Lufthansa

Financial Statements 2010

Vision

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Management report of Deutsche Lufthansa AG 2010

After its severe slump in 2009, the global economy recovered surprisingly quickly in 2010, especially in the first half of the year. This was owed largely to expansive monetary and fiscal policies in many countries. World trade improved considerably at the same time. The economic recovery did not take root equally everywhere, however, and was mainly upheld by emerging economies in Latin America and Asia. The revival flattened out slightly in the second half of the year as impetus created by the inventory clearance dwindled and economic stimulus programmes expired and some countries had to consolidate. The pace of world trade also slackened. Economic developments were overshadowed by international exchange rate conflicts, giving rise to concerns for world trade. Nevertheless, global economic growth is still estimated at 4.1 per cent for the full year 2010 (previous year: -2.1 per cent).

The European economy started the year with a fairly modest performance, partly due to poor weather conditions, but improved from the second quarter. The situation varies considerably between the European countries, however. The recovery of the global economy mainly benefited export-driven economies, above all Germany. Spain, Ireland, Italy and Greece recovered more slowly partly due to their strained public finances and as opportunities were missed to modify their construction and financial sectors. Growth in European gross domestic product is put at 1.8 per cent. Growth of 3.6 per cent is expected for Germany.

In conjunction with the general economic upturn, global passenger and airfreight traffic also recovered swiftly from the crisis in 2010. Despite the European airspace closure in April it has seen whirlwind growth since the beginning of the year. By mid year, sales in global passenger and cargo traffic were back up at their early 2008 levels. According to current reports by IATA the airline industry registered an increase of 8.2 per cent in international passenger traffic and 20.6 per cent in international freight traffic in 2010. Average yields, which collapsed during the crisis, only recuperated hesitantly, however, and in some cases are still well below pre-crisis levels.

Premium business with First and Business Class customers on long-haul routes is the main earnings driver for the network airlines and it bounced back strongly, particularly in Asia. By contrast, the recovery in inner-European air travel was much more sluggish. By October 2010 ticket sales for First and Business Class in international traffic had risen by 9.3 per cent, whereas growth in inner-European traffic only amounted to 3.0 per cent. Overall, and after correcting its forecasts several times, IATA is now predicting a profit for the industry as a whole of USD 15.1bn for the financial year 2010 (previous year: USD -9.9bn).

In 2010 Deutsche Lufthansa AG increased its traffic by 5.4 per cent compared with the previous year. Traffic revenue also performed very well, rising by 13.0 per cent or EUR 1.6bn. At the same time, EUR 0.9bn more was spent on fuel alone, compared with the previous year. The operating result recovered significantly and climbed sharply by EUR 634m to EUR 230m. After adjustment for non-recurring effects in both years, the result improved by EUR 601m.

59 million passengers transported The number of passengers increased by 5.9 per cent in 2010 to 59 million. Capacities were expanded by a total of 3.1 per cent at the same time. Greater capacity was met by an even greater rise in demand, so that sales picked up by 5.4 per cent. The load factor improved by 1.7 percentage points to 79.4 per cent as a result. Last year capacities were extended in all traffic regions with the exception of Asia/Pacific. Capacities here declined slightly year on year by 0.7 per cent.

Average yields well up on the year In 2010 average yields rose sharply by 7.3 per cent compared with the previous year's figure. With sales up by 5.4 per cent the Company reported traffic revenue of EUR 13.5bn or 13.0 per cent more than in the previous year. Other revenue was also markedly higher than the previous year’s at EUR 267m. Overall revenue totalled EUR 13.8bn, an increase of 13.1 per cent year on year.

Europe including Germany In the Europe traffic region (including Germany), 44.7 million passengers flew with Lufthansa, or 6.2 per cent more than in the previous year (after adjustment for redefined traffic regions). Capacity was extended by 4.4 per cent while demand rose by 8.6 per cent. The load factor climbed as a result by 2.8 percentage points to 70.8 per cent. Traffic revenue rose again year on year by 2.3 per cent to EUR 5.4bn, but average yields contracted again as well by 5.8 per cent.

North America On North Atlantic routes the number of passengers carried rose by 1.8 per cent to 5.7 million. Capacity was expanded year on year by 2.1 per cent, while sales only grew by 1.9 per cent. As a result the passenger load factor fell slightly by 0.2 percentage points to 84.9 per cent. Traffic revenue soared year on year by 21.0 per cent to EUR 3.1bn, whereas average yields only increased by 18.8 per cent.

South America In the South America traffic region passenger numbers increased by 6.2 per cent to 0.9 million. Sales also went up compared with the previous year by 7.3 per cent. This meant that the 5.7 per cent increase in capacity could be fully sold in the market. This meant that the passenger load factor picked up by 1.2 percentage points to 83.1 per cent. While traffic revenue climbed by 21.3 per cent, average yields only improved by 13.0 per cent.

Middle East In the Middle East traffic region the number of passengers rose significantly by 13.7 per cent at 8.4 per cent higher capacity to 1.7 million. Sales also experienced a considerable increase, going up by 12.5 per cent. The passenger load factor was up year on year by 2.6 percentage points at 71.5 per cent. Traffic revenue rose considerably by 20.2 per cent as a result. Average yields on the other hand improved more modestly year on year by 6.9 per cent.

Africa In the Africa traffic region Lufthansa was able to increase the number of passengers again by 10.8 per cent compared with the previous year, at capacity that was also higher (+11.5 per cent). Sales went up by just 10.2 per cent. The load factor fell slightly by 0.9 percentage points as a result to 74.8 per cent. Average yields improved year on year by 6.9 per cent, but traffic revenue climbed even more steeply by 17.8 per cent to EUR 611m.

Asia/Pacific In the Asia/Pacific traffic region passenger numbers were up on the year at 4.4 million (+3.4 per cent). The slight reduction in capacity of 0.7 per cent was met by a 3.9 per cent increase in demand. As a result, the passenger load factor picked up by 3.7 percentage points to 85.1 per cent. Average yields rose significantly by 18.6 per cent compared with a year ago. Traffic revenue also recovered and was well up on the previous year at EUR 3.0bn.

Income and expenses While operating income overall rose by 12.2 per cent, operating expenses increased by just 7.5 per cent. That is why the profit from operating activities shown in the income statement went up year on year by EUR 634m to EUR 230m (previous year: EUR -404m).

After adjusting both years for various and highly varied extraordinary effects included in the result – mainly from write-backs on financial investments, reversal of provisions and other special effects – earnings improved by EUR 601m.

Revenue increased by 13.1 per cent to EUR 13.8bn, largely due to a 13.0 per cent climb in traffic revenue to EUR 13.5bn. Other operating income reported an increase to EUR 2.0bn (previous year: EUR 1.9bn).

This stems from the write-up on the carrying amount for LSG AG. The effect is mitigated by lower currency gains from changes in exchange rates between origination and realisation and the use of rates applying on the reporting date and by lower income from compensation for damages.

Operating expenses totalled EUR 15.5bn and were 7.5 per cent up on the year. This was primarily due to the increase of EUR 1.0bn in the cost of materials and services.

The cost of materials and services reached EUR 9.5bn and now accounts for 60.9 per cent of total operating expenses (previous year: 58.8 per cent). The increase in the cost of materials and services by EUR 1.0bn stemmed mainly from fuel expenses, which went up by 37.7 per cent to EUR 3.2bn. Even adjusted for the amortisation of fuel surcharges and the reversal of provisions for onerous contracts, fuel expenses soared by 37.2 per cent. Of the adjusted rise in costs, 2.3 per cent was due to higher volumes, while 20.5 per cent stemmed from higher fuel prices in US dollars (including the hedging result). On average over the year USD exchange rate movements added to the higher costs.

Without the positive hedging result of EUR 44m fuel costs would have been even higher.
Costs of services purchased were nearly unchanged on the year (+1.2 per cent) at EUR 6.1bn.

Fees and charges at EUR 2.6bn still constitute the largest expense item under services purchased. As both the number of passengers and prices were higher, air traffic control charges rose by 6.4 per cent, passenger fees by 11.6 per cent and handling charges by 6.7 per cent. Overall fees and charges went up by 6.9 per cent.

Costs for MRO services purchased at EUR 1.4bn were 2.8 per cent higher than in the previous year.

Charter expenses, largely payable to the regional partners as part of the Lufthansa Regional concept, declined year on year by 24.7 per cent to EUR 0.8bn. One of the reasons was that the steps taken in connection with the reorganisation of the regional concept gradually came into effect. By contrast, expenses for operating leases went up by 30.4 per cent to EUR 319m.

In financial year 2010, Lufthansa's staff costs totalled EUR 2.6bn, which was 4.0 per cent down on the year.

With average annual staff numbers roughly the same (-0.3 per cent), wage and salary costs rose by 4.7 per cent. Social security contributions also went up by 6.7 per cent to EUR 276m. Expenses for retirement benefits tumbled by 40.9 per cent, in contrast, to EUR 310m. The decline is essentially due to the separate recognition of staff and interest expenses in connection with additions to pension provisions once the German Accounting Law Modernisation Act (BilMoG) came into effect.

Depreciation and amortisation rose by EUR 11m or 2.2 per cent to EUR 513m in 2010.

Other operating expenses totalled EUR 3.0bn and were 7.7 per cent or EUR 215m up on the year. The main reason was much higher currency losses from changes in exchange rates between origination and realisation and the rates applied at the reporting date, higher sales commissions, and greater expenses for services and credit card commissions. The increase was partially offset by lower expenses for marketing and sales promotion, reservations systems, write-downs on current assets and other operating expenses.

Financial result positive again The financial result of EUR 488m is definitively better than the previous year's figure of EUR 298m. In 2010 the result was made up of a positive result from equity investments of EUR 889m (previous year: EUR 476m), negative net interest of EUR 137m (previous year: EUR 20m) and the other financial items of EUR -264m (previous year: EUR -158m).

The higher result from equity investments of EUR 413m is owed to the considerable earnings improvement at Lufthansa Cargo AG, which after a loss the previous year of EUR 116m, reported a profit of EUR 334m. The result for LSG Lufthansa Service Holding AG also rose sharply to EUR 20m, whereas the previous year a loss of EUR 36m had to be sustained. Profit from Lufthansa Technik AG remained roughly unchanged at EUR 261m. Lufthansa Commercial Holding GmbH (EUR 89m), Delvag Luftversicherungs-AG (EUR 13m) and Lufthansa Flight Training GmbH (EUR 20m) all contributed to the higher result from equity investments with improved profits. In contrast, profits at Lufthansa Cityline GmbH (EUR 1m) were well down on the previous year. Lufthansa Systems AG reported a loss of EUR 10m after having delivered a profit of EUR 12m for 2009. The result from equity investments was also buoyed by dividends received via Air Trust AG from Swiss International Air Lines AG (EUR 65m), Eurowings Luftverkehrs AG (EUR 33m) and Fraport AG (EUR 9m). In addition, EUR 31m was transferred from the ten Austrian leasing companies.

Net interest came to EUR -137m in 2010 (previous year: EUR -20m). Lower interest income resulted mainly from netting within the Group. The deterioration in net interest stems from new borrowing and above all from interest calculated on provisions (EUR 98m) as required by the BilMoG from 1 January 2010.

Impairment losses on financial assets were EUR 106m higher than the previous year at EUR -264m. This is principally due to write-downs on financial investments of EUR 264m (previous year: EUR 158m), including EUR 50m on the carrying amount for LHBD Holding Limited, EUR 80m on the carrying amount for Eurowings Luftverkehrs AG, EUR 30m on the carrying amount for Air Dolomiti S.p.A.L.A.R.E., EUR 71m on loans to British Midland Airways Limited and EUR 28m on a non-current interest receivable from LSG Sky Chefs Inc.

Extraordinary result The extraordinary result of EUR -37m includes the effects of revaluing assets and liabilities in the course of applying the BilMoG. For the revaluation of pension provisions for retirement and transitional benefits and the assets held to cover these obligations, Deutsche Lufthansa AG is exercising its statutory option of recognising the resulting obligations totalling EUR 462m through profit and loss over 15 years. The ensuing expenses for 2010 of EUR 31m are included in the extraordinary result mentioned above.

The extraordinary result, financial result and operating result combine to make up a pre-tax profit of EUR 681m (previous year: pre-tax loss of EUR 106m).

Positive net result After deducting taxes of EUR 198m a net profit of EUR 483m was reported for the year 2010. After transferring EUR 208m to retained earnings, Deutsche Lufthansa AG reports a distributable profit of EUR 275m.

Cash flow from operating activities improves strongly Cash flow from operating activities came to EUR 1.0bn and was therefore EUR 1.0bn higher than in the previous year.

In the financial year 2010 Lufthansa again invested EUR 1,256m (previous year: EUR 943m) in new aircraft and advance payments for new aircraft. Of the total, EUR 347m were for advance payments. To finance future payment obligations arising from staff pension entitlements, Lufthansa again invested cash totalling EUR 278m in the Lufthansa Pension Trust on a long-term basis for investment in various fixed income and share funds. In accordance with BilMoG rules, this contribution is to be offset against provisions from 2010. Capital expenditure, proceeds from the disposal of non-current assets and sales of securities gave rise to a total net cash outflow of EUR 1.6bn. Financial liabilities rose as a result by EUR 0.5bn. With cash flow from operating activities of EUR 1.0bn and gross capital expenditure of EUR 2.5bn the internal financing ratio shot up to 39.9 per cent (previous year: -0.6 per cent).

Total assets fell sharply The changes within the balance sheet stem partly from different recognition and measurement rules under the BilMoG and partly from the sharp improvement in operating business. Total assets fell by 4.1 per cent or EUR 791m to EUR 18.4bn, as pension obligations and the assets funding them have to be netted out from 2010. Non-current assets fell by EUR 2.0bn as a result, whereas current assets including deferred charges and prepaid expenses rose by EUR 1.3bn.

The decline of EUR 2.5bn in financial investments is largely due to the netting out of assets used to fund retirement benefit obligations with the corresponding pension provisions of EUR 3.5bn, as required from 2010 by the BilMoG. By contrast, within the item financial investments, shares in affiliated companies went up partly, due to capital increases at Lufthansa Malta Holding Ltd. (EUR 200m), LSG Lufthansa Service Holding AG (EUR 300m) and Lufthansa SICAV-FIS (EUR 217m). Furthermore, nine Austrian leasing companies were established by contributions in kind in the form of aircraft (EUR 206m). A write-up on the carrying amount for LSG Lufthansa Service Holding AG (EUR 200m) also increased the amount of shares in affiliated companies. Declines in equity investments and other financial investments resulted from write-downs on the carrying amounts for Eurowings Luftverkehrs AG (EUR 80m) and Air Dolomiti S.p.A.L.A.R.E. (EUR 30m). A capital increase of EUR 50m that took place at LHBD Holding Limited in 2010 was also written down.

In addition, equity investments fell as the Fraport shares were contributed to the Lufthansa pension fund (EUR 266m) and to the Lufthansa SICAV-FIS (EUR 52m). Shares in Sun Express (EUR 46m) and a borrower's note loan (EUR 100m) were also contributed to the Lufthansa SICAV-FIS. The item loans included an increase in loans to affiliated companies (EUR 295m) as well as the disposal of loans to affiliated companies (EUR 717m).

Cash and securities went up by EUR 1.1bn to EUR 3.1bn, especially due to the much improved course of business. They were principally invested in money market funds (EUR 396m) and in other securities (EUR 590m).

As a result, the balance sheet structure showed a slight shift away from non-current assets, which now make up 71.7 per cent of total assets (previous year: 79.4 per cent).

Shareholders' equity increased by EUR 524m to EUR 3.9bn (previous year: EUR 3.3bn), thanks to the BilMoG revaluation without effect on profit or loss and to net profit for the year 2010.

The equity ratio rose by 3.6 percentage points to 21.1 per cent.

Non-current borrowing fell by EUR 2.6bn, primarily as a result of BilMoG rules applied for the first time in the reporting year and the corresponding requirement to net out pension fund assets with pension obligations.

The proportion of non-current funding in the balance sheet total rose accordingly by 8.4 percentage points and now amounts to 58.9 per cent (previous year: 67.3 per cent). Non-current assets are now 82.1 per cent (previous year: 84.8 per cent) covered by non-current funding.

Net indebtedness stood at EUR 539m (previous year: EUR 1.31bn). Taking into account the present value of outstanding financial leasing instalments not included in the balance sheet, net indebtedness fell to EUR 563m (previous year: EUR 1.34bn).

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

Principles of the remuneration system Executive Board remuneration consists of a basic remuneration and a variable remuneration that is pegged to the development of the Company's operating result. In addition, Board members may also take part in options programmes for senior managers. Supervisory Board members receive both fixed and variable remuneration. The variable remuneration is dependent on net profit/loss per share for the financial year. For details of Board members' remuneration see the financial statements of Deutsche Lufthansa AG (Note 27).

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

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

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

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

Should the proportion of foreign investors exceed 50 per cent despite these precautions, Deutsche Lufthansa AG is authorised 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 2010, 31.5 per cent of shareholders in the share register of Deutsche Lufthansa AG were either not German nationals or were companies not domiciled in Germany.

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

Powers of the Executive Board (share buy-backs, share issues) Deutsche Lufthansa AG holds up to EUR 586m in authorised capital: a resolution passed by the Annual General Meeting on 29 April 2010 authorised the Executive Board until 28 April 2015, subject to approval by the Supervisory Board, to increase the Company's issued capital on one or more occasions by up to EUR 561m 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 29 April 2010 to buy back its own shares until 28 April 2015. The resolution can be used to expand the financing alternatives in the event that another company or an equity stake in a company is acquired. The proportion of shares acquired on the basis of the authorisation, along with any other Lufthansa shares that the Company has already acquired and still holds, must at no time amount to more than 10 per cent of issued capital.

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

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 27).

Early risk warning/risk management system The calculated management of opportunities and risks is an integral factor in the management of our Company. A risk management committee deals specifically with all business risks and improves the risk management system continuously. All relevant risks are charted in a risk map. A report on opportunities and risks is published quarterly. There are currently no identifiable developments which could endanger the continued existence of Lufthansa AG.

As an international air transport company Lufthansa is exposed to macroeconomic, sector-specific and company risks. Our management systems are constantly updated and enable us to identify both risks and opportunities at an early stage and act accordingly. Our proven risk strategy allows us to take advantage of business opportunities as long as a risk-adjusted return can be realised on market terms. The risks must also be appropriate and acceptable in relation to the value we create.

The calculated management of opportunities and risks is an integral factor in the management of our Company. Our risk management is therefore integrated into our business processes. The system enabling risks to be identified and managed at an early stage is composed of several modules. These modules are linked systematically with one another – with the exception of financial risk management, for which responsibility is organised centrally. This enables homogenous risks to be identified in their entirety and responsibly managed with the necessary economic competence. The functions of trading, settlement and financial controlling are strictly separated and are based in independent organisational units. The risk management system for financial instruments is part of central financial management.

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), Corporate IT, Controlling Lufthansa Passenger Airlines and Delvag Group. It is responsible for continuously improving the effectiveness and efficiency of the risk management system.

An important instrument for doing so is the risk map: it lists all material risks which could endanger the Company's earnings and its continued existence (going concern). At the same time it identifies all the instruments for managing these risks. 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 that could impact earnings targets in an analysis of the market and competition landscape, evaluates them and initiates steps to manage them. As both positive and negative departures from plan are covered, this means that the same instruments are used to identify, evaluate, manage and control risks and opportunities. Scenario techniques are also used increasingly for planning purposes.

Over the course of the year we track the opportunities and risks identified in relation to the planned result with the help of the quarterly Opportunity and Risk Report. Potential departures from 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 departures from plan are also examined in separate meetings with departments exposed to risk. The focus here is on identifying the action required and the status of steps taken to manage the corresponding opportunities and risks systematically.

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

Risks and rewards of future development In view of its worldwide operations, Lufthansa is heavily exposed both to global and regional macroeconomic developments. Of great significance is growth in gross domestic product (GDP) in the different economic regions of the world. This in turn determines growth in demand for air transport. For example, based on historical data GDP growth of 1 per cent is positively correlated with growth of around 1.5 per cent in passenger air traffic in mature markets and up to 2.5 per cent in the growth markets of Asia, Latin America and Eastern Europe.

If forecasts of economic growth, even of slower growth, should turn out to be mistaken, there is a risk that demand for air transport services will be lower than planned. This is particularly relevant if the slow rate of economic growth in the USA remains below expectations.

Economic performance, especially in the Asian growth markets, will also have a considerable effect on demand for oil and therefore on price movements for the aircraft fuel kerosene. There is a risk that the rise in fuel prices may be steeper than growth in demand in Lufthansa's main markets. Compared with unhedged competitors, however, our fuel hedges give us the opportunity of profiting from these hedging transactions should fuel prices rise. Changes in global economic growth rates regularly lead to changes in parity between currencies and in interest rates.

Cross-border organisation of airspace management of flight safety is a vital pillar of a comprehensive climate and sustainability policy. In 2004 the EU adopted the Single European Sky (SES) initiative for this very purpose, but its implementation is still very slow. In 2009 the EU passed a regulation revising SES (SES II), which is intended to expand the scope of SES and expedite its realisation. In 2010 a procedure was introduced establishing performance targets for air traffic controllers. In December 2010 Germany, Belgium, France, Luxembourg, the Netherlands and Switzerland also signed an international treaty to establish the Functional Airspace Block Europe Central (FABEC). In a number of stages this is intended to make European airspace management considerably more efficient. At the same time the aim is to compel providers of air traffic control services to be more efficient. If this succeeds, for Lufthansa it will mean more airspace capacity, fewer delays, more stable flight plans, lower air traffic control fees and considerable savings in fuel and emissions.

Open skies agreements, like the one between the USA and the EU, create both opportunities and risks for Lufthansa. Unrestricted access to each other's airspace for airlines from the EU and the USA will add considerably to competition in transatlantic traffic and increase pressure on prices. At the same time it will give rise to new potential in neighbouring markets, which Lufthansa intends to watch closely and use to the best advantage.

The joint venture Atlantic++ between Lufthansa, Continental, United Airlines and Air Canada also opens up new revenue opportunities, by for instance coordinating flight timetables, integrating sales programmes and agreeing on common pricing. At the same time, increasing complexity, in revenue sharing for example but also in coordination between carriers, gives rise to new risks, which are identified, managed and reported in the Atlantic++ project work.

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 this scope by developing and joining specific regional cooperation groups.

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.

As well as demand trends it is the development of airlines' available capacities that have a decisive influence on the risk profile of the industry. The number of new aircraft ordered, in particular by the strongly growing airlines in the Gulf region and Asia, and the reactivation of aircraft that had been grounded worldwide point to overcapacities, which will increase pressure on load factors and average yields. Under these conditions, airlines' competitiveness depends primarily on how fast a company can react to changes in demand.

In this environment, keeping costs variable is a decisive competitive factor. Top of the list is the flexibility to adjust aircraft capacities to potential changes in demand. 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 us to follow demand by adjusting capacities. As the majority of the aircraft are unencumbered and have already been partly depreciated, they can be grounded temporarily if necessary at short notice and without high residual cost.

Legal and contingency risks Laws and changes to national and international regulations can also have a decisive effect on Lufthansa's future profitability. Air traffic rights, safety regulations and compliance requirements are just as important as regulations and foreign and domestic rulings on taxes, capital markets and competition law. 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 Alongside its exposure to geopolitical events such as wars, terrorist attacks or environmental catastrophes, the airline industry is subject to political decisions – particularly at national and European level. This is particularly true when these affect competition, as with subsidies or one-sided penalties for certain market participants.

The air traffic tax introduced in Germany as of 1 January 2011 is just such a massive intervention in the field of fiscal and environmental policy. The tax is levied on flights leaving Germany and depends on the distance flown. A flight of up to 2,500 km is charged at EUR 8, a flight of up to 6,000 km pays EUR 25 and long-haul flights above 6,000 km cost EUR 45. International transfers and cargo flights are exempt from the tax. Although some effort has been made in this way to accommodate Germany's air transport structures at least, German air traffic and its export and tourism sector will still be adversely affected by the decision. Similar national taxes exist in the UK, France, Ireland and Austria.

Something similar is happening with the EU emissions trading scheme that begins on 1 January 2012 and represents a regional regulatory approach to a worldwide problem in a global industry. Even if it includes all airlines flying to the European Union, it still punishes European competitors much more severely than non-European companies.

Furthermore, Lufthansa believes the EU and its member states have a lot more work to do concerning the transposition of the directive into national law, for example on the basis for evaluation in light of the distortions in the base year 2010 and in terms of uniform reporting standards. For instance the 17 companies in the Lufthansa Group that are affected by emissions trading have to report to seven different national authorities – using different formats and standards in each case. This produces considerable extra costs for the companies, on top of many other individual expenses.

There are further risks in connection with environmental matters. A more restrictive regulation of night flights, especially at Frankfurt Airport for instance, could have a negative impact on earnings development and growth prospects at this hub. For available capacities to be used economically and in line with demand, a practicable arrangement for night flights is indispensable. Deutsche Lufthansa AG and Lufthansa Cargo AG appealed to the administrative court in Kassel against the restriction of night flights but the appeals were dismissed in a ruling issued on 21 August 2009. The court upheld the expansion plans. In the opinion of the court, even the flight movements permitted by the official approval documents do not give sufficient consideration to the statutory right to peace and quiet during the night.

According to the Kassel administrative court there is virtually no scope for approving scheduled flights during this period. Both the opponents of the expansion and the federal state as respondent were given leave to appeal against the ruling insofar as it annulled the night flight regulations, but Lufthansa was not. The federal state has appealed against the ruling. Lufthansa is attempting to obtain leave to appeal by initiating the appropriate legal proceedings. At present it is not possible to predict the outcome of the proceedings with any degree of certainty.

In addition to the environmental rules and regulations mentioned, it will be necessary to deal with increasingly robust consumer protection regulation in the years ahead. As a full-service carrier, Lufthansa is already familiar with most of the standards under debate, however. One particularly critical point is if European regulation does not lean towards internationally accepted norms, for example in the area of passenger compensation, and this exerts one-sided discrimination against the European industry in global competition.

Environmental risks can also materialise suddenly and without warning. One such case occurred in spring 2010 with the closure of broad swathes of European airspace owing to the possible spread of volcanic ash. In order to respond appropriately to similar scenarios in future, a crisis coordination point has been created at European level, the ICAO Volcanic Ash Contingency Plan for Europe updated and better coordination processes initiated among the EU members states. Together with other airlines, Lufthansa is striving to be given more decision-making authority. Comprehensive information about atmospheric conditions would enable independent, decentralised decisions on whether flight operations should be maintained or suspended.

Consumers' rights are protected by numerous legal regulations. For instance the European Court of Justice (ECJ) ruled in December 2008 that only in exceptional cases can technical problems exonerate an airline for cancelling a flight. If the airline cannot exonerate itself, it must pay denied boarding compensation (DBC) of EUR 250 to EUR 600 per passenger. According to a ruling by the ECJ in November 2009, airlines are also obliged to pay this compensation if arrival is delayed by more than three hours. National courts are generally restrictive in admitting exoneration due to technical problems and only accept this argument in narrowly defined cases. Otherwise, most national courts now apply the regulation in the event of delays as well. The situation is exacerbated by the fact that increasing public pressure has led the German Federal Aviation Authority to treat every breach of the regulation on DBC as an administrative offence, imposing fines of up to EUR 25,000. Contrary to general legal understanding, the regulation gives the German Federal Aviation Authority the opportunity of using the laws on administrative offences to enforce civil law claims. Particularly given the ECJ ruling, it is not possible to say how many cases are to be expected and to what extent Lufthansa will be able to defend itself successfully against the German Federal Aviation Authority or by seeking judicial review from the courts.

Personnel risks The staff situation in 2010 was characterised by the unusually swift changes in the macroeconomic environment as well as hitherto unknown sudden crises. The Group's employees have passed these stress tests successfully – not least thanks to the skill and efforts of all the staff. The speed and effectiveness of reaction are still risk factors, however, which we are working on by further extending arrangements to make staff rostering more flexible.

One increasing challenge for human resources is to make a greater distinction between the use of long and short-term management tools. The size and heterogeneity of the companies and the volatility of the business described above require staff numbers to be increased and reduced in parallel. At the moment for instance, staff capacity in the administrative areas particularly needs to be reduced. Redundancies are always only a last resort, but are nevertheless sometimes unavoidable. Our approach is defined by a clear preference for a social balance when shedding jobs and an active internal placement policy within the Group. This also benefits our reputation in the labour market. It helps us to build up staff capacity again quickly in other areas. In the reporting year the situation in flight operations reverted to growth, producing a substantial hiring requirement. Here the strategy pays off of working to professionalise human resources systems at times of economic weakness, in order to prepare for them the subsequent upturn. We make good use of our modern systems and methods in personnel marketing and staff development to meet our qualitative and quantitative human resources targets. The aim is to create the conditions today for being able to select new employees from among the best in the future, even in different demographic circumstances and different phases of the labour market.

Further classical human resources risks exist in the area of collective bargaining and codetermination. They are concentrated in the sphere of wage settlements and retirement benefits. The risks inherent in the negotiations that need to be held in the different companies are all the greater for the broad differences in the companies' competitive environments. In a traditionally intensive dialogue with trade unions and works councils we try to ensure predictability and security as well as an appropriate share of economic gains for the Group and its employees by means of long-term agreements with company-specific and performance-related components.

Collective bargaining disputes, potentially including strikes, are systemic, however, and again cannot be ruled out for 2011. In addition to the damage it does to Lufthansa's image as a dependable service provider, strike action also entails the risk of considerable revenue losses and additional costs.

Since the beginning of 2010 an employers' federation (Air Transport Employers' Federation) has been responsible for collective bargaining on behalf of the Group. This reflects the changed requirements of collective bargaining within the Group and also meets the conditions for an employers' association specific to the air transport sector, which can take part in legislative processes for example and achieve better representation in umbrella associations.

The rulings of the Federal Labour Tribunal have departed from the principle of uniform collective bargaining, creating legal uncertainly and opening the door for collective bargaining partners to pursue special interests more vigorously. This jeopardises the principle of abidance by collective bargaining agreements, with corresponding effects on the company and the wider economy.

Employees' qualifications are a decisive competitive factor, as is staff development aimed at achieving an optimised management team. The scope of our risk management in this respect can be judged by investments in training and sophisticated, sustainable staff development instruments.

If risks should arise again from epidemic hazards, professional medical services and detailed pandemic plans are at the ready, as in prior years.

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

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

Lufthansa's declared aim is to build on its position as a leading group of autonomous European quality carriers and exploit the opportunities offered by the recovery of the global economy. Priority is given to safety, punctuality, dependability and professional service.

The ability to make constant improvements to the cost structure is vital if we are to stay ahead of the competition. At Lufthansa we achieve this by setting up and executing programmes to safeguard earnings as required and at the same time by constantly reducing the cost base of our everyday business and making it more flexible. The Climb 2011 programme is intended to deliver a sustainable reduction of EUR 1bn in costs by the end of 2011.

Profitable growth is a cornerstone of this strategy. It enables low costs and efficiency increases to be achieved in the course of expanding route networks and strengthening the group's hubs. The multi-hub strategy in turn makes it possible to offer a comprehensive route network for the hubs' respective catchment areas. Feeder flights from neighbouring European airports also improve the load factors for intercontinental flights and expand the range of destinations on offer to local customers. Growth is enhanced by continuous and sustainable reduction of unit costs, for instance by renewing the fleet and increasing its productivity. In this context Lufthansa particularly enjoys the benefits of its largely unencumbered fleet and the related flexibility in terms of capacity and cost management.

The ongoing renewal of the fleet plays a special role for cost savings and for growth. The most striking example for this was the launch of scheduled services with the first four Airbus A380s at Deutsche Lufthansa AG from mid 2010. This made use of opportunities offered by the economic upturn and generated cost-effective growth in intercontinental traffic as well as a high degree of customer satisfaction. In European traffic further progress was made on implementing the decision taken in 2009 to withdraw from the 50-seater segment.

In addition to the airline group's own production platforms it is also extending the scope of cooperation agreements and alliances. In 2010 TAM from Brazil and Aegean Airlines from Greece joined the Star Alliance, the largest and most successful global airline grouping. In 2011 they will be joined by Air India and Ethiopian Airways as well as the Latin American carriers Avianca (Columbia), TACA (El Salvador) and Copa Airlines. The Star Alliance network currently covers 1,160 destinations in 181 countries.

The establishment of Atlantic++ constitutes another important building block for the route network to North America. It is the largest transatlantic joint venture and consists of Deutsche Lufthansa AG as founding partner and its partners Air Canada, Continental and United Airlines. The close cooperation relates to all traffic between North America and Europe, Africa, the Middle East and the Indian subcontinent. The joint daily flight plan lists around 280 transatlantic flights to 61 destinations in 23 countries at 15 hubs. Atlantic++ has a market share of 29 per cent and a sales volume of over EUR 7bn.

Competitors include Air Berlin in Germany and in Europe Air France-KLM and British Airways as well as no-frills carriers such as Ryanair and Easyjet. In intercontinental traffic the main competitors are American carriers such as American Airlines and Delta Airlines, as well as fast-growing companies from the Middle East and Asia. Nevertheless, with its position in the market, its product and service portfolio, its global network and the pooling of its strengths, as in the Atlantic++ joint venture, Deutsche Lufthansa AG is well placed to take part in global competition.

Even in its seventeenth year the overarching customer loyalty programme Miles & More is still growing. With now more than 20 million members and over 250 cooperation partners Miles & More has consolidated its role as a leading European frequent flyer programme.

Customers were thrilled by the new function for collecting miles on all Germanwings flights, the improved pricing concepts for bmi flights and the communications activities introduced recently in the area of social marketing. In 2011, mirroring Lufthansa's growth strategy, the internationalisation of Miles & More is to be accelerated in strategic markets like China and India with new local partnerships.

Despite its plans for sustainable cost savings, Deutsche Lufthansa AG continues to invest in expanding its in-flight and ground products. The reintroduction of the on-board internet system FlyNet in December 2010 now gives customers the full communications freedom of the internet above the clouds and restores the airline to its leading global position in terms of in-flight connectivity.

The First Class showed off its new look for the first time in mid 2010 with the introduction of the Airbus A380. The entire cabin product, including the seating concept, the design of cabin and wash rooms, and the entertainment programme were all upgraded as part of the modernisation. The Economy Class was also redeveloped and now has personal screens offering a wide range of entertainment. In the future the entire Airbus fleet will be equipped with the new First Class. Since March 2010 the Airbus fleet has had personal screens in Economy Class. In 2011 additional Boeing 747-400s are to be fitted with a new First Class and the new Economy Class.

The ground product also continues to be developed. The largest Senator Lounge was opened in Frankfurt, with an integrated Jet Friends area for children. The Lounge experience has also been enhanced by two Sports Corners for frequent flyers who are also sports fans. In Munich the number of Senator Lounges was doubled and the first Lufthansa indoor beer garden was opened with a panorama view of the Alps.

International competition is increasingly developing into a competition between entire systems of airports, air traffic control organisations and airlines. This is because these players have a considerable effect on the efficiency of the whole value chain at a given location and thereby on the competitiveness of the airlines stationed there. The significance of the infrastructural environment extends not only to the necessary capacities but also to seamless processes and competitive cost and price structures. By bringing us together with our partners at airports, air traffic control organisations and public authorities, the Air Traffic for Germany initiative has created a common platform to secure and develop Germany's position as an air traffic location. The planned extension of the runway and terminal systems at the airports in Frankfurt and Munich is a key condition for maintaining its current position as a leading air traffic hub. This applies all the more in view of the megahubs being built elsewhere in the world, which aim to attract global traffic flows by means of low-cost structures. For Lufthansa on the other hand, the expansion of its domestic hub offers the opportunity of implementing extensive product and process improvements, thereby increasing its own competitiveness, provided that the productivity and cost targets are set in line with competitive demands.

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 economic performance 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.

Tax risks Tax risks include the risks of a tax audit. These mainly relate to impairment losses recognised before 2008 on shareholder loans to various domestic and foreign Group companies. Further topics for discussion with the tax authorities that include a risk exposure are individual leasing structures, the treatment of income from special investment funds and various provisions. Sufficient provisions have been recorded in the financial statements to account for existing financial risks.

Exchange rate, interest rate and fuel price risks As an international airline company, Lufthansa is faced with financial risks in the form of changes in fuel prices, interest rates and exchange rates. The principally conservative approach towards financial and commodity risks is reflected in systematic financial management. We use suitable management and monitoring systems to do this, with which we measure, control and monitor the risks. The functions of trading, settlement and controlling of financial risk are strictly separated at an organisational level. Lufthansa uses internal guidelines which are laid down by the Executive Board and permanently developed. The Group Financial Risk Controlling and Corporate Audit departments monitor compliance with these guidelines. Furthermore, the current hedging policies are also permanently discussed in management board meetings across the business areas. The Supervisory Board is regularly informed of the amounts at risk.

The main aim of fuel price and currency hedging is to reduce earnings volatility. This is achieved by forming averaging prices by means of layered hedging. Interest rate hedging has the aim of reducing the cost of interest and minimising fluctuations in interest expense at the same time. All hedged items and hedging transactions are tracked in a treasury system so that they can be valued at any time. For these transactions we only work with counterparties that have at least a long-term “BBB” rating or similar.

For a detailed account of the positions of exchange rate, interest rate and fuel price hedging transactions, see the financial statements of Deutsche Lufthansa AG (Note 14).

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

Currency risks from capital expenditure on aircraft are 50 per cent hedged when the contract is signed. The hedging level is increased if, over the lifetime of the contract, the exchange rate goes significantly above or below that used to calculate the investment. In the last 24 months before payment the hedging level is increased in semi-annual steps of 10 per cent, to reach 90 per cent at the end. Spread options and futures are used as hedging instruments.

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.

Fuel consumption is a major cost factor for Deutsche Lufthansa AG, currently accounting for 20.9 per cent of operating expenses. Severe fluctuations in fuel prices can therefore have a considerable effect on the operating result. Lufthansa therefore hedges fuel prices with a time horizon of up to 24 months. This is aimed at reducing fluctuations in fuel prices. Hedges are mainly in crude oil for reasons of market liquidity.

At the reporting date there were crude oil hedges for 78.7 per cent of the forecast fuel requirement for 2011, in the form of spread options and other hedging combinations. For 73.8 per cent of fuel requirement for 2011 the effect of the hedge against an extreme price increase is limited by offsetting transactions. At the reporting date hedges had been concluded for 29.5 per cent of the likely fuel requirement for 2012 in the form of spread options and other hedging combinations. For 29.3 per cent of the fuel requirement for 2012 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. The extent to which it will continue to be possible to levy a surcharge is nevertheless uncertain.

If fuel prices were to drop by 20 per cent below their year-end 2010 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 of all companies in the Lufthansa Group. 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 of EUR 2.3bn, as defined in its financial strategy. At year-end Lufthansa also had unused bilateral credit lines for a further EUR 1.9bn.

Lufthansa will continue to have a regular borrowing requirement in order to make the investments planned for the years ahead. Especially due to its sound credit rating for the industry and its position in the market, banks and investors still consider Lufthansa to be a preferred partner. We are dependent on a strong, sustainable financial profile to ensure that this remains the case.

The transactions completed in the course of financial management give rise to default risks. These are managed using a system of counterparty limits with which we can constantly assess the risk of counterparty default. A maximum acceptable risk is determined for each counterparty. This is primarily derived from the rating given by recognised rating agencies.

For oil companies without a rating the maximum credit limit is generally EUR 20m. The extent to which counterparty limits are taken up by existing financial market transactions is calculated and monitored daily. If limits are exceeded, an escalation procedure comes into play, requiring decisions to be taken on the action needed.

In times of high economic fluctuation the default risk for trade receivables increases. We track the performance of receivables closely. Preventive measures are also taken. Passenger and freight documents are largely sold via agents, whose credit rating is reviewed and partly secured by guarantees or similar instruments. Counterparty risks in connection with credit card companies are also monitored closely and incoming payments reviewed daily. Furthermore, payment targets with some credit card companies have been significantly reduced to lessen default risk.

Market risk from capital investments Capital investments at Lufthansa are managed as part of the operating and strategic liquidity. The Lufthansa Pension Trust also makes capital investments. 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, whereby at least EUR 300m must be in investments that can be liquidated on a daily basis. For its operating liquidity Lufthansa mainly uses money market funds which can be liquidated daily, overnight deposits, fixed-term deposits and short-term securities, especially commercial papers from creditworthy issuers. Investments must be with counterparties which have a rating of at least BBB. Only 20 per cent of investments for operating liquidity may be invested with counterparties with less than an A– rating. Investment in money market funds may not exceed 10 per cent of the fund's total assets. In 2010 the particular challenge was to outperform the benchmark EONIA (Euro OverNight Index Average) sustainably despite the low returns from money markets.

We have determined the investment structure of the strategic minimum liquidity for Deutsche Lufthansa AG using a stochastic allocation study. It was based on the liquidity requirements and our conservative investment principles. The majority of these investments are in money market-related products. The strategic minimum liquidity is divided into various components with different investment horizons. They are managed by several external asset managers with separate mandates. One of the requirements is that the investments must be able to be liquidated within a maximum of four weeks. Each manager follows his or her own investment guidelines derived from the general Lufthansa investment principles. The asset allocation is reviewed regularly and adjusted as necessary. The experience of last year's 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 Lufthansa Pension Trust makes its investments according to an allocation study, which was updated in 2010. Here too, Lufthansa's conservative investment principles are paramount and form the basis for the individual asset managers' specific investment guidelines. We follow the principle of diversifying risk by dividing the investments across a broad range of assets classes and managers. A risk management system is also in place which enables risk management on a daily basis. The hedges taken out during the financial crisis were completely unwound by the end of 2009, so we were able to participate accordingly in the recovery of global financial markets during 2010.

Disclosures in accordance with Section 289 Paragraph 5 HGB

Deutsche 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 Deutsche 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 at ensuring the accuracy and reliability of financial reporting and guarantee that business transactions are recognised in full and at the proper time in accordance with statutory regulations and Lufthansa's Articles of Association. Furthermore, they ensure that inventories are carried out correctly and that assets and liabilities are accurately recognised, measured and disclosed in the financial statements. The regulations also ensure that the accounting documents provide reliable, comprehensible information.

Information on organisational structure

- Book-keeping for Deutsche Lufthansa AG is distributed across four countries – Germany, Poland, Mexico and Thailand. Financial reports are prepared centrally in Germany. The distributed book-keeping 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 handbooks ensure that the decentralised organisational units in particular apply uniform accounting standards. The internal guidelines also include concrete instructions on presenting and carrying out netting procedures within the Group 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.
- Book-keeping 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-controlled by internal units on a regular basis. Expert opinions to determine the amount of pension provisions are also sourced externally.

Process and control information

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

Qualifying statements 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 Group's financial reporting.

The effectiveness and reliability of the control and risk management systems deployed can be restricted by the use of individual discretion, faulty checks, criminal acts 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 matters are recognised in financial reporting.

Declaration on corporate governance in accordance with Section 289a HGB

The declaration on corporate governance required under Section 289a HGB 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

Wage settlement with UFO On 19 January 2011 Deutsche Lufthansa AG and the trade union Unabhängige Flugbegleiter Organisation UFO e.V. accepted the recommendation of arbitration proceedings, thereby ending the collective bargaining round that began in March 2010. The arbitration settlement includes rules on extending the wage agreement and revising the framework agreement, both of which apply to around 16,000 Lufthansa flight attendants. The parties agreed on a wage freeze as part of the pay settlement, which was renewed unchanged for a period of 22 months and now runs until 31 December 2011. The new framework agreement runs until 28 February 2014. The new agreements also include further improvements in working conditions, such as a reduction in permitted changes to rosters, which enables cabin staff to plan their time with greater certainty, as well as rules on rest and break periods. A structural compensation payment of EUR 1,000 was also agreed and is due to be paid in March 2011. The settlement reflects cabin staff's need for stable planning conditions and the particular strains of flight operations as well as the Company's requirement for increased flexibility and cost-effectiveness.

Outlook International economic recovery is forecast to continue in 2011, albeit at a reduced rate, so that the global economy is expected to expand moderately. One of the reasons for this is that the situation on financial and property markets in industrialised countries remains tense. Another is that the emerging economies, which have hitherto acted as the engine of the global economic revival, are expected to see their growth prospects darken slightly. There is concern for example, that the breakneck development of property prices in China may come to an abrupt end. At the same time, many industrial countries have a national debt that has swollen rapidly, and are now confronted by the challenge of reducing this. Global trade will continue to increase, albeit at a reduced pace. Inflationary pressures should remain moderate. Overall, the global economy is forecast to grow by 3.7 per cent in 2011, rising again slightly the year after.

The economy in the USA is expected to brighten gradually in 2011. There are many indications that investment will pick up again, buoyed by very cheap interest rates and a loose monetary policy. Restrained consumer demand will not help, however, as private households repay their debts or are hit by high unemployment. Given the continued existence of these structural problems, a robust upturn is currently not in sight. Altogether, growth of 3.1 per cent is forecast for 2011, which should shrink somewhat in 2012.

The economic dynamic will generally keep on spinning in the Asian economies. The expectation is nevertheless that growth will slow somewhat as global trade cools down. Domestic appears to be increasing at the same time. The fiscal and economic policy measures taken in China are intended to rein in growth. The Chinese economy should grow by an estimated 9.5 per cent in 2011. Japan's economic performance in 2011 is likely to be hampered by the strong yen and a weaker external economic environment. Growth of around 1.2 per cent is forecast. For the Asia/Pacific region overall, growth of 5.3 per cent is expected, trending slightly upwards the following year.

The forecast for the euro area is that governments' fiscal consolidation measures will dampen state demand. In some member states the persistent problems on property markets will also weigh on private investment. For these reasons, economic performance in the euro area will be mixed in 2011. A spirited recovery can still be expected for the member states in Northern Europe, but economic performance is set to be sluggish at best in the peripheral countries Greece, Spain and Portugal. These countries have distinct problems with their real economies and the repair of government budgets means that any solutions will be slow in coming. Overall growth of 1.9 per cent is predicted for Europe in 2011, which is to increase slightly thereafter. Germany will continue to play a key role for European growth, but the rapid growth rate in 2010 is unlikely to be repeated in the new year. Despite this, further growth is forecast, which should come to 2.7 per cent in 2011.

The level of public borrowing in the euro area and uncertainty concerning economic developments in the industrialised countries will ensure that foreign exchange markets stay highly volatile. Considerable volatility is also expected again for interest rates in 2011, with yield curves continuing to exhibit a moderate upward slope. This applies particularly if indications of a rise in prime rates should multiply in the second half of the year.

On the basis of a continued worldwide economic recovery, rising demand for crude oil is predicted, especially from the developing countries in Asia and Latin America. In this scenario we assume that short to medium-term prices will at least stabilise at their current high level or continue to rise. Political developments, in the Middle East for example, may push up prices, but also non-fundamental factors such as investment by funds and hedge funds.

In line with the positive economic trend, modest growth is expected for the airline industry in the years ahead. IATA is predicting growth in global passenger numbers for 2011, which at around 5 per cent is likely to revert to the long-term mean. Up to 2014 the average growth rate for international traffic should be 6.1 per cent per annum according to IATA. This would put growth in international air traffic at twice the level of forecast global economic expansion of 3 per cent per annum up to 2014, which corresponds to the two figures' historical ratio.

Regional trends in markets will continue to differ widely in future. According to IATA the fastest growth in international passenger traffic in the period 2010 to 2014 is expected in the Middle East. International passenger traffic in the Asia/Pacific region is also forecast to expand rapidly. Strong economic growth and further liberalisation of the air traffic market have made Asia a key driver of passenger traffic for the coming years. Relative to this, more modest growth rates are predicted for the European and North American markets.

In view of rising fuel prices, additional capacity on the market and a hesitant recovery in pricing, IATA is expecting last year's profit for the sector to fall again in 2011. The positive result is largely predicted to stem from airlines in Asia/Pacific. Airlines from North America, the Middle East and Africa will see a slight fall in profits compared with last year, but still report positive earnings. European airlines are expected to break even in 2011. On the German market the introduction of the air traffic tax from 2011 represents an additional burden for German airlines and diminishes their competitiveness in comparison with their international competitors. No-frills airlines operating in the price-sensitive segment will be particularly hard hit.

The reporting year was characterised by a dynamic rebound in demand and many one-off effects, but for 2011 a return to more normal economic growth is forecast, which should have a correspondingly positive effect on demand in passenger traffic. This recovery will primarily benefit those airlines which are well placed not only in Europe but also in long-haul traffic and can retain customers' loyalty by means of a broad network and products tailored to their needs.

At the same time, further oil price rises must be anticipated, which in extreme scenarios could even exceed the previous high-water marks.

Other one-off disruptions in 2010, such as the snowfall or the volcanic eruption in Iceland, should not give rise to such serious problems in subsequent years as processes and coordination procedures between the institutions involved have since been improved. Further risks to the Company's development lie in the growing capacities of the Gulf carriers and in intensifying competition with no-frills airlines.

The initiatives launched and the positive earnings trend are to be continued. The steps to cut unit costs and the collaboration with its partner airlines will strengthen the position of Deutsche Lufthansa AG in European traffic sustainably. Measures are being implemented as part of the Climb 2011 project that will improve the result. The full potential of the EUR 1bn programme will become apparent in the key financial indicators for 2012. Intercontinental traffic is to be expanded further, whereby Deutsche Lufthansa AG will benefit from its extensive route network and great attractiveness for its customers and partners.

The extent to which it is possible to recoup rising fuel costs and the air traffic tax introduced in 2011 from passengers can have a significant effect on earnings. This also applies to the negotiations and results of collective bargaining, which is back on the agenda in 2011, starting with the wage agreement for cockpit staff that expires at the end of March.

The ongoing renewal of the fleet plays a special role for cost savings and for growth.

Further development of the hubs holds additional potential for Lufthansa. With the opening of the new runway in Frankfurt planned for late 2011 and the agreed extension to the satellite terminal in Munich, Lufthansa's development prospects are unique among its European competitors. This development track is also expected to bring further revenue growth and improved earnings for 2011.

If the economy develops as forecast and the course of business is not undermined by a disproportionate increase in fuel prices or other unforeseeable factors, it can generally be assumed from a current perspective that revenue and earnings will develop positively in 2012 too. The extent to which the planned air traffic tax will lead to a downturn in demand remains difficult to predict, however. We are nevertheless upholding our ambition of taking a leading position in the air transport industry in terms of profitability and sustainable value creation.

Financial statements of Deutsche Lufthansa AG 2010

Deutsche Lufthansa AG
Balance sheet as of 31 December 2010

Assets			
in EUR m	Notes	**31.12.2010**	**31.12.2009**
Intangible assets		140	138
Aircraft		4,338	3,828
Property, plant and other equipment		101	110
Financial investments	4)	8,583	11,128
Non-current assets	3)	**13,162**	**15,204**
Inventories	5)	27	24
Trade receivables	6)	502	428
Other receivables and other assets	6)	1,576	1,544
Securities	7)	2,717	1,731
Liquid funds	7)	340	191
Current assets		**5,162**	**3,918**
Prepaid expenses	8)	**42**	**35**
Total assets		**18,366**	**19,157**

Shareholders’ equity and liabilities			
in EUR m	Notes	**31.12.2010**	**31.12.2009**
Issued capital	9)	1,172	1,172
Capital reserve	10)	857	857
Retained earnings	10)	1,567	1,318
Distributable earnings	28)	275	0
Shareholders’ equity		**3,871**	**3,347**
Provisions	11)	**6,358**	**8,899**
Bonds		2,106	2,199
Liabilities to banks		1,068	902
Payables to subsidiaries		1,895	1,317
Other liabilities		3,037	2,461
Liabilities	12)	**8,106**	**6,879**
Deferred income		**31**	**32**
Total shareholders´ equity and liabilities		**18,366**	**19,157**

Deutsche Lufthansa AG
Income statement for the financial year 2010

in EUR m	Notes	2010	2009
Traffic revenue	15)	13,525	11,970
Other revenue	16)	267	229
Total revenue		**13,792**	**12,199**
Other operating income	17)	1,976	1,854
Cost of materials and services	18)	− 9,459	− 8,497
Staff costs	19)	− 2,571	− 2,678
Depreciation, amortisation and impairment	20)	− 513	− 502
Other operating expenses	21)	− 2,995	− 2,780
Result from operating activities		**230**	**− 404**
Result of equity investments	22)	889	476
Net interest	23)	− 137	− 20
Impairment on investments and current securities	24)	− 264	− 158
Financial result		**488**	**298**
Result from ordinary activities		**718**	**− 106**
Extraordinary result	25)	-37	0
Taxes	26)	− 198	− 42
Net profit	27)	**483**	
Net loss	27)		**− 148**
Transfers from retained earnings	10)		148
Transfers to retained earnings	10)	− 208	0
Distributable earnings	28)	**275**	**0**

Deutsche Lufthansa AG

Statement of changes in non-current assets for 2010

	Changes in historical cost						Accumulated depreciation and amortisation						Carrying amounts	
in EUR m	As of: 1.1.2010	BilMoG adjust-ment	Additions	Disposals	Reclassifi-cations	As of: 31.12.2010	As of: 1.1.2010	Additions	Disposals	Reversals of impairment losses	Reclassifi-cations	As of: 31.12.2010	As of: 31.12.2010	As of: 31.12.2009
I. Intangible assets														
1. Concessions, intellectual property and similar rights and assets and licences in such rights and assets	302	–	6	0	1	309	180	10	0	–	–	190	119	122
2. Advance payments	16	–	6	–	– 1	21	–	–	–	–	–	–	21	16
	318	**–**	**12**	**0**	**–**	**330**	**180**	**10**	**0**	**–**	**–**	**190**	**140**	**138**
II. Aircraft														
1. Aircraft and accessories	11,588	–	909	3,738	417	9,176	8,688	482	3,498	–	0	5,672	3,504	2,900
2. Advance payments and plant under construction	928	–	347	24	– 417	834	–	–	–	–	–	–	834	928
	12,516	**–**	**1,256**	**3,762**	**0**	**10,010**	**8,688**	**482**	**3,498**	**–**	**0**	**5,672**	**4,338**	**3,828**
III. Property, plant and other equipment														
1. Land, leasehold rights and buildings including buildings on third-party land	151	–	1	3	1	150	83	7	2	–	0	88	62	68
2. Office and other equipment	150	–	9	9	0	150	113	13	9	–	0	117	33	37
3. Advance payments and plant under construction	5	–	2	0	– 1	6	–	–	–	–	–	–	6	5
	306	**–**	**12**	**12**	**0**	**306**	**196**	**20**	**11**	**–**	**0**	**205**	**101**	**110**
IV. Financial investments														
1.Shares in subsidiaries	8,157	– 2,620	930	47	50	6,470	526	165	–	200	–	491	5,979	7,631
2. Loans to subsidiaries	2,732	–	295	717	– 50	2,260	337	98	217	2	–	216	2,044	2,395
3. Other equity investments	769	–	–	98	– 310	361	–	–	–	–	–	–	361	769
4. Loans to companies held as other equity invest-ments	–	–	–	–	–	–	–	–	–	–	–	–	–	–
5. Securities	53	– 39	0	5	–	9	5	–	5	–	–	–	9	48
6. Other loans	303	–	16	424	310	205	28	1	–	5	–	24	181	275
7. Prefinancing of leasehold	11	–	–	2	–	9	1	–	1	–	–	–	9	10
	12,025	**– 2,659**	**1,241**	**1,293**	**–**	**9,314**	**897**	**264**	**223**	**207**	**–**	**731**	**8,583**	**11,128**
Total non-current assets	**25,165**	**– 2,659**	**2,521**	**5,067**	**–**	**19,960**	**9,961**	**776**	**3,732**	**207**	**–**	**6,798**	**13,162**	**15 ,204**

Notes to the financial statements of Deutsche Lufthansa AG for 2010

1) Application of the German Commercial Code (HGB)

As of 31 December 2010 Deutsche Lufthansa AG applied the regulations of the German Accounting Law Modernisation Act (BilMoG) passed on 25 May 2009. To the extent required by law, the figures for the previous year reflect the prior state of the German Commercial Code and transitional regulations.

Relevant changes brought about by the BilMoG are also indicated where necessary in these notes, and references to statutes include the suffix "as amended" or "a.a.".

The rules of the German Stock Corporation Act were applied in addition to the aforementioned regulations.

The income statement has been prepared using the total cost method.

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

The first-time application of German commercial accounting policies as amended by the German Accounting Law Modernisation Act (BilMoG) takes place in line with the Act on the Introduction of the German Commercial Code (Article 66f EGHGB). In accordance with Article 67 Paragraph 8 EGHGB, figures for previous years do not have to be adjusted in line with the amended accounting policies. The Company took advantage of this option and has not adjusted figures for the previous year.

The switch to the new rules took place at the beginning of the year in which the change occurred. In accordance with Article 67 Paragraph 7 EGHGB the effects of the first-time adoption of the amended accounting policies as of 1 January 2010 are disclosed separately in the income statement under extraordinary result and in accordance with Article 67 Paragraph 1 Sentence 2 EGHGB in retained earnings.

Intangible assets and items of property, plant and equipment 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 euros in the month in which entries are made.

Accounts receivable/payable in foreign currency, cash and cash equivalents and provisions are generally stated at the mean translation rate on the balance sheet date in accordance with Section 256a HGB. For all other long-term 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 t he time of payment. Assets for which payments are hedged against exchange rate fluctuations are recognised / derecognised within the framework of separate valuation units.

Fair value and cash flow hedges of interest rate, exchange rate and fuel price risks are described in Note 14.

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.

Property, plant and equipment Scheduled depreciation of property, plant and equipment is based on the purchase and manufacturing costs depreciated over the asset’s useful life.

Minor assets up to a value of EUR 150 are depreciated in full in the year of purchase and those costing up to EUR 1,000 are pooled in an annual account and depreciated over 5 years.

Aircraft New aircraft are written down over twelve years to a residual carrying amount of 15 per cent. 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 are written down to a residual carrying amount of 5 per cent.

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. Since the BilMoG was introduced the commercial law accounts have no longer been definitive for taxable depreciation as well, and so additions from the financial year 2010 onwards are again depreciated on a straight-line basis.

Other property, plant and equipment 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. Additions from the year 2010 onwards are depreciated on a straight-line basis again, as the BilMoG no longer makes commercial law accounts definitive for tax purposes.

Financial investments Financial investments are stated at cost, adjusted by any necessary impairment charges or write-ups. To meet retirement benefit and phased early retirement obligations towards staff, appropriate funds have been invested in insolvency-proof funds and insurance policies, which are not accessible to the Company's other creditors. In the previous year these fund assets were shown un-netted at cost under financial investments.

From 2010 pension assets are measured at fair value using external price information and netted out with the underlying obligations. If there is an excess of obligations over assets, it is recognised in provisions. If the fair value of the pension assets exceeds that of the corresponding obligations, the difference is shown separately as a net asset from pension obligations. If the fair value of the pension assets is higher than their historic acquisition costs the resulting income may not be distributed as a dividend (Section 268 Paragraph 8 Sentence 3 HGB).

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

Securities are shown at their purchase price less any necessary impairment charges.

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

Provisions Until 31 December 2009 pension provisions were calculated using actuarial principles and based on the going concern value. As from 2010 and following the application of the German Accounting Law Modernisation Act (BilMoG), pension obligations are calculated using actuarial principles based on the projected unit credit method using the Heubeck 2005 G actuarial tables. As well as appropriate projected rates of fluctuation and career progress, a salary trend of 2.75 per cent and a pension trend of 1 per cent to 2.75 per cent are used. Discounting takes place in accordance with Section 253 Paragraph 2 Sentence 2 HGB at a flat rate defined by the average market interest rate for the last seven years with an assumed term to maturity of 15 years as published by the German Bundesbank in line with the relevant regulations. The interest rate applicable for the transitional accounting as of 1 January 2010 is 5.25 per cent. For the measurement as of 31 December 2010, the corresponding interest rate was 5.15 per cent.

Benefit obligations from the conversion of salary components are recognised at the fair value of the corresponding assets, to the extent that it exceeds the minimum amount of the commitment.

The provision for partial early retirement obligations is recognised at the amount needed to settle the obligations in accordance with Section 253 Paragraph 1 Sentence 2 HGB. The amount needed to settle the obligation is composed of the salary outstanding as of 31 December 2010, which is paid during the early retirement phase, as well as additional employer contributions to statutory pension insurance and superannuation premiums. The provision is calculated making reasonable use of biometric probabilities and a salary trend of 2.75 per cent. Discounting takes place using the interest rate published by the German Bundesbank for the average terms of the agreements. As of 30 November 2010 it came to 3.9 per cent and had not changed up to 31 December 2010.

The other provisions are made at the amount considered necessary to settle the obligations using sound commercial judgement in accordance with Section 253 Paragraph 1 Sentence 2, Clause 2 HGB as amended. Provisions with a term to maturity of more than one year are to be calculated using the average rate for the last seven years as published by the German Bundesbank, in accordance with Section 253 Paragraph 2 Sentence 1 HGB a.a. in conjunction with Section 253 Paragraph 2 Sentences 4 and 5 HGB a.a.

As of 1 January 2010 provisions of EUR 42m made under the former Section 249 Paragraph 1 HGB were reversed. The reversal was recognised in retained earnings without effect on profit or loss.

Liabilities Liabilities are shown at the amount repayable.

Deferred taxes Deferred taxes are recognised as from 2010 for temporary differences between the carrying amounts of assets, liabilities and deferred items in the financial statements for commercial law and tax purposes. Deutsche Lufthansa AG not only recognises differences on items in its own balance sheet, but also for companies in the same tax group. Tax loss carry-forwards are recognised in addition to the temporary accounting differences. Deferred taxes are calculated using the combined income tax rate for Deutsche Lufthansa AG's tax group, which is currently 25 per cent. The combined income tax rate comprises corporation tax, trade tax and solidarity surcharge. An overall tax expense is recognised in the balance sheet as a deferred tax liability. No use is made of the option to recognise deferred tax assets in the event of tax rebates. In the reporting year there was a deferred tax asset, which was not recognised in the balance sheet.

Deferred tax assets result primarily from different amounts of pension provisions and from contingent losses. Hitherto unused tax loss carry-forwards also give rise to deferred tax assets. Deferred tax liabilities result from different carrying amounts for aircraft and miscellaneous items of property, plant and equipment. Overall, deferred tax assets exceed the amount of deferred tax liabilities. No deferred tax assets have been recognised for this surplus, in line with the option provided in Section 274 Paragraph 1 Sentence 2 HGB.

Notes to balance sheet assets

3) Non-current assets

Changes in individual non-current asset items during the financial year 2010 are shown in a separate table.

In addition to the Company’s own aircraft listed in the statement of changes in non-current assets and in the balance sheet, further aircraft were chartered, in some cases complete with crews.

Furthermore, Deutsche Lufthansa AG operates thirty-three B737-300s, thirty B737-500s, twenty-five B747-400s, sixteen A340-600s, four A330-300s, two A340-300s, two A321-200s and one A320-200 on long-term leases. This sharp increase is mainly due to the transfer of eighty-eight B737 and B747 aircraft to Austrian sale-and-lease-back vehicles in the financial year.

4) Financial investments

The main indirect and direct equity investments of Deutsche Lufthansa AG are listed in the annexe to the notes.

5) Inventories

Inventories		
in EUR m	**31.12.2010**	**31.12.2009**
Raw materials, consumables and supplies	15	13
Finished goods and merchandise	12	11
	27	**24**

6) Receivables and other assets

Receivables and other assets			
in EUR m	**31.12.2010**	of which due after more than one year	**31.12.2009**
Trade receivables	502	0	428
Receivables from subsidiaries	885	14	868
Receivables from companies held as other investments	4	0	5
Other assets	687	235	671
	2,078	**249**	**1,972**

7) Securities and liquid funds

Cash in hand and bank balances consist almost entirely of credit balances held with banks. Mortgaged 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 1,411m.

8) Prepaid expenses

This item contains interest from finance leasing agreements for aircraft amounting to EUR 5m.

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 29 April 2010 authorised the Executive Board until 28 April 2015, subject to approval by the Supervisory Board, to increase the Company's issued capital on one or more occasions by up to EUR 561,160,092 by issuing new registered shares on one or more occasions for payment in cash or in kind (Authorised Capital A). Existing shareholders are to be granted subscription rights. In the case of shares issued for payment in kind these rights may be ruled out, while in the case of shares issued for payment in cash they may be ruled out for residual amounts. The Executive Board is further authorised in the case of a capital increase against cash contributions to rule out, subject to approval by the Supervisory Board, a subscription right for existing shareholders on condition that the new shares so issued must not exceed 10 per cent of the issued capital and that the issue price must not be significantly lower than the market price. To the extent that it had not previously been used, the Executive Board authorisation given at the Annual General Meeting on 25 May 2005, which expired on 24 May 2010, was revoked from the date the new authorisation took effect.

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 Deutsche 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 conversion rights were issued that after the 2004 capital increase entitled the holders to convert them into up to 37,764,350 Deutsche Lufthansa AG shares at a price of EUR 19.86 each. Convertible bonds were converted early on 4 January 2006 for a total of EUR 699m, 309 conversion rights were exercised (15,558 shares) in 2006, a further 40 conversion rights (2,014 shares) were exercised in 2007 and as of 4 January 2008 convertible bonds amounting to EUR 205,000, and to EUR 43,458,000 on 4 January 2010, were redeemed. As of the balance sheet date there were therefore 6,681 conversion rights outstanding, convertible into up to 336,404 shares in Deutsche Lufthansa AG at a price of EUR 19.86.

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

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

A resolution passed at the Annual General Meeting held on 29 April 2010 authorised the Executive Board pursuant to Section 71 Paragraph 1 No. 8 Stock Corporation Act (AktG) to purchase treasury shares until 28 April 2015. The authorisation is limited to 10 per cent of current issued capital which can be purchased on the stock exchange or by a public purchase offer to all shareholders. At the same Annual General Meeting the existing authorisation to purchase treasury shares which expired on 23 October 2010 was revoked.

In 2010 Deutsche Lufthansa AG bought back a total of 495,122 of its own shares at an average price of EUR 16.14. This is equivalent to 0.11 per cent of issued capital.

The shares were used as follows:

- 493,610 shares were used as part of performance-related variable remuneration in 2010 for managers and non-payscale staff of Deutsche Lufthansa AG and 24 further affiliated companies and equity investments at a price of EUR 15.38.
- 372 shares were allocated to managers and non-payscale staff as part of performance-related remuneration for 2008 at a price of EUR 10.73.
- 1,140 shares were allocated to managers and non-payscale staff as part of performance-related remuneration for 2009 at a price of EUR 10.50.

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 19 April 2010
On 14 April 2010 Deka Investment GmbH, Frankfurt, Germany, notified us on behalf and with the authorisation of Deka International S.A, Luxembourg, Luxembourg, as follows:
The voting rights of Deka International S.A, Luxembourg, Luxembourg, in Deutsche Lufthansa AG exceeded the threshold of 3 per cent on 9 April 2010 and on this date came to 3.21 per cent (14,690,725 voting shares).

Notifications on the shareholder structure in accordance with Section 26 Paragraph 1 WpHG (Securities Trading Act) dated 23 April 2010
On 21 April 2010 Deka Investment GmbH, Frankfurt, Germany, notified us on behalf and with the authorisation of Deka International S.A, Luxembourg, Luxembourg, as follows:
The voting rights of Deka International S.A, Luxembourg, Luxembourg, in Deutsche Lufthansa AG fell below the threshold of 3 per cent on 19 April 2010 and on this date came to 2.55 per cent (11,690,725 voting shares).

Notifications on the shareholder structure in accordance with Section 26 Paragraph 1 WpHG (Securities Trading Act) dated 4 May 2010
On 30 April 2010 Janus Capital Management LLC, Denver, Colorado, USA, wrote to notify us in accordance with Section 21 Paragraph 1 WpHG that its share of voting rights in Deutsche Lufthansa AG exceeded the threshold of 3 per cent on 29 April 2010, and that it now held 3.29 per cent of voting rights (15,088,270 voting shares). Of the total, 3.29 per cent (15,088,270 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 18 January 2011
On 14 January 2011 BlackRock Investment Management (UK) Limited, London, UK, notified us on behalf and with the authorisation of the following companies as follows:
The voting rights of BlackRock, Inc., New York, USA, in Deutsche Lufthansa AG exceeded the threshold of 5 per cent on 10 January 2011 and on this date came to 5.08 per cent (23,255,011 voting shares). Of the total, 5.08 per cent (23,255,011 voting shares) is attributable to it in accordance with Section 22 Paragraph 1 Sentence 1 No. 6 in conjunction with Sentence 2 WpHG.

The voting rights of BlackRock Financial Management, Inc., New York, USA, in Deutsche Lufthansa AG exceeded the threshold of 5 per cent on 10 January 2011 and on this date came to 5.003 per cent (22,912,821 voting shares). Of the total, 5.003 per cent (22,912,821 voting shares) is attributable to it in accordance with Section 22 Paragraph 1 Sentence 1 No. 6 in conjunction with Sentence 2 WpHG.

The voting rights of BlackRock Holdco 2, Inc., Wilmington, Delaware, USA, in Deutsche Lufthansa AG exceeded the threshold of 5 per cent on 10 January 2011 and on this date came to 5.003 per cent (22,912,821 voting shares). Of the total, 5.003 per cent (22,912,821 voting shares) is attributable to it in accordance with Section 22 Paragraph 1 Sentence 1 No. 6 in conjunction with Sentence 2 WpHG.

10) Reserves

The capital reserve contains the premiums resulting from capital increases and the proceeds from the issue of debt securities for conversion options to acquire Company shares.

The legal reserve contained in retained earnings is unchanged at EUR 26m; the remainder is other retained earnings. EUR 42m was transferred to retained earnings in the course of the BilMoG changes. An amount of EUR 280m resulting from the fair value measurement of assets may not be distributed as dividends. There are sufficient free retained earnings to cover the amount which may not be distributed. A further EUR 208m was transferred to retained earnings from net profit for the year.

11) Provisions

Provisions		
in EUR m	**31.12.2010**	**31.12.2009**
Provisions for pensions and similar obligations	1,823	4,853
Tax provisions	145	120
Obligations in respect of unused flight documents	2,339	1,967
Other provisions	2,051	1,959
	6,358	**8,899**

A 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. Contributions to a trust fund were started in 2004 to cover these entitlements and fund the corresponding obligations. There are also obligations from the conversion of salary components, which are also funded by assets held in insurance policies.

The actuarial obligations are netted with the corresponding assets measured at fair value as of 31 December 2010 to obtain the carrying amount for the balance sheet. The acquisition costs of the fund assets were EUR 3,164m as of 31 December 2010. Their fair value as of the same date was EUR 3,439m.

The actuarial amount required to settle the obligation is recognised at EUR 5,262m as of 31 December 2010. Accrued interest expenses on pension obligations of

EUR 277m exceeded income of EUR 212m from the pension fund assets.

The revaluation of obligations and fund assets in the course of applying the BilMoG resulted in a net revaluation amount of EUR 462m, of which EUR 31m was added to pension provisions in 2010 as an extraordinary expense. The remaining funding shortfall of EUR 431m as of 31 December 2010 will be added to provisions in subsequent years, by 31 December 2024 at the latest, in accordance with Article 67 Paragraph 1 Sentence 1 EGHGB.

Obligations under phased early retirement agreements are recognised in other provisions. Obligations of EUR 64m are netted with assets with a fair value of EUR 44m. The acquisition costs of the fund assets are EUR 39m.

Net income of EUR 255,000 from fund assets contrasts with expenses of EUR 2.7m in accrued interest on the provision.

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

12) Liabilities

Liabilities

in EUR m	Due within one year	Due in more than five years	**Total 31.12.2010**	**Total 31.12.2009**
Bonds	–	750	2,106	2,199
Liabilities to banks	124	155	1,068	902
Advance payments for orders	0	–	0	1
Trade payables	345	–	345	271
Payables to subsidiaries	1,879	4	1,895	1,317
Payables to companies held as other equity investments	31	–	31	31
Other liabilities	613	1,178	2,661	2,158
- of which for taxes	(99)	–	(99)	(50)
- of which relating to social security obligations	(9)	(5)	(26)	(32)
	2,992	**2,087**	**8,106**	**6,879**

Of the bonds, EUR 7m is convertible. EUR 434m of the liabilities to banks are secured by aircraft. Of the other liabilities, obligations arising from finance leases totalling EUR 2.2bn are secured by the aircraft concerned.

13) Contingent liabilities

Contingent liabilities

in EUR m	**31.12.2010**	**31.12.2009**
Relating to guarantees, bills of exchange and cheque guarantees	1,310	1,472
- of which from subsidiaries	(439)	(630)
Relating to warranties	837	726
- of which from subsidiaries	(217)	(141)
Relating to the provision of collateral for third-party liabilities	3	3

The amounts listed contain EUR 867m in assumption of co-debtors’ guarantees in favour of North American fuelling and handling firms. There was no requirement to recognise the guarantee obligations as a liability, because the fuelling and handling firms are expected to be able to meet the underlying liabilities and a claim is therefore unlikely. Furthermore, this amount is matched by compensatory claims against the other co-debtors amounting to EUR 844m. These amounts are in some cases still provisional owing to annual accounts still pending.

EUR 290m 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. No provision was recognised, as a claim is not considered likely. The assumption is that the company will be able to meet its obligations itself. The obligations under the warranties are matched by compensatory claims against the other co-debtors amounting to EUR 217m.

14) Other financial obligations

Order commitments for capital expenditure Order commitments for capital expenditure on property, plant and equipment came to EUR 5.1bn as of 31 December 2010. The resulting payment obligations will fall due as follows: EUR 4.1bn in the years 2011 to 2014 and EUR 1.0bn in the year 2015.

Obligations to acquire company shares and to contribute capital to investee companies totalling EUR 7m and loan commitments amounting to EUR 287m existed as of the balance sheet date.

Obligations under rental agreements The Company carries out its business almost exclusively in rented premises. Rental agreements generally run for five to ten years. Facilities at Frankfurt and Munich airports are rented for 30 years and are partly prefinanced by Lufthansa. Annual rental payments amount to around EUR 164m.

In the financial year 2010 long-term finance leases for aircraft gave rise to expenses of EUR 12m, which will decrease to zero by 2012.

Costs under long-term operating leases with terms up to 2015 came to EUR 274m in the financial year.

Obligations under long-term maintenance contracts Long-term maintenance contracts signed as of the reporting date with durations up to 2019 gave rise to expenses of EUR 72.2m in the financial year. Of the corresponding payment obligations, EUR 403m fall due in the years 2011 to 2014 and EUR 413m in the years 2015 to 2019.

Exchange rate, interest rate and fuel price hedges As of 31 December 2010 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**:**

Currencies			
Volume	Type of derivative	Average exchange rate in €	Maturity up to maximum
USD 1,293m	European options	0.6870	2012
USD 79m	Forward purchases	0.7151	2012
USD 9,126m	Forward purchases	0.7351	2016
AUD 198m	Forward sales	0.6420	2050
CAD 461m	Forward sales	0.7050	2050
CHF 1,319m	Forward sales	0.7180	2016
CNY 2,111m	Forward sales	0.1145	2011
CZK 1,476m	Forward sales	0.0390	2012
DKK 8m	Forward sales	0.1342	2011
GBP 456m	Forward sales	1.1582	2013
HKD 2,115m	Forward sales	0.0964	2012
HUF 2,607m	Forward sales	0.0035	2012
INR 11,403m	Forward sales	0.0162	2011
JPY 73,529m	Forward sales	0.0085	2012
KRW 92,845m	Forward sales	0.0007	2011
MXN 13m	Forward sales	0.0613	2011
NOK 1,642m	Forward sales	0.1206	2012
NZD 63m	Forward sales	0.4968	2012
PHP 971m	Forward sales	0.0169	2011
PLN 558m	Forward sales	0.2400	2012
SEK 2,758m	Forward sales	0.1024	2012
SGD 90m	Forward sales	0.5427	2012
THB 1,036m	Forward sales	0.0243	2011
ZAR 1,151m	Forward sales	0.925	2012

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

Volume	Type of derivative	Average exchange rate in €	Maturity up to
USD 67m	European options	0.7407	2012
AUD 56m	Forward purchases	0.6253	2012
CAD 180m	Forward purchases	0.7038	2017
CHF 1,033m	Forward purchases	0.7218	2016
CZK 579m	Forward purchases	0.0392	2012
DKK 189m	Forward purchases	0.1340	2012
GBP 223m	Forward purchases	1.1690	2013
HKD 1,284m	Forward purchases	0.0965	2012
JPY 29,627m	Forward purchases	0.0086	2012
KRW 31,399m	Forward purchases	0.0007	2011
MXN 13m	Forward purchases	0.0613	2011
NOK 231m	Forward purchases	0.1203	2012
PLN 32m	Forward purchases	0.2378	2012
SEK 761m	Forward purchases	0.1023	2012
SGD 46m	Forward purchases	0.5479	2012
THB 632m	Forward purchases	0.0246	2011
ZAR 608m	Forward purchases	0.0968	2012
HUF 3,050m	Forward sales	0.0034	2012
USD 2,850m	Forward sales	0.7480	2016

Interest rate hedges			
Volume	Type of derivative	Reference interest rate	Maturity up to
EUR m 2,509	EUR swaps +0.973% to +6.75%	for 3 to 6-monthEuribor -3.03% to +7.97%	2019
EUR m 100	EUR swap +0.8725	for 3-month Libor	2011
EUR m 16	JPY swap +5.795%	for euro swap +3.318%	2012
EUR m 108	JPY swap +3.321% to +3.726%	For 6-month Euribor +1.883% to +2.984%	2012

Volume	Type of derivative	Reference interest rate	Maturity up to
EUR m 212	USD swap +2.104% to +2.641%	for 6-month Euribor -3.45% to -1.365%	2017
EUR m 770	Swap 1 to 6-month Euribor -0.998% to +0.92%	for 6-month USD Libor +4.5%	2022
EUR m 294	Swaps 1 to 3-month CHF Libor +0.778% to +4.383%	for 6-month USD Libor +4.5%	2016
EUR m 17	USD swap +0.68% to +2.1%	for 6-month Euribor 0.35%	2017
EUR m 12	Swap 6-month USD Libor +0.325%	for 6-month Euribor +0.3525%	2017
EUR m 458	6-month USD Euribor swap +1.13% to +17.64%	for 1 to 3-month EUR swap 0.99% to +0.92%	2022
EUR m 24	Swap 6-month CHF Libor +1.0%	for 6-month Euribor +1.075%	2012
EUR m 60	Swap for 6-month USD Libor +4.5%	for 6-month GBP Euribor -0.1% to +0.783%	2015
EUR m 270	CHF swap +0.47% to +16%	for CHF swap +3.5% to +5.7%	2017

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

Volume	Type of derivative	Reference interest rate	Maturity up to
EUR m 270	CHF swap +3.5% to +5.7%	For swap CHF +0.47% to +16%	2017
EUR m 53	Swaps 6-month Euribor -2.62% to -1.365%	For USD swap +2.526% to +2.641%	2016
EUR m 7	USD swap +4.67%	for 12-month USD Libor +0.55%	2011
EUR m 330	1 to 6-month USD Libor +0.60% to +4.5%	for 1 to 3-month CHF Libor +0.778% to +4.3825%	2016
EUR m 24	Swap 6-month CHF Libor +1.0%	for 6-month Euribor +1.075%	2012

Volume	Type of derivative	Reference interest rate	Maturity up to
EUR m 59	6-month GBP Euribor -0.1% to +0.783%	for swap for 6-month USD Libor +4.5%	2015
EUR m 389	USD swap +1.3% to +17.64%	for 3 to 6-month USD Libor -0.19% to +1.39%	2022
EUR m 49	Swap 3 to 6-month Euribor +0.98% to +1.33%	3 to 6-month USD Libor +1.39% to +1.40%	2013
EUR m 33	USD swap 2.5%	for 6-month Euribor swap +3.7%	2015

Fuel price hedges

Type of derivative	Volume in %*	Average price level of hedging effect in USD/bbl	Maturity
Spread options	4.8	75.41	2011
Spread options	0.2	87.00	2012
Hedging combinations	73.8	89.34−125.02	2011
Hedging combinations	29.3	94.89−129.98	2012

* Percentage of anticipated fuel requirement

For the calendar year 2011 there are no hedges for the price difference between gas oil and crude and between kerosene and crude as of the balance sheet date.

Valuation units As an international airline Deutsche Lufthansa AG is exposed to the risk of changes in exchange rates. The hedging policy to limit these risks is implemented within the framework of the Lufthansa Group's systematic financial management. There is no autonomous hedging policy at the level of the legal entity Deutsche Lufthansa AG. Valuation units within the meaning of Section 254 HGB as amended are therefore only formed to the extent that exchange rate hedges are matched by opposing derivatives transactions in the same currency and with the same maturity. As of 31 December 2010 provisions for onerous contracts of EUR 151m have been recognised for impending losses under further exchange rate hedges.

Exchange rate hedges

Currency	Type of derivative	Maturity	Volume Pending transactions in m	Volume hedged risk in m
AUD	Forward sale	2011 2012	38 18	38 18

Currency	Type of derivative	Maturity	Volume Pending trans-actions in m	Volume hedged risk in m
CAD	Forward sale	2011	89	89
		2012	44	44
		2013	10	10
		2014	10	10
		2015	10	10
		2016	10	10
		2017	10	10
CHF	Forward sale	2011	199	199
		2012	30	30
CNY	Forward sale	2011	1,116	1,116
CZK	Forward sale	2011	411	411
		2012	169	169
DKK	Forward purchase	2011	8	8
GBP	Forward sale	2011	161	161
		2012	27	27
		2013	4	4
HKD	Forward sale	2011	784	784
		2012	501	501
HUF	Forward sale	2011	5,277	5,277
		2012	2,168	2,168
INR	Forward sale	2011	5,683	5,683
JPY	Forward sale	2011	21,015	21,015
		2012	8,612	8,612
KRW	Forward sale	2011	31,399	31,399
MXN	Forward sale	2011	13	13
NOK	Forward sale	2011	169	169
		2012	62	62
PHP	Forward purchase	2011	761	761
PLN	Forward sale	2011	47	47
		2012	21	21
SEK	Forward sale	2011	542	542
		2012	219	219
SGD	Forward sale	2011	34	34
		2012	12	12
THB	Forward sale	2011	632	632
USD	Forward purchase	2011	1,517	1,517
		2012	514	514
		2013	3	3
ZAR	Forward sale	2011	453	453
		2012	156	156

Furthermore, exchange rate hedges are combined with expected aircraft deliveries to form valuation units for the purpose of hedging the risk of price increases due to exchange rate movements. Aircraft purchases are hedged with spread options as well as forward transactions.

Based on currently available information, the exposure for capital expenditure at year-end 2010, the relevant hedging volume and the effects of the hedges on the acquisition costs of the hedged investments are as follows:

Hedged capital expenditure				
Financial year in EUR m	Exposure in USD	Hedging volume in USD	Market values in EUR	Hedging level
2011	1,954	1,707	30.6	87%
2012	1,519	1,244	25.7	82%
2013	903	811	28.8	90%
2014	445	404	16.0	91%
2015	91	68	3.9	75%
Total	**4,912**	**4,234**	**105.0**	**86%**

Deutsche Lufthansa AG uses suitable derivatives to implement effective hedges of price risks for future fuel consumption. Together with the planned purchases of fuel these constitute what are known as valuation units. As pending purchasing transactions still have to be valued differently if market prices have gone down as of the reporting date, it is inevitable that provisions will have to be made for onerous contracts for the corresponding valuation units. Deutsche Lufthansa AG has therefore decided not to form valuation units for the purposes of the commercial law financial statements in accordance with Section 254 HGB as amended. As of 31 December 2010 no provisions for onerous contracts are to be recognised.

Market values and carrying amounts of financial derivatives As of 31 December 2010 the existing financial derivatives had the following market values and carrying amounts:

Financial derivatives			
Type of derivative in EUR m	Market values 31.12.2010	Carrying amounts of other assets 31.12.2010	Carrying amounts of other provisions 31.12.2010
Futures contracts for currency hedging	−13.6	–	151
Spread options for currency hedging	1.7	–	–
European options currency hedging	103.5	62	–
Spread options for fuel price hedging	37	4	–
Hedging combinations for fuel price hedging	343	88	–
Interest rate swaps	250	–	–

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 valued individually at their respective forward rates and discounted to the reporting date based on the corresponding interest rate curve. The market prices of currency options are calculated using recognised option pricing models.

Financial instruments held as financial investments
The fair values of financial instruments held as financial investments were above the carrying amounts as of 31 December 2010. There were therefore no impairment losses which could be recognised or not in accordance with Section 253 Paragraph 3 Sentence 3 HGB.

Balance sheet items		
in EUR m	Market values 31.12.2010	Carrying amounts 31.12.2010
Shares in affiliated companies	1,912	1,739
Loans to affiliated companies	779	756
Equity investments	231	226
Other loans	129	128
Non-current securities	44	44

Shares in affiliated companies relate to an equity interest of 100 per cent in Lufthansa SICAV-FIS, Luxembourg. This is an equity investment in a foreign investment vehicle within the meaning of Sections 1 and 2 Paragraph 9 German Investment Act (InvG). The distribution comes to EUR 5m per financial year. It can be returned on a daily basis without restriction. The investment serves to hold a strategic minimum liquidity.

Notes to the income statement

15) Traffic revenue

Passenger traffic revenue by traffic region		
in EUR m	**2010**	**2009**
Europe	5,442	5,510
North America	3,098	2,681
Asia/Pacific	3,022	2,351
South America	705	461
Africa	611	518
Middle East	647	449
	13,525	**11,970**

Traffic revenue by sector		
in EUR m	**2010**	**2009**
Scheduled	12,943	11,404
Charter	582	566
	13,525	**11,970**

16) Other revenue

Revenue by area of activity		
in EUR m	**2010**	**2009**
Ground services/in-flight sales	117	98
Travel services (commissions)	137	116
Other	13	15
	267	**229**

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

17) Other operating income

Other operating income		
in EUR m	**2010**	**2009**
Proceeds on the disposal of non-current assets	83	79
Exchange rate gains from foreign currency translation	894	999
Write-backs of provisions	151	124
Services rendered for Group companies	116	94
Income from staff secondment	53	49
Compensation received for damages	16	75
Rental income	8	7
Income from aircraft on operating leases	91	0
Income from the disposal of securities	0	3
Income from write-ups on assets	210	48
Other operating income	354	376
	1,976	**1,854**

18) Cost of materials and services

Cost of materials and services		
in EUR m	**2010**	**2009**
Aircraft fuel and lubricants	3,247	2,358
Other costs of raw materials, consumables and supplies and goods purchased	68	65
Cost of services purchased	6,144	6,074
	9,459	**8,497**

19) Staff costs

Staff costs		
in EUR m	**2010**	**2009**
Wages and salaries	1,985	1,895
Social security, pension and benefit contributions	586	783
- of which for retirement pensions	(310)	(524)
	2,571	**2,678**

The fall in expenses for retirement benefits is due to the separate recognition of staff and interest expenses for additions to pension provisions as a result of the new BilMoG rules.

Average number of employees		
	2010	**2009**
Ground staff	14,843	15,441
Flight staff	20,168	19,683
Trainees	144	139
	35,155	**35,263**

20) Depreciation, amortisation and impairment

Depreciation and amortisation of intangible assets, aircraft and other property, plant and equipment are detailed in the statement of changes in non-current assets. They include impairment losses of EUR 14m.

21) Other operating expenses

Other operating expenses		
in EUR m	**2010**	**2009**
Sales commission paid to agencies	298	271
Rental and maintenance expenses	206	215
Expenses for computerised distribution systems	231	252
Impairment charges / Depreciation and amortisation of current assets	35	77
Courses / Training for flight staff	83	75
Advertising and sales promotions	157	179
Exchange rate losses from foreign currency translation	1,039	811
Payment system expenses (especially credit card commission payments)	151	125
Insurance for flight operations	29	28
Travel expenses	193	186
Auditing, consulting and legal expenses	48	57
Other operating expenses	525	504
	2,995	**2,780**

22) Result of equity investments

Result of equity investments		
in EUR m	**2010**	**2009**
Income from profit transfer agreements with subsidiaries	738	396
Expenses from loss transfer agreements	− 10	− 152
Income from equity investments	161	232
- of which from subsidiaries	(148)	(217)
	889	**476**

Income/expenses from profit and loss transfer agreements are shown including tax contributions. Income from equity investments consists primarily of the dividends from Air Trust AG, Eurowings AG and the Austrian leasing companies.

23) Net interest

Net interest				
in EUR m	**2010**	of which subsidiaries	**2009**	of which subsidiaries
Income from other securities and non-current financial loans	100	97	123	118
Other interest and similar income	115	9	88	16
Interest and similar expenses	− 352	− 12	− 231	− 11
- of which accrued interest	(− 100)	−	−	−
	− 137	**94**	**− 20**	**123**

The accrued interest of EUR 100m for provisions and liabilities required by the BilMoG rules includes EUR 212m for the market valuation of pension fund assets, which reduces expenses accordingly.

24) Impairment on investments and current securities

Impairment losses of EUR 264m were recognised on investments. These are essentially impairment losses on the carrying amounts for Eurowings Luftverkehrs AG (EUR 80m), Air Dolomiti S.p.A.L.A.R.E. (EUR 30m) and LHBD Holding Limited (EUR 50m). In addition, they include impairment losses of EUR 28m on a non-current interest receivable from LSG Sky Chefs Inc. and of EUR 71m on a loan to British Midland Airways Limited.

25) Extraordinary result

in EUR m	2010	2009
Extraordinary income	0	–
Extraordinary expenses	– 37	–
- of which from BilMoG adjustments to provisions	(– 107)	–
- of which from market valuation of pension fund assets	(70)	–
	– 37	**–**

The extraordinary result includes both the effects of the switch to BilMoG as of 1 January 2010 and one fifteenth of the amount remaining from the restated pension provisions after the option has been exercised.

26) Taxes

Taxes		
in EUR m	**2010**	**2009**
Taxes on income and earnings	172	0
Other taxes	26	42
	198	**42**

Taxes on income and earnings and other taxes also include net items from previous years of EUR 107m.

27) Supervisory Board and Executive Board

The members of the Supervisory Board and the Executive Board are listed starting on p. 35.

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

- Basic remuneration, 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 programs for managers, since 2006 with their own parameters which vary from those of the general managers' program (Note 9).

The following remuneration was paid to individual Executive Board members in 2010:

Executive Board remuneration

in EUR	Basic remun-eration	Variable remun-eration	Payments from maturing option programs	Change in the fair value of option programs	Other*	Total
Wolfgang Mayrhuber	805,000	1,610,000	900,000	66,255	110,434	3,491,689
Christoph Franz	700,000	1,378,700	-	226,101	86,946	2,391,747
Stephan Gemkow	575,000	1,135,400	600,000	44,170	86,701	2,441,271
Stefan Lauer	575,000	1,135,400	600,000	36,262	110,536	2,457,198
Total	**2,655,000**	**5,259,500**	**2,100,000**	**372,788**	**394,617**	**10,781,905**

* Other remuneration includes, in particular, the non-cash benefit of using company cars, the discount granted in connection with option programme issues, 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.

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

Option programs			
	2010 program	2009 program	2008 program
Wolfgang Mayrhuber	11,700	17,100	16,740
Christoph Franz	9,620	14,060	-
Stephan Gemkow	7,800	11,400	11,160
Stefan Lauer	7,800	11,400	10,788

The pro rata change for 2010 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 2010 option programme for Mr Mayrhuber on the date of issue was EUR 645,165. For Dr Franz the figure was EUR 530,469, for Mr Gemkow EUR 430,110 and for Mr Lauer also EUR 430,110.

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

Since 2006 each Executive Board member has had a personal pension account into which for the duration of their employment Deutsche Lufthansa AG pays contributions amounting to 25 per cent of the contractually guaranteed annual salary and the variable remuneration. The investment guidelines for the pension account are based on the same investment concept as for the Lufthansa Pension Trust, which also applies to staff members of Deutsche Lufthansa AG.

As of 31 December 2010 Mr Mayrhuber's retirement benefit entitlement amounted to EUR 11.9m (previous year: EUR 10.9m). That of Dr Franz was EUR 0.6m (previous year: EUR 0.1m), that of Mr Gemkow EUR 4.1m (previous year: EUR 3.7m) and that of Mr Lauer EUR 5.7m (previous year: EUR 5.2m).

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 and as of 2011 for Mr Spohr as well, a supplementary risk capital sum will be added to the pension credit in the event of a claim for a disability pension or a pension for surviving dependants. This sum will consist of the average contributions paid into the pension account over the past three years multiplied, when a disability pension entitlement arises, by the number of full years by which the claimant is short of the age of 60.

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

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

Expenses for pension entitlements earned in 2010 amounted to EUR 0.3m for Mr Mayrhuber, EUR 0.5m for Mr Franz, EUR 0.1m for Mr Gemkow and EUR 0.1m for Mr Lauer. The total amount of EUR 1.0m, in addition to total remuneration of EUR 10.8m, as shown in the remuneration table, amounting to EUR 11.8m in aggregate, is included in staff costs.

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. As of 31 December 2010 his transitional pension entitlement came to 57 per cent of basic annual salary without bonus. Since 1 January 2011 his transitional pension entitlement has reached the maximum entitlement level of 60 per cent of basic annual salary. As the basic annual salary was increased from 2011 as part of the new remuneration structure, this entitlement level was reduced pro rata to 40 per cent, leaving the absolute amount of the provisional entitlement unchanged.

If Mr Gemkow's employment contract is terminated for reasons for which he is not responsible when he is over 55 he is entitled to a transitional pension until he becomes 60. As of 31 December 2010 his transitional pension entitlement came to 36 per cent of basic annual salary. As the basic annual salary was increased from 2011 as part of the new remuneration structure, this entitlement level was reduced pro rata to 24 per cent, leaving the absolute amount of the provisional entitlement unchanged. The entitlement level increases by two percentage points up to a maximum of 40 per cent for each year of service commenced from 1 February 2011 as a full Executive Board member of the Company.

If Mr Franz's employment contract is terminated for reasons for which he is not responsible when he is over 55 he has since 1 January 2011 been entitled to a transitional pension until he becomes 60. His transitional pension entitlement amounts to 10 per cent of his fixed basic salary, increasing by two percentage points up to a maximum of 20 per cent for each year of service commenced from 1 June 2014 as a full member of the Executive Board.

Mr Mayrhuber retired from the Executive Board on 31 December 2010 in line with his contract. For the period from 1 January 2011 until he becomes entitled to benefits, Mr Mayrhuber will receive 65 per cent of his former basic annual salary as compensation for the two-year non-competition agreement. 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 39.9m (previous year: EUR 32.2m).

Supervisory Board Supervisory Board remuneration in 2010 consisted of EUR 1.3m (previous year: EUR 525,000) in fixed payments for Supervisory Board work at Deutsche Lufthansa AG. In addition, variable payments also amounting to EUR 1.3m were paid (previous year: EUR 0). From 2010 the variable remuneration no longer depends on the dividend paid, but rather on net profit per share. Other remuneration, mainly attendance fees, amounted to EUR 82,000 (previous year: EUR 76,000).

In the financial year 2010 no further fees were paid to Dr Schlede for consultancy services in connection with the integration of Swiss International Air Lines into the Lufthansa Group (previous year: EUR 27,000).

The Deutsche Lufthansa AG Supervisory Board members were also paid EUR 56,000 (previous year: EUR 50,000) for work on supervisory boards of Group companies.

28) Distributable profit

It is proposed to use the distributable profit for the year of EUR 275m to pay a dividend of EUR 0.60 per share.

29) 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.

30) 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 2.7m
Other certification services	EUR 0.4m
Tax advisory services	EUR 0.3m
Other services	EUR 0.6m
	EUR 4.0m

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

"We declare that to the best of our knowledge and according to the applicable accounting standards the financial statements give a true and fair view of the net assets, financial and earnings 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, 9 March 2011
Deutsche Lufthansa Aktiengesellschaft

Executive Board

Auditors´ report

We have audited the annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, together with the bookkeeping system, and the management report of Deutsche Lufthansa AG, Cologne, for the business year from 1 January to 31 December 2010. The regulations of German commercial law and the further provisions of the Articles of Association state that the accounts and the preparation of the annual financial statements and management report are the responsibility of the Company's Executive Board. 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 Executive Board, 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 statutory regulations and the further rules of the Articles of Association and with due regard for generally accepted accounting standards convey a true and fair view of the Company's net assets, financial and earnings position.

The management report is consistent with the annual financial statements and as a whole provides a correct view of the Company's position and correctly presents the opportunities and risks of future development.

Düsseldorf, 9 March 2011

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

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

Supervisory Board and Executive Board

Supervisory Board

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

Voting members

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

Frank Bsirske
Chairman ver.di
Employee representative
Deputy Chairman

Jacques Aigrain
Chairman
LCH.Clearnet Group Limited,
UK

Dr Werner Brandt
Member of the Executive Board
SAP AG

Bernd Buresch
Coordinator
Enterprise Operation Center
Employee representative

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

Dipl. Vwt. Jürgen Erwert
Administrative staff member
Employee representative

Herbert Hainer
CEO adidas AG
(since 29 April 2010)

Dr Jürgen Hambrecht
Chairman of the Executive Board
BASF SE

Ulrich Hartmann
Chairman of the Supervisory Board
E.ON AG
(until 29 April 2010)

Dominique Hiekel
Purser
Employee representative

Dr h.c. Robert Kimmitt
Senior International Counsel
Wilmer Hale, USA
(since 29 April 2010)

Martin Koehler
Managing Director The Boston
Consulting Group Inc. (since 2
March 2010)

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
Deutsche Lufthansa AG

Dr Herbert Walter
Former Chairman of the Executive
Board Dresdner Bank AG and
former member of the Executive
Board Allianz SE
(until 29 April 2010)

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

Dr Michael Wollstadt
Head IT Development Network
Management
Employee representative

Stefan Ziegler
Flight captain
Employee representative

Executive Board

Wolfgang Mayrhuber
Chairman of the Executive Board
(until 31 December 2010)

Dr Christoph Franz
Deputy Chairman
of the Executive Board
Lufthansa German Airlines
(until 31 December 2010)
Chairman of the Executive Board
(since 1 January 2011)

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

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

Carsten Spohr
Member of the Executive Board
Lufthansa German Airlines
(since 1 January 2011)

Other mandates of the Supervisory Board members of Deutsche Lufthansa AG

As of 31 December 2010

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) Loyality Partner GmbH
(Chairman of the Supervisory Board)
Tetra Laval Group

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

Jacques Aigrain
b) J.A. Consulting SA, Switzerland
Resolution Limited, UK
Swiss International Air Lines AG

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

Bernd Buresch
a) Lufthansa Systems AG

Herbert Hainer
a) Allianz Deutschland AG
FC Bayern München AG
(Deputy Chairman
of the Supervisory Board)
Engelhorn KGaA

Dr Jürgen Hambrecht
a) Daimler AG

Ulrich Hartmann (as of 29 April 2010)
a) E.ON AG
(Chairman of the Supervisory Board)

Martin Koehler
a) Delton AG

Dr Nicola Leibinger-Kammüller
a) Axel Springer AG
Siemens AG
Voith AG

Eckhard Lieb
b) Albatros Versicherungsdienste GmbH

Dr Herbert Walter (as of 29 April 2010)
a) E.ON Ruhrgas AG
b) Banco BPI S.A.
Banco Popular Español 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 December 2010

Wolfgang Mayrhuber
a) BMW 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
UBS AG, Switzerland

Dr Christoph Franz
a) DF Deutsche Forfait AG
Lufthansa Technik 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.
Amadeus IT Holding S.A.
JetBlue Airways Corp.

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

Annexe to the notes
Significant equity investments

Name, registered office	Stake in %	Earnings after taxes in EUR m	Shareholders' equity in EUR m
Swiss International Air Lines AG, Basel, Switzerland	100	541	1,591
Swiss European Air Lines AG, Basel, Switzerland	100	-34	-[11]
Austrian Airlines AG, Vienna, Austria	100	50	-75
Lauda Air Luftfahrt GmbH, Vienna, Austria	100	113	-12
Tyrolean Airways Tiroler Luftfahrt GmbH, Innsbruck, Austria	100	-116	37
Air Dolomiti S.p.A. Linee Aeree Regionali Europee, Dossobuono di Villafranca (Verona), Italy	100	-94	-25
Lufthansa Italia S.p.A., Milan, Italy	100	-3	-2
Eurowings Luftverkehrs AG, Düsseldorf	100[2]	-160	-26
Germanwings GmbH, Cologne	100	8	19
Lufthansa CityLine GmbH, Cologne	100	1[9]	26[10]
Lufthansa Technik AERO Alzey GmbH, Alzey	100	-7	8
Lufthansa Flight Training GmbH, Frankfurt/Main	100	20[9]	22[10]
Swiss Aviation Training Ltd., Basel, Switzerland	100	-15	14
Lufthansa Cargo AG, Kelsterbach	100	334[9]	162[10]
British Midland Airways Ltd., Donington Hall, United Kingdom	100	-140	-192
British Midland Ltd., Donington Hall, United Kingdom	100	1	3
Lufthansa Commercial Holding GmbH, Cologne	100	89[9]	143[10]
Lufthansa Malta Holding Ltd, St. Julian's, Malta	100	1	130
AUA Beteiligungen Gesellschaft m.b.H., Vienna, Austria	100	2	4
AirTrust AG, Zug, Switzerland	100	-[11]	107
LHBD Holding Limited, London, United Kingdom	100[3]	-[11]	-15
Lufthansa Malta Finance plc, St. Julian's, Malta	100	3	6
Lufthansa AirPlus Servicekarten GmbH, Neu-Isenburg	100	-2	27
AirPlus International, Inc., Springfield, USA	100	-4	-2
AirPlus International Limited, London, United Kingdom	100	-3	3
AirPlus International AG, Kloten, Switzerland	100	-4	12
AirPlus International S.r.l., Bologna, Italy	100	-5	3
AirPlus Payment Management Co., Ltd., Shanghai, China	100	-[11]	-[11]
AirPlus Air Travel Card Vertriebsgesellschaft mbH, Vienna, Austria	67	-[11]	4
AirPlus Holding GmbH, Vienna, Austria	100	-[11]	-[11]
LSG Lufthansa Service Holding AG, Neu-Isenburg	100	20[9]	614[10]
LSG Sky Chefs Deutschland GmbH, Neu-Isenburg	100	-271	47
LSG-Food & Nonfood Handel GmbH, Frankfurt/Main	100	-[11]	2
LSG Lufthansa Service Asia Ltd., Hong Kong, China	100	-1	30
LSG Catering (Thailand) Ltd., Bangkok, Thailand	100	-[11]	-[11]
LSG Lufthansa Service Europa/Afrika GmbH, Neu-Isenburg	100	-[11]	13
LSG Catering Guam, Inc., Guam, USA	100	-[11]	-8
LSG Lufthansa Service Guam, Inc., Guam, USA	100	2	2
Capital Gain International (1986) Ltd., Hong Kong, China	100	-[11]	-[11]
LSG Catering Saipan, Inc., Saipan, USA	100	-[11]	-[11]
LSG Lufthansa Service Saipan, Inc., Saipan, USA	100	1	7

Significant equity investments (cont'd)	**Stake in %**	**Earnings after taxes in EUR m**	**Shareholders' equity in EUR m**
Name, registered office			
LSG Catering Hong Kong Ltd., Hong Kong, China	100	-1	30
International Food Services Ltd., Hong Kong, China	100	-[11]	-[11]
LSG Sky Chefs In-Flight Logistics Asia Pacific Ltd., Hong Kong, China	100	-1	1
LSG Lufthansa Service Enterprises Ltd., Hong Kong, China	100	-[11]	-[11]
Myanmar LSG Lufthansa Service Ltd., Yangon, Myanmar	100	-[11]	1
LSG Holding Asia Ltd., Hong Kong, China	87	-[11]	2
LSG Sky Chefs (Qingdao) Co., Ltd., Laixi City, China	100	-2	-2
LSG Lufthansa Service Hong Kong Ltd., Hong Kong, China	42	-[11]	16
LSG Sky Chefs Solutions Asia Limited, Hong Kong, China	100	-[11]	1
LSG Catering China Ltd., Hong Kong, China	100	4	-[11]
Siam Flight Services Ltd., Bangkok, Thailand	49	-[11]	4
LSG Sky Chefs (Thailand) Ltd., Bangkok, Thailand	64	-2	8
LSG-Sky Food GmbH, Alzey	100	-30	-1
LSG Sky Chefs Catering Logistics GmbH, Neu-Isenburg	100	-96	-17
LSG Lufthansa Service Catering- und Dienstleistungsgesellschaft mbH, Neu-Isenburg	100	1	-[11]
LSG Sky Chefs Sverige AB, Stockholm, Sweden	100	-4	-16
Airo Catering Services Latvija SIA, Marupe, Latvia	100	-[11]	-6
AIRO Catering Services Eesti OÜ, Tallinn, Estonia	100	-1	1
AIRO Catering Services – Ukraine, Boryspil, Ukraine	100	-2	-2
LSG Lufthansa Service Cape Town (Pty) Ltd., Cape Town, South Africa	100	-[5]	-2
AIRO Catering Services Sweden AB, Stockholm, Sweden	100	-[11]	-3
Lufthansa Systems Aktiengesellschaft, Kelsterbach	100	- 10[9]	23[10]
Lufthansa Systems Berlin GmbH, Berlin	100	-16	3
Lufthansa Systems AS GmbH, Norderstedt	100	-21	4
Lufthansa WorldShop GmbH, Frankfurt/Main	100	-28	-[11]
Lufthansa Training & Conference Center GmbH, Seeheim-Jugenheim	100	-6	-3
Lufthansa Technik AG, Hamburg	100	261[9]	378[10]
Lufthansa Technik Airmotive Ireland Holdings Ltd., Co. Dublin, Ireland	100	-[11]	59
Lufthansa Technik Airmotive Ireland Ltd., Co. Dublin, Ireland	100	-110	-3
Lufthansa Technik Airmotive Ireland Leasing Ltd., Co. Dublin, Ireland	100	-27	36
Lufthansa Technik Logistik GmbH, Hamburg	100	-118	-1
Lufthansa Technik Philippines, Inc., Manila, Philippines	51	44	25
Lufthansa Technik North America Holding Corp., Wilmington, USA	100	-1	40
BizJet International Sales & Support, Inc., Tulsa, USA	100	-19	-152
Hawker Pacific Aerospace, Sun Valley, USA	100	-[11]	-18
Hawker Pacific Aerospace Ltd., Hayes, United Kingdom	100	2	-36
Lufthansa Technik Maintenance International GmbH, Frankfurt/Main	100	-41	-4
Shannon Aerospace Ltd., Co. Claire, Ireland	100	-38	-1
AirLiance Materials LLC, Roselle, USA	50	-29	12
Lufthansa Technik Switzerland GmbH, Basel, Switzerland	100	-63	-13
Lufthansa Pension GmbH & Co. KG, Frankfurt	100	-[11]	4,028[7]
Hamburger Gesellschaft für Flughafenanlagen mbH, Hamburg	100	-13	30
Lufthansa Technik Immobilien- und Verwaltungsgesellschaft mbH, Hamburg	100	8	-[11]
GOAL Verwaltungsgesellschaft mbH & Co. Projekt Nr. 5 KG, Grünwald	100	1	14
Lufthansa Leasing GmbH & Co. Fox-Alfa oHG, Grünwald	100	-4	1
Lufthansa Leasing GmbH & Co. Fox-Quebec oHG, Grünwald	100	-2	3

Significant equity investments (cont'd)	**Stake in %**	**Earnings after taxes in EUR m**	**Shareholders' equity in EUR m**
Name, registered office			
Lufthansa Leasing GmbH & Co. Fox-Golf oHG, Grünwald	100	-2	3
Lufthansa Leasing GmbH & Co. Fox-Hotel oHG, Grünwald	100	-5	-[11]
Lufthansa Leasing GmbH & Co. Fox-Delta oHG, Grünwald	100	-6	11
Lufthansa Leasing GmbH & Co. Fox-Echo oHG, Grünwald	100	-6	11
Lufthansa Leasing GmbH & Co. Fox-Romeo oHG, Grünwald	100	-2	3
Lufthansa Leasing GmbH & Co. Fox-Sierra oHG, Grünwald	100	-2	3
Lufthansa Leasing GmbH & Co. Fox-Tango oHG, Grünwald	100	-2	3
Lufthansa Leasing GmbH & Co. Fox-Uniform oHG, Grünwald	100	-2	3
Lufthansa Leasing GmbH & Co. Fox-Victor oHG, Grünwald	100	-2	3
Lufthansa Leasing GmbH & Co. Fox-Yankee oHG, Grünwald	100	-2	3
Lufthansa Leasing GmbH & Co. Golf-Lima oHG, Grünwald	100	-2	3
Lufthansa Leasing GmbH & Co. Golf-Mike oHG, Grünwald	100	-2	3
LLG Nord GmbH & Co. Bravo KG, Grünwald	100	-2	-48
Lufthansa Flight Training Berlin GmbH, Berlin	100	-9	4
Lufthansa Process Management GmbH, Neu-Isenburg	100	-7	-[11]
Lufthansa Systems Aeronautics GmbH, Raunheim	100	-41	4
Lufthansa Leasing GmbH & Co. Echo-Zulu oHG, Grünwald	100	-5	35
Miles & More International GmbH, Neu-Isenburg	100	121	-[11]
Lufthansa Cargo Charter Agency GmbH, Frankfurt/Main	100	8	-[11]
Jettainer GmbH, Raunheim	100	-13	8
TGV DLH, Düsseldorf	100	37	131
Lufthansa Systems Airline Services GmbH, Kelsterbach	100	-29	5
Lufthansa Systems Business Solutions GmbH, Raunheim	100	-16	-4
Lufthansa Systems Passenger Services GmbH, Kelsterbach	100	-26	8
Lufthansa Systems Infratec GmbH, Kelsterbach	100	-218	14
Lufthansa Systems Americas, Inc., Miami, USA	100	1	-4
LSG Sky Chefs Supply Chain Solutions, Inc., Wilmington, USA	100	14	-54
Swiss Aviation Software AG, Basel, Switzerland	100	-[11]	7
TRAVIAUSTRIA Datenservice für Reise und Touristik Gesellschaft m.b.H. & Co. NFG. KG, Vienna, Austria	69	1	-[11]
Lufthansa SICAV-FIS-Fonds, Luxembourg, Luxembourg	100	38	1,912
Lufthansa Technik Objekt- und Verwaltungsgesellschaft mbH, Hamburg	100	-7	7
GOAL Verwaltungsgesellschaft mbH & Co. Projekt Nr. 7 oHG, Grünwald	100	8	-26
Lufthansa Malta Aircraft Leasing Ltd, St. Julian's, Malta	100	-145	-1,369
LeaseAir GmbH & Co. Verkehrsflugzeuge V KG, Dortmund	100	-6	-16
ÖLB Österreichische Luftverkehrs-Beteiligungs GmbH, Vienna, Austria	100	-[11]	-2
ÖLH Österreichische Luftverkehrs-Holding GmbH, Vienna, Austria	100[4]	1	-[11]
Lufthansa Leasing Austria GmbH & Co. OG Nr. 1, Salzburg, Austria	100	-7	10
Austrian Airlines Lease and Finance Company Ltd., Guernsey, United Kingdom	100	-107	44
LSG/Sky Chefs Europe Holdings Ltd., Horley, United Kingdom	100	29	1
LSG Asia GmbH, Neu-Isenburg	100	5	8
LSG Sky Chefs South Africa (Proprietary) Ltd., Johannesburg, South Africa	100	-[11]	3
LSG South America GmbH, Neu-Isenburg	100	5	37
LSG Sky Chefs Objekt- und Verwaltungsgesellschaft mbH, Neu-Isenburg	100	-4	5
LSG Sky Chefs UK Ltd., Feltham, United Kingdom	100	-10	-53
LSG Sky Chefs/GCC Ltd., Feltham, United Kingdom	50	1	1
LSG Sky Chefs Belgium N.V., Zaventem, Belgium	100	4	1

Significant equity investments (cont'd)	**Stake in %**	**Earnings after taxes in EUR m**	**Shareholders' equity in EUR m**
Name, registered office			
LSG Sky Chefs Schweiz AG, Rümlang, Switzerland	100	-9	2
LSG Sky Chefs Danmark A/S, Kastrup, Denmark	100	2	-3
LSG Sky Chefs Norge AS, Oslo, Norway	100	-[11]	3
LSG Sky Chefs Building AB, Stockholm, Sweden	100	-[11]	1
Inflight Catering (Pty) Ltd., Johannesburg, South Africa	100	-[5]	-[5]
LSG Sky Chefs S.p.A., Case Nuove di Somma Lombardo, Italy	100	4	-28
41/42 Bartlett (Pty) Ltd., Johannesburg, South Africa	100	-[5]	-[5]
LSG Sky Chefs (India) Private Ltd., Mumbai, India	100	-6	-6
LSG Sky Chefs Korea Co Ltd., Incheon, South Korea	80	15	50
Inflight Catering Services Limited, Dar es Salaam, Tanzania	62	2	3
In-flight Management Solutions GmbH, Neu-Isenburg	100	-4	-[11]
Aerococina S.A. de C.V., Mexico City, Mexico	51	-2	4
Starfood S.r.l., Fiumicino, Italy	51	-13	1
LSG Sky Chefs Lounge GmbH, Neu-Isenburg	100	-23	-[11]
LSG Sky Chefs Culinary Service GmbH, Neu-Isenburg	100	-1	-[11]
LSG Sky Chefs Rus, Moscow, Russia	100	-1	-2
AVIAPIT-SOCHI OOO, Sochi, Russia	100	1	3
ZAO AeroMEAL,Yemelyanovo, Russia	55	1	-1
CLS Catering Services Ltd., Richmond, Canada	70	-4	5
Fortaleza Serviços de Bordo Ltda., Fortaleza, Brazil	70	-[11]	1
Belém Serviços de Bordo Ltda., Belém, Brazil	70	-[11]	-[11]
Natal Catering Ltda., Natal, Brazil	70	-[11]	1
LSG Sky Chefs Gulf Solutions W.L.L., Manama, Bahrain	60	-[11]	-[11]
Oakfield Farms Solutions, L.L.C., Wilmington, USA	51	-2	3
LSG Sky Chefs Birmingham Ltd., Feltham, United Kingdom	100	-[11]	-[11]
LSG Sky Chefs Havacilik Hizmetleri A.S., Istanbul, Turkey	100	3	4
LSG Sky Chefs Istanbul Catering Hizmetleri A.S., Istanbul, Turkey	100[1]	-1	-1
UAB Airo Catering Services Lietuva, Wilna (Vilnius), Lithuania	100	-[11]	-1
LSG Sky Chefs Verwaltungsgesellschaft mbH, Neu-Isenburg	100	-233	486
SkylogistiX GmbH, Neu-Isenburg	75	7	-[11]
Sky Chefs, Inc., Wilmington, USA	100	209	-664
Western Aire Chef, Inc., Wilmington, USA	100	-[11]	-51
LSG Sky Chefs USA, Inc., Wilmington, USA	100	-12	-1,127
SCIS Air Security Corporation, Wilmington, USA	100	7	2
LSG Sky Chefs North America Solutions, Inc., Wilmington, USA	100	-[11]	-[11]
SC International Services, Inc., Wilmington, USA	100	-[11]	-71
Sky Chefs Argentine, Inc., Wilmington, USA	100	-2	6
LSG Sky Chefs Australasia Pty Limited, Sydney, Australia	100	-[11]	-[11]
Caterair Servicos de Bordo e Hotelaria S.A., Rio de Janeiro, Brazil	100	-[11]	-6
Cater Suprimento de Refeicoes, Ltda., Rio de Janeiro, Brazil	100	-[11]	-5
Sky Chefs Chile S.A., Santiago de Chile, Chile	100	1	5
Sky Chefs De Mexico, S.A. de C.V., Mexico City, Mexico	51	-1	-2
Comisariatos Gotre, S.A. de C.V., Torreon, Mexico	51	-[11]	-1
Arlington Services Mexico, S.A. de C.V., Mexico City, Mexico	100	-[11]	7
Sky Chefs de Panama, S.A., Panama City, Panama	100	2	-6

Significant equity investments (cont'd)	**Stake in %**	**Earnings after taxes in EUR m**	**Shareholders' equity in EUR m**
Name, registered office			
Inversiones Turisticas Aeropuerto Panama, S.A., Panama City, Panama	100	-[12]	-[12]
LSG Sky Chefs de Venezuela C.A., Caracas, Venezuela	100	-1	2
Caterair Taiwan In-Flight Services, Inc., Taipei, Taiwan	100	-[11]	-2
Arlington Services Panama S.A., Panama City, Panama	100	-[12]	-[12]
Comercializadora de Servicios Limitada, Santiago de Chile, Chile	100	-[12]	-[12]
Comisariato de Baja California, S.A. de C.V., Tijuana, Mexico	51	-[11]	-4
LSG Sky Chefs New Zealand Limited, Auckland, New Zealand	100	3	2
Arlington Services, Inc., Wilmington, USA	100	-46	36
LSG Lufthansa Service - Sky Chefs do Brasil Catering, Refeições Ltda., São Paulo, Brazil	100	-[11]	-16
ServCater Internacional Ltda., Guarulhos, Brazil	90	-2	-10
Bahia Catering Ltda., São Cristóvão (Salvador), Brazil	95	-[11]	1
Edelweiss Air AG, Kloten, Switzerland	100	5	21
Lufthansa Leasing Austria GmbH & Co. OG Nr. 2, Salzburg, Austria	100	-14	-12
Lufthansa Leasing Austria GmbH & Co. OG Nr. 3, Salzburg, Austria	100	-[11]	2
Lufthansa Leasing Austria GmbH & Co. OG Nr. 4, Salzburg, Austria	100	-1	4
Lufthansa Leasing Austria GmbH & Co. OG Nr. 5, Salzburg, Austria	100	-[11]	1
Lufthansa Leasing Austria GmbH & Co. OG Nr. 6, Salzburg, Austria	100	-[11]	3
Lufthansa Leasing Austria GmbH & Co. OG Nr. 7, Salzburg, Austria	100	-1	3
Lufthansa Leasing Austria GmbH & Co. OG Nr. 8, Salzburg, Austria	100	-1	5
Lufthansa Leasing Austria GmbH & Co. OG Nr. 9, Salzburg, Austria	100	-1	7
Lufthansa Leasing Austria GmbH & Co. OG Nr. 10, Salzburg, Austria	100	-2	11
Lufthansa Technik Budapest Repülögép Nagyjavító Kft., Budapest, Hungary	85	-23	2
Lufthansa Technik Malta Ltd., Luqa, Malta	92	-39	-14
Delvag Luftfahrtversicherungs-AG, Cologne	100	12[9]	36[10]
Aerologic GmbH, Leipzig	50	-5[7]	7[7]
Aircraft Maintenance and Engineering Corp., Beijing, China	40	3[7]	138[7]
Brahim's - LSG Sky Chefs Holdings Sdn Bhd, Bandar Baru Bangi, Malaysia	49	-[11]	-5[7]
CityLine Avro Simulator und Training GmbH Berlin, Berlin	50	1[7]	1[7]
Diners Club Spain S.A., Madrid, Spain	25	1[7]	10[7]
Global Logistics System Europe Company for Cargo Information Services GmbH, Frankfurt/Main	47	-[11]	5[7]
Günes Ekspres Havacilik Anonim Sirketi (SunExpress), Antalya, Turkey	10[6]	15[7]	25[7]
Lufthansa Bombardier Aviation Services GmbH, Schönefeld	51	2[7]	8[7]
N3 Engine Overhaul Services GmbH & Co. KG, Arnstadt	50	9[7]	22[7]
Shanghai Pudong International Airport Cargo Terminal Co. Ltd., Shanghai, China	29	36[7]	125[7]
Spairliners GmbH, Hamburg	50	-[11]	13[7]
BELAC LLC, Oldsmar, USA	21	7[7]	30[7]
CateringPor – Catering de Portugal, S.A., Lisbon, Portugal	49	1[7]	5[7]
Gansu HNA LSG Sky Chefs Co., Ltd., Lanzhou, China	49	-[11]	2[7]
HEICO Aerospace Holdings Corp., Hollywood, USA	20	30[7]	299[7]
Hongkong Beijing Air Catering Ltd., Hong Kong, China	45	-[11]	3[7]
Hongkong Shanghai Air Catering Ltd., Hong Kong, China	45	-[11]	8[7]
Inflight Service Production Sweden AB, Sigtuna, Sweden	25	-[11]	1[7]
Inflite Holdings (Cayman) Ltd., Grand Cayman, Cayman Islands	49	3[8]	11[8]
Inflite Holdings (St. Lucia) Ltd., Castries, St. Lucia	49	2[8]	6[8]

Significant equity investments (cont'd)	**Stake in %**	**Earnings after taxes in EUR m**	**Shareholders' equity in EUR m**
Name, registered office			
Jade Cargo International Company Limited, Shenzhen, China	25	1[7]	-75[7]
Nanjing Lukou International Airport LSG Catering Co Ltd., Nanjing, China	40	1[7]	4[7]
SN Airholding SA/NV, Brussels, Belgium	45	-[11]	129[7]
time:matters Holding GmbH, Düsseldorf	49	-3[7]	-[11]
Xian Eastern Air Catering Co. Ltd., Xian, China	30	1[7]	3[7]
Yunnan Eastern Air Catering Co. Ltd., Kunming, China	25	-[11]	8[7]
ZAO Aeromar, Moscow, Russia	49	7[7]	5[7]
Amadeus IT Holding, S.A., Madrid, Spain	8		
Jetblue Airways Corporation, City of Dover, County of Kent, USA	16		

[1] 33.34 per cent of the equity stake and 50.01 per cent of voting rights are attributed via a call option.

[2] 50.91 per cent of voting rights is attributed via a call option.

[3] 11.50 per cent of the equity stake and 65 per cent of voting rights are attributed via a call option.

[4] 50.20 per cent of the equity stake and voting rights are held via a foundation.

[5] no figures available.

[6] an additional 40 per cent is held via TGV DLH.

[7] local law 2009.

[8] local law 30 September 2010.

[9] before profit/loss transfer HGB 2010.

[10] equity HGB 2010.

[11] less than EUR 1m.

[12] previously consolidated.

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