359m or 26% of net profit for 2024, which is a higher percentage than the previous year, when 21% of net profit was distributed. ↗ **Earnings position.**

Maintaining financial stability

Liquidity to amount to between EUR 8bn and EUR 10bn

The coronavirus pandemic demonstrated that a sufficient level of minimum liquidity is vital in the event of global crises, which generally have a particularly severe impact on airlines. To ensure the requisite volume of liquidity for an extreme crisis scenario, as well as to cover operational expenses, it is also necessary to safeguard capacity to repay working capital liabilities, in particular advance payments received from customers for flight documents not yet used. At present, the Lufthansa Group aims to hold minimum liquidity of between EUR 8bn and EUR 10bn to reduce liquidity risks and thus protect the Group against possible crises. For capital efficiency reasons, part of the strategic liquidity reserve is held in the form of a revolving line of credit. Including its freely available credit lines at year-end 2024, the Company's available liquidity amounted to EUR 11.0bn (31 December 2023: EUR 10.4bn). ↗ **Financial position.**

Gearing to be further reduced

The Lufthansa Group's long-term financial strategy continues to focus on reducing its level of gearing, primarily by achieving strong free cash flows, and on optimising net indebtedness.

Gearing is measured as Adjusted net debt/Adjusted EBITDA; the ratio takes into account both net indebtedness (including the financial obligations arising from lease agreements, primarily for property and aircraft) and net pension obligations. These are actively managed. To limit any further increase in its liabilities, the Lufthansa Group has largely switched over to a defined contribution pension system. For its largest remaining defined benefit pension plans, the allocation of the pension assets has been adjusted in the context of the introduction of a liability driven investment (LDI) system. This is intended to align the sensitivity of plan assets to interest rates more closely to that of pension obligations in order to permanently reduce the level of volatility of pension provisions.

Net indebtedness stood at EUR 5,744m at the end of the 2024 financial year. It was therefore 1% higher than in the previous year (previous year: EUR 5,682m) and lower than the pre-crisis level at year-end 2019 (EUR 6,662m). Due to the positive market trend for plan assets, net pension liabilities declined in the reporting year to EUR 2,566m (previous year: EUR 2,676m). At the end of 2024, the ratio of Adjusted net debt/Adjusted EBITDA was 2.0 (previous year: 1.7). ↗ **Assets.**

T009 ADJUSTED NET DEBT/ADJUSTED EBITDA

in €m	**2024**	2023	Change in %
Net indebtedness [1]	5,497	5,435	1
Net pension obligations	2,566	2,676	–4
Adjusted net debt	**8,063**	**8,111**	**–1**
Adjusted EBIT	1,645	2,682	–39
Depreciation, amortisation and impairment	2,337	2,228	5
Adjusted EBITDA	**3,982**	**4,910**	**–19**
Adjusted net debt/Adjusted EBITDA	**2.0x**	**1.7x**	**+0.3x**

[1] In order to calculate Adjusted net debt, 50% of the hybrid bond issued in 2015 (EUR 247m) has been discounted here. Calculation of net indebtedness ↗ **Financial position.**

Lufthansa Group benefits from good capital market access and utilises diversified funding sources

The Lufthansa Group successfully raised new funds on the capital market again in the 2024 financial year, benefiting from attractive conditions associated with its investment grade rating. Overall, a volume of EUR 1,734m was borrowed through the placement of three euro bonds. The Lufthansa Group also made use of various other financing instruments, such as sale-and-lease-back transactions and Japanese operating leases. ↗ **Financial position.**

Future financing activities will likewise be based on the need for capital expenditure and will aim to minimise financing costs. Financing activities are mainly determined by the Lufthansa Group's rating as well as market conditions. A broad financing mix, favourable financing costs, a balanced maturity profile and a diversified portfolio of lenders are achieved through the segmentation of financing instruments. ↗ C15 **Maturity profile of financial liabilities.**

New loans or bonds may pay interest at fixed or floating rates of interest. The Lufthansa Group pursues a net fix hedging strategy. This means the volume of floating-rate liabilities should not exceed the volume of funds invested at a floating interest rate. Net debt is thus subject to a fixed interest rate and market-wide interest-rate changes do not have any material impact on the Group's interest burden. This strategy is managed primarily by means of derivatives.

Securing the investment grade rating

Deutsche Lufthansa AG has received an investment grade rating from all the leading rating agencies.

Standard & Poor's and Fitch Ratings both still give Deutsche Lufthansa AG an investment grade rating of BBB-, outlook stable. In January 2024, Moody's raised its rating for Deutsche Lufthansa AG to Baa3, which is also investment grade, with a stable outlook. Scope Ratings still gives Deutsche Lufthansa AG an investment grade rating of BBB-, outlook positive.

T010 DEVELOPMENT OF RATINGS

Rating/outlook	**2024**	2023	2022	2021	2020
Standard & Poor's	BBB-/ stable	BBB-/ stable	BB/ positive	BB-/ stable	BB-/ negative
Moody's	Baa3/ stable	Ba1/ stable	Ba2/ stable	Ba2/ negative	Ba2/ negative
Scope Ratings	BBB-/ positive	BBB-/ positive	BBB-/ stable	BBB-/ negative	BBB-/ negative
Fitch Ratings	BBB-/ stable	BBB-/ stable			

The Group strives to be rated as investment grade on a lasting basis. Investment grade ratings for the Company's debt ensure good access to the capital markets and low funding costs and thus financial flexibility. Conditions for an investment grade rating are good profitability and adequate gearing, among other aspects.

Structured risk management minimises finance risks

The Group's financial stability is also ensured through integrated risk management. Hedging 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. Changes in fuel costs can therefore be taken into account in pricing at an early stage.
↗ **Opportunities and risk report; Notes to the consolidated financial statements, Note 45.**