Lufthansa

Financial Statements 2009

Ready for boarding

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Management report of Deutsche Lufthansa AG

The global economy experienced in 2009 the deepest recession since the Second World War. Global industrial production had already collapsed dramatically in the fourth quarter of 2008 and continued to slide in the first quarter of 2009. Both industrialised and emerging economies were affected. Emerging economies, in particular countries in Central and Eastern Europe, were dragged down by falling output in industrialised countries, which resulted in a global recession.

Around the world, governments responded to the financial and economic crisis with wide-ranging measures: monetary policy was loosened dramatically, in many cases central bank rates were cut to zero or only slightly above. Massive economic stimulus programmes were launched in order to slow or even halt the nose-diving of economies. In the summer months the global economy began to stabilise and gradually showed signs of recovery thanks to extensive intervention by central banks and the increasing effects of fiscal stimuli. Despite this, the recovery took place at a much lower level than in 2008. While some emerging countries have already reported strong increases in production, the industrialised economies now seem to have overcome the worst.

Since the middle of 2009 the economy in Europe has also stabilised, after having suffered a further sharp fall at the beginning of the year. It can be assumed that the European economy has overcome the low point reached in spring 2009. The main causes of the revival were a resumption of export activity and the ongoing economic stimulus programmes. The German economy also stabilised again from the second quarter onwards, after having experienced a massive slump in early 2009 – even though at a lower basis. External trade was the principal driving factor. The recovery for Germany as a whole is expected to remain hesitant in 2009.

International passenger traffic was badly affected by the global economic and financial crisis in 2009. According to IATA the airline industry reported a fall of 4 per cent in passenger traffic and 13 per cent in cargo traffic worldwide in 2009. As well as the mature markets in Europe and North America, growth markets were also hit, especially the emerging Asian economies. Neither the classic scheduled airlines nor the no-frills carriers were able to escape this development. As the second half of 2009 began, the airlines started to recover from their low for the year, increasing their passenger numbers and load factors over the previous year on the basis of lower capacity. Despite this positive trend, IATA is forecasting losses for the sector of USD 11bn for the financial year 2009. Given persistently low pricing and rising oil prices, IATA only expects a sustained recovery for the air transport industry over the course of 2010.

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

Despite the difficult economic environment, in 2009 Deutsche Lufthansa AG was again able to maintain its transport performance at slightly below the level of the previous year. Traffic revenue did not perform as well, however, declining by 15.3 per cent or EUR 2.2bn. At the same time, EUR 1.7bn less was spent on fuel alone, compared with the previous year. The operating result fell sharply by EUR 183m to EUR –404m. After adjustment for non-recurring effects in both years, the result deteriorated by EUR 657m.

56 million passengers carried The number of passengers transported fell by 2.6 per cent to 56 million in 2009. Capacities were reduced by a total of 1.3 per cent at the same time. Lower capacity was met by an even greater fall in demand, so that sales dropped by 2.4 per cent. The load factor therefore dropped by 0.9 percentage points to 77.7 per cent. Capacities were extended last year in the Middle East and Africa traffic regions. By contrast, in the traffic regions Europe, including Germany, Asia/Pacific, North and South America capacities were reduced compared with the previous year.

Average yields well down on the year Average yields contracted sharply in 2009, to 13.2 per cent below the figure for the previous year. With sales down by 2.4 per cent the Company reported traffic revenue of EUR 12.0bn or 15.3 per cent lower than in the previous year. Other revenue was markedly below last year’s level at EUR 229m. Overall revenue totalled EUR 12.2bn, a decrease of 15.5 per cent year on year.

Europe including Germany In the Europe traffic region (including Germany), 42.6 million passengers flew with Lufthansa, or 2.9 per cent fewer than in the previous year. The 1.2 per cent reduction in capacity was met by an even steeper fall in demand. The load factor sank as a result by 0.7 percentage points to 68.0 per cent. Traffic revenue declined by 18.0 per cent year on year to EUR 5.5bn. In contrast to the previous year average yields also fell by 16.1 per cent.

North America On North Atlantic routes the number of passengers carried fell by 4.0 per cent to 5.8 million. Capacity was reduced year on year by 4.6 per cent, while sales only declined by 4.2 per cent. As a result the passenger load factor went up slightly by 0.4 percentage points to 84.9 per cent. Traffic revenue fell year on year by 16.4 per cent to EUR 2.7bn, while average yields only declined by 12.8 per cent.

South America In the South America traffic region passenger numbers decreased by 2.5 per cent to 0.65 million. Sales also fell compared with the previous year by 3.1 per cent. The 0.1 per cent cut in capacity was therefore not able to make up for all the decline in demand. As a result, the passenger load factor sank by 2.4 percentage points to 82.0 per cent. Average yields fell year on year by 3.8 per cent.

Middle East In the Middle East traffic region the number of passengers rose significantly by 16.6 per cent at considerably higher capacity (+28.3 per cent) to 1.1 million. Sales also experienced a considerable increase, going up by 19.12 per cent. Traffic revenue rose by 8.6 per cent as a result. The passenger load factor fell by 5.2 percentage points year on year, however, due to the extremely high growth in capacity. Average yields on the other hand fell year on year by 8.8 per cent.

Africa In the Africa traffic region Lufthansa was able to increase the number of passengers again by 5.4 per cent, at capacity that was also higher (+9.1 per cent). Sales went up, but by the lesser figure of 4.2 per cent. The load factor fell by 3.7 percentage points as a result. Average yields dropped by 3.1 per cent compared with the previous year, while traffic revenue was roughly the same as the previous year, rising only slightly by 0.9 per cent to EUR 518m.

Asia/Pacific In the Asia/Pacific traffic region the number of passengers fell year on year to 4.1 million (–3.8 per cent). The reduction of 3.0 per cent in capacity was met by a similar fall of 3.6 per cent in demand. As a result the passenger load factor only dropped by 0.5 percentage points compared with the previous year to 82.1 per cent. Average yields sank greatly to finish 12.4 per cent down year on year. Traffic revenue was well down on the previous year at EUR 2.4bn.

Income and expenses While operating income declined by a total of 11.5 per cent, operating expenses fell by 10.2 per cent. That is why the profit from operating activities shown in the income statement decreased year on year by EUR 183m to EUR –404m (previous year: EUR –221m). After adjusting both years for various and highly fluctuating extraordinary effects included in the result – mainly from disposals, provisions for contingent losses and other special effects – earnings deteriorated by EUR 657m.

Revenue sank by 15.5 per cent to EUR 12.2bn. Other operating income rose, however, to EUR 1.9bn (previous year: EUR 1.4bn).

This increase is largely due to higher currency gains from changes in exchange rates between origination and realisation and the closing rates applied, to book profits on the disposal of aircraft and to higher income from compensation for damages, including the sale of claims for damages resulting from the insolvency of Lehman Brothers. These effects were somewhat diminished by lower income from cancelations of provisions and other declining items.

Operating expenses totalled EUR 14.5bn and were 10.2 per cent down on the year. This was primarily due to the drop of EUR 1.4bn in the cost of materials and services.

The cost of materials and services reached EUR 8.5bn and now accounts for 58.8 per cent of total operating expenses (previous year: 61.5 per cent). The decline in the cost of materials and services by EUR 1.4bn stemmed exclusively from fuel expenses, which dropped by 41.8 per cent to EUR 2.4bn. Adjusted for the provision for contingent losses and the value adjustment of fuel premiums the cost of fuel sank by just 32.7 per cent. Of the adjusted fall in costs of materials and services, 3.2 per cent was due to lower volumes, while 37.6 per cent stemmed from lower fuel prices in US dollars (including the hedging result). On average over the year USD exchange rate movements increased costs.

Without the negative hedging result of EUR 159m fuel costs would have been even lower.

Costs of services purchased rose in contrast by 5.0 per cent on the year to EUR 6.1bn.
Fees and charges at EUR 2.4bn still constitute the largest expense item under services purchased. Air traffic control charges went down by 1.7 per cent due to the lower number of passengers. Overall fees and charges went down by 1.3 per cent.

Costs for MRO services purchased at EUR 1.4bn were 10.6 per cent higher than in the previous year. Adjusted for the additions to provisions for future maintenance, the expenses would only have been 8.4 per cent above last year's level.

Charter costs incurred largely for regional partners in connection with Lufthansa's regional concept were EUR 0.2bn above last year's at EUR 1.3bn. This is partly due to costs in connection with the planned withdrawal from the 50-seater fleet.

In the financial year 2009 Lufthansa's staff costs totalled EUR 2.7bn, which was 1.1 per cent down on the year.

With average annual staff numbers down slightly by 1.1 per cent, wage and salary costs fell by 0.5 per cent. Social security contributions also fell slightly by 0.5 per cent to EUR 259m and pension expenses by 3.1 per cent to EUR 524m. Higher contributions to the pension insurance scheme were more than offset by lower additions to pension provisions.

Depreciation and amortisation rose by EUR 73m or 17.0 per cent to EUR 502m in 2009.

Other operating expenses totalled EUR 2.8bn and were 9.4 per cent or EUR 290m down on the year. This was due in particular to the large declines in sales commissions and the drops in expenses for marketing and sales promotion, other operating expenses and other items. Higher losses from exchange rate movements and higher impairments on current assets partly made up for the decline.

A positive financial result once again The financial result came to EUR 298m, well down on the previous year's figure of EUR 618m. In 2009 it was composed of a positive result from equity investments of EUR 476m (previous year: EUR 779m), negative net interest of EUR 20m (previous year: positive net interest of EUR 77m) and other financial items of EUR –158m (previous year: EUR –238m).

The decline in the result from equity investments stems largely from the fact that the subsidiaries Lufthansa Cargo AG (EUR –116m) and LSG AG (EUR –36m) reported losses that needed to be balanced. Furthermore, earnings transferred from the subsidiaries Lufthansa Commercial Holding GmbH (EUR 74m) and Lufthansa Flight Training GmbH (EUR 15m) were lower than the previous year. Higher profit transfers from Lufthansa Technik AG (EUR 263m) and CityLine GmbH (EUR 21m) could not compensate the negative tendency. The results from subsidiaries Delvag AG and Lufthansa Systems AG remained on previous year's level. The dividend of EUR 212m received from Swiss International Airlines AG via Air Trust AG continued to have a positive effect.

Net interest came to EUR –20m in 2009 (previous year: EUR +77m). Lower interest income resulted mainly from intra-group clearing. Higher interest expenses are principally due to greater non-current borrowing.

Impairment losses on financial assets of EUR –158m were EUR 80m below the previous year. This is due in particular to impairments on financial investments totalling EUR 158m (previous year: EUR 224m), including EUR 64m on the carrying amount for LHBD Holding Limited, EUR 45m on the carrying amount for Lufthansa Systems AG and EUR 36m on a non-current interest receivable from LSG Sky Chefs Inc.

The financial result and operating result combined to make a pre-tax loss of EUR 106m (previous year: pre-tax profit of EUR 397m).

Balanced net result After deducting taxes of EUR 42m a net loss of EUR 148m was reported for 2009. EUR 148m was transferred from retained earnings to bring the net result for Deutsche Lufthansa AG to zero.

Sharp fall in cash flow from operating activities Cash flow from operating activities, defined as the inflow of funds from current business activities, reached EUR –13m and was therefore EUR 415m below the previous year's.

In financial year 2009 Lufthansa again invested EUR 943m (previous year: EUR 823m) in new aircraft and advance payments for new aircraft. Of the total, EUR 206m were for advance payments. To finance future payment obligations arising from staff pension entitlements, Lufthansa again invested cash totalling EUR 228m in the Lufthansa Pension Trust on a long-term basis for investment in various fixed income and share funds. This contribution is included in capital expenditure for financial investments of EUR 1.4bn. Capital expenditure, proceeds from the disposal of non-current assets and sales of securities gave rise to a total net cash outflow of EUR 2.2bn. Financial liabilities rose as a result by EUR 2.1bn. With cash flow from operating activities of EUR –13m and gross capital expenditure of EUR 2.4bn the internal financing ratio sank sharply to EUR –0.6 per cent (previous year: +21.8 per cent).

Total assets appreciably higher Total assets rose by 11.7 per cent or EUR 2.0bn to EUR 19.2bn. Non-current assets went up by EUR 0.8bn and current assets, including deferred income and prepaid expenses, by EUR 1.2bn. Non-current financial assets went up by EUR 0.4bn in total. Within the item shares in affiliated companies, the capital increase at Lufthansa Malta Holding Ltd. (EUR 396m), a further contribution to the Lufthansa Pension Trust (EUR 228m), the establishment of Lufthansa Leasing Austria (EUR 67m) and the purchase of further shares in British Midland plc (EUR 78m) were offset by impairments on the carrying amounts for LHBD Holding Limited (EUR 111m) and Lufthansa Systems AG (EUR 45m). Furthermore, equity investments rose due to the purchase of additional shares in JetBlue Airways Corporation (EUR 13m) and the first-time recognition of the stake in SN Airholding SA/NV (EUR 65m). The disposal of the equity investment in Condor Flugdienst GmbH reduced the total by EUR 60m. The item loans included an increase in loans to affiliated companies (EUR 126m) as well as the disposal of two promissory note bonds for EUR 280m.

Liquid funds and securities rose sharply by EUR 1.3bn compared with the previous year, largely due to investments in money market funds (EUR 685m) and the purchase of other securities (EUR 676m). As a result, the balance sheet structure showed a slight negative effect on fixed assets, which now make up 79.4 per cent of the balance sheet total (previous year: 84.0 per cent).

Shareholders' equity fell by EUR 468m as a result of transferring retained earnings to balance the net loss and the dividend payment of the previous year. It now stands at EUR 3.3bn (previous year: EUR 3.8bn).

The equity ratio fell by 4.8 percentage points to 17.5 per cent.

Non-current borrowing rose by EUR 1.9bn, primarily due to bonds and promissory note bonds issued during the reporting year.

The proportion of non-current funding in the balance sheet total rose accordingly by 3.3 percentage points and now amounts to 67.3 per cent (previous year: 64.0 per cent). Fixed assets are now 84.8 per cent (previous year: 76.2 per cent) covered by non-current funding.

Net indebtedness amounts to EUR 1.31bn (previous year: EUR 224m). Taking into account the present value of outstanding financial leasing installments not included in the balance sheet, net indebtedness rose to EUR 1.34bn (previous year: EUR 263m).

Disclosures in accordance with Section 289 Paragraph 2 No. 5 HGB and Section 289 Paragraph 4 HGB

Basics 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 Lufthansa AG (Note 26).

Composition 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 incorporation.

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

If the proportion of foreign shareholders in the share register reaches 45 per cent, the Company is authorised, subject to Supervisory Board approval, to increase issued capital by up to 10 per cent by issuing new shares for payment in cash without subscription rights for existing shareholders (Section 4 Paragraph 2 and 3 LuftNaSiG together with Section 4 Paragraph 4 of the articles of incorporation). 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 incorporation).

Should the proportion of foreign investors exceed 50 per cent despite these precautions, Deutsche Lufthansa 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 2009 25.8 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 Executive Board members or employees in the event of a takeover offer In the event of a change of control at Deutsche Lufthansa AG defined more precisely in the employment contract, the Executive Board member and the Company are entitled to terminate the contract within twelve months of this change of control. If the contract ends because the special termination right is exercised or the contract is revoked amicably within twelve months of and in connection with the change of control, the Executive Board member is entitled to compensation for remuneration outstanding for the remainder of the contract. In accordance with the relevant recommendation of the German Corporate Governance Code, compensation may not exceed 150 per cent of the maximum compensation agreed in the contract (Note 26).

Powers of the Executive Board (share buy-backs, share issuance) Deutsche Lufthansa holds up to EUR 225m in authorised capital: a resolution passed by the Annual General Meeting on 25 May 2005 authorised the Executive Board until 24 May 2010, subject to approval by the Supervisory Board, to increase the Company's issued capital on one or more occasions by up to EUR 200m by issuing new registered shares for payment in cash or in kind (Authorised Capital A). Existing shareholders are to be granted subscription rights.

A resolution passed at the Annual General Meeting on 24 April 2009 authorised the Executive Board until 23 April 2014, subject to approval by the Supervisory Board, to increase the issued capital by up to EUR 25m, by issuing new registered shares to employees (Authorised Capital B) for payment in cash. Existing shareholders' subscription rights are excluded.

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 24 April 2009 to buy back its own shares until 23 October 2010. 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, may not at any 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).

Appointment/Dismissal of Executive Board members and statutory amendments The Supervisory Board appoints the members of the Executive Board and decides on the number. The Supervisory Board can revoke appointments for board membership and to the position of Chairman of the Executive Board for good reason. All statutory amendments to the articles of incorporation must be approved by resolution of an Annual General Meeting, with a majority of at least three quarters of the issued capital present.

System for the early detection and management of risks Lufthansa is an international aviation company and therefore exposed to both Company and sector-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 both risks and opportunities at an early stage and act accordingly. This proven risk strategy allows us to take advantage of business opportunities as long as a risk-adjusted return can be realised on market terms. The risks must also be appropriate and acceptable in relation to the value enhancement.

The conscious management of opportunities and risks is an integral part of corporate management. For this reason we have not created a special organisational unit for risk management but have integrated it into the existing business processes. The system enabling risks to be identified and managed at an early stage is composed of several modules that are systematically linked with one another. There is an exception from this principle for the way the management of financial risks is organised. In contrast to general and strategic risk management, responsibility for this area is centralised. This enables these homogenous risks to be identified in their entirety and responsibly managed with the necessary economic competence. Here the functions of trading, settlement and financial controlling are strictly separated and are based in independent organisational units. The risk management system for financial instruments is part of central financial management.

Our Risk Management Committee ensures on behalf of the Executive Board that business risks are permanently identified and evaluated across all functions and processes. The committee has eight members who report directly to the Lufthansa Executive Board from Corporate Controlling, Legal Affairs, Corporate Finance, Corporate Accounting, Corporate Audit (permanent member without voting rights), Controlling Lufthansa Passenger Airlines, Corporate IT and Delvag Group and is responsible for making constant improvements to the effectiveness and efficiency of the risk management system. An important instrument for doing so is the risk map: it lists all material risks which could endanger the Company's earnings and its continued existence. At the same time it lists all the instruments for managing these risks. Risks count as material if they are capable of causing damage of at least one third of the result necessary for maintaining the value of the Company.

The risk map is updated regularly and its structure is aligned with the entire process of risk management: identification, coordination, communication and control. Lufthansa applies uniform risk management standards throughout the Group. The managing directors of all Group companies also appoint risk managers in all business segments. They are responsible for implementing the Group guidelines within their respective companies and are in close, regular contact with the Risk Management Committee.

Opportunity and risk controlling in the course of the planning and coordination processes is a further component of the system. This primarily identifies the potential risks and opportunities which could impact earnings targets as part of an analysis of the market environment and the competitive landscape, evaluates them and initiates steps to manage them. As both positive and negative departures from plan are covered, this means that the same instruments are used to identify, evaluate, manage and control risks and opportunities.

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

Potential deviations from the plan are quantified by the risk experts in order to focus attention on the most important risks. Both positive and negative variations, i.e. opportunities and risks, are evaluated in the form of a best case/worst case analysis. A discussion of risks and opportunities is also a fixed element of the regular meetings between Group controlling and the managing directors of Group companies.

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

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

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 air traffic in mature markets and up to 2.5 per cent in the growth markets of Asia, Latin America and Eastern Europe.

If the forecasts of an economic recovery turn out to be mistaken or premature, there is a risk that demands for air transport services will be lower than planned.

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

The Open Skies agreement between the USA and the European Union 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 broadest scope worldwide. Lufthansa adds to Star Alliance's breadth by developing and realizing targeted regional cooperation agreements.

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

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

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

In the current environment, keeping costs variable can be a decisive competitive factor. In this respect, priority is given to the ability to adjust aircraft capacities to changes in demand. Our far-sighted order policy, with phased orders for new aircraft and the option of replacing a number of older aircraft at any time with new deliveries, enables Lufthansa to follow demand by adjusting capacities. As the majority of the aircraft are wholly owned by us and have already been partly depreciated, they can be grounded temporarily if necessary at short notice and without high residual cost.

Legal risks and contingencies New laws and changes to national and international regulations also have a major effect on Lufthansa's future business success. Air traffic rights, safety regulations and compliance requirements are just as important as regulations and foreign and domestic rulings on taxes, capital markets and competition law. 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.

Political, geopolitical and regulatory risks The air traffic industry is severely exposed to geopolitical events such as wars, terrorist attacks or pandemics. However, political decisions can also have drastic effects: when they either abolish or create distortion to competition for instance.

The introduction of emissions trading from 1 January 2012 as adopted by the EU will alter the market and competition situation within the air transport industry. 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 at Frankfurt Airport is indispensable. The appeal by Lufthansa AG, essentially against the restriction on night flights, was dismissed by the administrative court in Kassel in its ruling given on 21 August 2009. The court is of the opinion that even the number of flight movements permitted by the official approval documents does not give sufficient consideration to the statutory right to peace and quiet during the night. Both the opponents of the expansion and the federal state as respondent were given leave to appeal against the ruling insofar as it annulled the night flight regulations, but Lufthansa was not. The federal state has appealed against the ruling. Lufthansa will attempt to obtain leave to appeal by initiating the appropriate legal proceedings. At present it is not possible to predict the outcome of the proceedings with any degree of certainty. If the ruling by the administrative court in Kassel is upheld it must be assumed that the ensuing amendment to operating regulations will allow virtually no night flights.

In addition to the environmental rules and regulations mentioned, it may become necessary to deal with increasingly robust consumer protection regulation in the years ahead. As a full-service carrier, Lufthansa is already familiar with most of the standards under debate, however. It is nevertheless important to ensure that EU compensation standards for instance stay at levels defined by international treaties and do not put the European industry at a disadvantage in global competition.

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

Staff risks Changes in the macroeconomic environment mean that staff-related risks have shifted from securing growth by optimised recruitment to ensuring that staff capacities are breathable in case of changes in operations.

Our staggered procedure for adjusting staff capacities that has been refined over the course of many crises in the industry has proved invaluable in compensating for fluctuations. The early hiring freeze and cutbacks in outside staff made an important contribution. The speed and effectiveness of reaction are risk factors, however, especially where employee capacities have to be cut due to structural adjustments. Shedding staff capacity (primarily in administrative areas) is facilitated by phased early retirement and severance pay in compensation for voluntary departures as well as innovative forms of special leave.

Transparency and a clear priority for socially acceptable measures continue to ensure that employees' vital and traditionally high motivation levels are maintained. This also preserves Lufthansa's first-class reputation in the labour market, which improved again last year. In conjunction with the latest systems and methods of personnel marketing and development, this retains Lufthansa's future ability to select its new recruits from among the best.

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

Increasingly heterogeneous staff structures, and smaller labour unions in Germany 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 intensive dialogue with the labour union partners, concepts that 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 2010. In addition to the damage this does to Lufthansa's image as a dependable service provider, it also entails the risk of lost revenue and additional costs.

Competition Lufthansa operates in highly competitive markets. The many subsidies seen to be granted 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 in 2009 was to maintain and extend the position as the leading European quality carrier even in times of crisis. This is achieved by offering a global product range to cover the main traffic flows from, via and to Europe.

Organic growth under the banner of cost efficiency is achieved by expanding the short and long-haul networks and by reinforcing the major hubs in Frankfurt and Munich. This involves a multi-hub strategy by which the hubs offer a comprehensive route network in their respective catchment areas.

Constant improvements to cost structure are vital to stay ahead of the competition. At Lufthansa this takes place both by introducing programmes to safeguard earnings where necessary and by continuing to cut costs and make the cost basis more flexible on an everyday basis. The Climb 2011 programme is intended to deliver a sustainable reduction of EUR 1bn in costs by the end of 2011.

In spite of the heightened focus on cost efficiency, the positioning as a quality carrier remains a fundamental part of Lufthansa Passenger Airlines' strategy. The entire product range is being refined by innovations on board and on the ground. Additional lounges, like the Welcome Lounge in Frankfurt, were opened in 2009 and FlyNet will again make it possible to use the internet while in the air as of 2010.

The Lufthansa First Class will be even more exclusive and target-group focused than before. The opening of new lounges and the redevelopment of First Class on board underline this trajectory. It will show its new colours for the first time in the 2010 summer flight timetable when the Airbus A380 is introduced.

The Economy Class is also the focus of continuous refinement – such as the installation of new seating in the Airbus A340-300 fleet that began in February 2009. The refit of the entire Airbus sub-fleet is to be completed by April 2010. The installation of a personal screen for every guest in Economy Class and individual access to an extensive entertainment programme on board the entire Airbus long-haul fleet will be completed in March 2010.

International competition is increasingly developing into a competition between entire systems of airports, air traffic control organisations and airlines. This is because these players have a considerable effect on the efficiency of the whole value chain at a given location and thereby on the competitiveness of the airlines stationed there. This infrastructure involves having not only the necessary capacities but also seamless processes and competitive cost and price structures.

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

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

Currency, interest and fuel price risks As an international aviation company, the Lufthansa Group is faced with financial risks in the form of changes in fuel prices, interest rates and exchange rates.

The principally conservative approach towards financial and commodity risks is reflected in systematic financial management. Suitable management and control systems are used to measure, manage 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 the Corporate Internal Audit department 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 currency, interest and fuel price hedging transactions, see the financial statements of Deutsche Lufthansa AG (Note 14).

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 almost exclusively a net surplus. The main risks in this respect stem from the Pound Sterling and the Japanese Yen. Currency risks from projected operational exposure are hedged gradually over a period of 24 months by means of futures contracts and call options. 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 finance 85 per cent of financial liabilities at floating rates of interest. 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 16.3 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 80.6 per cent of the forecast fuel requirement for 2010, in the form of spread options and other hedging combinations. For 57.8 per cent of fuel requirement for 2010 the effect of the hedge against an extreme price increase is limited by offsetting transactions. At the reporting date hedges had been concluded for 30.4 per cent of the likely fuel requirement for 2011 in the form of spread options and other hedging combinations. For 27.5 per cent of fuel requirement for 2011 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 in the current economic environment.

If fuel prices were to drop by 20 per cent below their year-end 2009 level, Lufthansa's expenses would fall still further. The earnings improvement that this would bring would be offset by lower fuel surcharges, however. As fuel is priced in US dollars, fluctuations in the euro/US dollar exchange rate can have a positive or a negative effect on fuel prices in euros.

Liquidity and credit risks Securing sufficient liquidity at all times is a vital task for Lufthansa's financial management. The financial reporting system provides centralised information on the actual financial status and expected cash flows. 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 strategic minimum liquidity available at short notice, as defined in its financial strategy. As the Group has grown, the amount has been increased from EUR 2.0bn to EUR 2.3bn. In addition, Lufthansa had unused bilateral lines of credit amounting to a further EUR 1.7bn as of 31 December 2009.

Lufthansa needs to borrow in order to make the investments planned for the years ahead. The current international financial crisis has done lasting damage to banks around the world in particular. This has made debt generally scarcer and more expensive. An effect on Lufthansa's borrowing can therefore not be ruled out. Nevertheless, due to its sound credit rating for the industry and position in the market, banks and investors still consider Lufthansa to be a preferred partner.

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

Market risk from capital investments Capital investments at Lufthansa are managed as part of the operating and strategic liquidity. The Lufthansa Pension Trust makes capital investments as well. The risks mainly consist of potential price changes for shares, fixed-income securities and interest rates as well as credit risks. A risk management system monitors each component of the capital investments individually and enables action to be taken as necessary.

Capital investments to ensure Lufthansa's operating liquidity are made in accordance with the Group's financial guidelines. The duration of the investments is limited to twelve months. At least EUR 300m must be in investments which can be liquidated on a daily basis. For its operating liquidity Lufthansa mainly uses money market funds which can be liquidated daily, overnight deposits, fixed-term deposits and short-term securities (especially commercial papers) from creditworthy issuers. Investments must be with counterparties which have a rating of at least BBB. Only 20 per cent of investments for operating liquidity are allowed to 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.

The investment structure of the strategic minimum liquidity was determined for the Lufthansa Group using a stochastic allocation study. It was based on the liquidity requirements and conservative investment principles. The majority of these investments are in money market-related products. A small proportion was covered by a capital guarantee, which established early protection against a fall in value in the current crisis. The strategic minimum liquidity is splitted into various components with different investment horizons. These are managed by several external asset managers within separate mandates. One of the requirements is that the investments must be able to be liquidated within a maximum of four weeks. Each manager follows own investment guidelines derived from the general Lufthansa investment principles. The asset allocation is reviewed regularly and adjusted as necessary. The experience from the current crisis in particular has led to an even greater focus on liquidity and counterparty risks. Lufthansa is in permanent contact with the asset managers concerned and monitors their performance by means of daily and monthly performance and risk reports.

The investments for the Lufthansa Pension Trust are also made on the basis of an allocation study. Here too, Lufthansa's conservative investment principles are paramount and form the basis for the individual asset managers' specific investment guidelines. The principle of diversifying risk is followed by separating the investments across a broad range of assets classes and managers. A risk management system is also in place which enables risk management on a daily basis. In 2009 this mechanism led to a successive unwinding of hedges from 2008. This enabled Lufthansa gradually to participate in the year's market performance.

Insurance As insurers remain extremely cautious, it is very expensive for European airlines to arrange effective insurance coverage against terrorist attacks. Specialised insurers now only offer limited coverage 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 limited on 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 the 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 the private aviation companies.

Members of the Executive Board and Supervisory Board are personally liable to the Company for damages resulting from a culpable breach of duty. Lufthansa has arranged a D&O (directors' and officers' liability insurance) policy for both Boards with an appropriate excess in line with the German Corporate Governance Code.

Disclosures in accordance with Section 289 Paragraph 5 HGB

Lufthansa AG's internal control system covers all the principles, procedures and steps intended to ensure effective, economical and accurate accounting and compliance with the relevant legal regulations.

The internal monitoring system at Lufthansa AG consists of monitoring procedures both integrated into and independent of business processes. In addition to manual process controls – such as the need for dual signatures – automatic IT-based controls form a vital part of the integrated monitoring procedures.

These statements only relate to Deutsche Lufthansa AG.

Internal control system The elements of the internal control system are aimed to ensure the accuracy and reliability of financial reporting and guarantee that business transactions are recognised completely and at the proper time and as well as in accordance with statutory regulations and Lufthansa's articles of incorporation. Furthermore, they ensure that inventories are carried out correctly and that assets and liabilities are accurately recognised, measured and disclosed in the financial statements. The regulations also ensure that the accounting documents provide reliable, comprehensible information.

Information on organisational structure

- Accounting at Lufthansa AG is conducted decentrally in four countries –Germany, Poland, Mexico and Thailand. Financial reports are prepared centrally in Germany. The distributed accounting is carried out by four shared service centres. Three of these are legally autonomous affiliated companies and the fourth is an organisational unit of the Company.
- The individual financial statements are drawn up in accordance with German commercial law.
- Accounting guidelines based on German commercial law and detailed interpretations of them contained in various instructions and manuals ensure that the decentralised organisational units in particular apply uniform accounting standards. The internal guidelines also include concrete instructions on presenting and carrying out intra-group clearing procedures and confirming the resulting account balances.
- Special topics such as pension provisions, taxes and treasury are dealt with centrally for the Group by Deutsche Lufthansa AG.
- Accounting entries for the individual financial statements of Deutsche Lufthansa AG are mainly carried out in the integrated SAP accounting software. The IT systems used for accounting are protected against unauthorised access by special security precautions. Confirmation of account balances for the entire Group takes place via an internet-based platform.
- Revenue billing has been outsourced to an independent subsidiary, which is quality-reviewed by internal units on a regular basis. Expert opinions to determine the amount of pension provisions are also prepared externally.

Process and control information

- The individual financial statements for Lufthansa AG are prepared according to a structured process and based on a clear timetable.
- Regular, standardised reporting procedures gather information such as process risks derived from outside the accounting units that is relevant for preparing the financial statements.
- As independent parties the auditors also have a control function in terms of carrying out the statutory audit.
- The controlling activities include analytical reviews using specific performance indicators as well as the execution and control of important and complex transactions by different people to ensure the accuracy and reliability of the accounting. To reduce the risk of fraud administrative, executive, accounting and authorisation functions are separated and executed by different individuals (dual signatures).
- ICS audits are also carried out regularly to monitor the decentralised units. The local financial manager plans the checks of ICS and confirms that they have been carried out.
- The documents used by the accounting department are analysed by cross-checks and corrected if necessary to ensure the plausibility of individual items of the balance sheet and income statement. Technical plausibility checks in SAP ensure that the system already rejects incorrect transactions. Processes relevant to financial reporting are examined regularly by the independent Corporate Audit department.

Qualifying remarks By means of the organisational, control and monitoring structures defined for Lufthansa, the internal control system enables all matters affecting the Company to be captured, processed and evaluated and to be presented adequately in the financial reporting.

The effectiveness and reliability of the control and risk management systems deployed can be restricted by the use of individual discretion, faulty checks, criminal acts and other factors, so that even the application of these systems throughout the Company cannot guarantee complete certainty regarding the accuracy, completeness and timeliness with which issues are recognised in financial reporting.

Declaration on corporate governance in accordance with Section 289a HGB

The declaration on Corporate Governance required under Section 289a HBG has been issued and made publicly available on the Company's website at http://investor-relations.lufthansa.com/en/corporate-governance/corporate-governance-declaration-section-289a-hgb.html.

Events after the balance sheet date

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

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

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

Outlook A tentative recovery in the global economy is expected for 2010. The difficult state of the international financial system has not yet been overcome, however. It is also assumed that energy prices will continue to rise on the back of an economic revival. Furthermore, the effects of the economic stimulus programmes launched around the world are likely to tail off over the course of the coming year. The likely continued increase in unemployment will also depress consumer spending. As long as a self-sustaining recovery is not in sight, the timing and the way in which the economic stimulus and support packages are wound down will have a considerable effect on further growth. Overall, the global economy is forecast to grow by 2.9 per cent in 2010, rising to 3.3 per cent the year after.

The prospects for the economy in the USA have improved. There are many signs that in the months ahead, the American economy will gradually return to a growth path. The economic stimulus programme will have its greatest effect in the winter half-year 2009/2010. Private consumption will rise much more slowly than in the past, however, as households suffered an enormous depletion of assets and are likely to increase their savings plans. High unemployment will also depress consumer spending. The fiscal impact on demand is likely to diminish in 2010. Overall, the US economy is expected to report modest year-on-year growth of 2.6 per cent in 2010.

The Asian economies are benefiting from China's rapid growth rates. The region will continue to benefit from government support measures, which should stimulate domestic demand. There are good reasons to think that growth rates will pick up next year. In Japan the further development of the economy depends largely on the performance of international markets. Positive effects for external trade are primarily expected to come from China and the USA. These effects will be less pronounced than in previous upturns, however, due to the fragility of the global economic recovery. For the Asia/Pacific region total growth of 5.1 per cent is forecast for 2010.

The countries in the euro area should also recover moderately in 2010. Unemployment is expected to rise further, which is likely to depress domestic demand. Overall growth of 1.1 per cent is predicted for the euro area in 2010, which is to increase thereafter. The economic situation in Germany too is forecast to warm up tentatively in 2010. German exports will rise at a moderate rate given the still feeble expansion of the world economy. Domestic demand is only expected to pick up slowly, however. Companies' willingness to invest is likely to remain low in view of the scant improvement in sales prospects and unfavourable financing terms. Overall, growth of 1.5 per cent is forecast for Germany in 2010, rising modestly in subsequent years.

In view of the expected economic recovery, demand for oil is forecast to rise, particularly in emerging economies such as China, India and Brazil. For this reason, Lufthansa and many other market players are assuming that oil prices will return to higher levels in the medium term. In the worst case scenario, speculative trading will drive up oil prices even before economic recovery sets in. Medium-term expectations can be seen above all in the forward contracts for delivery of IPE Brent in December 2012, which at the end of January 2010 were trading at a premium of 16 per cent over the spot price.

In line with a recovery in the world economy in 2010, slight growth is forecast for the air traffic industry. According to IATA, passenger numbers are due to grow worldwide by 4.5 per cent in 2010, after falling by 4 per cent in 2009. For the next four years IATA is expecting an average growth rate for international traffic of 5 per cent. It will not return to pre-crisis levels before 2011 or 2012, however.

The recovery is very unevenly divided between countries and markets. This is reflected in the regional performance of the airline markets. During the IATA forecast period 2010–2013, the fastest growth in international passenger traffic is expected in the Middle East and Africa with over 6 per cent. In Asia-Pacific, where a relatively swift economic rebound can be seen, IATA also predicts strong growth in international passenger traffic. Strong economic growth and further liberalisation of the air traffic market make Asia the main driver of passenger traffic in the years ahead. By contrast, a rapid recovery is not to be expected in European and North American markets due to high household debt, rising unemployment and an increased savings rate.

Given rising fuel prices, rapid capacity growth and low pricing, IATA is expecting the global airline sector to rack up total losses of USD 5.6bn in 2010. On these estimates the North American and European markets will account for the worst losses, with each producing deficits of more than USD 2bn. Despite the rapid upswing in demand, airlines from the Middle East and Asia are also expected to report negative results. Latin America is the only market forecast to generate a profit in 2010.

The financial year 2009 was severely impacted by the consequences of the global economic crisis. Lufthansa nevertheless dealt with the challenges successfully, holding its ground in comparison with others in the industry.

Economic growth is expected to pick up again in the 2010 financial year, whereby different regions and sectors will benefit to varying degrees. Lufthansa will also share in resurgent demand thanks to its broad regional positioning and balanced customer structure. Lufthansa will benefit too from the increased profile in the growth regions Africa and Eastern Europe through the new partners Brussels Airlines and Austrian Airlines. The greater cooperation in transatlantic traffic with the Star Alliance partners Continental Airlines, United Airlines and Air Canada that is the objective of the joint venture Atlantik++ will also contribute to strengthening the Lufthansa network.

It nevertheless remains uncertain when the economic recovery will lead to an upturn in demand in the air traffic sector. Lufthansa is currently still assuming that a sustainable recovery will only take root in the second half of the year.

In long-haul traffic a tangible improvement should be felt towards the end of the year, as long as the massive capacity growth spurred on by some airlines (in the Gulf region for instance) without corresponding market growth does not lead to distortions.
In short-haul traffic by contrast, lasting structural effects in demand patterns are to be expected, so that prices in particular are not likely to regain the level seen in previous years for the foreseeable future. To get to grips with these changes Lufthansa is pursuing the Climb 2011 programme with even greater vigour.

In terms of costs the development of the oil price will have a profound influence on Lufthansa. The way in which the oil price and demand pick up over time holds considerable risks and opportunities for the airlines' profitability. Further risks lie in the direction taken by the ongoing collective bargaining dispute. Given the range by which these factors fluctuate it is not possible at this early stage to be more precise about the expected result for 2010, much less put a figure on it.

Assuming that the global economy continues to recover and that the measures to cut costs and safeguard earnings take effect, an improvement in earnings can be expected for 2011.

Financial statements of Deutsche Lufthansa AG 2009

Deutsche Lufthansa AG
Balance sheet as of 31 December 2009

Assets			
in EUR m	Notes	**31.12.2009**	31.12.2008
Intangible assets		138	34
Aircraft		3,828	3,551
Other tangible assets		110	108
Financial investments	4)	11,128	10,709
Fixed assets	3)	**15,204**	**14,402**
Inventories	5)	24	23
Trade receivables	6)	428	535
Other receivables and other assets	6)	1,544	1,509
Securities	7)	1,731	426
Liquid funds	7)	191	218
Current assets		**3,918**	**2,711**
Prepaid expenses	8)	**35**	**35**
Total assets		**19,157**	**17,148**

Shareholders' equity and liabilities			
in EUR m	Notes	**31.12.2009**	31.12.2008
Issued capital	9)	1,172	1,172
Capital reserve	10)	857	857
Retained earnings	10)	1,318	1,466
Distributable earnings	28)	0	320
Shareholders' equity		**3,347**	**3,815**
Provisions	11)	**8,899**	**9,061**
Bonds		2,199	599
Liabilities to banks		902	472
Payables to subsidiaries		1,317	673
Other liabilities		2,461	2,491
Liabilities	12)	**6,879**	**4,235**
Deferred income		**32**	**37**
Total shareholders´ equity and liabilities		**19,157**	**17,148**

Deutsche Lufthansa AG
Income statement for the financial year 2009

in EUR m	Notes	**2009**	2008
Traffic revenue	15)	11,970	14,133
Other revenue	16)	229	311
Total revenue		**12,199**	**14,444**
Other operating income	17)	1,854	1,440
Cost of materials and services	18)	− 8,497	− 9,899
Staff costs	19)	− 2,678	− 2,707
Depreciation, amortisation and impairment	20)	− 502	− 429
Other operating expenses	21)	− 2,780	− 3,070
Result from operating activities		**− 404**	**-− 221**
Result of equity investments	22)	+ 476	+ 779
Net interest income	23)	− 20	+ 77
Impairment on investments and current securities	24)	− 158	− 238
Financial result		**+ 298**	**+ 618**
Result from ordinary activities before taxes		**− 106**	**+ 397**
Taxes	25)	− 42	− 121
Net income for the year	27)	**− 148**	**+ 276**
Transfers from retained earnings	10)	+ 148	+ 44
Distributable earnings	27)	**0**	**+ 320**

Deutsche Lufthansa AG

Statement of fixed assets movements 2009

	Acquisition / production costs					Accumulated depreciation and amortisation					Carrying amounts	
in EUR m	as of 1.1.2009	Additions	Disposals	Transfers	as of 31.12.2009	as of 1.1.2009	Additions	Disposals	Transfers	as of 31.12.2009	as of 31.12.2009	as of 31.12.2008
I. Intangible assets												
1. Concessions, industrial property and similar rights and assets and licences in such rights and assets	196	6	3	103	302	168	12	3	3	180	122	28
2. Advance payments	6	11	0	− 1	16	–	–	–	–	–	16	6
	202	**17**	**3**	**102**	**318**	**168**	**12**	**3**	**3**	**180**	**138**	**34**
II. Aircraft												
1. Aircraft and accessories	11,091	737	500	260	11,588	8,620	469	401	–	8,688	2,900	2,471
2. Advance payments and construction in progress	1 080	206	98	− 260	928	–	–	–	–	–	928	1,080
	12,171	**943**	**598**	**–**	**12,516**	**8,620**	**469**	**401**	**–**	**8,688**	**3,828**	**3,551**
III. Other tangible assets												
1. Real estate, leasehold rights and buildings including buildings on third-party land	126	12	5	18	151	79	7	3	0	83	68	47
2. Office and other equipment	148	11	15	6	150	114	14	15	0	113	37	34
3. Advance payments and construction in progress	27	2	0	− 24	5	–	–	–	–	–	5	27
	301	**25**	**20**	**–**	**306**	**193**	**21**	**18**	**–**	**196**	**110**	**108**
IV. Financial investments												
1. Stakes in subsidiaries	7,348	776	0	33	8,157	370	156*	–	–	526	7,631	6,978
2. Loans to subsidiaries	2,566	536	268	− 102	2,732	297	47	4	− 3	337	2,395	2,269
3. Other equity investments	982	77	257	− 33	769	151	–	151	–	–	769	831
4. Loans to companies held as other equity investments	–	–	–	–	–	–	–	–	–	–	–	–
5. Securities	53	0	0	–	53	5	–	–	–	5	48	48
6. Other loans	598	7	302	–	303	26	2	–	–	28	275	572
7. Prefinancing of leasehold	12	0	1	–	11	1	–	–	–	1	10	11
	11,559	**1,396**	**828**	**− 102**	**12,025**	**850**	**205**	**155**	**− 3**	**897**	**11,128**	**10,709**
Total fixed assets	**24,233**	**2,381**	**1,449**	**–**	**25,165**	**9,831**	**707**	**577**	**–**	**9,961**	**15,204**	**14,402**

* Depreciation and amortisation includes the use of provisions for a total of EUR 47m without effect on profit and loss

Notes to the financial statements of Deutsche Lufthansa AG 2009

1) Application of the German Commercial Code (HGB)

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

To make the presentation clearer, 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 and amortisation.

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 EUR 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 applicable 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. Purchased take-off and landing rights are not amortised.

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.

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. Up to and including 2007 new aircraft were depreciated according to the declining-balance method. New additions in the financial year 2008 were depreciated using the straight-line method in line with the change to tax rules on depreciation and amortisation. In 2009 new aircraft were again depreciated using the declining-balance method in accordance with the Financial Markets Stabilisation Act. This resulted in higher depreciation of EUR 46m.

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 operating and office equipment acquired after the 1997 financial year are depreciated on a declining-balance basis. This was altered to the straight-line method for financial year 2008 due to the change in tax legislation. In 2009 depreciation was switched back to the declining-balance method. 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 stated at cost less any necessary value adjustments.

In addition to individual impairments 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 to balance sheet assets

3) Fixed assets

Changes in individual fixed asset items during the financial year 2009 are shown in a separate table.

In addition to the Company's own aircraft listed in the statement of fixed assets movement and in the balance sheet, further aircraft were chartered, in some cases completly with crews.

Lufthansa AG also has long-term leasing contracts for sixteen A340-600s, four A330-300s, two A340-300s and two A321-200s.

4) Financial investments

Significant equity investments

Company	Stake in %	Equity capital in EUR m	Earnings after taxes in EUR m	
Lufthansa CityLine GmbH, Cologne	100	26	21	*
Lufthansa Cargo AG, Kelsterbach	100	159	-116	*
Lufthansa Technik AG, Hamburg	100	369	263	*
LSG Lufthansa Service Holding AG, Neu-Isenburg	100	314	-36	*
Lufthansa Systems AG, Kelsterbach	100	23	12	*
Lufthansa Flight Training GmbH, Frankfurt/Main	100	21	15	*
Lufthansa Commercial Holding GmbH, Cologne	100	143	74	*
Delvag Luftfahrtversicherungs-AG, Cologne	100	35	10	*
Air Dolomiti S.p.A.L.A.R.E., Ronchi dei Legionari	100	20	-8	**
Lufthansa SICAV-FIS, Luxembourg	100	1,623	29	**
Lufthansa Malta Holding Ltd., Malta	100	1,438	50	**
Eurowings Luftverkehrs AG, Nuremberg	100[1)]	76	21	**
Swiss International Air Lines AG, Basle	100[2)]	1,206	79	**
British Midland Airways Limited, Donnington Hall	100[3)]	-167	-166	***
Austrian Airlines AG, Vienna	100[4)]	140	-211	***
Lufthansa Pension GmbH & Co. KG, Frankfurt/Main	70	3,744	0	***
Günes Ekspres Havacilik Anonim Sirketi (Sun Express), Antalya	50	13	1	***
Brussels Airlines NV/SA, Brussels	45[5)]	109	-7	***
Aircraft Maintenance and Engineering Corporation, Beijing	40	125	6	***

* before profit/loss transfer
** preliminary result under IFRS
*** financial year 2008
1) Equity stake calculated (100 %) including a call option giving the right to acquire 50.91% of shares
2) Equity stake (100 %) held via Air Trust AG
3) Equity stake (100%) held via LHBD Holding Limited and British Midland plc
4) Equity stake (100%) held via Österreichische Luftverkehrs-Beteiligungs-GmbH
5) Equity stake (45%) held via SN Airholding NV/SA

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

5) Inventories

Inventories

in EUR m	**31.12.09**	31.12.08
Raw materials, consumables and supplies	13	14
Finished goods and merchandise	11	9
	24	**23**

6) Receivables and other assets

Receivables and other assets			
in EUR m	**31.12.09**	of which due after more than one year	31.12.08
Trade receivables	428	0	535
Receivables from subsidiaries	868	16	839
Receivables from companies held as equity investments	5	0	19
Other assets	671	305	651
	1,972	**321**	**2,044**

7) Securities and liquid funds

Cash in hand and bank balances consist almost entirely of credit balances held with banks. Bank balances assigned as collateral amounting to EUR 21m 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 1,015m.

8) Prepaid expenses

This item contains interest from finance leasing agreements for aircraft amounting to EUR 9m.

Notes to balance sheet liabilities and shareholders´ equity

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

The Executive Board is further authorised, in the case of a capital increase for payment in cash, to rule out, subject to approval by the Supervisory Board, subscription rights for existing shareholders on condition that the new shares so issued must not exceed 10 per cent of issued capital and that the issue price must not be significantly lower than the market price.

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

Under the authorisation dated 16 June 1999 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 converted early on 4 January 2006 for a total of EUR 699m, 309 conversion rights were exercised (15,558 shares) in 2006, a further 40 conversion rights (2,014 shares) were exercised in 2007 and as of 4 January 2008 convertible bonds amounting to EUR 205,000 were redeemed. As of the balance sheet date there were therefore 50,139 conversion rights outstanding, convertible into up to 2,524,622 shares in Lufthansa AG at a price of EUR 19.86.

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

A resolution passed at the Annual General Meeting held on 24 April 2009 again authorised the Executive Board to purchase treasury shares until 23 October 2010. The authorisation is limited to 10 per cent of current issued capital which can be purchased on the stock exchange or by a public purchase offer to all shareholders. At the same Annual General Meeting the existing authorisation to purchase treasury shares which expired on 28 October 2009 was revoked.

A resolution passed at the Annual General Meeting on 24 April 2009 authorised the Executive Board until 23 April 2014, subject to approval by the Supervisory Board, to increase the issued capital by up to EUR 25m, by issuing new registered shares to employees (Authorised Capital B) for payment in cash.

Existing shareholders' subscription rights are excluded. At the same Annual General Meeting the existing authorisation to increase issued capital (Authorised Capital B) which expired on 15 June 2009 was revoked.

In 2009 Lufthansa AG bought back a total of 2,453,180 of its own shares at an average price of EUR 11.04. This is equivalent to 0.54 per cent of issued capital.

The shares were used as follows:

- 1,704,752 shares were offered to the staff of Lufthansa AG and 31 other affiliated companies and equity investments as part of the profit-sharing scheme for 2008, at a share price of EUR 11.30.
- 748,030 shares were used as part of performance-related variable remuneration in 2009 for managers and non-payscale staff of Lufthansa AG and 25 further affiliated companies and equity investments at a price of EUR 10.50.
- 372 shares were allocated to managers and non-payscale staff as part of the previous year's performance-related remuneration at a price of EUR 10.73.
- 26 shares were allocated to employees from the previous year's programme at a price of EUR 15.92.

445 shares were resold at an average price of EUR 9.40.

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

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

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

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

Notification on voting shares on behalf of and for the account of Barclays Global Investors NA On 16 January 2009 Barclays Global Investors NA, San Francisco, USA, fell below the 3 per cent threshold referred to in Section 21 Paragraph 1 WpHG and as of this date held 2.97 per cent of voting rights (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 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 WpHG (Securities Trading Act) dated 16 March 2009 On 13 March 2009 ATON GmbH, Fulda, Germany, sent us notification in accordance with Section 21 Paragraph 1 WpHG that its share of voting rights in Deutsche Lufthansa AG fell below the threshold of 3 per cent on 11 March 2009, and that at this date it held 2.66 per cent (12,203,792 voting shares).

On 16 March 2009, Dr Lutz M. Helmig, Germany, sent us notification in accordance with Section 21 Paragraph 1 WpHG that his share of voting rights in Deutsche Lufthansa AG fell below the threshold of 3 per cent on 11 March 2009, and that at this date he held 2.66 per cent of voting rights (12,203,792 voting shares).

Of these voting rights, 2.66 per cent (12,203,792 voting shares) are attributed to him in accordance with Section 22 Paragraph 1 Sentence 1 No. 1 WpHG.

Notifications on the shareholder structure in accordance with Section 26 Paragraph 1 WpHG (Securities Trading Act) dated 22 May 2009 On 20 May 2009 Commerzbank AG, Frankfurt am Main, Germany, wrote to notify us in accordance with Section 21 Paragraph 1 WpHG that its share of voting rights in Deutsche Lufthansa AG had fallen below the threshold of 3 per cent on 18 May 2009, and it now held 0 per cent of voting rights (0 voting shares).

At the same time Commerzbank AG, Frankfurt am Main, Germany, notified us in accordance with Section 21 Paragraph 1 WpHG and Section 24 WpHG that the share of voting rights held by Süddeutsche Industrie-Beteiligungs GmbH, Frankfurt am Main, Germany, in Deutsche Lufthansa AG fell below the 3 per cent threshold on 18 May 2009 and at this time came to 0 per cent (0 voting shares).

Notifications on the shareholder structure in accordance with Section 26 Paragraph 1 WpHG (Securities Trading Act) dated 7 October 2009 On 5 October 2009 AXA Investment Managers Deutschland GmbH, Frankfurt, Germany, notified us of the following:

The voting rights of AllianceBernstein L.P., New York, USA, in Deutsche Lufthansa AG fell below the threshold of 3 per cent on 30 September 2009 and on this date came to 2.26 per cent (10,329,535 voting shares). This 2.26 per cent (10,329,535 voting shares) is attributable to it in accordance with Section 22 Paragraph 1 No. 6 WpHG.

The voting rights of AllianceBernstein Corporation, New York, USA, in Deutsche Lufthansa AG fell below the threshold of 3 per cent on 30 September 2009 and on this date came to 2.26 per cent (10,329,535 voting shares). This 2.26 per cent (10,329,535 voting shares) is attributable to it in accordance with Section 22 Paragraph 1 Sentence 1 No. 6 and Sentence 2 WpHG.

The voting rights of Equitable Holdings LLC, New York, USA, in Deutsche Lufthansa AG fell below the threshold of 3 per cent on 30 September 2009 and on this date came to 2.26 per cent (10,329,535 voting shares). This 2.26 per cent (10,329,535 voting shares) is attributable to it in accordance with Section 22 Paragraph 1 Sentence 1 No. 6 and Sentence 2 WpHG.

The voting rights of AXA Equitable Life Insurance Company, New York, USA, in Deutsche Lufthansa AG fell below the threshold of 3 per cent on 30 September 2009 and on this date came to 2.26 per cent (10,329,535 voting shares). This 2.26 per cent (10,329,535 voting shares) is attributable to it in accordance with Section 22 Paragraph 1 Sentence 1 No. 6 and Sentence 2 WpHG.

The voting rights of AXA Equitable Financial Services LLC, formerly AXA Financial Services LLC, New York, USA, in Deutsche Lufthansa AG fell below the threshold of 3 per cent on 30 September 2009 and on this date came to 2.26 per cent (10,329,535 voting shares). This 2.26 per cent (10,329,535 voting shares) is attributable to it in accordance with Section 22 Paragraph 1 Sentence 1 No. 6 and Sentence 2 WpHG.

The voting rights of AXA Financial, Inc., New York, USA, in Deutsche Lufthansa AG fell below the threshold of 3 per cent on 30 September 2009 and on this date came to 2.26 per cent (10,329,535 voting shares). This 2.26 per cent (10,329,535 voting shares) is attributable to it in accordance with Section 22 Paragraph 1 Sentence 1 No. 6 and Sentence 2 WpHG.

The voting rights of AXA S.A., Paris, France, in Deutsche Lufthansa AG fell below the threshold of 3 per cent on 30 September 2009 and on this date came to 2.55 per cent (11,694,845 voting shares). This 2.55 per cent (11,694,845 voting shares) is attributable to it in accordance with Section 22 Paragraph 1 Sentence 1 No. 6 and Sentence 2 WpHG.

Notifications on the shareholder structure in accordance with Section 26 Paragraph 1 WpHG (Securities Trading Act) dated 9 December 2009 On 7 December 2009 Black Rock, Inc., New York, USA notified us of the following:

The voting rights of BlackRock Jersey International Holdings L.P., St Helier, Jersey, in Deutsche Lufthansa AG exceeded the threshold of 3 per cent on 1 December 2009 and on this date came to 3.13 per cent (14,340,499 voting shares). This 3.13 per cent (14,340,499 voting shares) is attributable to it in accordance with Section 22 Paragraph 1 Sentence 1 No. 6 and Sentence 2 WpHG.

The voting rights of BlackRock International Holdings, Inc., New York, USA, in Deutsche Lufthansa AG exceeded the threshold of 3 per cent on 1 December 2009 and on this date came to 3.13 per cent (14,340,499 voting shares). This 3.13 per cent (14,340,499 voting shares) is attributable to it in accordance with Section 22 Paragraph 1 Sentence 1 No. 6 and Sentence 2 WpHG.

The voting rights of BlackRock Advisors Holdings, Inc., New York, USA, in Deutsche Lufthansa AG exceeded the threshold of 3 per cent on 1 December 2009 and on this date came to 3.64 per cent (16,655,665 voting shares). This 3.64 per cent (16,655,665 voting shares) is attributable to it in accordance with Section 22 Paragraph 1 Sentence 1 No. 6 and Sentence 2 WpHG.

The voting rights of BlackRock Financial Management, Inc., New York, USA, in Deutsche Lufthansa AG exceeded the thresholds of 3 per cent and 5 per cent on 1 December 2009 and on this date came to 5.27 per cent (24,132,873 voting shares). This 5.27 per cent (24,132,873 voting shares) is attributable to it in accordance with Section 22 Paragraph 1 Sentence 1 No. 6 and Sentence 2 WpHG.

The voting rights of BlackRock Holdco 2, Inc., New York, USA, in Deutsche Lufthansa AG exceeded the thresholds of 3 per cent and 5 per cent on 1 December 2009 and on this date came to 5.27 per cent (24,132,873 voting shares). This 5.27 per cent (24,132,873 voting shares) is attributable to it in accordance with Section 22 Paragraph 1 Sentence 1 No. 6 and Sentence 2 WpHG.

The voting rights of BlackRock, Inc., New York, USA, in Deutsche Lufthansa AG exceeded the thresholds of 3 per cent and 5 per cent on 1 December 2009 and on this date came to 5.45 per cent (24,968,008 voting shares). This 5.45 per cent (24,968,008 voting shares) is attributable to it in accordance with Section 22 Paragraph 1 Sentence 1 No. 6 and Sentence 2 WpHG.

Notifications on the shareholder structure in accordance with Section 26 Paragraph 1 WpHG (Securities Trading Act) dated 18 January 2010 On 15 January 2010 Deka Investment GmbH, Frankfurt am Main, Germany, wrote to notify us in accordance with Section 21 Paragraph 1 WpHG that its share of voting rights in Deutsche Lufthansa AG had fallen below the threshold of 3 per cent on 13 January 2010, and that it now held 2.9486 per cent of voting rights (13,502,624 voting shares). Of the total, 0.09 per cent (427,129 voting shares) is attributable to it in accordance with Section 22 Paragraph 1 Sentence 1 No. 6 WpHG.

Notifications on the shareholder structure in accordance with Section 26 Paragraph 1 WpHG (Securities Trading Act) dated 1 February 2010 On 29 January 2010 Deka International S.A., Luxembourg, Luxembourg, wrote to notify us in accordance with Section 21 Paragraph 1 WpHG that its share of voting rights in Deutsche Lufthansa AG had exceeded the threshold of 3 per cent on 27 January 2010, and that on this date it held 3.0763 per cent of voting rights (14,087,425 voting shares).

Notifications on the shareholder structure in accordance with Section 26 Paragraph 1 WpHG (Securities Trading Act) dated 10 February 2010 On 5 February 2010 BlackRock, Investment Management (UK) Limited, London, UK, notified us of the following:

The voting rights of BlackRock Financial Management, Inc., New York, USA, in Deutsche Lufthansa AG fell below the threshold of 5 per cent on 1 February 2010 and on this date came to 4.65 per cent (21,311,157 voting shares). This 4.65 per cent (21,311,157 voting shares) is attributable to it in accordance with Section 22 Paragraph 1 Sentence 1 No. 6 and Sentence 2 WpHG.

The voting rights of BlackRock Holdco 2, Inc., New York, USA, in Deutsche Lufthansa AG fell below the threshold of 5 per cent on 1 February 2010 and on this date came to 4.65 per cent (21,311,157 voting shares). This 4.65 per cent (21,311,157 voting shares) is attributable to it in accordance with Section 22 Paragraph 1 Sentence 1 No. 6 and Sentence 2 WpHG.

The voting rights of BlackRock Advisors Holdings, Inc., New York, USA, in Deutsche Lufthansa AG fell below the threshold of 3 per cent on 1 February 2010 and on this date came to 2.29 per cent (10,476,214 voting shares).

This 2.29 per cent (10,476,214 voting shares) is attributable to it in accordance with Section 22 Paragraph 1 Sentence 1 No. 6 and Sentence 2 WpHG.

The voting rights of BlackRock International Holdings, Inc., New York, USA, in Deutsche Lufthansa AG fell below the threshold of 3 per cent on 1 February 2010 and on this date came to 2.29 per cent (10,476,214 voting shares). This 2.29 per cent (10,476,214 voting shares) is attributable to it in accordance with Section 22 Paragraph 1 Sentence 1 No. 6 and Sentence 2 WpHG.

The voting rights of BR Jersey International LP, St Helier, Jersey, UK, in Deutsche Lufthansa AG fell below the threshold of 3 per cent on 1 February 2010 and on this date came to 2.29 per cent (10,476,214 voting shares). This 2.29 per cent (10,476,214 voting shares) is attributable to it in accordance with Section 22 Paragraph 1 Sentence 1 No. 6 and Sentence 2 WpHG.

Note from the Company: The voting rights of BlackRock, Inc., New York, USA, in Deutsche Lufthansa AG remain at over 5 per cent.

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 statutory reserve included in retained earnings remains unchanged at EUR 26m; the remainder is other retained earnings. EUR 148m have been transferred from retained earnings.

11) Provisions

Provisions

in EUR m	**31.12.09**	31.12.08
Provisions for pensions and similar obligations	4,853	4,560
Tax provisions	120	62
Obligations from unused flight documents	1,967	2,118
Other provisions	1,959	2,321
	8,899	**9,061**

An inhouse company pension scheme exists for staff working in Germany and staff 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 2.6bn as of the balance sheet date.

Other provisions mainly include amounts for contingent losses from pending transactions, for outstanding expenses, 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 EUR m	Due within one year	Due in more than five years	**Total 31.12.09**	Total 31.12.08
Bonds	93	750	2,199	599
Liabilities to banks	116	2	902	472
Advance payments for orders	1	–	1	0
Trade payables	271	–	271	318
Payables to subsidiaries	1,303	0	1,317	673
Payables to companies held as other equity investments	31	–	31	44
Other liabilities	377	1,034	2,158	2,129
- of which for taxes	(50)	–	(50)	(51)
- of which relating to social security obligations	(9)	(6)	(32)	(15)
	2,192	**1,786**	**6,879**	**4,235**

Of the bonds, EUR 49m is convertible.

EUR 193m of the liabilities to banks are secured by aircraft.

Of the other liabilities, obligations arising from finance leases totalling EUR 1,819m are secured by the aircraft concerned.

13) Contingent liabilities

Contingent liabilities in EUR m	**31.12.09**	31.12.08
Relating to guarantees, bills of exchange and cheque guarantees	1,472	1,156
- of which to subsidiaries	(630)	(311)
Relating to warranties	726	732
- of which to subsidiaries	(141)	(147)
Relating to the provision of collateral for third-party liabilities	3	3

The amounts listed contain EUR 831m in assumption of co-debtors’ guarantees in favour of North American fuelling and handling firms. These are matched by compensatory claims against the other co-debtors amounting to EUR 809m. These amounts are in some cases still provisional owing to annual accounts still pending.

EUR 283m 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 matched by compensatory claims against the other co-debtors amounting to EUR 212m.

14) Other financial obligations

Commitment to order investments Order commitments for capital expenditure on property, plant and equipment came to EUR 5.1bn as of 31 December 2009. The resulting payment obligations will fall due as follows: EUR 3.7bn in the years 2010 to 2013 and EUR 1.4bn in the years 2014 to 2015.

Obligations to acquire Company shares and to contribute capital to investee companies totalling EUR 9m and loan commitments amounting to EUR 387m existed as of the balance sheet date.

Commitments from rental agreements Lufthansa AG’s business premises consist almost entirely of rental properties. Rental agreements generally run for five to ten years. Facilities at Frankfurt and Hamburg airports are rented for 30 years and are partly prefinanced by Lufthansa. Annual rental payments amount to around EUR 159m.

Charges under long-term finance leases for aircraft signed as of the balance sheet date came to EUR 13m in 2009, which will fall in subsequent years to EUR 6m per annum.

Charges under long-term operating leases with terms up to 2015 came to EUR 194m in the financial year. The leasing constructions were implemented to benefit from financial advantages.

Currency, interest and fuel price hedging As of 31 December 2009 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 maximum
USD 307m	Spread options	0.7662	2012
USD 1,634m	European options	0.6900	2012
USD 8,599m	Forward purchases	0.7173	2016
JPY 56,657m	Forward sales	0.0076	2011
AUD 125m	Forward sales	0.5355	2050
GBP 183m	Forward sales	1.1739	2011
CZK 1,020m	Forward sales	0.0385	2011
HKD 1,860m	Forward sales	0.0927	2011
CHF 1,267m	Forward sales	0.6813	2016
CAD 241m	Forward sales	0.6373	2050
KRW 69,461m	Forward sales	0.0006	2010
PLN 389m	Forward sales	0.2393	2011
THB 580m	Forward sales	0.0205	2010
ZAR 1,193m	Forward sales	0.0769	2011
NOK 1,179m	Forward sales	0.1142	2011
NZD 73m	Forward sales	0.4399	2011
SEK 1,677m	Forward sales	0.0975	2011
SGD 72m	Forward sales	0.4973	2011
DKK 11m	Forward sales	0.1344	2010
INR 8,392m	Forward sales	0.0144	2010
PHP 722m	Forward purchases	0.0145	2010
MXN 13m	Forward sales	0.0538	2010
HUF 448m	Forward sales	0.0038	2011
CNY 926m	Forward sales	0.1037	2010

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

Volume	Type of derivative	Average exchange rate in €	Maturity up to maximum
AUD 34m	Forward purchases	0.5076	2011
USD 2,083m	Forward sales	0.7192	2016
JPY 14,688m	Forward purchases	0.0076	2011
GBP 53m	Forward purchases	1.1414	2011
CZK 174m	Forward purchases	0.0384	2011
HKD 1,212m	Forward purchases	0.0939	2011
CHF 991m	Forward purchases	0.6879	2016
CAD 71m	Forward purchases	0.6312	2011
HUF 5,214m	Forward sales	0.0035	2011
KRW 32,013m	Forward purchases	0.0006	2010
PLN 24m	Forward purchases	0.2416	2011
ZAR 499m	Forward purchases	0.0789	2011
NOK 143m	Forward purchases	0.1146	2011
THB 204m	Forward purchases	0.0210	2010
SEK 419m	Forward purchases	0.0962	2011
SGD 30m	Forward purchases	0.4995	2011
DKK 170m	Forward purchases	0.1337	2011
CNY 356m	Forward purchases	0.1028	2010
INR 3,184m	Forward purchases	0.0148	2010
MXN 13m	Forward purchases	0.0538	2010
PHP 722m	Forward sales	0.0149	2010

Interest hedges

Volume	Type of derivative	Reference exchange rate	Maturity up to maximum
EUR 2,559m	EUR swaps +1.4593% to +6.75%	into 3 to 6-month Euribor -3.03% to +7.97%	2019
EUR 13m	JPY swap +5.795%	into EUR +3.318%	2012
EUR 88m	JPY swaps +3.321% to +3.726%	into 6-month Euribor +1.883% to +2.984%	2012
EUR 198m	USD swaps +2.104% to +2.641%	into 6-month Euribor -3.45% to -1.365%	2017
EUR 338m	6-month USD Libor swap +4.5%	into 1 to 6-month Euribor -0.998% to +1.923%	2019
EUR 288m	6-month USD Libor swap +4.5%	into 1 to 3-month CHF Libor +0.778% to +4.383%	2016
EUR 259m	USD swap +1.137%	into EUR +5.04%	2019
EUR 11m	6-month USD Libor swap +0.325%	into 6-month Euribor +0.3525%	2017
EUR 15m	USD swap +2.104%	into EUR +0.68%	2017
EUR 80m	USD swap +1.7223% to +3.605%	into CHF +0.472% to +2.49%	2016
EUR 27m	6-month CHF Libor swap +1.0%	into 6-month Euribor +1.075%	2012

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

Volume	Type of derivative	Reference exchange rate	Maturity up to maximum
EUR 109m	swap CHF +0.472% to +4.406%	into EUR +1.7226% to +4.597%	2016
EUR 125m	euro swap +1.255% to +1.6842%	into USD +2.506% to +2.526%	2017
EUR 50m	swaps 6-month Euribor -2.62% to -1.365%	into USD +2.526% to +2.641%	2016
EUR 7m	USD swap +4.67%	into 12-month USD Libor swap +0.55%	2011
EUR 76.1m	into 3 to 6-month Euribor -0.1875% to +1.9225%	into 1 to 6-month USD Libor swap +4.5%	2014
EUR 288m	swaps 1 to 3-month CHF Libor +0.778% to +4.3825%	into 1 to 6-month USD Libor +0.60% to +4.5%	2016
EUR 9m	3-month USD Libor swap +1.4%	into 3-month Euribor +1.33%	2013
EUR 27m	swap Euribor +1.075%	into 6-month CHF Libor +1.0%	2012

Fuel price hedges

Type of derivative	Volume in %*	Average price level of hedging effect in USD/bbl	Maturity
Spread options	22.8	67.05	2010
Spread options	2.9	64.54	2011
Hedging combinations	57.8	97.01–127.26	2010
Hedging combinations	27.5	84.39–121.42	2011

* Percentage of anticipated fuel requirement

For the calendar year 2010 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 at 31 December 2009 the financial derivates held had the following market values and carrying amounts:

Financial derivatives			
Type of derivative in EUR m	Market values 31.12.2009	Carrying amounts of other assets 31.12.2009	Carrying amounts of other provisions 31.12.2009
Futures contracts for currency hedging	−154	–	106
Spread options for currency hedging	−23	–	–
European options currency hedging	82	71	–
Spread options for fuel price hedging	133	18	–
Hedging combinations for fuel price hedging	−127	52	22
Interest rate swaps	106	–	–

The fair values of interest rate derivatives correspond to their respective market values, which are measured using appropriate mathematical methods, such as discounting future cash flows. Discounting takes market standard interest rates and the residual term of the respective instruments into account. Currency futures and swaps are individually discounted to the balance sheet date based on their respective futures curves and the appropriate interest rate curve. The market prices of currency options and the options used to hedge fuel prices are determined using acknowledged option pricing models.

Financial instruments used for financial assets The following market values and carrying amounts applied to financial instruments used for financial assets as of 31 December 2009:

Balance sheet items		
in EUR m	Market values 31.12.2009	Carrying amounts 31.12.2009
Loans to subsidiaries	636	652
Equity investments	508	588
Other loans	8	9

The lower fair values are partly due to lower stock exchange or market prices and partly due to the translation of loans in foreign currencies at the rate on 31 December 2009.

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 to the income statement

15) Traffic revenue

Passenger traffic revenue by traffic region		
in EUR m	**2009**	2008
Europe	5,510	6,723
North America	2,681	3,207
Asia/Pacific	2,351	2,782
South America	461	494
Africa	518	514
Middle East	449	413
	11,970	**14,133**

Traffic revenue by flight type		
in EUR m	**2009**	2008
Scheduled	11,404	13,505
Charter	566	628
	11,970	**14,133**

16) Other revenue

Revenue by area of activity		
in EUR m	**2009**	2008
Ground services/in-flight sales	98	104
Travel services (commissions)	116	147
Other	15	60
	229	**311**

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

17) Other operating income

Other operating income		
in EUR m	**2009**	2008
Proceeds on the disposal of fixed assets	79	7
Foreign exchange rate gains	999	802
Cancelation of provisions	124	126
Services rendered for Group companies	94	82
Income from staff secondment	49	42
Compensation received for damages	75	10
Rental income	7	8
Earnings from the disposal of securities	3	3
Earnings from write-ups on assets	48	12
Other operating income	376	348
	1,854	**1,440**

18) Cost of materials and services

Cost of materials and services		
in EUR m	**2009**	2008
Aircraft fuel and lubricants	2,358	4,050
Total cost of raw materials, consumables and supplies and of purchased goods	65	65
Cost of services purchased	6,074	5,784
	8,497	**9,899**

19) Staff cost

Staff cost		
in EUR m	**2009**	2008
Wages and salaries	1,895	1,906
Social security, pension and benefit contributions	783	801
- of which for retirement pensions	(524)	(541)
	2,678	**2,707**

Average number of employees		
	2009	2008
Ground staff	15,441	16,135
Flight staff	19,683	19,367
Trainees	139	145
	35,263	**35,647**

20) Depreciation, amortisation and impairment

Depreciation, amortisation and impairment of intangible assets, aircraft and other tangible assets are detailed in the statement of fixed assets movements. They include impairment losses of EUR 11m.

21) Other operating expenses

Other operating expenses		
in EUR m	**2009**	2008
Sales commission paid to agencies	271	405
Rental and maintenance expenses	215	238
Expenses for computerised distribution systems	252	269
Impairments / Depreciation and amortisation of current assets	77	50
Courses / Training for flight staff	75	80
Advertising and sales promotions	179	212
Foreign exchange losses	811	795
Payment system expenses (especially credit card commission payments)	125	151
Insurance premiums for flight operations	28	23
Travel expenses	186	183
Auditing, consulting and legal expenses	57	59
Other operating expenses	504	605
	2,780	**3,070**

22) Result of equity investments

Result of equity investments		
in EUR m	**2009**	2008
Income from profit transfer agreements	396	537
Expenses from loss transfer agreements	− 152	–
Income from equity investments	232	242
- of which from subsidiaries	(217)	(219)
	476	**779**

Income/expenses from profit and loss transfer agreements are shown including tax contributions/tax credits. Income from equity investments primarily consists of the dividend from Air Trust AG.

23) Net interest income

Net interest income				
in EUR m	**2009**	of which subsidiaries	2008	of which subsidiaries
Income from other securities and non-current financial loans	123	118	141	135
Other interest and similar income	88	16	132	82
Interest and other similar expenses	− 231	− 11	− 196	− 42
	− 20	**123**	**77**	**175**

24) Impairment on investments and current securities

Impairment losses of EUR 158m were recognised on non-current financial assets. This mainly relates to impairment losses on the carrying amounts of Lufthansa Systems AG and LHBD Holding Limited of EUR 45m and EUR 64m respectively, as well as an impairment loss of EUR 36m on non-current interest owed by LSG Sky Chefs Inc. Also included are impairment losses of EUR 8m 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 EUR m	**2009**	2008
Taxes on income and earnings	0	83
Other taxes	42	38
	42	**121**

Taxes on income and earnings and other taxes also include net items from previous years of EUR 10m.

26) Supervisory Board and Executive Board

The members of the Supervisory Board and the Executive Board are listed starting on page 36.

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

- Basic remuneration is paid monthly as a salary.
- Variable remuneration depends on the Lufthansa Group's operating result and the change in this result compared with the previous year. In years with weak operating results due to extraordinary exogenous factors, the Steering Committee may award Executive Board members a discretionary bonus.
- Executive Board members are also able to participate in the option programmes for managers, since 2006 with their own parameters which vary from those of the general managers’ programme (Note 9).

The following remuneration was paid to individual Executive Board members in 2009:

Executive Board remuneration						
in EUR	Basic salary	Variable remuneration	Payments from maturing options programmes	Change in the fair value of options programmes	Other*	Total
Wolfgang Mayrhuber	805,000	130,000	1,647,000	-290,087	211,772	2,503,685
Christoph Franz Franz (board member since 1.6.2009)	350,000	55,250		35,477	79,066	519,793
Stephan Gemkow	575,000	91,000	1,098,000	-193,391	85,806	1,656,415
Stefan Lauer	575,000	91,000	1,098,000	-192,687	102,986	1,674,299
Total	**2,305,000**	**367,250**	**3,843,000**	**-640,688**	**479,630**	**6,354,192**

* Other remuneration includes, in particular, the non-cash benefit of using company cars, the discount granted in connection with option programme issues, benefits from concessionary travel in accordance with the relevant IATA regulations and attendance fees and daily allowances for work on the supervisory boards of subsidiaries.

Options programmes				
	2009 programme	2008 programme	2007 programme	2006 programme
Wolfgang Mayrhuber	17,100	16,740	11,714	-
Christoph Franz	14,060	-	-	-
Stephan Gemkow	11,400	11,160	7,809	-
Stefan Lauer	11,400	10,788	7,809	-

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

The pro rata change for 2009 in the fair value of option programmes forms part of the individual Executive Board members' total remuneration and is stated in the remuneration table.

The total fair value of the 2009 option programme for Mr Mayrhuber on the date of issue was EUR 517,770. For Mr Franz the figure was EUR 425,722, for Mr Gemkow EUR 345,180 and for Mr Lauer EUR 345,180.

Serving members of the Executive Board will benefit from various contractual entitlements when their employment comes to an end.

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

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

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

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

The cost of pension entitlements accrued in 2009 for Mr Mayrhuber was EUR 0.3m, for Mr Franz EUR 0.1m, for Mr Gemkow EUR 0.2m and for Mr Lauer EUR 0.3m. The total cost of EUR 0.9m (previous year: EUR 1.3m), plus EUR 6.4m (previous year: EUR 7.2m) in overall remuneration as shown in the remuneration table, is listed under staff costs, amounting to EUR 7.3m (previous year: EUR 8.5m).

If Mr Lauer's employment contract is terminated for reasons for which he is not responsible he is entitled to a transitional pension until he becomes 60. His transitional pension entitlement amounts to 45 per cent of his fixed basic salary increasing by 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.

If Mr Gemkow's employment contract is terminated for reasons for which he is not responsible when he is over 58 he is entitled to a transitional pension until he becomes 60. His transitional pension entitlement amounts to 30 per cent of his fixed basic salary increasing by three percentage points up to a maximum of 60 per cent for each year of service commenced from 1 February 2009 as a full Executive Board member of the Company.

In the event of their departure from the Executive Board, Messrs Mayrhuber, Gemkow and Lauer are entitled to compensation of 65 per cent of their last basic salary if Deutsche Lufthansa AG invokes the two-year non-competition clause that has been contractually agreed. During this 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 dependants came to EUR 3.2m (previous year: EUR 3.2m). This includes payments by subsidiaries as well as benefits in kind and concessionary travel.

Pension obligations toward former Executive Board members and their surviving dependents amount to EUR 32.2m (previous year: EUR 32.7m).

Supervisory Board In the 2009 financial year Supervisory Board remuneration included EUR 525,000 (previous year: EUR 522,000) in fixed payments for work on the Lufthansa AG Supervisory Board. There were no variable remuneration payments for the financial year 2009 (previous year: EUR 1,174,000), as these depend on the dividend paid for the financial year. Other remuneration, mainly attendance fees, amounted to EUR 76,000 (previous year: EUR 109,000). Other remuneration in the previous year also included concessionary travel in line with IATA guidelines.

In addition, Dr Schlede was paid EUR 27,000 in 2009 (previous year: EUR 32,000) for consultancy services in connection with the integration of Swiss International Air Lines into the Lufthansa Group.

The Deutsche Lufthansa AG Supervisory Board members were also paid EUR 50,000 (previous year: EUR 39,000) for work on supervisory boards of Group companies.

27) Distributable earnings

In financial 2009 no profits were distributed.

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

The declaration of compliance with the German Corporate Governance Code required by Section 161 of the German Stock Corporation Act (AktG) was issued by the Executive Board and Supervisory Board, and made permanently available to shareholders on the Company's website at http://investor-relations.lufthansa.com/en/corporate-governance.html.

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

The fees paid to the auditors in the financial year and charged to expenses in accordance with Section 319 Paragraph 1 HGB were made up as follows:

Auditing services	EUR 2.5m
Other certification services	EUR 0.3m
Tax advisory services	EUR 0.6m
Other services	EUR 1.3m
	EUR 4.7m

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 consolidated financial statements give a true and fair view of the net assets, financial and earnings positions 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, 2 March 2010
Deutsche Lufthansa Aktiengesellschaft
Executive Board
Der Vorstand

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 Deutsche Lufthansa AG, Cologne, for the business year from 1 January to 31 December 2009. 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 Section (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.

Dusseldorf, 2 March 2010

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Dr Norbert Vogelpoth
Wirtschaftsprüfer
(German Public Auditor)

Frank Hübner
Wirtschaftsprüfer
(German Public Auditor)

Supervisory Board and Executive Board

Supervisory Board

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

Voting members

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

Frank Bsirske
Chairman ver.di
Employee representative
Deputy Chairman

Jacques Aigrain
Former President of the Management Board Schweizerische Rückversicherungs-Gesellschaft

John Allan
Chairman DSG International plc.
(until 31.12.2009)

Dr Werner Brandt
Member of the Executive Board
SAP AG

Bernd Buresch
Coordinator
Enterprise Operation Center
Employee representative

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

Dipl.-Vwt. Jürgen Erwert
Administrative staff member
Employee representative

Dr Jürgen Hambrecht
Chairman of the Executive Board
BASF SE

Ulrich Hartmann
Chairman of the Supervisory Board
E.ON AG

Dominique Hiekel
Purser
Employee representative

Dr Nicola Leibinger-Kammüller
Managing partner and Chair of the Management board, TRUMPF GmbH + Co. KG

Eckhard Lieb
Engine mechanic
Employee representative

Simon Reimann
Flight attendant and member of the trade union UFO
Employee representative

Marlies Rose
Flight manager
Employee representative

Dr Klaus G. Schlede
Former deputy
Chairman of the Executive Board and CEO

Dr Herbert Walter
Former Chairman of the Executive Board Dresdner Bank AG and former member of the Executive Board Allianz SE

Matthias Wissmann
President of the automotive industry trade association (VDA)

Dr Michael Wollstadt
Head of IT development
Network management
Employee representative

Stefan Ziegler
Captain
Employee representative

Executive Board

Wolfgang Mayrhuber
Chairman of the Executive Board

Christoph Franz
Deputy Chairman of the Executive Board
Lufthansa Passenger Airlines
(from 1 June 2009)

Stephan Gemkow
Member of the Executive Board
Chief Officer Finances and Aviation Services

Stefan Lauer
Member of the Executive Board
Chief Officer Group Airlines and Corporate Human Resources

Other mandates of the Supervisory Board members of Deutsche Lufthansa AG

As of 31.12.2009

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

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

Jacques Aigrain
b) Swiss International Air Lines AG

John Allan
b) ISS Holding A/S
ISS Equity A/S
ISS A/S
National Grid plc
3i plc

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

Bernd Buresch
a) Lufthansa Systems AG

Dr Jürgen Hambrecht
a) Daimler AG

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

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

Dr Herbert Walter
a) E.ON Ruhrgas AG
b) Banco BPI S.A.
Banco Popular Espaniol S.A.
Depfa Bank plc., Dublin

Matthias Wissmann
a) Seeburger AG (Deputy Chairman)

a) Membership of supervisory boards required by law
b) Membership of comparable supervisory boards at companies in Germany and abroad
* Group mandate

Mandates of the Executive Board members of Deutsche Lufthansa AG

As of 31.12.2009

Wolfgang Mayrhuber

a) BMW AG
Fraport AG
Lufthansa Technik AG*
Münchener Rückversicherungs-Gesellschaft AG

b) Austrian Airlines AG
HEICO Corp., Florida
Österreichische Luftverkehrs-Holding GmbH
(Chairman of the Supervisory Board)
SN Airholding SA/NV

Christoph Franz

a) DF Deutsche Forfait AG

b) JetBlue Airways Corp.
SWISS International Air Lines AG*

Stephan Gemkow

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

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

Stefan Lauer

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

b) AMECO Corp.
(Deputy Chairman of the Board of Directors)
Austrian Airlines AG (Chairman of the Supervisory Board)
British Midland Ltd.* (Chairman of the Board of Directors)
ESMT European School of Management
and Technology GmbH
Landesbank Hessen-Thüringen Girozentrale
SN Airholding SA/NV
Sun Express Günes Ekspres Havacilik
A.S. (Deputy Chairman of the Board of Directors)
SWISS International Air Lines AG*

a) Membership of supervisory boards required by law
b) Membership of comparable supervisory boards at companies in Germany and abroad
* Group mandate

Legal information

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

Comprehensive, up-to-date information about Lufthansa's economic development, including the Group annual report and interim reports, is available on the internet at: **http://www.lufthansa.com/investor-relations**

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