
Lufthansa
Financial Statements 2008
Our strengths
in detail

Contents

Management Report of Deutsche Lufthansa AG 2008

In the second half-year 2008 the global economy was dominated by the financial and property crisis and slowed considerably. The financial crisis worsened again sharply following the insolvency of several banks. In addition to substantial economic losses this resulted in a breakdown of confidence in the financial markets worldwide. Financing conditions for companies and private households have similarly taken a turn for the worse. Billions in emergency funds were made available worldwide in response in order to ensure lending functions and to combat the dearth of liquidity in the money markets. Furthermore, several central banks took concerted action to make sometimes massive cuts in their prime interest rates.

In Europe a drop in the growth rate to 1.2 per cent is expected for 2008, after 3.0 per cent the previous year. Here too, the worldwide financial and property crisis weighed on the state of the economy. While countries such as Ireland and Spain, which had previously experienced a property boom, were tangibly affected by the correction in property prices, other countries such as Germany and Austria felt the indirect and delayed effects of the crisis in the form of weaker overseas demand. Thus the German economy began the year positively, before sharply losing momentum in the second half-year as well. The mood deteriorated rapidly in the final months of the year. Although domestic demand still delivered slight growth, external trade has recently no longer provided any stimulus. Adverse price movements have largely depleted rises in income due to higher employment and greater wage increases.

As a result of slackening economic expansion the growth rate for international air traffic also sank in comparison with the previous year. Growth rates for passenger traffic in Europe and North America – which were still very sound at the beginning of the year – declined continuously over the course of the year. The Asian markets were initially adversely affected by various socio-cultural factors such as the earthquake in China, the Tibet debate and visa restrictions in connection with the Olympic Games. The decline in global economic activity in the second half of the year also left its mark. In contrast, growth by airlines from the Middle East continued despite the turbulence on world markets, and on the back of substantial capital expenditure in aircraft and airport infrastructure. IATA is anticipating losses for the industry of around USD 5bn for the financial year 2008. This is due to the sharp increases in oil prices at the beginning of the year and the accelerating fall in demand in the second half-year.

Despite the difficult economic environment Deutsche Lufthansa AG was again able to increase its transport performance in 2008. Traffic revenue also performed well, rising by 4.5 per cent or EUR 611m. At the same time an additional EUR 1.2bn was spent on fuel compared with the previous year. The operating result fell sharply by EUR 964m to EUR -221m. After adjustment for non-recurring effects in both years, the result deteriorated by EUR 509m.

57 million passengers carried In the financial year 2008 Lufthansa was able to increase the number of passengers by 1.2 per cent to 57 million. Capacities were expanded by a total of 4.9 per cent at the same time. This capacity was met by rising demand, so that sales grew by 3.5 per cent, but the additional capacity could not be fully sold. The load factor therefore dropped by 1.1 percentage points to 78.6 per cent. This year capacities were mainly extended in the traffic region South America. In the traffic region North America capacity went up from its previous year's high level by 6.2 per cent, in the traffic region Middle East by 6.9 per cent and in the traffic region Africa by 7.4 per cent.

Average yields slightly up on the year In 2008 average yields remained stable. Despite increased competition Lufthansa was able to increase the yield per revenue passenger kilometre slightly. With sales up by 3.5 per cent the Company reported traffic revenue of EUR 14.1bn. This is 4.5 per cent more than in the previous year. Other revenue was slightly above last year's level at EUR 269m. Overall revenue totalled EUR 14.4bn, an increase of 4.6 per cent year on year.

Europe including Germany In the Europe traffic region (including Germany), 43.9 million passengers flew with Lufthansa, or 0.2 per cent more than in the previous year. The 2.7 per cent expansion in capacity was not taken up in full by the market. The load factor sank as a result by 1.4 percentage points to 68.7 per cent. Traffic revenue developed pleasingly however, increasing to EUR 6.7bn, 4.8 per cent higher than in the previous year. In contrast to the previous year average yields also rose by 4.2 per cent.

North America On North Atlantic routes Lufthansa was able to increase the number of passengers carried to 6.1 million by means of a 6.2 per cent rise in capacity on the previous year. Sales were up on the previous year by 5.5 per cent. As a result the passenger load factor went up slightly by 0.6 percentage points to 84.5 per cent. Although traffic revenue went up by 4.2 per cent to EUR 3.2bn, average yields declined year on year by 1.2 per cent.

South America In the South America traffic region passenger numbers increased by 7.9 per cent to 0.7 million.

Sales also grew considerably on the previous year by 19.7 per cent. This meant that the 19.5 per cent increase in capacity could be fully sold in the market. The passenger load factor rose slightly by 0.2 percentage points to 84.4 per cent. Average yields fell slightly year on year, however, by 0.6 per cent.

Middle East In the Middle East traffic region the number of passengers rose by 3.9 per cent at 6.9 per cent higher capacity to 0.9 million. Sales went up by 4.4 per cent. Traffic revenue rose by 11.8 per cent as a result. The passenger load factor fell by 1.7 percentage points year on year due to the disproportionate growth in capacity. Average yields also progressed well, rising by 7.2 per cent compared with the previous year.

Africa In the Africa traffic region Lufthansa was able to increase the number of passengers considerably by 7.9 per cent, at equally higher capacity (+7.4 per cent).

Sales also swelled significantly by 7.7 per cent. The load factor grew by 0.3 percentage points as a result. Average yields developed positively year on year (+3.8 per cent) as did traffic revenue, rising by 11.8 per cent to EUR 514m.

Asia/Pacific In the traffic region Asia/Pacific the number of passengers stayed roughly stable year on year at 4.2 million (+0.7 per cent). Capacity was extended by 3.2 per cent while demand rose by just 0.6 per cent. As a consequence the passenger load factor at 82.6 per cent was 2.1 percentage points lower on the year. Average yields sank slightly to finish 0.7 per cent down year on year. Traffic revenue on the other hand remained more or less stable at EUR 2.8bn.

Income and expenses While operating income overall rose by 3.3 per cent, operating expenses increased by 10.1 per cent. That is why the profit from operating activities shown in the income statement decreased significantly year on year by EUR 964m to EUR -221m (previous year: EUR 743m).

After adjusting both years for extraordinary effects included in the result – mainly from disposals and provisions for impending losses – earnings deteriorated by EUR 509m.

Lufthansa was able to boost revenue by 4.9 per cent to EUR 14.4bn. Other operating income reported a drop to EUR 1.4bn (previous year: 1.6bn EUR).

This decline is mainly due to non-recurring effects in the previous year, particularly the write-up in the carrying amount for LSG Holding AG and the sale of the shares in Thomas Cook AG. These non-recurring effects were partly made good by an increase in exchange rate gains – largely from changes in exchange rates between origination and realisation and the use of rates applying on the balance sheet date – and by an increase in income from cancelation of provisions.

Operating expenses totalled EUR 16.1bn and were 10.1 per cent up on the year. This was primarily due to the rise of EUR 1.2bn in the cost of materials and services.

The cost of materials and services reached EUR 9.9bn and now accounts for 61.5 per cent of total operating expenses (previous year: 59.3 per cent). The EUR 1.2bn increase in the cost of materials and services resulted almost completely from fuel costs, which rose by 40.2 per cent to EUR 4.0bn. Adjusted for the addition to provisions for pending losses and the depreciation of fuel premiums the cost of fuel rose by just 31.6 per cent. 4.5 per cent of the higher fuel costs was due to greater volumes, while 35.1 per cent stemmed from higher fuel prices in US dollars. The weakness of the US dollar reduced costs by 8.0 per cent on average over the year.

Without the positive result of price hedging, which saved EUR 418m (previous year: EUR 79m), fuel costs would have been even higher.

Costs of services purchased rose by 1.2 per cent on the year to EUR 5.8bn.

Fees and charges at EUR 2.4bn still constitute the largest expense item under services purchased. As a result of the increase in passenger numbers and of higher prices, air traffic control fees rose by 4.7 per cent. Overall fees and charges went up by 2.2 per cent.

Costs for MRO services purchased at EUR 1.2bn were 6.5 per cent lower than in the previous year. Adjusted for the effects from provisions for future maintenance the expenses would have been 10.5 per cent above last year's level.

Charter costs incurred largely for regional partners in connection with Lufthansa's regional concept were EUR 0.1bn above last year's at EUR 1.1bn.

In financial year 2008 Lufthansa's staff costs totalled EUR 2.7bn, which was 2.8 per cent up on the year.

With average annual staff numbers up again by 4.7 per cent, wage and salary costs rose by 2.6 per cent. Social security contributions rose by 2.3 per cent to EUR 260m and pension expenses by 3.9 per cent to EUR 541m.

Depreciation sank by EUR 209m or 32.7 per cent to EUR 429m in 2008. In the previous year the item included the reduction of residual carrying amounts for aircraft older than 14 years from 10 to 5 per cent, which amounted to EUR 172m.

Other operating expenses totalled EUR 3.1bn and were 14.2 per cent or EUR 382m up on the year. This stemmed principally from a sharp increase in foreign exchange losses due to currency movements. The increase was partly offset by lower sales commissions and decreases in other items.

Financial result positive again The financial result of EUR 618m beat the previous year's figure of EUR 489m. In 2008 the result was made up of a positive result from equity investments of EUR 779m (previous year: EUR 469m), positive net interest of EUR 77m (previous year:

EUR 31m) and the other financial items of EUR –238m (previous year: EUR –11m).

The rise in the result from equity investments is principally due to the fact that all subsidiaries delivered a positive result, and, with the exception of Lufthansa Commercial Holding (EUR –73m) and Lufthansa Technik AG (EUR –56m), a higher one than in the previous year. In addition, a dividend of EUR 211m was received for the first time from Swiss International Airlines AG via Air Trust AG.

Net interest came to EUR 77m in 2008 (previous year: EUR 31m). The higher interest income mainly came from loans to affiliated companies.

Impairment losses on financial assets were EUR 227m above the previous year at EUR –238m. This is particularly due to write-downs on financial investments totalling EUR 224m (previous year: EUR 11m), including EUR 146m on the carrying amount for LSG Holding AG, EUR 42m for a non-current interest receivable from LSG Sky Chefs, Inc. and EUR 16m on the carrying amount for the stake in British Midland plc.

The financial result and operating result combine to make up a pre-tax profit of EUR 397m (previous year: EUR 1,232m).

Dividend payment proposed After deduction of EUR 121m in taxes Deutsche Lufthansa AG earned a net profit for the year of EUR 276m in 2008. After transferring EUR 44m from the free retained earnings reserves the Company reported EUR 320m in distributable earnings. This is to be used to pay a dividend of EUR 0.70 per share. The Executive Board and Supervisory Board will submit a proposal to that effect to the 56th Annual General Meeting on 24 April 2009.

Cash flow from operating activities reaches EUR 402m Cash flow from operating activities came to EUR 0.4bn and was therefore 70.1 per cent lower than in the previous year (EUR 1.3bn).

In financial year 2008 Lufthansa invested EUR 823m (previous year: EUR 612m) in new aircraft and advance payments for new aircraft. Of the total, EUR 468m were for advance payments. Capital expenditure on financial investments of EUR 1.0bn was mainly financed by the repayment of loans made in prior years and dividends received. To finance future payment obligations arising from staff pension entitlements, Lufthansa again invested cash totalling EUR 199m in the Lufthansa Pension Trust on a long-term basis for investment in various fixed income and share funds. Financial liabilities rose by EUR 260m. Capital expenditure, proceeds from the disposal of non-current assets and sales of securities gave rise to a total net cash outflow of EUR 644m. With cash flow from operating activities of EUR 0.4bn and gross capital expenditure of EUR 1.8bn the internal financing ratio sank considerably to 21.8 per cent (previous year: 45.2 per cent).

Total assets slightly up Total assets rose by 2.0 per cent or EUR 342m to EUR 17.1bn. Non-current assets rose by EUR 2.1bn while current assets including prepaid expense and deferred income declined by EUR 1,8bn. Non-current financial assets grew by EUR 1.9bn. Additions from the transfer of the Lufthansa Strategy Fund to the Lufthansa SICAV-FIS (EUR 1,522m), the additional allocation to the Lufthansa Pension Trust (EUR 199m), higher loans to affiliates (EUR 524m) and the initial recognition of the stake in JetBlue Airways Corporation (EUR 214m) were offset by declines in loans to affiliates (EUR 366m) and impairment losses on the investments in LSG Holding AG (EUR 146m) and British Midland plc (EUR 16m).

Cash and cash equivalents fell by a total of EUR 1.8bn, largely due to the transfer of the Lufthansa Strategy Fund to the Lufthansa SICAV-FIS.

As a result, the balance sheet structure showed a significant shift toward capital assets that now make up 84.0 per cent of the balance sheet total (previous year: 73.1 per cent).

Shareholders' equity sank by EUR 296m due to the lower net profit for the year and is now EUR 3.8bn (previous year: EUR 4.1bn).

The equity ratio fell by 2.2 percentage points to 22.3 per cent.

Non-current borrowings rose by EUR 170m.

The proportion of non-current funding in the balance sheet total sank accordingly by 0.3 percentage points and now amounts to 64.0 per cent (previous year: 64.3 per cent). Fixed assets are now 76.2 per cent (previous year: 88.0 per cent) covered by non-current funding.

Net indebtedness came to EUR 224m (previous year: net balance sheet assets of EUR 292m[1)]). Taking into account the present value of outstanding financial leasing instalments not included in the balance sheet, net indebtedness rose to EUR 263m (previous year: net balance sheet assets of EUR 245m[1)]).

Statutory information required by Section 289 Paragraph 2 No. 5 HGB and Section 289 Paragraph 4 HGB

Principles of the remuneration system Executive Board remuneration consists of a basic remuneration and a variable remuneration that is pegged to the development of the Company's operating result. In addition, Board members may also take part in options programmes for senior managers. Supervisory Board members receive both fixed and variable remuneration. The variable remuneration depends on the dividend paid for the financial year. For details of Board members' remuneration see the financial statements of Deutsche Lufthansa AG (Note 26).

1) Adjusted to the system for the reporting year.

Structure of issued capital Deutsche Lufthansa AG's issued capital amounts to EUR 1,172m and is divided into 457,937,572 registered shares. Each share corresponds to EUR 2.56 of the issued capital. The transfer of shares requires the Company's authorisation (restriction of transferability). The Company may only withhold authorisation if there is reason to fear that registering the new shareholder in the share register could jeopardise the proper exercise of air traffic rights.

Each registered share is entitled to one vote. Shareholders exercise their rights and cast their votes at the Annual General Meeting in accordance with statutory regulations and the Company's Articles of Association.

Voting and transfer restrictions For the Company to retain its aviation licence under European law, and the air traffic rights required to fly to international destinations outside Europe, the proportion of foreign shareholders may not exceed 50 per cent of the Company's issued capital. If the proportion of foreign shareholders reaches 40 per cent, Deutsche Lufthansa AG is empowered, under Section 4 Paragraph 1 German Aviation Compliance Documentation Act (LuftNaSiG) together with Section 71 Paragraph 1 No. 1 German Stock Corporation Act (AktG), to buy back its own shares to prevent imminent excessive foreign control.

If the proportion of foreign shareholders in the share register reaches 45 per cent, the Company is authorised subject to Supervisory Board approval to increase the issued capital by issuing new shares for payment in cash by up to 10 per cent, without subscription rights for existing shareholders (Section 4 Paragraphs 2 and 3 LuftNaSiG together with Section 4 Paragraph 4 of the Articles of Association). If the proportion of foreign shareholders approaches the 50 per cent threshold, the Company is entitled to withhold authorisation to register new foreign shareholders in the share register (Section 5 Paragraph 1 of the Articles of Association).

Should the proportion of foreign investors exceed 50 per cent despite these precautions, Deutsche Lufthansa AG is authorised to require the most recently registered shareholders to sell their shares and if the shareholders do not comply with this requirement within four weeks, the Company is entitled, after a further notice period of three weeks, to declare the shares to be forfeited and to compensate the shareholders accordingly (Section 5 LuftNaSiG).

On 31 December 2008 22.6 per cent of shareholders in the share register of Deutsche Lufthansa AG were either not German nationals or were companies not domiciled in Germany.

Compensation agreements with members of the Executive Board or employees in the event of a takeover offer In the event of a change of control at Deutsche Lufthansa AG defined more precisely in the employment contract, the Executive Board member and the Company are entitled to terminate the contract within twelve months of this change of control. If the contract ends because the special termination right is exercised or the contract is revoked amicably within twelve months of and in connection with the change of control, the Executive Board member is entitled to compensation for remuneration outstanding for the remainder of the contract. In accordance with the relevant recommendation of the German Corporate Governance Code, compensation may not exceed 150 per cent of the maximum compensation agreed in the contract (Note 26).

Powers of the Executive Board (share buy-backs, share issues) Deutsche Lufthansa AG has authorised capital of up to EUR 225m: a resolution passed by the Annual General Meeting on 25 May 2005 authorised the Executive Board up to 24 May 2010, subject to approval by the Supervisory Board, to increase the issued capital by up to EUR 200m by issuing new registered shares against cash or kind (Authorised Capital A). Existing shareholders are to be granted subscription rights.

A resolution passed by the Annual General Meeting on 16 June 2004 authorised the Executive Board until 15 June 2009, subject to approval by the Supervisory Board, to increase the issued capital by up to EUR 25m by issuing new registered shares to employees (Authorised Capital B) for payment in cash. Existing shareholders' subscription rights are excluded.

The Executive Board is also authorised until 16 May 2011 to issue convertible bonds, bonds with warrants or profit-sharing rights – or combinations of these – for a total nominal value of up to EUR 1.5bn and to increase the issued capital by up to EUR 117,227,520 by issuing up to 45,792,000 new Lufthansa shares (around 10 per cent) (contingent capital II). There was also contingent capital available (contingent capital I) for a contingent increase in issued capital of up to EUR 97,644,615.68 through the issue of 38,142,428 new registered shares.

In addition, the Company is authorised by resolution of the Annual General Meeting on 29 April 2008 to buy back its own shares until 28 October 2009. The proportion of shares acquired on the basis of this authorisation, along with any other Lufthansa shares that the Company has already acquired and still holds, must at no time amount to more than 10 per cent of issued capital.

Further information on authorised capital, contingent capital and share buy-backs is given in the financial statements of Deutsche Lufthansa AG (Note 9).

Significant shareholders According to the notification received by the Company on 7 July 2006, 10.56 per cent of the voting rights are held by AXA S.A., Paris, of which 10.09 per cent are held by the US subsidiary AllianceBernstein L.P.

Appointment/dismissal of Executive Board members and amendments to the Articles of Association The Supervisory Board appoints the members of the Executive Board and determines their number. The Supervisory Board can revoke appointments for board membership and to the position of Chairman of the Executive Board for good reason. Amendments to the Articles of Association must be passed at an Annual General Meeting by a majority of at least three quarters of the issued capital represented when the vote is taken.

System for the early detection and management of risks As an international airline Deutsche Lufthansa AG is exposed both to general entrepreneurial risks and to industry-specific risks. Key areas of exposure are capacity and utilisation risks, strategy-related risks, political risks, operational risks, procurement risks, collective bargaining risks, IT risks and financial and treasury management risks.

Our permanently updated management systems enable us to identify risks and opportunities at an early stage and act accordingly. This proven risk strategy allows us to take advantage of business opportunities as long as a risk-adjusted return can be realised on market terms and the risks are appropriate and acceptable within the framework of creating value.

The deliberate management of risks and opportunities is an integral component of corporate leadership and decision-making. There is, therefore, no independent organisational structure for risk management. The system enabling risks to be identified and managed at an early stage is composed of several components. These modules are systematically linked and embedded in the organisation. There is an exception from this principle for the way the management of financial risks is organised. In contrast to general and strategic risk management, responsibility for this area is centralised. This is the only way that these homogenous risks can be identified in their entirety and responsibly managed with the necessary economic competence. Here the functions of trading, settlement and financial controlling are strictly separated and are based in independent organisational units. The risk management system for financial instruments is part of central financial management.

The Risk Management Committee (RMC) ensures on behalf of the Executive Board that risks are permanently identified and evaluated across all functions and processes. The RMC is responsible for the ongoing development of the risk management system and for constantly improving its effectiveness and efficiency. The RMC's most important tool for doing so is the risk map. It documents all material risks which could endanger the results and the existence of the Company and lists the instruments for managing risks. Risks count as material if they are capable of causing damage of at least one third of the earnings necessary for maintaining the value of the Company.
The risk map is updated regularly and its structure is aligned with the risk management process: identification, coordination, communication and control. Lufthansa applies uniform risk management standards throughout the Group. In 2008 a set of applicable definitions were published to promote a common understanding of risk management in the Lufthansa Group. The managing directors of all Group companies also appoint risk managers in all business segments. They are responsible for implementing the Group guidelines within their respective companies and are in close, regular contact with the RMC.

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

The established Opportunity and Risk Report, which appears quarterly, tracks identified opportunities and risks throughout the year in relation to planned earnings. Potential deviations from plan are quantified by the risk experts in order to focus attention on the most important risks. A discussion of risks and opportunities is also a fixed element of the regular meetings between Group controlling and the managing directors of Group companies. Finally, risks and opportunities are also examined in separate meetings with the departments exposed to risk. The focus of the meetings lies on identifying any action required and the status of measures taken for the systematic coordination of the opportunities and risks identified.

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

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

As a result of global economic developments, output in Europe, North America and Japan is not expected to increase, but rather to sink in 2009, for the first time since 2001. This will also have an impact on air traffic. Lufthansa is therefore also anticipating a decline in passenger numbers for 2009.

Lufthansa is responding to the expected changes by making flexible adjustments to its scheduled capacities in all affected markets. Capacity was already reduced in several stages in the winter flight timetable 2008/2009 and further adjustments will be made as necessary.

In conjunction with declining economic growth, prices for kerosene have fallen back significantly. At year-end they were at their pre-2005 level. After accounting for exchange rate movements, the expected negative results of hedging transactions and declining revenue from fuel surcharges, the lower fuel prices only have a disproportionately minor effect on results in the short term. In the medium term, however, hedging at current price levels creates opportunities to benefit from our hedging transactions if prices rise again.

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

In this competitive environment alliances and more in-depth forms of cooperation play an increasingly important role. Star Alliance remains the leading association of its kind with the widest scope. Lufthansa adds to Star Alliance's global offering by developing targeted regional cooperation agreements.

Lufthansa is playing an active role in the consolidation of the industry currently underway. Key steps initiated in 2008 for example were the purchases of shares in Brussels Airlines and Austrian Airlines, which are to be followed by the integration of these partners. Other projects were examined and abandoned as uneconomical. Once the majority shareholder has exercised his put option it is likely that British Midland will also have to be integrated. When evaluating and integrating new partners, risks, but also opportunities, can arise from the operating performance and financial profile of the target companies in the current market environment. These cannot be captured in full as they are dependent on events in the future. Nevertheless, the Group's experience, for example from the integration of SWISS, is included in the all-round evaluation of opportunities and risks. The available expertise will also be deployed in future reviews and integrations.

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

Constant improvements to the cost structure are vital if we are to stay ahead of the competition. We achieve this both structurally, by constantly increasing cost flexibility and as part of the Group Upgrade to Industry Leadership initiative, and also at a more immediate level by introducing programmes to safeguard earnings as necessary.

In addition to the cyclical fluctuations of the world economy and its effects on demand, it is changes in airlines' available capacities which largely determine the risk profile in the industry. In view of the boom in orders for new aircraft in recent years and despite greater financing difficulties, we expect many airlines to have growing overcapacities in many market segments in the years ahead. Competitiveness under these conditions depends primarily on how a company is positioned and how fast it can react to changes in demand. Keeping costs variable can have a decisive effect on the competitive position. In this respect, priority is given to the ability to adjust aircraft capacities to changes in demand. A far-sighted order policy, with phased orders for new aircraft and the option of replacing a number of older aircraft at any time with new deliveries, enables Lufthansa to adjust its capacity to changes in demand at all times. As the majority of the aircraft are owned and have already been partly depreciated, they can be grounded temporarily if necessary at short notice and without high residual cost.

New laws and changes to national and international regulations also have a major effect on Lufthansa's future business success. Air traffic rights and safety regulations as well as compliance, capital market, tax and competition law all play an important role. In addition to existing regulations Lufthansa has established a compliance programme, the goal of which is to prevent staff from breaking the law and to assist them in applying laws correctly. It is made up of the elements Competition, Capital Market, Integrity and Corporate Compliance.

The aviation industry is likely to be severely affected by geopolitical events such as wars, terrorist attacks or pandemics. However, political decisions can also have drastic effects: when they either abolish or create distortion to competition for instance.

The introduction of emissions trading from 1 January 2012 as adopted by the EU will alter the market and competitive situation within the aviation industry. Lufthansa is preparing to implement these requirements. A hedging strategy is currently being elaborated for the price risk of emissions certificates and adjustments to the relevant IT systems are being prepared.

A more restrictive regulation of night flights at Frankfurt Airport could also have a negative impact on earnings development and growth prospects at this hub. For available capacities to be used economically and in line with demand, a practicable arrangement for night flights is indispensable. The official approval of the plan on expanding airport capacity was taken in late 2007. This means that capacities can be expanded substantially. The official approval of the plan provides for a maximum annual average of 150 flight movements per night for homebase carriers, of which a maximum of just 17 are permitted for freight in the period 11 p.m. to 5 a.m. In January 2009 the administrative court in Kassel dismissed the applications for an injunction against immediate execution of the official approval. In its reasoning the court made it clear that the night flight rule would not ultimately stand up to judicial review.

Lufthansa appealed against the restrictive night flight rule in early 2008. At present it is not possible to predict the outcome of the proceedings with any degree of certainty. There is, however, a distinct risk that the practicable regulation of night flights advocated by Lufthansa may not come about.

The management of geopolitical risks must concentrate on dealing with the consequences after the event. Our emergency response programme Security and Reliability forms the basis for minimising the consequences of an incident for all involved. The individual steps are adapted in response to ongoing developments and are laid down in an Emergency Response and Action Plan (ERAP).

Staff risks Changes in the macroeconomic environment mean that, in some areas of the Group, staff-related risks shift from securing growth by optimised recruitment to ensuring that staff capacities are breathable in case of changes in operations. We have precise systems for measuring staff requirements and a tested, phased procedure for adjusting staff capacities. A variety of elements providing flexibility have been agreed in advance with the social partners and add to our capacity to adapt. The speed and effectiveness of reaction represent risk factors, however.

Transparency and priority for socially acceptable measures ensure that employees' vital and traditionally high motivation levels are maintained. This also preserves Lufthansa's first-class reputation in the labour market. Together with the latest systems and methods of staff marketing it will allow us to prevail in the competition for the best employees, which has not waned despite the recession.

The classical staff risks include acceptance and cost risks within the framework of collective bargaining and staff representation agreements. This mainly relates to the way remuneration and benefits are dealt with in wage settlements. Demanding negotiations in this area are a permanent fixture and entail risks which have to be minimised by carefully balancing different interests in the given economic environment. This is the task of our experienced professional negotiating and evaluation teams.

Increasingly heterogeneous staff structures and smaller social partners with a greater focus on the interests of a subset of the workforce can endanger cooperation between employees and the cost structures in an established group. Lufthansa deals with these risks by means of an intensive dialogue with the social partners, concepts which foster cooperation and active communications both inside and outside the Company. Nevertheless, an escalation of collective bargaining disputes up to and including strike action cannot be ruled out for 2009. In addition to the damage this does to Lufthansa's image as a reliable service provider, it also entails the risk of lost revenue and additional costs. The financial damage from the strike action in 2008 was estimated at around EUR 100m.

Competition Lufthansa operates in highly competitive markets. The many subsidies that can be witnessed can have the effect of distorting competition to the detriment of Lufthansa. Competitors also keep developing, influencing both European and international markets with new business models and cheaper cost structures for instance. Lufthansa responds with customer-focussed, high-quality products and services.

The declared aim is to further strengthen our position as a leading European premium carrier with global capacity. For one thing, Lufthansa is expanding the short and long-haul network over the medium term. As well as expanding intercontinental connections from the Düsseldorf area, Lufthansa also presented a new brand in Italy in November 2008 – Lufthansa Italia. Furthermore, Lufthansa is expanding its cooperation programmes with partners. Two new partners, Turkish Airlines and Egypt Air became members of the Star Alliance in 2008 and more new members have been approved for 2009. Lufthansa is also monitoring the current consolidation of the sector in Europe and is continuing to develop its business towards a multi-hub/multi-brand airline federation.

Product development on board and on the ground is permanently being refined, especially to meet business travellers' needs for comfortable transportation. In 2008 this included both product improvements in the premium segment and further refinement of the lounge product. Development work was completed on a new Lufthansa First Class cabin product for instance and new Senator and/or Business Lounges were opened and modernised. We continue to provide special service to HON Circle members and First Class passengers.

To provide even greater customer benefits the basic range is being expanded via BetterFly for the growing group of customers in the lower price segment, and the Economy Class product in the long-haul fleet was enhanced in November 2007 by the installation of in-seat screens.

International competition is also developing into a competition between entire systems of airports, air traffic control organisations and airlines, as these have a considerable effect on the efficiency of the entire value chain at a given location and thereby on the competitiveness of the airlines stationed there. Lufthansa has always emphasised the importance of infrastructure. This consists both of the necessary capacities and of seamless processes and competitive cost and price structures. The effects of the financial crisis on expanding the infrastructure cannot yet be determined. As the financing of large-scale projects is now confronted with far greater obstacles there is a risk that urgent capital expenditure on airport and logistics infrastructure may be delayed, leading to potential capacity bottlenecks in the long term.

By bringing together airports, air traffic control organisations and public authorities, the Air Traffic for Germany initiative has created a common platform to secure Germany's position as an air traffic location. The planned extension of the runway and terminal system at Frankfurt Airport for example is a prerequisite for securing its position as a leading air transport hub in the future. This applies all the more in view of the mega hubs being built elsewhere in the world (in the Gulf region for instance), which aim to attract global traffic flows by means of low-cost structures. For Lufthansa on the other hand the expansion of the domestic hub offers the chance to implement extensive product and process improvements and thereby increases its competitiveness. This also includes practicable regulation of night flights to preserve the cargo hub at Frankfurt/Main.

Bottlenecks in the fragmented European air traffic control system are a serious problem. They still result in considerable delays to air traffic, unnecessary detours, holding periods, increased fuel consumption and avoidable emissions. These deficits have a negative impact both on the results of all European airlines and on the environment and jeopardise growth in air traffic. Lufthansa and its competitors are therefore continuing their demands for the European Commission and national governments to create an effective European air traffic control system.

Currency, interest rate and fuel price risks As an international operating aviation group, Lufthansa is faced with the risk of changes in fuel prices, interest rates and exchange rates.

The principally conservative approach towards financial and commodity risks is reflected in systematic risk management. We use suitable management and monitoring systems to do this, with which we measure, control and monitor the risks. The functions of trading, settlement and controlling of financial risk are strictly separated at an organisational level. Lufthansa uses internal guidelines which are laid down by the Executive Board and permanently developed. The Group Financial Risk Controlling and Corporate Audit departments monitor compliance with the guidelines.

Furthermore, the current hedging policies are also permanently discussed in management board meetings across the business areas. The Supervisory Board is regularly informed of the amounts at risk. For a detailed account of the positions of exchange rate, interest rate and fuel price hedging transactions, see the Financial Statements of Deutsche Lufthansa AG (Note 14).

In 2008 Lehman Brothers was also one of Lufthansa's counterparties. A number of currency, interest rate and fuel hedges had been made with this bank, as well as investments, meaning that Lufthansa was also hit by its insolvency. At the time of the bankruptcy Lufthansa had a nominal EUR 9.1m from strategic liquidity invested in Lehman Brothers bonds. Apart from a nominal EUR 3m the positions could still be sold after the insolvency. Substitute transactions were made for the currency and interest rate financial derivatives in default. As far as fuel is concerned, the default of hedging transactions with Lehman Brothers meant that the hedging level for 2009 is below that which Lufthansa normally reaches with its layered hedging at year-end. After the default Lufthansa decided not to replicate the hedging transactions with other counterparties. This does not affect the fundamental approach to fuel hedging.

For US dollars, Lufthansa is mainly in a net payer position as regards currency risks from its operating business, as fuel payments are dollar-denominated. For other currencies there is always a net surplus. The main risks in this respect stem from the pound sterling and the Japanese yen. Currency risks from projected operational exposure are hedged gradually over a period of 24 months by means of forward contracts. The average hedging level is 50 per cent.

In principle, 50 per cent of the currency risk arising from investment in aircraft is hedged as soon as the Executive Board gives its approval. The hedging level can be adjusted if, over the lifetime of the contract, the exchange rate goes significantly above or below that used to calculate the investment. In the last 24 months before payment the hedging level is increased in semi-annual steps of 10 per cent, to reach 90 per cent at the end. Besides forward contracts, spread options are used for hedging purposes.

Lufthansa aims to ensure that 85 per cent of its financial liabilities are subject to floating interest rates. This ratio takes due account of the twin objectives of long-term minimisation of interest expense and reducing the volatility of earnings. That is why Lufthansa deliberately hedges only 15 per cent of the interest rate risks arising from financial liabilities. Foreign currency risks from financial liabilities are always hedged to 100 per cent by means of interest rate/currency swaps.

Annual fuel consumption is a major cost item, accounting for 25.1 per cent of Lufthansa's total operating expense. Severe fluctuations in fuel prices can therefore have a considerable effect on the operating result. Lufthansa therefore employs a rule-based fuel price hedging strategy with a time horizon of 24 months. This is aimed at reducing fluctuations in fuel prices. Hedging mainly takes place in crude oil.

At the reporting date there were crude oil hedges for 69.2 per cent of the forecast fuel requirement for 2009, in the form of spread options and other hedging combinations. For 57.7 per cent of fuel requirement for 2009 the effect of the hedge against an extreme price increase is limited by offsetting transactions. At the reporting date hedges had been concluded for 30.6 per cent of the likely fuel requirement for 2010 in the form of spread options and other hedging combinations. For 22.9 per cent of the fuel requirement for 2010 the effect of the hedge against an extreme price increase is limited by offsetting transactions.

The fuel surcharge has established itself in the market as a further means of reducing risk. It is uncertain, however, to what extent the fuel surcharge can be maintained if the economy slows down markedly.

If fuel prices were to drop far below the price level at the end of 2008, Lufthansa's total expenses would be significantly reduced. This benefit would, however, be partly forfeited due to the put options sold as part of the hedging policy and lower fuel surcharges.

Liquidity and credit risks Having sufficient liquidity at all times is of crucial importance for Lufthansa. The financial reporting system provides centralised information on the actual financial status and expected cash flows. This adds up to an up-to-date picture of the Company's liquidity at all times.

To maintain its freedom of action, Lufthansa always holds a strategic minimum liquidity of EUR 2bn. In addition, the Group had unused bilateral lines of credit amounting to a further EUR 1.8bn as of 31 December 2008.

To maintain this liquidity reserve our planned capital expenditure requires us to borrow. The current international financial crisis is proving punishing for banks and investors worldwide. This has made debt generally scarcer and more expensive. Effects on financing can therefore not be ruled out for Lufthansa either. Nevertheless, due to its credit rating and position in the industry, banks and investors still consider Lufthansa to be a preferred partner.

The aim of the counterparty limit methodology in place for financial management at Lufthansa is to assess and control the default risk of counterparties on an ongoing basis. A maximum acceptable risk is determined for each counterparty. This is primarily derived from the rating given by recognised rating agencies. For oil companies without a rating the maximum credit limit is generally EUR 20m.

The extent to which counterparty limits are taken up by existing financial market transactions is calculated and reported daily. If limits are exceeded, an escalation procedure comes into play, requiring decisions to be taken on the action needed.

In times of economic downturn the risks from trade receivables increase. We track the performance of receivables closely here too. Preventive measures are also taken. Passenger and freight documents are largely sold via agents, whose credit rating is regularly reviewed and partly secured by guarantees or similar instruments.

Counterparty risks in connection with credit card companies are monitored closely and incoming payments are reviewed daily. Payment targets with some credit card companies were significantly reduced in 2007 and 2008 to lessen default risk.

Market risk from capital investments Lufthansa makes capital investments as part of its operating liquidity and strategic minimum liquidity and within the Lufthansa Pension Trust. The risks mainly consist of price risks for shares, fixed-income securities and interest rates as well as credit risks. The worldwide losses in the reporting year provided arresting proof of the need for functioning risk management.

Capital investments to ensure operating liquidity are made in accordance with the Group's financial guidelines. The duration of the investments is limited to 12 months. At least EUR 300m must be in investments which can be liquidated on a daily basis. For its operating liquidity Lufthansa mainly uses money market funds which can be liquidated daily, overnight deposits, fixed-term deposits and short-term securities (especially commercial papers) from creditworthy issuers. Investments must be with counterparties which have a rating of at least BBB. Only 20 per cent of investments for operating liquidity may be invested with counterparties with less than an A– rating. Investment in money market funds may not exceed 10 per cent of the fund's total assets. Thanks to strict investment monitoring the operating liquidity was not impaired by the current financial market crisis.

Lufthansa has determined the investment structure of the strategic minimum liquidity using a stochastic allocation study. This was based on Lufthansa's conservative investment principles. The study resulted in a diversified portfolio in which the majority of investments are made in money market-related products. Part of the investments was secured by a capital guarantee. The strategic minimum liquidity is divided into several components with different investment horizons, which are managed by external fund managers under discrete mandates. One of the requirements is that the investments must be able to be liquidated within a maximum of four weeks. Each fund manager follows tailored investment guidelines derived from the general Lufthansa investment principles. As some mandates also allow for investments in corporate bonds and to a limited extent in ABS, the strategic minimum liquidity suffered losses in connection with the financial market crisis. These did not effect the financial statements of Lufthansa AG, however, as the losses were absorbed by unrealised gains not recognised in the balance sheet, which is prepared under the historic cost principle. Lufthansa is in permanent contact with the fund managers concerned and monitors their performance by means of daily and monthly performance and risk reports.

The investments for the Lufthansa Pension Trust are also made on the basis of an allocation study. Here too, Lufthansa's conservative investment principles are paramount and form the basis for the individual fund managers' specific investment guidelines. We follow the principle of diversifying risk here too by dividing the investments across a broad range of asset classes and fund managers. A risk management system is also in place which enables risk management on a daily basis. The severe losses on financial markets led this risk system to hedge most of the asset classes by means of derivative instruments and by physically selling securities.

Insurance As insurers remain extremely cautious, it is difficult for European airlines to arrange effective insurance coverage against terrorist attacks. Specialised insurers now only offer limited coverage for damage to aircraft in these cases. As this insurance cover is not obligatory for an airline's operating licence, there is no danger of planes being grounded because of it. In cooperation with the aviation industry liability insurers have drafted proposals for new terms. Instead of completely excluding all coverage, the third-party liability risk is now to be capped at a reasonable level.

In this respect the draft amendment to the Rome Convention presented to the International Civil Aviation Authority in Montreal is questionable. The convention is intended to regulate the fundamental liability of an aircraft operator for damages to persons and property caused by terrorist attacks and suffered by third parties not involved in air traffic. Particularly worrying is the attempt to make the aviation industry unilaterally liable for damages due to terrorist attacks by instituting a limited strict third-party liability together with liability in case of fault for further damages. This is unacceptable, not least because the target of potential terrorist attacks is generally the community of states and the social community and not private aviation companies.

The Executive Board and Supervisory Board are liable to the Company for damages caused by culpable breach of duty. A D&O (directors' and officers') liability insurance policy has been arranged for both boards with an appropriate excess.

Events after the balance sheet date

European Commission extends deadline for reviewing merger with Brussels Airlines On 26 January the European Commission announced that it would be looking more closely at the planned takeover of SN Airholding NV, the parent company of Brussels Airlines. The deadline for examining the merger was therefore extended until 10 June. A decision had originally been expected for the end of January. Lufthansa is nevertheless expecting the planned transaction to be approved.

Lufthansa Italia begins scheduled services On 2 February Lufthansa Italia began its scheduled services. Since then the first two Airbus A319s have been connecting Milan to Paris and Barcelona. Four more destinations followed in March – Brussels, Budapest, Bucharest and Madrid. Furthermore, non-stop connections to London and Lisbon are to begin from the start of the summer 2009 flight timetable. Lufthansa is thus exploiting available opportunities on the attractive North Italian market.

UFO pulls out of wage negotiations With the expiry of the wage settlement on 31 December 2008 the trade union UFO presented demands for an increase of 15 per cent in remuneration for Lufthansa's 14,000 flight attendants. Lufthansa put forward an extensive offer, based on the agreement reached in August 2008 with Lufthansa ground staff, which includes an increase in remuneration, a profit-share payment and concrete suggestions for improving working conditions. The union has nevertheless withdrawn from negotiations and carried out warning strikes. Their effects have so far been limited, however.

Outlook In the last few months of 2008 the global economy worsened more sharply than originally assumed. Companies' poor earnings prospects, the persistent crisis in the financial sector, restrictive lending policies by banks and the economic losses suffered by private households will all depress the economy. Given the reciprocal dependencies between the financial sector and the real economy, global economic development is therefore expected to be negative this year. Overall, global economic output is expected to shrink by 0.5 per cent in 2009. Economists are talking about the worst recession since the end of the second world war. These developments are being driven by a downward trend in industrialised countries which is spreading to the emerging economies. A stabilising effect is primarily hoped for from the monetary measures taken and expansive fiscal policies applied in many industrialised countries, but also in emerging economies such as China. However, the assumption is that the economy will not recover before the end of the third quarter 2009.

The USA is expected to enter recession. The development in the economy will then depend on the course taken by the financial and property crisis and the programmes to stimulate the economy which have been adopted and are still planned. Private consumption is expected to fall sharply. The fact that the situation on the labour market is deteriorating is a particularly bad sign. This has negative effects on wealth and causes the saving rate to rise. Given the global economic downturn and the stronger dollar, US industry will suffer from dwindling international demand. Economic output in the USA is therefore forecast to drop by 2.5 per cent in 2009.

Growth rates in the Asia-Pacific region will also cool down further in 2009 as a result of the fragile world economic environment and its dependence on exports. Overall, growth of just 1.8 per cent is expected. In Japan the rise in the yen's exchange rate will also restrict export activity markedly in 2009. Despite the impetus provided by financial policies, private consumption will only be able to make up for this trend to a very minor extent. Economic output in 2009 is therefore predicted to contract by 2.2 per cent in Japan as well. The Chinese economy, which is highly dependent on exports, will also experience much lower growth in 2009. Measures have been taken to counteract the decline in exports and stimulate domestic demand. As well as monetary measures this primarily involves a sweeping expansion of infrastructure investment. The general assumption is that the economy will only grow by 6.3 per cent in 2009. This is the lowest rate since 1990.

For Europe it is assumed that gross domestic product will shrink by 1.7 per cent in 2009. This will largely be the result of a deep slump in capital expenditure and declining exports. For Germany too, a recession and a fall in gross domestic product of 2.2 per cent are forecasted. That would be the lowest rate since the year of recession in 1993. As it is deeply integrated into the global economy, German business is particularly vulnerable to swings in external trade. The predicted fall in exports is therefore a severe prospect. The adverse global economic conditions will also have an impact on capital expenditure. Consumer spending is not expected to deliver any tangible stimulus either. The German federal government has also adopted economic stimulus packages to counteract the global downturn, which are intended to have a stabilising effect in 2009.

In view of the worldwide recession the oil price is expected to remain low over the short to medium term. Once the economy recovers, however, oil prices are likely to rise again significantly given that resources are still limited. Forward contracts for crude oil confirm this trend. At year-end 2008 for delivery in December 2009 they were 35 per cent above the spot price at USD 61/bbl, and for a 24-month contract through to December 2010 the premium is already 49 per cent (USD 68/bbl).

In view of the much gloomier prospects for the economy as a whole, the aviation industry is also expected to experience severe effects in certain regions. Altogether, IATA predicts that passenger numbers will decline in the year ahead by 3 per cent, for the first time since 2001. The last significant slump due to global economic factors was in 1991. A return to the long-term annual growth trend of 5 per cent is not expected before 2011.

In view of these developments it is assumed that capacities in the North American market will be reduced further, a process which began in 2008. In Asia and the Middle East extensive new aircraft orders are an obstacle to wide-ranging capacity adjustments, however. The danger of losing slots at European hubs means there is a risk also in Europe that declining demand will not be met by equivalent cuts in capacity.

As a result of their early capacity adjustments IATA expects the North American airlines to return to profitability in the year ahead. Given the hedging position of many US airlines, however, which are still unfavourable, and the expected decline in economic output in the USA, this seems unlikely from today's perspective. IATA is forecasting losses for the Asian and European markets. The airline association does not expect lower fuel prices to compensate for falling revenue. Overall, the sector is predicted to suffer an operating loss of USD 2.5bn. A further deterioration over the course of the year cannot be ruled out. More bankruptcies are also expected across the entire aviation industry.

Lufthansa is observing current developments carefully and can move with self-confidence and above all with autonomy in this uncertain environment thanks to its solid positioning. The aim is to maintain the greatest possible flexibility in both operating and strategic terms. This is the only way of responding to current and imminent challenges in good time. The structural changes in the aviation industry also provide opportunities, however. In this difficult market environment we are assuming that there will be a shakeout in the market and that consolidation in the European air traffic sector will continue apace.

In addition to developing the business, the speed of response to fluctuations in demand will be the subject of particular attention in 2009. Lufthansa is aided by great flexibility in capacity and revenue planning and its largely unencumbered fleet. The capacity reductions already initiated and other steps to stabilise earnings will take effect in 2009. They will be extended as necessary. This year will nevertheless be a challenging one. Scenarios that have been analysed include the losing of revenue from considerably softer demand, but also the exploitation of opportunities left by the disappearance of competitors from the market. Again in 2009 fuel price developments and possibilities to compensate for them will have a decisive influence on Lufthansa's profitability.

In the current environment where the relevant parameters are volatile, a quantified forecast would only be of very temporary validity and is therefore something we would prefer to forego. Nevertheless, Lufthansa is expecting a decline in revenue and lower operating profit for 2009. In the event of an economic recovery there is the potential for a stabilisation of revenue and earnings again in 2010.

Financial Statements of Deutsche Lufthansa AG
Balance sheet as of 31 December 2008

Assets			
in €m	Notes	**31.12.2008**	31.12.2007
Intangible assets		34	35
Aircraft		3,551	3,311
Other tangible assets		108	90
Financial investments	4)	10,709	8,846
Fixed assets	3)	**14,402**	**12,282**
Inventories	5)	23	22
Trade receivables	6)	535	570
Other receivables and other assets	6)	1,509	1,447
Securities	7)	426	1,525
Cheques, cash in hand, Bundesbank balances, bank balances	7)	218	903
Current assets		**2,711**	**4,467**
Prepaid expenses	8)	**35**	**57**
Total assets		**17,148**	**16,806**

Shareholders' equity and liabilities			
in €m	Notes	**31.12.2008**	31.12.2007
Issued capital	9)	1,172	1,172
Capital reserve	10)	857	857
Retained earnings	10)	1,466	1,510
Distributable earnings	28)	320	572
Shareholders' equity		**3,815**	**4,111**
Provisions	11)	**9,061**	**8,562**
Bonds		599	599
Liabilities to banks		472	380
Payables to subsidiaries		673	834
Other liabilities		2,491	2,282
Liabilities	12)	**4,235**	**4,095**
Deferred income		**37**	**38**
Total shareholders' equity and liabilities		**17,148**	**16,806**

Deutsche Lufthansa AG
Income Statement
for the Financial Year 2008

in €m	Notes	**2008**	2007
Traffic revenue	15)	14,133	13,522
Other revenue	16)	311	253
Total Revenue		**14,444**	**13,775**
Other operating income	17)	1,440	1,596
Cost of materials and services	18)	− 9,899	− 8,671
Staff costs	19)	− 2,707	− 2,632
Depreciation	20)	− 429	− 637
Other operating expenses	21)	− 3,070	− 2,688
Profit from operating activities		**- 221**	**+ 743**
Result of equity investments	22)	+ 779	+ 469
Net interest	23)	+ 77	+ 31
Write-down of investments and securities held as current assets	24)	− 238	− 11
Financial result		**+ 618**	**+ 489**
Profit from ordinary activities before taxes		**+ 397**	**+ 1,232**
Taxes	25)	− 121	− 109
Net profit for the year	27)	**+ 276**	**+ 1,123**
Transfers from retained earnings		+ 44	–
Transfers to retained earnings		–	− 551
Distributable earnings	27)	**+ 320**	**+ 572**

Deutsche Lufthansa AG
Statement of Fixed Assets Movement 2008

€m	Acquisitions / Production costs as of 1.1.2008	Additions	Disposals	Transfers	as of 31.12.2008	Accumulated depreciation as of 1.1.2008	Additions	Disposals	Write-ups	Transfers	as of 31.12.2008	Carrying amounts as of 31.12.2008	as of 31.12.2007
Intangible assets													
Concessions, industrial and similar rights and assets and licences in such rights and assets	189	7	4	4	196	159	13	4	–	–	168	28	30
Advance payments	7	5	2	– 4	6	2	–	2	–	–	–	6	5
	196	**12**	**6**	**–**	**202**	**161**	**13**	**6**	**–**	**–**	**168**	**34**	**35**
Aircraft													
Aircraft and accessories	10,555	355	78	259	11,091	8,290	398	68	–	–	8,620	2,471	2,265
Advance payments and plant under construction	1,046	468	175	– 259	1,080	–	–	–	–	–	–	1,080	1,046
	11,601	**823**	**253**	**–**	**12,171**	**8,290**	**398**	**68**	**–**	**–**	**8,620**	**3,551**	**3,311**
. Other tangible assets													
Real estate, leasehold rights and buildings including buildings on third-party land	119	1	5	11	126	77	6	4	–	–	79	47	42
Office and other equipment	145	14	11	–	148	112	12	10	–	–	114	34	33
Advance payments and plant under construction	15	23	–	– 11	27	–	–	–	–	–	–	27	15
	279	**38**	**16**	**–**	**301**	**189**	**18**	**14**	**–**	**–**	**193**	**108**	**90**
'. Investments													
Shares in subsidiaries	5,616	1,738	6	–	7,348	224	146	–	–	–	370	6,978	5,392
Loans in subsidiaries	2,408	524	366	–	2,566	244	57	4	–	–	297	2,269	2,164
Other equity investments	767	215	–	–	982	135	16	–	–	–	151	831	632
Loans to companies held as other equity investments	–	–	–	–	–	–	–	–	–	–	–	–	–
Securities	66	4	17	–	53	3	2	–	–	–	5	48	63
Other loans	607	15	24	–	598	26	3	3	–	–	26	572	581
Prefinancing of leasehold	15	–	3	–	12	1	–	–	–	–	1	11	14
	9,479	**2,496**	**416**	**–**	**11,559**	**633**	**224**	**7**	**–**	**–**	**850**	**10,709**	**8,846**
otal fixed assets	**21,555**	**3,369**	**691**	**–**	**24,233**	**9,273**	**653**	**95**	**–**	**–**	**9,831**	**14,402**	**12,282**

Notes to the Financial Statements of Deutsche Lufthansa AG for 2008

1) Application of the German Commercial Code (HGB)

The financial statements for Lufthansa AG have been prepared in accordance with the rules and regulations of the German Commercial Code (HGB) and the German Stock Corporation Act (AktG).

In the interest of clearer presentation, certain items of the balance sheet and the income statement have been grouped together and are shown and explained separately in the notes. Over and above the statutory classification system, the entry relating to aircraft is listed separately in order to improve the clarity of the financial statements.

2) Accounting and valuation methods

Intangible and tangible assets are stated at their purchase or manufacturing costs less scheduled depreciation.

In-house conversion rates for foreign currencies are set monthly in advance according to the rates of exchange on international markets. These serve as the basis for converting foreign currency items into euros in the month in which entries are made.

Accounts receivable/payable in foreign currency, receivables from/payables to subsidiaries in foreign currency, liquid funds and provisions are stated at the rate applying on the balance sheet date. For all other receivables/liabilities in foreign currency the lower/higher of cost or market principle is observed by comparing the purchase cost with the value on the balance sheet date.

The cost of capital goods acquired from abroad – mainly aircraft invoiced in US dollars – is determined by translation according to the conversion rates in effect at the time of payment. Assets for which payments are hedged against exchange rate fluctuations are recognised/derecognised within the framework of separate valuation units.

Intangible assets Acquired concessions and similar rights are generally amortised at a rate of 20 per cent.

Tangible assets Scheduled depreciation of tangible assets is based on the purchase and manufacturing costs depreciated over the asset’s useful life.

Due to a change in tax legislation, from 2008 assets of minor value (up to EUR 150) are fully depreciated in the year they are purchased and those costing up to EUR 1,000 are depreciated over 5 years. There was previously a uniform threshold of EUR 400.

Aircraft New aircraft are written down over twelve years to a residual carrying amount of 15 per cent. Since the financial year 2000 aircraft deployed beyond the assumed useful life of twelve years have been written down to a residual carrying amount of 10 per cent. Additionally, aircraft still in operation after a useful life of 14 years will be written down to a residual carrying amount of 5 per cent from the financial year 2007 onwards. Aircraft acquired second hand are written down in full over eight years regardless of residual carrying amounts. Depreciation of new additions to aircraft were depreciated on a declining balance basis until 2007. From 2008 onwards they are depreciated on a straight-line basis due to the change in tax legislation. This resulted in lower depreciation of EUR 60m.

Other tangible assets Buildings are assigned a useful life of between 20 and 50 years. Buildings and installations on land belonging to third parties are written off according to the term of the lease or are assigned a shorter useful life. Office and other equipment is depreciated over three to fourteen years in normal circumstances.

Items of office and other equipment acquired after the 1997 financial year are depreciated on a declining-balance method. This was altered to the straight-line method in 2008 due to the change in tax legislation. The effects of this on the net profit for the year are of minor importance.

Financial investments Financial investments are stated at cost less any necessary value adjustments.

Current assets Raw materials, consumables and supplies are valued at cost, with stock risks being provided for by appropriate mark-downs.

Securities are shown at their purchase price less any necessary value adjustments.

In addition to individual write-downs necessary for known risks applying to other current assets, adequate provision is made for general credit risk by a write-down of each item by a standard amount.

Provisions Pension provisions are shown at their going-concern value, which is calculated according to actuarial principles on the basis of the 2005 G computation tables applicable from the financial year 2005 and a discount rate of 5.25 per cent.

The assigned value of other provisions takes into account all known risks judged on the basis of sound business practice.

Liabilities Liabilities are shown at repayment or present value.

Notes on Balance Sheet Assets

3) Fixed assets

Changes in individual fixed asset items during the financial year 2008 are shown in a separate table.

In addition to the Company's own aircraft listed in the Statement of Fixed Assets Movements and in the balance sheet, further aircraft were chartered, in some cases complete with crews.

The Company also has long-term leasing contracts for fourteen A340-600s, three A330-300s, two A340-300s, one A321-200 and one A319-112.

Significant equity investments

Company	Share in %	Equity capital in €m	Earnings after taxes in €m
Lufthansa CityLine GmbH, Cologne	100	26	6 *
Lufthansa Cargo AG, Kelsterbach	100	159	154 *
Lufthansa Technik AG, Hamburg	100	369	126 *
LSG Lufthansa Service Holding AG, Neu-Isenburg	100	314	20 *
Lufthansa Systems AG, Kelsterbach	100	23	8 *
Lufthansa Flight Training GmbH, Frankfurt/Main	100	20	16 *
Lufthansa Commercial Holding GmbH, Cologne	100	142	59 *
Delvag Luftfahrtversicherungs-AG, Cologne	100	33	7 *
Eurowings Luftverkehrs AG, Nuremberg	100[1)]	75	13 **
Air Dolomiti S.p.A.L.A.R.E., Ronchi dei Legionari	100	27	0 **
British Midland plc, Donnington Hall	30	28	4 ***
Aircraft Maintenance and Engineering Corporation, Beijing	40	118	6 ***
Lufthansa Pension GmbH & Co. KG, Frankfurt	70	2,411	0 ***
Lufthansa SICAV-FIS, Luxembourg	100	1,521	-7 **
Swiss International Air Lines AG, Basel	100[2)]	1,406	299 **
Günes Ekspres Havacilik Anonim Sirketi (SunExpress), Antalya	50	22	12 ***
Lufthansa Malta Holding Ltd., Malta	100	1,027	82 **

* before profit/loss transfer
** preliminary result under IFRS
*** financial year 2007

1) Share calculated (100%) including a call option giving the right to acquire 50.91%
2) Share calculated (100%) via Air Trust AG

4) Financial investments

The complete list of equity investments is published in the electronic edition of the German Federal Gazette (Bundesanzeiger).

5) Inventories

Inventories

in €m	**31.12.08**	31.12.07
Raw materials and supplies	14	10
Finished goods and merchandise	9	12
	23	**22**

6) Receivables and other assets

Receivables and other assets in €m	31.12.08	of which due after more than one year	31.12.07
Trade receivables	535	0	570
Receivables from subsidiaries	839	7	942
Receivables from companies held as equity investments	19	0	25
Other assets	651	230	480
	2,044	**237**	**2,017**

7) Securities and liquid assets

Cash in hand and bank balances consist almost entirely of credit balances held with banks. Fixed-term deposits and bank balances assigned as collateral amounting to EUR 71m are shown as other assets, as are foreign currency bank balances not likely to be transferred in the near future, which are discounted appropriately. Securities comprise only other investments; this includes shares in money market funds amounting to EUR 330m.

8) Prepaid expenses

This item contains interest from finance leasing agreements for aircraft amounting to EUR 14m.

Notes on Balance Sheet Shareholders' Equity and liabilities

9) Issued capital

Deutsche Lufthansa AG's issued capital totals EUR 1,172.3m.

Issued capital is divided into 457,937,572 registered shares, with each share representing EUR 2.56 of issued capital.

A resolution passed by the Annual General Meeting on 25 May 2005 authorised the Executive Board up to 24 May 2010, subject to approval by the Supervisory Board, to increase the issued capital by up to EUR 200m by issuing new registered shares against cash or kind (Authorised Capital A). Existing shareholders are to be granted subscription rights. In the case of shares issued for payment in kind these rights may be ruled out, while in the case of shares issued for payment in cash they may be ruled out for residual amounts. The Executive Board is further authorised in the case of a capital increase against cash contributions to rule out, subject to approval by the Supervisory Board, a subscription right for existing shareholders on condition that the new shares so issued must not exceed 10 per cent of the issued capital and that the issue price must not be significantly lower than the market price.

A resolution passed by the Annual General Meeting on 17 May 2006 authorised the Executive Board up to 16 May 2011, subject to approval by the Supervisory Board, to issue with or without maturities bearer or registered convertible bonds, bonds/warrant packages, profit sharing rights or participating bonds on one or more occasions totalling up to EUR 1.5bn. In this connection contingent capital (contingent capital II) was created for a contingent capital increase of up to EUR 117,227,520 by issuing up to 45,792,000 new registered shares. The contingent capital increase will only take place insofar as the holders of convertible bonds or warrants from bond/warrant packages decide to exercise their conversion and or option rights.

Under the authorisation dated 16 June 1999 Lufthansa AG had issued EUR 750m in convertible bonds with effect from 4 January 2002. Existing shareholders were not allowed to subscribe to this issue. A total of 750,000 rights of conversion were issued that after the 2004 capital increase entitled the holders to convert them into up to 37,764,350 Lufthansa AG shares at a price of EUR 19.86 each. Convertible bonds were redeemed early on 4 January 2006 for a total of EUR 699m, 309 conversion rights were exercised (15,558 shares) in 2006, a further 40 conversion rights (2,014 shares) were exercised in 2007 and as of 4 January 2008 convertible bonds amounting to EUR 205,000 were redeemed. As of the balance sheet date there were therefore 50,139 conversion rights outstanding, convertible into up to 2,524,622 shares in Lufthansa AG at a price of EUR 19.86.

There was subsequently contingent capital available (contingent capital I) for a contingent increase in issued capital of up to EUR 97,644,615.68 through the issue of 38,142,428 new registered shares.

A resolution passed by the Annual General Meeting on 29 April 2008 again authorised the Executive Board to buy back company shares until 28 October 2009. The authorisation is limited to 10 per cent of current issued capital which can be purchased on the stock exchange or by a public purchase offer to all shareholders. At the same Annual General Meeting the existing authorisation to buy back company shares, which runs until 17 October 2008, was revoked.

A resolution passed by the Annual General Meeting on 16 June 2004 authorised the Executive Board until 15 June 2009, subject to approval by the Supervisory Board, to increase the issued capital by up to EUR 25m, by issuing new registered shares to employees (Authorised Capital B) for payment in cash. Existing shareholders' subscription rights are excluded.

In 2008 Lufthansa AG bought back a total of 2,571,935 of its own shares at an average price of EUR 13.89. This is equivalent to 0.56 per cent of issued capital.

The shares were used as follows:

- 1,859,305 shares were offered to staff of Lufthansa AG and 34 subsidiaries and other associated companies as part of the profit sharing scheme 2007 and as part of the performance-related variable remuneration for managers and non-pay scale staff of Deutsche Lufthansa AG and 25 subsidiaries and other associated companies at an average price of EUR 15.77.
- 707,383 shares were used as part of performance-related variable remuneration in 2008 for managers and non-pay - scale staff of Deutsche Lufthansa AG and 25 subsidiaries and other associated companies at a price of EUR 10.73.

5,247 shares were resold at an average price of EUR 11.00.

On the balance sheet date no further treasury shares were held.

Notifications on the shareholder structure in accordance with Section 26 Paragraph 1 Securities Trading Act (WpHG) dated 14 July 2006 On 7 July 2006 AXA Investment Managers Deutschland GmbH, Bleichstraße 2–4, 60313 Frankfurt, notified us on behalf of and with the authorisation of AXA S.A., Paris, 25 avenue Matignon, 75008 Paris, France, that:

The voting rights of AllianceBernstein L.P., 1345 Avenue of the Americas, New York, NY 10105, USA, in Deutsche Lufthansa AG rose above the threshold of 10 per cent to 10.09 per cent on 3 July 2006. These voting rights are attributed to the company pursuant to Sections 21 Paragraph 1 and 22 Paragraph 1 Sentence 1 No. 6 WpHG.

The voting rights AllianceBernstein Corporation, 1345 Avenue of the Americas, New York, NY 10105, USA, in Deutsche Lufthansa AG rose above the threshold of 10 per cent to 10.09 per cent on 3 July 2006. These voting rights are attributed to the company pursuant to Sections 21 Paragraph 1 and 22 Paragraph 1 Sentence 1 No. 6 and Section 22 Paragraph 1 Sentence 2 WpHG.

The voting rights of Equitable Holdings, LLC, 1290 Avenue of the Americas, New York, NY 10019, USA, in Deutsche Lufthansa AG rose above the threshold of 10 per cent to 10.09 per cent on 3 July 2006. These voting rights are attributed to the company pursuant to Sections 21 Paragraph 1 and 22 Paragraph 1 Sentence 1 No. 6 and Section 22 Paragraph 1 Sentence 2 WpHG.

The voting rights of AXA Equitable Life Insurance Company, 1290 Avenue of the Americas, New York, NY 10019, USA, in Deutsche Lufthansa AG rose above the threshold of 10 per cent to 10.09 per cent on 3 July 2006. These voting rights are attributed to the company pursuant to Sections 21 Paragraph 1 and 22 Paragraph 1 Sentence 1 No. 6 and Section 22 Paragraph 1 Sentence 2 WpHG.

The voting rights of AXA Financial Services, LLC, 1290 Avenue of the Americas, New York, NY 10019, USA, in Deutsche Lufthansa AG rose above the threshold of 10 per cent to 10.09 per cent on 3 July 2006. These voting rights are attributed to the company pursuant to Sections 21 Paragraph 1 and 22 Paragraph 1 Sentence 1 No. 6 and Section 22 Paragraph 1 Sentence 2 WpHG.

The voting rights of AXA Financial, Inc., 1290 Avenue of the Americas, New York, NY 10019, USA, in Deutsche Lufthansa AG rose above the threshold of 10 per cent to 10.09 per cent on 3 July 2006. These voting rights are attributed to the company pursuant to Sections 21 Paragraph 1 and 22 Paragraph 1 Sentence 1 No. 6 and Section 22 Paragraph 1 Sentence 2 WpHG.

The voting rights of AXA S.A., Paris, 25 avenue Matignon, 75008 Paris, France, in Deutsche Lufthansa AG rose above the threshold of 10 per cent to 10.56 per cent on 3 July 2006. 10.50 per cent of these voting rights are attributed to AXA S.A. pursuant to Sections 21 Paragraph 1 and 22 Paragraph 1 Sentence 1 No. 6 and Section 22 Paragraph 1 Sentence 2 WpHG, and a further 0.06 per cent pursuant to Section 22 Paragraph 1 Sentence 1 No. 1 WpHG.

Notice AXA S.A. Paris (parent company) is required under Sections 21 et seq. WpHG to make the above notifications as its share of voting rights in Lufthansa exceeded the threshold of 10 per cent and now, cumulatively, i.e. including the attributable shares of its subsidiaries, amounts to 10.56 per cent. An ownership structure disclosure to this effect in compliance with Section 26 Paragraph 1 WpHG was published on 16 June 2006 when these companies' shareholdings exceeded the five per cent threshold.

Notifications on the shareholder structure in accordance with Section 26 Paragraph 1 Securities Trading Act (WpHG) dated 11 January 2008 On 11 January 2008 ATON GmbH, Germany, sent us notification in accordance with Section 21 Paragraph 1 WpHG that its share of voting rights in Deutsche Lufthansa AG exceeded the threshold of 3 per cent on 10 January 2008, and it now holds 3.09 per cent (14,130,000 voting shares).

On 11 January 2008, Dr Lutz M. Helmig, Germany, sent us notification in accordance with Section 21 Paragraph 1 WpHG that his share of voting rights in Deutsche Lufthansa AG exceeded the threshold of 3 per cent on 10 January 2008, and he now holds 3.11 per cent of voting rights (14,261,200 voting shares).

Of these voting rights, 3.09 per cent (14,131,000 voting shares) are attributed to him in accordance with Section 22 Paragraph 1 Sentence 1 No. 1 WpHG. These attributed voting rights are held by ATON GmbH, which he controls and which holds 3 per cent or more of the voting rights in Deutsche Lufthansa AG.

Of these voting rights, 0.03 per cent (131,200 voting shares) are attributed to him in accordance with Section 22 Paragraph 1 Sentence 1 No. 6 WpHG.

Notifications on the shareholder structure in accordance with Section 26 Paragraph 1 Securities Trading Act (WpHG) dated 18 June 2008 Allianz SE, Munich, Germany, notified us on 18 June 2008 in accordance with Section 21, Paragraph 1 WpHG and Section 24 WpHG that the share of voting rights held by its subsidiary Süddeutsche Industrie-Beteiligungs-GmbH, Frankfurt am Main, Germany, in Deutsche Lufthansa AG exceeded the threshold of 3 per cent on 16 June 2008 and now comes to 3.06 per cent (14,000,000 voting shares).

Notice The share of voting rights held by Allianz SE in Deutsche Lufthansa AG has not changed. Shares were simply transferred between companies within the group.

Notifications on the shareholder structure in accordance with Section 26 Paragraph 1 Securities Trading Act (WpHG) dated 2 September 2008 On 2 September 2008 Barclays Global Investors UK Holdings Ltd, England, wrote to notify us of the following in accordance with Sections 21 and 22 WpHG regarding its voting rights in Deutsche Lufthansa AG, Frankfurt am Main, on its own behalf and on behalf of the following subsidiaries:
Barclays Global Investors Finance Limited, 1 Churchill Place, London, E14 5PH, England
Barclays California Corporation, 45 Freemont Street, San Francisco, CA 94105-2204, USA

Notification on voting shares on behalf of and for the account of Barclays Global Investors UK Holdings Ltd
On 14 March 2008 Barclays Global Investors UK Holdings Ltd, 1 Churchill Place, London, E14 5HP, England, fell below the 5 per cent and 3 per cent threshold referred to in Section 21 Paragraph 1 WpHG and as of this date held 0.356 per cent of voting rights (i.e. 1,628,450 voting shares) in Deutsche Lufthansa AG, Lufthansa Aviation Center, Airportring, 60546 Frankfurt am Main. This 0.356 per cent of voting rights (i.e. 1,628,450 voting shares) in Deutsche Lufthansa AG, Lufthansa Aviation Center, Airportring, 60546 Frankfurt am Main, was attributed to Barclays Global Investors UK Holdings Ltd in accordance with Section 22 Paragraph 1 Sentence 1 No. 6 WpHG and Section 22 Paragraph 1 Sentence 2 WpHG.

This notification is due to the fact that Barclays Global Investors UK Holdings Ltd fulfils the requirements of Section 32 Paragraphs 2–4 Investment Act (InvG), Section 22 Paragraph 3a WpHG and Section 29a Paragraph 3 WpHG.

Notification on voting shares on behalf of and for the account of Barclays Global Investors Finance Limited
On 14 March 2008 Barclays Global Investors Finance Limited, 1 Churchill Place, London, E14 5HP, England, fell below the 3 per cent threshold referred to in Section 21 Paragraph 1 WpHG and as of this date held 0.356 per cent of voting rights (i.e. 1,628,450 voting shares) in Deutsche Lufthansa AG, Lufthansa Aviation Center, Airportring, 60546 Frankfurt am Main. This 0.356 per cent of voting rights (i.e. 1,628,450 voting shares) in Deutsche Lufthansa AG, Lufthansa Aviation Center, Airportring, 60546 Frankfurt am Main, was attributed to Barclays Global Investors Finance Limited in accordance with Section 22 Paragraph 1 No. 6 WpHG and Section 22 Paragraph 1 Sentence 2 WpHG.

This notification is due to the fact that Barclays Global Investors Finance Limited fulfils the requirements of Section 32 Paragraphs 2–4 Investment Act (InvG), Section 22 Paragraph 3a WpHG and Section 29a Paragraph 3 WpHG.

Notification on voting shares on behalf of and for the account of Barclays California Corporation On 14 March 2008 Barclays California Corporation, 45 Freemont Street, San Francisco, CA 94105-2204, USA, fell below the 3 per cent threshold referred to in Section 21 Paragraph 1 WpHG and as of this date held 0.356 per cent of voting rights (i.e. 1,628,450 voting shares) in Deutsche Lufthansa AG, Lufthansa Aviation Center, Airportring, 60546 Frankfurt am Main. This 0.356 per cent of voting rights (i.e. 1,628,450 voting shares) in Deutsche Lufthansa AG, Lufthansa Aviation Center, Airportring, 60546 Frankfurt am Main, was attributed to Barclays California Corporation in accordance with Section 22 Paragraph 1 No. 6 WpHG and Section 22 Paragraph 1 Sentence 2 WpHG.

This notification is due to the fact that Barclays California Corporation fulfils the requirements of Section 32 Paragraphs 2–4 Investment Act (InvG), Section 22 Paragraph 3a WpHG and Section 29a Paragraph 3 WpHG.

Notifications on the shareholder structure in accordance with Section 26 Paragraph 1 Securities Trading Act (WpHG) dated 23 October 2008 Barclays Global Investors UK Holdings Ltd, England, UK, notified us of the following in accordance with Sections 21 and 22 WpHG on behalf of its subsidiary Barclays Global Investors NA regarding its voting rights in Deutsche Lufthansa AG:

Notification on voting shares on behalf of and for the account of Barclays Global Investors NA On 16 October 2008 Barclays Global Investors NA, San Francisco, USA, fell below the 3 per cent threshold referred to in Section 21 Paragraph 1 WpHG and as of this date held 2.98 per cent of voting rights (i.e. 13,643,842 voting shares) in Deutsche Lufthansa AG.

Of the total, 2.71 per cent of voting rights (i.e. 12,416,681 voting shares) in Deutsche Lufthansa AG are attributable to Barclays Global Investors NA in accordance with Section 22 Paragraph 1 Sentence 1 No. 6 WpHG and 0.27 per cent of voting rights (i.e. 1,227,161 voting shares) in Deutsche Lufthansa AG in accordance with Section 22, Paragraph 1, Sentence 1, No. 6 WpHG and Section 22, Paragraph 1, Sentence 2 WpHG.

Notifications on the shareholder structure in accordance with Section 26 Paragraph 1 Securities Trading Act (WpHG) dated 14 November 2008 On 13 November 2008 Barclays Global Investors UK Holdings Ltd, England, UK, notified us of the following in accordance with Sections 21 and 22 WpHG on behalf of its subsidiary Barclays Global Investors NA regarding its voting rights in Deutsche Lufthansa AG:

Notification on voting shares on behalf of and for the account of Barclays Global Investors NA On 11 November 2008 Barclays Global Investors NA, San Francisco, USA, exceeded the 3 per cent threshold referred to in Section 21 Paragraph 1 WpHG and as of this date held 3.07 per cent of voting rights (i.e. 14,070,133 voting shares) in Deutsche Lufthansa AG.

Of the total, 2.79 per cent of voting rights (i.e. 12,765,708 voting shares) in Deutsche Lufthansa AG are attributable to Barclays Global Investors NA in accordance with Section 22 Paragraph 1 Sentence 1 No. 6 WpHG and 0.28 per cent of voting rights (i.e. 1,304,425 voting shares) in Deutsche Lufthansa AG in accordance with Section 22, Paragraph 1, Sentence 1, No. 6 WpHG and Section 22, Paragraph 1, Sentence 2 WpHG.

Notifications on the shareholder structure in accordance with Section 26 Paragraph 1 Securities Trading Act (WpHG) dated 13 January 2009 On 13 January 2009 Allianz SE, Munich, Germany, notified us in accordance with Section 21 Paragraph 1 WpHG that in the course of the sale of Dresdner Bank AG to Commerzbank AG its share of voting rights in Deutsche Lufthansa AG fell below the threshold of 3 per cent on 12 January 2009 and at this time came to 0.056 per cent (258,668 voting shares). Of these, 0.052 per cent (237,538 voting shares) were attributed to Allianz SE in accordance with Section 22 Paragraph 1 Sentence 1 No. 1 WpHG and 0.005 per cent (21,130 voting shares) in accordance with Section 22 Paragraph 1 Sentence 1 No. 6 WpHG.

At the same time Allianz SE, Munich, Germany, notified us in accordance with Section 21 Paragraph 1 WpHG and Section 24 WpHG that the share of voting rights held by Allianz Finanzbeteiligungs GmbH, Munich, Germany, in Deutsche Lufthansa AG fell below the 3 per cent threshold on 12 January 2009 and at this time came to 0 per cent (0 voting shares).

Notifications on the shareholder structure in accordance with Section 26 Paragraph 1 Securities Trading Act (WpHG) dated 14 January 2009 On 14 January 2009 Commerzbank AG, Frankfurt am Main, Germany, wrote to notify us in accordance with Section 21 Paragraph 1 WpHG that its share of voting rights in Deutsche Lufthansa AG exceeded the threshold of 3 per cent on 12 January 2009, and it now holds 3.06 per cent of voting rights (14,024,907 voting shares). Of this, 3.06 per cent (14,000,000 voting shares) is attributable to it in accordance with Section 22 Paragraph 1 Sentence 1 No. 1 WpHG.

Voting rights attributed to it are held by the following companies which it controls and whose share of voting rights in Deutsche Lufthansa AG is each equal to or greater than 3 per cent:

- Dresdner Bank AG
- Süddeutsche Industrie-Beteiligungs-GmbH

Notifications on the shareholder structure in accordance with Section 26 Paragraph 1 Securities Trading Act (WpHG) dated 21 January 2009 On 21 January 2009 Barclays Global Investors UK Holdings Ltd, England, UK, notified us of the following in accordance with Sections 21 and 22 WpHG on behalf of its subsidiary Barclays Global Investors NA regarding its voting rights in Deutsche Lufthansa AG:

Notification on voting shares on behalf of and for the account of Barclays Global Investors NA On 16 January 2009 Barclays Global Investors NA, San Francisco, USA, fell below the 3 per cent threshold referred to in Section 21 Paragraph 1 WpHG and as of this date held 2.97 per cent (i.e. 13,582,029 voting shares) in Deutsche Lufthansa AG.

Of the total, 2.64 per cent of voting rights (i.e. 12,093,072 voting shares) in Deutsche Lufthansa AG are attributable to Barclays Global Investors NA in accordance with Section 22 Paragraph 1 Sentence 1 No. 6 WpHG and 0.33 per cent of voting rights (i.e. 1,488,957 voting shares) in Deutsche Luffthansa AG in accordance with Section 22 Paragraph 1 Sentence 1 No. 6 WpHG and Section 22 Paragraph 1 Sentence 2 WpHG.

10) Reserves

The capital reserve contains the premiums resulting from capital increases and the proceeds from the issue of debt securities for conversion options to acquire Company shares. The legal reserve contained in retained earnings is unchanged at EUR 26m; the remainder is other retained earnings.

EUR 44m have been transferred from retained earnings.

11) Provisions

Provisions		
in €m	**31.12.08**	31.12.07
Provisions for pensions and similar obligations	4,560	4,186
Tax provisions	62	34
Obligations in respect of unearned transportation revenue	2,118	1,997
Other provisions	2,321	2,345
	9,061	**8,562**

A company- owned pension scheme exists for employees working in Germany or seconded abroad. The provisions for pensions also include transitional pension arrangements for flight personnel.

The carrying amount of Lufthansa Pension GmbH & Co. KG to meet pension obligations came to EUR 2.4bn as of the balance sheet date. In 2008 non-current securities were also transferred to Lufthansa Pension GmbH & Co. KG to meet pension obligations towards the Executive Board.

Other provisions mainly include amounts for impending losses from pending transactions, for outstanding invoices and credit balances, for staff costs and for maintenance.

To meet the Company's commitments arising from phased early retirement agreements and shown in other provisions, Lufthansa transferred EUR 39m of non-current securities to an independent custodian as of the balance sheet date.

12) Liabilities

Liabilities

in €m	Due within one year	Due in more than five years	**Total 31.12.08**	Total 31.12.2007
Bonds	–	–	599	599
Liabilities to banks	212	84	472	380
Advance payments for orders	0	–	0	1
Trade payables	318	–	318	354
Payables to subsidiaries	651	0	673	834
Payables to companies held as other equity investments	44	–	44	44
Other liabilities	406	1,022	2,129	1,883
- of which for taxes	(51)	–	(51)	(73)
- of which relating to social security obligations	(4)	(7)	(15)	(16)
	1,631	**1,106**	**4,235**	**4,095**

Of the bonds, EUR 49m is convertible.

EUR 89m of the liabilities to banks are secured by aircraft.

Of the other liabilities, obligations arising from finance leasing agreements totaling EUR 1,797m are secured by related aircraft.

13) Contingent liabilities

Contingent liabilities

in €m	**31.12.08**	31.12.07
Relating to guarantees, bills of exchange and cheque guarantees	1,156	834
- of which from subsidiaries	(311)	(83)
Relating to warranties	732	564
- of which from subsidiaries	(147)	(27)
Relating to the provision of collateral for third-party liabilities	3	3

The amounts listed contain EUR 838m in assumption of co-debtors' guarantees in favour of North American fuelling and handling firms. These are off-set by compensatory claims against the other co-debtors amounting to EUR 815m. These amounts are in some cases still provisional owing to annual accounts still pending.

EUR 300m of the liabilities under warranties relate to co-debtors' guarantees in favour of the Terminal One Group Association, L.P. Project joint venture at New York's JFK Airport. These are off-set by compensatory claims against the other co-debtors amounting to EUR 225m.

14) Other financial obligations

Order obligations for capital expenditure Order commitments for capital expenditure on property, plant and equipment came to EUR 6.1bn as of 31 December 2008. The resulting payment obligations will fall due as follows: EUR 5.1bn in the years 2009 to 2012 and EUR 1.0bn in the years 2013 to 2015.

Obligations to acquire Company shares and to contribute capital to investee companies totalling EUR 571m and loan commitments amounting to EUR 329m existed as of the balance sheet date.

Obligations under rental agreements The Company carries on its business almost exclusively in rented properties. Rental agreements generally run for five to ten years. Facilities at Frankfurt and Munich airports are rented for 30 years and are partly prefinanced by Lufthansa. Annual rental payments amount to around EUR 169m.

Costs under long-term finance leases for aircraft signed as of the balance sheet date came to EUR 15m in 2008, which will fall in subsequent years to EUR 6m per annum.

Costs under long-term operating leases with terms up to 2014 came to EUR 144m in the financial year.

Exchange rate, interest rate and fuel price hedging As of 31 December 2008 the following exposures existed from transactions to hedge exchange rate, interest rate and fuel price movements – mostly in the form of spread options and futures contracts – in US dollars**:**

Currency hedges

Volume	Type of derivative	Average exchange rate in €	Maturity up to
USD 777m	Spread options	0.8030	2012
USD 1,647m	European options	0.6916	2012
USD 8,890m	Forward purchases	0.6901	2013
JPY 58,768m	Forward sales	0.00687	2010
AUD 123m	Forward sales	0.5578	2050
GBP 18.9m	Forward purchases	0.3751	2010
CZK 1,467m	Forward sales	0.0394	2010
HKD 1,908m	Forward sales	0.0905	2010
CHF 1,013m	Forward sales	0.6334	2012
CAD 328m	Forward sales	0.6537	2050
KRW 71,654m	Forward sales	0.0006	2009
PLN 363m	Forward sales	0.2747	2010
THB 1,233m	Forward sales	0.0205	2009
ZAR 1,025m	Forward sales	0.0795	2010
NOK 1,259m	Forward sales	0.1193	2010
NZD 86m	Forward sales	0.4678	2010
SEK 2,241m	Forward sales	0.1043	2010
SGD 93m	Forward sales	0.4948	2010
DKK 2m	Forward sales	0.1341	2009
INR 6,160m	Forward sales	0.0147	2009
PHP 582.6m	Forward purchases	0.0146	2009

In addition, the following exchange rate hedges have been concluded with Group companies:

Volume	Type of derivative	Average exchange rate in €	Maturity up to
USD 288m	European options	0.6897	2012
AUD 30m	Forward purchases	0.5715	2010
USD 1,939m	Forward sales	0.6792	2012
JPY 18,297m	Forward purchases	0.0069	2010
GBP 67m	Forward purchases	1.2737	2010
CZK 170m	Forward purchases	0.0397	2010
HKD 1,139m	Forward purchases	0.0909	2010
CHF 535m	Forward purchases	0.6348	2012
CAD 76m	Forward purchases	0.6551	2010
HUF 7,494m	Forward sales	0.0037	2010
KRW 30,342m	Forward purchases	0.0006	2009
PLN 30m	Forward purchases	0.2879	2010
ZAR 452m	Forward purchases	0.0819	2010
NOK 173m	Forward purchases	0.1202	2010
THB 720m	Forward purchases	0.0210	2009
SEK 398m	Forward purchases	0.1047	2010
SGD 45m	Forward purchases	0.4959	2010
DKK 103.3m	Forward purchases	0.1338	2010

Interest rate hedges			
Volume	Type of derivative	Reference exchange rate	Maturity up to
EUR 916m	EUR swaps +1.5442% to +6.075%	into 3 to 6-month Euribor -3.03% to +3.432%	2019
EUR 13m	JPY swap +3.318%	into EUR +5.795%	2012
EUR 92m	JPY swaps +3.321% to +3.726%	Into 6-month Euribor +1.883% to +2.984%	2012
EUR 202m	USD swaps +2.104% to +2.641%	Into 6-month Euribor -3.45% to -1.365%	2017
EUR 260m	6-month USD Libor swaps +4.5%	into 1 to 6-month Euribor -0.998% to +1.923%	2019
EUR 522m	6-month USD Libor swaps +4.5%	into 1 to 3-month CHF Libor +0.778% to +4.43%	2016
EUR 146m	USD swap +2.0088% to +2.8504%	into EUR +1.1369% to +2.850%	2019
EUR 11m	6-month USD Libor swap +0.325%	into 6-month Euribor +0.3525%	2017
EUR 16m	USD swap +2.104%	into EUR +0.68%	2017
EUR 39m	6-month AUD Libor swap +0.62%	into 6-month Euribor +0.725%	2009
EUR 34m	EUR swap +4.4065%	into CHF +4.597%	2015

In addition, the following interest rate hedges have been concluded with Group companies:

Volume	Type of derivative	Reference exchange rate	Maturity up to
EUR 34m	CHF swap +4.597%	into EUR +4.4065%	2015
EUR 25m	EUR swap +1.255%	into USD +2.526%	2017
EUR 51m	6-month Euribor swaps -2.62% to -1.365%	into USD +2.526% to +2.641%	2016
EUR 8m	USD swap +4.67%	into 12-month USD Libor +0.55%	2011
EUR 545m	1 to 3-month CHF Libor swaps +0.778% to +4.43%	into 1 to 6-month USD Libor +0.60% to +4.5%	2014
EUR 9m	3-month USD Libor swaps +1.4%	into 3-month Euribor +1.33%	2013

Fuel price hedges			
Type of derivative	Volume in %*	Average price level of hedging effect in USD/bbl	Maturity
Spread options	11.5	77.35	2009
Spread options	7.7	71.57	2010
Hedging combinations	57.7	117.53−143.61	2009
Hedging combinations	22.9	125.19−155.83	2010

* Percentage of anticipated fuel requirement

For the calendar year 2009 there are no hedges for the price difference between gasoil and crude oil and between kerosene and crude oil as of the balance sheet date.

Market values and carrying amounts of financial derivatives As of 31 December 2008 the existing financial derivatives had the following market values and carrying amounts:

Financial derivatives			
Type of derivative in €m	Market values 31.12.2008	Carrying amounts Other assets 31.12.2008	Carrying amounts of other provisions 31.12.2008
Forward contracts for currency hedging	291	–	122
Spread options for currency hedging	– 68.2	–	–
European options for currency hedging	170.8	71	0.3
Spread options for fuel price hedging	– 5.9	5.5	16
Hedging combinations for fuel price hedging	–127	1.4	129
Interest rate swaps	37	–	–
Financial derivatives to acquire stakes in companies	– 300	–	300

The fair value of interest rate derivatives is the market value, which is calculated using appropriate financial mathematical procedures such as discounting expected future cash flows. Discounting takes market standard interest rates and the residual term of the respective instruments into account. Currency forwards and swaps are valued individually at their respective forward rates and discounted to the reporting date based on the corresponding interest rate curve. The market prices of currency options and options used in fuel price hedging operations are calculated using recognised option pricing models.

As no publicly quoted prices on active markets exist for the financial derivatives to acquire stakes in companies, they have been valued using the discounted cash flow method or alternative valuation methods.

Financial instruments held as non-current financial assets The financial instruments shown here and held as non-current financial assets have the following carrying amounts and fair values as of 31 December 2008:

Balance sheet items		
in €m	Market values 31.12.2008	Carrying amounts 31.12.2008
Stakes in affiliated companies	3,850	3,914
Loans to affiliated companies	590	603
Equity investments	291	362
Other loans	508	525

The lower fair values are partly due to lower stock exchange or market prices and partly to the translation of loans in foreign currencies at the rate on 31 December 2008.

No impairment losses have been recognised in accordance with Section 253 Paragraph 2 Sentence 3 HGB, as the decline in market values is the result of a general market slump and there is no indication that the assets are fundamentally impaired.

Notes on the income statement

15) Traffic revenue

Passenger traffic revenue by traffic region		
in €m	**2008**	2007
Europe	6,723	6,414
North America	3,207	3,079
Asia/Pacific	2,782	2,785
South America	494	415
Africa	514	460
Middle East	413	369
	14,133	**13,522**

Traffic revenue by flight type		
in €m	**2008**	2007
Scheduled	13,505	12,957
Charter	628	565
	14,133	**13,522**

16) Other revenue

Revenue by area of activity		
in €m	**2008**	2007
n-flight saless/in-flight sales	104	109
Travel services (commissions)	147	129
Other	60	15
	311	**253**

62 per cent of other revenue was generated in Europe (previous year: 65 per cent).

17) Other operating income

Other operating income		
in €m	**2008**	2007
Proceeds on the disposal of fixed assets	7	435
Foreign exchange gains	802	305
Write-backs of provisions	126	106
Services for Group companies	82	71
Income from staff secondment	42	39
Payments received for damages	10	11
Rental income	8	12
Earnings from the disposal of securities	3	33
Earnings from write-ups on assets	12	178
Other operating income	348	406
	1,440	**1,596**

18) Cost of materials and services

Cost of materials and services		
in €m	**2008**	2007
Aircraft fuel and lubricants	4,050	2,888
Other costs of raw materials, consumables and supplies and goods purchased	65	69
Cost of services purchased	5,784	5,714
	9,899	**8,671**

19) Staff costs

Staff costs		
in €m	**2008**	2007
Wages and salaries	1,906	1,858
Social security, pension and benefit contributions	801	774
- of which for retirement pensions	(541)	(520)
	2,707	**2,632**

Average number of employees		
	2008	2007
Ground staff	16,135	15,723
Flight staff	19,367	18,138
Trainees	145	184
	35,647	**34,045**

20) Depreciation

Depreciation of intangible assets, aircraft and other property, plant and equipment is detailed in the Statement of Fixed Assets Movements.

21) Other operating expenses

Other operating expenses		
in €m	**2008**	2007
Sales commission paid to agencies	405	456
Rental and maintenance expenses	238	235
Expenses for computerised distribution systems	269	270
Impairment charges / Depreciation and amortisation of current assets	50	26
Courses / Training for flight staff	80	87
Advertising and sales promotion	212	185
Exchange rate losses from foreign currency translation	795	301
Payment system expenses (especially credit card commission payments)	151	136
Insurance for flight operations	23	30
Travel expenses	183	169
Auditing, consulting and legal expenses	59	36
Other operating expenses	605	757
	3,070	**2,688**

22) Result of equity investments

Result of equity investments		
in €m	**2008**	2007
Income from profit transfer agreements with subsidiaries	537	592
Expenses from loss transfer agreements	–	− 148
Income from equity investments	242	25
- of which from subsidiaries	(219)	(9)
	779	**469**

Income/expenses from profit/loss transfer agreements include subsidiaries' tax contributions/tax credits. Income from equity investments primarily consists of the dividend from Air Trust AG.

23) Net interest

Net interest				
in €m	**2008**	of which subsidiaries	2007	of which subsidiaries
Income from other securities and loans held as financial assets	141	135	89	76
Other interest and similar income	132	82	114	61
Interest and other similar expenses	− 196	− 42	− 172	− 41
	77	**175**	**31**	**96**

24) Write-downs on investments and securities held as current assets

Impairment losses of EUR 238m were recognised on non-current financial assets and current securities. This mainly relates to impairment losses on the carrying amounts for LSG Service Holding AG and British Midland plc of EUR 146m and EUR 16m respectively, as well as an impairment loss of EUR 42m on non-current interest owed by LSG Sky Chefs Inc. Also included are impairment losses of EUR 14m on a US dollar loan made to LSG Service Holding AG in accordance with Section 253 Paragraph 2 Sentence 3 HGB due to the lasting fall in the exchange rate.

25) Taxes

Taxes		
in €m	**2008**	2007
Taxes on income and earnings	83	78
Other taxes	38	31
	121	**109**

Taxes on income and earnings also include net items from previous years of EUR 3m.

Of the other taxes, EUR 32m relate to the current financial year and EUR 6m to prior years.

26) Supervisory Board and Executive Board

The members of the Supervisory Board and the Executive Board are listed starting on page 32.

Executive Board The Steering Committee of the Supervisory Board is responsible for setting the remuneration for the Executive Board.

The Executive Board's remuneration consists of the following components:

- Basic remuneration, paid monthly as a salary.
- The variable remuneration (bonus) is based on the Lufthansa Group's operating result and on how it compares with the previous year. The Steering Committee can award the Executive Board a discretionary bonus in years with poor operating results that are due to extraordinary external influences.
- Executive Board members are also entitled to participate in option programmes for senior managers that since 2006 have differed from the general programme for managers in having structured parameters of their own (Note 9).

The following remuneration was paid to individual Executive Board members in 2008:

Executive Board remuneration

in €m	Basic salary	Variable remunera-tion	Payments from matur-ing options pro-grammes	Change in the fair value of options pro-grammes	Other*	**Total**
Wolfgang Mayrhuber	726,250	1,354,000	252,000	602,043	185,345	3,119,638
Stephan Gemkow	518,750	947,800	42,000	371,545	145,869	2,025,964
Stefan Lauer	518,750	947,800	105,000	342,445	161,020	2,075,015
Total	**1,763,750**	**3,249,600**	**399,000**	**1,316,033**	**492,234**	**7,220,617**

*Other remuneration includes in particular benefits from the use of company cars, discounts in connection with options programmes and concessionary travel in accordance with the relevant IATA regulations.

Executive Board members hold the following shares in the current option programmes:

Options programmes

	2008 Programme	2007 Programme	2006 Programme
Wolfgang Mayrhuber	16,740	11,714	10,169
Stephan Gemkow	11,160	7,809	6,779
Stefan Lauer	10,788	7,809	6,779

The pro rata change for 2008 in the fair value of option programmes forms part of the individual Executive Board members' total remuneration and is stated in the remuneration table.

The total fair value of the 2008 option programme for Mr Mayrhuber on the date of issue was EUR 396,225. For Mr Gemkow the figure was EUR 264,150 and for Mr Lauer EUR 255,345.

Various contractual undertakings have been made to active Board members for the event that they cease to work for the Company.

Pensions and payments to surviving dependents were revised in 2006. For each Executive Board member a personal pension account has been set up with effect from 1 January 2006 into which for the duration of their employment Deutsche Lufthansa AG pays contributions amounting to 25 per cent of the contractually guaranteed annual salary and the bonus. Since 1 April 2007 the obligations have been funded by equivalent contributions to the Lufthansa Pension Trust. The investments guidelines for the pension account are based on the same investment concept as applies to staff members of Deutsche Lufthansa AG.

If employment ends before an Executive Board member reaches retirement age, he or she retains the pension entitlement from the pension account, which is continued without further contributions. On reaching retirement age (65 or early retirement between 60 and 65) or in the event of disability the account holder will acquire a pension credit equivalent to the balance of the pension account at that time. Lufthansa guarantees a minimum payment equivalent to the contributions paid in. For Mr Gemkow and Mr Lauer a supplementary risk capital sum will add to the pension credit in the event of a claim for a disability pension or a pension for surviving dependents. This sum will consist of the average contributions paid into the pension account over the past three years multiplied, when a disability pension entitlement arises, by the number of full years by which the claimant is short of the age of 60.

The pension credit is paid out in ten instalments. On application by the Executive Board member or his widow the pension credit will, subject to approval by the Company, be converted into a pension. On application by the Executive Board member or his surviving dependants a single payment or payment in fewer than ten instalments may also be made. That too is subject to approval by the Company.

The widow's pension is 60 per cent of the deceased's pension entitlement. If the Board member dies while in the Company's employment his widow will be paid his full salary until the end of the financial year or for a period of at least six months.

The cost of pension entitlements accrued in 2008 for Mr Mayrhuber was EUR 0.5m; for Mr Gemkow and Mr Lauer EUR 0.4m each. The total cost of EUR 1.3m (previous year: EUR 1.4m), plus EUR 7.2m (previous year: EUR 6.5m) in overall remuneration as shown in the remuneration table is listed under staff costs, amounting to EUR 8.5m (previous year: EUR 7.9m).

Mr Lauer is entitled to a transitional pension until he reaches the age of 60 provided he is over 55 or the term of his current contract extends beyond when he reaches the age of 55 and his services are not retained, unless for good reason for which he is responsible. His transitional pension entitlement amounts to 45 per cent of his fixed basic salary increasing by three percentage points up to a maximum of 60 per cent for each year of service commenced from 1 January 2007 as a full Executive Board member of the Company.

Mr Gemkow is entitled to a transitional pension until he reaches the age of 60 once he is over 58 and his services are not retained, unless for good reason for which he is responsible. This entitlement, amounting to 30 per cent of his fixed basic salary, will take effect once Mr Gemkow has served at least five years as a full board member of Lufthansa AG or Lufthansa Cargo AG, and has been reappointed by the Supervisory Board. From this time onward, his entitlement will increase for each year of service commenced as a full Executive Board member of Lufthansa AG by 3 percentage points to a maximum of 60 per cent of his basic salary.

Lufthansa AG pays outgoing Executive Board members 65 per cent of their last basic remuneration in compensation for the two-year period during which they are forbidden to compete. During this period all pension entitlements are dormant.

If a contract is terminated early for reasons other than good cause or a change of control, the Company will not remunerate more than the value of outstanding entitlements for the remainder of the contract, as recommended by the German Corporate Governance Code, whereby these payments including ancillary benefits may not exceed annual remuneration for two years (maximum compensation). Maximum compensation is calculated by reference to total remuneration for the last full financial year before departure from the Executive Board, as shown in the remuneration report, and including expected total remuneration for the current financial year. If the contract between the Executive Board member and Deutsche Lufthansa AG is terminated in connection with a change of control at the Company, the Executive Board member is entitled to compensation for remuneration outstanding for the remainder of the contract. In accordance with the relevant recommendation of the German Corporate Governance Code, compensation may not exceed 150 per cent of the maximum compensation agreed in the contract and described above.

Current payments to former members of the Executive Board and their surviving dependents came to EUR 3.2m (previous year: EUR 3.4m). This includes payments by subsidiaries as well as benefits in kind and concessionary travel.

Pension obligations toward former Executive Board members and their surviving dependents amount to EUR 32.7m (previous year: EUR 33.4m).

Supervisory Board Supervisory Board remuneration in 2008 consisted of EUR 522,000 in fixed payments for Supervisory Board work at Deutsche Lufthansa AG. Variable remuneration totalled a further TEUR 1,174. Variable remuneration depends on the dividend paid for the financial year. Other remuneration – mainly attendance fees – totalled TEUR 109. These figures include travel concessions in accordance with IATA regulations.

In 2008 Dr Schlede was also paid a total of EUR 32,000 for his consultancy services in connection with the integration of Swiss International Airlines into the Lufthansa Group.

27) Distributable profit

The financial statements have been based on a dividend proposal to use distributable profit for the year of EUR 320m to pay a dividend of EUR 0.70 per share.

28) Declaration of compliance in accordance with Section 161 German Stock Corporation Act (AktG)

The declaration of compliance with the German Corporate Governance Code in accordance with Section 161 of the German Stock Corporation Act (AktG) was issued by the Executive Board and the Supervisory Board and made available to shareholders.

29) Auditors' fees in accordance with Section 319 Paragraph 1 HGB

The fees paid to the auditors in the financial year in accordance with Section 319 Paragraph 1 HGB and charged to expenses include the following items:

- Annual audit	EUR 2.6m
- Other certification or valuation services	EUR 0.4m
- Tax advisory services	EUR 0.5m
- Other services	EUR 0.5m
	EUR 4.0m

Declaration by the legal representatives in accordance with the Transparency Directive Transposition Act (TUG)

“We declare that to the best of our knowledge and according to the applicable accounting standards the financial statements give a true and fair view of the net assets, financial and earnings position of the Company and that the management report gives a true and fair view of the course of business, earnings and the situation of the Company and suitably presents the opportunities and risks to its future development.”

Cologne, 24 February 2009
Deutsche Lufthansa Aktiengesellschaft
Executive Board

Auditors' Report

We have audited the annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, together with the bookkeeping system, and the management report of the Deutsche Lufthansa AG, Cologne, for the business year from 1 January to 31 December 2008. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law and supplementary provisions of the articles of incorporation are the responsibility of the Company's Board of Managing Directors. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with § (Article) 317 HGB ("Handelsgesetzbuch": "German Commercial Code") and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with (German) principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by the Company's Board of Managing Directors, as well as evaluating the overall presentation of the annual financial statements and management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion based on the findings of our audit, the annual financial statements comply with the legal requirements and supplementary provisions of the articles of incorporation and give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with (German) principles of proper accounting. The management report is consistent with the annual financial statements and as a whole provides a suitable view of the Company's position and suitably presents the opportunities and risks of future development.

Düsseldorf, 3 March 2009

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Dr Norbert Vogelpoth	Frank Hübner
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

Supervisory Board and Executive Board

Supervisory Board

Dr Wolfgang Röller
Honorary Chairman of the Supervisory Board
Deutsche Lufthansa AG

Voting members

Dipl.-Ing. Dr.-Ing. E.h.
Jürgen Weber
Former Chairman of the
Executive Board
Deutsche Lufthansa AG
Chairman

Frank Bsirske
Chairman ver.di (trade union)
Employee representative
Deputy Chairman

Jacques Aigrain
President of the Management Board
Schweizerische Rückversicherungs-
Gesellschaft until 12 February 2009

John Allan
Executive Board member
Deutsche Post AG
(Member from 29 April 2008)

Dr Clemens Börsig
Chairman of the Supervisory Board
Deutsche Bank AG
(Member until 29 April 2008)

Dr Werner Brandt
Executive Board member
SAP AG
(Member from 29 April 2008)

Bernd Buresch
Coordinator, Enterprise
Operation Center
Employee representative
(Member from 29 April 2008)

Manfred Calsow
Business studies graduate
Employee representative
(Member until 29 April 2008)
Jörg Cebulla
Flight captain and member of the
the Vereinigung Cockpit pilots' un-
ion
Employee representative
(Member from 29 April 2008)

Michael Diekmann
Chairman of the Executive Board
Allianz SE
(Member until 29 April 2008)

Dipl. Vwt. Jürgen Erwert
Administrative staff member
Employee representative

Robert Haller
Administrative staff member
Employee representative
(Member until 29 April 2008)

Dr Jürgen Hambrecht
Chairman of the Executive Board
BASF SE
(Member from 29 April 2008)

Ulrich Hartmann
Chairman of the Supervisory Board
E.ON AG

Dominique Hiekel
Purser
Employee representative
(Member from 29 April 2008)

Dr Nicola Leibinger-Kammüller
Managing partner and Chair of the
Management board
TRUMPF GmbH + Co. KG
(Member from 29 April 2008)

Steffen Kühhirt
Trade union secretary ver.di
Employee representative
(Member until 29 April 2008)

Dr Otto Graf Lambsdorff
Lawyer and Honorary President
Deutsche Schutzvereinigung
für Wertpapierbesitz e.V.
(shareholders' association)
(Member until 29 April 2008)

Eckhard Lieb
Engine mechanic
Employee representative
(Member from 29 April 2008)

Wolf Liebetrau
Flight manager
Employee representative
(Member from 29 April 2008 to 31
December 2008)

Simon Reimann
Flight attendant and member of the
trade union UFO
Employee representative
(Member from 29 April 2008)

Willi Rörig
Administrative staff member
Employee representative
(Member until 29 April 2008)

Marlies Rose
Flight manager
Employee representative
(Member from 1 January 2009)

Dr Klaus G. Schlede
Former deputy
Chairman of the
Executive BoardO
Deutsche Lufthansa AG

Werner Schmidt
Former Chairman of the
Executive Board
Bayerische Landesbank
(Member until 29 April 2008)

Thomas von Sturm
Flight Captain
Employee representative
(Member until 29 April 2008)

Dr Herbert Walter
Chairman of the Executive Board
Dresdner Bank AG
until 19 January 2009 and
Member of the Executive Board
Allianz SE until 12 January 2009
(Member from 29 April 2008)

Patricia Windaus
Flight attendant
Employee representative
(Member until 29 April 2008)

Dr Hans-Dietrich Winkhaus
Former member of the Shareholder
Committee Henkel KGaA
(Member until 29 April 2008)

Matthias Wissmann
President of the automotive industry
trade association (VDA)
(Member from 29 April 2008)

Sabine Wolbold
Purser and
Member of the trade union UFO
Employee representative
(Member until 29 April 2008)

Dr Michael Wollstadt
Head of IT development
Network management
Employee representative

Stefan Ziegler
Flight Captain
Employee representative
(Member from 29 April 2008)

Dr Klaus Zumwinkel
Former Chairman of the Executive
Board,
Deutsche Post AG
(Member until 29 April 2008)

Executive Board

Wolfgang Mayrhuber
Chairman of the Executive Board

Stephan Gemkow
Executive Board member
Chief Financial Officer

Stefan Lauer
Executive Board member
Chief Officer for Aviation Services
and Human Resources

Other Mandates of the Supervisory Board members of Deutsche Lufthansa AG

Correct as of: 31.12.2008

Dipl.-Ing. Dr.-Ing. E.h.
Jürgen Weber
a) Allianz Lebensversicherungs-AG
Bayer AG
Deutsche Post AG
(Chairman of Supervisory Board)
(until 31.12.2008)
Voith AG
Willy Bogner GmbH & Co. KGaA
b) LP Holding GmbH (Chairman of the Supervisory Board)
Tetra Laval Group

Frank Bsirske
a) IBM Central Holding GmbH
RWE AG (Deputy Chairman, Supervisory Board)

Jacques Aigrain
b) Swiss International Air Lines AG
SWISS Re America Holding Corporation*
SWISS Re Life & Health America Holding company*
SWISS Re Life & Health America Inc.*
SWISS Reinsurance America Corporation*
SWISS Re Financial Services Corporation*
SWISS Re Management (Luxemburg) S.A.*

John Allan
a) Deutsche Postbank AG
b) ISS Holding A/S
ISS Holding A/S
ISS Holding A/S
National Grid plc

Dr Clemens Börsig
(As of retirement from the Lufthansa Supervisory Board on 29 April 2008)
a) Bayer AG
Daimler AG
Deutsche Bank AG
(Chairman of the Supervisory Board)
Linde AG

Dr Werner Brandt
a) Heidelberger Druckmaschinen AG
b) QIAGEN N.V.

Bernd Buresch
a) Lufthansa Systems AG

Michael Diekmann
(As of retirement from the Lufthansa Supervisory Board on 29 April 2008)
a) Allianz Deutschland AG*
(Chairman of the Supervisory Board)
Allianz Global Investors AG*
(Chairman of the Supervisory Board)
BASF SE
Dresdner Bank AG* (Chairman of the Supervisory Board)
Linde AG (Deputy Chairman of the Supervisory Board)
Siemens AG
b) Assurances Générales de France* (Vice president)
Allianz S.p.A.* (Vice-president)

Robert Haller
(As of retirement from the Lufthansa Supervisory Board on 29 April 2008)
a) LSG Lufthansa Service Holding AG

Dr Jürgen Hambrecht
a) Daimler AG

Ulrich Hartmann
a) E.ON AG (Chairman of the Supervisory Board)
Münchener Rückversicherungs-Gesellschaft AG
b) Henkel AG & Co. KGaA
(Shareholders' Committee)

Steffen Kühhirt
(As of retirement from the Lufthansa Supervisory Board on 29 April 2008)
a) LSG Sky Chefs Deutschland GmbH (Deputy Chairman of the Supervisory Board)

Dr Otto Graf Lambsdorff
(As of retirement from the Lufthansa Supervisory Board on 29 April 2008)
a) HSBC Trinkaus & Burkhardt AG
IVECO Magirus AG (Chairman of the Supervisory Board)

Dr Nicola Leibinger-Kammüller
a) Claas KGaA mbH
Siemens AG
Voith AG

Willi Rörig
(As of retirement from the Lufthansa Supervisory Board on 29 April 2008)
a) Lufthansa Cargo AG
(Deputy Chairman of the Supervisory Board)

Dr Klaus G. Schlede
b) Swiss International Air Lines AG

Werner Schmidt
(As of retirement from the Lufthansa Supervisory Board on 29 April 2008)
a) Drees & Sommer AG
(Deputy Chairman of the Supervisory Board)
Herrenknecht AG (Deputy Chairman of the Supervisory Board)
Wieland-Werke AG

Dr Herbert Walter
a) Deutsche Börse AG
E.ON Ruhrgas AG
b) Banco BPI S.A.
Banco Popular Español S.A.

Dr Hans-Dietrich Winkhaus
(As of retirement from the Lufthansa Supervisory Board on 29 April 2008)
a) ERGO-Versicherungsgruppe AG

Matthias Wissmann
a) Seeburger AG (Deputy Chairman)

Dr Klaus Zumwinkel
(As of retirement from the Lufthansa Supervisory Board on 29 April 2008)
a) Arcandor AG

Mandates of the Executive Board Members of Deutsche Lufthansa AG

Correct as of: 31.12.2008

Wolfgang Mayrhuber

a) BMW AG
Eurowings Luftverkehrs AG* (until 31.12.2008)
Fraport AG
Lufthansa Technik AG*
Münchener Rückversicherungs-Gesellschaft AG

b) HEICO Corp.
Swiss International Air Lines AG*

Stephan Gemkow

a) Delvag Luftfahrtversicherungs-AG* (Chairman of the Supervisory Board)
Evonik Industries AG
LSG Lufthansa Service Holding AG*
Lufthansa AirPlus Servicekarten GmbH* (Chairman of the Supervisory Board)
Lufthansa Cargo AG*
Lufthansa Technik AG*

b) Amadeus IT Group S. A.
JetBlue Airways Corp.
WAM Acquisition S.A.

Stefan Lauer

a) LSG Lufthansa Service Holding AG* (Chairman of the Supervisory Board)
Lufthansa Cargo AG* (Chairman of the Supervisory Board)
Lufthansa Flight Training GmbH* (Chairman of the Supervisory Board)
Lufthansa Systems AG* (Chairman of the Supervisory Board)
Lufthansa Technik AG* (Chairman of the Supervisory Board)
Pensions-Sicherungs-Verein VVaG (Supervisory Board)

b) AMECO Corp. (Deputy Chairman Board of Directors)
ESMT European School of Management and Technology GmbH
Sun Express Günes Ekspres Havacilik A.S. (Deputy Chairman, Board of Directors)
Landesbank Hessen-Thüringen Girozentrale

a) Seats on statutory Supervisory Boards.
b) Seats on comparable monitoring boards of domestic and foreign business entities.
*Group mandate

Legal information

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Annual and quarterly reports in German and
English can be obtained from our internet order service
– www.lufthansa.com/investor-relations – or from the named-above
address.

Comprehensive information on Lufthansa's performance
including the Group annual report
and interim reports can be downloaded
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Disclaimer in respect of forward-looking statements

Information published in the Financial Statements 2008 with regard to the future development of the Lufthansa Group and its subsidiaries consists purely of forecasts and assessments and not of definitive historical facts. Its purpose is exclusively informational identified by the use of such cautionary terms as ”believe“, ”expect“, “forecast“, “intend“, “project“, “plan“, “estimate“ and “intend“. These forward-looking statements are based on all discernable information, facts and expectations available at the time. They can, therefore, only claim validity up to the date of their publication.

Since forward-looking statements are by their nature subject to uncertainties and imponderable risk factors – such as changes in underlying economic conditions – and rest on assumptions that may or may not divergently occur, it is possible that the Group’s actual results and development may differ materially from those implied by the forecasts. Lufthansa makes a point of checking and updating the information it publishes. It cannot, however, assume any obligation to adapt forward-looking statements to accommodate events or developments that may occur at some later date. Accordingly, it neither expressly nor conclusively accepts liability, nor gives any guarantee, for the actuality, accuracy or completeness of this data and information.

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