Lufthansa

Annual Report 2007

Upgrade to Industry Leadership

22.4bn
EUR revenue

1.4bn
EUR operating result

1.5bn
EUR cash value added

Sustainability in figures

200,000
tonnes reduction in CO_2 emissions through optimised air traffic processes

7,434
customer profile index on record level

300
EUR m investment in vocational and professional training

146
different nations within the Group

31
worldwide supported projects by the employee initiative “Help Alliance e.V.”

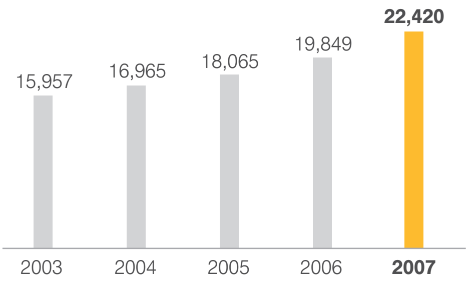
Lufthansa Group overview

Key data*		2007	2006	Change in %
Revenue and result				
Revenue	€m	22,420	19,849	13.0
- of which traffic revenue	€m	17,568	15,354	14.4
Operating result	€m	1,378	845	63.1
EBIT	€m	1,807	1,299	39.1
EBITDA	€m	3,023	2,393	26.3
Net profit for the period	€m	1,655	803	106.1
Key balance sheet and cash flow statement figures				
Total assets	€m	22,320	19,461	14.7
Equity ratio	%	30.9	25.2	5.7 pts.
Net liquidity	€m	768	101	660.4
Cash flow from operating activities	€m	2,862	2,105	36.0
Capital expenditure	€m	1,378	1,929	– 28.6
Key profitability and value creation figures				
Adjusted operating margin**	%	6.9	4.9	2.0 pts.
EBITDA margin	%	13.5	12.1	1.3 pts.
CVA	€m	1,546	552	180.0
CFROI	%	17.2	10.9	6.6 pts.
The Lufthansa share				
Share price at year end	€	18.22	20.85	– 12.6
Earnings per share	€	3.61	1.75	106.3
Suggested dividend per share	€	1.25	0.70	78.6
Traffic figures				
Passengers	thousands	62,894	53,432	17.7
Freight/mail	thousand tonnes	1,911	1,759	8.6
Passenger load factor	%	77.4	75.2	2.2 pts.
Cargo load factor	%	73.2	72.1	1.1 pts.
Number of flights		749,431	664,382	12.8
Employees				
Average number of employees	number	100,779	93,541	7.7

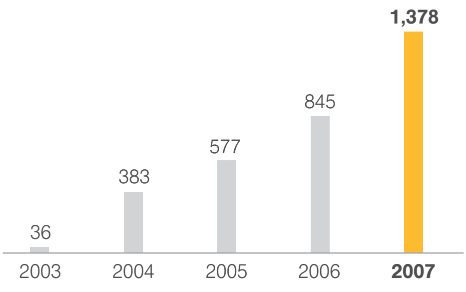
* This Annual Report covering the period from 1 January to 31 December 2007 was drawn up in accordance with International Financial Reporting Standards (IFRS) taking into account the standards applicable since 1 January 2007. Last year's key data has been adjusted. This may lead to deviations from the results published a year ago.

** Ratio for comparability with other airlines: (operating result + reversals of provisions)/revenue.
Date of disclosure: 12 March 2008

Revenue in €m



Operating result in €m



Lufthansa business segments overview

Passenger Transportation		2007	Change in %
Revenue	€m	15,956	18.4
- of which external revenue	€m	15,367	18.9
Operating result	€m	826	102.0
Adjusted operating margin	%	6.0	2.3 pts.
Segment result	€m	1,146	69.0
EBITDA*	€m	2,047	37.8
CVA	€m	768	142.3
Segment capital expenditure	€m	1,228	18.6
Employees as of 31.12	number	47,230	23.0

* Before profit transfer from other business segments.

Passenger Transportation Our airlines are amongst the best in the world. Lufthansa and SWISS are premium carriers with global services. Both are growing and increasing their profitability. The passenger fleet is being sustainably modernised. The airlines are well represented in the world's growth markets with new partners.

Logistics		2007	Change in %
Revenue	€m	2,736	– 3.8
- of which external revenue	€m	2,718	– 4.0
Operating result	€m	136	65.9
Adjusted operating margin	%	5.7	2.1 pts.
Segment result	€m	170	19.7
EBITDA	€m	299	8.3
CVA	€m	59	59.5
Segment capital expenditure	€m	18	38.5
Employees as of 31.12	number	4,607	0.2

Logistics Lufthansa Cargo is well positioned. Despite tough competition it exceeded the targeted result. Load factor and freight volume have gone up considerably. In China, Lufthansa Cargo has assumed a pioneer role. A new freight airline was set up in Leipzig with DHL Express.

MRO		2007	Change in %
Revenue	€m	3,571	4.6
- of which external revenue	€m	2,185	6.7
Operating result	€m	293	18.1
Adjusted operating margin	%	8.7	0.9 pts.
Segment result	€m	319	14.3
EBITDA	€m	406	15.3
CVA	€m	205	141.2
Segment capital expenditure	€m	194	74.8
Employees as of 31.12	number	18,892	2.5

MRO Lufthansa Technik remains the global market leader and a guarantor of reliability, growing faster than the market in 2007. High quality, innovations and tailored services enabled significant new customer wins. State-of-the-art new maintenance facilities are being built in Europe and Asia.

IT Services		2007	Change in %
Revenue	€m	679	4.1
- of which external revenue	€m	281	3.7
Operating result	€m	23	– 53.1
Adjusted operating margin	%	3.7	– 4.4 pts.
Segment result	€m	– 20	–
EBITDA	€m	39	– 56.7
CVA	€m	– 16	–
Segment capital expenditure	€m	54	10.2
Employees as of 31.12	number	3,102	– 6.6

IT Services Lufthansa Systems has reinforced its position as a leading IT services provider in the aviation industry with its platform strategy and outstanding technological products. The Group also added to its well-known clients from outside the aviation sector.

Catering		2007	Change in %
Revenue	€m	2,396	5.2
- of which external revenue	€m	1,869	5.2
Operating result	€m	100	100.0
Adjusted operating margin	%	4.2	1.5 pts.
Segment result	€m	116	58.9
EBITDA	€m	167	– 0.6
CVA	€m	21	–
Segment capital expenditure	€m	153	115.5
Employees as of 31.12	number	30,101	5.4

Catering LSG Sky Chefs is growing and creating value again. The result went up substantially and the Group holds a leading position in the sector worldwide, with a market share of 30 per cent. The airlines' tendency to outsource in-flight management continues, offering LSG Sky Chefs ever-greater opportunities.

Highlights Group

3.61

EUR earnings per share

We achieved a record result of EUR 3.61 per share.

8.34

Market capitalisation in EUR bn

With a market capitalisation of EUR 8.34bn we are the highest-valued European airline.

6.9

Dividend yield in per cent

The dividend proposal leads to a dividend yield of 6.9 per cent, measured on year-end share price.

1.38

Capital expenditure in EUR bn

In 2007 we appointed EUR 1.38bn to forward-looking investments.

30.8

Return on equity in per cent

Our return on equity increased to 30.8 per cent.

We are writing the next chapter in our success story. Our aim is to deliver first-class performance in all business segments. For us this means improving customer benefit and quality, as well as optimising processes and a further increase in profitability. We want to establish ourselves sustainably on top of the industry – "Upgrade to Industry Leadership".

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Ladies and Gentlemen,

We are delighted to present a record result. Despite the impact of extremely high oil prices and turbulence in the financial markets we have increased our operating profit by 63 per cent to some EUR 1.4bn. Our net profit doubled to almost EUR 1.7bn. This means that we comfortably exceeded the goals we set for 2007. Lufthansa is a step ahead, the customers appreciate our work and the number of passengers reached new heights at 63 million for the whole Group.

In line with this result, the Supervisory Board and Executive Board are recommending a record dividend of EUR 1.25 for you. We are pleased to do so, not least because the result for the 2007 financial year shows clearly that the path we have taken is sustainable and that our strategy of focusing on our core competencies is bearing fruit.

Passenger Airlines still have updraft. All airlines in the Lufthansa Group have made great progress. SWISS though, is a particular success story. The company has had the best year in its corporate history as part of the Passenger Transportation segment. The successful restructuring and the decision to choose this form of integration within the Lufthansa Group made a major contribution to this.

We want to pursue the airlines' course of profitable growth. This is the background to our investment in expanding and modernising the fleet, which constitutes the most extensive fleet replacement programme in Lufthansa's history. It strengthens the Group and helps the environment.

Observing the growth in air traffic, we recruited an additional 3,000 members of staff in 2007. We have established trainee courses and invested heavily in professional training. Lufthansa generates enormous interest in the labour market, and with almost 100,000 applicants, we are able to set very demanding standards.

For the benefit of our customers, we have enhanced our products and opened up routes to new destinations. The Lufthansa network is getting larger and denser. Our latest equity investment in JetBlue, where we acquired 19 per cent of the shares, represents an additional string to our bow in the USA, which is a particularly important market for us. New cooperation partners and Star Alliance members such as Air China and Shanghai Airlines make us even more attractive in growth markets.

Stephan Gemkow
Member of the Executive Board, Chief Financial Officer, born 1960, Degree in Business Administration, Board Member since 2006, appointed until 31 May 2009, with Lufthansa since 1990.

Wolfgang Mayrhuber
Chairman of the Executive Board and Chief Executive Officer, born 1947, engineer, Board Member since 2001, Chairman since 2003, appointed until 31 December 2010, with Lufthansa since 1970.

Stefan Lauer
Member of the Executive Board, Chief Officer Aviation Services and Human Resources, born 1955, lawyer, Board Member since 2000, appointed until 30 April 2010, with Lufthansa since 1990.

All the Group's business segments performed well in 2007, and contributed to our excellent overall result. All concentrated on their core competencies and continued to develop trendsetting products.

Lufthansa Cargo is well positioned and is defending its position in a tough market better than the competition. It is represented globally and locally by means of partnerships and joint ventures – in Asia with Jade Cargo, in Frankfurt with Fraport and soon in Leipzig with AeroLogic, a new joint airfreight company of Lufthansa Cargo and DHL Express. Lufthansa Cargo is on the right track.

Lufthansa Technik is global market leader and has reinforced its position in all growth areas – with new customers, new products and new production facilities, such as the flagship project for investments in Germany, N3 Engine Overhaul Services in Thuringia.

Despite higher revenue, Lufthansa Systems was not able to match its previous year's result. Suspending the FACE (Future Core Airline Environment) project on the basis of its financial forecasts made economic sense, but had a negative impact on the result for the IT Services segment. We are, nevertheless, confident that Lufthansa Systems will remain a leading IT services provider for the airline industry and will be able to consolidate and build on its strong position in the market as it continues to innovate and demand for products from its broad, cross-segment portfolio remains strong.

The gratifying performance of the airline industry as a whole also had a favourable impact on business at our "catering company". The world market leader LSG Sky Chefs improved its operating result considerably. The hard years of restructuring, the courage to adjust and the focus on growth regions are paying off. LSG is back on sound economic foundations, is profitable and growing.

We successfully disposed of the Leisure Travel segment at the beginning of the year. Bundling our resources and the need for major investment in a segment which was only peripheral to our main businesses were drivers for this decision.

Altogether, we are extremely satisfied with the figures and position of the Company; we feel there is even greater potential and we have ideas for taking the Group further. Lufthansa's Executive Board, management and staff intend to keep the crane, our corporate symbol, flying high. Despite the good results we do not want to sit back and get flabby, but need to remain healthy and attractive for the years ahead. This is the reason behind the launch of the Group-wide "Upgrade to Industry Leadership" initiative. It is also about improving profitability and return on capital. There is a lot we can still do better, and we are working on doing so. We want to become more agile, faster and more responsive. Our aim is to keep fostering entrepreneurial thinking and acting, and we intend testing new ideas and preserving proven ones.

One topic which has received, and will continue to receive, a great deal of our attention is the environment. This has a long tradition at Lufthansa. Fuel-efficient aircraft and flight operations have always been our strong suit. Both are a must in today's competitive arena, and we will continue to set standards. Our endeavours to preserve the environment are reflected, among other things, in our listing in the Dow Jones Sustainability Index. Lufthansa is one of only four airlines worldwide to be included in this index, and this year, once again, with better figures.

Unfortunately, the performance of the Lufthansa share has not kept pace with that of the Company. After making excellent progress the previous year, last year mostly consisted of a sideways progression. Aviation shares were generally out of favour with investors, but the Lufthansa share is still "best in class" compared to those of our major competitors.

We intend to remain at the "top of the class" and continue to earn good marks for foresightedness, performance and quality. We believe that the prospects for the aviation industry are excellent. The economic environment remains good, despite the turmoil in the financial markets. There has been no significant change in the fundamental data and the need for mobility, so we remain optimistic – also with respect to the Lufthansa share.

To summarize:

- Lufthansa is well positioned, is continuing to grow and at a profit.
- Lufthansa is investing in sustainable projects, thereby focusing on a mobile fleet; at the same time, our financial base is solid.
- Lufthansa enjoys exceptionally high customer loyalty, gets best marks for customer satisfaction – with a brand that is stronger than ever.
- A powerful team, skilled staff and prudent management ensure competitive success.

Our intension is to keep earning your trust, that of our shareholders and of our customers, in the future. Challenges and turbulences do not daunt us. We are well prepared and flexible. Shareholders, customers and staff will all benefit equally from our growth path, which is clearly focused on sustainability. We have started this year well and again have many plans for the new year. Please accompany us as we move forward. Stay with us!

Wolfgang Mayrhuber
Chairman of the Executive Board and CEO of Deutsche Lufthansa AG

Annual review

→ Q1/2007

- By building a new training and conference centre, Lufthansa is investing in the future of its staff and creating a new location to promote communication and cultural exchange. The opening is planned for the first quarter of 2009.

- Once again, Lufthansa has won an award for best fuel management in the aviation industry from the Armbrust Aviation Group. In seven of the eight individual categories the participating fuel suppliers voted Lufthansa as number one.

- LSG Sky Chefs signs a joint venture agreement with China National Aviation (Group) Ltd., to establish a production facility in Qingdao.

- The EU competition authorities approve the sale of Lufthansa's 50 per cent stake in the leisure travel company Thomas Cook to KarstadtQuelle (now Arcandor), making the transaction legally effective.

→ Q2/2007

- The Supervisory Board approves the order of 45 short-haul aircraft. From the end of 2008, Lufthansa will take delivery of 30 regional aircraft from the Embraer 190 family and 15 regional aircraft from the Bombardier CRJ900 family, to modernise and expand its regional fleet.

- Lufthansa's responsible approach to the environment, its staff and society is confirmed by its renewed inclusion in the FTSE4Good Index.

- The EU and the USA agree on the first phase of an Open Aviation Area. From the 2008 summer timetable onwards, American and European airlines can serve any routes between the two economic areas and fly on to destinations in other countries.

- The rating agency Moody's raises the outlook for Lufthansa's Baa3 credit rating from stable to positive. This upgrade recognises the Company's good performance and the concomitant improvement in its financial profile.

→ Q3/2007

- After having secured the necessary air traffic rights, Lufthansa acquires all shares in SWISS.
- N3 Engine Overhaul Services, a joint venture between Lufthansa Technik and Rolls-Royce for the repair and overhaul of aircraft engines, opened its newly built factory in Arnstadt, Thuringia.
- As part of the modernisation and expansion of the fleet, the Supervisory Board approves the order of 41 aircraft from the Airbus A320 family and Airbus A330.
- Lufthansa and Deutsche Post World Net set up the joint airfreight company AeroLogic via their subsidiaries Lufthansa Cargo and DHL Express.

→ Q4/2007

- LSG Sky Chefs and Kühne + Nagel establish a strategic partnership. “SkylogistiX” enables rapid transport and logistics solutions in many countries around the globe.
- Lufthansa Consulting sells its 49 per cent stake in the consulting firm Simat, Helliesen & Eichner (SH&E) to the US company ICF International, Inc.
- By welcoming Air China and Shanghai Airlines as new members, Star Alliance develops its leading position in China, a key market of the future. The decision is also made to include Air India in the largest global aviation alliance.
- Lufthansa signs an agreement to acquire 19 per cent of the shares in the US JetBlue Airways Corporation. Lufthansa and JetBlue will subsequently seek an operational cooperation.

SWISS on course for success

Key data SWISS

		2007	2006	Change in %
Revenue	CHF m	4,895	4,153	17.9
EBIT	CHF m	571	231	247.2
Aircraft	number	75	70	7.1
Destinations	number	71	69	2.9
Passengers carried	millions	12.2	10.5	16.2
Seat load factor	%	80.2	79.8	0.4 pts.
Employees	number	7,160	6,441	11.2

SWISS's integration – a success story The accomplishment of Swiss International Air Lines' full integration into the Lufthansa Group was a key milestone in 2007. Switzerland's national airline has been a fully consolidated member of the airline group since 1 July. SWISS has now reached cruising altitude and can look back on the most successful year in its corporate history. A large part of this achievement is due to its well-managed integration into the Lufthansa Group. Sustainable synergies rose to EUR 233m in 2007, considerably above their original projections. The synergies are shared almost evenly by the two companies, a sure sign of a successful partnership for both sides. The partners' close collaboration on their distribution and flight operations, their harmonisation of their schedules and the assimilation of the SWISS frequent flyer programme into Miles & More are key components in this success story.

The prime focus of the collaboration is on creating added value for the customers of both airlines. Passengers' options have been tangibly broadened thanks to the partners' coordinated schedules and the excellent connections they provide all over the world. The short transit times at SWISS's Zurich hub are an added advantage, while services to and from Basle and Geneva airports complete the SWISS product. SWISS's extensive timetable provides attractive connections to the world's most important regions, with a network that currently extends to 71 destinations in 42 countries.

SWISS is growing Lufthansa is providing SWISS with additional thrust for its development strategy. As a result, SWISS will be able to invest more than CHF 1bn in renewing and expanding its intercontinental aircraft fleet over the next few years.

Thanks to the favourable progress made by SWISS in 2007, the original plan of adding two long-haul aircraft to the company's fleet was expanded to four Airbus A340s. The company also enlarged its regional and medium-haul fleet with the addition of two further Airbus A320s.

Once nine Airbus A330-200s have been replaced by larger and more advanced A330-300s – the rollover is set to be completed in 2011 – SWISS passengers will be able to choose between First, Business and Economy Class on all long-haul flights. In offering this three-class configuration to all its long-haul destinations, SWISS is clearly positioning itself as a premium airline. The modern aircraft will also feature a completely new cabin interior. The fleet renewal will deliver environmental benefits, too. While the SWISS fleet's fuel consumption is already low at 3.8 litres per 100 passenger kilometres, compared with the European average, the new aircraft will reduce emissions by a further 13 per cent.

Outstanding service starts on the ground The new Airport Ticket Office at SWISS's Zurich hub is even more customer-friendly than before. The new lounges in Geneva, Zurich, New York and Chicago, which have been systematically redesigned in line with the "First/VIP/HON", "Senator" and "Business" concept, offer more space and a greater selection of products, and all feature the SWISS design. The lounges are a sound guarantee that any time waiting for a flight will be spent pleasantly.

Eight new destinations SWISS's Basle-based network was substantially enlarged with the addition of services to Budapest, Prague, Manchester, Warsaw, Barcelona and Nice in January 2007. A new daily Geneva-Valencia service was also introduced in March. And SWISS added a further long-haul route –

for the first time in its history – in the course of the year: a new service between Zurich and Delhi was inaugurated in November. Delhi had been part of the SWISS network until 2003, but the route's services were suspended as part of the company's restructuring.

First place for customer satisfaction Once again, SWISS confirmed its place among the best carriers in the world in the course of the year. The company was chosen "Europe's Leading Airline" – for the second year in a row – at the World Travel Awards; and SWISS won first place in the Cabin Crew, Ground Services, Cabin Comfort and "Inflight Food & Drink" categories and the overall "Best Airline for Europe" distinction at the annual Business Traveller Awards. In the "Airline of the year 2007" competition, readers of Capital magazine voted SWISS into first place in the classic scheduled-flight segment for European routes.

New jobs, especially for flying personnel Thanks to its encouraging growth, which has also been reflected in demand-driven investment in its aircraft fleet, SWISS was able to recruit new staff in 2007, especially for its flying personnel. The new jobs created during the year enlarged the company workforce by some 11 per cent, and SWISS employed a total of 7,160 personnel at year end.

Swiss WorldCargo successful with its niche strategy Swiss WorldCargo has successfully positioned itself in the high-value niche segment, supported by the strength and importance of Switzerland's export economy. SWISS's cargo business unit has made a major contribution to the progress the company has achieved. In volume terms, some 4 per cent of Swiss exports are transported by air, but the same freight accounts for around 30 per cent of all Swiss exports in value terms.

Continuous process improvement with Kaizen SWISS works constantly to improve its processes, in order to remain competitive and guarantee its customers the best possible air travel experience. One key component in these endeavours is the consistent application of Kaizen, the Japanese philosophy which promotes improvement through many small steps.

Sustainable growth path to continue in 2008 SWISS continues to grow and expands its network. A second new long-haul route, to Shanghai, will be added in May 2008. And Florence, St. Petersburg and Sofia will receive direct service from Zurich from the summer timetable period. But SWISS, too, is facing mounting competitive pressure from the no-frills carriers. As well as striving to further reduce its unit costs, the company is responding to the challenge by remaining true to its classic Swiss values, such as hospitality, individual customer service and quality in every detail. In the future, too, SWISS intends to grow, taking into account demand and risks. SWISS has entered into a strategic partnership with Kuoni as part of which SWISS will take over leisure carrier Edelweiss Air and its four aircraft. Subject to the approval of the relevant authorities, Edelweiss Air should be integrated into the SWISS group at the end of October 2008.

The "Airline for All Fans" SWISS's "Hoop Schwiiz" – an Airbus A320 decorated with fan photos sent in as part of a competition – will be bringing football enthusiasts from all over Europe to Switzerland for EURO 2008. Another highlight is provided by the trams which have been circulating in Zurich, Basle and Geneva since January 2008. The streetcars feature SWISS employees "flying the flag" for their country and their company in a highly endearing way. The European football championships can begin!

16m sheets on 10.4"

The two computer screens on the right and left of the cockpit, as seen here in the Airbus A340-600 simulator, are only 10.4 inches in size. The “Electronic Flight Bag” developed by Lufthansa Systems replaces the paper maps which currently have to be brought on board all Lufthansa jets in eight files every week. Over the year and the whole Group that makes 16 million sheets of paper. The system supplies all the relevant information – from the necessary maps for navigation through to the latest weather data, including automatic updates. It’s a contribution to higher flight safety, more environmental protection and lower costs.

10,000 m²
of thrust

Modern jet engines are technical masterpieces. The largest can generate up to 27 tonnes of thrust, and they must be as reliable as clockwork, because over their thirty-year lifetime they will spend some 144,000 hours in the air. Precision and accuracy are therefore vital in every overhaul. The new 10,000 square metres MRO hangar in Hamburg provides perfect working conditions. By adopting the principles of lean production, Lufthansa Technik can not only improve quality, but also increase annual maintenance capacity from currently 350 to 450 engines in this facility alone.


1ST HOLE
BELOW ENG
CL
USE
GRADE 8
BOLTS
ONLY
LEFT SIDE
THIS SIDE
AFT

EUR 60m more hub

Frankfurt Airport is Lufthansa's most important hub and is currently working at the limits of its capacity. It will not be extended until 2011, at the earliest. Nevertheless, Lufthansa wants to achieve durable gains in the hub's quality and performance today. Many areas of the Group have joined forces to reach this goal. A variety of activities have been applied to improve punctuality – plus 6.1 percentage points so far, increase quality – already by 3 percentage points since implementation, optimise flight frequencies – 16 new direct connections in 2008, and improve the result – by EUR 60m every year.


RBS

EUR 10bn of best practice

Every year, Lufthansa purchases goods and services for EUR 10bn. The “Upgrade to Industry Leadership” initiative is now pursuing an analysis of these processes across the Group. The aim is “Procurement Leadership”, that means improving routines and cutting costs. Initial estimates point to the potential for saving a three-digit million-euro amount. The activities involve all areas, from the purchase of agency services to the procurement of aircraft tyres. With this programme Lufthansa intends to set a benchmark for modern purchasing.


ZRH
RUSH
HANDLE WITH CARE
CAUTION
FRAGILE
NATIONAL
AIR CARGO
www.nationalaircargo.com
FRA
MUC

Upgrade to Industry Leadership

16m sheets on 10.4"

The 34-year-old engineer Jens Ritter knows what he's talking about. The manager of the "Electronic Flight Bag" (EFB) project not only graduated in Aeronautical Engineering but is also a Lufthansa pilot. Linking work in the office and in the cockpit is a proven model in the Group, especially in areas where flying and management skills overlap. For First Officer Ritter the Electronic Flight Bag is a revolution in the cockpit. "We relieve pilots of all paperwork. Soon they will be able to have all the information they need at their fingertips on an additional monitor in the side window – the necessary navigation maps and current weather data, as well as automatic updates and data synchronisation. The Electronic Flight Bag helps the crew and represents a further increase in flight safety."

" The Electronic Flight Bag helps the crew and represents a further increase in flight safety. " **Jens Ritter**

The project is not just about normal technological fine-tuning, which becomes clear when Jens Ritter describes how the processes take place behind the scenes today. Legal regulations require that all the maps on an aircraft must be replaced every seven days. So every week, eight folders with new paper maps are delivered to each of the 513 aircraft in the Group, packed in a big black case known as the "Nav-Kit".

Once the Electronic Flight Bag with its two 10.4 inch screens has been introduced it will replace this paper altogether. It means that a considerable quantity of raw material can be saved every year:

- 16 million sheets of paper
- 476,000 litres of water
- 11 tonnes of timber
- 1,100 tonnes of kerosene
- 12,000 litres of diesel

In total, this represents annual savings of EUR 4m, shorter processes and another significant contribution to protecting the environment.

In order to achieve these goals as quickly as possible, experts from three Lufthansa Group companies are working closely together: Lufthansa Passenger Airlines, Lufthansa Systems and Lufthansa Technik. Lufthansa pilots currently use laptops to calculate current figures, but they cannot yet link up with the on-board electronics and the laptops still have to be switched off during take-off and landing, just like for the passengers.

In the cockpit of "Hotel Lima", however, one of the Airbus A340-600s in the Lufthansa fleet, the new EFB system is already undergoing practical testing and ongoing optimisation based on the feedback from the pilots.

From May 2008, the Electronic Flight Bag will be installed successively in all of the Group's aircraft – another step towards the future of aviation.

10,000 m² of thrust

Modern aircraft engines represent superlative technology: the turbine of a four-engine wide-bodied jet generates up to 27 tonnes of thrust, and they must be as reliable as clockwork, because over its thirty-year lifetime it will spend some 144,000 hours in the air and complete around 18,000 take-offs and landings.

Delivering this performance requires optimal maintenance. That is why the engine technicians and their maintenance processes are at the centre of the planning process for the new MRO hangar in Hamburg. The new workplaces and procedures in the 10,000 square metres hangar were simulated down to the smallest detail in a total of 70 workshops.

Project manager Hendrik Müller explains, "Our aim is to introduce engine maintenance based on the principles of lean production." At Lufthansa Technik lean production stands for redesigning processes in the spirit of a flow production. A real innovation for engine maintenance is a suspension system on which the engines move alongside the workstations. All the supplies needed are provided there, so that the technicians can focus more on value creation. As the engine can be adjusted to the ideal height at every station, the workpieces are more easily accessible. This facilitates working and speeds up the processes at the same time. These production changes are being flanked by new flexible working hours which allow jobs to be planned in line with demand.

The major challenge in engine overhaul is to unite the advantages of industrial production with the individual customer requirements regarding maintenance volume and technology. Hendrik Müller calls it "industrialising the manufacture".

Lean production at Lufthansa Technik also stands for continual improvement. The technicians in Hamburg, therefore, attach great importance to transparency and dialogue between colleagues, which is facilitated

"The new hangar means we can reduce through-times substantially and improve reliability of delivery by 25 percentage points." **Hendrik Müller**

by specially commissioned communication areas and machine shops. They are there so that in the future, processes can be jointly and continually refined.

The construction of the new engine hangar in Hamburg will accelerate processes, reduce costs and improve delivery reliability substantially – which will all consolidate the company's lead over international competition. Müller calculates: "The new hangar means we can reduce through-times considerably and improve reliability of delivery by 25 percentage points. We also cut costs significantly, which is important for us, because competition is getting tougher all the time."

With the new hangar, Lufthansa Technik will increase maintenance capacity in Hamburg in its highest-revenue division from 350 to 450 engines per year. In December 2008 a new era begins.

EUR 60m more hub

It's a bit like squaring the circle: Lufthansa wants to make sustainable increases in profitability, quality and performance at its most important hub in Frankfurt, although the airport has long been operating at the limits of its capacity and there is no relief in sight until 2011.

"That's the way things are, so we will have to find other ways of improving punctuality and stability, expanding the network and ensuring the basis for future growth," says Jörg Hennemann, who is responsible for hub development and capacity management in Frankfurt. Together with the team headed by project manager Falko Bode he developed "New Balance". Every step – from the time an aircraft lands until it takes off again – was examined in this project with the aim of finding opportunities to improve processes and their planning.

"We want to improve punctuality by 5 percentage points in total, and substantially increase the financial result with an annual contribution of EUR 60m."
Falko Bode

The methods range from adjusting planning parameters and optimising flight frequencies to reviewing basic assumptions on customer behaviour. And all departments are working together on the project very closely.

Some of the results from New Balance have already been implemented. One key change was to coordinate the departure times of intercontinental flights in the 2008 summer flight timetable, which, in the future, will provide relief for the station during "push-back". This in turn stabilises ground operations and reduces the likelihood of delays. The outcome is improved punctuality and performance.

"We simply can't allow ourselves to upset or lose customers because of delays, missed connections and forgotten baggage," Hennemann insists.

The cooperation between all departments is already bearing fruit. In recent months quality has gone up appreciably at the Frankfurt hub. Punctuality has risen by 6.1 percentage points despite the rebuilding work being done in preparation for the arrival of the Airbus A380. Furthermore, the reliability of connection flights was increased and the "left behind index" further reduced. Customers expressed their appreciation for these changes in a recent survey in which the perceived quality of connections in Frankfurt went up by 3 percentage points.

"At the same time, this gives us the opportunity of expanding our capacity despite the airport already operating at its limit," adds Bode. "Thanks to New Balance we are able to offer 16 new direct flights in summer 2008, compared to the previous year. That's an increase of nearly 10 per cent. They include destinations such as Orlando, Karachi/Lahore and Seattle. Overall that represents average capacity of some 15 million passenger kilometres a day in intercontinental traffic. This project makes it possible to reach these new intercontinental destinations without a single additional aircraft. So by increasing the productivity of the fleet by 5 per cent we were also able to offer our customers new destinations and improve the quality of connections."

Bode and his team still have a lot of work planned. "We want to improve punctuality sustainably by a total of 5 percentage points and substantially increase the financial result with an annual contribution of EUR 60m."

EUR 10bn of best practice

Procurement across the Group is the focus of the first project of the "Upgrade to Industry Leadership" initiative involving all business segments. Today, goods and services are purchased for more than EUR 10bn annually across the Group. That is reason enough for us to examine very closely where Lufthansa can improve processes and cut costs.

The aim is to increase transparency for all parties involved, combine negotiating leverage and optimise purchasing efficiency while retaining the decentralised Group structure.

The target is "Procurement Leadership". By continued development of our procurement activities we intend to set a benchmark for modern purchasing – in terms of both financial gains and quality. This realignment will enable us to make a sustainable and financially measurable contribution to the success of the business. Initial estimates point to the potential for saving a three-digit million amount at Lufthansa.

In December 2007, the first workshops took place with all the purchasing heads of the Group. By April they and a team of experts will have carried out a comprehensive analysis of the status quo as part of a preliminary study. Monika Wiederhold from the "Upgrade to Industry Leadership" team is leading the project. "We expect the ongoing reviews to reveal clear potential for improvement in all areas. For example, Group-wide data transparency allowed us to increase our purchasing power for certain categories of branded goods. In principle, this is possible for many categories, from agency services to aircraft tyres, and initial experiences have been positive. But new technical opportunities also create additional potential for support and saving money. For some years now we have achieved good results with web-based tendering and auction platform, for example. But technology doesn't stand still and here, too, we need to realise more of our potential."

"We want to learn from the best and advance ideas. And by doing so, we can set new standards in purchasing, not just for Lufthansa." **Monika Wiederhold**

The assessments are being carried out in all business segments as part of a Supply Health Check – a concept borrowed from the world of medicine. Assessments are based on benchmark studies and on examples of best practice. Today, automotive manufacturers and telecommunications companies are considered to be the best at purchasing. They demonstrate excellent performance in driving success for a modern purchasing organisation, for example, by having a clear procurement strategy, a lean organisation and a transparent and systematic procurement management. This benefits the Group as well as the suppliers.

Some of the measures adopted by Lufthansa, such as optimising supplier management or providing staff with specific training, will require capital expenditure. This will subsequently lead to greater transparency, better negotiating positions and visible cost savings. That makes the project an example of how "Upgrade to Industry Leadership" can realise potential for which there would be no funds available in a normal cost-saving programme.

Monika Wiederhold explains: "We want to learn from the best and advance ideas. And by doing so, we can set new standards in purchasing, not just for Lufthansa. All the purchasing units in the Group are working on "Procurement Leadership" together and are thereby making a considerable contribution to achieving sustainable, leading profitability."

105,261 market leaders

"We at Lufthansa know that the improvements we make, and can turn into financial benefits, are for the good of the Company and, therefore, for the staff, shareholders and customers. That is what spurs us on to make Lufthansa even more powerful."
Wolfgang Mayrhuber

The projects presented here give an insight into the variety of the measures covered by our "Upgrade to Industry Leadership" initiative. Across the whole Lufthansa Group a multitude of projects, small and large, are underway towards the pole position in European aviation.

Our "Upgrade" covers the view of our customers, of production, entrepreneurship and industry. Stefan Lauer, Chief Officer Aviation Services and Human Resources, enumerates the ensuing areas for action. "The various driving measures include simplifying processes and intensifying the use of shared services. We are aligning our offerings even more closely with the benefits for the customer and developing profitable new markets and segments. We keep on innovating, which involves taking a look outside our sector to other industries, providing new stimuli and scope for improvement. The initiative is propelled by the ideas and ingenuity of our staff." This new approach motivates: More than 400 projects and ideas have been identified so far in all segments.

In many areas we already deliver top performance – but we want more. Our aim is not only to achieve industry leadership in quality and customer benefit but also to win first place among European network carriers for profitability. To get there we will continue to reduce costs, but also to improve our offer by targeted investments. Our strategy for growth is directed at profitability – to the advantage of our shareholders, customers and staff.

"In contrast to earlier, pure cost-cutting programmes there is no fixed timescale for 'Upgrade to Industry Leadership', and no set of absolute targets," explains CFO Stephan Gemkow. "Our ambition from day one has been to achieve sustainable improvements in results, which must be reviewed against the competition on a continuing basis. We want to make our progress visible and measurable by using the operating margin, which we adjust to provide a better comparison with our peers. Just the different methods of depreciation and amortisation applied by our competitors are the only factor we cannot express in a single Lufthansa indicator."

The ambitious scope of the new Group initiative requires the support of experts for the 105,261 members of staff – the team behind the team. It guides, coordinates and monitors the implementation of the initiative and reports directly to the Group Executive Board. Ulrike Schlosser, head of "Upgrade to Industry Leadership", attaches great importance to the joint result. "We develop the guidelines, discuss the standards and the necessary steps with the units within the Group, and are responsible for monitoring progress. Obviously every Upgrade project must increase the profitability of the Lufthansa Group. But we also see ourselves as consultants for the business segments, helping them to realise the greatest possible potential from their initiatives. For Group-wide projects we are also directly responsible for management and control." The team is made up of experts from a wide range of different disciplines within the Group. Upgrade offices have also been set up in all business segments to coordinate the specific projects taking place in the relevant areas.

200 pages of environmental protection

Lufthansa's financial success is closely connected to its careful treatment of natural resources. It is crucial for us to maintain a balance between economy and ecology, which is beneficial to everyone. The projects presented here are not the only evidence of this. Environmental conservation has a long tradition at Lufthansa and has been a key corporate goal for many years.

Through constant improvements in technology and processes, Lufthansa will continue to achieve not only economic benefits, but also effective and sustainable successes in ecological matters.

The proportion of global greenhouse gases emitted by air traffic is "only" 1.6 per cent, but Lufthansa has nevertheless worked hard to achieve the lowest CO_2 emissions possible. To this end and among other things, a four-pillar concept has been developed jointly with air traffic associations (see also the chapter "Sustainability", page 64).

Firstly, Lufthansa uses technological innovation to modernise its fleet. The current substantial fleet replacement programme will further reduce emissions already at historically low levels. Secondly, we demand improvements of the infrastructure on the ground and in the air in order to reduce holding patterns and diversions. This procedure holds the most potential, however, in this area we are dependent on political decisions. The creation of a single airspace for Europe (Single European Sky) would alone result in CO_2 savings of approximately 12 per cent. Thirdly, we regularly check operational measures to reduce fuel consumption and thereby emissions. The New Balance project at Frankfurt Airport also makes a contribution to this goal. By improving ground processes, unnecessary movements of aircraft are avoided. Finally, as the fourth pillar, economic instruments and incentives can come into play, such as landing fees based on emissions, as long as they do not lead to misallocations of resources by distorting competition.

Reducing greenhouse gases is, however, not the only area where Lufthansa can report achievements. Progress has also been made in the careful handling of natural resources. By implementing the "Electronic Flight Bag" we will reduce the consumption of paper in the Lufthansa Group substantially. But even where paper is still needed we attach great importance to treating the environment responsibly. From 2008, the Lufthansa magazine and the Lufthansa Exclusive magazine will, therefore, be printed on 100 per cent recycled paper, for example. Of course, this Annual Report has also been printed on FSC-certified recycled paper.

Economic and ecological interests also go hand in hand at the new engine maintenance hangar in Hamburg. Not only do the new processes in the hangar result in efficiency gains, but the optimised maintenance itself extends the engines' useful life and, therefore, reduces costs. A constant and specific engine wash, for example, can increase on-wing time by 10 per cent and reduce service expenses by 2 per cent. It is also better for the environment, as efficient engines need less fuel and, therefore, emit less CO_2.

Through constant improvements in technology and processes, Lufthansa will continue to achieve not only economic benefits, but also effective and sustainable successes in ecological matters. This as well is "Upgrade to Industry Leadership".

Best-in-class and a high dividend yield

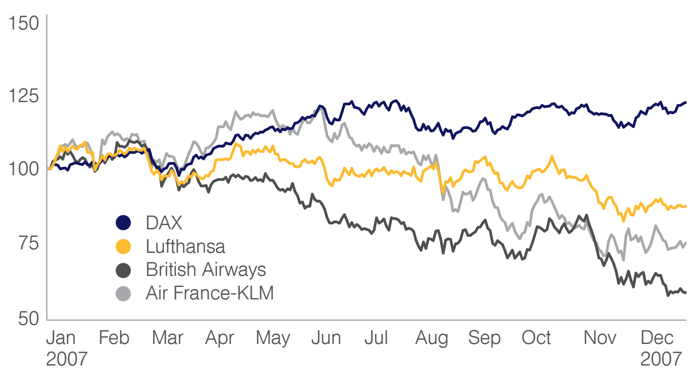
The Group's operational business progressed extremely well in 2007. Nevertheless, after reaching a high of EUR 22.72, the Lufthansa share finished the turbulent year on the stock markets slightly down. It performed considerably better than the competition but could not match the DAX. In view of the outstanding operational performance we will be proposing a record dividend of EUR 1.25 at the Annual General Meeting. This indicates a long-term dividend policy based on continuity.

Performance of the Lufthansa share

Stock markets were buoyed by a sustained upwards momentum in 2007, but uncertainties in March, July, September and November resulted in repeated interruptions to this positive development. In the first quarter, corrections on the Chinese stock markets and interest rate adjustment by central banks put an end to the climb, but stock prices regained their momentum between April and June, with the DAX approaching its record all-time high from the year 2000. From the summer onwards, the real estate crisis in the USA led to billions being lost in the financial industry worldwide. Together with the faltering US economy and record oil prices it stoked fears of a significant slowdown in global economic growth. This febrile atmosphere made the stock markets nervous and caused trading to be particularly volatile. Despite these pressures the DAX closed the year at 8,076.32, an increase of 22.3 per cent compared to the previous year.

At the beginning of the year, the Lufthansa share continued to benefit from the price dynamic of 2006 (+67 per cent in the previous year). The sale of the Thomas Cook stake and the increased focusing of the Group that it symbolised also generated positive investor sentiment and increased demand. On 19 January, the share reached its high for the year of

Lufthansa's share price trend (indexed on 31.12.2006) compared with the DAX and competitors



The Lufthansa share: key data

		2007	2006	2005	2004	2003
Year-end share price	€	18.22	20.85	12.51	10.55	13.25
Highest share price	€	22.72	21.03	12.51	15.21	13.95
Lowest share price	€	17.17	12.29	9.95	8.63	6.91
Number of shares	millions	457.9	457.9	457.9	457.9*	381.6
Market value at year end	€bn	8.3	9.6	5.7	4.8	5.1
Result per share	€	3.61	1.75	0.99	0.94	– 2.58
Cash flow from operating activities per share	€	6.25	4.60	4.27	4.11	4.14
Dividend per share	€	1.25	0.70	0.50	0.30	–
Dividend yield (gross)	%	6.9	3.4	4.0	2.8	–
Dividend	€m	572.4	321.0	229.0	137.0	–
Total shareholder return	%	– 6.6	+ 70.7	+ 21.4	– 20.4	+ 53.2

* After capital increase in June 2004.

EUR 22.72. Crashing prices on the Chinese exchanges made the markets jumpy, but aviation shares were less affected. Investors' attention was more focused on the decision to amend the air traffic agreement between the USA and Europe ("Open Skies"). Increasing speculation on further consolidation in the aviation industry also affected share prices.

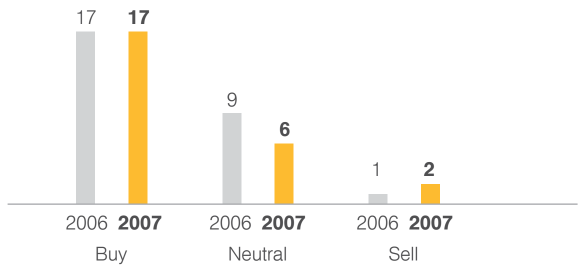
The second half of the year was dominated by uncertainty about future economic development, however. Investors began to remove shares considered cyclical from their portfolios.

In this environment the Lufthansa share could not maintain its previous level either and sank by 12.6 per cent, to close at EUR 18.22 on 31 December 2007. Nevertheless, an exceptional earnings performance, the successful integration of SWISS and a clear positioning in the discussion on consolidation meant that the Lufthansa share was able to outperform the sector considerably. The share prices of key competitors such as Air France-KLM (–24.6 per cent) and British Airways (–41.3 per cent) suffered much greater drops over the year. In light of the severe crisis of confidence on global capital markets investors furthermore appreciated Lufthansa's conservative financial profile. With a market capitalisation of EUR 8.3bn, Lufthansa has reinforced its leading position in the European aviation industry.

Analyst opinions

The analysts' overall assessment has hardly changed since the beginning of the year. Depending on their focus and time horizon, the individual banks attach greater importance to fundamental factors of Lufthansa or to macroeconomic conditions. The overwhelming majority of analysts continues to rate the Lufthansa share as a buy, with an average target price of EUR 23.17. At the end of the year, many of them also drew attention to an expected attractive dividend yield. We publish analysts' coverage on the Internet at www.lufthansa-financials.com and update it regularly.

Analyst ratings*

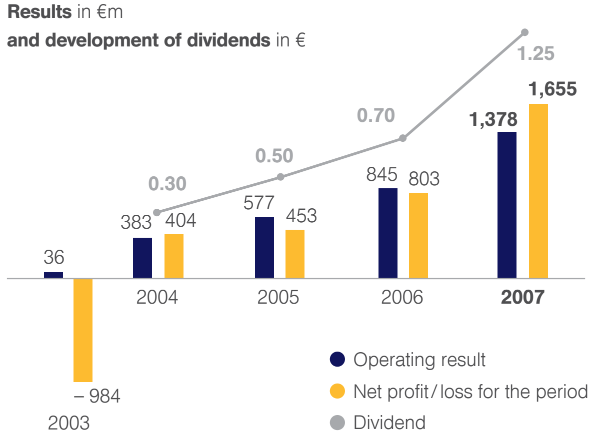


* Target price: EUR 23.17, average of 22 analysts.
Range: EUR 15.90–EUR 27.50.

Dividend

Lufthansa pursues a dividend policy based on continuity. Dividend payments depend primarily on the Group's operational performance. In recent years we have distributed 30 to 40 per cent of the operating result to our shareholders. In 2007, they can again expect to share commensurately in the record profit of EUR 1.4bn. At the Annual General Meeting on 29 April 2008, the Executive and Supervisory Boards will, therefore, propose a dividend of EUR 1.25, equivalent to an increase of 78.6 per cent over the previous year. Based on the year-end share price this amounts to a dividend yield of 6.9 per cent.

Results in €m
and development of dividends in €

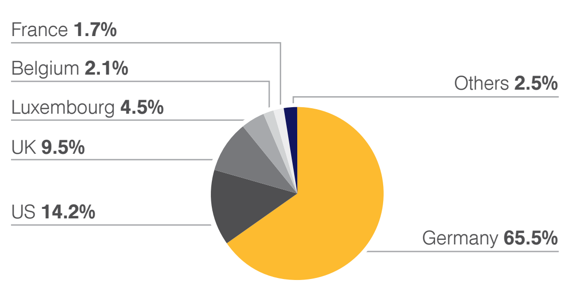


Shareholder structure

In order to retain its international air traffic rights and its operating licence Lufthansa must be able to demonstrate at all times that its shares are majoritarily held by German shareholders. To ensure this, the German Aviation Compliance Documentation Act (LuftNaSiG) stipulates that Lufthansa shares may only be traded as registered shares with transfer restrictions. This is the only way to demonstrate the nationality of Lufthansa shareholders at any given time. In the course of 2007, Lufthansa's shareholder structure returned to a more balanced level. In the previous year, strong interest from non-German investors, particularly from the USA and the UK, had resulted in the proportion of German shareholders sinking below 55 per cent. Thanks to a range of activities (see "Investor Relations") and renewed interest on the part of German investors this proportion went back up to 65.5 per cent until year end 2007.

The free float quota according to the standards of the Deutsche Börse was at 100 per cent by the end of the year.

Shareholder structure by nationality (as of 31.12.2007)



According to notification from 14 July 2006, the largest shareholder is AXA Group with 10.56 per cent, followed by Barclays Global Investors with a total of 5.07 per cent of share capital, according to notification dated 22 August 2007 as well as Dr M. Lutz Helmig with 3.11 per cent (thereof 3.09 per cent via ATON GmbH), according to notification from 11 January 2008. Institutional investors hold 75.3 per cent of Lufthansa shares (previous year: 77.5 per cent). The proportion of shares held by private investors rose to 24.7 per cent (previous year 22.5 per cent). This also includes the staff and management of Lufthansa who have invested in their Company by means of share programmes. Information on Lufthansa's share programmes can be found in the chapter "Lufthansa Group" on page 33, or on the Internet at www.lufthansa-financials.com.

Investor relations

In the year under review our investor relations activities were again defined by comprehensive, transparent and timely communications. We have expanded and improved the range of information on offer. In 2007, we continued to hold more individual meetings and also covered the topics of shareholder structure and the German Aviation Compliance Documentation Act (LuftNaSiG).

The Executive Board informed the general public and investors in detail about the annual result and the quarterly figures for 2007. All disclosures and the speeches by the Chief Executive Officer and the Chief Financial Officer are available on the Internet. During the course of the Annual General Meeting our shareholders can follow the speeches by the Chairman of the Supervisory Board and the CEO live via the Internet.

For the fourth year running we also organised an Investor Day. On 25 January 2007, we invited institutional investors and analysts to the Lufthansa Aviation Centre in order to give them a better view of the strategy and the business segments of the Lufthansa Group. This information is also available on the Internet.

In the reporting period our Investor Relations department also actively arranged personal meetings with financial analysts as well as institutional and private investors worldwide. In 2007, we held more than 400 individual and Group meetings with institutional investors and analysts. The Executive Board and representatives of Investor Relations also informed investors in Europe and the USA about Lufthansa's strategy and its current state of business in the course of road shows and investor conferences. In Germany, in particular, we increased the number of participated conferences considerably.

In order to reach our target of an appropriate shareholder structure and improve contacts with potential German shareholders, we also set focus on communications with private investors. At events organised by banks and in share forums, therefore, we were able to meet with some 500 investors in total.

The legally required degree of transparency means that all the information from shareholders stipulated by law must be provided before registration in Lufthansa's share register can take place. As international banking practice sometimes differs from these requirements, Investors Relations cultivates a close dialogue with investors, their depositary banks and other institutions involved, in order to promote transparency and an awareness of the requirements, as well as of the possible consequences of non-compliance. Further information on the shareholder structure and the LuftNaSiG is available on the Internet at www.lufthansa-financials.com.

We have continued to develop the quarterly and annual reports so as to respond even more precisely to the information needs of our investors. We also publish a monthly "Investor Info", and a "Shareholder Information" which informs our private investors three times a year about the main economic developments. We publish our reports early, compared to other DAX companies and our competitors we are particularly fast, and comply with all the relevant guidelines and recommendations. These include the German Corporate Governance Code and the requirements of the Deutsche Börse.

In the field of online communications we are able to announce a new record: the number of page impressions on www.lufthansa-financials.com boomed by 28 per cent to reach nearly 1 million. In 2006 a total of 0.7 million page impressions was recorded. This positive ongoing trend reflects a growing interest in the information we make available in electronic form. Therefore we intend to keep expanding this area in future.

Share indices and trading platforms

The Lufthansa share is included in many share indices. As a member of the DAX Lufthansa is one of the 30 largest publicly quoted companies in Germany, and was ranked at number 22 in 2007 (previous year: number 19). Lufthansa is also included in the Dow Jones EuroStoxx, FTSE Eurofirst 300 and S&P 1200 indices.

The capital markets also appreciate a responsible attitude to the environment, staff and society. In 2007, the Company's membership of the Dow Jones Sustainability World and FTSE4Good indices were reconfirmed. In addition, Lufthansa is represented in the ASPI (Advanced Sustainable Performance Index) and in the ESI (Ethibel Sustainability Index).

Lufthansa shares are mostly (98 per cent) traded over the electronic trading platform Xetra. Trading volume in 2007 was EUR 21.4bn (40.6 per cent higher than the previous year). A total of 1.1 billion shares changed hands, which in relation to the number of shares in circulation (457.9 million), resulted in a turnover frequency of 2.3. August and November were particularly active trading months with revenues of EUR 2.5bn and EUR 2.2bn, respectively.

In the USA, investors can also invest in Lufthansa via the "Sponsored American Depository Receipt Program" (ADR). ADR trading volume currently amounts to less than 1 per cent of share capital.

Identification numbers for Lufthansa share

ISIN International Security Identification Number	DE0008232125
Security identification number	823212
ADR programme code	DLAKY
German stock exchange code	LHA
Reuters' code	LHAG.DE, Xetra
Bloombergs' code	LHA GY for Xetra, LHA GF, Frankfurt Stock, LHA GR, all LH share prices
Stock exchange centres	Frankfurt, Stuttgart, Munich, Hanover, Düsseldorf, Berlin, Bremen, Hamburg and Xetra
Prime sector	Transport & Logistics
Branch	Airlines
Indices	DAX, DivDAX, HDAX, Dow Jones EURO STOXX, Dow Jones STOXX Mid 200, FTSE Eurofirst 300, S&P 1200, Dow Jones Sustainability Index World, FTSE4Good, ASPI, ESI

Ladies and Gentlemen,

In 2007, the Supervisory Board again worked closely and intensively with the Executive Board. Throughout the whole financial year the Supervisory Board carried out its duties in line with legal requirements, the Company's Articles of Association and internal regulations. We monitored the management of the Company by the Executive Board and advised its members accordingly.

As Chairman of the Supervisory Board I read the minutes of the Executive Board meetings and was in constant contact with the Chief Executive Officer. My discussions with Mr Mayrhuber focused particularly on Lufthansa's strategy and the current course of business. The Executive Board also kept the full Supervisory Board abreast of developments in between meetings with regular written reports. The Executive Board's reporting obligations and the list of transactions requiring authorisation have been laid down by the Supervisory Board in the relevant rules of procedure.

In the 2007 financial year, Supervisory Board meetings again focused on business developments at Deutsche Lufthansa AG, its subsidiaries and associated companies. The Executive Board provided us with full, timely information on the competitive environment, all significant strategic decisions and planned Company policy, as well as on projected capital expenditure and equity investments and the planned Group financing activities.

In the Passenger Transportation business segment, we approved the purchase of twelve long-haul, 36 short- and medium-haul and 45 regional aircraft. Other key decisions were taken on the procurement of A380 reserve engines, equipping the Airbus long-haul fleet with a new cabin product and the purchase of six aircraft for the Lufthansa Private Jet service.

The strategic options available in the consolidation process of the air transport industry with focus on Europe were discussed in detail. The Supervisory Board approved the acquisition of a 19 per cent minority stake in the American carrier JetBlue and the sale of the Lufthansa shares in Thomas Cook AG.

The IT Services business segment was the subject of an in-depth presentation. We approved the proposals to set up a joint airfreight operating company by Lufthansa Cargo and DHL Express in Leipzig and to build a new MRO hangar in Hamburg, in order to introduce lean production in the Lufthansa Technik business unit Engine Service. The Supervisory Board also gave its approval by written circulation procedure to Lufthansa Technik's bid for procuring and servicing new medium-haul aircraft to the German Federal Office of Defence Technology.

The Executive Board notified us of changes in the shareholder structure and of the options available under the German Aviation Compliance Documentation Act to maintain the shareholder structure prescribed by EU directive 2407/92 and bilateral air traffic agreements. The statements made in the management reports by the Executive Board in accordance with sections 289 (4) and 315 (4) German Commercial Code require no further explanation. Finally, we received scheduled reports on trading in derivative instruments and on allocations to and returns from the Lufthansa pension fund.

The Supervisory Board held four ordinary meetings in 2007 – on 7 March, 17 April, 19 September and 5 December, and two extraordinary meetings – on 24 January and 10 December. Dr Cromme, who left the Supervisory Board mid-year, was not able to attend the meetings on 24 January and 17 April. Apart from this, no member of the Supervisory Board was present at fewer than half the meetings.

The Steering Committee of the Supervisory Board held three meetings. The remuneration scheme for the Executive Board was adjusted by the Steering Committee and presented to the Supervisory Board in September. The Arbitration Committee required under section 27 (3) German Codetermination Act did not need to be convened during the reporting period.

In the September meeting the Nomination Committee recommended by the German Corporate Government Code was established. Mr Hartmann, Dr Schlede and myself were elected as members. The committee held its first meeting in December, and proposed suitable nominees to the Supervisory Board at the 2008 accounts meeting, whom we will put forward for election to the Supervisory Board at the Annual General Meeting 2008.

Information on the Committees' work was provided at the beginning of the Supervisory Board meetings.

We appointed PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Düsseldorf, who were elected as auditors for the parent company and the Group at the Annual General Meeting 2007, to audit the financial statements and consolidated financial statements, the management reports and the risk management system. The Audit Committee, which met twice in 2007, took note of the auditors' statement of independence and agreed on the key points of the audit. No possible grounds for disqualifying the auditors or doubting their impartiality came to light during the course of the audit.

The consolidated financial statements have been prepared in accordance with the International Financial

Reporting Standards (IFRS). The auditors audited the annual financial statements and consolidated financial statements of Deutsche Lufthansa AG and the corresponding management reports to 31 December 2007 in accordance with the legal requirements, and had no reservations to make. They further confirmed that the risk management system set up by the Executive Board is appropriate for the early identification of developments which could endanger the Company's continued existence. An updated risk report was presented to the Audit Committee in October.

In February 2008, the Audit Committee discussed draft copies of the audit reports in detail. The auditors, the Chief Financial Officer and I were also present at the meeting. The auditors then delivered copies of their audit reports timely to the whole Supervisory Board for the accounts meeting on 10 March 2008. The auditors who signed the financial statements attended the accounts meeting, reported on the findings of their audit and were available to answer questions.

In the course of this meeting we examined the financial statements and the consolidated financial statements of Deutsche Lufthansa AG, the respective management reports and the proposal for profit distribution in detail and had no objections to make. The financial statements and the consolidated financial statements were approved. The 2007 annual financial statements of Deutsche Lufthansa AG, as prepared by the Executive Board, have thereby been adopted. We agree with the proposal for the profit distribution.

In December, we reviewed the efficiency of our working practices and made an updated and unqualified statement of compliance with the German Corporate Governance Code. In the course of their audit the auditors did not identify any contradictions with this statement of compliance.

At its meeting on 10 March 2008 the Supervisory Board critically examined the question of a possible conflict of interest in terms of section 5.5 of the German Corporate Governance Code. Controversial discussions took place between representatives of the shareholders and those of the employees. At the vote held on the airfreight operating company to be run jointly by Lufthansa Cargo and DHL Express on 19 September 2007, Dr Zumwinkel and I abstained from voting due to our membership of boards in both parent companies.

Dr Cromme resigned his seat on Lufthansa's Supervisory Board as of 30 June 2007. The Supervisory Board would like to take this opportunity to thank him for his work over the last five years. His vast business experience and commitment to transparent corporate governance were important catalysts also for the Lufthansa Supervisory Board.

He was replaced by Mr Jaques Aigrain, Chairman of the Management Board of Swiss Re and a member of the Board of Directors of Swiss International Air Lines AG, who was nominated by the Swiss Aviation Foundation and appointed to the Supervisory Board by the District Court in Cologne until the next Annual General Meeting in April 2008.

Mr Mirco A. Vorwerk, an employee representative delegated by the trade union UFO, also resigned his seat as of 31 July 2007. His seat on the Supervisory Board was taken by the replacement candidate elected by the employees, Mrs Sabine Wolbold. Mr Willi Rörig was elected to succeed Mr Vorwerk in the Steering Committee.

The Supervisory Board thanks Mr Vorwerk for his supportive work and for carrying out his responsibilities on both boards.

We would especially like to thank the members of the Executive Board, all Company managers, the works council members and the employees of the whole Group and its associated companies for their personal contributions to the Company's great success in 2007.

Cologne, 10 March 2008

J. Weber

For the Supervisory Board
Jürgen Weber, Chairman

Corporate governance at Lufthansa

Responsible company management according to the rules of effective corporate governance is a key element of our ethos. In the Lufthansa Group, this means efficient and transparent structures and processes as well as open and precise corporate communications, which have a particularly high priority. They are an important prerequisite for gaining and reinforcing the trust of shareholders, employees, customers and the general public in Lufthansa.

Shareholders and Annual General Meeting

Via the Annual General Meeting shareholders take part in all fundamental Company decisions. Lufthansa issues registered shares with transfer restrictions, which all have the same voting rights. In order to assist our shareholders in exercising their rights, we support the use of electronic media for registering in our share register. This is important, since only registered shareholders can exercise their voting rights at the Annual General Meeting. Our shareholders can give voting instructions via the Internet until shortly before the Annual General Meeting.

All the information on communications with shareholders can be found in the chapter "Share – Investor relations", on page 26.

Executive Board and Supervisory Board

Both the Executive Board and the Supervisory Board of Deutsche Lufthansa AG have rules of procedure governing the work within these boards and the cooperation between them. The three members of the Executive Board are jointly responsible for the management of the entire Company and, therefore, inform each other of all significant activities and transactions. The Chief Executive Officer reports regularly to the Supervisory Board, which is made up of equal numbers of shareholder and employee representatives, and notifies the Chairman of the Supervisory Board of important matters.

Decisions on important transactions must be taken by simple majority. There are a number of transactions for which the Executive Board requires the prior approval of the Supervisory Board. Above certain financial thresholds these include in particular setting up new companies, establishing new businesses, signing or revoking important strategic cooperation agreements, issuing bonds and long-term debt and major capital expenditure. The Executive Board also informs the Supervisory Board every quarter on the development of the Group's business and that of its associated companies, and reports annually on the Group's operational planning and the budget.

The Supervisory Board elects a Steering Committee with equal numbers of employee and shareholder representatives from among its members, which is responsible for personnel matters relating to the Executive Board and the registered managers. A four-member, equally represented Audit Committee is also elected, which is essentially responsible for matters relating to accounting principles, risk management and compliance. The three-member Nomination Committee has the task of suggesting suitable candidates to the Supervisory Board for its proposals to the Annual General Meeting. The Arbitration Committee, appointed in accordance with Section 9 (2) of Lufthansa's Articles of Association, is responsible for exercising certain rights under the German Codetermination Act when Executive Board members are appointed. Members of the Executive Board and the Supervisory Board are personally liable to the Company for damages resulting from negligent breach of their fiduciary responsibilities. Lufthansa has taken out a D&O (directors' and officers' liability insurance) policy with appropriate deductibles for both Boards.

The names of Executive Board and Supervisory Board members and their responsibilities, as well as the members and duties of committees set up by the Supervisory Board, are listed on page 184.

Transparent accounting and communication

Lufthansa prepares its consolidated financial statements and the interim financial statements in accordance with International Financial Reporting Standards (IFRS) and in line with the recommendations of the International Financial Reporting Interpretations Committee (IFRIC). The financial statements for Deutsche Lufthansa AG, which are required by law and are decisive for the dividend payment, are prepared according to the German Commercial Code (HGB). PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft in Düsseldorf has been appointed to audit the financial statements for 2007. The auditors' fees for the 2007 financial year are summarised in the Notes to the Consolidated Financial Statements, Note 53, page 182.

Lufthansa informs private and institutional investors, analysts and the general public in a timely and equitable manner. Annual and interim financial statements, the financial calendar and information on current developments at Lufthansa are available on the Internet at www.lufthansa-financials.com in German and English.

Trading in Lufthansa shares, options or other derivatives based on the Lufthansa share above a threshold of EUR 5,000 p.a. by members of the Executive or Supervisory Boards, as well as by members of the Board of Lufthansa Passenger Airlines – so-called directors' dealings – are published on the Internet straight away. This also applies to people and companies closely related to the group mentioned above. The value of all shares, options or derivatives held by members of the Executive and Supervisory Boards does not exceed that of 1 per cent of all shares issued by the Company.

Declaration of Compliance with the German Corporate Governance Code

At their meeting on 5 December 2007, the Executive Board and Supervisory Board issued the following declaration of compliance with the German Corporate Governance Code: "In accordance with Section 161 of the German Stock Corporation Act, the Executive Board and Supervisory Board of Deutsche Lufthansa AG declare that the recommendations of the Government Commission on the German Corporate Governance Code, as published by the Federal Ministry of Justice in the official section of the electronic Federal Gazette, have been complied with in full and will continue to be complied with in full". These recommendations and the Code's further suggestions, fulfilled voluntarily, are available for reference on our website.

Executive Board and Supervisory Board remuneration

The Executive Board's remuneration consists of three components: fixed annual salary, variable annual remuneration and remuneration based on a long-term incentive with risk character plan. Besides their fixed income, the members of the Supervisory Board also receive dividend-based remuneration. Detailed notes on the structures of the remunerations of the Executive Board and the Supervisory Board, and on the amounts paid to their individual members, are published in the notes to the consolidated financial statements from page 177, Note 51.

Compliance

Compliance describes all measures taken to ensure the correct conduct of companies, their management and staff with respect to statutory obligations and prohibitions. The aim of the Lufthansa Compliance Programme is to prevent staff from breaking the law and to assist them in applying laws correctly.

The Lufthansa Compliance Programme is made up of the following elements: Competition, Capital Market, Integrity and Corporate Compliance. Competition Compliance is primarily aimed at staff involved with sensitive competitive matters on a daily basis. Capital Market Compliance deals principally with questions of insider dealing and ad hoc publications. In addition to the existing regulations, Lufthansa also included Integrity Compliance in the Compliance Programme in 2007, in order to forestall corruption. This area provides instructions on dealing with invitations, gifts and other benefits. As a further preventive measure against white-collar crime and in order to protect its reputation and assets, Lufthansa has also set up an ombudsman system. Corporate Compliance combines the Company rules and regulations already in existence within the Lufthansa Group and acts as an intermediary for other compliance-relevant areas.

Since October 2007, Compliance has been formally established within the organisation of the Group and a Compliance Office has been set up in the central Legal Department. Compliance Appointees have been established in the Group companies to ensure that the Compliance Programme is applied throughout the Group and to report any departures from the norm to the Compliance Office. The Compliance Officer reports to the Audit Committee annually.

Group management report

1. Lufthansa Group

1.1 Business activities

Deutsche Lufthansa AG is an aviation company with operations worldwide. The Group's business is divided into five business segments, each of which has a leading role in its industry. Altogether, the Lufthansa Group includes over 400 subsidiaries and associated companies.

We provide mobility for passengers and cargo: the strategic business segments Passenger Transportation and Logistics combine Lufthansa's core competences. The airlines in the Lufthansa Group are positioned as premium carriers in their respective segments, and are among the world leaders. Lufthansa Cargo is also a market leader in international airfreight. It offers a global network, the shortest transport times and high quality standards in many, often highly specialised, product areas.

In addition, we provide services for airlines: as service providers for key factors of production, the three business segments MRO, IT Services and Catering strengthen the Passenger Transportation and Logistics segments. They work both for Lufthansa Group companies and increasingly also for external companies. Lufthansa Technik is a world leader in the maintenance, repair and overhaul of civil aircraft; its work ranges from individual contracts to full-service management of whole fleets. Lufthansa Systems is one of the leading global IT services providers in the aviation industry. It offers a broad range of services, from developing specialised IT solutions for airlines through to operating complete IT infrastructures. LSG Sky Chefs is the global market leader in airline catering. The 119 companies in the group supply some 270 international airlines. LSG Sky Chefs is also successfully positioning itself as a full-service supplier for in-flight management. The individual business segments are described in detail in the "Business segments performance" chapter, from page 66.

In 2007, the Lufthansa Group had an average of 100,779 employees and generated a revenue of some EUR 22.4bn.

1.2 Organisation

Deutsche Lufthansa AG has the twin structure of management and supervisory responsibility typical in Germany. The Executive Board is responsible for managing the Company; it defines its strategic direction and strives for sustainable increases in its value. The Supervisory Board appoints, advises and supervises the Executive Board.

Deutsche Lufthansa AG is managed by three Executive Board members: the Chief Executive Officer, the Chief Financial Officer and the Chief Officer for Aviation Services and Human Resources. Key head-

Organisational chart as of 31.12.2007

Executive Board	**Wolfgang Mayrhuber**	**Stephan Gemkow**	**Stefan Lauer**
Departments	**Chairman and Chief Executive Officer appointed until 31.12.2010**	**Chief Financial Officer appointed until 31.5.2009**	**Chief Officer Aviation Services and Human Resources appointed until 30.4.2010**
Related Group functions	Corporate Strategy / Corporate International Relations and Government Affairs / Corporate Fleet / Corporate Communications / Corporate Audit	Investor Relations / Group Finance / Mergers & Acquisitions / Corporate Controlling and Cost Management / Accounting, Financial Reporting and Corporate Taxes / Corporate Legal Affairs / Insurance / Lufthansa Commercial Holding	Corporate Labour Relations / Corporate Executives / Human Resources Business Services / Industrial Relations Lufthansa Group / Corporate Security / Corporate Information Management / Corporate Infrastructure Projects and Facility Management
Business segments	Passenger Transportation	Service and Financial Companies	Logistics, MRO, IT Services, Catering

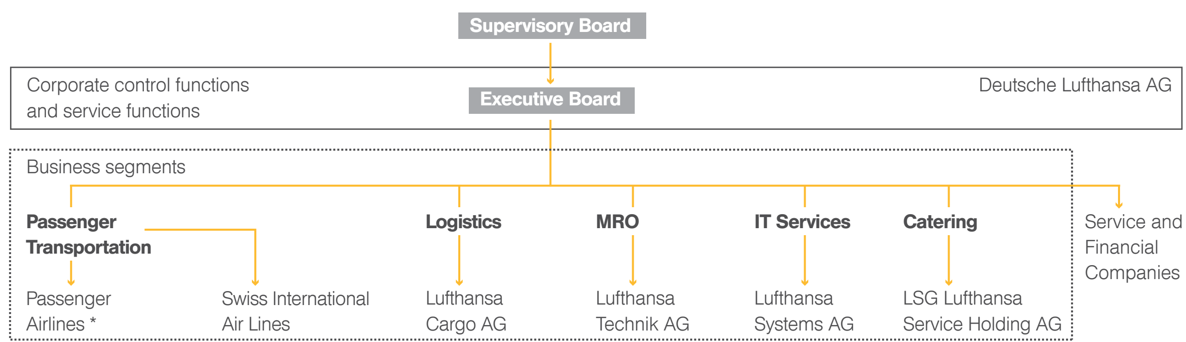
office functions are divided among these three officers. Deutsche Lufthansa AG acts as the parent company and, at the same time is the largest single operating company in the Group. Each individual business segment is managed by its corresponding Group company, with the exception of Passenger Transportation. Control and profit-transfer agreements are in place. The companies have their own P&L and operating responsibility and are supervised by their own Supervisory Boards, on which members of the Group's Executive Board have a seat.

More information can be found in the sections "Performance-related remuneration" (page 38), in the "Disclosures in accordance with Sec. 315 Para. 4 (HGB)" (page 39), and in the Notes to the consolidated financial statements, Note 51 from page 177.

1.3 Group strategy

Lufthansa grows actively and creates value International air traffic is a growth industry. Economic growth and the transportation of passengers and goods are mutually dependent. Besides a highly dynamic market with different trends in the individual regions, the industry is also influenced by a series of regulatory and structural changes. The tendency toward consolidation is also still evident. These changes are explored in more detail in the "Sector developments" chapter (page 42). They represent challenges but, at the same time, offer many varied opportunities for a globally operating aviation company.

Group structure



Overview of management boards in Group companies

Wolfgang Mayrhuber CEO	**Dr Christoph Franz** CEO	**Carsten Spohr** CEO	**August-Wilhelm Henningsen** CEO	**Wolfgang F.W. Gohde** CEO	**Walter Gehl** CEO, Finance, Human Resources
Thierry Antinori Marketing and Sales	**Marcel Klaus** Chief Financial Officer	**Dr Roland Busch** Finance and Human Resources	**Dr Peter Jansen** Finance	**Dr Gunter Küchler** Sales and Marketing	**Jochen Müller** Sales and Marketing, Solutions
Dr Holger Hätty Strategy, IT and Purchase	**Dr Christoph Beckmann** Chief Marketing & Strategy Officer	**Karl-Heinz Köpfle** Operations	**Dr Thomas Stüger** Product and Services		**Thomas Nagel** Operations
Carl Sigel (until 31.8.2007) **Jürgen Raps** (from 1.9.2007) Operations	**Harry Hohmeister** Chief Network & Distribution Officer	**Dr Andreas Otto** Marketing and Sales	**Uwe Mukrasch** Human Resources		
Ulrich Garnadt Services and Human Resources	**Gaudenz Ambühl** Chief Operating Officer				

* Autonomous unit accountable for its own results.

Lufthansa's strategy is geared towards generating profitable growth in this environment, whereby profitability is more important than size. We are committed to create shareholder value in the sense of sustainable value creation. Our corporate strategy is founded on the following pillars:

Values All business segments rely on the brand values quality, reliability and innovation. They are the key success factors for the Group. The segments also offer each other mutual support. The image of safety and reliability created by Lufthansa Technik is a key success factor in the way our customers and the public view our passenger and freight businesses. We are always in search of competitive advantage through innovation, which, of course, also needs defending constantly. For example, we have set new standards for premium customer service with the HONCircle and First Class Terminal and continue to develop these services. We consistently reinforce our proximity to the customer, our flexibility and our entrepreneurship, which we encourage by promoting decentralised structures in the Company, for example.

Profitability In this area, as in many others where the objective has already been reached, we are aiming for the leading position among European network carriers. In order to bring sustainable improvements to the Group's earnings and cost profile, we launched the Group-wide initiative "Upgrade to Industry Leadership" in 2007.

We respond to increasing competition by continually improving our cost basis. All segments have their own programmes or initiatives on cost management in place, which all progressed well in 2007. Cyclical factors also make greater flexibility in the cost structures necessary. We are uncompromising in pursuit of this goal, using innovative agreements in wage settlements or intelligent fleet policies to achieve our targets.

To strengthen the income side, we create benefits in products and services which are oriented towards the needs and wishes of our customers. This is why we are also intensifying the dialogue with our customers, in order to prepare the ground for even more attractive offerings and greater customer loyalty.

The Group and all its business segments are dedicated to creating sustainable value and are measured by their success in doing so. The cash value added (CVA) indicator is used to manage the Group as a whole as well as the individual segments. The CVA is anchored in the planning, management and reporting systems and has a decisive influence on investment decisions and management remuneration (cf. "Value-based management", page 36).

Growth We see the growth opportunities in our industry and intend to make active use of them. We can draw on alternative plans of action to do so – depending on the market and our assessment of the individual risks and rewards:

Organic growth: all our business segments have a solid base which makes it possible to generate internal growth. Lufthansa Passenger Airlines, for example, are constantly developing new markets, especially in the emerging Asian economies. Another example is Lufthansa Technik, which, up to 2007, signed contracts for more than EUR 180m in India.

Asian growth markets

Cooperation and alliances: we also develop new markets together with our Star Alliance and other partners. These forms of cooperation enable us to gain rapid market access. An additional advantage is that the skill sets of each partner are complementary, and the necessary investments and risks of market entry are also limited. One example is the joint venture for express airfreight established in 2007 between Lufthansa Cargo and DHL Express, named AeroLogic, which focuses on traffic to and from Asia.

Acquisitions: in the ongoing consolidation process we are actively reviewing opportunities for taking equity stakes in other companies, up to a complete integration. The main requirement here is that the company fits in with Lufthansa's strategic development guidelines and meets the corporate, cultural and economic criteria for a successful collaboration. The review focuses on analysing and valuing cost and revenue synergies and the profitability of the potential partner. Lufthansa believes in an approach based on partnership and has repeatedly shown that it is capable of leading companies to success and integrating them within the airline group. SWISS is the most notable example, where the synergy effects are well above the original forecasts. The most recent example is the acquisition of 19 per cent of the shares in JetBlue Airways Corporation. With this, Lufthansa will be the first European airline to make a significant equity investment in a quality oriented US point-to-point carrier. This partnership will strengthen our position in the American market and extend the network of our Star Alliance partners.

Focus on core competences As financial and management resources are limited, achieving sustainable and profitable growth means concentrating on core competences. This applies equally to the Group as a whole and to the individual business segments. At a Group level, the relevance of the business segments is essentially determined by the extent to which they relate to and form a "competence fit" with the strategic segment of Passenger Transportation. Insofar as a segment's operations are less relevant for the positioning of Passenger Transportation, or there is little interdependence between them, then solutions outside the Group will also be considered and evaluated to realise growth potential. These reviews are also considered from a clear value-creation perspective, in terms of when they take place and other factors in the equation. The successful disposal of our Leisure Travel segment in 2007 confirms the validity of this approach. The sale was preceded by a very deliberate optimisation of the segment, which first generated the value potential for a financially successful transaction. This enabled the creation of value well beyond the original expectations of many observers. In future portfolio management activities, too, we will be guided by the potential for realising value and the existance of a suitable timeframe for a transaction.

Financial strengths Financial flexibility gives us room for strategic development and makes us more independent of external influences. Lufthansa's growth plans are, therefore, supported by a solid financial profile. Demanding minimum liquidity requirements, a solid capital structure, investment-grade ratings and a host of bilateral banking relationships are key elements of our financial set-up. By systematically analysing and limiting financial risks, such as those from currently extremely volatile fuel prices and exchange rates, we also provide support for, and safeguard, the Company's operational and strategic development. Lufthansa also benefits, in many cases, from flexible cost structures, which come into play during seasonal or cyclical variations or in the event of unforeseen external occurrences. More information is available in the "Financing" chapter (page 58).

1.4 Value-based management

1.4.1 An established concept

Since late 1999, Deutsche Lufthansa AG has been run according to the principles of value-based management, with the objective of a sustainable increase in Company value. The aim of this approach, applied to all planning, steering and monitoring processes, is a purposeful, long-term and steady increase in the value of the Company in the investors' and lenders' interests. Achievement of this target is measured continuously and is included in internal and external reporting. As the concept is anchored in the performance-related pay scheme, managers are encouraged to act as entrepreneurs according to the corporate goals.

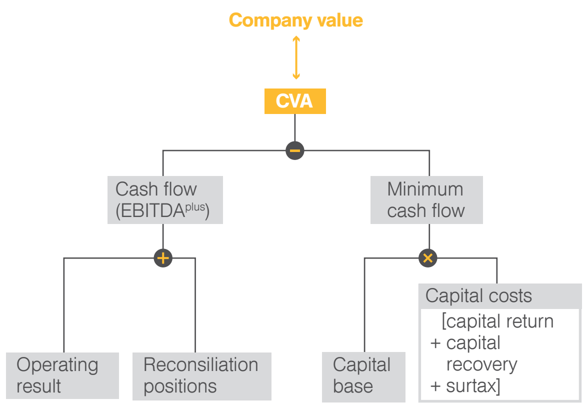
The central financial performance indicator at Lufthansa is the cash value added (CVA). The CVA is based on the return on investment expected by the investors and lenders. It provides information on the value being created in a given period. In contrast to other concepts of residual profit (e.g. EVA©) the advantage of the CVA approach is that, by using, for instance, the historical cost of assets, performance measurement is not affected by changes of the capital base due to depreciation and amortisation. With the system of value-based Group management, Lufthansa ensures that the requirements of investors and lenders are embedded in all management processes.

In the past years, the CVA was constantly increased.

1.4.2 Calculating CVA

Cash value added is an absolute residual amount providing information on the value created in a financial year. It is calculated by comparing the cash flow generated in a year (EBITDA^{plus} as explained below) with the cost of capital employed expressed as a required minimum cash flow. The CVA is the difference between the two figures. Value is generated when the actual cash flow is higher than the minimum cash flow. The following graph shows the value drivers of this top-level indicator:

Calculation of cash value added



The minimum cash flow is calculated from the required return on capital employed, the capital recovery rate and the tax paid.

The capital base is made up of non-current and currents assets, less non-interest bearing liabilities. In this approach the capital base is determined at historical cost, so that the calculation of value created and its evolution over time are independent of the depreciation or amortisation method applied.

The return on capital is calculated using the weighted average cost of capital (WACC), which considers both debt and equity. The factors covered are presented in the following table.

Calculation return on capital 2007

in %	
Risk-free interest rate	4.4
Market risk premium	5.7
Beta factor	1.1x
Share of equity	50.0
Share of debt	50.0
Cost of equity	**10.7**
Cost of debt	**4.7**

In 2006, the WACC was calculated as 7.9 per cent, based on the parameters shown and a target capital structure of 50 per cent quoted equity to 50 per cent balance sheet debt. This figure was reconfirmed in 2007, due to the difference in some parameters of this return on capital being insignificant.

Cost of capital (WACC)
for the Group and the business segments

in %	**2007**	2006	2005	2004	2003
Group	7.9	7.9	8.6	8.6	8.6
Passenger Transportation	7.9	7.9	8.6	8.6	8.6
Logistics	8.2	8.2	8.9	8.9	8.9
MRO	7.6	7.6	8.3	8.3	8.3
IT Services	7.6	7.6	8.3	8.3	8.9
Catering	7.9	7.9	8.6	8.6	7.7

In addition to the return on capital, the capital recovery has to be considered in the calculation of the minimum cash flow, which is expressed by the economic depreciation of an asset. It is measured by the capital recovery rate. If this is applied to the capital base, the result is the percentage of the historical cost of assets which needs to be earned annually over its useful life in order to recover the historical cost, after accounting for interest. Finally, the expected tax payment is added – in simplified form, by applying a surcharge of currently 1.2 per cent of the capital base.

The generated cash flow is represented by the EBITDA^{plus} figure: this is derived from the operating result, whereby essentially non-cash items are adjusted. These are mainly depreciation and amortisation and net changes to pension provisions. Other items are the pre-tax results of equity investments which are not fully consolidated and book gains on the disposal of assets. EBITDA plus therefore includes all cash-relevant items which are influenced by management decisions.

Reconciliation EBITDA plus		
in €m	**2007**	2006
Operating result	1,378	845
Depreciation/amortisation	1,160	1,051
Result from tangible asset disposal	13	3
Income from reversal of provisions	163	129
Impairment losses	– 44	–
Change in pension provisions before interests	190	178
Cash flow from operating activities EBITDA plus	**2,860**	**2,206**
Pro rata results of non-consolidated subsidiaries	406	256
Interest income	186	269
Result from financial asset disposal	481	70
Financial cash flow EBITDA	**1,073**	**595**
Cash flow EBITDA plus	**3,933**	**2,801**

In order to obtain the CVA the minimum cash flow is deducted from the EBITDA plus. In 2007, the CVA for the Group was almost tripled. It stands at EUR 1,546m (+180 per cent).

Value creation (CVA) of the Lufthansa Group and the individual business segments				
in €m	**2007**	2006	2005	2004
Group	1,546	552	386	151
Passenger Transportation	768	317	– 53	64
Logistics	59	37	39	– 26
MRO	205	85	121	86
IT Services	– 16	32	36	40
Catering	21	– 50	– 71	– 274
Service and Financial Companies	7	– 88	239	403

1.4.3 Value-based management using operating indicators at all levels of management

In order to influence positively the value creation and thereby the CVA, the Lufthansa Group developed a system of key performance indicators. It contains the major levers which can be influenced by management decisions. Changes in these value drivers have a direct effect on the operating result, the capital base and thus on the CVA.

1.5 Performance-related remuneration

Incentive programmes as an element of remuneration have a long tradition at Lufthansa; not only for Board members but for all managers and employees.

For managers, there is a remuneration programme with a variable, performance-related remuneration component, which is oriented both towards value creation of the Company, as measured by the CVA, and towards attaining personal targets. Since 1997, Lufthansa has also offered its managers a share programme known as "LH-Performance" as a general and longer-term component. This programme combines a personal investment by the participants in Lufthansa shares with the granting of appreciation rights. The Executive Board members have also been taking part in "LH-Performance" since 2002. In 2003 the programme was extended to non-contracted staff. Lufthansa gives a discount on shares purchased as part of this programme. The shares may not be sold before the end of the programme. Since 2007, the appreciation rights have been made up of a performance and an outperformance option. Lufthansa makes a payout on the performance option when the performance of the Lufthansa share reaches a set hurdle based on the cost of equity. The participants receive a payment from the outperformance option if the Lufthansa share has performed better than the shares of the main European competitors over the course of the programme. The amount of the payment depends on the performance or outperformance level, up to a defined cap. This makes the participants shareholders on the one hand, with all related risks and rewards, and on the other, provides them with remuneration for a Company-specific performance.

Results "LH-Performance"		
	Expiry of programme	Actual outperformance in %
LH-Performance 2007	2011	0.4
LH-Performance 2006	2010	11.8
LH-Performance 2005	2009	37.4
LH-Performance 2004	2008	20.5
LH-Performance 2003	2007	– 30.3

The combination of a personal investment in shares and performance-related options gives Lufthansa an exemplary scheme, which has been commended for many years as one of the best share programmes of all the 30 DAX companies.

For many years Lufthansa employees have received a profit-share payment in addition to their basic salary. Since 1970, they have had the option of choosing between a cash payment and share-based payments. They can either purchase traditional employee shares or take advantage of the equity model LH-Chance to acquire a larger number of shares with an interest-free loan. In 2007, the LH-Chance programme was run for the tenth time. Around 40 per cent of the German workforce opted to take their profit-share payment in the form of shares.

1.6 Remuneration report according to Sec. 315 Para. 2 No. 4 (HGB)

The remuneration structure for the Executive Board intends to attribute roughly equal weight to the three components fixed annual salary, variable annual salary and remuneration with incentive and risk character, in a situation where the operating result is satisfactory and the Lufthansa share performs well or outperforms the market. The members of the Supervisory Board receive a dividend-linked payment in addition to their fixed benefits. The detailed remuneration report and payments for the members of the Executive and Supervisory Boards are published in Note 51 to the consolidated financial statements, from page 171.

1.7 Disclosures in accordance with Sec. 315 Para. 4 (HGB)

Composition of subscribed capital, types of shares, rights and duties Deutsche Lufthansa AG's issued capital amounts to EUR 1,172m and is divided into 457,937,572 registered shares. Each certificate holds a EUR 2.56 share of the issued capital. The transfer of shares requires the Company's authorisation (restriction of transferability). The Company may only withhold authorisation if registering the new shareholder in the share register could jeopardise the maintenance of air traffic rights. 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 share-transfer restrictions For the Company to retain its aviation licence under European law, and the air traffic rights required to fly to international destinations outside Europe, the proportion of foreign shareholders may not exceed 50 per cent of the Company's issued capital. If the proportion of foreign shareholders reaches 40 per cent, Deutsche Lufthansa AG is empowered, under Section 4 Paragraph 1 German Aviation Compliance Documentation Act (LuftNaSiG) together with Section 71 Paragraph 1 No. 1 German Stock Corporation Act (AktG), to buy back its own shares to prevent imminent excessive foreign control. If the proportion of foreign shareholders in the share register reaches 45 per cent, the Company is authorised, subject to Supervisory Board approval, to increase the issued capital by issuing new shares for payment in cash by up to 10 per cent, without subscription rights for existing shareholders (Section 4 Paragraphs 2 and 3 LuftNaSiG together with Section 4 Paragraph 4 of the Articles of Association). If the proportion of foreign shareholders approaches the 50 per cent threshold, the Company is entitled to withhold authorisation to register new foreign shareholders in the share register (Section 5 Paragraph 1 of the Articles of Association).

Should the proportion of foreign investors exceed 50 per cent despite these precautions, Deutsche Lufthansa is authorised to require the most recently registered shareholders to sell their shares. If they 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 2007, 34.5 per cent of shareholders in the share register of Deutsche Lufthansa AG were either not German nationals or were companies not domiciled in Germany.

Direct or indirect shareholdings with more than 10 per cent of voting rights According to notification received on 7 July 2006, 10.56 per cent of voting rights are held by AXA S.A., Paris, of which 10.09 per cent are held by its American subsidiary AllianceBernstein L.P. There are no other shareholders with a stake in the issued capital of more than 10 per cent.

Holders of shares with special rights Lufthansa has no shares with special rights.

Control of voting rights for employee shares when control rights are exercised indirectly This rule is not applied in Germany.

Statutory regulations and provisions of the Company's Articles of Association on the appointment and dismissal of members of the Executive Board, and amendments to the Company's Articles of Association The Supervisory Board appoints the members of the Executive Board and decides how many board members there should be. The Supervisory Board can revoke appointments for board membership and to the position of Chairman of the Executive Board for good reason. All amendments to the Articles of Association must be approved by resolution of an Annual General Meeting, with a majority of at least three quarters of the issued capital present.

Powers of the Executive Board (share buy-backs, share issuance) Deutsche Lufthansa holds up to EUR 225m in authorised capital:

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

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

The Executive Board is also authorised, until 16 May 2011, to issue convertible bonds, bond/warrant packages 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). Due to conversions already effected in the past, at the balance sheet date conditional capital existed for the contingent increase of the issued capital by EUR 117,182,536.68 by issuing 45,774,428 new registered shares.

In addition, the Company is authorised, by resolution of the Annual General Meeting on 18 April 2007, to buy back its own shares until 17 October 2008. The resolution can be used to expand the financing alternatives in case of acquiring another company or equity shares. The proportion of shares acquired on the basis of this authorisation, along with any other Lufthansa shares that the Company has already acquired and still holds, must, at no time, amount to more than 10 per cent of issued capital.

Further information on authorised capital, contingent capital and share buy-backs is given in Note 36 to the consolidated financial statements, page 151.

Change of control agreements relating to the parent Company Lufthansa has no agreements of this kind.

Compensation agreements with members of the Executive Board or employees in the event of a takeover offer No compensation agreements of this kind have been made in the Lufthansa Group.

2. Economic environment

2.1 Macroeconomic situation

2.1.1 Economic growth

GDP Growth

in %	**2007**	2006	2005	2004	2003
World	3.8	4.0	3.4	3.9	2.7
Europe	2.9	3.2	2.1	2.5	1.4
- Germany	2.6	3.1	1.0	0.6	–0.2
North America	2.3	2.9	3.1	3.6	2.5
South America	5.0	5.1	4.2	5.7	1.7
Asia/Pacific	5.8	5.5	4.8	5.2	4.1
- China	11.5	11.1	10.4	10.1	10.0
Middle East	5.0	5.5	5.8	7.9	5.6
Africa	6.1	5.6	5.5	5.2	4.6

Source: Global Insight World Overview as of 12.1.2008.

The global economy continued its expansion phase in 2007. The development was driven by the consistently dynamic influence of the emerging markets, especially in Asia and, above all, in China and India. Overall, economic growth therefore proved relatively resistant to the turbulence on the financial markets in the second half of the year. Experts estimate that the world economy grew by 3.8 per cent in 2007. This would be only slightly below the figure for 2006 of 4.0 per cent.

In the USA the economic situation cooled down considerably in 2007. Over the course of the year, growth was subdued by the property crisis, high energy prices and uncertainty as to how the financial crisis would affect the wider economy. Consumption by private households remained the mainstay of the US economy, but estimated growth of 2.3 per cent was weaker than the previous year's 2.9 per cent.

In Asia the picture varied from region to region, with overall growth at 5.8 per cent. The Japanese economy lost momentum in 2007, and growth declined to 1.9 per cent.

Asia's emerging markets continued their robust growth trend, however. Here, growth of 8 per cent is expected in 2007, which represents even a slight increase (+0.3 percentage points) compared with the previous year's figure. Exports provided the main impetus, but domestic demand also picked up. China managed to accelerate its year-on-year market growth again in 2007, expanding at the rapid speed of 11.5 per cent. This puts economic growth at over 10 per cent for five years in a row. The expansion is principally due to investments in capital goods and the strong export trade, with private consumption showing lower growth rates.

In Europe economic experts are predicting solid growth of 2.9 per cent for 2007. While the economies in France, Italy and Portugal were sluggish, Finland, Greece, Austria and Spain reported high growth rates. Positive economic developments in Germany also contributed to the euro zone's overall upwards trend. The VAT increase at the beginning of 2007, and nervousness concerning the US financial crisis, did affect the economy in Germany, too, but the upswing managed to continue during 2007. Analysts are expecting growth of 2.6 per cent for the reporting year, driven by both overseas and domestic demand.

2.1.2 Currency development

The US dollar has lost an annual average of around 8 per cent of its value against the euro. Within the Lufthansa Group the negative effects on the revenue side were compensated by positive effects on the cost side. Investments in the fleet, which are made in US dollars, also benefited. The declining exchange rate for the Japanese yen and Swiss francs had a negative impact for Lufthansa, however, as ticket revenue in these currencies was worth less. Nevertheless, from a Group perspective, the costs at SWISS were lower for being denominated in Swiss francs.

Currency development (€ in foreign currency)

	2007	2006	2005	2004	2003
USD	1.3615	1.2565	1.2443	1.2440	1.1323
JPY	161.04	146.14	136.85	134.41	131.03
GBP	0.6807	0.6817	0.6836	0.6783	0.6919

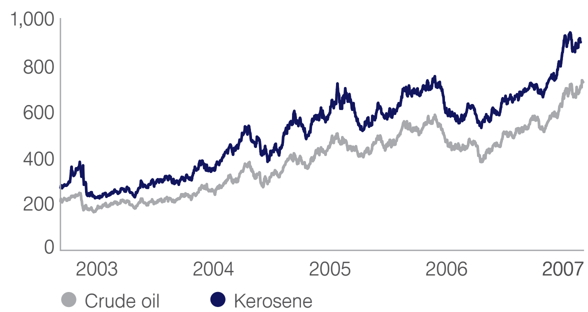
Source: Reuters, annual average daily price.

2.1.3 Oil price development

Oil prices rose dramatically over the course of the year to reach new all-time highs. Prices for IPE Brent fluctuated between around USD 52 and 96 a barrel. In comparison with the previous year, the annual average price in 2007 rose by about 10 per cent. The main causes were continued high demand from Asia and the USA, coupled with an insufficient expansion of capacity by OPEC. Political insecurity in some oil-producing countries and financial derivatives on the oil price also contributed to higher prices. The high crude oil price also drove up the cost of kerosene. This ranged from USD 535 to 943 per tonne, with an average price for the year of USD 707 per tonne. This was some

10 per cent higher than in 2006. Increased prices resulted in greater expenses for the Lufthansa Group. In 2007, fuel expenses rose by a total of 15.1 per cent to EUR 3.9bn, including the effects of consolidation, volume and currency.

Price development of crude oil and kerosene in USD/t

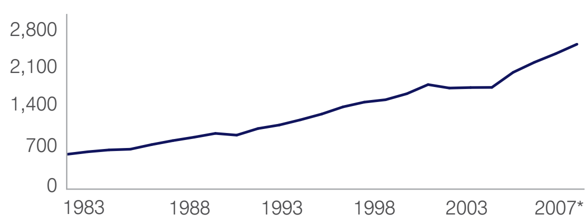


Source: Lufthansa based on market data.

2.2 Sector developments

2.2.1 Aviation is a growth industry

Demand development in revenue passenger kilometres (RPK)



* Preliminary figures.
Source: ICAO News Release and IATA Carrier Tracker.

Civil aviation, which has been experiencing sustained growth in recent years, is a dynamic business currently defined by greatly differing trends. In some developed countries with mature markets such as the USA, growth prospects are currently more limited, whereas emerging economies such as China and India are expected to experience continued rapid expansion. Economic development in Asia and the Gulf states means that air traffic is increasing there, too, giving rise to high-growth airlines which could become competitors or partners. At the same time, the competitive and industrial landscape is being changed by new business models: no-frills carriers are here to stay and are now searching in turn for new growth opportunities.

2.2.2 Current sector situation

Favourable macroeconomic developments were also good for air traffic in 2007. It was a year of particular growth for the industry. According to IATA figures the passenger sector grew by 7.4 per cent and airfreight by 4.3 per cent over the year.

Sales growth 2007

in %	Passenger-kilometres	Freight tonne-kilometres
Europe	6.0	2.7
North America	5.5	0.7
South America	8.4	– 5.4
Asia/Pacific	7.3	6.5
Middle East	18.1	10.1
Africa	8.0	– 6.0
Industry	7.4	4.3
Lufthansa*	6.8	3.2

* Without SWISS.
Source: IATA Carrier Tracker 12/07.

Continued growth in air traffic led to increased revenue at Lufthansa as well, especially in the Passenger Transportation segment.

2.2.3 Current challenges

Competition within Europe is not yet governed by totally uniform conditions. Besides further reduction of state subsidies, in view of the progressive liberalisation through "Open Skies", the sensible merging of airlines can create opportunities in the global market.

This is why the trend towards consolidation in the aviation industry continues unabated. Successful mergers, in Europe with Air France-KLM or Lufthansa and SWISS, for example, are followed by further intentions. Not all the projects will come to fruition and not all will be successful. As Lufthansa has declined to put in a bid for Alitalia in the ongoing sales process, Air France is currently in exclusive negotiations to acquire the Italian airline. As part of the European consolidation process, a suitable solution is also being sought by the Spanish carrier Iberia. The competitive environment is also changing within Germany. After having acquired dba, Air Berlin is currently integrating LTU and is planning the takeover of Condor in 2009, as well. In January 2008 Lufthansa, TUI Travel and Albrecht Knauf Industriebeteiligung have entered into due diligence audits on the basis of a memorandum of understanding for merging their subsidiaries Germanwings, Eurowings, Hapag-Lloyd Fluggesellschaft and Hapag-Lloyd Express, in a common, independent holding.

The no-frills sector developed dynamically in 2007. Its market share grew again and is now at 55 per cent for traffic within Germany/European Union. No-frills carriers are now also starting to offer long-haul flights, but so far, only a few routes can be operated profitably.

The opening up of the aviation markets offers new opportunities in air traffic worldwide. The global market is, therefore, seeing the arrival of new competitors with enormous growth potential and favourable business conditions. This enabled airlines in the Gulf region to achieve growth of 18.1 per cent in passenger numbers and 10.1 per cent in cargo, according to IATA estimates, although they have virtually no local air traffic volume. The Gulf airlines are underlining their desire for growth with major orders of new aircraft, and are also making great efforts to obtain additional traffic and landing rights in countries with a developed air traffic infrastructure.

2.3 Regulatory and legal framework

The “Open Skies” treaty between the European Union and the USA comes into effect in March 2008, and will lead to a further liberalisation of air traffic. London Heathrow is no longer limited to certain airlines. This will create potential for EU and US carriers to enter the market. For Lufthansa, new opportunities are opening up, in particular on transatlantic routes. For air traffic in Germany and Europe we expect little change. The second part of the treaty is still under negotiation and will deal especially with increasing opportunities for equity investments in airlines.

The increasingly strict requirements for security checks and the transfer of growing amounts of passenger data mean, however, that operative processes have to be continually adapted, at high cost. These measures, together with record fuel prices, are forcing increased cost discipline, responsible risk management and structural changes on the whole industry.

Climate protection is a current topic in focus on aviation. The industry’s efforts in respect of this target the speedy implementation of effective actions, which work without endangering the economic foundations of air traffic. According to plans by the European Commission, air traffic is also to be included in the European emissions trading scheme. Controversial discussions are currently taking place on the subject. The aviation industry does not consider the present approach to lead to the desired results, because emissions trading does not combat causes. A regionally limited emissions trading scheme would be more likely to result in higher administrative expenses and distort competition at an international level. Lufthansa, therefore, primarily advocates the creation of an efficient air space infrastructure to protect the environment. Innovative measures such as landing fees, staggered according to emissions volumes, and the high economic impact of fuel costs on airlines, create sufficient incentives for further environmental improvements.

At the end of 2007 the expansion of Frankfurt Airport was approved, which is an important step in the right direction. The official approval of the plan, however, contains operational regulations which do not fulfill the requirements of the Lufthansa Group companies asserted in the administrative proceedings thus far. Among other things, the number of night flights between 11 p.m. and 5 a.m. is limited to 17, which are available for home-base carriers with priority for pure freight flights. Lufthansa appealed against this decision on 8 February 2008, in compliance with the statutory time limit.

The new regulations requiring itemising of air ticket prices to show all relevant costs further strengthen consumer rights. The Internet also improves price transparency and increases the influence of the consumer. For Lufthansa this means reinforcing our market position as a quality airline with tailored products for different customer groups and a special service.

The pricing practice common in the industry is currently being investigated in the German courts in response to litigation by consumer protection agencies. According to the standard general terms of business used today, tickets may only be used in full and booked order. Otherwise the ticket is not valid and the price for a changed flight is recalculated according to the route actually taken. As the disputed rules are also anchored in the IATA terms and conditions, a final judgement will affect the whole industry.

3. Course of business and economic position

3.1 Overall statement on the course of business and achievement of targets

3.1.1 Course of business

The benign economic environment in 2007 had a positive effect on Lufthansa's business. The Group's business segments were able to increase sales profitably. We accepted the challenges currently facing the industry and dealt with them very successfully.

The negative effect of record oil prices was more than compensated for by cost improvements in other areas and efficiency gains.

In the strategic business segment Passenger Transportation, we were able not only to regain market share in a highly competitive European market with the help of the "betterFly" offers, but also to increase revenue substantially.

Foresighted, we have positioned ourselves for further liberalisation of air traffic with "Open Skies". We are in a strong position at London Heathrow thanks to our stake in British Midland (bmi), and our equity investment in the American carrier JetBlue Airways improved our market access in the USA. We monitored the global consolidation trend very closely in the reporting year and weighed up the opportunities and risks extremely carefully.

3.1.2 Achievement of targets

The Executive Board of Deutsche Lufthansa AG is very pleased with the course of business in 2007. The major targets we set were either achieved or exceeded. We had defined our goal of profitable growth as an operating result of at least EUR 1bn in 2008, a sum that we have already exceeded by a clear margin a year early. We also met our other objectives, or are well on the way to doing so. It has been the development of our own business principally that has contributed towards this, but also the integration of SWISS. The following table gives an overview of Group targets, which are discussed in more detail in the corresponding chapters.

All the business segments expanded and further improved their market positions and revenues.

For the Passenger Transportation segment we had aimed to develop our capacities by 5 per cent, in line with the market, and to increase the passenger load factor at the same time. We achieved this and regained market share, especially in the European arena. Thanks to lively demand, positive cost developments and our improved competitive position, we were also able to increase profitability. The acquisition of SWISS is now complete and contributes to improved earnings in the Passenger Transportation business segment.

Target	Achievement in 2007
Continued profitable growth	13% revenue growth 63% higher operating result
Operating result of at least EUR 1bn in 2008	EUR 1,378m operating profit
Further increase in cash value added (CVA)	EUR 1,546m CVA (+ EUR 994m)
Sustainable synergies from integrating SWISS of EUR 156m p.a.	EUR 233m synergies and profitable growth at SWISS
Minimum liquidity of EUR 2bn	Liquidity EUR 3.6bn
Medium-term equity ratio of 30%	30.9% equity ratio
Maintain investment-grade rating	Moody's: Baa3/positive S&P's: BBB/stable
Dividend continuity related to operating result	41.5% pay-out ratio of operating result
New in 2007:	
Top profitability compared to European competition, as measured by operating margin	6.9% adjusted operating margin (+ 2.0p.pts.)

The business segments Logistics, MRO and Catering are also profitable and create value. Lufthansa Cargo is improving its competitive position by means of strategic partnerships, and strengthened its profitability in 2007 with the "Excellence + Growth" programme. Lufthansa Technik is constantly widening its customer base and is well positioned for future growth. LSG Syk Chefs is also increasing its profitability and reinforcing its market position further with innovative products. Business performance in the IT Services segment suffered due to the suspension of the FACE project.

Overall we recorded profitable growth in a positive economic environment marked by major changes in the aviation industry. We have come a long way towards our target of achieving top profitability in the sector, and we have made a number of key decisions enabling us to pursue this course.

3.1.3 Significant events

On 2 April we closed the sale of our Thomas Cook stake to KarstadtQuelle (now Arcandor) and, as part of the transaction, temporarily increased our stake in Condor Flugdienst GmbH from 10 per cent to 24.9 per cent. Lufthansa also had a pre-emptive right to buy the Condor stake held by Thomas Cook prior to their planned sale to Air Berlin. After careful examination, we decided for strategic and financial reasons not to exercise this right.

As of 1 July the integration of SWISS was completed, with all major air traffic rights having been secured. Lufthansa now holds 100 per cent of the shares in AirTrust AG and since then has exercised economic and financial control over SWISS. From this point on, SWISS has been fully consolidated in the consolidated financial statements.

In the course of modernising and expanding our fleet, 45 regional aircraft and 30 short-and medium-haul aircraft for European traffic, as well as nine long-haul and two short- and medium-haul aircraft for SWISS, were ordered. At the end of 2007, Lufthansa had outstanding orders for a total of 175 aircraft, which are due to be delivered by 2015. This will reduce unit costs substantially and make the fleet even more efficient. As Lufthansa owns a high percentage of the Group fleet itself, it can react flexibly to any changes in demand.

New wage settlements were signed for ground and cabin staff in February and June 2007. Basic pay went up by 3.4 per cent and staff also participate in the Company's success by means of a profit-share payment. A crisis agreement means that Lufthansa can adjust personnel capacities flexibly.

On 31 May 2007, the rating agency Moody's raised its outlook for the Baa3 credit rating from "stable" to "positive" in recognition of the Company's progress and further improvements to its financial profile.

Lufthansa's Supervisory Board decided on 19 September to establish a joint airfreight company with Deutsche Post World Net via their subsidiaries. Lufthansa Cargo and DHL Express each hold 50 per cent of the new company AeroLogic, which is based in Leipzig. The airline will focus on airfreight and express deliveries to and from Asia.

To improve our access to the North American market, we signed an agreement to purchase 19 per cent of the American airline JetBlue Airways on 13 December 2007. The transaction was concluded on 22 January 2008, and is to be followed by joint operations.

3.2 Overall statement on the economic position of the Group

3.2.1 Overall assessment

In the opinion of the Executive Board, Lufthansa Group delivered excellent performance in 2007. We clearly improved all earnings indicators and added value. Greater performance and efficiency, and therefore profitability, were the watchwords in all segments. We have our costs under control despite negative factors such as the volatile oil price. We made further increases in the adjusted operating margin, which is now at 6.9 per cent (previous year: 4.9 per cent) and is an important indicator for our improved profitability. Value creation in the Group was also up: cash value added (CVA) rose by EUR 994m to EUR 1,564m.

We also continued to strengthen our financial stability. Net liquidity is at EUR 768m and the equity ratio was raised to 30.9 per cent. This means that for the first time, we have reached our goal of a 30 per cent equity ratio. These results were also appreciated by the rating agencies, and Moody's raised its outlook for Lufthansa. All in all, Lufthansa is, and remains, one of the few airlines worldwide with an investment-grade rating.

The economic positions of the individual business segments are described in detail in the relevant sections in the chapter "Business segment performance", from page 66 onwards.

3.2.2 Standards applied

As in previous years, the consolidated financial statements for 2007 and the quarterly reports were prepared in accordance with the International Financial Reporting Standards (IFRS). The interpretations of the International Reporting Interpretations Committee (IFRIC) as adopted for the European Union (EU) were applied, as were the regulations stipulated in Section 315a Paragraph 1 of the German Commercial Code (HGB). All mandatory standards and interpretations for the 2007 financial year were respected.

3.2.3 Changes to the group of consolidated companies

There were significant changes to the group of consolidated companies compared to the previous year. As of 1 July 2007, Swiss International Air Lines and its subsidiaries were included in the consolidated financial statements of Deutsche Lufthansa AG for the first time. Compared to year-end 2006, the group of consolidated companies also saw the additions and departures listed in the table "Changes in the group of consolidated companies in 2007" (see Notes, page 120). These changes had a significant effect on the consolidated balance sheet and income statement in comparison with the previous year. The effects are described in detail in the Notes, on page 123.

Further details are also included in the relevant sections of the chapters "Earnings position", "Financial position" and in the individual business segments, particularly Passenger Transportation.

4. Earnings position

4.1 Revenue and income

Revenue and income

	2007 in €m	2006 in €m	**Change** in %	Percentage of operating income in %	Adjusted for consolidation changes in %
Traffic revenue	17,568	15,354	14.4	72.9	5.1
Other revenue	4,852	4,495	7.9	20.1	5.5
Total revenue	22,420	19,849	13.0	93.0	5.2
Changes in inventories and work performed by the enterprise and capitalised	119	152	– 21.5	0.5	– 21.5
Other operating income	1,571	1,399	12.3	6.5	1.6
Total operating income	24,110	21,400	12.7	100.0	4.7

The Lufthansa Group increased operating income to EUR 24.1bn in the financial year just ended. The increase is predominantly due to higher traffic revenue. Other revenue and other operating income also both performed well.

4.1.1 Traffic revenue

Traffic figures of the Lufthansa Group's airlines

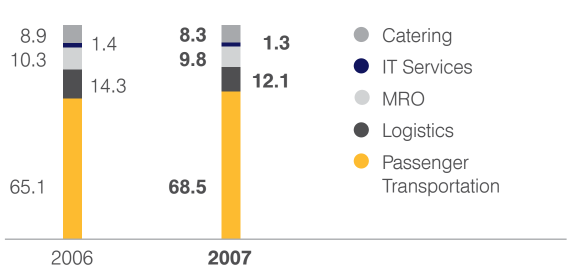
		2007	2006	**Change** in %
Passengers	thousands	62,894	53,432	17.7
Available seat-kilometres	millions	169,108	146,720	15.3
Revenue passenger-kilometres	millions	130,893	110,330	18.6
Passenger load factor	%	77.4	75.2	+ 2.2pts.
Freight/mail	thousand tonnes	1,911	1,759	8.6
Cargo load factor	%	67.4	67.7	– 0.3pts.
Available cargo-tonne-kilometres	millions	13,416	11,969	12.1
Revenue cargo-tonne-kilometres	millions	9,043	8,103	11.6
Total available tonne-kilometres	millions	30,339	26,667	13.8
Total revenue tonne-kilometres	millions	22,198	19,216	15.5
Overall load factor	%	73.2	72.1	+ 1.1pts.
Number of flights		749,431	664,382	12.8

Traffic revenue for the Group rose by a total of 14.4 per cent to EUR 17.6bn, thanks to good business performance and the initial consolidation of SWISS. Of this increase, 9.4 per cent is due to the effects of consolidation and 6.4 per cent to higher volumes. Exchange rate effects outweighed the positive price effects and reduced traffic revenue by EUR 479m (–3.1 per cent). The Passenger Transportation business segment accounts for traffic revenue of some EUR 14.8bn. This is 16.8 per cent more than in the previous year, although exchange rate movements reduced the total by 2.9 per cent. In the Logistics segment, traffic revenue declined by 3.2 per cent to EUR 2.6bn, despite higher volume and load factor, as a result of declining average yields.

4.1.2 Other revenue

Other revenue is primarily generated in the MRO, Catering and IT Services segments, but to a lesser extent in Passenger Transportation and Logistics, as well. It went up overall by 7.9 per cent to EUR 4.9bn. Of this total increase, 2.5 per cent is due to changes in the group of consolidated companies. The segments MRO (+6.7 per cent) and Catering (+5.2 per cent), in particular, were able to increase their external revenue substantially.

External revenue Share of business segments in %



External revenue for the Group rose overall by 13.0 per cent to EUR 22.4bn. Passenger Transportation's share of total revenue went up to 68.5 per cent (+3.4 percentage points). The Logistics segment share sank to 12.1 per cent (–2.2 percentage points), however. The other segments' share of total revenue remained fairly stable.

A regional breakdown of revenue by sales location is given in the segment reporting (see the Notes to the consolidated financial statements, page 174, Note 49). For the Passenger Transportation and Cargo segments is a regional analysis of traffic revenue by traffic region included in the comments on each business segment (from page 72).

4.1.3 Other operating income

Adjusted for consolidation changes, other operating income increased moderately by 1.6 per cent to EUR 1.6bn. This includes book gains of EUR 24m – considerably less than in the previous year (EUR 86m). Of these, EUR 9m were from the sale of ten regional aircraft and EUR 9m from the sale of land and property in the Catering segment. In 2006, EUR 29m were recognised as income from the sale of shares in time:matters GmbH and EUR 11m on the disposal of LSG Sky Chefs France. Foreign exchange gains from converting foreign currency receivables and liabilities, which are also included in other operating income, increased by EUR 143m. The corresponding foreign exchange losses, recognised in other operating expenses, went up by EUR 97m. The changes in the group of consolidated companies affected foreign exchange gains and losses by around EUR 80m each. Reversals of provisions stood at EUR 163m (previous year: EUR 129m), of which EUR 10m were from the consolidation changes. A detailed breakdown of other operating income is included in Notes to the consolidated financial statements, Note 6 on page 132.

4.2 Expenses

Operating expenses

	2007 in €m	2006 in €m	**Change** in %	Percentage of operating expenses in %	Adjusted for consolidation changes in %
Cost of materials and services	11,553	10,302	12.1	51.3	3.7
- of which fuel	3,860	3,355	15.1	17.1	5.3
- of which fees and charges	3,174	2,824	12.4	14.1	3.3
- of which other raw materials, consumables, supplies and purchased goods	2,408	2,187	10.1	10.7	7.0
- of which external MRO services	759	667	13.8	3.4	4.9
- of which operating leases	200	150	33.3	0.9	– 12.7
Staff costs	5,498	5,029	9.3	24.4	4.8
Depreciation, amortisation and impairment	1,204	1,051	14.6	5.3	8.4
Other operating expenses	4,269	3,940	8.4	19.0	– 0.3
- of which sales commission paid to agencies	651	633	2.8	2.9	– 5.9
- of which staff-related expenses	726	615	18.0	3.2	13.9
- of which rental and maintenance expenses	723	632	14.4	3.2	11.4
Total operating expenses	**22,524**	**20,322**	**10.8**	**100.0**	**3.4**

Operating expenses went up by 10.8 per cent, which is well below the increase in operating income. All the expenses included here were affected by consolidation changes – most visibly those for materials and services and staff.

4.2.1 Cost of materials and services

The largest item within the cost of materials and services is fuel, at EUR 3.9bn. Changes in the group of consolidated companies account for 9.7 per cent of the 15.1 per cent increase. Volume went up by 5.1 per cent and fuel prices, including hedging in USD, by 7.6 per cent. The weak dollar brought costs down by 7.3 per cent, however. Price hedging also saved EUR 109m in fuel costs.

Other raw materials, consumables and supplies and purchased goods went up by 10.1 per cent, or 7.0 per cent after adjusting for consolidation changes. The increase is primarily due to the good performance in the MRO and Catering segments.

Fees and charges also climbed sharply to EUR 3.2bn, mainly due to the initial consolidation of SWISS. Without this effect they would have been 3.3 per cent higher. The highest increases after adjustment for consolidation changes were in fees for security (+19.0 per cent) and flight safety (+9.0 per cent) charges. Landing fees, on the other hand, came down by 1.3 per cent. Handling and passenger fees remained at the same level as in the previous year, despite higher traffic volumes.

Higher costs for MRO services and operating leases are largely the result of the initial consolidation of SWISS. The adjusted MRO expenses would have risen by 4.9 per cent for comparison. The main reason for the increase is engine overhaul work performed outside the Group, which was necessary due to the growing sub-fleets of Airbus A340-600 and Airbus A330-300. The operating lease payments would have declined by 12.7 per cent without the effect of SWISS, however. SWISS currently deploys 38 aircraft on operating leases.

4.2.2 Staff costs

Staff costs rose by 9.3 per cent, reaching EUR 5.5bn. On average over the year, the Group had 100,779 employees, 7.7 per cent more than the year before. Of these, a total of 5,590 worked at companies consolidated for the first time (a total increase of 6.0 percentage points). Around half of the increase in staff costs (4.5 per cent) is due to consolidation changes. Adjusted for these effects staff costs would have risen by 4.8 per cent. Salaries and wages rose by 11.5 per cent to EUR 4.5bn (adjusted: +6.7 per cent). This growth is mainly based on the rise in basic salary for ground and cabin staff in Germany, as well as one-off payments and a substantially higher profit-share payment. Other staff costs went down by 3.0 per cent. This reflects considerably lower additions to pension provisions following alterations to the plan in the previous year which had a one-off catch-up effect.

4.2.3 Depreciation, amortisation and impairment

Amortisation, depreciation and impairment in the financial year amounted to EUR 1.2bn. Consolidation changes were responsible for EUR 65m of these. Depreciation of aircraft accounted for EUR 902m or EUR 38m more than in the previous year after adjustment. The rise in aircraft depreciation is due to new purchases from the end of 2006. Impairment losses of EUR 44m were also recognised, almost exclusively on capitalised work performed internally and advance payments for the FACE project in the IT Services segment. The project's development was suspended, as the commercial goals could not be attained.

4.2.4 Other operating expenses

The rise in other operating expenses by 8.4 per cent to EUR 4.3bn is due exclusively to the effects of consolidation changes. Staff-related expenses also went up by EUR 111m to EUR 726m. Of this, EUR 26m is due to changes in the group of consolidated companies. The remaining increase primarily results from deploying more external staff at peak times and for temporary project work. Higher travel expenses for cabin crew in connection with expanded traffic capacities also played a role. Rental expenses (EUR 723m) increased by EUR 72m on a like-for-like basis. Agency commissions were 2.8 per cent higher than in the previous year at EUR 651m, but would have dropped again, by 5.9 per cent, without the effects of consolidation changes. A detailed list of other operating expenses is given in Note 10 to the consolidated financial statements on page 133.

4.3 Earnings development

All earnings indicators improved considerably in the 2007 financial year.

Profit from operating activities rose by 47.1 per cent to EUR 1.6bn.

To obtain the **operating result** we adjust the profit from operating activities for net book gains, reversals of provisions, impairment losses, results of financial investments and the valuation of non-current financial liabilities on the reporting date. This provides an indicator of pure operating performance which can be compared with prior years, too. In 2007, net income of EUR 208m (previous year: EUR 233m) was eliminated in this way (see table).

Reconciliation of results

in €m	2007 Income statement	2007 Reconciliation with operating result	2006 Income statement	2006 Reconciliation with operating result
Revenue	**22,420**		**19,849**	
Changes in stocks	119		152	
Other operating income	1,571		1,399	
- of which book gains from financial investments		– 59		– 105
- of which income from reversal of provisions		– 163		– 129
- of which write-ups on capital assets		0*		– 16
- of which period-end valuation of non-current financial liabilities		– 94		– 67
Total operating income	**24,110**	**– 316**	**21,400**	**– 317**
Cost of materials and services	– 11,553		– 10,302	
Staff costs	– 5,498		– 5,029	
- past service cost		0*		24
Depreciation	– 1,204		– 1,051	
- of which impairment charge		44		0*
Other operating expenses	– 4,269		– 3,940	
- of which expenses incurred from book losses and current financial investments		40		47
- of which period-end valuation of non-current financial liabilities		24		13
Total operating expenses	**– 22,524**	**108**	**– 20,322**	**84**
Profit from operating activities	**1,586**		**1,078**	
Total from reconciliation with operating result		– 208		– 233
Operating result		**1,378**		**845**
Income from subsidiaries, joint ventures and associates	354		305	
Other financial items	– 133		– 84	
EBIT	**1,807**		**1,299**	
Write-downs (on profit from operating activities)	1,204		1,051	
Write-downs on financial investments (incl. at equity)	12		43	
EBITDA	**3,023**		**2,393**	

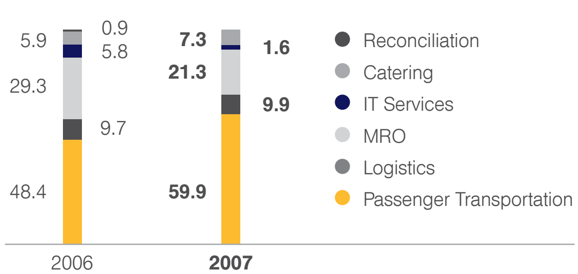
* Rounded below EUR 1m.

The eliminated book gains and gains on short-term financial investments were lower in 2007. The previous year included a profit of EUR 40m on the sale of time:matters and LSG Sky Chefs France. The reversals of provision went up somewhat, however, due to consolidation changes. The strong euro had an impact on the valuation of non-current financial liablilities on the reporting date. The income generated by the lower valuation was much higher than in the previous year, so that total eliminated income almost reached the same level as last year at EUR 316m. On the cost side, impairment losses, almost exclusively for capitalised work performed internally in connection with the FACE project (EUR 44m), and book losses of EUR 33m were added back to the operating result.

Following these adjustments, the operating result rose by 63.1 per cent to EUR 1.4bn. The adjusted operating margin, based on the operating result plus reversals of provisions (to enable a comparison with our competitors) divided by revenue, therefore, reached 6.9 per cent. The increase of 2.0 percentage points compared with the previous year reflects the concerted efforts of all business segments on the way towards "industry leadership".

As with revenue, the share of the operating result derived from the Passenger Transportation segment increased, rising from 48.4 per cent to 59.9 per cent. The MRO segment also made a vital contribution to the consolidated operating result of 21.3 per cent.

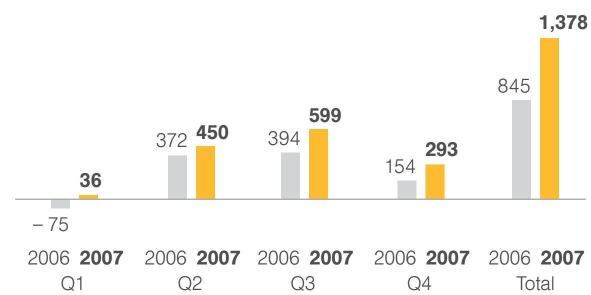
Operating result by business segment in %



Seasonal variations in profit at Lufthansa are particularly marked. Profit contributions in the first and final quarters are traditionally lower, while the second and third quarters make a higher contribution to the annual result.

The individual business segments also exhibit their own variations and distribution patterns. Altogether this has an impact on the Group's operating result.

Development of operating result in €m



Profit breakdown of the Lufthansa Group

	2007 in €m	2006 in €m	Change in %
Operating income	**24,110**	**21,400**	**12.7**
Operating expenses	22,524	20,322	10.8
Result from operating activities	**1,586**	**1,078**	**47.1**
Financial result	27	– 33	–
Earnings before income taxes	**1,613**	**1,045**	**54.4**
Income taxes	– 356	– 230	– 54.8
Profit of discontinued operations of the Leisure Travel segment	503	82	513.4
Result attributable to minority shareholders	– 105	– 94	– 11.7
Net profit attributable to shareholders of Deutsche Lufthansa AG	**1,655**	**803**	**106.1**

4.3.1 Financial result and EBIT

After 2005, the financial result is again positive in 2007. It is made up of an improved result from investments accounted for using the equity method of EUR 354m (previous year: EUR 305m), a much better negative interest balance of EUR –194m (previous year: EUR –254m) and other financial items of EUR –133m in total (previous year: EUR –84m).

Of the total increase of 16.1 per cent in the **income from equity investments** EUR12m is due to SWISS, which contributed profit accounted for using the equity method of EUR 180m in the first half of 2007, compared with EUR 168m for the whole of 2006. In 2007, there was also income of EUR 82m from WAM Acquisition S.A. included, of which EUR 71m came from the company's share buy-back, and EUR 11m from dividends. There were, however, no longer any profit contributions under this item from Lufthansa Worldshop GmbH and Miles & More International GmbH, as these are now fully consolidated. In 2006, they made a joint contribution of EUR 36m to the income from equity investments.

Net interest improved by EUR 60m. In addition to lower expenses, due to changes in the accrual rate for pension provisions, current interest expenses in particular, were much lower than in the previous year.

Other financial items were negative at EUR –133m (previous year EUR –84m). These include write-downs on shareholder loans amounting to EUR 12m and an increase of EUR 92m in the value of the earn-out paper due to former shareholders of SWISS.

Earnings before interest and taxes **(EBIT)** consist of the profit from operating activities plus income from equity investments and other financial items, and amounted to EUR 1.8bn. This was 39.1 per cent above the figure for the previous year.

4.3.2 Net profit for the year

The profit from operating activities plus the financial result add up to **profit before income taxes** of EUR 1.6bn, which is EUR 568m more than the previous year. It is diminished by effective and deferred taxes of EUR 356m (previous year: EUR 230m), resulting in a tax ratio of 22.1 per cent. The reduction in deferred tax expenses of EUR 192m is connected with the change in tax rates adopted from 2008, as part of the corporation tax reform. As the effective tax payment on deferred tax liabilities will only take place after the change in the tax rate, the existing deferred tax liability recognised for Germany needed to be reduced accordingly. A detailed reconciliation of forecast and effective tax expenses is given in Note 14 to the consolidated financial statements, page 135.

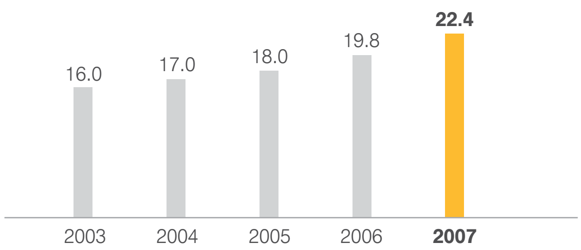
The sale of stake in Thomas Cook AG to KarstadtQuelle (now Arcandor) gave rise to an after-tax profit of EUR 503m. This is shown in the profit of discontinued operations of the Leisure Travel segment. In the previous year this item included the pro-rata share of Thomas Cook Group's after-tax result for 2006, accounted for using the equity method.

This brings **profit after income taxes** to EUR 1.8bn, after EUR 897m in the previous year. Of the total profits EUR 105m (previous year: EUR 94m) was attributable to minority shareholders; essentially (EUR 92m compared with EUR 85m in the previous year) to minority shareholders of AirTrust AG (until 30 June 2007). **Net profit** of EUR 1.7bn is attributable to shareholders of Deutsche Lufthansa AG. Basic earnings per share amount to EUR 3.61. Diluted earnings of EUR 3.60 reflect the potential conversion of the remaining EUR 47m from the convertible bond issued in 2002.

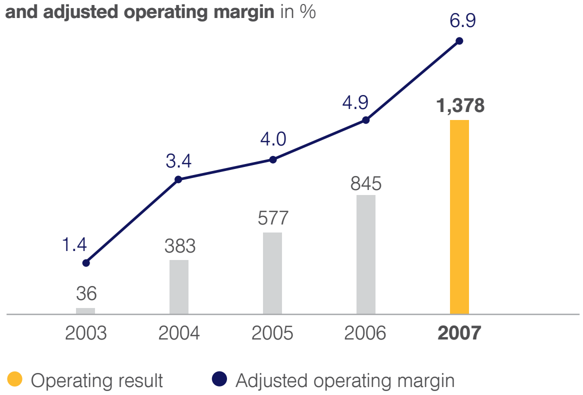
4.3.3 Long-term overview of earnings

The efforts we have made over the last years are bearing fruit. Lufthansa is growing and increasing its profitability. Revenue has increased steadily and the operating result has improved disproportionately. With the adjusted operating margin of 6.9 per cent achieved this year, we have taken a decisive step towards top-class profitability. Nevertheless, our efforts continue unabated.

Development of revenue in €bn



Development of operating result in €m
and adjusted operating margin in %



Group management report

4.4 Profit distribution and accounts for Deutsche Lufthansa AG

Income statement for Deutsche Lufthansa AG drawn up under the German Commercial Code

	2007 in €m	2006 in €m	Change in %
Traffic revenue	**13,522**	**12,694**	**6.5**
Other revenue	253	244	3.7
Total revenue	**13,775**	**12,938**	**6.5**
Other operating income	1,596	998	59.9
Operating expenses	– 14,628	– 13,928	5.0
Profit from operating activities	**743**	**8**	**–**
Financial result	489	671	– 27.1
Profit from ordinary activities	**1,232**	**679**	**81.4**
Taxes	– 109	– 156	30.1
Net profit	**1,123**	**523**	**114.7**
Transfer to retained earnings	– 551	– 202	– 172.8
Net result	**572**	**321**	**78.2**
Dividend proposal per share in €	**1.25**	**0.70**	**78.6**

Lufthansa's dividend policy is based on the principle of continuity, and is determined by the operating performance of the Group. The relevant financial statements for the dividend payment are those of Deutsche Lufthansa AG as the parent company of the Group, which show net profit for the 2007 financial year as calculated under the German Commercial Code (HGB) of EUR 1.1bn. After allocating EUR 551m to earnings reserves, this leaves distributable profit of EUR 572m. At the Annual General Meeting to be held on 29 April 2008, the Executive Board and Supervisory Board will propose the dividend payment of EUR 1.25 per share from distributable profit.

Balance sheet for Deutsche Lufthansa AG drawn up under the German Commercial Code

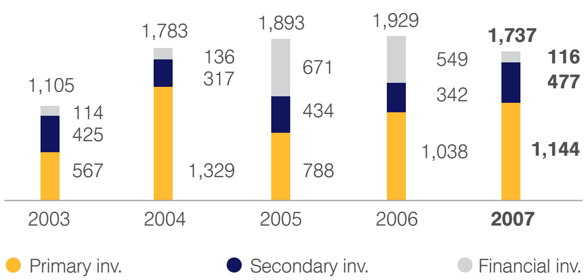
	2007 in €m	2006 in €m	Change in %
Assets			
Intangible assets	35	43	– 18.6
Aircraft	3,311	3,453	– 4.1
Property, plant and other equipment	90	67	34.3
Investments	8,846	6,927	27.7
Fixed assets	**12,282**	**10,490**	**17.1**
Stocks	22	25	– 12.0
Accounts receivable	570	836	– 31.8
Other assets and prepaid expenses	1,504	1,613	– 6.8
Liquid funds and securities	2,428	2,251	7.9
Balance sheet total	**16,806**	**15,215**	**10.5**
Liabilities and shareholders' equity			
Capital stock and share premiums	2,029	2,029	0.0
Retained earnings	1,510	958	57.6
Distributable earnings	572	321	78.2
Shareholders' equity	**4,111**	**3,308**	**24.3**
Provisions	8,562	7,816	9.5
Bonds and liabilities to banks	979	1,007	– 2.8
Other liabilities and deferred income	3,154	3,084	2.3
Balance sheet total	**16,806**	**15,215**	**10.5**

5. Assets and financial position

5.1 Capital expenditure

Lufthansa is growing and investing. Group capital expenditure – before deduction of cash acquired with the purchase of consolidated companies – was EUR 1.7bn (previous year: EUR 1.9bn). Included in this are primary investments amounting to EUR 1.1bn (previous year: EUR 1.0bn). These were invested for final payments of three Airbus A340s, two Airbus A321s and five Airbus A319s, plus one Airbus A340 bought by finance lease, aircraft overhauls, aircraft equipment and spare engines. An additional EUR 398m (previous year: EUR 271m) was spent on other plant, property and equipment, such as the new A380 hangar, the newly built training centre in Seeheim and a new catering facility in Frankfurt. EUR 79m (previous year: EUR 71m) was invested in intangible assets such as licences and goodwill. Investments in financial assets relate to equity investments, capital provided to associates and other lending, and amount to EUR 116m in total (previous year: EUR 549m). After deduction of EUR 0.3bn in cash acquired in the course of purchasing consolidated companies, total capital expenditure amounted to EUR 1.4bn (previous year: EUR 1.9bn).

Primary, secondary and financial investments in €m



The Passenger Transportation segment saw the highest capital expenditure, due to the ongoing programme to modernise the fleet. Lufthansa Passenger Airlines and Germanwings both took delivery of new aircraft. Segment capital expenditure was EUR 1.2bn (previous year: EUR 1.0bn). Investment here will continue in the years ahead. There are currently purchase commitments for 175 aircraft with an investment volume of EUR 7.4bn.

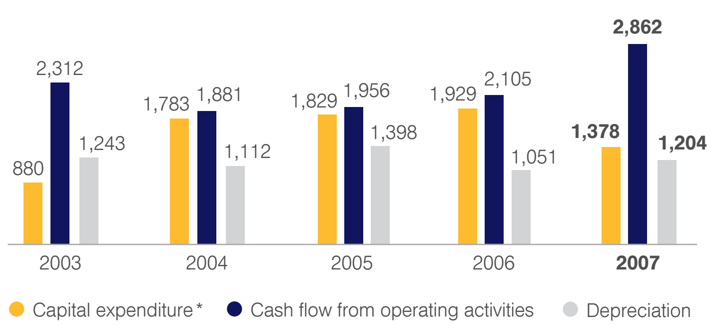
In contrast, the Logistics segment had very little segment capital expenditure at EUR 18m (previous year: EUR 13m). This was mostly spent on airfreight containers and aircraft overhaul work.

The MRO segment is currently expanding its maintenance capacities. In this context, segment capital expenditure of EUR 194m (previous year: EUR 111m) mostly went on the construction of the A380 MRO hangar in Frankfurt, which was completed in January 2008, and on expanding capacities in Manila and Hamburg.

In the IT Services segment EUR 54m (previous year: EUR 49m) was invested principally in software development and in acquiring the IT infrastructure of LSG Sky Chefs companies.

The Catering business segment is to take advantage of the extension of Frankfurt airport to move its cooking operations and set up a modern facility based on the latest "Lean Production" concepts. The segment capital expenditure of EUR 153m (previous year: EUR 71m) was primarily destined for this new building.

Capital expenditure, cash flow und depreciation Lufthansa Group in €m



* Capital expenditure excludes pro rata results from investments accounted for using the equity method and after deduction of cash acquired with the purchase of consolidated companies.

Group management report

5.2 Cash flow

Abbreviated cash flow statement of the Lufthansa Group

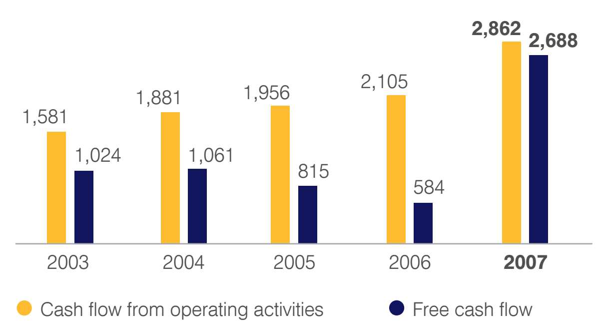
	2007 in €m	2006 in €m	**Change** in %
Cash flow from operating activities	**2,862**	**2,105**	**36.0**
Investments and additions to repairable spare parts of aircraft	– 1,503	– 2,073	– 27.5
Net proceeds on disposal of non-current assets	1,009	262	285.1
Interest income and dividend received	320	290	10.3
Net cash used in investing activities	**– 174**	**– 1,521**	**– 88.6**
Free cash flow	**2,688**	**584**	**360.3**
Purchase/sale of securities / fund investments	– 647	– 238	171.8
Long-term borrowings and repayments of long-term borrowings	120	– 580	–
Dividends paid	– 325	– 232	40.1
Interest paid	– 196	– 247	– 20.6
Net cash used in financing activities	**– 401**	**– 1,059**	**– 62.1**
Changes due to exchange rate differences	– 16	– 5	220.0
Cash and cash equivalents on 1.1	**455**	**1,173**	**– 61.2**
Cash and cash equivalents on 31.12	**2,079**	**455**	**356.9**

Cash flow from operating activities of the Lufthansa Group continues to develop very well. Net cash flow from operating activities was EUR 2.9bn in the reporting period, EUR 757m above the level of the previous year. This sharp rise is principally due to a considerable improvement in the profit before income taxes and positive changes in working capital. The difference between outstanding liabilities and unrealised receivables at the balance sheet date has increased as a result of further optimising payment targets to Lufthansa's advantage. In contrast, much higher income taxes were paid in 2007.

Gross capital expenditure, after deduction of cash acquired with the purchase of consolidated companies, amounted to EUR 1.5bn, in total. This includes the primary, secondary and financial investments described above and repairable spare parts for aircraft. The disposal proceeds (EUR 1.0bn) mainly include the cash payment of EUR 800m received from the sale of the Thomas Cook stake. Interest income and dividends received rose by 10.3 per cent to EUR 320m. Total **net cash used for investing activities** was EUR 174m (previous year: EUR 1.5bn).

Free cash flow, derived from cash flow from operating activities less net cash used for investing activities, went up as a result to EUR 2.7bn in 2007 (previous year: EUR 584m). The internal financing ratio was 207.7 per cent (previous year: 109.1 per cent).

Cash flow from operating activities and free cash flow in €m



A total of EUR 1.6bn was set aside for funding pension payments in Germany and abroad. Following the sale of securities/fund investments worth EUR 1bn, the position for purchase/sale of securities was balanced at EUR 647m. EUR 266m was used for the scheduled repayment of financial liabilities. New borrowing, on the other hand, only amounted to EUR 386m. Dividends to shareholders of Deutsche Lufthansa AG and minority shareholders of other Group companies stood at EUR 325m, and current interest payments at EUR 196m. For **financing activity**, therefore, only EUR 401m was used and **cash and cash equivalents** climbed by EUR 1.6bn to EUR 2.1bn (previous year: EUR 455m). Total liquidity (including securities held in the liquidity reserve) went up to EUR 3.6bn, an increase of 42.1 per cent over the previous year.

5.3 Asset position

5.3.1 Balance sheet structure and ratios

The balance sheet structure at 31 December 2007 is characterised by an expansion in the group of consolidated companies. This has significant effects throughout, which are reflected in changes to individual balance sheet items and in the indicators derived from them. In the following, these effects are, therefore, given in brackets.

The **consolidated balance sheet** total at the end of 2007 was EUR 2.9bn higher (EUR 1.7bn come from changes in the group of consolidated companies) than the comparable figure for 2006 at EUR 22.3bn. Non-current assets rose by EUR 1.1bn (EUR 558m due to changes in the group of consolidated companies) to EUR 14.1bn, and current assets even increased by EUR 1.8bn (EUR 1.1bn from consolidation changes) to EUR 8.2bn.

Among the **non-current assets**, the items aircraft and reserve engines alone went up by EUR 975m (EUR 888m from consolidation changes) to EUR 8.4bn and intangible assets by EUR 288m (of which EUR 322m from consolidation changes) to EUR 1.0bn. Financial assets declined by EUR 528m, due to the derecognition of the share in SWISS, which had previously been accounted for using the equity method and shown here.

Among the **current assets**, liquidity went up sharply, rising by EUR 1.1bn to EUR 3.6bn, including securities disposable at short notice (EUR 885m from consolidation changes). Current receivables and other financial assets also increased by EUR 547m. The disposal of the stake in Thomas Cook, which was previously accounted for using the equity method, had the opposite effect as it had been shown as current assets at year-end 2006 (EUR 372m). The proportion of non-current assets in the balance sheet total declined from 66.6 per cent at year-end 2006 to 63.1 per cent now.

Among equity and liabilities, **shareholders' equity** (including minority interests) rose by EUR 2.0bn compared to year-end 2006 and is now EUR 6.9bn. The increase mostly comes from the high profit after taxes of EUR 1.7bn, which reflects the good operating performance and also includes the net income of EUR 503m from the sale of the Thomas Cook stakes. Consolidated shareholders' equity also went up thanks to the initial consolidation of SWISS as of 1 July 2007, as the corresponding revaluation of all assets and liabilities led to a total increase of EUR 483m. The dividend payment of EUR 321m to the shareholders of Deutsche Lufthansa AG had the opposite effect and reduced equity accordingly.

The equity ratio rose to 30.9 per cent compared with 25.2 per cent at the end of the previous year. Our aim is a sustainable equity ratio of 30 per cent, which we have reached for the first time this year.

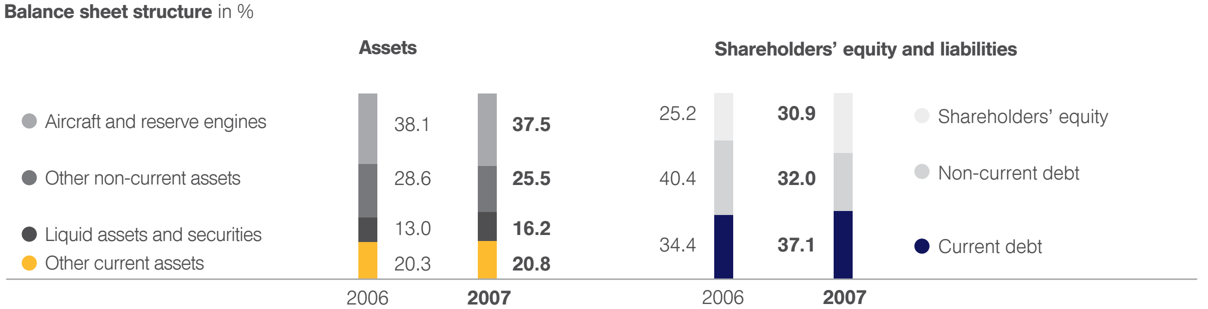
Development of result and equity

in €m	**2007**	2006	2005	2004	2003
Result*	1,760	897	612	408	– 978
Shareholders' equity*	6,900	4,903	4,522	4,014	2,696

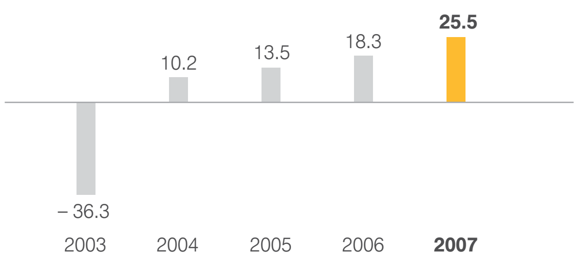
* Including minority interest.

The return on equity made further good progress. It has risen constantly for the last five years and is now 25.5 per cent.

Balance sheet structure in %



Return on equity in %



While non-current provisions and **liabilities** sank by EUR 721m to EUR 7.1bn, current provisions and liabilities went up by EUR 1.6bn (EUR 785m from consolidation changes) to EUR 8.3bn.

The decline in non-current provisions and liabilities is solely due to further funding of pension obligations of EUR 1.6bn in 2007, which reduces the obligation and shortens the balance sheet accordingly. The non-current financial liabilities went up in contrast, due to aircraft financing in 2007. Higher current provisions and liabilities are mainly a result of business expansion and the larger group of consolidated companies. The earn-out obligation towards the former shareholders of Swiss International Air Lines is now also recognised as a current liability as the payment is due in March 2008. The fair value of the obligation is currently at CHF 234m, the payment can go up to a maximum of CHF 390m, depending on the share performances of Lufthansa and its competitors.

The non-current proportion of the balance sheet, consisting of shareholders' equity and long-term liabilities, is now 62.9 per cent (previous year: 65.6 per cent). Non-current financing now covers 99.8 per cent of non-current assets (previous year: 98.5 per cent).

Equity ratio and gearing

in %	**2007**	2006	2005	2004	2003
Equity ratio	30.9	25.2	23.5	22.2	16.1
Gearing	24.5	75.7	85.8	92.5	182.4

Calculating net indebtedness

	2007 in €m	2006 in €m	**Change** in %
Bank borrowings	593	707	– 16.1
Bonds/LIFs	584	591	– 1.2
Other long-term financial debt	2,168	1,658	30.8
	3,345	**2,956**	**13.2**
Other bank borrowings	24	15	60.0
Group borrowings	**3,369**	**2,971**	**13.4**
Cash and cash equivalents	2,079	455	356.9
Securities	1,528	2,083	– 26.6
Non-current securities (liquidity reserve)	530	534	– 0.7
Net indebtedness	**– 768**	**– 101**	**660.4**

Gearing, calculated as the ratio of net indebtedness plus pension provisions to equity, is 24.5 per cent (previous year: 75.7 per cent) and is, therefore, below the target corridor of 40 to 60 per cent.

Net indebtedness is the balance of gross financial debt and available financial assets plus non-current securities which can be liquidated at short notice. It is currently negative, net liquidity amounts to EUR 768m (previous year: EUR 101m), of which SWISS accounts for EUR 554m.

5.3.2 Fleet

The Group's fleet is not only by far the largest asset in the balance sheet, but also is a resource which makes a key contribution to value creation. The Lufthansa fleet consists of both Airbus and Boeing planes in addition to various regional aircraft. This structure gives us the greatest flexibility in negotiations for new aircraft, as the Group has the training and technical resources necessary for flight operations for models of both suppliers. The different seating capacities and ranges of the individual models ensure that they can be closely adapted to the demands of various markets.

A modern, well-structured fleet is an important cornerstone for Lufthansa's future competitiveness. This means that a number of factors must be taken into consideration when renewing and expanding the existing fleet. The number and size of aircraft must match expected traffic flows. At the same time, the aircraft must be set up to meet the customers' wishes and to be as economical and environmentally friendly as possible, particularly regarding fuel consumption.

The current fleet order programme takes these aspects into account and also makes sure that sufficient capacity is available when needed.

The Airbus A380 is going to be the future backbone of our long-haul fleet for routes with high passenger traffic. In order to fill the gap in capacity caused by delivery delays, five Airbus A330s and seven Airbus A340-600s were ordered at the end of 2006, which will be put into service successively from summer 2008. To provide support for profitable growth at SWISS, its A330 fleet is also to be modernised and extended from 2009 onwards. With the order for the Boeing 747-8 Lufthansa will replace existing aircraft from 2010, and create additional capacities for planned growth in intercontinental traffic in line with the market.

Fleet orders		Deliveries
Long-haul fleet		
15	A380	2009–2015
20	B747-8	2010–2013
7	A340-600	2008–2009
5	A330-300	2008–2009
9	A330-300	2009–2011 (SWISS)
Short-haul fleet		
58	A320-family	2008–2012
11	A320-family	2008–2010 (Germanwings)
2	A320-family	2011–2012 (SWISS)
Regional fleet		
30	Embraer	2009–2012
15	CRJ900	2009–2010
3	Cessna Citation	2008–2009

Group fleet
Number of commercial aircraft and fleet orders of Lufthansa AG (LH), SWISS (LX), Lufthansa Cargo (LCAG), Lufthansa CityLine (CLH), Air Dolomiti (EN), Eurowings (EW) and Germanwings (4U) as of 31.12.2007

Manufacturer/ type	Number LH	LX	LCAG	CLH	EN	EW	4U	**Group fleet**	of which finance lease	of which- operating lease	Change as of 31.12.2006[1]	Additions 2008–2015	Additional options
Airbus A300	14	–	–	–	–	–	–	14	–	–	–	–	–
Airbus A310[2]	4	–	–	–	–	–	–	4	–	–	–	–	–
Airbus A319	20	7	–	–	–	–	24	51	1	15	12	22	–
Airbus A320	36	19	–	–	–	–	3	58	–	13	19	16	38[5]
Airbus A321	28	6	–	–	–	–	–	34	1	4	8	33	–
Airbus A330	10	11	–	–	–	–	–	21	–	9	11	14	11
Airbus A340	45	12	–	–	–	–	–	57	1	2	15	7	–
Airbus A380	–	–	–	–	–	–	–	–	–	–	–	15	5
Boeing 737	63	–	–	–	–	–	–	63	–	2	–	–	–
Boeing 747	30	–	–	–	–	–	–	30	–	–	–	20	–
Boeing MD11F	–	–	19	–	–	–	–	19	–	–	–	–	–
Canadair Regional Jet	9[3]	–	–	56	–	9	–	74	–	9	– 4	15	–
ATR	–	–	–	–	14	12	–	26	6	12	– 3	–	–
Avro RJ85	–	20	–	18	–	–	–	38	–	19	20	–	–
BAe 146	5[4]	–	–	–	–	15	–	20	–	19	1	–	–
Embraer[2]	–	4	–	–	–	–	–	4	–	4	4	30	20
Cessna	–	–	–	–	–	–	–	–	–	–	–	3	–
Total aircraft	**264**	**79**	**19**	**74**	**14**	**36**	**27**	**513**	**9**	**108**	**83**	**175**	**74**

[1] Including consolidation changes.
[2] Leased out to company outside the Group.
[3] Leased out to Eurowings.
[4] Leased out to Air Dolomiti.
[5] Airbus A320-family, i.e. either A319, A320, A321.

Group management report

Lufthansa has the route network in Europe. As a result of expanding the intercontinental routes this position also needs to be secured and developed. At the same time, we want to make the network more attractive for business travellers. This means that the European and regional fleets are systematically modernised and expanded. The successive delivery of the Airbus A320 sub-fleet ordered started in October 2007. From 2009 onwards, the regional fleet will be modernised with more efficient aircraft.

A key competitive success factor is the ability to adjust capacities to market developments. Lufthansa enjoys this flexibility in several respects. An anticipatory order policy with staggered orders for new aircraft covers our requirements under various growth scenarios. A high level of standardisation in the cockpit equipment of sub-fleets (e.g. the Airbus A320 family), means that they can be deployed flexibly across the different airlines in the Group. Furthermore, as the Group fleet is largely unencumbered, the growth path can be adjusted by optimising the share of new orders required for replacement and growth at short notice. In our current fleet programme, therefore, we attach great importance to this flexibility to adjust to different growth scenarios. If demand grows as expected, we will successively rejuvenate older sub-fleets with ordered aircraft as planned. If demand is brisker than forecast, however, we have the option of flying existing aircraft for longer. We have also secured options with flexible draw-downs for all sub-fleets in order to respond to higher demand at short notice. Equally, if the market should enter a longer downturn, we are in a position to withdraw aircraft from operations by bringing maintenance work forward or putting them out of service earlier. The fleet being mostly owned by the Group and the estimated useful life of twelve years provide this flexibility at only minimal ongoing financial expense.

5.4 Financing

5.4.1 Financial strategy

Our strong financial profile forms the basis for our planned capital expenditure. It is therefore a vital prerequisite for the Company's profitable growth. Our financial strategy is aimed at securing the Company's profitability, stability, liquidity and financial flexibility. To achieve these objectives, we have defined the following strategic pillars:

- Permanent access to strategic minimum liquidity of EUR 2bn
- Strengthen the capital structure by:
  - Sustainable equity ratio of 30 per cent
  - Gearing, including pension obligations, within a corridor of 40 to 60 per cent
- Maintain the investment grade rating
- Ensure financial and operating flexibility by high proportion of unencumbered aircraft
- Control the Group's financial risks by integrated risk management with the aim of focusing on smoothing out price fluctuations

Our dividend policy is also based on strict logical principles. Dividend payments are oriented towards operational earning power, as expressed by the operating profit. We aim for continuity in pay-out ratios. Extraordinary earnings can give rise to extraordinary distributions once the targets for the capital structure have been met, and if there are no value-creating strategic investment opportunities in sight.

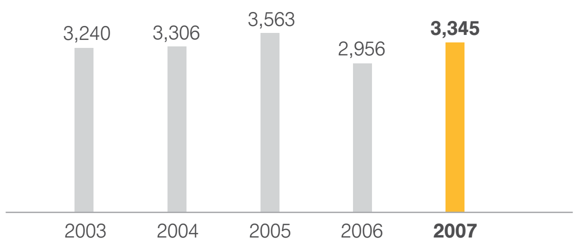
5.4.2 Financial management

The Lufthansa Group has a centralised financial management structure. An intra-Group financial compensation scheme and a cash management system reduce the financing volume and optimise the Group's financial investments. Planning financing requirements and liquidity on a Group level ensures that the Lufthansa Group always has sufficient liquidity available.

5.4.3 Financing and ratings

When selecting our financing instruments, we pay particular attention to financing costs, flexibility and the diversification of our investor base. Aircraft financing takes an important role, because in combination with the good corporate credit it is available on particularly favourable terms. Lufthansa also makes regular and successful use of the capital markets, which enables us to reach a wider group of investors.

Development of borrowings in €m

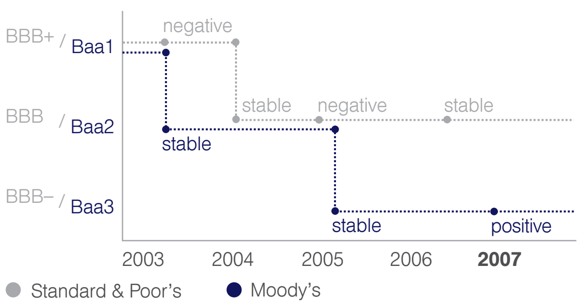


Lufthansa's current financing structure is described in the Notes to the consolidated financial statements on page 161, Note 40.

A number of banks have granted us bilateral credit lines with a maturity of one year. At the end of the financial year, credit lines amounting to EUR 2.3bn were available.

Lufthansa mainly refinances its business in euros, the reporting currency. 85 per cent of financial liabilities are to have floating interest rates. More information can be found in Note 48 to the consolidated financial statements on page 166 under "Price risks".

Development of rating and outlook



Thanks to its investment-grade rating from the two rating agencies Moody's and Standard & Poor's, Lufthansa can draw on the full range of different financing options. Lufthansa's positive development was also noted by the rating agencies. After Standard & Poor's raised its outlook to "stable" in October 2006, Moody's put its outlook up to "positive" in May 2007. We attach great importance to the dialogue with the rating agencies.

We also maintain permanent contact to debt-providers through regular creditor relations activities. This enables us to actively improve the information available to our investors and lenders.

5.4.4 Significant financing activities in the past financial year

In the 2007 financial year the Lufthansa Group successfully concluded six Japanese operating lease transactions. Four of these were for Lufthansa aircraft (two A340-600s and two A321-200s) and two for Germanwings (A319-100s). These transactions raised total funds of EUR 320m. The Japanese operating leases enabled the Lufthansa Group to borrow at an interest cost well below Euribor rate even after taking all the costs of the financing into account.

In 2007, we continued the funding of pension payments, which we started in 2004. In 2007, a tranche of EUR 1.6bn was transferred to the Lufthansa Pension Trust due to the extremely good liquidity situation. The full transfer of all retirement benefit liabilities to a trust model (CTA) is to take place continuously. This will allow the amount and the frequency of payments to be adapted to the Company's cash flows. At the end of 2007 the CTA model was optimised to offer more favourable taxation to the Company and its employees. Following the general financing model used in the Group and the leasing model for aircraft, the after-tax return was improved by putting the available funds into Maltese stock companies.

There were no significant **off-balance sheet financing activities** last year. However, various Lufthansa Group companies did sign rental and/or operating lease contracts. These mainly relate to leases for aircraft and property (see Note 22 to the consolidated financial statements, page 143).

1,097
apprenticeship training positions

300m
EUR investments in vocational and professional training

26.8%
part-time employment quota

Highlights

- In the global competition our international team is a key to success. People from 146 nations work at Lufthansa.
- We invested around EUR 300m in the vocational and professional training of our employees in 2007.
- We fill 86 per cent of management positions internally.

Headwind

- The rapidly growing air traffic industry is leading to a high demand for pilots worldwide.
- In view of increasing wages and salaries demanded by the trade union it is of vital importance to maintain the balance in pay settlement agreements.

Motivation, achievement, career

Our employees are our key success factor. Through their multiple contacts to the customers they define Lufthansa's image. This is why staff motivation and training are the prime objective of our human resources policy. As an attractive employer, we want to recruit highly qualified new talent and retain experienced staff over the long term. The tools used to achieve these aims include performance-related pay, good career opportunities and innovative flexitime schemes. These also play an important part in increasing the Company's flexibility in its demand-driven alignments.

6. Employees

Employees as of 31.12

		2007	2006	**Change in %**
Group employees	number	105,261	94,510	11.4
- of which Passenger Transportation	number	47,230	38,410	23.0
- of which Logistics	number	4,607	4,600	0.2
- of which MRO	number	18,892	18,426	2.5
- of which IT Services	number	3,102	3,321	– 6.6
- of which Catering	number	30,101	28,555	5.4
- of which Service and Financial Companies	number	1,329	1,198	10.9
Revenue per employee	€ thousands	222	212	4.7
Revenue per full-time equivalence	€ thousands	254	245	3.7

6.1 Centre of attraction for the next generation

In the service sector in particular, a company's success depends largely on the quality of its staff. Through their multiple contacts to the customers they define Lufthansa's image. Excellent services can only be delivered by excellent, motivated employees. Their understanding of values is crucial for lived compliance. Also, high productivity and flexibility in deploying staff are crucial for our offering to be cost-effective. In order to realise our growth plans for the years ahead, we need to attract the right number of qualified employees.

We continued to enhance our attractivity for the labour market in the last few years. This was amply demonstrated by a large number of top positions in various surveys and rankings:

- 1st place in Manager Magazin's image profiles, category "transport and tourism"
- 2nd place in the business ranking of the German Graduate Survey 2007
- Best German company in "Top 10 Companies for Leaders 2007" in Europe
- 3rd place in Forbes "most popular company" ranking out of 25 countries
- 3rd place in the Trendence school barometer
- Most attractive employer for women according to a study by HR consultancy Access

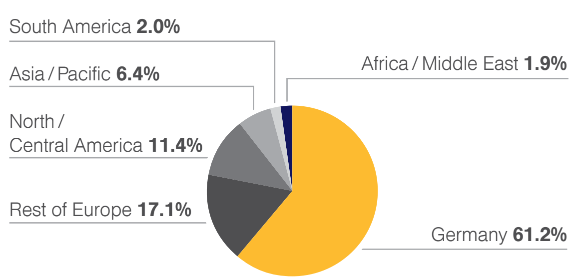
Our positive image means that we are a real attraction for new employees. In 2007, for example, we again received almost 100,000 applications for 3,000 vacancies. Of these candidates, 46,000 alone were interested in positions in services. This is the area where we grew fastest in the reporting year, and it will remain so in the future. By the end of September 2007, the total annual requirement for flight assistants and service agents had already been met. There is also great interest in a career as a pilot, with 6,644 applications for 244 places on the training course. There is also no shortage of young talent for management positions. There were 1,268 applications for the 18 places on the Bachelor of Science in Aviation Management degree at the European Business School, combined with the commercial training to become an "Air Transport Service Businessperson". The 13 management trainee positions on the ProTeam General Management programme attracted 2,266 applications from young people eager to take part in the 12–18 month course for young managers. These figures clearly show the enormous interest on the part of young people with academic qualifications for a career with Lufthansa. In order to continue attracting the most talented new recruits, we have set up an online talent pool where all applicants can register. In 2007, we were able to draw on the profiles of more than 40,000 candidates.

6.2 Vocational and professional training

For us, quality starts as soon as new staff are approached and selected. Our objective is always to choose the right person for each job and thereby to set high standards for the understanding of our values within the compliance we adhere to. To do so we attach just as much importance to applying meticulous and fair methods of personnel assessment as we do to approaching potential recruits in a targeted way. An innovative human resources marketing concept aimed at specific target groups was launched in October 2006, with a particular focus on "service professionals". There are now also new campaigns for technical trainees, engineers and pilots. These enabled us to almost double the success rate for the selection process for service staff in 2007, for example.

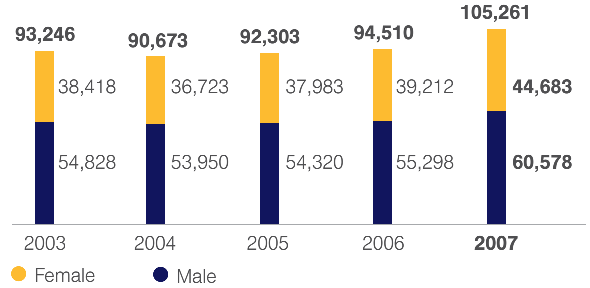
Internationality is a further success factor for us at Lufthansa. A standard requirement is mastery of at least one foreign language. We also consider it a key to success in global competition that the workforce at Lufthansa is so international. Worldwide, the Lufthansa Group employs people from 146 nations; 120 are represented in Germany alone.

Staff in individual regions



Overall, the workforce at the Lufthansa Group, including SWISS, grew by 11.4 per cent to the balance sheet date. Thanks to the attractive working environment, Lufthansa can point to an average fluctuation of 6.3 per cent, which is ideal for the Company. This enables us to ensure quality and save on training costs. The average age of all Lufthansa staff members across the Group is 40.3.

Number of employees by gender



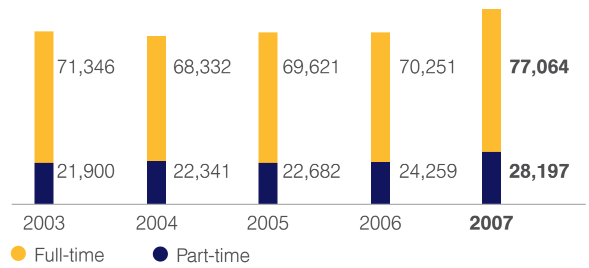
We attach great importance to vocational and professional training for our staff, with the aim of constantly improving the service quality. Our "service professionals" take part in special courses to prepare them for their work as flight attendants and in passenger service at airports. This year Lufthansa also put on a special course and trained around 3,000 selected flight attendants to become "Qualified First Class Flight Attendants".

Overall, we invested some EUR 300m in vocational and professional training for our staff in the last year. At present 30 per cent of the total training volume is carried out via e-learning activities. As of 31 December 2007, we had 1,097 vocational trainees in Germany. More than 2,000 ground staff were taking part in Company training courses.

In 2007, we also offered degree courses which combine vocational training or a work placement with periods of study. For the innovative double qualification as Air Transport Businessperson, we collaborate with the European Business School, among others. Also in 2007, 36 "Lufthansa students" were on this study programme with the focus on aviation management. IT and technology enthusiasts can choose additional integrated degrees, which include work placements in the Company in subjects such as computer science for business or aeronautical construction.

Keeping the qualifications of our staff up to date and helping them stay healthy via a preventative health management system are also important components in dealing with demographic change. The individual business segments have also developed specific measures depending on the relevant challenges. Work/life balance is also becoming increasingly important. We promote this through flexible working-time management and attractive working-time models. The part-time employment quota in the Group increased again, to 26.8 per cent. In air traffic this quota is as high as 45.5 per cent.

Number of employees in full- and part-time



6.3 Management development

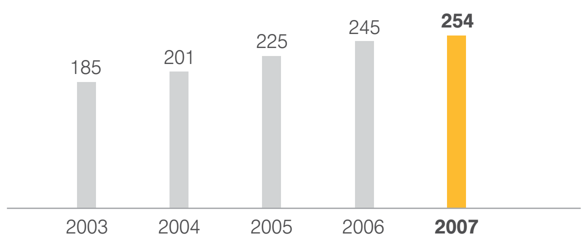
We give a particular priority to developing our managers and junior management trainees. In doing so the Lufthansa School of Business cooperates with renowned institutions (London Business School, Ashridge Business School, European School for Management and Technologies). The programmes are of the highest standard and tailored to meet our exact specifications. The Lufthansa School of Business received a number of awards in 2007. One of these was the Exemplary Practice Award from the Corporate University Xchange, which rewarded new standards in staff development and training among over 200 global companies in Orlando, Florida. Investment in senior and junior managers is as important to us as it is useful, since in 2007, we again succeeded in filling 86 per cent of all management positions with staff from within the Group.

6.4 Wage structure and profit-sharing

Aviation companies are particularly exposed to the effects of the economic cycle. Staff costs and, above all, the flexibility of staff costs are therefore especially important in being able to respond rapidly to economic changes or overcapacities.

In 2007, we increased flexibility in the collective bargaining framework related to individual business segments still further, with new agreements and tailored solutions for the segments and flight operations. Flexible rules on working hours (e.g. working-time corridors) are in use in the business segments. Staff whose hours are not defined by fixed rotas can determine when they work autonomously and according to the needs of the business. Lufthansa Technik, for example, introduced a flexi-account with an equalisation period of 18 months. A working-time corridor exists for flight crew as well. In exchange for more flexibility the portion of salary dependent on hours flown by the cockpit crew was increased, thus improving the range of responses in the event of operating bottlenecks.

Revenue per full-time equivalence Lufthansa Group in € thousand



In February 2007, a wage settlement was reached for Lufthansa ground staff and employees in MRO, Logistics, IT Services and Catering, and their respective affiliated companies. As the last pay scale increase took place 32 months previously, and as two subsequent pay rounds were flat and Lufthansa's remuneration system was completely overhauled, the result can be described as reasonable. The wage settlement brings with it justifiable cost increases for the companies. The agreement runs until 31 May 2008, and, in addition to an increase of 3.4 per cent in basic salary, also provides for a profit-share payment. The parties also confirmed existing agreements on rapid reactions in times of crisis.

For cabin crew, the collective bargaining partners agreed on the following increase in salaries: 2.5 per cent from 1 January 2007 and 2.2 per cent from 1 January 2008, against which an increase of 0.9 per cent from June to December 2007 is offset. For cockpit staff, on 28 January 2008 an increase of 2.5 per cent was agreed retrospectively from 1 October 2007, and a further 3 per cent was added as of 1 January 2008. The increase, calculated on a year, remains below 4 per cent. The wage settlement is valid for 18 months and ends on 31 March 2009. In addition, profit-share models were agreed.

7. Sustainability

Lufthansa has a successful tradition of giving due attention to the interests of shareholders, customers, staff, society and the environment. For us, there is no contradiction between financial success and a corporate policy aligned with sustainable principles and environmental protection; indeed, the two are co-dependent. Lufthansa provides detailed information on its many activities and the progress made in its Sustainability Report "Balance", which has been published regularly for more than ten years, and on the Group's website: http://sustainability.lufthansa.com.

Sustainability is an integral element of our corporate culture. That is why we do not have a separate organisation for it, but rather a Sustainability Board. The respective department heads ensure the reporting to the Executive Board.

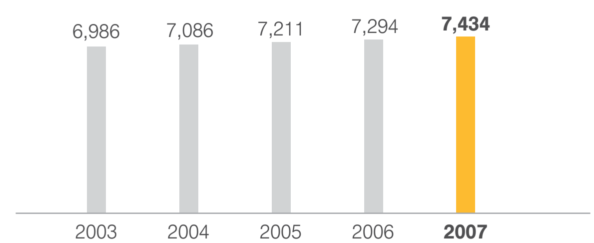
We attach great importance to responsible and transparent company management. In 2007, we extended our compliance guidelines. Besides the guidelines for integrity compliance a new system of ombudsmen was implemented. You will find more information in the "Corporate governance" chapter, from page 30.

7.1 Economics

It is our declared goal to make Lufthansa the most attractive and most profitable European airline with a global offer. We have been applying the principles of value-based management for the Group since 1999. To improve our profitability, we want not only to reduce costs sustainably, but also to promote entrepreneurial thinking in our staff. This is the background to the Group initiative "Upgrade to Industry Leadership" which we launched to bring us to the top of the competitive ladder in terms of quality, customer benefit and profitability.

Punctuality, reliability and high security and safety standards are crucial elements in winning the trust of our customers. In order to improve their satisfaction, our own surveys and the analyses of independent institutes are constantly integrated into the Customer Profile Index. It provides the necessary information base for our quality control and improvement activities.

Customer profile index as of 31.12



7.2 Procurement

The main objective of our procurement operations is to optimise long-term value for money for the goods and services we purchase. Our relationship to our suppliers is defined by a spirit of fairness in a competitive market. To ensure sustainability in our purchasing processes as well, we work with a three-pillar model, composed of internal regulations, transparent decision making and tender systems, as well as sustainability provisions in all our contracts. Procurement projects over EUR 20,000 are put out to tender on the external Internet platform "www.fairpartners.com". Standardised services are purchased from electronic catalogues, enabling purchasing volumes to be bundled and better prices to be obtained.

The Group's purchasing is decentralised. Group companies have their own purchasing and procurement departments. As an important project within the scope of the "Upgrade to Industry Leadership" initiative, we aim to continue developing purchasing into a best-practice organisation (see page 21).

7.3 Environment

In order to transport passengers and merchandise, air traffic relies on energy from kerosene. The combustion process also produces CO_2 and other greenhouse gases. To keep the detrimental consequences for the environment to a minimum, Lufthansa has developed a four-pillar approach in collaboration with the international air transport association IATA:

1) Technical innovations in aircraft skins, aerodynamics, materials, engines and electronics should deliver significant reductions in noxious emissions in the future.
2) Better infrastructure on the ground and in the air can also save considerable amounts of fuel and emissions. Better air traffic management and the creation of a single European air space could save approximately 12 per cent of kerosene and CO_2 emissions according to the Intergovernmental Panel on Climate Change (IPCC).
3) Operational measures such as the deployment of more efficiently sized aircraft, flying optimal routes at the most efficient speeds, and better ground procedures also lead to savings.
4) As an addition to the three other pillars, an economic incentive in the form of emissions trading could also be applied. For ecological reasons and to maintain fair competition, this system would need to be set up worldwide.

By decoupling growth from environmental pollution we are making a vital contribution to climate protection. The amount of tonne-kilometres transported (TKT) has gone up more than fourfold since 1991, while the amount of CO_2 emitted has only doubled. This means that we were able to make half of transport growth in the last 16 years carbon neutral. By investing in new fuel-efficient aircraft we intend to accelerate this trend and achieve our planned traffic growth of around 5 per cent per year largely without causing further CO_2 pollution.

Noise emissions are another environmental side-effect of flying, which Lufthansa is actively tackling by means of two instruments. When modernising our fleet, we choose aircraft and engines with particularly low noise emissions, and since 1999, we have been active in the research network Quiet Traffic with the German Aerospace Centre (DLR) and other partners from industry and research to locate sources of noise and make take-offs and landings quieter.

7.4 Research and development

As a service company, Lufthansa does not carry out research and development in the traditional sense. Instead we are actively involved in a number of projects focusing, for example, on climate and noise research and on developing new aviation technologies. The EU-research projects "CARIBIC" (atmosphere measuring) and "TBCplus" (further development of engine combustion chambers) are just two examples. Lufthansa also supports projects in the field of occupational medicine and uses the results to ensure a healthy working environment for its staff and pleasant travel conditions for its customers.

7.5 Personnel and social matters

With 64,434 jobs, Lufthansa is one of the largest employers in Germany. Worldwide, we had on the balance sheet date 105,261 employees with 146 different nationalities. We want to provide these employees with competitive and sustainable jobs, with performance-linked pay and attractive working conditions. See also "Employees" (page 60 et seqq.) and "Performance-related remuneration" (page 38 et seqq.).

We are interested in a constructive and critical exchange of views with all relevant parties. We achieve this through our membership of different organisations that deal with social responsibility issues, for example. With the UN Global Compact, we were the first airline to commit ourselves to acting responsibly.

For many years Lufthansa has demonstrated social responsibility in various ways. The staff initiative HelpAlliance e.V. currently supports 31 projects. Within our environmental protection activities, we focus on projects to protect the crane, Lufthansa's emblem. We are also actively involved in the international network "Living Lakes", which is dedicated to preserving the great freshwater lakes of the world. Via our platforms "Miles to Help" and "Climate Care Contribution", we offer our customers the chance to take part in climate protection and aid projects on a voluntary basis.

Passenger Transportation

16.0bn
EUR revenue

826m
EUR operating result

768m
EUR cash value added

Highlights

- Lufthansa is building on its top position among the competition and growing profitably.
- Through the integration of SWISS, sustainable synergies of EUR 233m were achieved, 49 per cent more than originally anticipated.
- In the growth markets China, India and Russia, Lufthansa has created a good starting position with its new partners.

Headwind

- The fuel price, which increased by 10 per cent in 2007, puts pressure on the operating result.
- Through increasing numbers of products and services, the competitive pressure is rising. The new traffic rights agreement "Open Skies" creates additional competition but also offers opportunities.

Mobility à la carte

The airlines of the Lufthansa Group continued to strengthen their leading position in an intensely competitive environment. Whether low fare or private jet, the Passenger Transportation business segment always offers top quality and was, therefore, able to further increase sales and load factor, as well as achieving a sustainable improvement in results.

8. Business segment performance

8.1 Passenger Transportation business segment

Passenger Transportation					SWISS[1]
		2007	2006	Change in %	July–Dec. 2007
Revenue	€m	15,956	13,475	18.4	1,490
- of which with companies of the Lufthansa Group	€m	589	550	7.1	17
Operating result	€m	826	409	102.0	127
Adj. op. margin	%	6.0	3.7	2.3 pts.	–
Segment result	€m	1,146	678	69.0	–
EBITDA[2]	€m	2,047	1,485	37.8	227
CVA	€m	768	317	142.3	–
Segment capital expenditure	€m	1,228	1,035	18.6	176
Employees as of 31.12	number	47,230	38,410	23.0	7,160
Passengers[3]	thousands	62,894	53,432	17.7	6,453
Available seat-kilometres[3]	millions	169,108	146,720	15.3	16,227
Revenue passenger-kilometres[3]	millions	130,893	110,330	18.6	13,236
Passenger load factor[3]	%	77.4	75.2	2.2 pts.	81.6

[1] For informational purposes, given the first-time full consolidation.
[2] Before profit/loss assumed from other companies.
[3] Without Germanwings.

8.1.1 Business and strategy

Passenger Transportation is the strategic business segment of the Group. It is made up of Lufthansa Passenger Airlines, SWISS (fully consolidated from 1 July), Germanwings and the equity investments in British Midland (bmi) and SunExpress (joint venture with Turkish Airlines, from April 2007).

The airlines in the Group are among the best in the world. Lufthansa and SWISS are premium carriers with a global offering. They cover the main traffic flows from, via and to Europe. With 206 destinations in 85 countries, Lufthansa and SWISS offer their customers a broad choice.

Together with 17 members of the Star Alliance and other code-share partners, Lufthansa and SWISS served 980 destinations in 103 countries to the end of 2007.

Lufthansa intends to expand its top position among the competition and become the leading European network carrier in terms of attractivity and profitability. Our growth strategy is based on three pillars. Lufthansa is growing organically thanks to the continuous expansion of its long-haul and short-haul networks. Where, opportunities for profitable growth arise, we also provide direct connections outside the hubs. The decision taken to extend the range of long-haul flights from Düsseldorf was a key example. From May 2008, Lufthansa will station three long-haul aircraft there for flights to New York, Chicago and Toronto. Total growth of around 5 per cent is planned for the years ahead. In intercontinental traffic Lufthansa plans growth of around 6 per cent, and in European traffic growth of around 4 per cent.

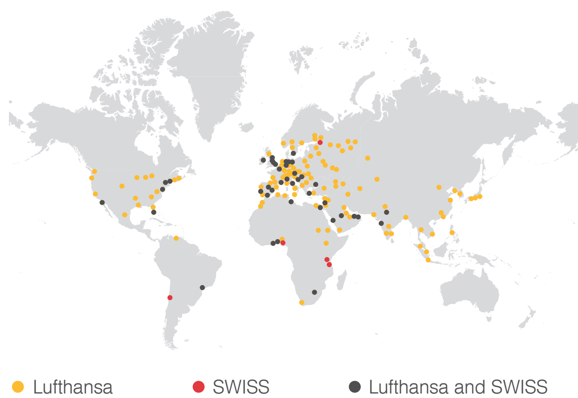
The main centres of attention are the growth markets China, India and Russia. Here, the business segment has established a good starting position with its own network and with new alliance and cooperation partners.

This is why we are further developing the second pillar of the growth strategy, “Star Alliance”, the largest and most important airline alliance worldwide, as well as other bilateral cooperation programmes. With the help of our partners, we can establish connections to key strategic markets and create a base for our own organic growth.

The extensive liberalisation of the European markets for air transport has created the conditions for extensive partnerships up to integrated corporate groups. Lufthansa has added to its alliance network by

Group management report

Destinations of Lufthansa and SWISS



building its own airline group of independent companies. In addition to Lufthansa, this now includes SWISS and Air Dolomiti, for example. Wherever it makes sense and is feasible, Lufthansa will, as a third alternative, also grow in its markets by expanding the multi-hub/multi-brand group.

The business segment uses its product range to attract different customer groups in a differentiated way. Despite its broad market presence, Lufthansa has a clear brand philosophy: Lufthansa and the associated brands are premium brands in their segments, which are to be developed consistently. The multi-product approach offers customers "mobility à la carte" – from low fare to first class – always in proven Lufthansa quality and, therefore, at the upper end of the individual market segments. The Lufthansa Private Jet service, which was introduced in 2005 and has since exceeded its sales targets, is therefore to be continued using in-house production from 2008. Rapidly growing numbers of customers in the lower price segment are addressed with attractive fares for the basic product under the name "betterFly", and with the services of our no-frills airline Germanwings.

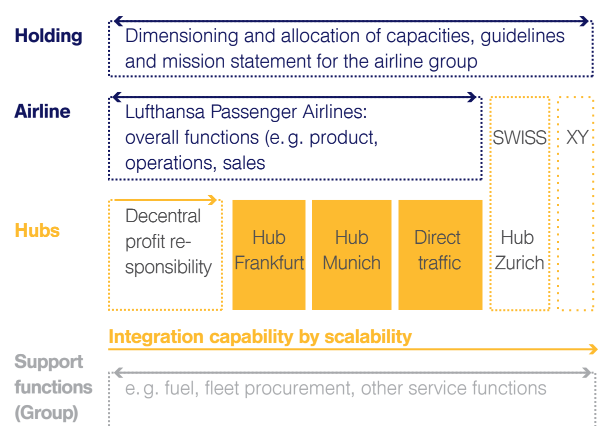
As part of the multi-hub/multi-brand concept each partner in the airline group is specialised and forms a "centre of competence" for its domestic market. This enables traffic flows to be managed more efficiently and offers a number of benefits to the customers:

- The most popular direct connections from and to their home country,
- a range of global destinations with alternative transfer locations, several times a day, at different times, with various airlines, brands, and product and service concepts, as well as
- a custom-made service for corporate customers, everywhere, with just one Frequent Flyer card which combines all the benefits.

Lufthansa has further developed its management philosophy and aligned their internal organisational structures with the requirements of the airline group. Hub management teams with wide-ranging responsibilities have been set up for both Lufthansa hubs in Frankfurt and Munich, as well as for direct traffic.

Under the umbrella of the Group, the airline group members can operate at arm's length as independent companies with responsibility for results, expenses and quality. This decentralised structure is intended to make the managers into in-house entrepreneurs and serve the different markets more efficiently and responsively at the same time. The role of "head office" has correspondingly changed. It now defines the capacity of the overall group, allocates resources such as aircraft, staff and budgets on the basis of business plans and lays down guidelines for relevant Group functions. By organising the group in this way, Lufthansa also prepares for the possibility of recruiting additional partners.

Airline group strategy



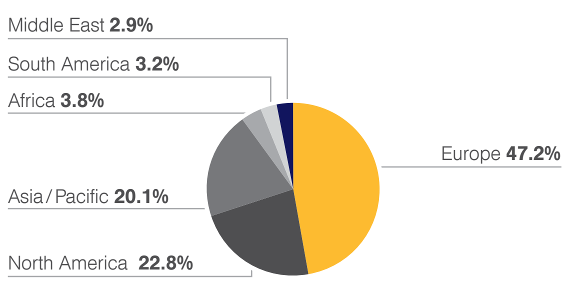
In January 2008, Lufthansa acquired 19 per cent of the shares in JetBlue Airways Corporation. Both airlines intend to take up joint operations for the benefit of their customers.

Securing profitability, cutting costs and simultaneously increasing quality, revenue and efficiency are permanent tasks for Lufthansa. As part of the Group initiative "Upgrade to Industry Leadership", the segment Passenger Transportation also intends to establish itself at the top of the competition by strict cost management as well as targeted investment in optimised processes and innovations. This also means continually rethinking the production structures at the hubs. In the course of the "New Balance" project at the Frankfurt hub, for example, the close cooperation between station, product, distribution, flight planning and yield management will raise performance, improve service and quality, and extend the network considerably. For more information on this project see the chapter "Upgrade to Industry Leadership" (page 20).

8.1.2 Markets and competition

Lufthansa's original and core market is Germany, the second-largest market for air transport in Europe. Nevertheless, its size and growth rate are hardly sufficient to sustain and develop a market position within the context of the European and global aviation industry. Lufthansa, therefore, defines Europe as its home market. Only one third of the customers are now resident in Germany – today, Lufthansa is much more a European and global player. The main sales markets are the traffic regions Europe, America and Asia/Pacific.

Traffic revenue by region*



* Lufthansa Passenger Airlines and SWISS.

This sales distribution makes Lufthansa more strongly diversified than most of its competitors. Any fluctuations in demand in one of the traffic regions can thus be made up elsewhere. This means their effect on Lufthansa's total revenue will be less.

Measured by the number of international passengers, Lufthansa competes on a global level with the major American airlines such as American Airlines, Delta Airlines, Continental Airlines and Northwest and the large network carriers in Asia and the Middle East (e.g. Emirates). The main competitors in Europe include Air France-KLM and British Airways. Air Berlin is becoming an important competitor in Germany by means of acquisitions.

Measured by passenger kilometres transported, the Lufthansa companies occupy top positions in the major traffic regions, in Europe and North America Lufthansa and SWISS are actually market leaders.

Star Alliance, which celebrated its tenth anniversary in 2007, helps to continue developing market presence and facilitates access to growth markets. Lufthansa partners Air China and Shanghai Airlines joined the alliance in December 2007, for example. Agreement has also been reached on including Egypt Air, Turkish Airlines and Air India into Star Alliance. Star Alliance is the largest airline network in the world, with 19 members at present, and in 2006, had a global market share of around 26 per cent according to IATA.

Lufthansa also signs bilateral agreements to increase market penetration. Coverage in Africa was stepped up by the new cooperation programmes with Egypt Air and Ethiopian Airlines. This means that three of the top four African airlines are Lufthansa partners. To ensure connections to the Eastern European growth market a code-share agreement was signed with Air Astana in Kazakhstan, which is to come into effect from 2008. The planned cooperation with AIRUnion is intended to improve services to the emerging markets in Russia. Finally, connections to the South American market are to be substantially developed via the cooperation programmes with Taca International and the Brazilian TAM.

Group management report

8.1.3 Sales and customers

The Passenger Transportation business segment has a very diversified customer base. Lufthansa and SWISS distinguish between corporate customers, travel agency chains and private customers.

The corporate customers come from some 30 industries with a varied regional concentration. In Germany, we currently have bilateral agreements with some 1,000 major customers, who receive incentive payments and/or corporate rates according to the type of contract. In overseas markets, individual agreements are negotiated locally with major corporate customers. Global contracts are currently in place with 130 customers operating worldwide. At Lufthansa specially qualified key account managers are responsible for global and major customers.

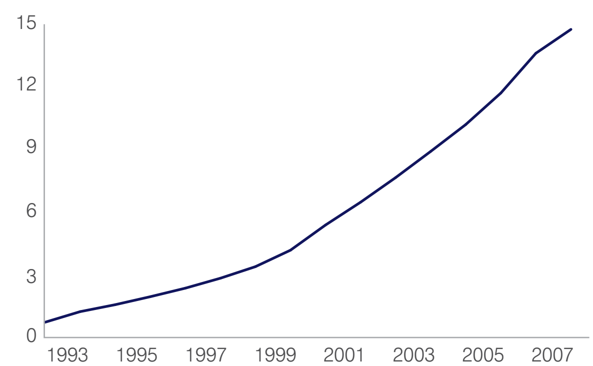
The online corporate bonus programme PartnerPlusBenefit has been on offer for small and medium-sized companies since 2001, and has been successively extended to international markets (SWISS PartnerPlusBenefit, Star Alliance Company Plus).

For private customers, both Lufthansa and SWISS pursue a multichannel strategy. Direct distribution primarily takes place via the Internet portals www.lufthansa.com and www.swiss.com. The Lufthansa website has been revised and improved in order to make the platform even more customer-friendly, and to speed up the time required to make a booking. Winning the "CeBIT usability award 2007" and rising numbers of Internet bookings are ample proof that the relaunch was a success. In 2007, sales over Lufthansa's Internet platform grew by almost 30 per cent. Now some 10 per cent of worldwide bookings at Lufthansa are made via this efficient platform. The airlines also offer a 24-hour call centre.

Since December 2007, Lufthansa has been the first airline to give its customers the opportunity of also making bookings by mobile phone. Customers can make bookings, check in, request departure and arrival times and use Miles & More services at the portal address mobile.lufthansa.com.

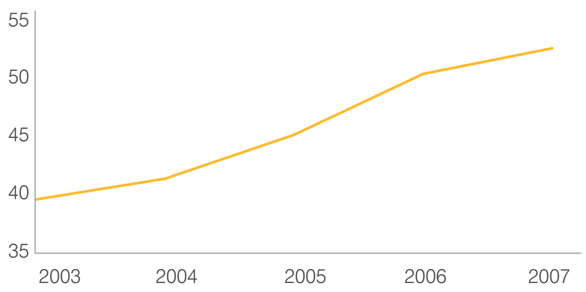
Miles & More is the leading customer loyalty programme in the industry with about 15 million participants. Seven other partner airlines in addition to Lufthansa and SWISS offer Miles & More as their frequent flyer programme. The primary aim is to strengthen customer loyalty and customer-oriented management. As well as a wide assortment of attractive rewards, customers with higher status gain access to special privileges and exclusive services to enhance their flight experience. The customer is also addressed in a more personal manner, subtly underlining the esteem in which they are held. The core of Miles & More participants form Base- and Frequent Traveller customers. Furthermore, the espacially active frequent flyers are differentiated with the established Senator status, and at top, there are HONCircle customers.

Development of Miles & More members in million

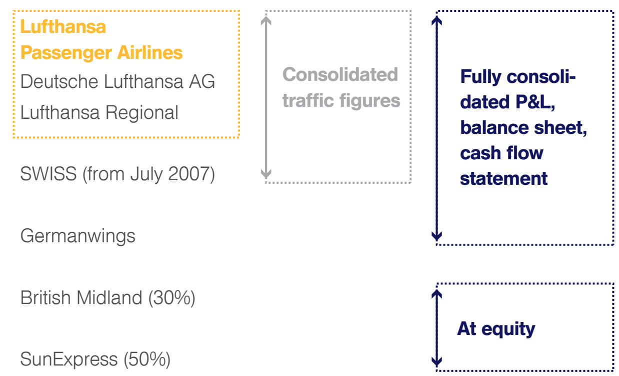


Miles & More gives Lufthansa important data to address customers individually, to measure and improve customer satisfaction and to conduct direct marketing oriented towards the customers' requirements. The sale of miles also generates additional revenue via the 200 Miles & More partner companies. As well as successfully expanding the premium product range, the Miles & More programme is very effective at retaining premium passengers, which has considerably improved the revenue mix. In 2007, over 50 per cent of intercontinental revenue was again earned with premium passengers. This makes the customer loyalty programme Miles & More a guarantor for the success of the passenger business at Lufthansa and SWISS.

Premium share of intercontinental traffic revenue in %



Consolidation and reporting of the airlines in the Passenger Transportation segment



Customer satisfaction rose considerably in 2007 and is now at a record level. Our business customers were particularly appreciative of our service improvements. The best marks were given to value for money and further-enhanced punctuality.

At Germanwings, 95 per cent of distribution is carried out via Internet. Tickets can also be bought via call centres or travel agents.

8.1.4 Operating performance

The favourable economic climate had a positive effect on demand. In 2007, Lufthansa and SWISS welcomed a total of 62.9 million passengers on board – up by 17.7 per cent over the previous year. Included in this for the first time are 6.5 million SWISS passengers (from 1 July 2007). Both companies added considerably to their capacity. Lufthansa achieved growth of 4.2 per cent and SWISS and a growth of 13.1 per cent. At the same time, the load factor at both airlines improved. The overall load factor rose by 2.2 percentage points to 77.4 per cent. The total traffic revenue climbed by 17.0 per cent to EUR 14.2bn. Due to the strong euro, average yields fell as expected by 1.3 per cent. Adjusted for currency differences, however, they would have risen by 1.3 per cent. The table on page 72 shows the developments of revenue, passengers and sales in the individual markets.

On European routes capacity was consciously increased both from the hubs and in direct traffic in order to build up market share, which both Lufthansa and SWISS were successful in doing. Sales grew even faster than the substantially extended capacity and the load factor rose by 2.7 percentage points. Such an extension of capacity naturally means a drop in average yields (–6.7 per cent, currency adjusted –5.4 per cent), but total traffic revenue improved considerably.

Intercontinental traffic benefited from the world economy's further expansion and the continued liberalisation of air traffic.

Lufthansa ramped up its capacity in the North America traffic regions targeted, including Denver from Munich or Orlando from Frankfurt, in the timetable and increasing the flight frequency on established routes. There is also a new Business Jet service at 8 a.m. from Frankfurt to New York and then by helicopter or limousine to downtown Manhattan. SWISS also grew disproportionately in this traffic region and will continue to do so in 2008, as well. Lufthansa is to include Seattle and Calgary in the flight timetable. Capacity also went up in the Latin America traffic region thanks to the reintroduction of the non-stop service to Buenos Aires in the winter flight timetable. This went along with a slide decrease in the load factor. In the Americas traffic region overall, the considerable increases in capacity were fully sold in the market. Average yields increased slightly (+1.0 per cent) at a higher passenger load factor (+1.5 percentage points to 82.2 per cent) and despite negative currency effects of 4.1 per cent. Altogether traffic revenue grew strongly.

In the Asia/Pacific traffic region Lufthansa particularly reported growth in India and Korea as well as in China. The higher capacity met an even stronger demand. This led to further improvements in the load factor, by 2.3 percentage points to 82.9 per cent. At the same time, average yields could be increased by 3.6 per cent. Adjusted for currency effects, the increase was 7.1 per cent. Traffic revenue rose substantially, too. Lufthansa and SWISS were able to develop their already strong position in the Asian market still further.

Lufthansa and SWISS now offer services to ten destinations in India and China with 109 weekly flights. In 2008, Lufthansa is to add Nanjing and Shenyang in China to its timetable.

Capacity growth in the Africa traffic region was largely influenced by the new consolidation of SWISS, while Lufthansa's capacity remained more or less stable. In the Middle East traffic region Lufthansa expanded capacity on existing routes by deploying larger aircraft. In total, a rise in the passenger load factor of 4.5 percentage points to 75.5 per cent was achieved in the Middle East/Africa traffic region. Average yields declined by 1.9 per cent; currency adjusted they rose by 2.2 per cent, however. In contrast, traffic revenue increased disproportionately.

Altogether, Lufthansa and SWISS were able to improve load factors and traffic revenue in all traffic regions and thereby gain market share profitably.

Germanwings also consolidated its competitive position, now flying to 60 destinations in Europe. In 2007, the German consumer testing agency Stiftung Warentest carried out a review of eleven airlines and confirmed that Germanwings had low prices and offered the best service of all the test winners. The number of passengers rose in 2007 by 11.4 per cent to 7.9 million. The load factor remained high at 81.4 per cent. Overall, operating performance was defined by high demand, which the airlines successfully turned to their advantage. The main negative factor of 2007 was the fuel price at a record high. However, the segment's operating result was doubled thanks to compensating factors in other areas.

Lufthansa is constantly refining its products on board and on the ground in order to meet its own quality standards, which are to increase customer satisfaction. Flying begins and ends on the ground, so it is important to strengthen the hubs in Frankfurt, Munich and Zurich, and particularly to optimise the customer service there. With fast lanes, security checks and passport controls with much shorter waiting times for business passengers, high standards have been set with respect to the European competition. In addition, Lufthansa and SWISS offer their HONCircle customers an extended limousine service.

On board, too, Lufthansa has continued to make improvements to its product range. New seats have been in place on short-haul routes since 2006. The cabin design in the Lufthansa short-haul fleet has also been refined even further to provide more space in the window seats. In Economy Class, on the long-haul fleet at first, all Airbus aircraft will be equipped with individual monitors and a flexible entertainment programme in the seats over the years ahead.

Trends in traffic regions
Lufthansa Passenger Airlines and Swiss International Air Lines*

	Net traffic revenue in €m external revenue		Number of passengers in thousands		Available seat-kilometres in millions		Revenue passenger-kilometres in millions		Passenger load factor in %	
	2007	Change in %	**2007**	Change in %	**2007**	Change in %	**2007**	Change in %	**2007**	Change in pts.
Europe	6,676	13.8	48,877	17.7	52,985	17.1	36,109	22.0	68.1	2.7
North America	3,224	18.4	6,281	17.0	53,113	15.0	43,698	17.6	82.3	1.8
South America	458	35.5	733	30.5	7,259	34.1	5,917	31.7	81.5	– 1.5
Asia/Pacific	2,847	16.5	4,548	12.6	41,911	9.3	34,727	12.4	82.9	2.3
Middle East	403	25.9	1,111	35.0	5,731	27.3	4,175	37.1	72.9	5.3
Africa	542	24.7	1,321	24.5	8,021	15.4	6,208	22.1	77.4	4.3
Total scheduled services	**14,150**	**16.7**	**62,870**	**17.7**	**169,021**	**15.3**	**130,835**	**18.7**	**77.4**	**2.2**
Charter	53	492.7	24	– 34.9	87	– 5.2	57	– 4.7	65.7	0.3
Total	**14,203**	**17.1**	**62,894**	**17.7**	**169,108**	**15.3**	**130,893**	**18.6**	**77.4**	**2.2**

* SWISS included since 1 July 2007.
** Incl. code-share services, without ground transportation (bus/train services).

8.1.5 Revenue and earnings development

Revenue and income The airlines' good performance and the first-time consolidation of SWISS meant that the segment's **traffic revenue** went up by 16.8 per cent to EUR 14.8bn. SWISS accounted for EUR 1.3bn of these (July to December) and Germanwings for EUR 602m. In addition to the 10.0 per cent increase resulting from the consolidation of the new company, volumes sold (+7.0 per cent) and prices (+2.7 per cent) also had a positive effect on traffic revenue. Currency effects reduced revenue by 2.9 per cent, however. Lufthansa benefits from its market-oriented capacity and yield management. Last year, business with premium passengers picked up considerably and this year, flight capacities were also better utilised, with more Economy Class passengers through more target pricing and thanks to appropriate marketing. The share of premium revenue remained high. Average yield, adjusted for currency effects, improved along with significant capacity expansion (see also detailed information in chapter "Operating performance"). **Other operating income** grew by 14.0 per cent to EUR 912m, largely due to greater exchange rate gains and the effects of the initial consolidation of SWISS. **Total operating income** went up by 18.2 per cent to EUR 16.9bn (adjusted for consolidation changes: 6.6 per cent).

Expenses **Operating expenses** rose more slowly than income at 15.7 per cent. The full consolidation of SWISS as of 1 July 2007 had a considerable effect on the overall increase and on individual expense items.

Fuel expenses are the biggest driver of the **costs of materials and services**, which amounted to EUR 3.4bn. EUR 520m or 18.2 per cent more than in the previous year was spent on fuel, of which EUR 326m (11.4 per cent) accounted for SWISS alone. Increased consumption accounted for 6.4 per cent and higher prices for 7.7 per cent. The strong euro relieved the cost of fuel by 7.3 per cent.

The companies in the Passenger Transportation segment had to spend EUR 2.9bn on fees and charges, of which EUR 264m were incurred at SWISS.

Operating expenses Passenger Transportation

	2007 in €m	2006 in €m	**Change** in %	Adjusted for changes in the group of consolidated companies in %
Cost of materials and services	9,270	7,990	16.0	4.6
- of which fuel	3,378	2,858	18.2	6.8
- of which fees and charges	2,886	2,514	14.8	4.3
- of which operating lease payments	199	150	32.7	– 13.3
- of which external MRO services	1,341	1,249	7.4	2.5
Staff costs	2,959	2,532	16.9	7.7
Depreciation and amortisation	822	718	14.5	6.3
Other operating expenses	2,991	2,626	13.9	3.6
- of which sales commissions paid to agencies	512	491	4.3	– 7.0
- of which external staff expenses	71	51	39.2	28.4
- of which rental and maintenance expenses	335	319	5.0	0.8

Even without this effect the amount of fees and charges paid rose by 4.3 per cent year on year, largely due to higher flight safety charges, which, in turn, were the result of expanded capacity and fee increases.

Because of SWISS the expenses for operating leases (+ EUR 69m) and external MRO services (+ EUR 62m) rose particularly sharply. After adjustments, the external MRO services would have gone up by 2.5 per cent and operating leases would even have decreased by 13.3 per cent.

Staff costs grew by 16.9 per cent (adjusted: 7.7 per cent) to EUR 3.0bn. The annual average number of employees in the Passenger Transportation segment went up by 13.4 per cent to 43,088. The basic salary increases for ground and cabin staff affected staff costs, as did one-off payments and a higher profit share. At the end of 2007, the segment had 47,230 **employees**, of which 7,246 worked at companies consolidated for the first time (including 7,160 at SWISS).

Depreciation and amortisation rose to EUR 822m, or 14.5 per cent (adjusted: 6.3 per cent) above the level of the previous year. Higher depreciation on aircraft was behind the rise, which was itself due to additional new aircraft from late 2006.

Result The operating result of the Passenger Transportation segment was doubled. It is EUR 826m compared with EUR 409m the previous year. SWISS accounts for an operating result of EUR 127m for the period July to December 2007. The business segment's adjusted operating margin is 6.0 per cent (+2.3 percentage points).

Other segment income rose by 19.3 per cent to EUR 136m, while other segment expenses dropped from EUR 22m to EUR 3m. The result of companies accounted for using the equity method was EUR 187m (+5.6 per cent) and includes stakes in bmi and, from April 2007, in SunExpress. The result of the companies accounted for using the equity method also includes sound result at SWISS in the first half-year (EUR 180m). The segment result increased by 69.0 per cent to EUR 1.1bn altogether.

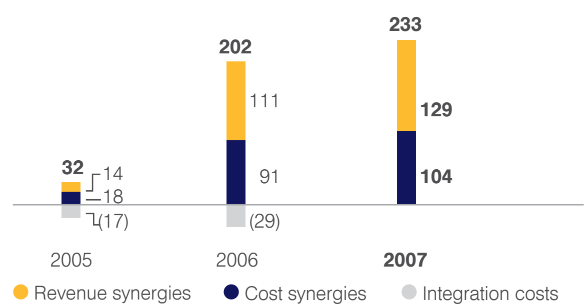
Segment capital expenditure Segment capital expenditure rose by EUR 193m to EUR 1.2bn, primarily for new aircraft and down payments for aircraft. Compared to the previous year, three Airbus A340s and two Airbus A321s for Lufthansa as well as five Airbus A319s for Germanwings were put into service.

Lufthansa intends to pursue its course of profitable growth and in the reporting year ordered a total of 89 aircraft to modernise and expand the fleet, of which 45 are destined for regional routes and 30 from the Airbus A320 family for short-haul traffic. Nine Airbus A330-300s and two Airbus A320s were ordered for SWISS. For the Lufthansa Private Jet Services three Cessna Citation will be delivered in 2008 and 2009. More modern and fuel-efficient technology are, over the medium term, reducing unit costs considerably, as well as relieving pressure on the environment and raising the level of comfort for passengers perceptibly. To the end of the year, the business segment ordered some 175 aircraft in total, to a volume of around EUR 7.4bn, which are to be delivered by 2015.

On the ground, too, our services are being improved all the time. By 2010, we will have invested some EUR 100m to extend and replace lounges throughout the world.

Integration of SWISS The results achieved also reflect the high synergy effects from the integration of SWISS. Now that the integration has been completed, sustainable synergy effects of EUR 233m will be achieved from 2007 onwards. This exceeds the original expectations by 49 per cent. Lufthansa and SWISS both benefit equally from these synergies – around 43 per cent accrued to Lufthansa in 2007, and 57 per cent to SWISS.

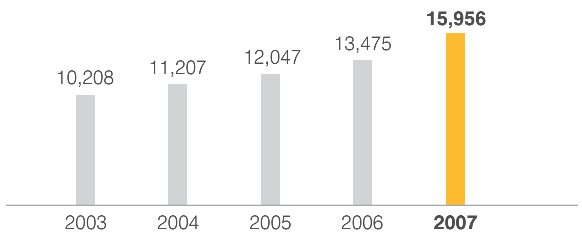
Synergy effects of SWISS integration in €m



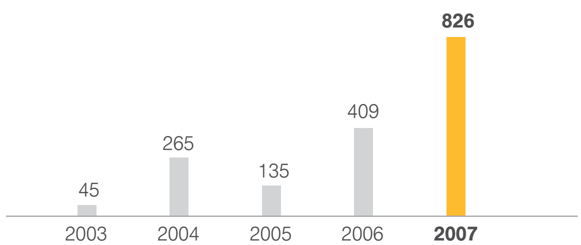
Both staff and former SWISS shareholders benefit from the successfully completed integration. In 2007 alone, 10 per cent more employees were recruited for operating areas. As part of the takeover, SWISS shareholders received an earn-out paper based on the performance of the Lufthansa share compared to the competitors. On 31 December 2007, the Lufthansa share had outperformed the index by 35.7 per cent as a result. This corresponds to an option payment of some CHF 144m. The earn-out payment is due on 20 March 2008.

Long-term overview of earnings In past few years, the Passenger Transportation segment has experienced profitable growth and continuously improved its earning power. Revenue increased sharply and the operating result rose disproportionately. The adjusted operating margin went up over a period of five years by altogether 4.8 percentage points to 6.0 per cent, putting Lufthansa to one of the leading European network carriers.

Revenue Passenger Transportation in €m



Operating result Passenger Transportation in €m



8.1.6 Outlook

Even considering the recent turbulence on the financial markets, global economic growth is expected to continue in the years ahead, however, becoming moderately less dynamic. The advantageous increase in demand for air transport is therefore generally expected to continue. At the same time competitive pressure will rise in the medium term as capacity goes up. Anticipated airline mergers and the rapid fleet expansion by carriers in Asia and the Gulf region contribute to this trend. The new transatlantic air traffic treaty (Open Skies) will increase competition additionally. However, the opening up of the market through this treaty also provides opportunities for Lufthansa.

Lufthansa is actively addressing this development, in particular in growth markets by expanding its own network and signing cooperation agreements. With the new steering philosophy for the hubs implemented in 2007 Lufthansa has made organisational and strategic preparations to address these developments. If necessary, additional airlines can be integrated into the multi-hub / multi-brand airline group.

At the same time, the strategic set-up and structure of the business segment is being permanently monitored. In this context, Lufthansa, TUI Travel and Albrecht Knauf Industriebeteiligung are currently evaluating the merger of their subsidiaries Germanwings, Eurowings, Hapag-Lloyd Fluggesellschaft and Hapag-Lloyd Express in a common independent holding, after a memorandum of understanding was signed in January 2008.

Over the coming years Lufthansa will develop its capacities, above all, in intercontinental traffic. The premium customer segment will be strengthened further, with additional lounge areas and a new First Class to be introduced with the Airbus A380. As part of the expansion of the intercontinental network, Lufthansa will, however, also ramp up capacity on inner-European routes, especially in order to provide connections to new destinations in Eastern Europe.

In view of the anticipated positive trend in demand, Lufthansa expects revenue and profit to develop well in the years ahead, too. Significant influencing factors such as record fuel prices weigh on the result but should be counterbalanced by expert risk management and strict cost management. The business segment assumes that, if this is successful, the operating result will further improve also in 2008. The full year's effect of SWISS consolidation will also contribute to this. For 2009, the positive trend is expected to continue. A decline in global economic growth, however, could lead to a perceptible increase in competition in light of the forecast aircraft deliveries.

Logistics

Highlights

- Lufthansa Cargo launched the new cargo airline, “AeroLogic”, together with DHL, for express freight to and from Asia.
- Setting up Competence Centres for special products valuable cargo, animals, mail and temperature-sensitive freight strengthens the market position of Lufthansa Cargo in the premium segment.
- The earnings improvement programme “Excellence + Growth” was successfully completed.

Headwind

- Growing overcapacities and exchange rate effects weight on average yields.
- Imbalance in freight volumes between Asia and Europe is further reinforced.

2.7bn
EUR revenue

136m
EUR operating result

59m
EUR cash value added

The booming growth market of China

Despite heightened competition Lufthansa Cargo again achieved its objectives in 2007. With innovative ideas it strengthened its customer base and undertook strategic steps for the future direction. The earnings improvement programme "Excellence + Growth" was successfully completed in late 2007, and contributed to Lufthansa Cargo's good result.

8.2 Logistics business segment

Logistics

		2007	2006	**Change** in %
Revenue	€m	2,736	2,845	– 3.8
- of which with companies of the Lufthansa Group	€m	18	15	20.0
Operating result	€m	136	82	65.9
Adj. op. margin	%	5.7	3.6	2.1 pts.
Segment result	€m	170	142	19.7
EBITDA	€m	299	276	8.3
CVA	€m	59	37	59.5
Segment capital expenditure	€m	18	13	38.5
Employees as of 31.12	number	4,607	4,600	0.2
Freight/mail	thousand tonnes	1,805	1,759	2.6
Available cargo tonne-kilometres	millions	12,236	11,969	2.2
Revenue cargo tonne-kilometres	millions	8,451	8,103	4.3
Cargo load factor	%	69.1	67.7	1.4 pts.

8.2.1 Business and strategy

Lufthansa Cargo is responsible for the Lufthansa Group's freight business. The Lufthansa subsidiary is based in Kelsterbach and is one of the largest cargo airlines in the world. It offers its customers guaranteed transport times and high quality standards.

From its product portfolio, Lufthansa Cargo serves all three airfreight product segments: the standard segment with td.Pro, the express segment with td.Flash and the specialised segment, for transporting temperature-sensitive products, live animals, valuable goods, for example. Lufthansa Cargo also offers additional logistical services which are a sensible complement to the core business of airfreight.

Lufthansa Cargo's freighter fleet is made up of 19 MD-11F aircraft and it charters additional cargo aircraft as necessary. Lufthansa Cargo also markets the belly capacity of all passenger aircraft operated by Lufthansa Passenger Airlines and the capacities of Jade Cargo International from Europe.

Lufthansa Cargo's flight network covers around 360 destinations worldwide, which are served by cargo and passenger aircraft, as well as by trucks operated by separate transport companies. Most of the freight is handled at the Lufthansa Cargo Centre at Frankfurt Airport, the main hub. The company has additional hubs in Munich and Leipzig.

The strategy at Lufthansa Cargo is based on growth in the major global growth markets and on collecting freight flows where they arise. The company has long established a successful foothold in China with an equity investment in the Shanghai Pudong International Airport Cargo Terminal (PACTL).

Lufthansa Cargo is also well positioned in the booming economic region on the Pearl River Delta in China, thanks to its stake in the International Cargo Center Shenzhen (ICCS) and shares in the cargo airline Jade Cargo International. The freight airline Jade Cargo production connects centres worldwide and is based in Shenzhen.

As of January 2008, Lufthansa Cargo also has operations in the Chinese boom region on the Yellow River Delta. The company made an equity investment in the handling company Tianjin Airport Hua Yu Air Cargo Terminal Co. Ltd. (HYACT) at the emerging cargo hub in Tianjin, right next to the capital Beijing. Its involvement in China has given Lufthansa Cargo a good platform from which to benefit from future economic growth and also to service traffic flows from Asia to other regions.

Destinations of Lufthansa Cargo

Lufthansa Cargo wants to grow asset-light. The joint foundation of a new cargo airline with the Deutsche Post World Net subsidiary DHL Express fits into this strategy. It is a further step in a successful partnership with DHL going back many years. Already in October 2007, Lufthansa Cargo moved its freighter traffic from Cologne to Leipzig, where DHL Express has set up its European express hub. The new company AeroLogic will commence flight operations from Leipzig in 2009, successively deploying eleven brand-new Boeing B777-200LRF cargo aircraft. This joint venture has strengthened Lufthansa Cargo's position in the increasing competition between cargo companies and also with respect to emerging integrators such as FedEx and UPS.

In the airmail business, Lufthansa Cargo sets great store by its cooperation with the Airmail Center Frankfurt GmbH, in which it holds a 40 per cent stake. Lufthansa Cargo processes the majority of its postal business at the company's high-performance airmail handling site, which is the most up to date in Europe. Worldwide the Lufthansa cargo subsidiary delivers more than 44,000 tonnes of airmail for some 200 postal companies.

Lufthansa Cargo's strategy aims for market leadership. It bundles its strengths in the Lufthansa Cargo group. This unites several independent companies under one strategic roof. The group allows Lufthansa Cargo not only to offer capacities on its own 19 MD-11 freighters but also to use the capacities at Jade Cargo, at AeroLogic in Leipzig and the belly capacities on some 400 passenger aircraft operated by Lufthansa and SWISS. These are supplemented by capacities at the Lufthansa Cargo Charter Agency, cargo:counts GmbH, the partner airlines and worldwide road-feeder services. Bundling the capacities of these companies is intended not only to utilise internal synergies but also to offer the customer a seamless product. By virtue of its quality and flexibility in terms of the network, and its frequencies, this product offering clearly distinguishes itself from that of the competition.

Lufthansa Cargo has further airline cooperation agreements with SAS Cargo, Singapore Airlines Cargo, Japan Airlines Cargo, Air China Cargo, Eva Air Cargo, Lan Cargo and South African Airways Cargo.

Lufthansa Cargo also intends to continue developing its market position and quality leadership in the special cargo segments animals, valuable cargo, airmail and temperature-sensitive goods. To achieve this goal the company's expertise in these areas was rolled up into specialised units in 2007. The new Competence Centres are made up of specialised teams who manage the entire value chain for the benefit of special product customers.

In implementing its growth strategy Lufthansa Cargo concentrates on its core competences. Business activities which are not part of its core business and require smaller, particularly agile organisations are spun off into independent companies. In 2007, this strategy was continued with the spin-off handling counts, a service provider for physical freight handling.

8.2.2 Markets and competition

Measured by the amount of freight transported (FTKT), Lufthansa Cargo is the second-largest cargo airline worldwide, behind Korean Air Cargo. Global competition is increasing, partly due to rapidly expanding airlines from the Gulf region, which link the Middle East with North America via Germany, and partly due to new cargo airlines from CIS countries and China. Competition is becoming particularly intense in Asia, Lufthansa Cargo's most important market. Increasing overcapacities and declining average yields have reinforced the imbalance in traffic flows.

The second most important market after Asia is Europe, which Lufthansa Cargo serves using the freight capacities of Lufthansa Passenger Airlines and pan-European road transport. Thanks to short transit times, freight from Lufthansa Cargo's customers can be sent to any continent from the hubs in Frankfurt, Munich and Leipzig mostly over night.

North America is a key market for export trade from Europe. Average yields there are remaining relatively stable despite the property crisis and a flattening growth curve. In 2007, Lufthansa Cargo therefore built up and successfully sold its capacity to the USA.

8.2.3 Sales and customers

In addition to its large and especially important twelve "Global Partners", Lufthansa Cargo's customers include 120 business partners as well as 1,000 freight forwarders and original dispatchers. Some 50 per cent of revenue comes from "Global Partners" alone. A wide range of activities such as customer advisory boards, Global Partner meetings, trade fairs, image campaigns and marketing activities reinforce customer loyalty.

Sales to major accounts are managed and accompanied by a global account management team. Sales are mostly direct, but in some regions are carried out via general agents as well. Within the sales channel strategy Lufthansa Cargo rates electronic service channels highly and plans to increase the use of them considerably in the next few years.

8.2.4 Operating performance

Last year capacity was expanded, driven mainly by extending network of Lufthansa Passenger Airlines. Lufthansa Cargo also increased its frequencies to Dallas, São Paulo and Shanghai, and included Lahore (Pakistan) as a new destination in the timetable.

Capacity, which was increased by 2.2 per cent, was fully sold in the market. Both sales and load factor improved considerably. Traffic revenue nevertheless dropped by 3.5 per cent due to negative price and currency effects.

In the Europe traffic region capacity was mainly reduced by cutting charter services on external suppliers. The cargo load factor picked up by 0.9 percentage points to 44.3 per cent, as sales did not decline by the same amount. As a consequence, traffic revenue also dropped moderately by 3.0 per cent.

The Americas traffic region performed very well. Capacities transferred from Asia to North America were successfully sold in the market and the load factor improved at the same time. Capacity in America went up by 9.2 per cent. The increase in sales was even higher at 10.5 per cent, so the cargo load factor improved by 0.9 percentage points. Traffic revenue rose significantly although currency effects weakened average prices.

The Asia/Pacific traffic region is characterised by the different load factors from and to the Far East. Due to this imbalance and declining average yields, freight capacities were deliberately redirected from Asia to North America. This reduced capacity in the Asia/Pacific traffic region by 1.4 per cent. Despite this, transport volumes and load factors both went up. Sales rose by 1.0 per cent and the cargo load factor by 1.8 percentage points. Traffic revenue dropped by 10.2 per cent, due to strongly declining average yields and currency effects.

In the Middle East/Africa traffic region capacity and sales remained more or less unchanged. Traffic revenue was reduced by 3.5 per cent due to exchange rates.

Despite tough competition, a concomitant slump in prices and high fuel costs Lufthansa Cargo reported a sound performance. By implementing strict cost management Lufthansa Cargo was able to continue the positive earnings trend after special effects in the previous year.

Trends in traffic regions Lufthansa Cargo

	Net traffic revenue* in €m external revenue		Freight/mail in thousand tonnes		Available cargo tonne-kilometres in millions		Revenue cargo tonne-kilometres in millions		Cargo load factor in %	
	2007	Change in %	**2007**	Change in %	**2007**	Change in %	**2007**	Change in %	**2007**	Change in pts.
Europe	328	– 3.0	724	– 0.4	1,162	– 4.2	515	– 2.1	44.3	0.9
America	752	8.5	501	8.1	4,749	9.2	3,407	10.5	71.7	0.9
Asia/Pacific	1,142	– 10.2	477	3.6	5,350	– 1.4	3,951	1.0	73.9	1.8
Middle East/ Africa	203	– 3.5	103	– 4.4	975	– 0.3	579	– 0.6	59.4	– 0.1
Total	**2,425**	**– 3.5**	**1,805**	**2.6**	**12,236**	**2.2**	**8,451**	**4.3**	**69.1**	**1.4**

* Excluding extra charter.

8.2.5 Revenue and earnings development

Revenue and income Revenue dropped by 3.8 per cent to EUR 2.7bn in the reporting period. Persistent pressure on average yields, especially in Asia, the strong euro and the deliberate reduction in joint services with other airlines (Cathay Pacific, Korean Air and Air China) meant that despite positive developments in traffic, **traffic revenue** sank by 3.2 per cent to EUR 2.6bn below last year's level. Although sales volumes had a positive effect on traffic revenue, prices and exchange rates did the opposite. Average yields declined by 7.5 per cent (of which 4.0 per cent due to currency effects).

At EUR 82m **other operating income** nearly reached last year's level (EUR 83m). This consists mainly of valuation changes in foreign currency items, insurance payments and re-invoiced trade payables.

Total operating income sank overall by 3.8 per cent to EUR 2.8bn.

Expenses

Operating expenses Logistics

	2007 in €m	2006 in €m	**Change** in %
Cost of material and services	1,836	1,918	– 4.3
- of which aircraft fuel	473	497	– 4.8
- of which fees and charges	300	321	– 6.5
- of which charter expenses	850	900	– 5.6
- of which external MRO services	134	121	10.7
Staff costs	334	330	1.2
Depreciation and amortisation	128	134	– 4.5
Other operating expenses	384	464	– 17.2

Operating expenses dropped disproportionately by 5.8 per cent to EUR 2.7bn, made up as follows:

Cost of materials and services went down by 4.3 per cent to EUR 1.8bn. Fuel expenses, the main cost driver, declined by 4.8 per cent year on year to EUR 473m. This is mainly due to lower volumes, fuel hedging and the weaker US dollar which, together, more than compensated for the sharp rise in prices on commodities markets.

Charter expenses dropped by 5.6 per cent to EUR 850m. Greater expenses for belly capacities on Lufthansa passenger planes were largely balanced out by reduced joint services with other airlines.

At the same time, MRO expenses went up by 10.7 per cent to EUR 134m. This is mainly due to increased maintenance, particularly for engines, as the average age of the fleet goes up.

Staff costs rose by 1.2 per cent to EUR 334m. The average number of employees declined over the year by 1.7 per cent, but these savings were more than made up for by higher provisions for partial retirement and salary adjustments from the wage settlements.

Depreciation and amortisation charges went down by 4.5 per cent to EUR 128m as a result of the degression method applied to used aircraft.

Other operating expenses sank considerably by 17.2 per cent to EUR 384m. In the previous year, the risk provisions made in connection with class action cases in North America (around EUR 62m) were included in this.

Result The operating profit amounted to EUR 136m, an improvement of EUR 54m over last year's figure, which was characterised by special effects. The adjusted operating margin rose by 2.1 percentage points to 5.7 per cent.

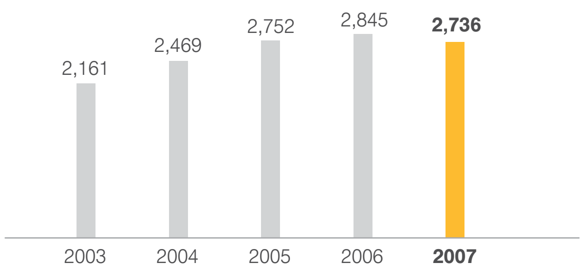
The earnings improvement programme "Excellence + Growth" played an important part in the success of the year. The programme was completed at the end of 2007, with an aggregate result of EUR 258m. "Excellence + Growth" increased the company's value creation substantially and laid the foundations for further profitable growth.

The segment result increased by EUR 28m to EUR 170m. The improvement comes from the operating result and from income from equity investments. There the share in Shanghai Pundong International Airport Cargo Terminal (PACTL) is included among others. In addition, book gains of EUR 29m from the sale of time:matters GmbH, which were included in the previous year's segment result, must be taken into account.

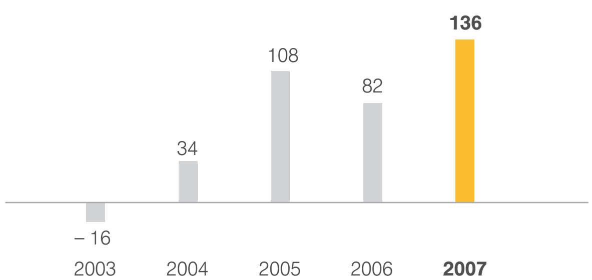
Segment capital expenditure Segment capital expenditure went up by EUR 5m to EUR 18m. This includes investment in airfreight containers and aircraft overhauls, in particular.

Long-term overview of earnings Growth and the increase in profitability are based on a strict focus on Lufthansa Cargo's strategic goals. Major contributions came from switching the fleet to MD-11 freighters in the period 1998–2005, and the successful implementation of the "Excellence + Growth" programme from 2003 to 2007. Developing partnerships, spinning off divisions, setting up new subsidiaries and expanding the Lufthansa Cargo group also played an important part.

Revenue Logistics in €m



Operating result Logistics in €m



8.2.6 Outlook

Turbulence on international financial markets and high crude oil prices are expected to make 2008 less dynamic than previous years, but the growth trend should, nevertheless, continue. IATA has forecast annual growth of around 4 per cent for airfreight. Lufthansa Cargo intends to respond to those conditions and has set itself the goal of developing its position among the world's leading profitable freight airlines in line with the Group-wide "Upgrade to Industry Leadership" initiative. Service, innovation and commercial leadership will be focused on.

On the sales side, cooperation with the strategically most important major clients is being intensified and advanced within the scope of the Global Partnership programme for top customers. Besides the target for a common participation in worldwide growth in the airfreight market, in 2008, a heightened cooperation and interlocking in the capacity planning and in operative processes and systems are foreseen. There is a further sales focus on the increasingly significant SME segment, with a corresponding regional top client management covering more than 100 customers in the Business Partnership programme.

Lufthansa Cargo wants to participate in market growth and to grow slightly faster than the market in the airfreight sector in the years ahead. The focus will be on:

- A stable core business concentrating on express deliveries,
- an integrated and improved offering from the Lufthansa Cargo group,
- varied product platforms to allow for differentiated growth,
- developing strategic partnerships,
- replacing and expanding infrastructure.

In this environment Lufthansa Cargo expects, in the 2008 financial year with moderate revenue growth, to be able to follow on from the good operating result of 2007. Further developments in the business segment, particularly the launch of operations for the new airline AeroLogic in spring 2009 and the equity investments in China, will contribute to further profitable growth in 2009.

3.6bn

EUR revenue

293m

EUR operating result

205m

EUR cash value added

Highlights

- Lufthansa Technik again grew faster than the market in 2007 and, in the process, increased profitability.
- Leaner processes introduced generate efficiency gains and contribute to the positive profit development.
- Lufthansa Technik is the first company in its industry to have received integrated certification for quality, environment and health and safety at work.

Headwind

- Growing MRO capacities and new competitors on the world markets lead to further price pressure in the industry.
- In the international environment the strong euro weights on profitability.

Global guarantor of reliability

As a world market leader in the maintenance, repair and overhaul of civil aircraft, Lufthansa Technik has been able to further strengthen its top position in an internationally expanding market. Well-timed commitments in the growth markets have played a decisive role in this. With high quality, innovation and packages tailored exactly to customers' needs, Lufthansa Technik gained further significant clients and improved its operating result in 2007.

8.3 MRO business segment

MRO

		2007	2006	**Change** in %
Revenue	€m	3,571	3,415	4.6
- of which with companies of the Lufthansa Group	€m	1,386	1,368	1.3
Operating result	€m	293	248	18.1
Adj. op. margin	%	8.7	7.8	0.9 pts.
Segment result	€m	319	279	14.3
EBITDA	€m	406	352	15.3
CVA	€m	205	85	141.2
Segment capital expenditure	€m	194	111	74.8
Employees as of 31.12	number	18,892	18,426	2.5

8.3.1 Business and strategy

Lufthansa Technik is the world's leading provider of maintenance, repair and overhaul services (MRO) for civil aircraft. It offers a range of phased and combined products from repairs of an individual item of equipment up to full-service packages for whole fleets.

The Lufthansa Technik group is divided into six divisions: aircraft maintenance, aircraft base maintenance, engines services, components, landing gear and VIP & Executive Jet Solutions.

The primary location for maintenance operations, with aircraft overhaul, completion, engine and components overhaul, logistics centre, and development and manufacturing operations, is Hamburg. The largest maintenance stations are Frankfurt, Munich and Berlin, other stations are in more than 50 locations throughout the world. The MRO group includes 28 technical maintenance operators worldwide. Lufthansa Technik holds direct and indirect equity stakes in 54 companies.

Lufthansa Technik intends to continue developing its market position within a growing overall market. The basis for this growth comes from customised products, excellent quality and the capacity for innovation, which differentiate the company from the competition. To achieve these goals, both the product portfolio and the locations in growth regions and in countries with cost-effective production will be expanded further.

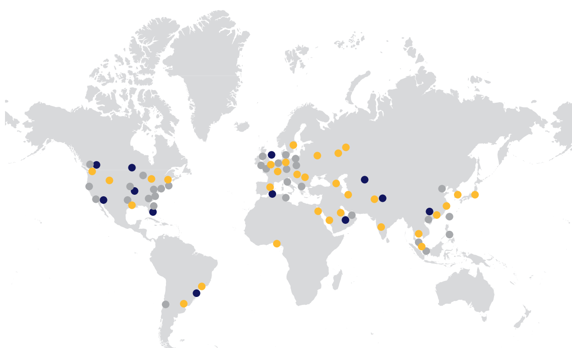
As part of its growth strategy, Lufthansa Technik established an early foothold in the emerging Asian markets. It has been running the joint venture Ameco Beijing, together with Air China, for 18 years. Today, this operation has the largest aircraft maintenance hangar in Asia. It was completed in time for the Olympic Games in 2008 and can accommodate up to six long-haul and four short-haul aircraft at the same time. It also provides space for servicing the A380.

An additional hangar has been opened at Lufthansa Technik Philippines, so that five Airbus long-haul aircraft can now be serviced simultaneously in Manila.

In Malaysia, the joint venture with MTU Aero Engines, Airfoil Services, has opened a new, much larger factory and offers customers worldwide the latest technologies for repairing engine parts.

Lufthansa Technik is to provide services to the growing air transport market in Eastern Europe from a new operation in the Bulgarian capital Sofia. Together with its partner Bulgarian Aviation Group the facility will carry out maintenance work for aircraft from the Boeing 737 and Airbus A320 families. Another hangar is being built in Malta, too.

Locations Lufthansa Technik



- Major Lufthansa Technik line stations
- Major Lufthansa Technik affilities
- Representatives' offices

In addition to almost 300 maintenance programmes carried out on short-haul aircraft to date, the Maltese operation will be able to offer servicing for wide-bodied aircraft from the Airbus A330/A340 family as of late 2008.

Lufthansa Technik is able to differentiate itself considerably from the competition by its highly integrated service products. In the Components division, the company's new "Total Material Operations TMO®" product offers an international supply network from the smallest bolt to a complete landing gear or cockpit computer. To achieve this integrated logistics and materials supply solution the IT systems are linked up and Lufthansa Technik is integrated into flight operations.

In the Landing Gear division, Lufthansa Technik also services customers' landing gear over the whole life cycle with its new "Total Landing Gear Support TLS™".

"Technical Operations WebSuite manage/m®" enables aircraft operators to manage all the core functions of technical fleet operations from the perspective of the aircraft owner with one click on an Internet-enabled PC.

Demand for completion and maintenance for VIP aircraft is also progressing well. As well as for wide bodies, the outfitting of Airbus A318 Elite VIP aircraft is one of the largest programmes. Following the delivery of the first aircraft in summer 2007, more than 20 others are to follow. Lufthansa Technik has also won the first contract for a Boeing 747-8 VIP completion.

Lufthansa Technik is also preparing itself for aircraft and engine models at the beginning of their life cycle by creating maintenance capacities in Germany. In summer 2007, for example, Lufthansa Technik opened a joint venture with Rolls Royce, N3 Engine Overhaul Services in Arnstadt, Thuringia. From 2009 onwards, maintenance of the large A380 engines will also take place here. The engine test cell is one of the largest in the world.

Lufthansa Technik has also prepared for the technical servicing of the A380 at Frankfurt Airport. The first section of the maintenance hangar was completed in summer 2007 and opened in January 2008. It is 180 metres long and 45 metres high, and can accommodate two A380 or three Boeing 747-400 at the same time.

Sustainable trading combined with profitable growth is highly important for Lufthansa Technik. That is why it continues to increase its commitment to training and, at the same time, pursues environmental goals. With the new training year in 2007, the Lufthansa Technik group put a further 235 young people on the path to a highly qualified profession. Currently, 858 young people are being trained. In addition, Lufthansa Technik signed a voluntary agreement committing it to reduce CO_2 emissions. By 2012 emissions are to be reduced by 15 per cent in infrastructure alone.

8.3.2 Markets and competition

The global market for technical services to civil aircraft was estimated at USD 42bn in 2007. For more than 18,000 civil aircraft, the market is primarily defined by fixed routine inspections, of which around 40 per cent

Business divisions of Lufthansa Technik

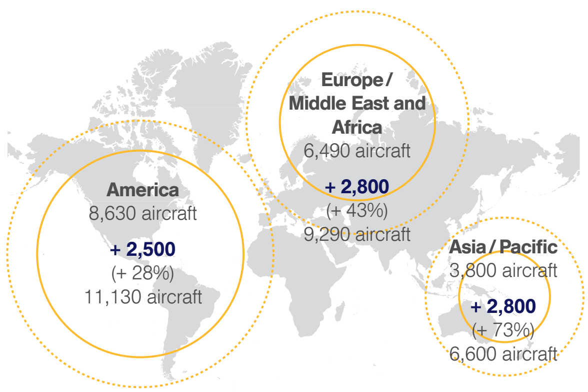
Lufthansa Technik

Aircraft Maintenance Services	Aircraft Component Services	Engine Services	Aircraft Base Maintenance	Landing Gear Services	VIP & Executive Jet Solutions

are carried out by the airlines themselves and 60 per cent are contracted out.

The demand for MRO products rose again in 2007, especially as large numbers of aircraft delivered in the late nineties are now reaching their first major maintenance events. In view of the uninterrupted growth in the world fleet, the MRO industry is increasingly confident about the future and is investing in new capacities again. Global fleet expansion will cover all regions, with high growth rates in the expanding Asian air transport market especially. But burgeoning airlines in the Middle East and purchases by no-frills carriers in Europe also ensure that the number of aircraft is set to increase.

Fleet growth until 2016



Source: Fleet Forecast, AS MRO Initiative 2007, January 2007.

By extending their capacities the airlines will also increase the pressure on their margins, however, and exacerbate the existing tough competition and price pressure in the MRO market. Competition is also increasing because the manufacturers of aircraft and engines are getting more and more involved in technical services for their products.

Lufthansa Technik competes not only with the aircraft, engine and equipment OEMs (original equipment manufacturers), but also with large airlines offering MRO services, such as Air France-KLM and independent MRO contractors like ST AERO.

Thanks to its broad product range, which is tailored to individual customer requirements and covers all modern aviation technologies, Lufthansa Technik is in a very strong position and is the global market leader in the maintenance, repair and overhaul of civil aircraft, with a market share of 15 per cent. Its triple certification as a maintenance, development and manufacturing operation is also a decisive competitive advantage on the global market.

8.3.3 Sales and customers

Lufthansa Technik has over 600 customers worldwide. In addition to the commercial airlines these, include charter airlines, no-frills and start-up airlines, as well as operators of VIP jets and government airplanes, as well as banks and leasing companies. The most important region, with a 66 per cent share of revenue, is Europe and the CIS states. This is followed by Asia, Middle East / Africa and America. Revenue from customers outside the Lufthansa Group is rising constantly and accounted for 61.2 per cent in 2007.

Sales are mostly made centrally by means of direct distribution, but individual products are also sold on a decentralised basis. The distribution function is organised in regional units, with key account managers for large and important customers. E-marketing is also being promoted using a customer portal presenting all key information and new developments. Customer contact is also reinforced by print media, participation in international trade fairs and the group's own product-oriented professional conferences.

8.3.4 Operating performance

In 2007, 456 additional contracts were signed with anticipated revenue of EUR 446m for the full year. These meant that Lufthansa Technik was able to extend its customer base by 47 to 630 customers worldwide.

New wins included Aegean Airlines, the fastest-growing airline in Greece, which signed contracts for its Airbus A320 fleet representing revenue of more than USD 100m. Lufthansa Technik also concluded a ten-year agreement to supply components to Shenzhen Airlines's Airbus A320 fleet, which has up to 70 aircraft.

Contracts with existing customers were also extended. The Star Alliance partner bmi and its low-cost subsidiary bmibaby signed a five-year contract with Lufthansa Technik worth more than EUR 50m for overhauling its fleet of aircraft. The Total Component Support contract with the largest South American airline LAN Airlines was expanded and renewed for a total of over USD 200m. The MRO business segment also reported successes in its engines division, closing a ten-year contract for EUR 43m with the American company Lynx Aviation.

Rolls-Royce is to offer its “On-Wing Care” services in Frankfurt and at maintenance stations with the support of Lufthansa Technik in future. Cathay Pacific Airways and Lufthansa Technik have closed a ten-year Total Engine Support contract, and the Italian airline Mistral Air signed a Total Component Support and a Total Engine Support contract for its three new Boeing 737QCs.

Lufthansa Technik also won new contracts for completion and maintenance of VIP aircraft. It is the first company in the world to have been awarded a contract for a Boeing 747-8 completion for a VIP customer. Lufthansa Technik was also chosen by the German Federal Office of Defence Technology and Procurement as general contractor for the modernisation of the medium-haul fleet of the Special Air Mission Wing.

Lufthansa Technik Tulsa in America closed a five-year contract with US Airways. The airline currently deploys 102 Airbus aircraft. A ten-year Total Material Operations contract was also signed with Virgin America, a start-up airline in the United States, with a value of more than USD 250m.

The agreement on an operative and strategic cooperation, signed in December 2007 with Austrian Airways, will enable Lufthansa Technik to extend its services in Europe, particularly for maintenance – and especially for the Boeing 777.

Lufthansa Technik counteracts rising margin pressure by new-process optimisation and cost-reduction programmes. The principle drivers are the various lean projects, which are intended to achieve sustainable efficiency improvements in all divisions. In 2007, growth resulting from the improved cost structure again brought about a welcome earnings trend.

8.3.5 Revenue and earnings development

Revenue and income **Revenue** increased year on year by 4.6 per cent to EUR 3.6bn. Lufthansa Technik was again able to grow faster than the market and expanded its revenue from external customers by 6.7 per cent to EUR 2.2bn. This meant that their share of total revenue climbed to 61.2 per cent, beating last year’s level by 1.3 per cent.

Revenue from Lufthansa Group companies went up to EUR 1.4bn (+1.3 per cent). Although business with Lufthansa Passenger Airlines declined slightly, turnover with Lufthansa Cargo and Lufthansa Cityline for engine and components maintenance increased.

Other operating income picked up by 34.4 per cent to EUR 168m, largely due to exchange rate gains (EUR 70.3m).

The MRO segment generated **total operating income** of EUR 3.7bn (+5.6 per cent).

Expenses

Operating expenses MRO

	2007 in €m	2006 in €m	**Change** in %
Cost of material and services	1,845	1,767	4.4
- of which raw materials, consumables and supplies	1,158	1,076	7.6
- of which external services	524	500	4.8
Staff costs	992	922	7.6
Depreciation, amortisation and impairment	83	76	9.2
Other operating expenses	526	527	– 0.2

Operating expenses rose by only EUR 154m (+4.7 per cent) to EUR 3.4bn. This demonstrates the efforts made in the MRO segment to keep improving competitiveness with process optimisation and cost cutting.

Materials and services and staff costs increased the most, driven by higher volumes. This included expenses for the larger number of aircraft spare parts as well as external services. The **cost of materials and services** rose overall by 4.4 per cent to EUR 1.8bn.

Staff costs rose by 7.6 per cent to nearly EUR 1.0bn, as the number of staff and pay scales went up, as did expenses for partial retirement. Lufthansa Technik’s workforce increased worldwide by 3.5 per cent to 18,733 on average. The number of employees grew, particularly at Lufthansa Technik AG and Lufthansa Technik Philippines.

Depreciation rose in line with increased capital expenditure by 9.2 per cent to EUR 83m.

Other operating expenses remained at the level of the previous year.

Result In total, the operating result improved significantly to EUR 293m (+18.1 per cent). The adjusted operating margin increased to 8.7 per cent (+0.9 percentage points).

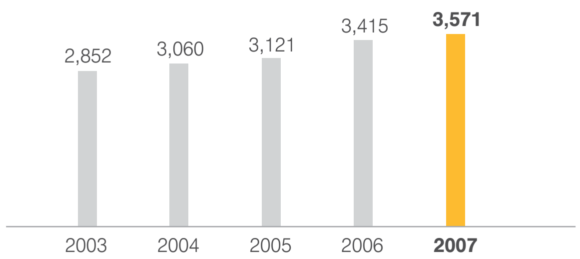
Other segment income declined by EUR 4m to EUR 17m, as fewer provisions were written back and a book gain realised in 2006 on the sale of an engine did not repeat itself.

The result of equity investments decreased by EUR 2m to EUR 10m. This includes HEICO Aerospace, AMECO and other equity investments. The segment result was well above last year's at EUR 319m (+14.3 per cent).

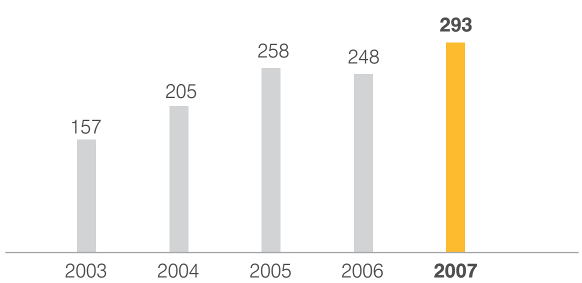
Segment capital expenditure Segment capital expenditure went up sharply by EUR 83m to EUR 194m. Investments were made in additional spare engines, new machinery and technical plant, such as the new A380 maintenance hanger in Frankfurt and a new service building in Hamburg.

Long-term overview of earnings Thanks to steady revenue growth, consistent cost management, expansion of the product portfolio and internationalising its production network, Lufthansa Technik was able to improve earnings by a greater margin than revenue in recent years.

Revenue MRO in €m



Operating result MRO in €m



8.3.6 Outlook

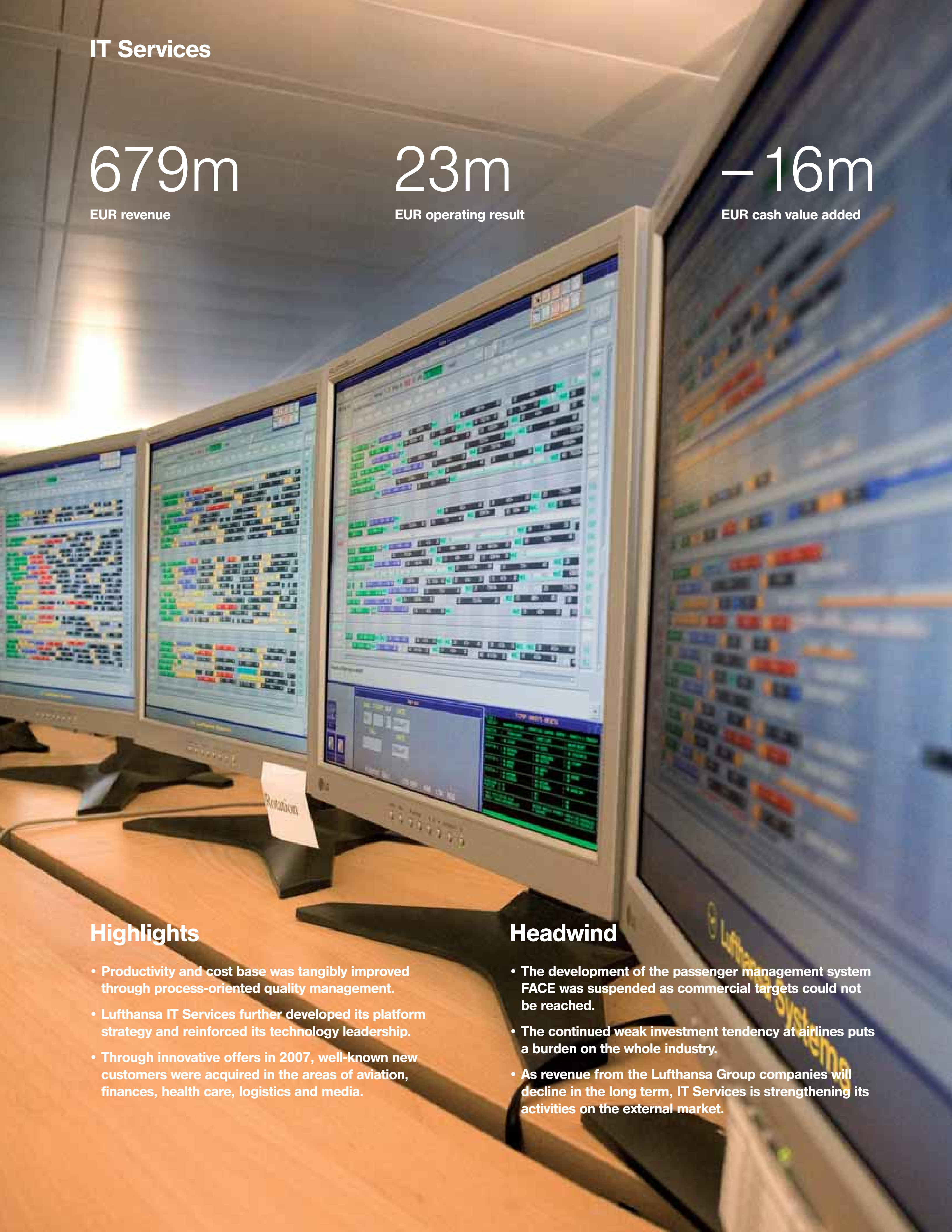
The market for technical services is growing at an average rate of 3.9 per cent a year. The Lufthansa Technik product portfolio, which only covers the more modern models, even manages 4.2 per cent a year. Lufthansa Technik has already established a sound presence in the high-growth Asia/Pacific region, with sites in China, the Philippines, Malaysia and India. To expand the product portfolio for specific markets and customers, the group is concentrating, in the period up to 2010, on expanding and developing new, cost-effective production facilities in Sofia and Malta. Lufthansa Technik also intends to engage further in India and Russia, and systematically extend its operations at the Asian sites in Beijing, the Philippines and Malaysia. Lufthansa Technik is well prepared for the new Airbus A380 and Boeing 787 models, and the new engines from the Rolls-Royce Trent 900 series.

Customised products, quality, innovation capacity, in-house development operations, global logistics services and process-driven cost advantages are among Lufthansa Technik's strengths and will continue to be refined. In Hamburg, Lufthansa Technik's headquarters, a new production hangar for engine overhauls is being built for EUR 50m, for example, which will support the latest working processes. Significant productivity gains will enable the number of engines serviced annually to be increased from 350 currently to more than 450.

Despite the heightened competition Lufthansa Technik is confident of participating in global growth in air transport and further developing its good market position.

With its modern product range and closely knit network in both the major established and emerging growth markets, Lufthansa Technik expects to see further revenue growth in 2008. A slight increase in the operating result is also likely, but this could be influenced by the weakness of the dollar. For 2009, further increases in revenue and profits are projected.

IT Services



679m
EUR revenue

23m
EUR operating result

– 16m
EUR cash value added

Highlights

- Productivity and cost base was tangibly improved through process-oriented quality management.
- Lufthansa IT Services further developed its platform strategy and reinforced its technology leadership.
- Through innovative offers in 2007, well-known new customers were acquired in the areas of aviation, finances, health care, logistics and media.

Headwind

- The development of the passenger management system FACE was suspended as commercial targets could not be reached.
- The continued weak investment tendency at airlines puts a burden on the whole industry.
- As revenue from the Lufthansa Group companies will decline in the long term, IT Services is strengthening its activities on the external market.

Success with a unique range of products

With its platform strategy, Lufthansa Systems has further strengthened its position as the most technologically advanced IT services provider for the airline industry. New customers have again increased the share of revenue from outside the Lufthansa Group. At the same time, productivity has been improved.

8.4 IT Services business segment

IT Services		2007	2006	Change in %
Revenue	€m	679	652	4.1
- of which with companies of the Lufthansa Group	€m	398	381	4.5
Operating result	€m	23	49	– 53.1
Adj. op. margin	%	3.7	8.1	– 4.4 pts.
Segment result	€m	– 20	51	–
EBITDA	€m	39	90	– 56.7
CVA	€m	– 16	32	–
Segment capital expenditure	€m	54	49	10.2
Employees as of 31.12	number	3,102	3,321	– 6.6

8.4.1 Business and strategy

Lufthansa Systems is one of the leading IT service providers for the international aviation industry. In addition to its headquarters in Kelsterbach, the company has several other sites in Germany and a total of 17 other countries.

Lufthansa Systems offers airlines a unique range of products. Its portfolio is divided into five business divisions, which bundle expertise, products and services in accordance with market requirements. While the Airline Management Solutions, Passenger Airline Solutions and Airline Operations Solutions divisions offer their services exclusively for airlines, Industry Solutions and Infrastructure Services provide Lufthansa Systems' IT expertise to all sectors. As a systems integrator, Lufthansa Systems covers the whole spectrum of IT services – from consultancy and applications development and implementation through to ultra-dependable 24-hour operations. Its data centre in Kelsterbach is one of the most modern and powerful in Europe.

To expand its strategic position in the airline IT market, it is vital for Lufthansa Systems to develop platforms which cover an airline's entire business processes. An absolute prerequisite for doing so is detailed knowledge of these business processes as they apply in every area, which only very few IT companies have. By stepping up investment in innovative products and platforms, Lufthansa Systems systematically builds on its technological leadership to confirm its position as an international IT provider for the airline industry.

8.4.2 Markets and competition

The global market for airline IT is estimated at around EUR 8.4bn in annual revenue. Some 60 per cent of IT work is contracted out, 40 per cent being carried out internally by airlines. The airlines' willingness to invest remains low, although information technology is of great importance for optimising their business processes. Customers are primarily looking for flexible price and service models based on standard solutions. With its platform strategy, Lufthansa Systems is well positioned to succeed in this market environment.

Key competitors are Sabre, EDS, SITA and Boeing, with its subsidiaries Jeppsen and Carmen Systems. However, none of these companies has a product range as all-encompassing as that of Lufthansa Systems.

Regional market developments are extremely heterogeneous. In Asia, double-digit growth rates in passenger and cargo traffic, increasing liberalisation of the aviation market and wider alliance membership have led to growing demand for Lufthansa Systems' products. The same applies in the Gulf region, where the airlines are investing considerable amounts in expanding their fleets and flight networks. After several economically challenging years, the Americas sales

Locations IT Services

region is now also seeing an increasing willingness to replace legacy systems with new technologies and thereby improve competitiveness.

In Europe, the trend is towards integrated systems and consolidation of processes against a background of persistent cost pressure. The demand for greater efficiency born of intense competition between airlines results in rising demand for consultancy services and solutions for optimising process environments, flight scheduling and operational management. Lufthansa Systems has deployed innovative solutions, such as the Integrated Operations Control Centre (IOCC), product families for airline financial services (Sirax) and resource management (NetLine), to increase its market share in Europe and reinforce its traditionally strong positioning. Here, its share is already 18 per cent of total market volume. In Russia and the other CIS states, the services of the Airline Management Solutions and Airline Operations Solutions divisions are in particular demand. Lufthansa Systems works closely with other Group companies in this market.

The German IT market was long characterised by a great reluctance to invest. Last year, however, this lull came to an end as IT services and project business recorded good growth rates. This also benefited Lufthansa Systems, which won numerous contracts.

8.4.3 Sales and customers

The customer base at Lufthansa Systems includes some 200 customers worldwide. The largest group is made up of airlines from around the world: international network carriers as well as no-frills airlines and regional carriers. Lufthansa Systems offers them a comprehensive spectrum of IT solutions, regardless of their business model, which covers all their business processes. In addition, Lufthansa Systems works for banks and financial services providers, logistics companies, publishers and customers from many other sectors.

Lufthansa System's goal is to generate an increasing share of revenue with customers outside the Lufthansa Group. In 2007, this goal was achieved again. That share is now already around 41 per cent (previous year: 40 per cent).

Sales to airlines are made by regional sales offices, which are decentralised and focused on the regions Europe / Middle East / Africa, Asia / Pacific and America. Today, Lufthansa Systems has representative offices in 17 countries. Lufthansa Passenger Airlines, still the largest customer, is served as a key account. Distribution outside the aviation industry is divided according to sector. Highly standardised solutions are also distributed via partners.

8.4.4 Operating performance

In the past financial year, numerous new contracts with well-known airlines were gained. As well as many other contracts, Lufthansa Systems was able to win customers in Asia such as Cathay Pacific Airways and China Southern. In the Gulf region, Etihad Airways selected the network management solution SkyConnect and the flight planning solution Lido OC from Lufthansa Systems. In addition, business relations with Emirates were extended. Following the decision in 2006 by the American carrier Southwest Airlines for the technologically advanced revenue accounting system Sirax, the partnership was strengthened in the reporting year with a contract for introducing the new AdvancedCargo Suite.

Outside the air transport sector Lufthansa Systems also built up its position with a series of new contracts. From the financial sector, DZ Bank AG is to outsource all its central corporate applications to Lufthansa Systems. Well-known customers were also acquired in the health care, logistics and media industries.

With its product offers, Lufthansa Systems again strengthened its market position. The new customer-oriented organisational structure and investments in distribution and service management also played their part. At the same time, costs were cut and profitability increased. The Infrastructure Services division was successfully reorganised, achieving its goal of substantially reducing costs. As part of this programme, sections of the data centre were transferred to Budapest. Other options to improve productivity by transferring operations to cheaper locations are under review.

The new process-oriented quality management also had a positive impact on results. It is already in place in key areas.

The overall course of business and earnings was considerably impacted, however, by the discontinuation of the FACE project. The medium-term commercial goals that were set with the passenger management system FACE (Future Airline Core Environment) could not be fulfilled. Lufthansa Systems, therefore, decided to discontinue the development. The business model of the Passenger Airlines Solutions division was modified in order to leverage the valuable know-how in passenger management systems gained from FACE to be used to the best advantage on the market. Staff from the new Passenger Airline Competence Centre are to support Lufthansa Passenger Airlines in introducing the Common IT platform, for example. Other airline customers are also interested in similar services. Overall, the IT Services business segment has made good progress, but the result reflects the negative one-off impact caused by suspending the FACE project.

Business divisions of Lufthansa Systems

Lufthansa Systems

Airline Management Solutions	Passenger Airline Solutions	Airline Operations Solutions	Industry Solutions/ ERP Airline Solutions	Infrastructure Services
· Network Planning · Crew Management & Operations Control · Revenue Management & Pricing · Marketing & Sales	· Schedule · Inventory · Reservation · Ground · PSS* Competence Centre	· Electronic Flight Deck Solutions · Navigation · Flight Planning	· Maintenance, Repair & Overhaul · Cargo & Logistics · Airline Financials · Revenue Accounting	· Communication · Consulting · Application · Desktop · Data Center

Global Sales EMEA Central | EMEA South | Asia/Pacific | Americas

* PSS = Passenger Service System.

8.4.5 Revenue and earnings development

Revenue and income In 2007, Lufthansa Systems was able to pursue its continued growth of prior years. With an increase of 4.1 per cent, the business segment reported **revenue** of EUR 679m in total. Volume increases in the Passenger Transportation segment were reflected in 4.5 per cent higher internal revenue at EUR 398m. External revenue rose by 3.7 per cent to EUR 281m. Its contribution to total revenue is around 41 per cent. **Other operating income** amounted to EUR 36m (previous year: EUR 33m). **Total operating income** improved by 4.4 per cent to EUR 715m.

Expenses

Operating expenses IT Services

	2007 in €m	2006 in €m	**Change** in %
Cost of materials and services	38	34	11.8
Staff costs	243	238	2.1
Depreciation, amortisation and impairment	38	35	8.6
Other operating expenses	373	329	13.4
- of which rent/IT maintenance	121	114	6.1
- of which external staff	112	100	12.0
- of which operator model	46	41	12.2

Operating expenses went up by 8.8 per cent to EUR 692m in total. **Cost of materials and services** increased due to growth and the parallel reduction in staff employed by 11.8 per cent to EUR 38m.

Staff costs increased by 2.1 per cent to EUR 243m as a result of one-off expenses. Average staff numbers declined by 4.3 per cent to 3,175.

The takeover of IT equipment due to outsourcing activities meant that **depreciation and amortisation** expenses increased from EUR 35m in the previous year to EUR 38m.

The rise in **other operating expenses** of 13.4 per cent to EUR 373m is primarily due to the termination of the FACE project.

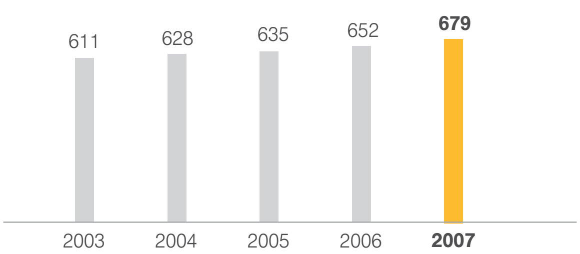
Result The result of the 2007 financial year is marked by one-off expenses for optimising and outsourcing business processes and discontinuing the FACE project. These non-recurring effects meant that Lufthansa Systems reported an operating result of EUR 23m compared with EUR 49m in the previous year. These one-off effects influenced the operating margin. The adjusted operating margin was reduced to 3.7 per cent (– 4.4 percentage points).

Impairment losses realised in connection with FACE led to an increase in other segment expenses to EUR 45m (previous year: EUR 2m). Other segment income were reduced by EUR 2m (previous year: EUR 4m). The segment result, therefore, dropped to a loss of EUR 20m (previous year's profit: EUR 51m).

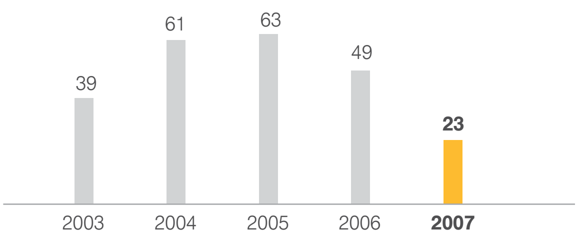
Segment capital expenditure Segment capital expenditure rose by 10.2 per cent to EUR 54m. This is mainly caused by outsourcing activities in connection with IT infrastructure services.

Long-term overview of earnings Over the last five years business development at Lufthansa Systems has led to an average increase of 4 per cent in annual revenue. From mid 2005 onwards, Lufthansa Systems had been striving to develop its portfolio, targeting a flexible IT platform for the aviation industry. This was to be achieved principally with the FACE (Future Airline Core Environment) project. Upfront costs for developing these technologies and increased price pressure in the external market and on Lufthansa Group companies drove down the operating result from 2006, however. Expenses in connection with the discontinuation of the FACE project as well as one-off costs for optimising business processes led to a further slump in the operating result in 2007.

Revenue IT Services in €m



Operating result IT Services in €m



8.4.6 Outlook

The market for IT outsourcing in the aviation industry is expected to grow at an average rate of 5.2 per cent in the coming years. The need to update IT systems in Europe and North America remains high. This environment offers Lufthansa Systems healthy prospects. In the years ahead, it intends to consolidate its position as one of the leading IT service providers for the aviation industry. Revenue from customers from outside the Lufthansa Group is to grow from the current 41 per cent to 60 per cent in the medium term. Lufthansa Systems will continue to invest in new technologies in order to offer its customers products with a distinctive performance profile and high commercial benefits. Increasing competition in a consolidating market constitutes challenges on the way to this goal, however. In this situation, the integrated platform solutions are particularly important. They are meeting with a positive response in the market and offer a range and depth of functions greater than that of any competitor.

An increase in passenger numbers worldwide means that the future demand for data centre services will grow significantly. As the prices and the demand for mainframe services decline, however, revenue here is also expected to deteriorate in the near future. Lufthansa Systems has already responded to this development with the restructuring of its Infrastructure Services division.

For 2008, further revenue growth is anticipated, which will be driven exclusively by the external market. Lufthansa Systems expects to conclude 2008 with a noticeably higher operating result than in the previous year.

If the willingness to invest remains as high as it is currently, appreciable growth in external revenue is also expected for 2009. However, this is unlikely to compensate fully for declining revenue from the Lufthansa Group. By further reducing material and staff costs, Lufthansa Systems, nevertheless, is striving to report another increase in the operating result for 2009. Projects for the specific business segments carried out as part of the "Upgrade to Industry Leadership" initiative will make a substantial contribution to this.

Catering

Highlights

- LSG Sky Chefs creates value: the operating result was doubled and the CVA is positive for the first time since 2000.
- LSG Sky Chefs performance is convincing in the traditional catering business: in addition to geographic expansion in growth markets, new customers are also being acquired in our established regions.
- LSG Sky Chefs continues to develop: the In-flight Management Solutions division is pursuing growth with new partnerships worldwide.

Headwind

- Competitive pressure is rising worldwide due to increasing consolidation in the airline catering business, a strategic realignment of competitors and new market entrants.
- As the efforts to create competitive cost structures in Paris and Berlin-Tegel were not successful, both these locations were shut down in 2007.
- The Spanish locations were sold because the company's target margin could not be achieved consistently.

2.4bn

EUR revenue

100m

EUR operating result

21m

EUR cash value added

LSG Sky Chefs confirms success course

The LSG Sky Chefs group has sustained its success. The operating result improved considerably for the third time in a row. The cost-cutting endeavours paid off in full in 2007. The operating result doubled compared with the previous year. Hence LSG Sky Chefs is creating value again. The level of on-board service in the premium classes has risen further and airline customers are increasingly open to services and additional advise in the area of in-flight management.

8.5 Catering business segment

Catering		2007	2006	Change in %
Revenue	€m	2,396	2,278	5.2
- of which with companies of the Lufthansa Group	€m	527	502	5.0
Operating result	€m	100	50	100.0
Adj. op. margin	%	4.2	2.7	1.5 pts.
Segment result	€m	116	73	58.9
EBITDA	€m	167	168	– 0.6
CVA	€m	21	– 50	–
Segment capital expenditure	€m	153	71	115.5
Employees as of 31.12	number	30,101	28,555	5.4

8.5.1 Business and strategy

The LSG Sky Chefs group holds a leading position in airline catering, with a global market share of around 30 per cent. It includes some 119 companies and is domiciled in 47 countries with nearly 200 local customer service centres. The group has two divisions: “Airline Catering” supplies airlines worldwide with food, drink and other on-board items, while “In-flight Solutions” (Solutions) offers related services and products and provides comprehensive support to airlines in all areas of on-board service. The parent company for the group, LSG Lufthansa Service Holding AG, is based in Neu-Isenburg.

In a market environment which has stabilised, LSG Sky Chefs explores available opportunities for profitable growth and further differentiation. In response to the different maturities and growth stages of the regional airline catering markets, LSG Sky Chefs follows a strategy adapted accordingly. In growth markets such as Asia, Eastern Europe and the Middle East the focus is on further geographical expansion, while in the saturated markets in Europe and America, the focus lies on the optimisation of cost structures and expansion through partnerships.

In order to further differentiate the company’s portfolio, a systematic innovation process has been launched. It is proven through individual projects already, and, in the future, employees will be trained to apply it as a company standard. The process involves teams from all divisions and external advisors going through an intensive multi-stage brainstorming process, which is based on reliable market information and generates innovative ideas as quickly as possible.

Due to its corporate structure and its history, LSG Sky Chefs is characterised by a high cultural diversity, within both individual operations and the company as a whole. In order to benefit from this, LSG Sky Chefs has developed a set of corporate values. They provide guidance internally and create a consistent company profile.

8.5.2 Markets and competition

The global airline catering market is growing at an average of 3 per cent a year, although major growth markets such as China and India are expanding much faster.

The tendency of airlines to outsource their in-flight management or other parts of the supply chain and logistics is still in evidence. This trend opens up additional market opportunities for a full-service provider like LSG Sky Chefs. In this context “SkylogistiX”, a joint venture with Kühne + Nagel (a leading international logistics provider), launched in autumn 2007, will strengthen LSG Sky Chefs’ service portfolio. With the partnership LSG Sky Chefs gets access to Kühne + Nagel’s worldwide network of distribution centres and warehouses.

Locations Catering

Opposite to these positive aspects are the challenges created by increasing consolidation in the industry and a growing number of local and regional suppliers with low-cost, off-airport locations.

According to its own estimates LSG Sky Chefs has a global market share of 30 per cent. The company has defended its market leadership well in a tough competitive environment defined by consolidation. Within the reporting period, competitors have expanded their service range by acquiring small or medium-sized companies with complementary products and services. Formerly local or regional suppliers are increasingly moving out of their domestic markets.

8.5.3 Sales and customers

LSG Sky Chefs has more than 300 customers, which include nearly all of the world's international airlines, but also numerous no-frills and regional carriers. The customer service representatives in nearly 200 local centres are responsible for everyday working relations with clients. A global account manager takes care of the overall customer service. The Corporate Sales department is responsible for strategic relations with the largest customers by revenue.

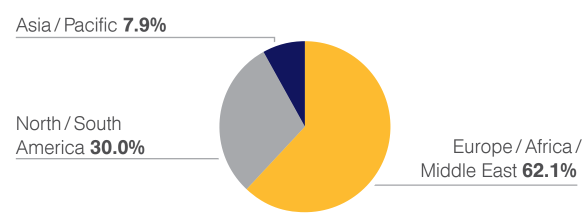
In 2007, the group focused on linking the regional sales teams with the in-flight management services, who were mostly developed at headquarter level. This took place through the international expansion of the Catering Logistics division (equipment development and logistics) and the Frozen Food division into Asia and the USA. Furthermore, expert knowledge from both the Sales and the Solutions departments was increasingly integrated into customer service. LSG Sky Chefs intends to put the company's capacity, which goes far beyond airline catering, onto a broader platform in order to take advantage of all market opportunities.

8.5.4 Operating performance

Last year, LSG Sky Chefs took a number of significant steps to develop a more differentiated service portfolio above its robust position as an airline caterer. These included organisational and structural reinforcements of the Solutions division, which focuses primarily on developing innovative and creative products and services in the areas of food, equipment, transport and warehouse logistics.

In accordance with its strategic guidelines, the business segment also closed and sold remaining loss-making operations. After a thorough review of alternatives, the joint venture in Paris was discontinued, the facility in Berlin-Tegel closed and an agreement signed to sell the stake in LSG Sky Chefs España S.A.

Airline Catering Revenue by region



In the European and African markets, most customer contracts were extended and many new customers acquired in 2007. These included contract extensions with TUIfly in Germany, First Choice in the UK and TAP in Portugal, as well as new contracts in different locations with SWISS, United Airlines, British Airways, Virgin America and Air New Zealand. In view of growing competition in the European markets, the company is striving for stability and sustainability by means of broader and tailored customer relationships. Further equity stakes were purchased in Turkey, the Baltic states and the Ukraine, strengthening the company's presence there.

LSG Sky Chefs won major tenders in the USA and intensified its relationships with both established US carriers and new airlines. Of particular note are the renewed contract with American Airlines at its hub in

Dallas, more business with US Airways/America West, United Airlines and Alaska Airlines, and the successful start-up for newcomer Virgin America. The sales team in Latin America was able to close a worldwide catering contract with Varig, following the acquisition of the Brazilian airline by the no-frills carrier GOL.

In the Asia/Pacific region, cooperation with Chinese airlines, in particular, was intensified based on the successful existing partnerships. The focus of activities there was to develop the company's presence in the growth markets India and China. A total of eight new locations were established. The new frozen-food facility in China will enable LSG Sky Chefs, from spring 2008, to satisfy the increasing demand in the region.

8.5.5 Revenue and earnings development

Revenue and income **Revenue** picked up by 5.2 per cent year on year to reach EUR 2.4bn. External revenue accounted for EUR 1.9bn, an increase of 5.2 per cent compared with the previous year. Of the total rise in revenue, 1.8 per cent results from changes in the group of consolidated companies, while exchange rate effects depressed growth by 2.6 per cent as expressed in euros. In their local currencies, all regions were able to report higher revenue in 2007, which is gratifying. Thanks to new orders and higher volumes, European business grew, particularly in the UK, Italy, Germany and Scandinavia. The growth markets Asia/Pacific, Latin America and Eastern Europe expanded even faster than average. In the USA, revenue also went up due to new customer wins, but the persistent weakness of the dollar led to a decline in revenue on a euro basis. In addition to the core business of airline catering, the solutions division was also able to expand.

Other operating income sank by 26.1 per cent to EUR 82m. This is principally due to the fact that greater income was derived last year from exchange rate gains.

Total operating income therefore only went up by 3.7 per cent to EUR 2.5bn.

Expenses

Operating expenses Catering

	2007 in €m	2006 in €m	**Change** in %
Cost of materials and services	1,081	996	8.5
Staff costs	886	913	– 3.0
Depreciation and amortisation	57	63	– 9.5
Other operating expenses	354	367	– 3.5

Operating expenses were only slightly above last year's at EUR 2.4bn (+1.7 per cent). Higher revenue and price increases for basic foodstuffs and energy led to a higher **cost of materials and services** at EUR 1.1bn (+8.5 per cent). Companies consolidated for the first time accounted for 1.8 per cent of this rise. The increase also contains a higher volume of outsourcing, underlining the group's determination to increase its flexibility.

Staff costs went down by 3.0 per cent year on year to EUR 886m, despite higher revenue. In addition to significant efficiency gains in all countries, the weakness of the dollar against the euro also played a role, as did the fact that the one-off payment as part of the new wage settlement in the USA no longer had an impact and the agreed measures began to take effect. These factors more than made up for increased staff costs due to the larger group of consolidated companies. New recruitment took place in growth markets especially. The average number of employees increased to 29,880 (+5.5 per cent).

Depreciation and amortisation declined by 9.5 per cent to EUR 57m, largely due to the weak dollar.

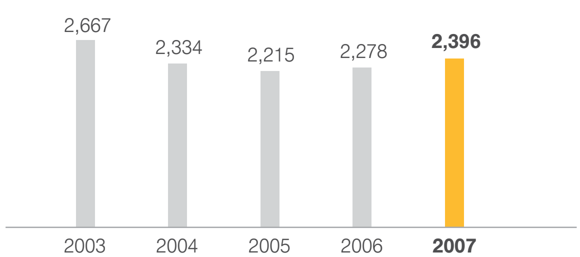
Other operating expenses dropped by 3.5 per cent compared to the previous year, amounting to EUR 354m.

Result The operating result doubled to EUR 100m compared with the previous year, driven both by significant revenue growth and successful cost cutting. Other segment income sank by 59.1 per cent to EUR 9m and other segment expenses also dropped considerably from EUR 8m to EUR 4m. The segment result went up by EUR 43m year on year to EUR 116m.

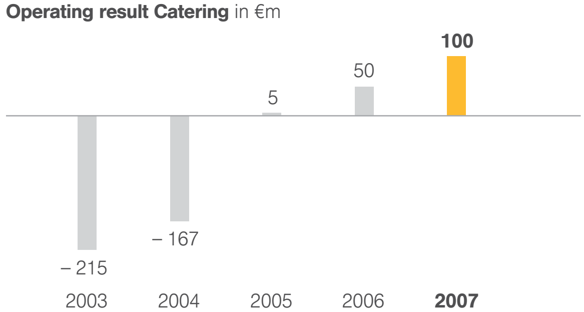
Segment capital expenditure In the year under review, the Catering segment had segment capital expenditure of EUR 153m. This is EUR 82m (+115.5 per cent) above the figure for the previous year. The funds were mainly invested in building a new catering facility at Frankfurt Airport, which is due for completion by mid 2008. LSG Sky Chefs also sees an increasing demand for frozen meals in the catering market and has invested in production facilities for frozen food in Qingdao in China and Pittsburgh in the USA.

Long-term overview of earnings position LSG Sky Chefs is successfully pursuing its profitable course. Strict cost management and clear internal return targets mean that increasing revenue is disproportionately reflected in the operating result. Over recent years, the Catering segment has increased its result sustainably.

Revenue Catering in €m



Operating result Catering in €m



8.5.6 Outlook

In autumn 2007, the company started the programme named "LSG Sky Chefs – Upgrade to Industry Leadership", based on the initiative launched by the Lufthansa Group and tailored to the Catering segment. This is intended to generate further improvements in growth and profitability. The previous cost-reduction programmes "Triangle" and "Lean Total Direct Cost" were integrated into the Upgrade initiative. This company-wide programme is based on the strict pursuit of the activities taken in the individual regions, countries and locations, and on involving the whole company in broad-based initiatives with which performance is to be increased. These include the elements "Customer care", "Innovation and Environment", "Quality" and "Lean", "Future business models", "Corporate values" and "People".

For 2008, LSG Sky Chefs is expecting both further revenue growth and another increase in the operating result, given continued growth in the markets and the ongoing integration of In-flight Solutions into the regional operations. In 2009, results are to improve still further. LSG Sky Chefs considers the further consolidation of the industry, and a number of contracts which are on tender, as risks. The measures taken to optimise the cost structures should more than balance out these risks, however.

LSG Sky Chefs will continue to evaluate expansion opportunities in the growth markets of Eastern Europe, Asia and the Middle East, and take advantage of them as appropriate.

8.6 Service and Financial Companies

Service and Financial Companies		2007	2006	Change in %
Total operating income	€m	387	352	9.9
Operating result	€m	53	52	1.9
Segment result	€m	235	119	97.5
EBITDA	€m	232	126	84.1
CVA	€m	7	– 88	–
Segment capital expenditure	€m	70	139	– 49.6
Employees as of 31.12	number	1,329	1,198	10.9

8.6.1 Business and strategy

The Lufthansa Group's business operations are supported by financial and service companies. These include Lufthansa Commercial Holding GmbH in Cologne, where the associated companies which promote, develop and secure Lufthansa's core business are held. Others include Lufthansa Flight Training GmbH in Frankfurt and Lufthansa AirPlus Servicekarten GmbH in Neu-Isenburg, as well as various financial companies.

Lufthansa Flight Training GmbH is one of the leading global providers of training services for airlines and their staff. Lufthansa Flight Training has an international presence with sites in Frankfurt, Berlin, Bremen, Vienna and Phoenix. Its product portfolio goes from individual seminars for single clients to full pilot training. The company is organised into divisions for simulator training, the commercial pilot school in Bremen, safety and service training and other services such as e-learning. Lufthansa Flight Training pursues its development with the help of associates and partnerships. In 2008, it is to open a training centre in Munich in order to provide service, emergency and human factors training programmes for the Lufthansa crews stationed there.

Lufthansa AirPlus is one of the leading global providers of business travel management solutions. The company is specialised in the payment and evaluation of business travel. Under the AirPlus International brand it supplies tailored products and comprehensive services with which companies can make their everyday travel management simpler, more transparent and more cost-effective. The company is based in Neu-Isenburg and also has its own subsidiaries and branch offices in more than 20 countries. In 2007, AirPlus continued its successful growth path in international markets, pursuing its strategy of becoming the preferred global payment and reporting provider for business travel management by 2012.

8.6.2 Markets and competition

Lufthansa Flight Training's core market is Europe. Here, the company has a leading position with currently 34 flight simulators for 20 different aircraft models. It also includes many airlines from outside Europe among its customers.

Lufthansa AirPlus has developed its position on the global business travel market. Total billing revenue increased in 2007 to EUR 15.9bn. The main driver of growth remains the international markets, which contributed to AirPlus's dynamic expansion with an increase of 40 per cent. In Germany, the number of transactions settled via AirPlus rose to 93 million. Worldwide, more than 750 AirPlus employees provided services to over 32,000 corporate customers last year. With a market share of around 70 per cent, AirPlus has been the undisputed market leader in Germany for many years.

8.6.3 Sales and customers

As well as Lufthansa Group companies, Lufthansa Flight Training's customer base today includes more than 150 airlines from around the world. It ranges from well-known network carriers to leading cargo airlines, to increasing numbers of no-frills airlines. Thanks to its "preferred customer" strategy, over the last two years the company has been successful in retaining major customers such as Austrian Airlines and TUIfly for longer periods.

As a result of strong demand in global markets, AirPlus has reinforced service levels for its large multinational clients and set up a specific division to do so. This enables the company to respond faster to the demands made by key accounts for global billing solutions and to generate additional international billing volumes. An online platform was also launched for professional travel management of medium-sized companies to provide advice on cutting the costs of business travel, specifically aimed at small and medium-sized companies. In the ranking organised by the business newspaper Handelsblatt "Germany's most customer-oriented service provider", AirPlus was ranked in the top ten, thanks to the high quality of its services.

8.6.4 Operating performance

In 2007, Lufthansa Flight Training was again able to expand its customer base and win additional clients. The company experienced record demand last year. In summer 2007, the second simulator commenced operations at Lufthansa Flight Training Vienna. In October, work started on an extension to the simulator hangar at Lufthansa Flight Training in Frankfurt.

AirPlus also extended its international partnership network. The company signed strategic partnerships with United Overseas Bank in Singapore and Korea Exchange Bank to provide optimal support to clients in their business travel management by means of joint payment solutions. The collaboration with these two banking partners complements the AirPlus offering in Asia and forms the basis for further growth.

Since September 2007, companies with the AirPlus card have also been able to process climate protection contributions automatically and evaluate them in detail – an innovation in business travel management. With the Industry First solution from AirPlus, companies can assume their ecological responsibilities and play a leading role in corporate social responsibility. AirPlus received the Business Travel Show Innovation Award 2007 for this innovative idea.

Also new in 2007 was a payment solution for the road toll applicable to trucks in Germany under the name Road Account. It enables freight forwarders and transport companies to manage their road-toll payments much more comfortably and flexibly.

Overall operating performance in the Service and Financial Companies was stable.

8.6.5 Revenue and earnings development

Total operating income for the service and financial companies increased by 9.9 per cent to EUR 387m. Higher revenue at AirPlus and Lufthansa Flight Training contributed to this performance. Operating income included EUR 217m from AirPlus (+24.7 per cent) and EUR 145m from Lufthansa Flight Training (+12.4 per cent).

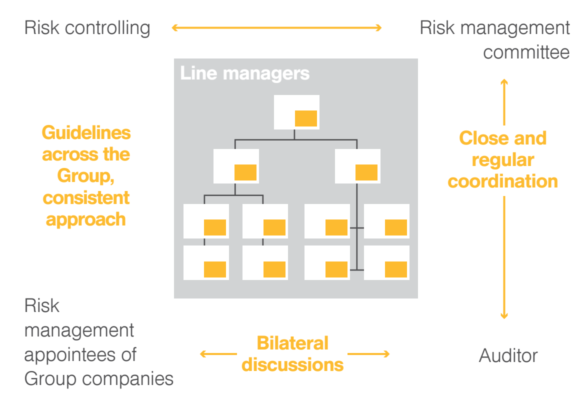
Operating expenses went up by 11.3 per cent to EUR 334m.

The **operating result** remained at the level of the previous year at EUR 53m (previous year: EUR 52m). Other segment income went up by 64.9 per cent to EUR 244m. This mainly includes income from equity investments in connection with the share buy-back by WAM Acquisition S. A. for EUR 71m. Lufthansa Commercial Holding received EUR 101m in the third quarter as a result of this buy-back. The level of the company's shareholding was not affected by the transaction. Other segment expenses declined by 23.5 per cent to EUR 62m. This meant that the **segment result** nearly doubled to EUR 235m.

9. Risk report

9.1 Opportunity and risk management system

Risk management at Lufthansa



As an international aviation company Lufthansa is exposed to both company and sector-specific risks. Our permanently updated management systems enable us to identify risks and opportunities at an early stage and act accordingly. The risk strategy remains unchanged and allows us to take advantage of business opportunities as long as a risk-adjusted return can be realised on market terms and the risks are appropriate and acceptable.

The deliberate management of risks and rewards is an integral component of corporate leadership and decision making. There is, therefore, no independent organisational structure for risk management. The system enabling risks to be identified and managed at an early stage is composed of several building blocks. These modules are systematically linked and embedded in the organisation.

The Risk management committee (RMC) ensures that risks are continuously identified and evaluated across functions and processes on behalf of the Executive Board. The RMC is responsible for the ongoing development of the risk management system and for maintaining its effectiveness and efficiency. The RMC's most important tool for doing so is the risk map. It documents all material risks which could endanger the results and the existence of the Company, and lists the instruments for managing risks. Risks count as material if they are capable of causing damage of at least one third of the earnings necessary for maintaining the value of the Company. For 2007, this value was put at EUR 260m.

The risk map is updated regularly and was fully revised in 2007. Its structure is now more closely oriented towards the risk management process: identification, coordination, communication and control.

Lufthansa has laid down comprehensive guidelines in order to guarantee uniform risk management standards across 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 RMC.

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

The Opportunity and Risk Report, which was introduced in 2007, tracks recognised opportunities and risks throughout the year in relation to planned earnings. Potential departures from plan are quantified by the risk experts in order to focus attention on the most important risks. A discussion of risks and opportunities is also a fixed element of the regular meetings between Group controlling and the managing directors of Group companies. Finally, risks and rewards are also examined in separate meetings with departments exposed to risk.

The risk management system for financial instruments is part of centrally coordinated financial management and is described in Note 48 to the consolidated financial statements, on page 166. PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft (PwC) has audited the early-warning system in place for risks at Deutsche Lufthansa AG. It conforms to the requirements to be made for such systems.

9.2 Risk categories and individual risks

The Lufthansa Group recognises the following risks, in particular, in accordance with the categories in the risk map.

9.2.1 Sector-specific opportunities and risks

Market & competitive risks affecting capacity and load factors The Lufthansa Group operates in a highly competitive environment. The pressure of competition has increased in all business segments over recent years. New competitors are coming onto the market with new business models and better cost structures, both in European and intercontinental traffic.

Lufthansa confronts this competition with a diversified and high-quality range of products and services, which are described in detail in the separate segments (see "Business segment performance", from page 66 et seqq.).

To combat deterioration of market share in the price-sensitive customer segment in Germany and Europe, Lufthansa expanded its "betterFly" products. Thanks to these special offers, we have been able to raise passenger numbers considerably and to achieve higher load factors for the available capacities, especially in times with less demand.

International competition is also developing into a competition between entire systems of airports, air traffic control and airlines, as these have a considerable effect on the location's efficiency and thereby on the competitiveness of the airlines stationed there. Lufthansa has always emphasised the importance of infrastructure. The "German air transport initiative" has created a common platform in collaboration with airports, air traffic control and public authorities. The planned extension of the runway and terminal system at Frankfurt Airport, for example, is a prerequisite for securing its current position as a leading air transport hub in the future. For Lufthansa, the extension also represents the opportunity to implement extensive product and process improvements.

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

In this competitive environment alliances and more in-depth forms of cooperation play an increasingly important role. Star Alliance remains the leading association of its kind with the widest offering. Lufthansa adds to Star Alliance's global offering by developing targeted regional cooperations. Air China and Shanghai Airlines joined Star Alliance at the end of 2007, for instance. A good example of a more in-depth form of cooperation including a capital investment is the successful integration of SWISS.

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.

In competition, constant improvements to the cost structure are vital. The Group initiative "Upgrade to Industry Leadership", among other things, develops and implements ways of achieving this. The new Group programme continues Lufthansa's policy of constant improvements, with the aim of making up for sinking prices by having lower costs.

Despite several years of uninterrupted growth, worldwide air traffic remains exposed to strong cyclical fluctuations in demand. Given the boom in new aircraft orders, we anticipate increasing overcapacities in many market segments in the years to come. The rocketing growth planned in the Gulf region and additional long-haul capacities expected from the US carriers, who have now completed their turnarounds, will pile on further competitive pressure. A slowdown in the economy would exacerbate this trend. Competitiveness under these conditions depends, primarily, on how fast a company can react to changes in demand. Keeping costs variable is therefore extremely important and can be absolutely decisive. The first point is the ability to adjust aircraft capacities to changes in demand. A far-sighted order policy, with phased orders for new aircraft and the option of replacing a number of older aircraft at any time with new deliveries, gives Lufthansa the necessary flexibility to deal with cyclical variations.

We have also managed to make staff costs more flexible thanks to the wage settlements for ground, cockpit and cabin crew reached in the "concerted campaign" with the collective bargaining partners. In order to react rapidly to fluctuations in demand and better redress the financial consequences, the Group is still keen to agree on competitive wage settlements, tailored to the specificities of the segments and with new pay scales, for all its business segments.

Legal risks and contingencies New laws and changes to national and international regulations also have a major effect on Lufthansa's future business success. Air traffic rights, safety regulations as well as compliance, capital market and competition law all play an important role. Current legal changes which could affect the course of Lufthansa's business are described in the "Regulatory and legal environment" chapter on page 43. In addition to existing regulations, Lufthansa has established a compliance programme. Information on this can be found in the "Corporate governance" chapter on page 31.

Political, geopolitical and regulatory risks The aviation industry is subject, to a very high degree, to geopolitical events such as wars, terrorist attacks or pandemics. Lufthansa's earnings position can also be negatively affected by political decisions, for example, by eliminating or creating distortion of competition.

The planned introduction of an emissions trading scheme at EU level would have a considerable impact on the market and competitive position of the air transport industry in Europe, for example. (See also "Regulatory and legal environment", page 43.) Furthermore, the earnings positions of Lufthansa can be affected by a restrictive regulation of night flights at Frankfurt Airport. For available capacities to be used economically and in line with demand, a practicable arrangement for night flights is indispensable. The official approval of the plan on expanding airport capacity was taken in late 2007. It allows for substantial increases in capacity, but also restricts the number of flights taking place between 11 p.m. and 5 a.m. to 17. In contrast to other international hubs, this means that Frankfurt deprives itself of long-term growth opportunities. On 8 February 2008, Lufthansa appealed against this decision in compliance with the statuary time limit.

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

Continued reluctance on the part of insurance companies makes it more difficult for aviation companies to insure themselves effectively against terrorist attacks. Specialised insurers now only offer limited insurance coverage for damage to aircraft. As this insurance cover is not obligatory for an airline's operating licence, there is no danger of planes being grounded because of it. Proposals for new terms in third-party liability insurance contracts have been developed in coordination with the aviation industry. These should ensure an acceptable level of limited coverage for third-party liability instead of the current total exclusion.

The draft amendment to the Rome Convention, presented recently by the International Civil Aviation Authority in Montreal, is much more severe. The amendment is intended to govern the fundamental liability of an aircraft operator for damages to persons and property caused by terrorist attacks involving the use of an aircraft, as suffered by third parties not involved in air traffic. Particularly worrying is the attempt to make the aviation industry unilaterally liable for damages due to terrorist attacks by instituting a strict third-party liability regardless of fault. This is unacceptable, not least because the target of potential terrorist attacks is generally the community of states and the social community but not private aviation companies. Furthermore, it is not logical that aviation should be singled out among competing forms of transport and discriminated against.

Lufthansa welcomes and expressly supports the efforts of the European Commission to reach consistent solutions which are compatible with fair competition.

9.2.2 Company-specific opportunities and risks

Strategic opportunities and risks A dense global network is a strategic success factor in the growth sector air transport. Together with their Star Alliance partners, the airlines in the Lufthansa Group have the largest network in the world. Systematic network and alliance management enable Lufthansa to identify risks at an early stage and make effective use of opportunities. The enlargement of the EU to the east gives all business segments the chance for further growth and the Group also sees good prospects in the growth markets China and India.

Lufthansa intends to play an active role in the consolidation of the industry currently underway. The operating performance and financial profile of acquisition targets can also give rise to opportunities and risks.

To maintain Frankfurt's competitiveness as an air transport location in the future, Lufthansa and the airport operator Fraport have formed joint working groups to take specific action on influencing the development of airport charges. Fraport has continued the necessary steps to improve performance at the airport terminals. Close cooperation between Lufthansa's station management and Fraport enables negative influences on flight operations to be reduced. These can still lead to temporary inconveniences in passenger check-in procedures, however.

Bottlenecks in the fragmented European air traffic control system are a serious problem. They still result in considerable delays to air traffic, unnecessary detours, holding periods, increased fuel consumption and avoidable emissions. These shortcomings depress the results of all European airlines and also jeopardise growth in air transport. Lufthansa and its competitors are, therefore, continuing to demand from the European Commission and national governments to create an effective European air traffic control system.

Staff For the Lufthansa Group to grow and improve its results it is vital to attract qualified new staff and strengthen the commitment and performance of our existing employees. Lufthansa has to compete ever more keenly for highly qualified specialists and managers.

One way in which we address this challenge is by maintaining close contacts to universities and using recruitment programmes specially tailored to our requirements. Attractive personnel development policies and performance-related pay form the basis for attracting and retaining staff.

Given the cyclical nature of air transport, there are risks involved in wage settlements which restrict the Company's flexibility. Together with our collective bargaining partners, we are endeavouring to reach settlements in the upcoming round of negotiations which are acceptable to all sides.

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

Information technology In many areas, Lufthansa's business processes are supported by the use of IT systems. The risks this engenders are controlled by active IT risk management. The security concepts and the need for protection are based on how critical the corporate processes are for the Company and the extent to which they are supported by IT.

Any identified defects are dealt with by organisational and technical means in order to reduce risk. The supporting of these means is being monitored by the corporate Audit department.

The Lufthansa Group's IT security policy recognises the new demands made of IT security management. These mainly arise from different threats and advances in IT technology. A corporate information security officer at Group level and information security officers within the business segments are responsible for adapting the security regulations. The implementation of IT security regulations in the Group companies is carried out by the information security offices. These precautions enable us to maintain an appropriate degree of IT security and to reduce risk to an economically viable extent.

Quality Factors such as brand image and product quality based on innovative new developments are becoming more and more important for achieving the desired price level in the market. In the face of rising price pressure, it is absolutely vital to maintain Lufthansa's quality standards and to increase efficiency at the same time.

Communications Like any large company, Lufthansa is also exposed to communications risks. In the fields of public relations and capital market communications, specialised departments have been working professionally for many years to provide the right information to the appropriate parties at short notice. Furthermore, an overarching Ad Hoc Committee, made up of the general counsel and the heads of Investor Relations and Corporate Communication, reviews all events to determine their relevance for ad hoc publication.

Accounting Numerous national and European regulations and statutory provisions apply to the preparation of Lufthansa's financial statements, as for all publicly listed companies in Germany. More information on their application can be found in the Corporate governance chapter on page 31.

Operational risks Like any airline, Lufthansa also has potential risks relating to flight and technical operations. A clear system of responsibility allocated throughout the Group enables these risks to be systematically identified, controlled, communicated and monitored. A wide range of instruments are used for doing so, which are permanently refined in close collaboration with Lufthansa Flight Training GmbH.

9.2.3 Financial opportunities and risks

As an international aviation group, the Lufthansa Group is faced with the risk of changes in fuel prices, interest rates and exchange rates. The principally conservative approach towards financial and commodity risks is reflected in a systematic risk management. We use suitable management and monitoring systems to do this, with which we measure, control and monitor the risks. Lufthansa uses internal guidelines which are laid down by the Executive Board and permanently developed. The Group Financial Risk Controlling and Corporate Audit departments monitor compliance with the guidelines. Furthermore, the current hedging policies are also permanently discussed in management board meetings across the business units. The Supervisory Board is regularly informed of the amounts at risk. Detailed information on currency, interest rate and fuel price hedges can be found in Note 48 to the consolidated financial statements (page 166).

Derivative financial instruments are used exclusively for hedging underlying transactions. The market value of the derivatives must, therefore, be seen in connection with the hedged items. The primary aim of fuel price and exchange rate hedges is to reduce earnings volatility. This is achieved by forming average rates as part of a "layered hedging" approach. The aim of interest rate risk management is to reduce interest expenses while minimising their volatility at the same time. For the management of the general risk of changes in interest rates, Lufthansa uses the mostly contrary movements of the operating result (natural hedge) while at the same time minimising average long-term interest expenses.

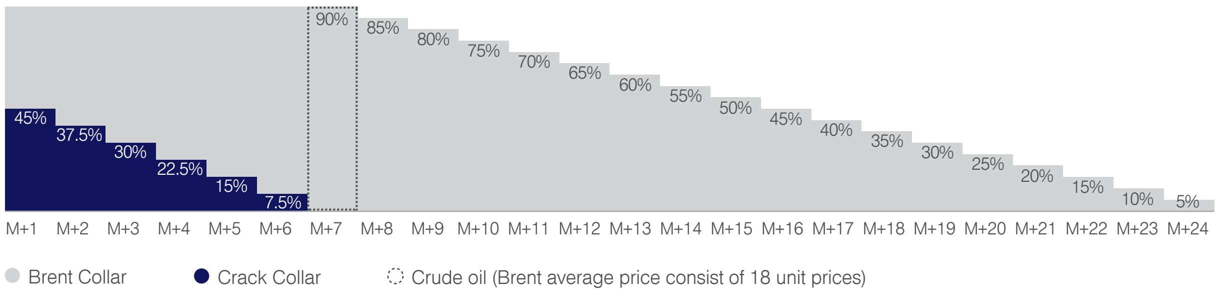
All positions underlying hedging transactions are tracked in a treasury system and can be valued at any time. These transactions are only closed with banks that have at least a long-term "BBB" rating or similar. A limit is set for every bank dependent on its rating, and adherence to the limits is permanently monitored.

Fuel price risks The Lufthansa Group's annual fuel consumption amounts to some 8.3 million tonnes of kerosene. It is a major item of expense, making up around 17 per cent of operating expenses for the Group. Severe fluctuations in fuel prices can, therefore, have a considerable effect on the operating result. Lufthansa applies a rule-based fuel price hedge with a time horizon of 24 months, in order to reduce these fluctuations. The diagram on page 106 illustrates the Lufthansa Group's hedging policy.

Hedging transactions are predominantly for crude oil, supplemented, if possible, by the price difference between kerosene and crude oil.

Lufthansa uses standard market instruments such as forward contracts and options for its fuel price hedges. We hedge 5 per cent of planned consumption per month in Brent collars, up to a hedging level of 90 per cent and with a lead time of 24 months. The hedging transactions are, therefore, based on fixed rules and map the average of crude oil prices over time. The six months following a given date are therefore hedged to 90 per cent.

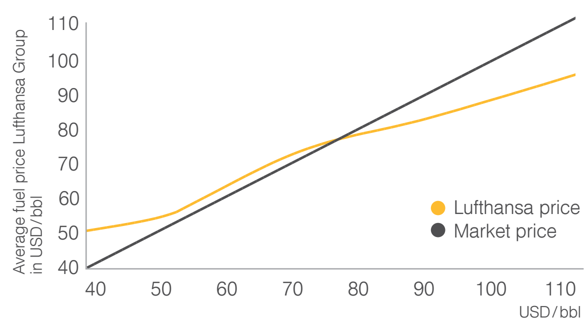
Lufthansa hedging policy Mix of medium-term crude oil hedging and short-term crack hedging



The hedging of crude oil prices is supplemented by hedges for the price difference between crude oil and kerosene, known as crack. The kerosene price is largely a function of the price for crude oil, but it is also subject to market movements of its own. These depend mainly on changes in refinery capacities and variations in prices between different petroleum products. The market for crack is not liquid, however, which makes hedging crack expensive. The system has therefore been refined in such a way that, in the ideal scenario, the regular crude oil hedges are combined with short-term hedging for crack by means of spread options. In this model a crack hedge for 7.5 per cent of consumption per month is added for months 1–6, which leads to a hedging level of 45 per cent. Due to the high fuel prices and low market liquidity in recent months, the rule-based minimum hedging amount for crack has currently been suspended.

At the reporting date there were crude oil hedges for 81 per cent of the forecast fuel requirement for 2008, in the form of spread options and other hedging combinations. For 2009, around 23 per cent of the forecast fuel requirement was hedged at the reporting date.

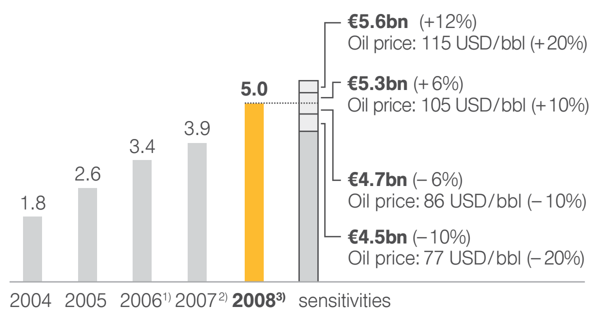
Fuel hedge scenario Lufthansa Group 2008 (as of 1.2.2008)
in USD/bbl



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

If fuel prices were to drop by 20 per cent below their year-end 2007 level, expenses for the Lufthansa Group would be reduced by EUR 520m. This benefit would, however, be partly forfeited due to the put options sold and fuel surcharges reduced as part of the hedging policy.

Fuel costs in €bn (as of 2.1.2008)



Av. future price 95.67 USD/bbl at USD rate at 1.45.
[1] Including Germanwings.
[2] Including SWISS (from July 2007).
[3] Including SWISS (full year).

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. This is accounted for under Currency risks (see Note 48 to the consolidated financial statements, page 166).

Currency risks International ticket sales, fuel purchases, the procurement of aircraft and spare parts, and other transactions give rise to foreign currency risks for the Lufthansa Group. All subsidiaries report their currency exposures to the Group over a time horizon of 24 months. At Group level, a net position is aggregated for each currency in order to take advantage of "natural hedging". Of the 56 currencies in use within the Lufthansa Group, 16 are actively managed. The most important currencies are USD, JPY and GBP. Currencies highly correlated with the US dollar are set off against operating USD exposure.

Operating exposure and other information on hedging general currency positions and hedging currency risks from aircraft investments can be found in Note 48 to the consolidated financial statements on page 166.

Liquidity and interest rate risks Having sufficient liquidity at all times is of crucial importance for Lufthansa. We therefore use a financial reporting system which provides all companies majoritarily owned by the Lufthansa Group with centralised information on the actual financial status and expected cash flows. To safeguard our payment obligation, we maintain a strategic liquidity reserve of EUR 2bn, available at any time.

Financing the Group's business also gives rise to interest rate risks. The total amount financing outstanding is EUR 3,345m. Lufthansa aims to have 85 per cent of its borrowings at variable interest rates. This reduces interest expenses and minimises earnings volatility.

Additional information can be found in Note 48 to the consolidated financial statements on page 169.

Financing risks Growth plans and the accompanying capital expenditure require financing, the availability of which can be limited by the borrower's credit rating or external factors (e.g. a liquidity crunch).

Lufthansa has investment-grade credit ratings from both rating agencies Standard & Poor's and Moody's. These ratings mean that Lufthansa meets a key requirement for accessing capital markets. Lufthansa is currently one of only two European airlines to hold an investment-grade rating.

In addition, a high position of 70 per cent of the Lufthansa Group's aircraft are unencumbered, which enables them to be used as collateral for other financing arrangements. Lufthansa also has long-term relationships with a large number of banks and has used its creditor relations activities to build even greater confidence with banks and the capital markets. In past crises these banks have already been reliable partners for Lufthansa. This also meant that the general liquidity and banking crisis of 2007 did not affect Lufthansa in terms of aircraft financing.

Credit risks The sale of passenger travel and freight documents mostly takes place via third parties. The creditworthiness of the third parties involved is continually reviewed and, in some cases, is secured by guarantees or similar instruments.

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

The extent to which counterparty limits are taken up by existing financial market transactions is calculated and reported daily. If limits are exceeded, an escalation procedure comes into play, requiring decisions to be taken on the action needed. Additional information and the credit risk positions existing at year-end 2007 can be found in Note 48 to the consolidated financial statements on page 169.

Market risk from capital investments Capital investments are made in the course of the strategic minimum liquidity, the operational liquidity and the Lufthansa Pension Trust.

The risks from capital investments made to ensure strategic minimum liquidity result mainly from market risks for interest rates, credits and shares. In order to maximise the return for a given risk, the structure of the investment portfolio has been determined with the help of an optimisation study. The basic assumptions and parameters are Lufthansa's conservative general investment principles as approved by the Executive Board. The aim of the study was to determine a portfolio with a diversified risk profile.

As a result of the study the majority of the strategic minimum liquidity was invested in low-risk products. Part of the investments was secured by capital guarantees. The investments are divided into different investment horizons, so that the products have a differentiated risk profile. The entire strategic minimum liquidity can be liquidated within four weeks. All investments are made by external managers, primarily via a special fund vehicle with mandates for various asset classes and by means of promissory notes. There are precisely defined investment guidelines for each asset class, which take account of the general investment principles. Lufthansa monitors the investments by means of daily and monthly performance and risk reports.

Capital investments to ensure operational liquidity are made in accordance with the Group financial guidelines. The maximum investment horizon is twelve months. At least EUR 300m must be held for withdrawal on a daily basis. Assets can be held in overnight and fixed-term deposit accounts, daily realisable money market funds and short-term securities. Direct investments in securities require that the issuer is rated BBB or better. Up to 20 per cent of investments may be rated below A–.

Investments of the Lufthansa Pension Trust (CTA) are also subject to the Company's general investment principles.

Lufthansa has not invested directly in the American subprime mortgage market. Nevertheless, Lufthansa's strategic liquidity portfolio does include asset-backed securities (ABS, approx. 11 per cent), which suffered markdowns in connection with the financial crisis. None of the instruments in which Lufthansa has invested has reported defaults, however. Lufthansa's pension fund and its operational liquidity reserve are not invested in ABS or similar investment products.

9.3 Overall statement on the risk situation of the Group

For the Lufthansa Group, there is no major change in the risk situation and in potential opportunities compared with the previous year. Opportunities and risks are essentially determined by macroeconomic factors and ever-increasing competition in all sectors.

In agreement with most financial institutions, we are assuming that the global economy will continue to grow despite the property crisis in the USA, but that growth will be at lower rates. Given these prospects, we expect demand for Lufthansa's services to remain on high levels. At the same time, overcapacities and, therefore, price pressure are anticipated in the medium term, which could be accompanied by high fuel prices or more extreme swings in the economy. Lufthansa endeavours to make up for any resulting loss of income by cost reductions beyond the relative savings expected as a result of growth.

Lufthansa is a financially sound company and, therefore, has good chances of benefiting from further growth in the air transport sector. A high degree of financial flexibility also allows us to address the changes that competition will bring and to use them.

Taking all known facts and circumstances into account, there are currently no risks which could jeopardise the Group's existence in the foreseeable future.

10. Supplementary report

On 22 January 2008, following the approval of the US competition authorities, Lufthansa acquired 19 per cent of the shares in JetBlue Airways Corporation. Lufthansa purchased some 42 million newly issued JetBlue shares for a total consideration of approximately USD 300m in a private transaction, completing the deal announced in December. The stake is to be stated at its current market value. Changes in this value will be reflected in the Group shareholders' equity.

On 29 January 2008, Deutsche Lufthansa AG and Lufthansa Cargo AG reached an agreement with their collective bargaining partners on a new wage settlement for cockpit staff. Their pay is to be increased retroactively from 1 October 2007 by 2.5 per cent and from 1 January 2008 by a further 3 per cent. The wage settlement runs for 18 months and ends on 31 March 2009. The increase remains below 4 per cent on a yearly basis. Provisions have been made for the corresponding increase in staff costs in 2007. In 2008, the increase will affect staff costs as well.

On 28 January 2008, Lufthansa, TUI Travel PLC and Albrecht Knauf Industriebeteiligung GmbH signed a letter of intent concerning the potential merger of their subsidiaries Hapag-Lloyd Fluggesellschaft mbH, Hapag-Lloyd Express GmbH, Germanwings GmbH and Eurowings Luftverkehrs AG within an independent joint holding company. Legally binding agreements require at first due diligence and detailed negotiations. The merger is subject to approval by the boards of the companies involved and the authorisation of the competition authorities.

SWISS and Kuoni Reisen Holding AG agreed on a comprehensive strategic partnership on 8 February 2008. Within the scope of this partnership, SWISS is taking over the leisure airline Edelweiss Air. Edelweiss Air will continue to operate three Airbus A320 short-haul aircraft and one Airbus A330 for long-haul flights under its own brand name. The venture is subject to approval by the responsible authorities. Edelweiss will be fully consolidated via SWISS and, therefore, included in the Lufthansa Group's accounts.

11. Outlook

11.1 Macroeconomic outlook

GDP growth forecast for 2008–2011 year-on-year change

in %	2007	2008	2009	2010	2011
World	3.8	3.4	3.7	3.6	3.6
Europe	2.9	2.1	2.2	2.3	2.4
- Germany	2.6	1.7	2.0	1.7	1.7
North America	2.3	1.9	2.6	2.8	2.9
South America	5.0	4.8	4.4	4.4	4.2
Asia/Pacific	5.8	5.5	5.5	5.3	4.9
- China	11.5	10.4	9.4	8.8	7.6
Middle East	5.0	6.0	5.4	5.0	4.8
Africa	6.1	6.7	6.3	6.0	5.8

Source: Global Insight World Overview as of 12.1.2008.

The world economy will continue to grow in 2008. Whether and to what extent the US financial crisis will have an effect on economies outside the USA is not yet recognisable. It is being assumed that the effects will be limited on a global scale. Against this background, researchers are predicting growth of 3.4 per cent for 2008, following 3.8 per cent in 2007. Asian countries will continue to act as the main global economic engine. The further upswing in the main industrialised countries will lose pace somewhat but remain at a high level.

A slowdown is expected for the USA in 2008. This is principally due to sluggish private consumption in the wake of the US property crisis, which is expected to persist in 2008. Export trade will pick up due to the weak dollar and should make a positive contribution to the country's economic performance. Growth of 1.9 per cent is forecast for the US economy for 2008, with substantial improvements in the following years.

For Asia, stable economic growth of 5.5 per cent is expected for the coming years, marked by the further expansion of the emerging economies. These countries have so far been unaffected by the turbulence on the US property market. The key to their future economic development lies in whether their economies will be able to decouple themselves from the fluctuations of the economy in the USA. Weaker export growth is expected to be balanced, at least partially, by robust domestic demand. For 2008, overall growth of 7.6 per cent is forecast for the emerging economies, with similar figures for subsequent years. This would mean that the Asian economies would remain the engine of the world economy.

As 20 per cent of Chinese exports went to the USA in the reporting year, the weaker US economy will also have an effect in China and dampen its development somewhat. Economic growth in China will still remain at a very high level, however, with an expected growth rate of 10.4 per cent.

Exports from the euro zone are expected to languish in the face of lower global growth rates and a stronger euro, which will cause the economy to slow. Private consumption should, nevertheless, pick up, as employment and incomes are on the rise. Growth is forecast to drop to 2.1 per cent for 2008, climbing again in the following years.

In Germany, too, economic growth is expected to slow down in 2008, but remain tangible. Higher incomes, lower unemployment and more private consumption will boost the economy. German foreign trade is expected to show lower growth given more moderate global economic expansion and a strong euro. Overall the economy in Germany is forecast to grow by 1.7 per cent in 2008, a level which is assumed to be sustainable over the long term.

11.2 Future industry developments

Forecast for international passenger traffic per year

in %	2007–2011
International growth worldwide	5.1
Within Europe	4.8
From Europe to	
- North America	4.2
- South America	5.0
- Asia/Pacific	6.5
- Middle East	6.1
- Africa	5.6

Source: IATA.

The growth rate of the world's economies is reflected in air traffic as well. According to Boeing estimates, the aviation industry is set for average annual long-term growth of some 5 per cent in passenger traffic and 6 per cent in cargo traffic. These growth rates make the airline industry one of the fastest-growing sectors of the global economy. The expansion will take place in all traffic regions, albeit at differing rates. The most dynamic growth will remain in Asia.

The expected weakening of the economy, as a result of the financial crisis in the USA and other economic regions, will also have an effect on air traffic in these regions. Although, at a global level, a sustained interruption in growth is not forecast.

However, supply is also increasing. New aircraft orders reached an all-time high in 2007. From 2007 to 2011, the number of aircraft worldwide is set to grow by an average of 1,019 units, or an increase of 28 per cent in five years. In south-west Asia alone (India), aircraft numbers will expand from 360 in 2006 to 1,260 in 2026. The number of aircraft in China will rocket from 1,150 to 4,470. This new equipment is intended to cope with extremely rapid growth in passenger numbers – over 200 per cent by 2025.

Nevertheless, overcapacities remain a possibility, not only for inner-European, but also for intercontinental, air traffic. Globally networked economies make high demands on mobility. This means that the industry cycle will become more unpredictable, leading to more volatile performance and results in the event of disturbances in supply and demand or unforeseen crises.

A tendency is visible in the industry for the current alliances to be supplemented or replaced by partnerships and combinations involving equity investment. The first such consolidation moves have already taken place in the USA and Europe. Companies will maintain their national roots, but pursue strategies for becoming a global player at the same time, for example, by means of equity investments, joint ventures or fully integrated acquisitions.

Greater liberalisation towards Open Skies with free competition will create the necessary conditions for profitable growth. This requires:

- A common air traffic market with fair terms of competition for all participants
- Expansion of air traffic rights
- Transatlantic mergers
- Abolition of subsidies
- Uniform standards for safety and environmental and consumer protection

Statements on future industry developments of the individual business segments and their effects are included in the respective chapters under Business segment performance, from page 66.

11.3 Changes in business and organisation

No changes to the organisation of the business are planned at present. For more information on the strategic development opportunities, we refer to the “Strategy” chapter, from page 34.

Product developments and strategic orientation for the individual business segments are explained in the corresponding chapters, from page 66.

11.4 Future earnings and financial position

The year 2007 was excellent for Lufthansa, but looking ahead, the Company is still well placed to benefit from growth in the aviation industry and derive advantage from it:

- Our high quality standards and service levels demonstrate our dedication to the customer
- Great customer loyalty and a diversified income structure provide stability
- Our growth is focused and with a clear determination to add value
- We are pursuing our strict cost management and increasing flexibility
- Our strong financial base and proven, systematic risk management secure our growth.

These are all vital factors supporting Lufthansa’s growth path.

The challenges resulting from high oil prices and overcapacities are familiar. As yet, no significant effects of the US financial crisis can be identified. Nevertheless, Lufthansa has taken precautions and allowed for much greater flexibility in the cost structure and in growth scenarios in recent years. This will enable us to respond better to unexpected fluctuations in demand – in both directions.

All business segments intend to pursue their course of profitable growth. In the individual chapters, we describe the outlook for the segments in detail (see the chapter Business segment performance, from page 66). With our Group-wide initiative “Upgrade to Industry Leadership” we have also launched important projects and taken steps to reach top profitability regardless of the competitive environment. These measures will achieve their full effect in the years to come.

As long as financial or other crises do not confound the forecast economic development, and higher fuel prices can be compensated as in previous years, Lufthansa expects further improvements in the revenue and the operating result for 2008. Under the same assumptions, we are also looking for further revenue and profit improvements in 2009.

Profit improvements will also have an impact on the financial position. Cash flow will increase and the structure of the balance sheet will be further strengthened. We intend to maintain the equity ratio of 30 per cent currently achieved. The volume of capital expenditure is set to increase further in the years ahead due to the ongoing fleet programme. As in the past, we will be able to finance this capital expenditure largely from cash flow. Net liquidity will be reduced as a result, although the strategic minimum liquidity of EUR 2bn will be maintained. We will also continue to fund the pension payments, which will steadily reduce pension provisions.

11.5 Opportunities

Aviation is a growth business. All business segments in the Lufthansa Group are active in these growing markets. They are well positioned and prepared to take advantage of all opportunities that arise. Thanks to its financial strength and flexibility, Lufthansa can play an active role in shaping the structural changes affecting the air traffic industry, from continued consolidation, for example. The value-based approach ensures profitable shape of growth. Financial and operational flexibility also give the Group a greater ability to respond to changing market conditions than many of its competitors. This provides stability and security, regardless of short-term influences. In order to portray the individual opportunities in context, a detailed assessment of each is given in the Risk report, from page 101.

11.6 Overall statement on the likely future development of the Group

Lufthansa's prospects for the years ahead remain bright. The outlook for growth is good. The challenges posed by the industry are expected to increase, however, this goes along with a sharper differentiation between the market participants. Thanks to our strong position, we expect to have continued good development opportunities.

We are pursuing our target of further increasing the operating result with alacrity. We also intend to use the "Upgrade to Industry Leadership" initiative to achieve sustainable improvements in profitability compared to the competition. From today's perspective, all segments will contribute to the Group's profitable performance.

With our strong brands and solid financial basis, our focused strategy and competence in management and staff, and our ability for partnerships we are well positioned. This and the adaptability and flexibility in the business segments and Group portfolio substantiate our statement of a fundamentally very good outlook for Lufthansa in the years to come.

Consolidated income statement for the financial year 2007

in €m	Notes	**2007**	2006
Traffic revenue	3)	17,568	15,354
Other revenue	4)	4,852	4,495
Total revenue		**22,420**	**19,849**
Changes in inventories and work performed by the enterprise and capitalised	5)	119	152
Other operating income	6)	1,571	1,399
Cost of materials and services	7)	– 11,553	– 10,302
Staff costs	8)	– 5,498	– 5,029
Depreciation, amortisation and impairment	9)	– 1,204	– 1,051
Other operating expenses	10)	– 4,269	– 3,940
Profit from operating activities		**+ 1,586**	**+ 1,078**
Result of equity investments accounted for using the equity method	11)	+ 223	+ 216
Result from other equity investments	11)	+ 131	+ 89
Interest income	12)	177	207
Interest expense	12)	– 371	– 461
Other financial items	13)	– 133	– 84
Financial result		**+ 27**	**– 33**
Profit before income taxes		**+ 1,613**	**+ 1,045**
Income taxes	14)	– 356	– 230
Profit from continuing operations		**+ 1,257**	**+ 815**
Profit from the discontinued Leisure Travel segment	15)	**+ 503**	**+ 82**
Profit after income taxes		**+ 1,760**	**+ 897**
Minority interests		– 105	– 94
Net profit attributable to shareholders of Lufthansa AG		**+ 1,655**	**+ 803**
Basic earnings per share in €	16)	+ 3.61	+ 1.75
Diluted earnings per share in €	16)	+ 3.60	+ 1.75

Consolidated balance sheet as of 31 December 2007

Assets			
in €m	Notes	**2007**	2006
Intangible assets with indefinite useful life*	17)	797	589
Other intangible assets	18)	252	172
Aircraft and reserve engines	19) 22)	8,380	7,405
Repairable spare parts for aircraft		586	540
Property, plant and other equipment	20) 22)	1,773	1,505
Investment property	21)	3	20
Investments accounted for using the equity method	23)	323	791
Other equity investments	24) 25)	777	767
Non-current securities	24) 25)	298	553
Loans and receivables	24) 26)	399	343
Derivative financial instruments	24) 27)	368	21
Accrued income and advance payments	30)	22	21
Effective income tax receivables	14)	79	90
Deferred claims for income tax rebates	14)	19	152
Non-current assets		**14,076**	**12,969**
Inventories	28)	511	457
Trade receivables and other receivables	24) 29)	3,448	2,917
Derivative financial instruments	24) 27)	481	93
Accrued income and advance payments	30)	110	94
Effective income tax receivables		62	1
Securities	24) 31)	1,528	2,083
Cash and cash equivalents	24) 32)	2,079	455
Assets held for sale	33)	25	392
Current assets		**8,244**	**6,492**
Total assets		**22,320**	**19,461**

* Including goodwill.

Shareholders' equity and liabilities			
in €m	Notes	**2007**	2006
Issued capital	34) 35)	1,172	1,172
Capital reserve	36)	1,366	1,366
Retained earnings	36)	2,063	1,591
Other neutral reserves		589	– 299
Net profit for the period		1,655	803
Equity attributable to shareholders of Deutsche Lufthansa AG		6,845	4,623
Minority interests		55	280
Shareholders' equity		**6,900**	**4,903**
Pension provisions	37)	2,461	3,814
Other provisions	38)	349	329
Borrowings	39) 40)	3,098	2,730
Other financial liabilities	41)	55	52
Advance payments received, accruals and deferrals and other non-financial liabilities	42)	66	70
Derivative financial instruments	27) 39)	371	242
Deferred income tax liabilities	14)	749	633
Non-current provisions and liabilities		**7,149**	**7,870**
Other provisions	38)	1,686	1,443
Borrowings	39) 40)	247	226
Trade payables and other financial liabilities	39) 43)	3,959	3,223
Liabilities from unused flight documents		1,546	1,115
Advance payments received, accruals and deferrals and other non-financial liabilities	44)	289	249
Derivative financial instruments	27) 39)	481	278
Actual income tax liabilities		51	154
Provisions and liabilities included in disposal groups	45)	12	–
Current provisions and liabilities		**8,271**	**6,688**
Total shareholders' equity and liabilities		**22,320**	**19,461**

Consolidated statement of changes in shareholders' equity

in €m	Issued capital	Capital reserve	Fair value of financial instru-ments	Currency differ-ences	Revalua-tion reserve	Other neutral reserves	Total other neutral reserves	Re-tained earnings	Net profit/ loss for the period	Equity share of share-holders of Lufthansa AG	Minority interests	**Total equity**
As of 31.12.2005	**1,172**	**1,366**	**74**	**– 90**	**–**	**–**	**– 16**	**1,357**	**453**	**4,332**	**190**	**4,522**
Reclassifications	–	–	–	–	–	–	–	224	– 224	–	–	–
Dividends to Lufthansa shareholders	–	–	–	–	–	–	–	–	– 229	– 229	–	– 229
Consolidated net profit/loss attribt. to minority interest	–	–	–	–	–	–	–	–	803	803	94	897
Currency differences	–	–	–	– 40	–	–	– 40	–	–	– 40	– 6	– 46
Fair value of financial assets and cash flow hedges	–	–	5	–	–	–	5	–	–	5	–	5
Transfer to cost without effect on profit and loss	–	–	– 16	–	–	–	– 16	–	–	– 16	–	– 16
Reversals through profit and loss for the period	–	–	– 74	–	–	–	– 74	–	–	– 74	–	– 74
Other neutral changes	0*	0*	–	–	–	– 158	– 158	–	–	– 158	2	– 156
As of 31.12.2006	**1,172**	**1,366**	**– 11**	**– 130**	**–**	**– 158**	**– 299**	**1,581**	**803**	**4,623**	**280**	**4,903**
Total changes in equity with and without effect on profit and loss	0*	0*	– 85	– 40	–	– 158	– 283	224	350	291	90	381
As of 31.12.2006	**1,172**	**1,366**	**– 11**	**– 130**	**–**	**– 158**	**– 299**	**1,581**	**803**	**4,623**	**280**	**4,903**
Changes in group of consoli-dated companies	–	–	–	0*	–	–	0*	–	–	0*	–	0*
First-time application of new IAS	–	–	–	–	–	–	–	–	–	–	–	–
Reclassifications	–	–	–	–	–	–	–	482	– 482	–	–	–
Dividends to Lufthansa shareholders	–	–	–	–	–	–	–	–	– 321	– 321	– 4	– 325
Consolidated net profit/loss attribt. to minority interest	–	–	–	–	–	–	–	–	1,655	1,655	104	1,759
Currency differences	–	–	0*	– 50	–	–	– 50	0*	–	– 50	15	– 35
Fair value of financial assets and cash flow hedges	–	–	180	–	–	–	180	–	–	180	0*	180
Transfer to cost without effect on profit and loss	–	–	42	–	–	–	42	–	–	42	–	42
Reversals through profit and loss for the period	–	–	– 71	–	–	–	– 71	–	–	– 71	–	– 71
Other neutral changes	0*	0*	–	–	237	550	787	–	–	787	– 340	447
As of 31.12.2007	**1,172**	**1,366**	**140**	**– 180**	**237**	**392**	**589**	**2,063**	**1,655**	**6,845**	**55**	**6,900**
Total changes in equity with and without effect on profit and loss	0*	0*	151	– 50	237	550	888	482	852	2,222	– 225	1,997

* Rounded below EUR 1m.

Neutral changes in issued capital and capital reserves for 2007 result from the conversion of EUR 40,000 of convertible bonds (Lufthansa Convertible due 2012) on 5 April 2007. The neutral changes in the revaluation reserve come from the revaluation of assets and liabilities in the course of the first-time consolidation of the SWISS group and relate to the stake of 49 per cent already held by the Group. Of the neutral changes in the other neutral reserves for 2007, a total of EUR 571m relates to the acquisition of minority interests in the SWISS group (51 per cent), the value of which went up by EUR 246m following the revaluation of assets and liabilities.

Further changes in the other neutral changes for 2007 result from valuation under the equity method; of these EUR – 2m (previous year: EUR – 43m) relate to associated companies.

Of the other neutral changes in the other neutral reserves for 2006, EUR –102m result from the redemption of the Lufthansa convertible bond in January 2006.

Consolidated cash flow statement

in €m	Notes	2007	2006
Cash and cash equivalents 1.1		**455**	**1 173**
Net profit before income taxes		1,613	1,045
Depreciation, amortisation and impairment losses on non-current assets (net of reversals)	9) 13)	1,217	1,078
Depreciation, amortisation and impairment losses on current assets		90	104
Net proceeds on disposal of non-current assets	6)	9	– 56
Result of equity investments	11)	– 354	– 305
Net interest	12)	194	254
Income tax payments		– 274	– 123
Changes in working capital[2]		367	108
Cash flow from operating activities		**2,862**	**2,105**
Capital expenditure for property, plant and equipment and intangible assets	17–21)	– 1,610	– 1,380
Capital expenditure for financial assets	25–26)	– 80	– 416
Additions to repairable spare parts for aircraft		– 125	– 144
Income from sales of non-consolidated equity investments		834	16
Income from sales of consolidated equity investments[3]		– 2	42
Expenses from acquisitions of non-consolidated equity investments	23) 25)	– 36	– 133
Expenses from acquisitions of consolidated equity investments[4]	1)	348	– 0[1]
Income on disposal of intangible assets, property, plant and equipment and other financial assets		177	204
Interest income		167	184
Dividends received		153	106
Net cash used for investing activities		**– 174**	**– 1,521**
- of which income from the disposal of the business segment Leisure Travel discontinued on 22.12.2006		800	–
Purchase of securities/fund investments[5]		– 1,685	– 588
Sale of securities		1,038	350
Net cash used for investing and cash management activities		**– 821**	**– 1,759**
Capital increase	35–37)	0[1]	0[1]
Redemption of conversion options from the convertible bond 2002		–	– 102
Long-term borrowing		378	743
Repayment of long-term borrowing		– 266	– 1,236
Other financial debt		8	15
Dividends paid		– 325	– 232
Interest paid		– 196	– 247
Net cash used for financing activities		**– 401**	**– 1,059**
Net increase/decrease in cash and cash equivalents		**1,640**	**– 713**
Changes due to exchange rate differences		– 16	– 5
Cash and cash equivalents 31.12	32)	**2,079**	**455**
Securities	31)	1,528	2,083
Total liquidity		**3,607**	**2,538**
Net increase/decrease in total liquidity		1,069	– 1,060

[1] Rounded below EUR 1m.
[2] Working capital consists of inventories, receivables, liabilities and provisions.
[3] 2007 less EUR 2m cash sold (previous year: EUR 2m) .
[4] 2007 less EUR 364m cash acquired (previous year: EUR 0.1m).
[5] Of which 2007 EUR 1,565m allocation to Lufthansa Pension Trust (previous year: EUR 565m).

The cash flow statement shows how cash and cash equivalents have changed over the reporting period at the Lufthansa Group. In accordance with IAS 7 the cash flows are divided according to cash flow from operating activities, cash flow from investing activities and cash flow from financing activities. The cash and cash equivalents shown in the cash flow statement correspond to the balance sheet item cash and cash equivalents. The amount of liquidity in the broader sense is reached by adding short-term securities.

Notes to the consolidated financial statements of Deutsche Lufthansa AG for 2007

International Financial Reporting Standards (IFRS) and Interpretations (IFRIC) applied

The consolidated financial statements of Deutsche Lufthansa AG and its subsidiaries have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), taking account of interpretations by the International Financial Reporting Interpretations Committee (IFRIC) as applicable in the European Union (EU). The commercial law provisions of Section 315a Para. 1 of the German Commercial Code (HGB) have also been applied. All IFRS issued by the IASB and in effect at the time these financial statements were prepared and applied by Deutsche Lufthansa AG have been adopted by the European Union for application in the EU. The consolidated financial statements of Deutsche Lufthansa AG, denominated in EUR million, therefore comply with the IFRS as applicable in the EU and with the further commercial law provisions of Section 315a Para. 1 HGB and with the IFRS in general.

These Group consolidated financial statements for 2007 are to be examined and approved by the Supervisory Board of Deutsche Lufthansa AG in its meeting on 10 March 2008 and are then authorised for publication.

Published International Financial Reporting Standards (IFRS) and Interpretations (IFRIC), the application of which is not yet mandatory

At the end of 2006 the IASB published IFRS 8, Operating Segments. Application of the standard is mandatory for financial years beginning on or after 1 January 2009. The structure and contents of segment reporting will then be adapted to those used for the reports presented regularly to internal decision-making bodies. The first-time application will not have a material effect on the net assets and financial and earnings positions of the Lufthansa Group.

In November 2006 IFRIC 11, IFRS 2 – Group and Treasury Share Transactions, was also published. The interpretation is binding for financial years beginning on or after 1 March 2007.

IFRIC 12, Service Concession Arrangements, was also published in November 2006. This interpretation is binding for financial years beginning on or after 1 January 2008.

The year 2007 saw the adoption of an amendment to IAS 23, Borrowing Costs, which is mandatory for financial years beginning on or after 1 January 2009. It replaces the option of either capitalising or recognising in profit or loss borrowing costs occurring in close connection with the financing of the purchase or production of an asset with the obligation to capitalise them. Depending on the type and volume of future borrowing, this may have an effect on the net assets and financial and earnings positions of the Lufthansa Group from 2009 onwards.

IFRIC 13, Customer Loyalty Programmes, was published in 2007, as well. The interpretation is binding for financial years beginning on or after 1 July 2008. From this point on, the unused air miles distributed as part of bonus miles programmes are to be recognised at fair value using the deferred revenue method. Compared to the additional cost method applied today, this will result in a considerably higher deferred value per mile and have a commensurate effect on the net assets and financial and earnings positions.

Also adopted in 2007 was IFRIC 14, IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interactions. The interpretation is binding for financial years beginning on or after 1 January 2008. IFRIC 14 provides guidance on calculating the capitalisation threshold for surplus plan assets under IAS 19, and on how plan assets and liabilities are to be measured taking account of statutory or contractual minimum funding requirements.

IFRIC 11, 12 and 14 are not currently relevant for the Lufthansa Group.

In September 2007 the IASB published the revised version of IAS 1, Presentation of Financial Statements. The new version requires the presentation of a comprehensive income statement in the future, including "other comprehensive income" i.e. income and expenses previously recognised in equity without effect on the income statement. The amount of income tax payable on each component is also to be disclosed.

The application of IAS 1 as amended is mandatory for financial years beginning on or after 1 January 2009. The standard will affect the presentation of the financial statements, but not the net assets and financial and earnings positions of the Lufthansa Group.

In January 2008 the revised versions of IFRS 3, Business Combinations, and IAS 27, Consolidated and Separate Financial Statements, were published. The new IFRS 3 includes rules on the scope of application, components of acquisition cost, on dealing with minority interests and goodwill and on the recognition of assets, liabilities and contingent liabilities. The standard also covers accounting for loss carry-forwards and the classification of contracts of the acquired company.

The new IAS 27 makes it obligatory to apply the "economic entity approach" to the purchase and disposal of equity stakes once the possibility of control has been acquired and maintained. This means that transactions with minority shareholders are to be recognised in equity and not through profit or loss. For successive share purchases which result in the control of a company, or when shares are sold, resulting in the loss of control, the standard requires that the shares already or still held are revalued at fair value through profit or loss.

The revised versions of IFRS 3 and IAS 27 will primarily be applied prospectively for financial years beginning on or after 1 January 2010. Depending on the type and scope of future transactions they may affect the net assets and financial and earnings position of the Lufthansa Group.

Amendments to IFRS 2, Share-based Payment on Vesting Conditions and Cancellations, were also published in 2008. The new rules contain a more precise definition of the conditions for exercising options rights in share-based remuneration agreements as well as rules on cancelling share-based payment agreements. The amendments to IFRS 2 are to be applied for financial years beginning on or after 1 January 2009, and are not currently relevant for the Lufthansa Group.

In February 2008 the IASB published a revised version of IAS 32, Financial Instruments: Presentation, and an amendment to IAS 1, Presentation of Financial Statements, entitled Puttable Financial Instruments and Obligations Arising on Liquidation. This new version of IAS 32 allows, under certain conditions, to treat as equity instruments puttable under the terms of a company agreement. For instance, shares in the German partnerships can, among other things, be treated as equity, if they entitle the partner to a share of the partnership on liquidation. Application of the amendments is mandatory for financial years beginning on or after 1 January 2009.

The amendments are unlikely to have any repercussions on the Lufthansa Group's net assets and financial and earnings positions.

1) Group of consolidated companies

All significant subsidiaries under legal and/or actual control of Deutsche Lufthansa AG are included in the consolidated financial statements. Significant joint ventures or associated companies are accounted for using the equity method provided that the Group holds between 20 and 50 per cent of the shares and/or can, together with other shareholders, exercise control or significant influence.

A list of significant subsidiaries, joint ventures and associated companies can be found on pages 188–193. The list of shareholdings is published in the electronic edition of the Federal Gazette (Bundesanzeiger).

Despite of a share of 90 per cent of the voting rights in Deutsche Akademie für Flug- und Reisemedizin gemeinnützige GmbH and of 51 per cent in EFM Gesellschaft für Enteisen und Flugzeugschleppen am Flughafen München mbH, both companies must be classified as joint ventures and not subsidiaries because significant resolutions require the other shareholder's vote.

Conversely, Lufthansa City Center International GmbH must be classified as an associated company despite a 50 per cent share of voting rights because the Lufthansa Group is entitled to a casting vote in the event of a tie.

LSG Sky Chefs/GCC Ltd. is classified as a fully consolidated associated company in spite of a 50 per cent share of voting rights because the Lufthansa Group exercises economic and financial control over the company.

Special purpose entities in which the Group does not hold a voting majority are, nonetheless, classified as subsidiaries if the Group derives majority benefit from their activities or bears most of the risk. The companies affected are identified as such in the list of significant subsidiaries.

By virtue of its special purpose status AirTrust AG was already fully consolidated, although until 30 June 2007, Lufthansa only held 49 per cent of voting rights. In July 2007, after successful completion of the negotiations on air traffic rights, Lufthansa acquired the remaining 51 per cent of its capital and voting rights. At this point AirTrust AG already held 100 per cent of voting rights in Swiss International Air Lines AG, but did not exercise a controlling influence as it was not represented on the Administrative Board, nor had any other means of exerting control. Swiss International Air Lines AG was therefore accounted for using the equity method in the consolidated financial statements until 30 June 2007. After the successful conclusion of negotiations on air traffic rights, and since 1 July 2007, AirTrust AG has also had economic and financial control over Swiss Interntional Air Lines AG.

In addition to Deutsche Lufthansa AG as the parent company, the group of consolidated companies includes 67 domestic and 96 foreign companies, including special purpose entities (previous year: 71 domestic and 85 foreign companies).

Changes in the group of consolidated companies during the 2007 financial year are shown in the following table:

Company	Date of initial consolidation	Date of deconsolidation	Reason
Passenger Transportation business segment			
LLG Nord GmbH & Co. Charlie oHG		1.1.2007	Ceased operations
Miles & More International GmbH	1.1.2007		Consolidated for the first time
Lufthansa WorldShop GmbH	1.1.2007		Consolidated for the first time
Swiss Aviation Software AG	1.7.2007		Assumption of economic and financial control
Swiss Aviation Training Ltd.	1.9.2007		Increased shareholding
Swiss European Air Lines AG	1.7.2007		Assumption of economic and financial control
Swiss International Air Lines AG	1.7.2007		Assumption of economic and financial control
Logistics business segment			
Lufthansa Leasing GmbH & Co. Fox-Whiskey oHG		1.1.2007	Ceased operations
Lufthansa Leasing GmbH & Co. Golf-India oHG		1.1.2007	Ceased operations
Catering business segment			
AIRO Catering Services – Ukraine	1.1.2007		Consolidated for the first time
LSG Sky Chefs Birmingham Ltd.	1.1.2007		Increased shareholding
LSG Sky Chefs (India) Private Ltd.	1.1.2007		Consolidated for the first time
Inflight Catering Services Limited	1.1.2007		Consolidated for the first time
LSG Sky Chefs US Holding 2, Inc.		1.3.2007	Merger
LSG Sky Chefs Istanbul Catering Hizmetleri A.S.	1.6.2007		Established
LSG Sky Chefs Havacilik Hizmetleri A.S.	1.6.2007		Increased shareholding
Agencia de Servicios del Sur S.A.		1.4.2007	Disposal
LSG Sky Chefs Taxfree AB		30.11.2007	Disposal
Service and Financial Companies			
CAMANA Grundstücks-Verwaltungsgesellschaft mbH		31.12.2007	End of intra-group business relationship
Lufthansa Flight Training Berlin GmbH	1.1.2007		Consolidated for the first time
AirPlus International AG	1.1.2007		Consolidated for the first time
AirPlus International, Inc.	1.1.2007		Consolidated for the first time
AirPlus International Limited	1.1.2007		Consolidated for the first time
AirPlus International S.r.l.	1.1.2007		Consolidated for the first time
DG Hawk Fonds		1.1.2007	Merger
Fonds DB-Falcon		1.1.2007	Merger
HI-EAGLE-Fonds		1.1.2007	Merger

As of 1 January 2007 the stake in LSG Sky Chefs Birmingham Ltd. was increased by an additional 50 per cent to 100 per cent. The shares purchased correspond to the voting rights. The purchase price was EUR 2m. Calculating the fair value of the company's assets and liabilities on the acquisition date resulted in goodwill of EUR 2m.

As of 1 June 2007 50 per cent of the shares in LSG Sky Chefs Havacilik Hizmetleri A.S. were acquired for a purchase price of EUR 10m. The acquisition includes a call option for 70 per cent of the voting rights, so that including these potential voting rights, the Group now holds 100 per cent of voting rights in the company. Calculating the fair value of the company's assets and liabilities on the acquisition date resulted in goodwill of EUR 8m. The company had been accounted for using the equity method up to 1 June 2007, and has since been fully consolidated.

As AirTrust AG assumed financial and economic control of Swiss International Air Lines AG and its subsidiaries as of 1 July 2007, the assets and liabilities of the SWISS group had to be valued at fair value – no purchase price was paid.

Of the increase in equity of EUR 483m resulting from the valuation, 49 per cent (EUR 237m) was attributed via AirTrust AG to the shares already held by Lufthansa AG and 51 per cent (EUR 246m) to the shares of minority shareholders. These shares were also acquired by Lufthansa with effect from 1 July 2007, for a purchase price of CHF 51,000. In line with the economic entity approach, the difference arising on the purchase of the minority shares and on the existing shares was set off against equity without effect on profit or loss. Since then the SWISS group has been fully consolidated.

As of 1 September 2007, the remaining 50 per cent of shares in Swiss Aviation Training Ltd. were acquired for a purchase price of EUR 5m. The shares acquired correspond to the voting rights. Valuing the company's assets and liabilities at fair value on the acquisition date resulted in goodwill of EUR 2m.

The following table shows the companies' major assets and liabilities immediately before and after the acquisition date:

	LSG Sky Chefs Birmingham		LSG Sky Chefs Havacilik Hizmetleri		Swiss International group		Swiss Aviation Training	
in €m	**before acquisition 1.1.2007**	after acquisition 1.1.2007	**before acquisition 1.6.2007**	after acquisition 1.6.2007	**before acquisition 1.7.2007**	after acquisition 1.7.2007	**before acquisition 1.9.2007**	after acquisition 1.9.2007
Aircraft	–	–	–	–	747	792	–	–
Other non-current assets	2	2	4	4	247	543	13	13
Non-current assets	2	2	4	4	994	1,335	13	13
Cash and cash equivalents	0*	0*	3	3	353	353	8	8
Other current assets	2	2	4	4	849	861	6	5
Current assets	2	2	7	7	1,202	1,214	14	13
Total assets	**4**	**4**	**11**	**11**	**2,196**	**2,549**	**27**	**26**
Equity	1	1	3	3	723	1,206	6	6
Non-current liabilities	3	3	4	4	518	459	12	16
Current liabilities	0*	0*	4	4	955	884	9	4
Total equity and liabilities	**4**	**4**	**11**	**11**	**2,196**	**2,549**	**27**	**26**

* Rounded below EUR 1m.

Consolidated net profit for 2007 includes earnings of EUR 180m from the equity valuation of the shares in the SWISS group until 30 June 2007, and earnings of EUR 1m from the equity valuation of shares in LSG Sky Chefs Havacilik Hizmetleri. The contribution to consolidated net profit from the full consolidation of the SWISS group from 1 July 2007 was EUR 114m; contributions from the full consolidation of other companies for the same period amounted to EUR 1m in total. If full consolidation had already taken place as of 1 January 2007, consolidated net profit would have increased by EUR 1m from both LSG Sky Chefs Havacilik Hizmetleri and Swiss Aviation Training, respectively. Consolidated revenue would have included an additional EUR 1,373m from the SWISS group and EUR 10m from LSG Sky Chefs Havacilik Hizmetleri.

The disposal of 100 per cent of the shares in Agencia de Servicios del Sur S.A. and 75 per cent of the shares in LSG Sky Chefs Taxfree AB resulted in sales revenue of EUR 1m.

LSG Sky Chefs Taxfree AB has been accounted for as an associated company since December 2007 using the equity method.

The following fully consolidated German Group companies made use of the exemption provisions in Section 264 Para. 3 and Section 264b German Commercial Code (HGB).

Company name	Registered offices
Cargo Counts GmbH	Hattersheim
Condor Cargo Technik GmbH	Frankfurt/M.
Hamburger Gesellschaft für Flughafenanlagen mbH	Hamburg
In-Flight Management Solutions GmbH	Neu-Isenburg
LSG Asia GmbH	Kriftel
LSG-Food & Nonfood Handel GmbH	Frankfurt/M.
LSG Lufthansa Service Catering- und Dienstleistungsgesellschaft mbH	Neu-Isenburg
LSG Lufthansa Service Europa/Afrika GmbH	Neu-Isenburg
LSG Lufthansa Service Holding AG	Neu-Isenburg
LSG Sky Chefs Catering Logistics GmbH	Neu-Isenburg
LSG Sky Chefs Deutschland GmbH	Neu-Isenburg
LSG Sky Chefs Objekt- und Verwaltungsgesellschaft mbH	Neu-Isenburg
LSG Sky Chefs Verwaltungsgesellschaft mbH	Neu-Isenburg
LSG-Sky Food GmbH	Alzey
LSG South America GmbH	Neu-Isenburg
LSG-Airport Gastronomiegesellschaft mbH	Neu-Isenburg
Lufthansa A.E.R.O. GmbH	Alzey
Lufthansa Cargo AG	Kelsterbach
Lufthansa Cargo Charter Agency GmbH	Kelsterbach
Lufthansa CityLine GmbH	Cologne
Lufthansa Commercial Holding GmbH	Cologne
Lufthansa Flight Training GmbH	Frankfurt/M.
Lufthansa Leasing GmbH & Co Echo-Zulu oHG	Grünwald
Lufthansa Leasing GmbH & Co Fox-Delta oHG	Grünwald
Lufthansa Leasing GmbH & Co Fox-Echo oHG	Grünwald
Lufthansa Systems Aeronautics GmbH	Frankfurt/M.
Lufthansa Systems Airline Services GmbH	Kelsterbach
Lufthansa Systems Aktiengesellschaft	Kelsterbach
Lufthansa Systems AS GmbH	Norderstedt
Lufthansa Systems Berlin GmbH	Berlin
Lufthansa Systems Business Solutions GmbH	Raunheim
Lufthansa Systems Infratec GmbH	Kelsterbach
Lufthansa Systems Passenger Services GmbH	Kelsterbach
Lufthansa Systems Process Management GmbH	Neu-Isenburg
Lufthansa Technik AG	Hamburg
Lufthansa Technik Immobilien und Verwaltungsgesellschaft mbH	Hamburg
Lufthansa Technik Logistik GmbH	Hamburg
Lufthansa Technik Objekt- und Verwaltungsgesellschaft mbH	Hamburg
Lufthansa WorldShop GmbH	Frankfurt/M.
Miles & More International GmbH	Neu-Isenburg

The consolidated financial statements include equity stakes in 60 joint ventures and 42 associated companies (previous year: 55 joint ventures and 45 associated companies), of which nine joint ventures (previous year: eight) and 17 associated companies (previous year: 19) were accounted for using the equity method. The other joint ventures and associated companies were valued at amortised cost due to their minor overall significance.

The following assets and liabilities and income and expenses are attributed to the Group based on the equity stake held in each joint venture and associated company:

in €m	2007 Joint ventures	2007 Associated companies	2007 Associates not accounted for at equity	2006 Joint ventures	2006 Associated companies	2006 Associates not accounted for at equity
Non-current assets	58	196	438	50	1,205	459
Current assets	119	168	53	104	1,006	50
Equity	60	83	27	54	607	24
Non-current liabilities	35	137	312	35	756	329
Current liabilities	82	144	152	65	848	156
Income	217	496	170	194	3,091	163
Expenses	281	476	161	182	2,938	162

The following tables show the effects of changes in the group of consolidated companies and in the group of companies accounted for using the equity method:

Balance sheet

in €m	**Group 31.12.2007**	**of which from changes in the group of consolidated companies**	Group 31.12.2006	of which from changes in the group of consolidated companies
Non-current assets	14,076	+ 558	12,969	– 12
Current assets	8,244	+ 1,134	6,492	+ 23
Total assets	22,320	+ 1,692	19,461	+ 11
Equity	6,900	+ 522	4,903	+ 8
Non-current provisions and liabilities	7,149	+ 385	7,870	0*
Current provisions and liabilities	8,271	+ 785	6,688	+ 3

* Rounded below EUR 1m.

Income statement

in €m	**Group 2007**	**of which from changes in the group of consolidated companies**	Group 2006	of which from changes in the group of consolidated companies
Revenue	22,420	+ 1,611	19,849	+ 4
Operating income	24,110	+ 1,714	21,400	+ 4
Operating expenses	22,524	+ 1,493	20,322	+ 4
Profit from operating activities	+ 1,586	+ 221	+ 1,078	0*
Financial result	+ 27	– 40	– 33	+ 1
Profit before taxes	+ 1,613	+ 181	+ 1,045	+ 1
Income taxes	– 356	– 61	– 230	0*
Result after taxes	+ 1,760	+ 120	+ 897	+ 1

* Rounded below EUR 1m.

The changes in the group of consolidated companies are described in detail in the notes to the individual items of the income statement and the balance sheet if material.

2) Summary of significant accounting and valuation methods and estimates used as a basis for measurement

The application of the accounting and valuation methods prescribed by IFRS and IFRIC requires making a large number of estimates and assumptions with regard to the future that may, naturally, not coincide with actual future conditions. All these estimates and assumptions are, however, reviewed continuously and are based either on past experience and/or expectations of future events that seem reasonable in the circumstances on the basis of sound business judgement.

Estimates and assumptions that are of material importance in determining the carrying amounts for assets and liabilities are explained in the following description of the accounting and valuation methods applied to material balance sheet items.

The fundamental valuation method applied in the consolidated financial statements is historical cost. Where IFRS stipulate that other methods of measurement be applied, these are used instead, and are referred to specifically in the following comments on measuring assets and liabilities.

Recognition of income and expenses Revenue and other operating income are recognised in the income statement when the service has been provided or when the risk has passed to the customer. Traffic revenue in the Passenger Transportation and Logistics segments is recognised once a passenger coupon or airfreight document has been used. The amount recognised is calculated as a percentage of the total amount received for the flight document. Revenue for customer-oriented, longer-term production in the MRO and IT Services segments is recognised using the percentage of completion method. This involves estimating the proportion of the total contract already completed and the profit on the whole contract. The total amount of profit realised on long-term contracts in 2007 amounted to EUR 23m (previous year: EUR 4m).

Operating expenses are recognised when the product or service is used or the expense arises. Provisions for guarantees are made when the corresponding revenue is realised. Interest income and expenses are accrued in the appropriate period. Dividends from shareholdings not accounted for using the equity method are recognised when a legal claim to them arises.

Initial consolidation and goodwill The initial consolidation of Group companies takes place using the purchase method. This involves measuring the fair value of the assets, liabilities and contingent liabilities, identified in accordance with the provisions of IFRS, of the company acquired at the acquisition date, and allocating the acquisition costs to them. The proportion of fair value of assets and liabilities not acquired is shown under minority interests.

Any excess of cost over the value of equity acquired is capitalised as goodwill and subject to a regular annual impairment test, thereafter.

If the value of the acquirer's interest in the shareholders' equity exceeds the costs incurred by the acquiring company, the difference is recognised immediately in profit or loss.

Differences from minority interests acquired after control has been assumed are to set off directly against equity.

Annual impairment tests applied to goodwill are carried out using recognised discounted cash flow methods. This is done on the basis of expected future cash flows from the latest management planning, which are extrapolated on the basis of long-term revenue growth rates and are assumptions with regard to margin development, and discounted for the capital costs of the business unit. Tests are performed at the cash generating unit (CGU) level. For individual premises on which impairment tests were based in the 2007 financial year, see Note 17.

Additional impairment tests are applied during the course of the year, if events give reason to believe that goodwill could be permanently impaired.

Currency translation and consolidation methods
The annual financial statements of foreign Group companies are translated into euros in accordance with the functional currency concept. The functional currency is mainly the currency of the country in which the company concerned is located. Occasionally, the functional currency differs from the national currency. Assets and liabilities are translated at the middle rates on the balance sheet date. Income statements are translated at the average exchange rate for the year. These translation differences are recognised directly in shareholders' equity without effect on profit or loss. Goodwill from capital consolidation of foreign subsidiaries prior to 2005 is carried at historical cost net of amortisation accumulated by the end of 2004.

Goodwill arising since 2005 has been recognised in the currency of the company acquired.

Transaction differences, however, are recognised in profit or loss. These differences arise in the financial statements of consolidated companies from assets and liabilities based on currency other than the company's functional currency. Any resulting exchange rate differences are included in other operating income as foreign currency transaction gains, or in other operating expenses as foreign exchange losses. The most important exchange rates used in the consolidated financial statements have developed in relation to the euro as follows:

	2007		2006	
	Balance sheet exchange rate	Income statement average exchange rate	Balance sheet exchange rate	Income statement average exchange rate
USD	0.67854	0.73071	0.75930	0.79786
YEN	0.00606	0.00620	0.00638	0.00685
GBP	1.35584	1.46540	1.48987	1.46509
CAD	0.69399	0.68037	0.65475	0.70542
HKD	0.08699	0.09367	0.09764	0.10270
THB	0.02014	0.02123	0.02105	0.02102
SEK	0.10617	0.10815	0.11057	0.10791
NOK	0.12552	0.12483	0.12096	0.12433
DKK	0.13410	0.13422	0.13413	0.13406
CHF	0.60368	0.60884	0.62298	0.63578
KRW	0.00072	0.00079	0.00082	0.00084

The effects of intra-Group transactions are completely eliminated in the course of consolidation. Receivables and liabilities between consolidated companies are netted, intra-Group profits and losses in non-current assets and inventories are eliminated, and intra-Group income is set off against the corresponding expenses. Tax accruals and deferrals are made as required by IAS 12 for temporary differences arising from consolidation.

Other intangible assets (except goodwill) Acquired intangible assets are shown at cost, internally generated intangible assets from which the Group expects to derive future benefit, and which can be measured reliably, are capitalised at cost of production and amortised regularly using the straight-line method over an estimated useful life. The cost of production includes all costs directly attributable to the production process as well as appropriate portions of the indirect costs relating to this process. Borrowing costs are not capitalised.

Intangible assets with an indefinite useful life and any intangible assets not yet utilised are not amortised according to schedule but, like goodwill, are subjected to a regular annual impairment test.

Tangible fixed assets Tangible assets used in business operations for longer than one year are valued at cost, less regular straight-line depreciation. The cost of production includes all costs directly attributable to the manufacturing process as well as appropriate portions of the indirect costs relating to this process. Borrowing costs are not capitalised. The useful lives applied to tangible assets correspond to their estimated/expected useful lives in the Group.

New aircraft and spare engines are depreciated over a period of twelve years to a residual value of 15 per cent.

A useful life of between 20 and 45 years is assumed for buildings, whereby buildings, fixtures and fittings on rented premises are depreciated according to the terms of the lease or over a shorter useful life. Depreciation rates are mainly between 10 and 20 per cent per annum. A useful life of up to ten years is fixed for plant and machinery. Office and factory equipment is depreciated over three to ten years in normal circumstances.

Finance leases In accordance with IAS 17, the economic ownership of leased assets is deemed to be transferred to the lessee if the lessee bears substantially all the risks and rewards associated with ownership of the leased asset. In addition to the duration of the non-terminable initial term of the lease and the present value of the leasing payments as a proportion of the total investment, particular consideration is given to the distribution of risks and rewards relating to the residual value of the asset not amortised over the remaining term of the lease. Insofar as its economic ownership is deemed to be with the Lufthansa Group, the asset is capitalised at the time the leasing contract was signed at the present value of the leasing instalments, plus any incidental expenses borne by the lessee. Depreciation methods and useful lives correspond to those applied to comparable purchased assets.

Impairment losses on intangible assets and tangible assets In addition to depreciation and amortisation on intangible assets and property, plant and equipment, impairment losses are also recognised on the balance sheet date if the asset's recoverable amount has fallen below its carrying amount. The recoverable amount is determined as the higher of an asset's fair value less costs to sell, and the present value of the estimated net future cash flows from continued use of the asset.

Fair value less costs to sell is derived from recent market transactions, if available.

If it is impossible to forecast expected cash flows for an individual asset, the cash flows for the next larger asset unit are estimated, discounted at a rate reflecting the risk involved, and the recoverable amount allocated to the individual assets in proportion to their respective carrying amounts.

If the reasons for an impairment loss recognised in previous years should cease to exist in whole or in part in subsequent periods, the impairment loss is reversed.

Repairable aircraft spare parts Repairable spare parts for aircraft are held at continually adjusted prices based on average acquisition costs. For measurement purposes, spare parts are assigned to individual aircraft models and depreciated at the same rate as the aircraft models for which they can be used.

Investment property Property held exclusively for letting to companies outside the Group is classified as a financial investment and valued at historical cost less depreciation.

Financial assets accounted for using the equity method Financial assets accounted for using the equity method are capitalised at cost at the time of acquisition.

In subsequent periods, the carrying amounts are either increased or reduced annually by changes in the shareholders' equity of the associated company or joint venture that is held by the Lufthansa Group. The prin-ciples of purchase price allocation that apply to full consolidation are applied accordingly to the initial measurement of any difference between the acquisition cost of the investment and the pro rata share of shareholders' equity of the company in question. An impairment test for goodwill is only carried out in subsequent periods if there are indications of a potential impairment in the entire investment valuation. Interim profits and losses from sales between Group companies and companies accounted for using the equity method are eliminated pro rata in relation to the equity stake.

Financial assets Financial assets are classified within the Lufthansa Group as "at fair value through profit or loss", "loans and receivables" and "available-for-sale financial assets". The category "at fair value through profit or loss" covers financial assets held for trading purposes, e.g. derivatives which do not qualify as hedging instruments as part of a hedging relationship and underlying financial contracts which contain embedded derivatives that cannot be separated.

The category **loans and receivables** consists of financial assets with fixed payment schedules which are not quoted in an active market. They are classified as non-current or current assets according to their remaining maturity.

Available-for-sale financial assets are non-derivative financial assets that are not allocated to either of the other two categories. Securities, equity investments and cash and bank balances count as available-for-sale.

Derivatives which qualify as hedging transactions within a hedging relationship are not classified in any of these categories.

Financial assets are capitalised on the settlement date, i.e. the date the financial asset comes into existence or is transferred, at fair value plus transaction costs. Long-term low- or non-interest bearing loans are recognised at present discounted value using the effective interest method.

Trade receivables from production or service contracts not completed at the balance sheet date are capitalised at production costs plus a profit margin, if the result of the production contract can be reliably estimated. For other incomplete customer contracts the production costs are capitalised, if they are likely to be covered by revenue.

Assets classified as **at fair value through profit or loss** are always recognised at fair value. Changes in fair value are recognised in profit or loss and included in the financial result.

Subsequent measurement of **loans and receivables** is at amortised cost, using the effective interest method for low- or non-interest bearing receivables.

If there are doubts as to the recoverability of receivables they are recognised at the lower recoverable amount. Subsequent reversals (write-backs) are recognised in profit or loss.

Receivables denominated in foreign currencies are measured at the balance sheet date rate.

Available-for-sale financial assets are recognised at fair value in subsequent periods to the extent that this can be reliably measured.

The fair value of securities is determined by the price quoted on an active market. For unlisted fixed-interest securities the fair value is determined from the difference between effective and market interest rate at the valuation date.

Fluctuations in fair value between balance sheet dates are recognised in equity without effect on profit or loss. The cumulative amount is removed from equity and recognised in profit or loss either on disposal or if fair value falls below the carrying amount on a permanent basis. If an impairment loss recognised in previous years due to fair value falling below the carrying amount no longer exists, it is reversed – without effect on profit or loss for securities classified as equity instruments, through profit or loss for debt securities.

Subsequent measurement of **equity investments for which no quoted price exists on an active market** is at cost. If the recoverable amount falls below the carrying amount, an impairment loss is recognised. Such losses are not reversed.

Derivative financial instruments are measured at fair value on the basis of published market prices. If there is no quoted price on an active market, other appropriate valuation methods are applied.

Appropriate valuation methods take all factors into account which independent, knowledgeable market participants would consider in arriving at a price and which constitute recognised, established economic models for calculating the price of financial instruments.

In accordance with its internal guidelines the Lufthansa Group uses derivative financial instruments to hedge interest rate and exchange rate risks, and to hedge fuel price risks. This is based on a hedging policy defined by the Executive Board and monitored by a committee, and also involves entering into interest rate and exchange rate hedging transactions with non-consolidated Group companies.

Interest rate swaps and interest rate/currency swaps are used to manage interest rate risks. Interest rate/currency swaps also hedge exchange rate risks arising from borrowing in foreign currencies.

The Lufthansa Group uses currency futures and currency options to hedge exchange rate exposure. This involves the use of spread options that combine the purchase and simultaneous sale of currency options in the same currency. Spread options are concluded as zero-cost options, i.e. the option premium to be paid is equal to the premium resulting from the sale of the option.

Fuel price hedging takes the form of spread options and other hedging combinations, primarily for crude oil. In addition, there is some hedging of the price difference between kerosene and crude oil. To a limited extent, hedging is also undertaken for other products, such as gas oil.

Hedging transactions are used to secure either fair values or future cash flows.

To the extent that the financial instruments used qualify as effective cash flow hedging instruments within the scope of a hedging relationship, in accordance with the provisions of IAS 39, any fluctuations in fair value will not affect the result for the period during the term of the derivative.

Changes in the fair value of the effective portion of an effective cash flow hedge are recognised without effect on profit or loss in equity.

If the hedged cash flow is an investment, the result of the hedging transaction, which has previously been recognised in equity, is set off against the cost of the investment at the time the underlying transaction matures.

In all other cases the cumulative gain or loss previously stated in equity is included in net profit or loss for the period on maturity of the hedged cash flow.

In the case of effective hedging of fair values, any changes in fair value of the hedged asset, or the hedged debt and those of the financial instrument, will balance out in the income statement.

Where the financial instruments used do not qualify as effective hedging transactions but as trading under IAS 39, any changes in fair value must be recognised directly as a profit or loss in the income statement. Embedded derivatives – to the extent that they cannot be separated from the financial host contract – are also considered as trading for measurement purposes. Changes in fair value are also recognised directly as a profit or loss in the income statement. Both types must be classified as financial assets stated at fair value through profit or loss.

It is the Group's hedging policy (see Note 48) only to enter into effective derivatives for the purpose of hedging interest rate, exchange rate and fuel price risks.

Hedging transactions with non-consolidated Group companies and interest/currency swaps do not, however, satisfy the qualifying criteria for effectiveness as defined in IAS 39. Changes in fair value arising from these transactions are therefore recognised directly in profit or loss.

Inventories This item includes non-repairable spare parts, raw materials, consumables and supplies, purchased merchandise and advance payments made for inventories. They are measured at cost, determined on the basis of average prices, or at cost to produce. Production costs include all costs directly attributable to the production process as well as appropriate portions of the indirect costs relating to this process. Borrowing costs are not taken into account. Measurement on the balance sheet date is at the lower of cost and realisable value less costs to sell. Realisable value less costs to sell is calculated on the basis of the finished product.

Assets held for sale Individual, formerly non-current assets or groups of assets which are expected to be sold within the next twelve months are measured at the lower of their carrying amount at the time they are reclassified and fair value less costs to sell.

Provisions Measurement of pension provisions is based on the projected unit credit method prescribed by IAS 19 for defined benefit pension plans. The measurement of pension provisions within the balance sheet is based on a number of estimates and assumptions.

They include, in particular, assumptions on long-term salary and pension trends and average life expectancy. The assumptions on salary and pension trends are based on trends observed in the past and take into account national interest and inflation rates and labour market trends. Estimates of average life expectancy are based on recognised biometric calculation formulas.

The interest rate used for discounting future payment obligations is the country-specific market rate for long-term risk-free cash investments with a comparable time to maturity.

The expected long-term development of existing plan assets is also determined with regard to the country concerned and depending on the fund structure, taking past experience into account.

Changes in estimates and assumptions from year to year and deviations from actual annual effects are reflected in actuarial gains/losses and are, if they exceed 10 per cent of the higher of obligation and plan assets, amortised pro rata via the income statement over the beneficiaries' remaining period of service.

Actuarial losses not disclosed in the balance sheet to 31 December 2007 amount to EUR 40m (previous year: EUR 907m). In the 2007 financial year EUR 23m (previous year: EUR 38m) was amortised via staff costs.

Other provisions and provisions for taxes (effective income tax obligations) are recognised if an obligation toward third parties exists as a result of a past event that is likely to lead to an outflow of resources which can be reliably estimated. If no provision could be recognised because one of the stated criteria was not fulfilled, the corresponding obligations are shown as contingent liabilities.

The amount of provisions is determined by the amount that is likeliest to arise.

Calculation of the provision for obligations arising from bonus miles programmes is based on several estimates and assumptions. Accumulated but as yet unused bonus miles are valued by the additional cost method to the extent that they are likely to be used on Lufthansa or SWISS flights. A weighted average cost unit rate per mile is derived from past passenger behaviour and the cost incurred. Miles that are likely to be used on flights with partner airlines are valued at the price per mile to be paid to the partners in question.

No provisions are recognised for miles that are expected to lapse. The quota of miles that have been allowed to lapse in the past is used to estimate the number of miles that will probably lapse subject to current expiry rules.

As of 31 December 2007, 202.9 billion air miles (previous year: 165.4 billion, without SWISS) required valuation and the provision recognised for them amounted to EUR 910m (previous year: EUR 686m). Additional provisions of EUR 35m (previous year: EUR 27m) and EUR 1m (previous year: EUR 1m) were recognised for obligations from the Partner Plus benefit programme and the Lufthansa Corporate Mileage Dividend Plan in the USA, respectively.

Provisions for obligations that are not expected to lead to an outflow of resources in the following year are recognised to the amount of the present value of the expected outflow.

The assigned value of provisions is reviewed on each balance sheet date. Provisions in foreign currencies are translated at reporting date rates.

Financial liabilities Liabilities arising from finance leases are recognised at the present value of the leasing instalments at the time the lease was concluded. Other financial liabilities are recognised at their fair value. Liabilities for which interest is not payable at a market rate are recognised at present values.

Measurement in subsequent periods is at amortised cost, using the effective interest rate method for high- and low-interest bearing liabilities.

Liabilities in foreign currencies are measured at the middle rate on the balance sheet date.

Share-based liabilities from option programmes for managers were measured at fair value in accordance with IFRS 2, Share-based Payment. Fair value was measured using a Monte Carlo simulation.

The obligation was recognised on the basis of the resulting fair value, taking the term of the programme into account.

Details of the premises used for the model and the structure of the options programmes can be found in Note 42.

Liabilities from unused flight documents Until they are used, sold flight documents are recognised as an obligation from unused flight documents. Once a passenger coupon or an airfreight document has been used, the amount carried as a liability is recognised as traffic revenue in the income statement. Coupons that are unlikely to be used are also recognised at the end of the year as traffic revenue in the income statement at their estimated value. The estimate is based on past statistical data.

Financial guarantees If a claim on a financial guarantee given to a third party becomes probable, the obligation is recognised at fair value. For subsequent measurement, the carrying amount is the higher of initial measurement and best estimate of the expenditure required to settle the obligation on the balance sheet date.

Deferred tax items In accordance with IAS 12 deferred taxes are recognised for all temporary differences between the balance sheets for tax purposes of individual companies and the consolidated financial statements. Tax loss carry-forwards are recognised to the extent that the deferred tax assets are likely to be used in the future. Company earnings forecasts and specific realisable tax strategies are used to determine whether deferred tax assets from tax losses carried forward are usable or not, i.e. whether they have a value that can be realised.

The total amount of deferred tax assets that could not be capitalised as of 31 December 2007 was EUR 393m (previous year: EUR 181m).

Deferred foreign tax rates in the 2007 financial year ranged from 5 to 40 per cent, as in the previous year. For measuring deferred taxes, the relevant taxation rules in force or adopted at the balance sheet date are used.

Deferred tax assets and liabilities are netted out if a legal claim exists to do so, and the deferred tax assets and liabilities relate to the same tax authority.

Notes on the consolidated income statement

3) Traffic revenue

Traffic revenue by sector		
in €m	**2007**	2006
Passenger	14,798	12,667
Freight and mail	2,770	2,687
	17,568	**15,354**
Scheduled	17,165	14,908
Charter	403	446
	17,568	**15,354**

In addition to revenue of EUR 14,797m (previous year: EUR 12,666m) generated in the Passenger Transportation segment, passenger traffic revenue includes EUR 1m, as in the previous year, from transporting passengers on cargo flights. This is shown in the segment reporting of the Logistics business segment (Note 49). Of total freight and mail revenue EUR 2,597m (previous year: EUR 2,682m) was generated in the Logistics segment and EUR 4m in the Passenger Transportation segment (previous year: EUR 5m). Freight and mail revenue at SWISS from marketing cargo space on passenger flights amounted to EUR 169m, and is shown in the segment reporting as other revenue from the Passenger Transportation segment.

The expansion of the group of consolidated companies affected traffic revenue by a total of EUR 1,430m.

4) Other revenue

By sector		
in €m	**2007**	2006
MRO	1,977	1,925
Catering services	1,658	1,563
Travel (commissions)	132	128
IT Services	284	271
Ground services	99	98
Other services	702	510
	4,852	**4,495**

MRO services make up the majority of external revenue in the MRO segment. Other revenue in the MRO segment from the sale of material and hiring out material and engines, as well as logistics services, are classified as other services.

The revenue listed under catering services originates exclusively in the Catering segment. LSG Food & Nonfood Handel GmbH and LSG Airport Gastronomiegesellschaft mbH, in particular, also earn revenue in the Catering segment, which does not relate to catering services and is shown under other services.

Revenue from IT Services relates to revenue from the IT Services segment.

Other revenue includes revenue of EUR 174m (previous year: EUR 162m) from unfinished services in connection with long-term production and service contracts. This revenue has been recognised in line with the percentage of completion method. If earnings from the whole contract could not be estimated reliably, the costs incurred for the contract were recognised. If the realisable revenue in these cases was below the costs incurred for the contract, write-downs were made accordingly. The percentage of completion was calculated on the basis of the ratio of contract costs incurred by the balance sheet date to the estimated total costs for the contract.

Accumulated costs for unfinished contracts, i.e. including amounts recognised in prior years, amounted to EUR 218m (previous year: EUR 160m). Profits of EUR 23m were set off against them (previous year: EUR 4m). Advance payments by customers amounted to EUR 142m (previous year: EUR 122m). The balance of these amounts, adjusted for write-downs, is disclosed in trade receivables (see Note 29). No monies were withheld by customers.

Other revenue from companies, consolidated in 2007 for the first time, totalled EUR 181m, of which MRO services accounted for EUR 16m, Catering services for EUR 29m and other services for EUR 123m.

5) Changes in inventories and work performed by the enterprise and capitalised

Changes in inventories and work performed by the enterprise and capitalised		
in €m	**2007**	2006
Increase/decrease in finished goods and work in progress	2	3
Other internally produced and capitalised assets	117	149
	119	**152**

6) Other operating income

Other operating income		
in €m	**2007**	2006
Income from the disposal of non-current assets	20	80
Income from the disposal of non-current available-for-sale financial assets	4	6
Income from the reversal of impairment losses	0*	16
Foreign exchange gains	529	386
Income from the reversal of provisions and accruals	163	129
Income from re-invoicing of accounts payable	117	57
Commission income	144	113
Re-invoicing of charges for computerised distribution systems	2	6
Reversal of write-downs on receivables	41	28
Income from staff secondment	31	29
Compensation received for damages	26	46
Rental income	28	22
Income from sub-leasing aircraft	27	27
Income from the disposal of current available-for-sale financial assets	35	19
Other operating income	404	435
	1,571	**1,399**

* Rounded below EUR 1m.

Of the income from disposal of non-current assets, the sale of aircraft and spare engines and the sale of land and property in the Catering segment each account for EUR 9m. In the previous year, EUR 27m came from aircraft sales, EUR 29m from the sale of shares in time:matters GmbH and EUR 11m from the sale of shares in LSG Sky Chefs France S.A.

Foreign exchange gains mainly include gains from differences between the exchange rate on the transaction date (average rate for the month) and at the time of payment (spot exchange rate) along with foreign exchange gains from measurement at the closing date rate. Foreign exchange losses from these transactions are reported under other operating expenses (Note 10).

Income from reversals of provisions relate to a number of provisions recognised in prior years which have not been fully used. In contrast, expenses from insufficient provisions recognised in prior years are recognised together with the primary expense item to which they relate.

Other operating income includes items not attributable to any of the other categories, such as the taxable cash equivalents of benefits in kind provided by the employer (offset entry in staff costs), advertising income and canteen income.

Companies consolidated for the first time contributed EUR 103m to other operating income, of which EUR 77m comes from foreign exchange gains and EUR 10m from the reversal of provisions.

7) Cost of materials and services

Cost of materials and services		
in €m	**2007**	2006
Aircraft fuel and lubricants	3,860	3,355
Other raw materials, consumables and supplies	1,841	1,594
Purchased goods	567	593
Total cost of raw materials, consumables and supplies and of purchased goods	**6,268**	**5,542**
Fees and charges	3,174	2,824
Charter expenses	485	556
External MRO services	761	667
In-flight services	152	108
Operating lease payments	200	150
External IT services	76	69
Other services	437	386
Total cost of purchased services	**5,285**	**4,760**
	11,553	**10,302**

The companies consolidated for the first time account for expenses for raw material, consumables and supplies of EUR 421m, of which EUR 326m relate to aircraft fuel and lubricants.

Companies consolidated for the first time also account for EUR 494m of the cost of purchased services.

8) Staff costs

Staff costs		
in €m	**2007**	2006
Wages and salaries	4,468	4,007
Social security contributions	625	603
Pension costs and other employee benefits	405	419
	5,498	**5,029**

Pension costs principally consist of additions to the pension provisions (see Note 37).

Staff	**Annual average 2007**	Annual average 2006	**As of 31.12.2007**	As of 31.12.2006
Ground staff	75,638	71,336	77,756	71,971
Flight staff	23,947	20,869	26,244	21,192
Trainees	1,194	1,336	1,261	1,347
	100,779	**93,541**	**105,261**	**94,510**

The annual average is calculated pro rata temporis from the time companies are consolidated or deconsolidated. The companies consolidated for the first time account for 5,590 employees on average for 2007 and 9,277 employees as of 31 December 2007.

The larger group of consolidated companies led to an increase in staff costs of EUR 246m.

9) Depreciation, amortisation and impairment

The notes to the individual items show the breakdown of depreciation, amortisation and impairment charges between intangible assets, aircraft and property, plant and other equipment. Total depreciation, amortisation and impairment charges amount to EUR 1,204m (previous year: EUR 1,051m), of which companies consolidated for the first time account for EUR 61m.

Impairment losses of EUR 44m (previous year: zero) were recognised in 2007. EUR 43m of these relate to advance payments and capitalised internal expenses for intangible assets and EUR 1m to technical equipment. They were necessary as cash flow surpluses were no longer anticipated from these assets.

No impairment losses on goodwill were recognised in 2007 and 2006 as a result of annual impairment testing.

Further information on impairment testing can be found in Note 17.

10) Other operating expenses

Other operating expenses		
in €m	**2007**	2006
Sales commission paid to agencies	651	633
Rental and maintenance expenses	723	632
Staff-related expenses	726	615
Expenses for computerised distribution systems	278	243
Advertising and sales promotion	282	262
Foreign exchange losses	431	334
Auditing, consulting and legal expenses	116	125
Expenses incurred from re-invoicing accounts payable	116	119
Other services	123	120
Insurance premiums for flight operations	46	60
Write-downs on receivables	58	64
Communications costs	52	52
Other taxes	59	52
Losses on disposal of non-current assets	33	30
Losses on current available-for-sale financial assets	7	17
Consultancy fees in connection with financial transactions	4	6
Losses on disposal of other current assets	0*	0*
Restructuring costs	0*	0*
Other operating expenses	564	576
	4,269	**3,940**

* Rounded below EUR 1m.

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Foreign exchange losses mainly consist of losses from differences between the exchange rate on the transaction date (monthly average rate), and the rate at the time of payment (spot rate) as well as translation losses from measurement at the exchange rate on the balance sheet date (see Note 6).

Operating expenses increased by EUR 271m due to the expansion of the group of consolidated companies. Of these, EUR 79m relate to foreign exchange losses, EUR 56m to sales commissions to agencies, EUR 31m to computerised distribution systems and EUR 23m to staff-related expenses.

11) Result of equity investments

Result of equity investments

in €m	**2007**	2006
Result of joint ventures accounted for using the equity method	21	25
Result of associated companies accounted for using the equity method	202	191
Result of equity investments accounted for using the equity method	**223**	**216**
Dividends from other joint ventures	3	2
Dividends from other associated companies	6	4
Income from profit transfer agreements	26	67
Expenses from loss transfer agreements	– 8	– 1
Dividends from other equity investments	104	17
Result of other equity investments	**131**	**89**
	354	**305**

Income and expenses from profit and loss transfer agreements are shown including tax contributions/credits.

In addition to distributions received from various companies, dividends from equity investments also includes income from equity investments in connection with the share buy-back by WAM Acquisition S.A. (EUR 71m).

The result of equity investments was reduced by EUR 48m as a result of the full consolidation of companies whose profits were previously recognised in the result of equity investments.

12) Net interest

Net interest

in €m	**2007**	2006
Income from other securities and financial loans	13	14
Other interest and similar income	164	193
Interest income	**177**	**207**
Interest expenses on pensions obligations	– 154	– 176
Interest expenses on other provisions	– 9	– 2
Interest and other similar expenses	– 208	– 283
Interest expenses	**– 371**	**– 461**
	– 194	**– 254**

Net interest calculated under the effective interest method from financial instruments of EUR – 31m (previous year: EUR – 43m) comes solely from financial instruments not held at fair value through profit or loss.

Changes in the group of consolidated companies of the Lufthansa Group meant that negative net interest was EUR 4m lower.

13) Other financial items

Other financial items

in €m	**2007**	2006
Write-downs on available-for-sale financial assets	– 2	– 6
Write-downs on loans	– 10	– 37
Gains/losses on fair value changes of hedged items	9	– 1
Gains/losses on fair value changes of derivatives used as fair value hedges	– 12	1
Result of derivatives held for trading classified as at fair value through profit or loss	– 118	– 41
Ineffective portion of derivatives	–	–
	– 133	**– 84**

The first-time consolidation of one company resulted in EUR 4m lower write-downs.

14) Income taxes

Income taxes		
in €m	**2007**	2006
Current income taxes	118	164
Deferred income taxes	238	66
	356	**230**

Current income taxes for 2007 include corporation tax, solidarity surcharge, trade tax and other income taxes paid outside Germany totalling EUR 127m (previous year: EUR 146m). EUR 9m was refunded. Last year a change in the tax laws meant that an existing claim against the tax authorities under the system of tax credits was capitalised for the present value of EUR 90m. The remaining amount in current income taxes for 2006 relates to taxes from previous years.

Companies consolidated for the first time accounted for a total of EUR 61m in income taxes.

The following table reconciles expected and actual tax expenses. Expected tax expense is calculated by multiplying pre-tax profit by a tax rate of 35 per cent for the parent company. This is made up of 25 per cent for corporation tax and 10 per cent for trade tax and solidarity surcharge together. When the tax reform 2008 comes into effect the deferred tax rate on temporary differences, which are reversed in subsequent years, goes down to 25 per cent (15 per cent for corporation tax and 10 per cent for trade tax and solidarity surcharge). The effects can be seen in the following table.

	2007		2006	
in €m	Basis of assessment	Tax expenses	Basis of assessment	Tax expenses
Expected income tax expenses	1,613	+ 565	1,045	+ 366
Income from capitalising receivables under the former system of tax credits	–	–	–	– 90
Tax-free income, other allowances and permanent differences	–	– 47	–	38
Profits from equity investments not subject to deferred tax	248	– 87	246	– 86
Differences between local taxes and the deferred tax rate for the parent company	–	– 42	–	– 26
Unrecognised tax loss carry-forwards and deferred tax assets on losses	–	+ 173	–	+ 32
Income from changes in the tax rate	–	– 192	–	–
Other	–	– 14	–	– 4
Recognised income tax expense	**–**	**356**	**–**	**230**

* Including taxes from other periods recognised in effective tax expenses.

Deferred taxes are recognised on retained earnings of equity investments accounted for using the equity method for the amount of taxes payable on distribution.

Deferred tax liabilities of EUR 10m (previous year: EUR 7m) were not recognised on temporary differences in the values of shares in subsidiaries between tax balance sheet and consolidated financial statement as the companies are not likely to be sold in the foreseeable future.

Taking consolidation changes into account, deferred tax liabilities of EUR 11m (previous year: deferred tax assets of EUR 12m) were recognised without effect on profit and loss in 2007.

Deferred tax assets and liabilities in 2007 and 2006 relate to the following categories:

	31.12.2007		31.12.2006	
in €m	Assets	Liabilities	Assets	Liabilities
Tax loss carry-forwards and tax credits	116	–	237	–
Pension provisions	331	–	387	–
Finance leases of aircraft	–	11	–	21
Depreciation, amortisation and impairment	–	93	–	648
Fair value measurement of financial instruments	–	18	85	–
Provisions for contingent losses	16	–	28	–
Receivables/liabilities/other provisions	–	1,128	–	599
Offset amounts	– 501	– 501	– 635	– 635
Other	57	–	50	–
	19	**749**	**152**	**633**

In addition to recognised deferred tax assets from tax loss carry-forwards and tax credits, further tax loss carry-forwards and temporary differences totalling EUR 1,579m exist for which no deferred tax assets could be recognised.

Of the tax loss carry-forwards EUR 3m can only be used until 2008, EUR 332m until 2010, EUR 67m until 2011, EUR 45m until 2012, EUR 2m until 2013 and EUR 810m until 2016. A total of EUR 393m (previous year: EUR 181m) in deferred tax assets were not recognised.

The tax assets recognised on tax loss carryforwards at the LSG Sky Chefs USA group, for reasons relating to Group tax strategy, were completely reversed in 2007. The goal of the Group tax strategy was achieved without having to use tax loss carry-forwards.

15) Result of the discontinued business segment Leisure Travel

On 22 December 2006, Deutsche Lufthansa AG and KarstadtQuelle AG signed a letter of intent under which Lufthansa would sell its 50 per cent stake in the Thomas Cook group. The shares had previously been accounted for using the equity method and made up the Leisure Travel segment. Earnings contributions from the Thomas Cook group were therefore shown as income from the discontinued business segment Leisure Travel for the 2006 financial year, taking into account deferred tax liabilities. In 2007, following completion of the transaction, book gains of EUR 503m after taxes were realised.

16) Earnings per share

Undiluted earnings per share are calculated by dividing consolidated net profit by the weighted average number of shares in circulation during the financial year. To calculate the average number of shares, the shares bought back and reissued for the employee share programmes are included pro rata temporis. A total of 2,014 new shares were issued on 5 April 2007, when conversion rights from the convertible bond issued on 4 January 2002 were exercised.

To calculate diluted earnings per share, the maximum number of common shares which can be issued when conversion rights from the convertible bond issued by Deutsche Lufthansa AG on 4 January 2002 are exercised are also added to the average. At the same time, consolidated net profit is increased by the amounts expensed on the convertible bond.

The partial redemption of the convertible bond in April 2007 reduced the maximum number of shares which can be issued from 2,536,958 to 2,534,944.

		2007	2006
Undiluted earnings per share	€	3.61	1.75
Consolidated net profit	€m	+ 1,655	+ 803
Weighted average number of shares		457,855,828	457,828,124

		2007	2006
Diluted earnings per share	€	3.60	1.75
Consolidated net profit	€m	+ 1,655	+, 803
+ interest expenses on the convertible bond	€m	+ 1	+ 1
– current and deferred taxes	€m	0*	0*
Adjusted net profit for the period	€m	+ 1,656	+ 804
Weighted average number of shares		460,390,772	460,365,082

* Rounded below EUR 1m.

The discontinued business segment Leisure Travel accounted for EUR 1.10 and EUR 1.09 respectively in undiluted and diluted earnings per share (previous year: EUR 0.18, respectively).

In 2007, EUR 0.70 per share was distributed as a dividend from the net profit for 2006.

Notes to the consolidated balance sheet

Assets

17) Goodwill and intangible assets with an indefinite useful life

in €m	Goodwill from consolidation	Intangible assets with indefinite useful life	Total
Cost as of 1.1.2006	891	–	891
Accumulated amortisation	– 300	–	– 300
Carrying amount 1.1.2006	**591**	**–**	**591**
Currency translation difference	– 2	–	– 2
Consolidation changes	–	–	–
Additions	–	–	–
Reclassifications	–	–	–
Disposals	–	–	–
Reclassifications to assets held for sale	–	–	–
Amortisation	–	–	–
Reversal of impairment losses	–	–	–
Carrying amount 31.12.2006	**589**	**–**	**589**
Cost as of 1.1.2007	889	–	889
Accumulated amortisation	– 300	–	– 300
Carrying amount 1.1.2007	**589**	**–**	**589**
Currency translation difference	– 7	–	– 7
Additions due to changes in consolidation	–	203	203
Additions	12	–	12
Reclassifications	–	–	–
Disposals due to changes in consolidation	–	–	–
Disposals	–	–	–
Reclassifications to assets held for sale	–	–	–
Amortisation	–	–	–
Reversal of impairment losses	–	–	–
Carrying amount 31.12.2007	**594**	**203**	**797**
Cost as of 31.12.2007	882	203	1,085
Accumulated amortisation	–288	–	–288

In 2007 as in the previous year, all goodwill as well as the brand were subjected to a regular impairment test in line with IAS 36. The tests were performed at the level of the smallest cash generating unit (CGU) on the basis of value in use. Goodwill originating from the acquisition of Air Dolomiti S.p.A. and the Eurowings group was tested at the level of Lufthansa AG and its regional partners as the smallest independent cash generating unit.

The following table provides an overview of the goodwill tested and the assumptions made in the respective impairment tests.

Name of CGU	**Lufthansa AG and regional partners** (Segment: Passenger Transportation)	**LSG Sky Chefs USA group** (Segment: Catering)	**LSG Sky Chefs Korea** (Segment: Catering)	**LSG Sky Chefs Havacilik Hizmetleri A.S.** (Segment: Catering)	**LSG Sky Chefs Birmingham Ltd.** (Segment: Catering)	**Swiss Aviation Training Ltd.** (Segment: Passenger Transportation)
Carrying amount of goodwill	€ 249m	€ 277m	€ 56m	€ 8m	€ 2m	€ 2m
Impairment losses	–	–	–	–	–	–
Revenue growth p.a. over planning period	3.4% to 6.7%	1.4% to 2.1%	3.8% to 4.8%	2.9% to 6.5%	1.5%	– 2.2% to 1.0%
EBITDA margin over planning period	11.2% to 12.3%	6.9% to 7.9%	26.6%	20.0% to 21.8%	3.4% to 4.2%	22.5%
Investment ratio over planning period	5.9% to 11.4%	1.7% to 1.8%	1.0%	2.0% to 2.1%	0% to 11.6%	9.6% to 21.2%
Length of planning period	3 years	5 years	3 years	3 years	3 years	3 years
Revenue growth p.a. after end of planning period	4.0%	2.0%	4.8%	2.0%	1.5%	1.0%
EBITDA margin after end of planning period	14.7%	8.3%	26.6%	20.0%	4.2%	22.5%
Investment ratio after end of planning period	11.7%	2.0%	1.0%	2.2%	0.0%	9.6%
Discount rate	9.1%	9.1%	9.1%	9.1%	9.1%	9.1%

The assumptions on revenue growth used for the impairment tests are based on external sources for the planning period. In some cases reductions were made for risk to allow for special regional features and market share trends specific to the respective companies. Assuming sustained revenue growth of 2 per cent at the end of the planning period by the LSG Sky Chefs USA group as described, the recoverable amount would exceed the carrying amount by EUR 178m. Assuming a 4.7 per cent decline in revenue per annum, the recoverable amount would be equal to the carrying amount for the asset.

The EBITDA margins used are based on past experience or were developed on the basis of cost reduction measures initiated. The investment rates are based on past experience and take account of the replacement of any means of production envisaged during the planning period.

The intangible assets with indefinite useful life consist of slots purchased as part of a company acquisition and an acquired brand name.

The regular impairment test for the brand was carried out at the level of the smallest cash generating unit (CGU) on the basis of value in use. The revenue generated in the Passenger Transportation segment with the acquired brand was defined as the CGU.

The following assumptions were used in the impairment test for the brand:

Carrying amount for brand	€ 153m
Impairment losses	–
Revenue growth for brand p.a. over the planning period	1.2% to 8.4%
Length of planning period	3 years
Revenue growth for brand p.a. after the end of the planning period	2.0%
Savings in hypothetical leasing payments before taxes (royalty rate)	0.4%
Discount rate	9.1%

Assuming sustained revenue growth associated with the brand after the end of the planning period of 2.0 per cent, the recoverable amount exceeds the carrying amount by EUR 4m. Assuming sustained revenue growth of 1.75 per cent, the recoverable amount would be the same as the carrying amount.

The carrying amount for the purchased slots of EUR 50m was tested on the basis of current published transaction prices for sales/purchases of slots between market participants. There were no impairment charges to be made in the Passenger Transportation segment.

18) Other intangible assets

in €m	Concessions, intellectual property rights and licences	Internally developed software	Advance payments made	**Total**
Cost as of 1.1.2006	432	73	35	540
Accumulated amortisation	– 338	– 37	– 3	– 378
Carrying amount 1.1.2006	**94**	**36**	**32**	**162**
Currency translation difference	1	–	–	1
Consolidation changes	0*	–	–	0*
Additions	28	4	39	71
Reclassifications	10	– 4	– 10	– 4
Disposals	– 2	– 1	– 6	– 9
Reclassifications to assets held for sale	–	–	–	–
Amortisation	– 40	– 9	–	– 49
Reversal of impairment losses	–	–	–	–
Carrying amount 31.12.2006	**91**	**26**	**55**	**172**
Cost as of 1.1.2007	449	87	57	593
Accumulated amortisation	– 358	– 61	– 2	– 421
Carrying amount 1.1.2007	**91**	**26**	**55**	**172**
Currency translation difference	– 1	–	0*	– 1
Additions due to changes in consolidation	126	0*	3	129
Additions	31	5	31	67
Reclassifications	15	– 5	– 17	– 7
Disposals due to changes in consolidation	–	–	–	–
Disposals	– 1	0*	– 2	– 3
Reclassifications to assets held for sale	0*	–	0*	0*
Amortisation	– 51	– 10	– 44	– 105
Reversal of impairment losses	–	–	–	–
Carrying amount 31.12.2007	**210**	**16**	**26**	**252**
Cost as of 31.12.2007	618	88	72	778
Accumulated amortisation	– 408	– 72	– 46	– 526

* Rounded below EUR 1m.

Non-capitalised research and development expenses for intangible assets of EUR 3m (previous year: EUR 1m) were incurred in the period. Firm orders have been placed for intangible assets worth EUR 4m (previous year: EUR 10m), but they are not yet at the Group's economic disposal.

Of the carrying amounts recognised at 31 December 2007, companies consolidated for the first time account for EUR 119m.

19) Aircraft and spare engines

in €m	Aircraft and spare engines	Advance payments for aircraft and spare engines	**Total**
Cost as of 1.1.2006	15,221	525	15,746
Accumulated depreciation	– 8,484	–	– 8,484
Carrying amount 1.1.2006	**6,737**	**525**	**7,262**
Currency translation difference	– 12	3	– 9
Consolidation changes	–	–	–
Additions	474	564	1,038
Reclassifications	309	– 307	2
Disposals	– 68	– 3	– 71
Reclassifications to assets held for sale	–	–	–
Depreciation	– 817	–	– 817
Reversal of impairment losses	–	–	–
Carrying amount 31.12.2006	**6,623**	**782**	**7,405**
Cost as of 1.1.2007	15,742	782	16,524
Accumulated depreciation	– 9,119	–	– 9,119
Carrying amount 1.1.2007	**6,623**	**782**	**7,405**
Currency translation difference	– 16	– 3	– 19
Additions due to changes in consolidation	766	9	775
Additions	455	689	1,144
Reclassifications	270	– 266	4
Disposals due to changes in consolidation	–	–	–
Disposals	– 23	– 4	– 27
Reclassifications to assets held for sale	0*	–	0*
Depreciation	– 902	–	– 902
Reversal of impairment losses	–	–	–
Carrying amount 31.12.2007	**7,173**	**1,207**	**8,380**
Cost as of 31.12.2007	17,066	1,209	18,275
Accumulated depreciation	– 9,893	– 2	– 9,895

* Rounded below EUR 1m.

The item aircraft includes 16 aircraft (13 Boeing MD-11Fs and three Boeing B747-400s) at a carrying amount of EUR 641m (previous year: EUR 738m), which are the subject of transactions aimed at realising present value benefits from cross-border leasing constructions. These transactions generally involve entering into a 40 to 50 year head lease agreement with a lessee in the Bermudas. The leasing instalments paid by the lessee are transferred to the lessor in a single amount. At the same time, the lessor concludes a sub-lease agreement with a shorter duration (14–16 years) with the lessee and pays the leasing obligations on this agreement in a single amount to a bank for the benefit of the lessee.

Following the transaction the risks and rewards associated with the aircraft and legal ownership of it remain with the Lufthansa Group, so under SIC 27 the aircraft are not treated as leased assets within the meaning of IAS 17, but in the same way as they would be without the transaction.

The transaction does entail some operating constraints, as the aircraft may not be primarily deployed in American airspace.

The present value benefit derived from the transaction is recognised through profit or loss pro rata temporis over the duration of the sub-lease agreement. In 2007, as in the previous year, EUR 7m were recognised in other operating income.

In addition, the item contains 44 aircraft (two Boeing 747s, 17 Airbus A340s, seven Airbus A330s, nine Airbus A319/20/21s and nine Canadair Regional Jets) with a carrying amount of EUR 1,819m (previous year: 29 aircraft with a carrying amount of EUR 1,199m), the majority of which were sold to Japanese and UK leasing companies, or to leasing companies in the Bermudas, and leased back with a view to achieving more favourable financing terms. The duration of these leasing agreements is between 10 and 26 years. Lufthansa is entitled to buy the aircraft back at a fixed price at a given point in time.

As the risks and reward associated with these aircraft also remain with the Lufthansa Group, they are, according to SIC 27, not treated as leased assets.

There are operating constraints for two of these aircraft financed via leasing companies in the Bermudas, which may not be primarily deployed in American airspace.

Purchase commitments for aircraft and spare engines amount to EUR 7.4bn (previous year: EUR 6.4bn).

Within this item aircraft held at EUR 1,910m (previous year: EUR 1,334m) serve as collateral for current financing arrangements and aircraft held at EUR 118m (previous year: EUR 103m) were also acquired under finance leases (see Note 22).

Of the carrying amounts for aircraft and spare engines including advance payments recognised at 31 December 2007, companies consolidated for the first time account for EUR 888m.

20) Property, plant and other equipment

in €m	Land and property	Technical equipment and machinery	Other operating and office equipment	Advance payments and plant under construction	**Total**
Cost as of 1.1.2006	1,515	791	1,104	249	3,659
Accumulated depreciation	– 727	– 619	– 865	0*	– 2,211
Carrying amount 1.1.2006	**788**	**172**	**239**	**249**	**1,448**
Currency translation difference	– 7	– 3	– 4	– 1	– 15
Consolidation changes	– 2	– 1	– 4	0*	– 7
Additions	54	22	95	100	271
Reclassifications	231	5	16	– 250	2
Disposals	– 17	0*	– 1	– 5	– 23
Reclassifications to assets held for sale	–	–	–	–	–
Depreciation	– 56	– 31	– 97	–	– 184
Reversal of impairment losses	13	–	–	–	13
Carrying amount 31.12.2006	**1,004**	**164**	**244**	**93**	**1,505**
Cost as of 1.1.2007	1,740	800	1,079	93	3,712
Accumulated depreciation	– 736	– 636	– 835	0*	– 2,207
Carrying amount 1.1.2007	**1,004**	**164**	**244**	**93**	**1,505**
Currency translation difference	– 12	– 4	– 4	– 1	– 21
Additions due to changes in consolidation	34	40	14	5	93
Additions	69	27	118	184	398
Reclassifications	46	6	7	– 40	19
Disposals due to changes in consolidation	–	–	–	–	–
Disposals	– 5	– 3	– 7	– 3	– 18
Reclassifications to assets held for sale	0*	– 1	– 5	0*	– 6
Depreciation	– 60	– 37	– 100	–	– 197
Reversal of impairment losses	–	–	–	–	–
Carrying amount 31.12.2007	**1,076**	**192**	**267**	**238**	**1,773**
Cost as of 31.12.2007	1,831	843	1,117	238	4,029
Accumulated depreciation	– 755	– 651	– 850	–	– 2,256

* Rounded below EUR 1m.

Charges of EUR 39m (previous year: EUR 41m) exist over land and property. As in the previous year, pre-emption rights are registered for land held at EUR 262m (previous year: EUR 277m). Other property, plant and equipment carried at EUR 39m (previous year: EUR 14m) serves as collateral for existing financing arrangements. Other equipment carried at EUR 108m (previous year: EUR 84m) was acquired by means of finance leases (see Note 22).

EUR 44m of the carrying amounts at 31 December 2007 relate to companies consolidated for the first time.

The following items of property, plant and equipment have been ordered, but are not yet at the Group's economic disposal:

in €m	**31.12.2007**	31.12.2006
Land and buildings	16	101
Technical equipment	36	44
Office and factory equipment	24	26
	76	**171**

21) Investment property

in €m	Investment property
Cost as of 1.1.2006	23
Accumulated depreciation	– 6
Carrying amount 1.1.2006	**17**
Currency translation difference	1
Consolidation changes	–
Additions	–
Reclassifications	–
Disposals	0*
Reclassifications to assets held for sale	3
Depreciation	– 1
Reversal of impairment losses	–
Carrying amount 31.12.2006	**20**
Cost as of 1.1.2007	26
Accumulated depreciation	– 6
Carrying amount 1.1.2007	**20**
Currency translation difference	– 1
Additions due to changes in consolidation	–
Additions	–
Reclassifications	– 16
Disposals due to changes in consolidation	–
Disposals	–
Reclassifications to assets held for sale	–
Depreciation	–
Reversal of impairment losses	–
Carrying amount 31.12.2007	**3**
Cost as of 31.12.2007	4
Accumulated depreciation	– 1

* Rounded below EUR 1m.

The building held solely for investment purposes is valued at EUR 3m (previous year: two buildings valued at EUR 20m).

The second building previously held for investment purposes is now being used by the Group and is included in the item land and buildings.

22) Assets leased and leased out

The item tangible fixed assets also includes leased assets which are deemed to be the property of the Group, as the underlying contracts are structured as finance leases. The following table shows leased assets for which the Group is either lessor or lessee:

in €m	Aircraft and spare engines for which Group is lessor	Aircraft and spare engines for which Group is lessee	Aircraft and spare engines for which Group is both lessor and lessee	Buildings for which Group is lessee	Buildings and land for which Group is lessor	Technical equipment for which Group is lessee	Other office and factory equipment for which Group is lessee
Cost as of 1.1.2006	358	457	20	111	24	–	23
Accumulated depreciation	– 251	– 267	–	– 51	– 7	–	– 22
Carrying amount 1.1.2006	**107**	**190**	**20**	**60**	**17**	**–**	**1**
Currency translation difference	–	–	–	0*	1	–	0*
Consolidation changes	–	–	–	–	–	–	–
Additions	–	–	–	4	–	–	0*
Reclassifications	– 10	– 64	– 5	11	–	–	3
Disposals	– 9	– 12	–	0*	0*	–	0*
Reclassifications to assets held for sale	–	–	–	–	–	–	–
Depreciation	– 14	– 24	– 2	– 5	– 1	–	– 3
Reversal of impairment losses	–	–	–	13	–	–	–
Carrying amount 31.12.2006	**74**	**90**	**13**	**83**	**17**	**–**	**1**
Cost as of 1.1.2007	251	212	15	137	23	–	23
Accumulated depreciation	– 177	– 122	– 2	– 54	– 6	–	– 22
Carrying amount 1.1.2007	**74**	**90**	**13**	**83**	**17**	**–**	**1**
Currency translation difference	–	– 4	–	– 2	–	–	0*
Additions due to changes in consolidation	–	10	–	30	–	–	1
Additions	0*	38	–	2	–	1	0*
Reclassifications	7	13	– 7	– 1	– 16	–	0*
Disposals due to changes in consolidation	–	–	–	–	–	–	–
Disposals	– 10	1	–	2	–	–	0*
Reclassifications to assets held for sale	–	–	–	–	–	–	– 1
Depreciation	– 8	– 34	– 2	– 8	–	0*	0*
Reversal of impairment losses	–	–	–	–	–	–	–
Carrying amount 31.12.2007	**63**	**114**	**4**	**106**	**1**	**1**	**1**
Cost as of 31.12.2007	247	201	5	166	1	1	17
Accumulated depreciation	– 184	– 87	– 1	– 60	0*	0*	– 16

* Rounded below EUR 1m.

Finance leases The total amount of leased assets attributed to the Group's economic ownership under IAS 17 is EUR 226m (previous year: EUR 187m), EUR 118m of which (previous year: EUR 103m) relates to aircraft (one Airbus A340, one Airbus A321, one Airbus A319, six ATRs).

As a rule, aircraft finance lease agreements cannot be terminated during a fixed basic lease term of at least four years and they run for a maximum of twelve years.

Once the lease term has expired the lessee is usually entitled to acquire the asset at its residual value. If the lessee does not exercise this option the lessor will sell the aircraft at the best possible market price. If the sale price is lower than the residual value, the difference has to be paid by the lessee. Some lease agreements provide for variable lease payments to the extent that the interest portion is linked to market interest rates, normally the three or six-month Libor rate.

In addition, the Group has a variety of finance leases for buildings, fixtures and for factory and office equipment. For buildings and fixtures the leases run for 20 to 38 years. The lease agreements have lease payments based partly on variable and partly on fixed interest rates, and some have purchase options at the end of the lease term. The agreements are non-cancellable. Options for extending the contracts generally rest with the lessee, if at all.

For technical equipment and factory and office equipment the lease terms are generally from four to seven years. The leases normally have fixed lease payments and occasionally also have purchase options at the end of the lease term. The agreements can only sometimes be extended by the lessee, or else are renewed automatically if the lessee does not object. The agreements are non-cancellable.

The following lease payments are due for finance leases, whereby the variable lease payments have been extrapolated on the basis of the most recent interest rate:

in €m	2008	2009–2012	from 2013
Lease payments	27	125	84
Discounted amounts	1	18	34
Present values	26	107	50
Payments from sub-leasing	1	1	–

In the previous year the following figures were given for finance leases:

in €m	2007	2008–2011	from 2012
Lease payments	31	118	80
Discounted amounts	2	22	40
Present values	29	96	40
Payments from sub-leasing	4	4	–

Operating leases In addition to the finance leases, a large number of leases have been signed which, on the basis of their economic parameters, are qualified as operating leases, i.e. the leased asset is deemed to belong to the lessor. As well as 96 aircraft on operating leases, these are mainly aircraft leased as part of the Lufthansa Regional concept and leases for buildings.

The operating leases for aircraft have a term of between two and nine years. These agreements generally end automatically after the term has expired, but there is sometimes an option for extending the agreement.

The leases for buildings generally run for up to 25 years. The fixtures at the airports in Frankfurt and Munich are leased for 30 years.

The following payments are due in the years ahead:

in €m	2008	2009–2012	from 2013
Aircraft	196	418	–
Buildings	236	920	227 p.a.
Other leases	80	306	65 p.a.
	512	**1,644**	**292 p.a.**
Payments from sub-leasing	14	13	2

In the previous year the following figures were given for operating leases:

in €m	2007	2008–2011	from 2012
Aircraft	121	233	15 p.a.
Buildings	238	911	221 p.a.
Other leases	62	221	51 p.a.
	421	**1,365**	**287 p.a.**
Payments from sub-leasing	12	10	2

Nine aircraft and spare engines, legally and economically the property of the Group, have been leased to third parties under non-cancellable operating leases. These leases, which run for up to five years, result in the following payments:

in €m	2008	2009–2012	from 2013
Payments received from operating leases	16	19	4 p.a.

At the end of 2006, ten aircraft and spare engines legally and economically the property of the Group had been leased to third parties under non-cancellable operating leases. These leases resulted in the following payments:

in €m	2007	2008–2011	from 2012
Payments received from operating leases	17	30	–

23) Equity investments accounted for using the equity method

in €m	Investments in joint ventures	Investments in associated companies	**Total**
Cost as of 1.1.2006	394	559	953
Accumulated impairment losses	0*	– 4	– 4
Carrying amount 1.1.2006	**394**	**555**	**949**
Currency translation difference	– 4	– 18	– 22
Consolidation changes	–	– 6	– 6
Additions	91	186	277
Reclassifications	–	6	6
Disposals	– 16	– 22	– 38
Reclassifications to assets held for sale	– 372	–	– 372
Impairment losses	–	– 3	– 3
Reversal of impairment losses	–	–	–
Carrying amount 31.12.2006	**93**	**698**	**791**
Cost as of 1.1.2007	93	706	799
Accumulated impairment losses	–	– 8	– 8
Carrying amount 1.1.2007	**93**	**698**	**791**
Currency translation difference	– 3	– 27	– 30
Additions due to changes in consolidation	0*	1	1
Additions	83	227	310
Reclassifications	0*	0*	0*
Disposals due to changes in consolidation	–	– 718	– 718
Disposals	– 22	– 9	– 31
Reclassifications to assets held for sale	–	–	–
Impairment losses	–	–	–
Reversal of impairment losses	–	–	–
Carrying amount 31.12.2007	**151**	**172**	**323**
Cost as of 31.12.2007	151	180	331
Accumulated impairment losses	–	– 8	– 8

* Rounded below EUR 1m.

In two cases the carrying amounts for associated companies were not reduced below EUR 0m. Losses at associated companies of EUR 7m (previous year: EUR 1m) were not taken into account.

Transferring the SWISS group from the group of associated companies to the group of consolidated companies led to a reduction of EUR 717m in the carrying amount of equity.

24) Financial assets by category

Financial assets in the balance sheet as of 31.12.2007 in €m	Loans and receivables	At fair value through profit or loss	Available for sale	Derivative financial instruments which are an effective part of a hedging relationship
Other equity investments	–	–	777	–
Non-current securities	–	–	298	–
Loans	190	–	–	–
Non-current receivables	209	–	–	–
Non-current derivative financial instruments	–	261	–	107
Trade and other current receivables	3,448	–	–	–
Current derivative financial instruments	–	35	–	446
Current securities	–	–	1,528	–
Cash and cash equivalents	–	–	2,079	–
Total	**3,847**	**296**	**4,682**	**553**

Financial assets in the balance sheet as of 31.12.2006 in €m	Loans and receivables	At fair value through profit or loss	Available for sale	Derivative financial instruments which are an effective part of a hedging relationship
Other equity investments	–	–	767	–
Non-current securities	–	–	553	–
Loans	206	–	–	–
Non-current receivables	137	–	–	–
Non-current derivative financial instruments	–	1	–	20
Trade receivables and other current receivables	2,917	–	–	–
Current derivative financial instruments	–	33	–	60
Current securities	–	–	2,083	–
Cash and cash equivalents	–	–	455	–
Total	**3,260**	**34**	**3,858**	**80**

All financial assets in the category “at fair value through profit or loss” from both financial years are assets held for trading. Otherwise, no financial assets have been classified as “at fair value through profit or loss”.

The net result of the different categories of financial assets is made up as follows:

2007 in €m	Other operating income	Other operating expenses	Result of equity investments	Other financial items	**Net result**
Loans and receivables	41	58	–	– 10	89
Financial assets at fair value through profit or loss	–	–	–	– 118	– 118
Available-for-sale financial assets	39	7	131	– 2	175

2006 in €m	Other operating income	Other operating expenses	Result of equity investments	Other financial items	**Net result**
Loans and receivables	28	64	–	– 37	55
Financial assets at fair value through profit or loss	–	–	–	– 41	– 41
Available-for-sale financial assets	25	17	89	– 6	125

25) Other equity investments and non-current securities

The following table shows changes in other equity investments and non-current securities in the years 2006 and 2007:

in €m	Stakes in affiliated companies	Equity investments	Non-current securities	**Total**
Cost as of 1.1.2006	191	505	178	874
Accumulated impairment losses	– 34	– 47	– 2	– 83
Carrying amount 1.1.2006	**157**	**458**	**176**	**791**
Currency translation difference	0*	0*	0*	0*
Consolidation changes	– 10	0*	–	– 10
Additions	35	157	388	580
Reclassifications	– 6	–	–	– 6
Disposals	– 5	– 13	– 11	– 29
Reclassifications to assets held for sale	–	–	–	–
Impairment losses	0*	– 6	–	– 6
Reversal of impairment losses	0*	–	–	0*
Carrying amount 31.12.2006	**171**	**596**	**553**	**1,320**
Cost as of 1.1.2007	213	649	556	1,418
Accumulated impairment losses	– 42	– 53	– 3	– 98
Carrying amount 1.1.2007	**171**	**596**	**553**	**1,320**
Currency translation difference	– 2	0*	0*	– 2
Additions due to changes in consolidation	–	–	1	1
Additions	36	20	3	59
Reclassifications	0*	–	–	0*
Disposals due to changes in consolidation	– 7	–	–	– 7
Disposals	–	– 35	– 259	– 294
Reclassifications to assets held for sale	–	–	0*	0*
Impairment losses	– 2	0*	–	– 2
Reversal of impairment losses	–	–	–	–
Carrying amount 31.12.2007	**196**	**581**	**298**	**1,075**
Cost as of 31.12.2007	239	630	301	1,170
Accumulated impairment losses	– 43	– 49	– 3	– 95

* Rounded below EUR 1m.

Equity investments and securities are recognised at fair value if there is an active market for them with publicly available prices. For equity investments held at EUR 68m (previous year: EUR 100m) and non-current securities held at EUR 22m (previous year: EUR 19m) there is no active market with publicly available market prices. In 2007, equity investments and securities at a carrying amount of EUR 2m (previous year: EUR 14m) were sold, which had previously not been held at fair value as there was no active market for them. The sale realised total profits of EUR 1m (previous year: EUR 6m).

Securities held at EUR 13m (previous year: EUR 12m) were pledged as collateral for liabilities.

Companies consolidated for the first time account for EUR 2m of the equity investments and securities.

26) Non-current loans and receivables

Loans and receivables

in €m	**31.12.2007**	31.12.2006
Loans to and receivables from affiliated companies	72	94
Loans to and receivables from other equity investments	0*	45
Other loans and receivables	322	197
Pre-financed rental property	5	7
	399	**343**

* Rounded below EUR 1m.

The carrying amount of non-current loans and receivables corresponds to their fair value, as they earn floating rate or market standard interest.

This item is reduced by EUR 36m due to the effects of the first-time consolidation of various companies.

27) Derivative financial instruments

Derivative financial instruments qualifying as effective hedging instruments within a hedging relationship have the following balances:

in €m	**31.12.2007**	31.12.2006
Positive market values – long-term	107	20
Positive market values – short-term	446	60
Negative market values – long-term	– 290	– 173
Negative market values – short-term	– 135	– 61
	128	**– 154**

They relate to the following hedged items:

in €m	**31.12.2007**	31.12.2006
Fuel price hedges	553	71
Exchange rate hedges	– 415	– 226
Interest rate hedges	– 10	1

Companies consolidated for the first time account for EUR 33m of the positive market values and EUR –2m of the negative market values. Derivative financial instruments measured at fair value through profit or loss are shown in the following table:

in €m	**31.12.2007**	31.12.2006
Positive market values – long-term	261	1
Positive market values – short-term	35	33
Negative market values – long-term	– 81	– 69
Negative market values – short-term	– 346	– 217
	– 131	**– 252**

The positive long-term market values include embedded derivatives amounting to EUR 254m, which cannot be separated from the host contract and are therefore measured together at fair value through profit or loss.

The negative short-term market values include the obligation under the earn-out agreement with former shareholders of Swiss International Air Lines AG in connection with the acquisition of the company via AirTrust AG in 2005, which is measured at fair value. After a period of three years this agreement provides for a cash payment of up to CHF 390m in March 2008, depending on the performance of the Lufthansa share in comparison with an index of competitors. As there is no publicly quoted market price on an active market for this option, measurement was made with the help of a Monte Carlo simulation using historical reference prices, volatilities and correlations between the shares included in the index of competitors. The fair value measured in this way is EUR 141m as of 31 December 2007 (previous year: EUR 49m, included in long-term negative market values). The change in fair value of EUR 92m (previous year: EUR 1m) has been recognised in expenses from other financial items.

Of the other short-term negative market values, EUR 205m (previous year: EUR 212m) are from the negative market value of a put option granted in connection with the acquisition of an equity stake. As there is no publicly quoted price on an active market for this option, measurement was made using a recognised discounted cash flow method.

The other positive and negative market values are from derivatives, which do not qualify under IAS 39 as effective hedging instruments within a hedging relationship.

Their fair value is, on balance, negative and amounts to EUR 39m (previous year: positive balance of EUR 9m).

Fair values are all calculated on the basis of recognised financial and mathematical methods, using publicly available market information.

28) Inventories

Inventories		
in €m	**31.12.2007**	31.12.2006
Raw materials, consumables and supplies	425	381
Finished goods and work in progress	86	76
Advance payments	0*	0*
	511	**457**

* Rounded below EUR 1m.

Inventories valued at EUR 29m (previous year: EUR 27m) are pledged as collateral for loans.

The gross value of inventories at 31 December 2007 was EUR 626m (previous year: EUR 550m). Of these, inventories at a carrying amount of EUR 414m (previous year: EUR 250m) were recognised at fair value less costs to sell (net realisable value). Write-downs of EUR 115m (previous year EUR 93m) were made to net realisable value. In the reporting period new write-downs were made for EUR 9m (previous year: EUR 6m). In 2007, EUR 3m in write-downs made in prior years was reversed (previous year: EUR 8m).

Companies consolidated for the first time accounted for EUR 24m in inventories.

29) Trade receivables and other current receivables

in €m	**31.12.2007**	31.12.2006
Trade receivables		
Trade receivables from affiliated companies	348	102
Trade receivables from other equity investments	30	13
Trade receivables from third parties	2,083	2,001
	2,461	**2,116**
- of which: from unfinished orders less advance payments received	(125)	(107)
Other receivables		
Receivables from affiliated companies	211	196
Receivables from other equity investments	0*	1
Other receivables	776	604
	987	**801**
Total	**3,448**	**2,917**

* Rounded below EUR 1m.

EUR 10m of trade receivables were pledged as collateral for loans.

Other receivables include expected reimbursements for obligations for which provisions have been made amounting to EUR 6m (previous year: EUR 3m).

Companies consolidated for the first time contributed EUR 184m to this item.

30) Accrued income and advance payments

Accrued income and advance payments mainly consist of rents, insurance premiums and interest paid in advance for subsequent periods. This item is EUR 22m higher due to changes in the group of consolidated companies.

31) Current securities

Current securities are almost exclusively fixed income securities, participation certificates and investments in money market funds. They are held at fair value, derived from publicly available market prices in active markets.

EUR 2m of the current securities serve as collateral for liabilities.

32) Cash and cash equivalents

The bank balances denominated in euros with various banks mostly earned interest at a rate of 3.8 to 4.6 per cent (previous year: 3.2 to 3.7 per cent). USD balances were invested at an average interest rate of 4.5 per cent (previous year: 5.3 per cent) and balances in Swiss francs at an average rate of 2.4 per cent.

EUR 1m of the bank balances (previous year: EUR 2m) were pledged as collateral for liabilities.

Bank balances in foreign currencies are translated at the exchange rate on the balance sheet date.

Companies consolidated for the first time account for EUR 885m of the cash and cash equivalents.

33) Assets held for sale

At year-end 2007, an aircraft from the Passenger Transportation segment for which a sales contract has been prepared is shown as held for sale. The other assets presented under this item are the assets of the fully consolidated company LSG Sky Chefs España S. A., the shares of which were sold on 19 November 2007, subject to the approval of the relevant competition authorities.

The carrying amount for the Thomas Cook group shown here in the previous year and five aircraft from the Passenger Transportation segment were all sold in 2007 (see Note 46).

Notes to the consolidated balance sheet

Shareholders' equity and liabilities

34) Issued capital

Deutsche Lufthansa AG's issued capital amounts to EUR 1,172m and is divided into 457,937,572 registered shares, which corresponds to an amount of EUR 2.56 per share.

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

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

A resolution passed by 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 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.

At the same Annual General Meeting the authorisation of 19 June 2002 to issue convertible bonds or bond/warrant packages was cancelled. Under this authorisation Lufthansa AG had issued EUR 750m in convertible bonds with effect from 4 January 2002. The subscription rights of existing shareholders were excluded. 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 Lufthansa AG shares at a price of EUR 19.86 each. After early redemption of EUR 699m in convertible loan stock on 4 January 2006, and conversion of 349 conversion rights into 17,572 Lufthansa AG shares, 50,344 conversion rights are still outstanding as of 31 December 2007 that entitle the holders to convert them into up to 2,534,944 Lufthansa AG shares at a price of EUR 19.86.

As a result of the conversion of 40 conversion rights into 2,104 shares in 2007, issued capital was increased by EUR 5,155.84 as part of the contingent capital increase. There is now contingent capital available for a contingent increase in issued capital of up to EUR 117,182,536.68 by issuing 45,774,428 new registered shares.

In 2007, Lufthansa AG bought back a total of 790,555 of its own shares at an average price of EUR 19.68. This is equivalent to 0.17 per cent of issued capital.

These shares were used as follows:

- 780,083 shares were offered to the staff of Lufthansa AG and 42 other associated companies and equity investments at a price of EUR 19.86 as part of the profit-sharing scheme for 2006.
- 1,117 shares were allocated under the previous year's programmes at an average price of EUR 17.41.
- 9,355 shares were resold at an average price of EUR 18.32.

On the balance sheet no further treasury shares were held.

Additional information on changes in equity The Lufthansa Group aims for a sustainable equity ratio of 30 per cent, in order to ensure long-term financial flexibility and stability as a basis for its growth targets. As of 31 December 2006 and 2007, equity and total assets were as follows:

in €m	**31.12.2007**	31.12.2006
Equity	6,900	4,903
of % of total assets	30.9	25.2
Liabilities	15,420	14,558
of % of total assets	69.1	74.8
Total capital	**22,320**	**19,461**

In 2007, the equity ratio went up by 5.7 percentage points on the previous year to over 30 per cent. Despite growth in total capital of 14.7 per cent, mostly the result of the first-time consolidation of the SWISS group, the equity ratio improved considerably due to substantial net profit and further outsourcing of pension obligations.

Lufthansa's Articles of Association do not require any particular amounts of capital. Obligations to issue shares still exist in connection with the convertible bond to the extent that the options have not yet been exercised. The conversion rights exercised and still outstanding in 2007 are listed in the comments on contingent capital.

35) Notifications on the shareholder structure

Notifications on the ownership structure in accordance with Section 25 Paragraph 1 German Share Trading Act (WpHG) dating from 14 July 2006 AXA Investment Managers Deutschland GmbH, Bleichstrasse 2–4, 60313 Frankfurt, Germany notified us on behalf of and with the express authority of AXA S.A., Paris, 25 avenue Matignon, 75008 Paris, France, on 7 July 2006 that:

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

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

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

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

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

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

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

Note AXA S.A. (parent company) is required under Sections 21 et seq. WpHG to make the above notifications as its share of voting rights in Lufthansa exceeded the threshold of 10 per cent and now, cumulatively, i.e. including the attributable shares of its subsidiaries, amounts to 10.56 per cent.

A similar notification in accordance with Section 25 Paragraph 1 WpHG was made by the same companies when they reached the threshold of 5 per cent, and was published on 16 June 2006.

Notification on the shareholder structure pursuant to Section 26 Paragraph 1 WpHG dating from 22 August 2007 On 22 August 2007, Barclays Bank PLC London, England, sent us the following notifications on voting rights on behalf of their subsidiaries with regard to their investment in Deutsche Lufthansa AG in accordance with Sections 21 and 22 WpHG:

Notification on behalf of Barclays Global Investors Finance Limited, London, England, in accordance with Section 21 Paragraph 1 together with Section 22 Paragraph 1 Sentence 1 No. 6 and Section 22 Paragraph 2 Sentence 2 WpHG:

Barclays Global Investors Finance Limited exceeded the threshold of 3 per cent under Section 21 Paragraph 1 WpHG on 7 August 2007, and now holds 3.08 per cent of voting rights (i.e. 14,092,470 voting shares) in Deutsche Lufthansa AG. This 3.08 per cent of the voting rights in Deutsche Lufthansa AG is attributed to Barclays Global Investors Finance Limited in accordance with Section 22 Paragraph 1 Sentence 1 No. 6 WpHG together with Section 22 Paragraph 1 Sentence 2 WpHG.

Notification on behalf of Barclays California Corporation, San Francisco, USA, in accordance with Section 21 Paragraph 1 together with Section 22 Paragraph 1 Sentence 1 No. 6 and Section 22 Paragraph 1 Sentence 2 WpHG:

Barclays California Corporation, San Francisco, USA, exceeded the threshold of 3 per cent under Section 21 Paragraph 1 WpHG on 7 August 2007, and now holds 3.08 per cent of voting rights (i.e. 14,092,470 voting shares) in Deutsche Lufthansa AG. This 3.08 per cent of the voting rights in Deutsche Lufthansa AG is attributed to Barclays California Corporation in accordance with Section 22 Paragraph 1 Sentence 1 No. 6 WpHG together with Section 22 Paragraph 1 Sentence 2 WpHG.

Notification on behalf of Barclays Global Investors, NA, San Francisco, USA, in accordance with Section 21 Paragraph 1 together with Section 22 Paragraph 1 Sentence 1 No. 6 and Section 22 Paragraph 1 Sentence 2 WpHG:

Barclays Global Investors, NA, exceeded the threshold of 3 per cent under Section 21 Paragraph 1 WpHG on 7 August 2007, and now holds 3.08 per cent of voting rights (i.e. 14,092,470 voting shares) in

Deutsche Lufthansa AG. 2.74 per cent of these voting rights (i.e. 12,549,868 voting shares) are attributed to Barclays Global Investors, NA, in accordance with Section 22 Paragraph 1 Sentence 1 No. 6 WpHG and 0.34 per cent of the voting rights (i.e. 1,542,602 voting shares) in Deutsche Lufthansa AG in accordance with Section 22 Paragraph 1 Sentence 1 No. 6 WpHG together with Section 22 Paragraph 1 Sentence 2 WpHG.

Notification on behalf of Barclays Global Investors Finance Limited, London, England, in accordance with Section 21 Paragraph 1 together with Section 22 Paragraph 1 Sentence 1 No. 6 and Section 22 Paragraph 1 Sentence 2 WpHG:

Barclays Global Investors Finance Limited exceeded the threshold of 5 per cent under Section 21 Paragraph 1 WpHG on 17 August 2007, and now holds 5.07 per cent of voting rights (i.e. 23,195,634 voting shares) in Deutsche Lufthansa AG. These 5.07 per cent of the voting rights in Deutsche Lufthansa AG are attributed to Barclays Global Investors Finance Limited in accordance with Section 22 Paragraph 1 Sentence 1 No. 6 WpHG together with Section 22 Paragraph 1 Sentence 2 WpHG.

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

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

Of these voting rights, 3.09 per cent (14.131.000 voting shares) are attributed to him in accordance with Section 22 Paragraph 1 Sentence 1 No. 1 WpHG. These attributed voting rights are held by ATON GmbH, which he controls and which holds 3 per cent or more of the voting rights in Deutsche Lufthansa AG.

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

36) Reserves

Capital reserves only include the share premium paid on capital increases and a convertible bond. The share premium on the conversion of 40 conversion rights from the 2002 convertible bond into 2,014 shares amounted to EUR 34,842.20 and was allocated to capital reserves in 2007.

The statutory reserve included in retained earnings remains unchanged at EUR 26m; other reserves consist of retained earnings.

Changes in reserves can be seen in the statement of shareholders' equity.

37) Provisions for pensions

A company pension scheme exists for staff working in Germany and staff seconded abroad. For staff who joined the Group before 1995, the supplementary pension scheme for state employees (VBL) was initially retained as the Company's pension scheme. Following collective agreements in 2003 to harmonise retirement benefits for ground and flight staff, the pension scheme for ground and flight staff was also converted to an average salary plan for cockpit staff under the terms of the 4 December 2004 wage settlement. The retirement benefit commitment is now equal to that for staff who joined the Company after 1994. In each case, one salary component is converted into one pension component, retirement benefit being defined as the sum of the accumulated pension components. Under IAS 19 these pension obligations must be regarded as performance-related and, therefore, taken into account by the volume of obligations and as expenses.

Flight staff are additionally entitled to a transitional pension arrangement covering the period between the end of their active in-flight service and the beginning of their statutory/Company pension plans. Benefits depend on the final salary before retirement (final salary plans).

Defined contribution retirement benefit schemes also exist within the Group, funded entirely by contributions paid to an external pension provider. Lufthansa runs no financial or actuarial risks from these obligations. In 2007, contributions toward defined contribution pension plans amounted to EUR 319m (previous year: EUR 284m).

Company pension schemes and transitional pension arrangements for Germany are financed mainly by pension provisions. Obligations are measured annually using the projected unit credit method. In the 2004 financial year work began on building up plan assets to fund future pension payments and transfer them to the Lufthansa Pension Trust. The aim is to outsource the pension obligations in full within 10 to 15 years. In 2007, a further EUR 1,565m was transferred, taking the total transferred to the pension trust to EUR 3,200m.

Staff abroad are also entitled to retirement benefits and in some cases to medical care based mainly on length of service and salary earned. As a rule, benefits are financed by means of external funds.

In the course of acquiring Swiss International Air Lines on 1 July 2007, pension obligations, mainly statutory obligations, were also taken on. The retirement benefits are funded via pension funds known as collective foundations. The SWISS schemes have surplus plan assets which cannot be used to reduce current contributions or be reimbursed, and are therefore subject to an asset ceiling under the provisions of IAS 19.

In measuring pension provisions and determining pension costs the 10 per cent corridor rule is applied. Actuarial profits or losses are disregarded if they do not exceed 10 per cent of the pension commitment or 10 per cent of the fair value of existing plan assets. The amount that exceeds the corridor is divided over the expected average remaining years of service of active staff through profit or loss and recognised in the balance sheet. Pension obligations are calculated on the basis of the following assumptions:

Actuarial assumptions

in %	**31.12.2007**	31.12.2006	31.12.2005
Interest rate in Germany	5.5	4.5	4.25
Projected salary increase in Germany	2.75	2.75	2.50
Projected pension increase in Germany	1.0 – 2.75	1.0 – 2.75	1.0 – 2.50
Interest rate abroad	3.4 – 6.0	4.5 – 6.0	4.25 – 6.0
Projected salary increase abroad	1.2 – 4.5	2.9 – 4.25	3.0 – 4.25
Projected pension increase abroad	0.5 – 3.2	1.25 – 3.0	2.0 – 2.75
Health care cost trend for pensioners abroad	11.0	12.0	11.0
Expected return on external plan assets in Germany	5.75	5.75	5.75
Expected return on external plan assets abroad	3.75 – 8.0	5.2 – 8.25	5.8 – 8.25

Since 31 December 2005, biometric calculations have been based on the 2005 G Heubeck life-expectancy tables, with fluctuation estimated on the basis of age and gender.

The projected return on plan assets is generally based on the plan's investment policy relating to the selection of asset classes. The projected return on equity investments takes into account historic interest rates, future inflation rates, expected dividends and economic growth. The projected return on fixed-interest instruments is based on current interest rates for long-term securities, subject to a risk discount if appropriate. The projected return on property assets corresponds to that of equity investments. For other assets, mainly bank balances, the interest paid on current deposits on the balance sheet date was applied.

An increase or decrease in the assumed health care costs for pensioners by 1 per cent would have the following effects:

in € thousand	Increase	Reduction
Service costs and interest expenses	+ 54	– 51
Health care commitments	+ 932	– 887

On the balance sheet date the present value of pension obligations and the fair values of plan assets were as follows:

in €m	31.12.2007	31.12.2006	31.12.2005
Present value of funded pension obligations in Germany	4,068	4,455	3,117
Plan assets in Germany	3,580	1,839	1,204
Deficit (+)/surplus (–)	**488**	**2,616**	**1,913**

in €m	31.12.2007	31.12.2006	31.12.2005
Present value of funded pension obligations abroad	1,603	532	478
Plan assets abroad	1,648	469	398
Deficit (+)/surplus (–)	**– 45**	**63**	**80**
Present value of unfunded pension obligations	**1,948**	**2,042**	**3,198**

On the balance sheet date for 2007 the portfolio of external plan assets is made up as follows:

	Plan assets in Germany		Plan assets abroad	
	in €m	in %	in €m	in %
Shares	681	19.0	575	34.9
Fixed-income instruments, bonds	1,867	52.2	732	44.4
Property	–	–	166	10.1
Other	1,032	28.2	175	10.6
	3,580	**100.0**	**1,648**	**100.0**

The effective return on external plan assets was EUR 107m in 2007 (previous year: EUR 113m).

Change in present value of pension obligations

in €m	2007	2006
Carried forward 1.1	7,029	6,793
Exchange rate differences carried forward	– 53	– 33
Changes in the group of consolidated companies	1,084	– 2
Current service costs	317	302
Past service costs	0*	24
Interest expenses	338	289
Contributions by plan participants	10	3
Actuarial gains/losses	– 917	– 217
Pension payments	– 209	– 180
Plan cuts/settlements	–	– 11
Other**	20	61
Balance on 31.12	**7,619**	**7,029**

Change in fair value of plan assets

in €m	2007	2006
Carried forward 1.1	2,308	1,602
Exchange rate differences carried forward	– 45	– 25
Changes in the group of consolidated companies	1,160	–
Projected return on plan assets	184	113
Actuarial gains/losses	– 77	0*
Contributions by plan participants	10	3
Employer contributions	1,640	583
Pension payments	– 39	– 23
Other**	87	55
Balance on 31.12	**5,228**	**2,308**

* Rounded below EUR 1m.
** The amounts of plan assets in 2007 are almost exclusively assets which qualified as plan assets in 2007. The amounts for 2006 are almost exclusively made up of the present value of pension obligations and plan assets for defined benefit plans abroad, which were measured separately in accordance with IAS 19 for the first time as of 1.1.2006.

The carrying amount of pension provisions is lower than the present value of pension obligations due to unrecognised actuarial losses.

Funding status		
in €m	**2007**	2006
Present value of unfunded pension obligations	1,948	2,042
Present value of funded pension obligations abroad	1,603	532
Present value of funded pension obligations in Germany	4,068	4,455
External plan assets abroad	– 1,648	– 469
External plan assets in Germany	– 3,580	– 1,839
Unrecognised actuarial losses	– 40	– 907
Adjustment for asset ceiling	110	–
	2,461	**3,814**

The year-on-year changes in funding status mainly result from changes in assumptions, especially the rise in interest rates.

In financial years 2007 and 2006 pension provisions developed as follows:

Pension provisions		
in €m	**2007**	2006
Carried forward	3,814	4,022
Exchange rate differences carried forward	– 3	– 1
Changes in the group of consolidated companies	26	– 2
Pensions payments	– 170	– 157
Additions	501	529
Allocation to plan assets/staff changes	– 1,707	– 577
Year-end total	**2,461**	**3,814**

The expenses recognised in the income statement for allocations to the pension provisions are made up as follows:

in €m	**2007**	2006
Current service costs	317	302
Recognised actuarial losses	23	38
Recognised actuarial gains	–	–
Past service costs	0*	24
Plan cuts/settlements	–	– 11
Interest effect of projected pension obligations	338	289
Projected return on external plan assets	– 184	– 113
Effect of adjustment for asset ceiling	7	–
	501	**529**

* Rounded below EUR 1m.

Current service costs and actuarial losses/gains are recognised as staff costs, while the interest effect of projected pension obligations, less projected external plan asset earnings, is recognised as interest expenses.

Adjustments to pension obligations and plan assets based on past experience were as follows:

Adjustments from past experience			
in €m	**2007**	2006	2005
Pension obligations	+ 30	+ 7	– 140
Plan assets	– 77	– 0*	95
Total	**– 47**	**7**	**– 45**

* Rounded below EUR 1m.

A minus sign before pension obligations in the table means a reduction in the commitment and, therefore, a gain. A minus sign before plan assets means a loss, however.

In 2008 an estimated EUR 810m will be transferred to plans. The transfers are made up of planned allocations and benefit payments which are not covered by equivalent reimbursements from plan assets.

38) Other provisions

Other provisions disclosed in the balance sheet as non-current and current provisions are made up as follows:

Other provisions

	31.12.2007			31.12.2006		
in €m	**Total**	Non-current	Current	Total	Non-current	Current
Obligations under partial retirement contracts	143	52	91	172	97	75
Other staff costs	123	55	68	150	63	87
Expected losses from incomplete contracts	73	29	44	84	35	49
Environmental restoration	27	23	4	28	25	3
Litigation costs	65	34	31	33	7	26
Restructuring/severance payments	21	3	18	40	3	37
Fixed-price customer maintenance contracts	156	33	123	149	37	112
Overhaul of aircraft on operating leases	131	77	54	59	15	44
Bonus miles programme	947	–	947	714	–	714
Warranties	34	–	34	19	–	19
Other provisions	315	43	272	324	47	277
Total	**2,035**	**349**	**1,686**	**1,772**	**329**	**1,443**

Companies consolidated for the first time in 2007 account for non-current provisions of EUR 73m and current provisions of EUR 137m.

Provisions for staff costs mainly relate to staff anniversary bonuses, variable payment portions and other current obligations.

Expected losses from incomplete contracts result from ongoing obligations or other contractual relationships in which performance and consideration are out of balance. Provisions for environmental restoration are based on surveyors' findings and the assumption that all contamination is removed within ten years without any further legal requirements. Provision for litigation costs is based on an assessment of the likely outcome of the legal proceedings.

Changes in groups of individual provisions were as follows:

Other provisions

in €m	Obligations under partial retirement contracts	Other staff costs	Expected losses from incomplete contracts	Environmental restoration	Litigation costs	Restructuring/severance payments
As of 1.1.2007	172	150	84	28	33	40
Consolidation changes	–	1	6	–	30	9
Exchange rate differences	–	– 2	– 2	0*	0*	0*
Utilisation	– 71	– 44	– 45	– 2	– 5	– 20
Addition/new provisions	69	33	31	1	23	2
Interest added	8	2	1	1	0*	0*
Reversal	0*	– 3	– 1	– 1	– 16	– 10
Reclassification	– 35	– 14	– 1	–	0*	0*
As of 31.12.2007	**143**	**123**	**73**	**27**	**65**	**21**

in €m	Fixed-price customer maintenance contracts	Overhaul of aircraft on operating leases	Bonus miles programme	Warranties	Other provisions	**Total**
As of 1.1.2007	149	59	714	19	324	1,772
Consolidation changes	–	75	87	–	8	216
Exchange rate differences	–	– 1	– 1	0*	– 2	– 8
Utilisation	– 67	– 52	– 191	– 8	– 120	– 625
Addition/new provisions	73	50	338	23	114	757
Interest added	3	2	–	–	0*	17
Reversal	– 2	– 3	–	0*	– 14	– 50
Reclassification	–	1	–	0*	5	– 44
As of 31.12.2007	**156**	**131**	**947**	**34**	**315**	**2,035**

* Rounded below EUR 1m.

The funding status for provisions for obligations to staff under partial retirement agreements is as follows.

Funding status

in €m	**2007**	2006
Present value of funded obligations under partial retirement contracts	282	271
External plan assets	– 139	– 99
	143	**172**

In 2005, EUR 97m was transferred to an external trust fund as insolvency insurance for employer's performance arrears, under partial retirement agreements under which the employee at first works full-time for less pay and then retires early on the same reduced pay. In 2007, a further EUR 39m was transferred. These assets, which fulfil the requirements for plan assets and, therefore, reduce the net amount of obligations accordingly, are measured at market value on the balance sheet date.

Obligations under partial retirement agreements were calculated on the basis of the following assumptions:

Assumptions			
in %	**2007**	2006	2005
Interest rate	5.5	4.5	4.25
Projected return on external plan assets	6	6	6

The following cash outflows are estimated for the non-current portion of the other groups of provisions:

in €m	2009	2010	2011	2012 and thereafter
Expected losses from incomplete contracts	9	7	5	12
Environmental restoration	3	3	3	19
Restructuring/ severance payments	1	1	0*	1
Fixed-price customer maintenance contracts	33	3	–	–
Overhaul of aircraft on operating leases	26	23	29	25
Other provisions	19	15	11	73

* Rounded below EUR 1m.

At the end of 2006 the cash outflows were estimated as follows:

in €m	2008	2009	2010	2011 and thereafter
Expected losses from incomplete contracts	13	7	6	17
Environmental restoration	3	3	3	19
Restructuring/ severance payments	7	5	2	1
Fixed-price customer maintenance contracts	34	6	0*	–
Overhaul of aircraft on operating leases	7	9	–	1
Other provisions	32	16	8	62

* Rounded below EUR 1m.

39) Financial liabilities according to category

Financial liabilities in the balance sheet as of 31.12.2007			
in €m	Liabilities at fair value through profit or loss	Derivative financial instruments which are an effective part of a hedging relationship	Other financial liabilities at cost
Borrowings	–	–	3,345
Derivative financial instruments	427	425	–
Trade payables	–	–	2,576
Other financial liabilities	–	–	1,383
Total	**427**	**425**	**7,304**

Financial liabilities in the balance sheet as of 31.12.2006			
in €m	Liabilities at fair value through profit or loss	Derivative financial instruments which are an effective part of a hedging relationship	Other financial liabilities at cost
Borrowings	–	–	2,956
Derivative financial instruments	287	233	–
Trade payables	–	–	2,295
Other financial liabilities	–	–	928
Total	**287**	**233**	**6,179**

40) Borrowings

Borrowings consist of a non-current portion with a residual term of more than one year and a current portion of less than one year which is shown under current liabilities. The following table shows the total amount of borrowings:

Borrowings 31.12.2007			
in €m	**Total**	Long-term	Short-term
Bonds	584	584	–
Liabilities to banks	593	505	88
Leasing liabilities and other loans	2,168	2,009	159
31.12.2007	**3,345**	**3,098**	**247**

Companies consolidated for the first time account for EUR 341m of total borrowings as of 31 December 2007.

Borrowings 31.12.2006			
in €m	**Total**	Long-term	Short-term
Bonds	591	591	–
Liabilities to banks	707	586	121
Leasing liabilities and other loans	1,658	1,553	105
31.12.2006	**2,956**	**2,730**	**226**

The following table shows the carrying amounts and market values for individual categories of borrowings. The market values given for the bonds are their quoted prices. The market values for other types of borrowing have been calculated using the applicable interest rates for the remaining duration and repayment structures at the balance sheet date based on available market information (Reuters).

Borrowings	**31.12.2007**		31.12.2006	
in €m	Carrying amount	Market value	Carrying amount	Market value
Bonds	584	580	591	592
Liabilities to banks	593	602	707	720
Leasing liabilities and other loans	2,168	2,150	1,658	1,623
	3,345	**3,332**	**2,956**	**2,935**

Collateral was provided for EUR 152m of the bank debt (previous year: EUR 187m).

There were no delays or defaults on payment obligations under these loan agreements in either 2007 or 2006.

41) Other non-current financial liabilities

Other non-current financial liabilities		
in €m	**31.12.2007**	31.12.2006
Liabilities to banks	–	–
Liabilities to affiliated companies	–	3
Liabilities to other equity investments	–	–
Other financial liabilities	55	49
	55	**52**

The carrying amount for financial liabilities is equivalent to their fair value, as they pay interest at a floating or market standard rate.

42) Non-current advance payments, accruals and deferrals and other non-financial liabilities

Non-current advance payments, accruals and deferrals and other non-financial liabilities		
in €m	**31.12.2007**	31.12.2006
Advance payments received	2	–
Accruals and deferrals	58	63
Other non-financial liabilities	6	7
	66	**70**

Accruals and deferrals mainly relate to deferred accounting profits from finance lease transactions, which are realised in profit or loss over the duration of the leases in accordance with SIC 27.

Other non-financial liabilities include obligations to return material valued at EUR 3m (previous year: EUR 1m) and the EUR 3m (previous year: EUR 3m) non-current portion of obligations recognised at fair value under share-based remuneration agreements that form part of the variable remuneration of Executive Board members, managers and staff outside the pay scales. A further EUR 11m (previous year: EUR 2m) is included in current other non-financial liabilities.

As part of the share-based remuneration agreements, Lufthansa and other Group companies offer a 30 per cent discount on staff investment in Lufthansa shares (for the 2004, 2005 and 2006 programmes, Executive Board Programme 2006: 50 per cent) and an outperformance option over a term of three (for staff outside pay scales) to four years (for managers and Executive Board members). Depending on the performance of the Lufthansa share compared to a fictitious index consisting of European competitors' shares, beneficiaries receive a cash payment for every percentage point of outperformance when the option is exercised. If outperformance exceeds 30 per cent the cash payment is capped.

€ per percentage point	1%–10%	11%–20%	21%–30%	> 30% (cap)
Managers	250	350	450	max. 10,500
Executive Board*	500	700	900	max. 21,000

* Until 2006, members of the Executive Board took part in the option programmes for managers.

Staff outside the pay scales receive EUR 250 per option for an outperformance of 1 to 10 per cent, EUR 500 for 11 to 20 per cent, EUR 750 for 21 to 30 per cent and a maximum of EUR 1,000 per option above 30 per cent.

The 2007 outperformance programme offers a discount of 50 per cent on staff investment in Lufthansa shares and is open to Executive Board members, managers and staff outside pay scales.

The previous outperformance option, which is linked to the performance of the Lufthansa share compared to a fictive index composed of competitors' shares, has been supplemented by a performance option linked to the absolute performance of the Lufthansa share. If the share price goes up by more than 33 per cent, a cash payment is due. This is capped for share price increases of more than 49 per cent (48 per cent for staff outside pay scales).

The cash payment from the outperformance option is capped beyond an outperformance of more than 20 per cent.

2007 outperformance programme option

	€ per percentage point from 1%	Maximum per tranche in €
Executive Board	1,000	20,000
Managers	400	8,000
Staff outside pay scale	200	1,000

2007 outperformance programme option

	€ per percentage point from performance of 33%	Maximum per tranche in €
Executive Board	10,000 + 1,250 per per centage point	20,000
Managers	4,000 + 500 per per centage point	8,000
Staff outside pay scale	500 + 100 per per centage point	1,000

The 2007 programme runs for three years.

All options can be exercised at a fixed time in the final year. The (out)performance is calculated on the principle of total shareholder return. The shares may not be sold until the option is exercised.

The outperformance option from 2004 could be exercised for the first time after three years in 2007, and the outperformance option from 2003 for the last time. No cash payments were made on the 2003 outperformance option and total payments of EUR 0.7m were made on the 2004 outperformance option.

Over the financial years 2007/2006 the number of options changed as follows:

	2007		2006	
	Number of options	Cash payment in € thousands	Number of options	Cash payment in € thousands
Outstanding options on 1.1	7,369	–	7,582	–
Options issued	3,172	–	2,145	–
Options expired	1,182	–	1,963	–
Options exercised	1,060	718	395	–
Outstanding options on 31.12	8,299	718	7,369	–

On 1 January 2007, members of the Executive Board, managers, captains and staff outside the pay scales held 1,558,270 shares under the various programmes, and on 31 December 2007, they held 1,261,566 shares.

The fair values of the nine options programmes still running were calculated using Monte Carlo simulations. This involves simulating the future returns of the shares in the index and of Lufthansa AG and calculating the value of the option rights as the forecast amount of a dividend.

Overall the following fair values were measured:

in € per option	Own investment	Fair value
Executive Board*		
2006 outperformance option	1,000	7,855
Options 2007	2,000	11,243
Managers		
2004 outperformance option	2,500	5,087
2005 outperformance option	2,500	6,573
2006 outperformance option	2,500	3,928
Options 2007	2,000	4,497
Staff outside pay scales		
2005 outperformance option	1,000	734
2006 outperformance option	1,000	394
Options 2007	1,000	567

* Until 2006, Executive Board members took part in the option programmes for managers.

The weighted average share prices at the calculation date were used in the Monte Carlo simulation. As stated in the terms of the programme, these are 100-day averages (2007 programme: 50-day averages) for the shares of Lufthansa AG and the competitors included in the comparative index. The volatilities and correlations used are forecasts for a specific date and maturity on the basis of current market estimates.

Swap rates for the remaining term of the outperformance option were used as interest rates in each case.

The parameters used by the external service provider are shown in the following table:

	2004 outperformance option	2005 outperformance option	2006 outperformance option	**Options 2007**
Reference price in €				
Lufthansa	10.47	10.91	15.34	19.54
Air France-KLM	13.06	13.81	21.17	25.52
British Airways	237.46	287.5	396.46	389.77
Iberia	2.26	2.5	2.05	3.41
Alitalia	0.23	0.24	0.85	–
Ryanair	4.42	6.71	7.75	5.26
easyJet	154.82	280.74	441.44	586.41
Air Berlin			11.23	11.73
Expected volatilities (depending on programme term)				
Lufthansa	25.20%–25.25%	25.25%–25.30%	25.30%–25.45%	24.74%
Air France-KLM	23.90%–23.95%	24.00%–24.20%	24.20%	33.68%
British Airways	31.05%–31.20%	31.10%–31.20%	31.10%–31.20%	35.32%
Iberia	24.05%–24.16%	24.15%–24.35%	24.40%–24.75%	34.96%
Alitalia	44.05%–44.84%	44.55%–44.85%	45.00%–45.60%	32.00%
Ryanair	27.85%–27.90%	27.05%–27.10%	27.10%–27.50%	35.63%
easyJet	39.25%–39.75%	38.50%–39.05%	39.10%–39.40%	34.34%
Air Berlin			39.50%–39.75%	41.82%
Risk-free interest rate	3.84%–3.95% for euro zone, 4.46%–4.94% for Britain			
Fluctuation	2%			

The total expenses for options programmes included in staff costs were EUR 8m (previous year: EUR 5m).

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43) Trade payables and other current financial liabilities

Trade payables and other current financial liabilities		
in €m	**31.12.2007**	31.12.2006
Trade payables		
Trade payables to affiliated companies	130	45
Trade payables to other equity investments	26	37
Trade payables to third parties	2,420	2,213
	2,576	**2,295**
Other liabilities		
Liabilities to banks	24	15
Other liabilities to affiliated companies	435	153
Other liabilities to equity investments	–	–
Other financial liabilities	924	760
	1,383	**928**
Total	**3,959**	**3,223**

Companies consolidated for the first time account for EUR 291m of current financial liabilities.

44) Current advance payments received, accruals and deferrals and other non-financial liabilities

Current advance payment received, accruals and deferrals and non-financial liabilities		
in €m	**31.12.2007**	31.12.2006
Advance payments received	23	35
Net debit balance of advance payments received and receivables from uncompleted contracts	61	45
Accruals and deferrals	25	24
Other non-financial liabilities	180	145
	289	**249**

Accruals and deferrals include EUR 9m (previous year: EUR 5m) for grants and subsidies received for capital expenditure, which are realised over the useful life of the capital goods. Companies consolidated for the first time account for EUR 5m of these.

Other liabilities include deferrals of EUR 168m (previous year: EUR 136m) for outstanding holiday allowance and overtime, EUR 1m (previous year: EUR 7m) for obligations to return material and EUR 11m (previous year: EUR 2m) for the current portion of fair value obligations under share-based remuneration agreements (see Note 42).

45) Provisions and liabilities relating to disposal groups

This item consists of provisions and liabilities of the fully consolidated company LSG Sky Chefs España S.A., whose shares are to be sold following approval by the relevant competition authorities.

Other disclosures

46) Contingencies and events after the balance sheet date

Contingent liabilities		
in €m	**31.12.2007**	31.12.2006
From guarantees, bills of exchange and cheque guarantees	758	724
From warranty agreements	820	923
From providing collateral for third-party liabilities	3	3

Guarantees include EUR 676m (previous year: EUR 686m) and warranty agreements include EUR 303m (previous year: EUR 349m) in contingent liabilities toward creditors of joint ventures. A total of EUR 972m (previous year: EUR 1,027m) relate to joint and several guarantees and warranties. This amount is offset by compensatory claims against the co-debtors for EUR 880m (previous year: EUR 923m). Guarantees for EUR 31m were given to creditors of associated companies, as in the previous year. Insofar as annual financial statements have yet to be published, these figures are preliminary.

Several provisions could not be made because an outflow of resources was not sufficiently probable. The potential financial effect of these provisions on the result would have been EUR 187m (previous year: EUR 233m).

An earn-out clause from the disposal of an equity investment may lead to payments of up to EUR 9m, of which EUR 3m are expected to be realised in 2008, and the remainder thereafter. In the reporting period EUR 3m were realised.

A total of EUR 21m accrued to the Group in 2007 from five contracts for the sale of Canadair Regional Jets which were already signed at the end of 2006, giving rise to a book gain of EUR 4m. The contract for the sale of one remaining Canadair Regional Jet, also signed at the end of 2006, will give rise to a sales result of EUR 4m next year.

In addition, a sales contract already signed for a consolidated equity investment in the Catering segment, LSG Sky Chefs España S.A. will also result in disposal income of EUR 14m and book gains of EUR 7m next year.

In the past, the Company incurred significant economic loss from acts of negligence by the former management of LSG Holding AG in connection with the conclusion of a long-term catering agreement with SAS. Arbitration found that the D&O policy covers EUR 153m of the first layer of the damage. Final clarification of the claim and the amount of damages with insurers who underwrote EUR 130m of this layer is due to be provided by an arbitration tribunal. The remaining EUR 23m of cover and a further EUR 102m in the second layer are the subject of litigation. Claims were lodged with the Frankfurt and Cologne district courts in the fourth quarter of 2005.

On 22 January 2008, Deutsche Lufthansa AG acquired 19 per cent of the shares in JetBlue Airways Corporation. The sales agreement was signed in December but required the approval of the US competition authority. Lufthansa acquired the shares in a block transaction for total consideration of USD 310m as part of the capital increase voted by JetBlue's Board of Directors.

On 28 January 2008, the collective bargaining partners Lufthansa and the pilots union Cockpit agreed on a wage settlement for the roughly 4,400 pilots at Deutsche Lufthansa AG and Lufthansa Cargo AG. Under the settlement pay will go up by 2.5 per cent for cockpit staff from when the prior agreement expired on 1 October 2007, and by a further 3 per cent from 1 January 2008. The wage settlement runs for 18 months and ends on 31 March 2009. It was also agreed that the existing system of performance-related pay should be adjusted to the growth and improved earnings situation of the Group. The pilots are also to receive a one-off payment of 25 per cent of monthly salary. This is intended to compensate cockpit staff for the longer working hours which were necessary as a result of the Group's expansion.

On 28 January 2008 Lufthansa, TUI Travel PLC and Albrecht Knauf Industriebeteiligung GmbH signed a memorandum of understanding for the merging of their subsidiaries Hapag-Lloyd Fluggesellschaft mbH, Hapag-Lloyd Express GmbH, Germanwings GmbH and Eurowings Luftverkehrs AG in a common independent holding. Legally binding agreements are subject to due diligence and detailed negotiations. The merger is subject to approval by the boards of the companies involved and the authorisation of the competition authorities.

The Executive Board approved the disposal plan for the fully consolidated Eurowings Group, which includes Germanwings and belongs to the Passenger Transportation segment, in January 2008.

SWISS and Kuoni Reise Holding AG agreed a comprehensive strategic partnership on 8 February 2008. As part of this partnership SWISS is to acquire the holiday airline Edelweiss Air. In the future, Edelweiss Air will continue to operate three Airbus A320 short-haul aircraft and one Airbus A330 for long-haul routes independently under its own brand. The merger is subject to the approval of the relevant authorities.

47) Other financial commitments

As of 31 December 2007 there were purchase commitments for EUR 7.5bn (previous year: EUR 6.6bn) for capital expenditure on property, plant and equipment and for intangible assets. There were also capital and shareholder loan commitments of EUR 70m towards equity investments (previous year: EUR 49m). As in the previous year, commitments of EUR 0.2bn exist to buy shares from sales contracts and put options sold. The negative market value of a put option sold in connection with the acquisition of an equity stake has been recognised at EUR 205m (previous year: EUR 212m) in current derivative financial instruments).

48) Hedging policy and financial derivatives

As an aviation group with worldwide operations, Lufthansa is exposed to exchange rate, interest rate and fuel price movement risks, as well as to credit and liquidity risks. It is Company policy to limit these risks by systematic financial management.

Price risk The major price risks to which the Lufthansa Group is exposed are exchange rate fluctuations between the euro and other currencies, interest rate fluctuations in international money and capital markets and price fluctuations in the oil and petroleum products markets. Hedging policy for limiting these risks is laid down by the Executive Board and documented by internal Group guidelines. It also provides for the use of financial derivatives. The corresponding financial transactions are concluded only with first-rate counterparties.

For US dollars, Lufthansa is in a net payer position as regards currency risks from its operating business, especially as fuel payments are dollar-denominated. For all other currencies there is always a net surplus. Sterling, the Swiss franc, the yen and the Swedish krona are considered as the main risks. Currency risks from projected operational exposure are hedged gradually over a period of 24 months by means of futures contracts. The average hedging level is 50 per cent.

At the end of 2007, exposure from operations for the next 24 months was as follows:

in million	USD	YEN	GBP
Exposure (currency)	– 6,144	121,125	590
Exposure (EUR at spot rate)	– 4,174	734	805
Hedges (currency)	1,596	– 54,748	– 294
Hedging level	26%	45%	50%

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 above that used to calculate the investment. Over the last 24 months before payment, the hedging level is increased every six months using both futures contracts and spread options, until a final hedging level of 90 per cent is reached. From the position at year-end 2007 exposure for capital expenditure was as follows:

in million	2008	2009	2010	2011	2012	2013
Exposure from net capital expenditure (USD)	– 1,502	– 2,124	– 2,247	– 2,036	– 1,301	– 322
Exposure from net capital expenditure (EUR at spot rate)	– 1,020	– 1,443	– 1,527	– 1,383	– 884	– 219
Hedges (USD)	1,328	1,624	1,510	1,468	1,043	290
Hedging level	88%	76%	67%	72%	80%	90%

Lufthansa aims to finance 85 per cent of its financial liabilities at floating rates of interest. This proportion recognises both the need to minimise long-term interest expense and to reduce earnings volatility. Interest rate risks on financial liabilities are, therefore, only hedged to 15 per cent.

At the end of 2007 the ratio of floating to fixed interest rates for long-term borrowing was as follows:

Exposure										
in €m	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Fixed LH	513	412	365	330	253	177	165	157	143	92
Floating LH	2,745	2,255	1,965	1,543	1,383	796	571	303	166	88
Floating/fixed ratio	84%	85%	84%	82%	85%	82%	78%	66%	54%	49%

In contrast, foreign currency risks from financial liabilities are always hedged to 100 per cent by means of interest rate/currency swaps. These hedging transactions are treated as trading in accordance with IAS 39.

In 2007, fuel costs accounted for 17.1 per cent of the Lufthansa Group's operating expenses (previous year: 16.5 per cent). Significant changes in fuel prices can therefore have a considerable effect on the Group's result.

To limit the fuel price risk, price hedging transactions are concluded, mainly for crude oil. In general, 5 per cent of the exposure is hedged monthly by means of crude oil spread options for months 24 to seven, reaching a maximum hedging level of 90 per cent in month seven. This is supplemented by hedging for the price difference between crude oil and kerosene, known as crack, for months six to one. Due to the high fuel prices in recent months these crack hedges are currently only being concluded during price troughs.

Deviations from the rule-based hedging policy described above are permitted within the scope of a pre-defined system of limits.

From a year-end perspective fuel exposure was as follows:

		2008	2009
Fuel requirement	in 1,000 tonnes	8,256	8,605
Hedges	in 1,000 tonnes	6,699	1,970
Hedging level	%	81.1	22.9

At the balance sheet date, exchange rate, interest and fuel price risks are hedged by means of the following hedging transactions:

	Fair value hedge		**Cash flow hedge**	
in €m	**Market value 31.12.2007**	Market value 31.12.2006	**Market value 31.12.2007**	Market value 31.12.2006
Interest rate swaps	– 10	0*	– 0*	0*
Spread options for fuel price hedging	–	–	337	23
Hedging combinations for fuel price hedging	–	–	216	48
Futures contracts for currency hedging	– 2	– 3	– 235	– 68
Spread options for currency hedging	–	–	– 178	– 154
Total	**– 12**	**– 3**	**140**	**– 151**

* Rounded below EUR 1m.

The market values stated for financial derivatives correspond to the price at which an independent third party would assume the rights and/or obligations from the financial instrument.

The fair values of interest rate derivatives correspond to their respective market values, which are measured using appropriate mathematical methods, such as discounting future cash flows. Discounting takes market standard interest rates and the residual term of the respective instruments into account.

Currency futures and swaps are individually discounted to the balance sheet date based on their respective future rates and the appropriate interest rate curve. The market prices of currency options and the options used to hedge fuel prices are determined using acknowledged option pricing models.

From the current perspective, the fuel price and currency cash flow hedges will have the following effects on the result for the period and/or on the acquisition costs of hedged capital expenditure:

Financial year in €m	Result for the period	First-time measurement of acquisition costs	**Total**
2008	461	– 150	311
2009	114	– 131	– 17
2010	–	– 75	– 75
2011	–	– 46	– 46
2012	–	– 27	– 27
2013	–	– 6	– 6
Total	**575**	**– 435**	**140**

* Minus signs mean increased acquisition costs.

In the 2007 financial year, EUR 89m was expensed from equity, reducing fuel costs, for settling fuel price hedging transactions, EUR 133m was expensed from equity to other operating income for currency hedges, EUR 139m to other operating expense and EUR 52m to aircraft, increasing their acquisition costs.

Interest rate swaps to hedge cash flows will also affect the result for the period as follows, taking effect successively over the time to maturity:

Maturity financial year in €m	**Market value 31.12.2007**
2007	0*
Total	**0***

* Rounded below EUR 1m.

In the 2007 financial year, EUR 1m was recognised in net interest from equity for maturing interest rate swaps.

Changes in the market values of derivatives which do not qualify as effective hedging transactions under IAS 39 can be seen in the income statement (Note 13).

The following sensitivity analyses as prescribed in IFRS 7 show how net profit and equity would change if the price risk variables had been different from the perspective of the balance sheet date.

Fuel price	Effect on net profit*	Effect on equity*
+ 10%	–	+ 161
– 10%	–	– 160
Currency – USD		
+ 10%	– 38	+ 450
– 10%	+ 31	– 371
Currency – YEN		
+ 10%	– 9	– 27
– 10%	+ 7	+ 22
Currency – GBP		
+ 10%	+ 1	– 32
– 10%	– 1	+ 26
Interest		
– 100 basis points	+ 10	+ 20
+ 100 basis points	– 10	– 19

* All amounts after deferred tax effects; +/– signs relate to net profit and/or equity.

The figures shown above for the interest risk component do not reflect sensitivity for promissory notes included in the value-at-risk analysis. The performance of these promissory notes is linked to special investment portfolios. Two of the notes contain embedded derivatives and are, therefore, recognised under derivatives at fair value through profit or loss (fair value at 31 December 2007: EUR 254m).

The other two are recognised as available-for-sale securities (fair value at 31 December 2007: EUR 276m). The historical value-at-risk analysis carried out shows that in 99 per cent of all cases losses did not exceed 1.7 to 4.0 per cent (EUR 13m) in the following ten days.

Liquidity risk Complex financial planning systems enable Lufthansa to identify its future liquidity position at an early stage. Based on the results of the Group strategy and planning processes, a monthly rolling liquidity plan with a planning horizon of 24 months is carried out. This planning method offers an up-to-date picture of anticipated liquidity developments as regards the Company and currencies.

Lufthansa holds a liquidity reserve of at least EUR 2bn that is available at short notice. As of 31 December 2007, the Lufthansa Group held unused lines of credit totalling EUR 2.3bn as it did in the previous year.

A maturity analysis for the borrowing stated in Note 40, including interest rate derivatives listed in Note 27 and based on undiscounted gross cash flows including the relevant interest payments, shows the following projected cash outflows from the perspective of the balance sheet date 31 December 2007.

in €m	
1st quarter	106
Up to 1 year*	283
1–5 years	2,043
Later	1,787

* Without payments in 1st quarter.

Credit risk The sale of passenger travel and freight documents mostly takes place via agencies. These sales points are mostly connected to national clearing systems. The creditworthiness of the agents is reviewed by the clearing system responsible. Due to the broad diversification, credit risk for the agencies is relatively low worldwide.

Receivables and liabilities between airlines are offset through bilateral arrangements or via an IATA clearing house, insofar as the contracts underlying services do not explicitly specify otherwise. Systematic settlement of monthly receivables and liability balances significantly reduces the default risk. Service contracts occasionally require collateral for miscellaneous transactions.

All other contractual relationships are subject to credit rules, which, depending on the type and volume of the contract involved, require collateral, credit ratings/references or historical data from prior dealings, particularly payment history, in order to avoid defaults.

If risks are identified receivables are written down accordingly.

As of 31 December 2007, the maximum credit risk from the potential insolvency of debtors for loans and receivables is EUR 3,851m, made up as follows:

Credit risk		
in €m	**31.12.2007**	31.12.2006
Loans	190	206
Non-current receivables	209	137
Trade receivables and other current receivables	3,452	2,917
Total	**3,851**	**3,260**

The following impairment provisions were made for loans and receivables in the reporting period:

in €m	**1.1.2007**
Gross amount	129
Impairment provisions	– 109
Carrying amount 1.1.2007	**20**

in €m	**31.12.2007**
Gross amount	133
Impairment provisions	– 121
Carrying amount 31.12.2007	**12**

A further EUR 259m were past due, but not yet impaired.

The term structure of receivables past due is as follows:

in €m	
Less than 90 days	200
Between 90 and 180 days	23
More than 180 days	36

There is collateral of EUR 1m for the receivables which were impaired. There is no collateral for receivables past due, but not yet impaired.

There is a credit risk on available-for-sale financial assets in the amount of the securities which do not represent equity instruments. Securities classified as non-current and current are made up as follows:

in €m	**31.12.2007**
Debt instruments	1,820
Equity instruments	6
Total securities	**1,826**

Securities representing debt are rated as follows (Standard & Poor's):

in €m	
AAA	501
AA+	48
AA	215
AA –	275
A+	159
A	216
A –	201
BBB+	110
BBB	70
Below BBB or unrated	12
A2 (Moody's)	13

The credit risk from derivative financial instruments is that of a counterparty's insolvency. The maximum credit risk is the sum of transactions with the business partners in question for which, on balance, positive market values exist.

As of 31 December 2007, the credit risk arising from financial derivatives that were an effective part of a hedging arrangement totalled EUR 553m compared with EUR 81m as of 31 December 2006. As maximum risk exposures are based on credit assessments by recognised rating agencies, the risk of counterparty default in financial market transactions is limited.

Positive market values on the balance sheet date exist for transactions with business partners rated as follows (Fitch):

in €m	
AA+	7
AA	174
AA –	311
A+	5
A	34
Unrated	22

The credit risk arising from financial derivatives shown at market value in the income statement amounted to EUR 254m as of 31 December 2007, and consisted of the sum total of business with contractual partners that, on balance, showed a positive market value. The contractual partners have the following ratings (Standard & Poor's):

in €m	
AA	254

49) Segment reporting

The Lufthansa Group companies operate in five major business segments: passenger air traffic ("Passenger Transportation") via Deutsche Lufthansa AG, Lufthansa CityLine GmbH, Swiss International Air Lines AG, Air Dolomiti S.p.A., Eurowings Luftverkehrs AG and Germanwings GmbH; airfreight services ("Logistics") via the Lufthansa Cargo group; maintenance, repair and overhaul ("MRO") via the Lufthansa Technik group; information technology ("IT Services") via the Lufthansa Systems group; and catering ("Catering") via the LSG Lufthansa Service/Sky Chefs group. The former sixth segment, Leisure Travel, made up solely of the at equity shareholding in the Thomas Cook group, was discontinued as of 22 December 2006.

Lufthansa Commercial Holding GmbH, Lufthansa International Finance (Netherlands) N.V., AirPlus Servicekarten GmbH, Lufthansa Flight Training GmbH and other equity investments supporting the operations of the Lufthansa Group are known collectively as the "Service and Financial Companies" segment.

Inter-segment sales and revenue are based on arm's length prices. Administrative services are charged as cost allocations.

For information on external traffic revenue, see Note 3.

Segment information by segment for 2007

in €m	Passenger Transportation**	Logistics**	MRO	IT Services	Catering**	Service and Financial Companies**	Segment total	Reconciliation	**Group**
External revenue	15,367	2,718	2,185	281	1,869	–	22,420	–	22,420
- of which traffic revenue	14,801	2,598	–	–	–	–	17,399	169	17,568
Inter-segment revenue	589	18	1,386	398	527	–	2,918	– 2,918	–
Total revenue	**15,956**	**2,736**	**3,571**	**679**	**2,396**	**–**	**25,338**	**– 2,918**	**22,420**
Other operating income	912	82	168	36	82	387	1,667	– 294	1,373
Total operating income	16,868	2,818	3,739	715	2,478	387	27,005	– 3,212	23,793
Operating expenses	16,042	2,682	3,446	692	2,378	334	25,574	– 3,159	22,415
- of which cost of material and services	9,270	1,836	1,845	38	1,081	32	14,102	– 2,549	11,553
- of which staff costs	2,959	334	992	243	886	89	5,503	– 5	5,498
- of which depreciation and amortisation	822	128	83	38	57	30	1,158	2	1,160
Operating result	**826**	**136**	**293**	**23**	**100**	**53**	**1,431**	**– 53**	**1,378**
Other segment income	136	19	17	2	9	244	427	– 110	317
Other segment expenses	3	0*	1	45	4	62	115	– 6	109
- of which impairment losses	–	–	–	43	–	1	44	–	44
Result of investments shown at equity	187	15	10	–	11	0*	223	– 223	–
Segment result	**1,146**	**170**	**319**	**– 20**	**116**	**235**	**1,966**	**– 380**	**1,586**
Segment assets	10,064	1,209	2,397	216	1,177	3,507	18,570	3,750	22,320
- of which from investments shown at equity	126	30	103	–	60	4	323	–	323
Segment liabilities	7,298	522	1,153	198	546	1,542	11,259	4,161	15,420
- of which from investments shown at equity	–	–	–	–	–	–	–	–	–
Segment capital expenditure	1,228	18	194	54	153	70	1,717	– 339	1,378
- of which from investments shown at equity	58	–	–	–	–	–	58	– 58	–
Other significant non-cash expenses	286	27	64	12	23	4	416	–	416
Staff on balance sheet date	47,230	4,607	18,892	3,102	30,101	1,329	105,261	–	105,261
Average staff numbers	43,088	4,589	18,733	3,175	29,880	1,314	100,779	–	100,779

* Rounded below EUR 1m.
** Previous year's figures only partially comparable due to changes in the group of consolidated companies.

Segment information by segment for 2006

in €m	Passenger Transportation*	Logistics*	MRO	IT Services	Catering*	Service and Financial Companies*	Leisure Travel**	Segment total	Reconciliation	Group
External revenue	12,925	2,830	2,047	271	1,776	–	–	19,849	–	19,849
- of which traffic revenue	12,671	2,683	–	–	–	–	–	15,354	–	15,354
Inter-segment revenue	550	15	1,368	381	502	–	–	2,816	– 2,816	–
Total revenue	**13,475**	**2,845**	**3,415**	**652**	**2,278**	**–**	**–**	**22,665**	**– 2,816**	**19,849**
Other operating income	800	83	125	33	111	352	–	1,504	– 270	1,234
Total operating income	14,275	2,928	3,540	685	2,389	352	–	24,169	– 3,086	21,083
Operating expenses	13,866	2,846	3,292	636	2,339	300	–	23,279	– 3,041	20,238
- of which cost of material and services	7,990	1,918	1,767	34	996	35	–	12,740	– 2,438	10,302
- of which staff costs	2,532	330	922	238	913	75	–	5,010	– 5	5,005
- of which depreciation and amortisation	718	134	76	35	63	23	–	1,049	2	1,051
Operating result	**409**	**82**	**248**	**49**	**50**	**52**	**–**	**890**	**– 45**	**845**
Other segment income	114	48	21	4	22	148	–	357	– 40	317
Other segment expenses	22	5	2	2	9	81	–	121	– 37	84
- of which impairment losses	–	–	–	–	–	–	–	–	–	–
Result of investments shown at equity	177	17	12	–	10	–	84	300	– 300	–
Segment result	**678**	**142**	**279**	**51**	**73**	**119**	**84**	**1,426**	**– 348**	**1,078**
Segment assets	8,882	1,330	2,315	267	1,063	2,869	372	17,098	2,363	19,461
- of which from investments shown at equity	595	33	102	–	57	4	372	1,163	– 372	791
Segment liabilities	7,090	650	1,427	223	643	923	–	10,956	3,602	14,558
- of which from investments shown at equity	–	–	–	–	–	–	–	–	–	–
Segment capital expenditure	1,035	13	111	49	71	139	–	1,418	511	1,929
- of which from investments shown at equity	2	3	–	–	–	–	–	5	– 5	–
Other significant non-cash expenses	273	28	52	16	26	4	–	399	–	399
Staff on balance sheet date	38,410	4,600	18,426	3,321	28,555	1,198	–	94,510	–	94,510
Average staff numbers	37,986	4,668	18,094	3,318	28,311	1,164	–	93,541	–	93,541

* Previous year's figures only partially comparable due to changes in the group of consolidated companies.
** Segment discontinued on 22 December 2006.

The reconciliation column includes both the effects of consolidation activities and amounts resulting from different definitions of segment item contents compared with the corresponding Group items.

Eliminated business segment revenue generated with other consolidated business segments is shown in the reconciliation column. For other operating income, inter-segment income has also been eliminated ("other income" reconciliation column). In the 2007 financial year, it consisted especially of rental income from subletting buildings, foreign currency transaction gains from short-term intra-Group foreign currency loans and revenue from intra-Group training and services. To the extent that eliminated revenue and other operating income is matched by operating expenses in the companies receiving the services, these expenses are also eliminated (reconciliation columns for expenses).

The amounts in the reconciliation column for the operating result include the effects of consolidation procedures on profit or loss in which income and expense do not figure for two companies at the same amount, or in the same period.

Other segment income includes, for example, income from the reversal of provisions and book gains from disposals, which are attributed to the segment result but not the operating result. Here too, income from other segments is eliminated (reconciliation column for other segment income). The same applies vice versa to other segment expenses, which include expense items not attributable to operations but which must be reflected in the segment result, such as accounting losses or impairment charges. The components of the consolidated operating result which are included in neither the operating nor the segment result, such as gains/losses from current financial investments, for example, are added back in the reconciliation columns for other segment income and other segment expenses.

By contrast, the result of the segment's equity investments accounted for using the equity method is part of the segment result, but does not belong to the operating result, rather to the financial result. The corresponding amounts are, therefore, fully eliminated in the reconciliation column for the result of investments shown at equity.

Segment assets primarily include property, plant and equipment, intangible assets, equity investments accounted for using the equity method, inventories and receivables.

Segment liabilities consist of operating liabilities and provisions. Tax and financial items have not been allocated to segments. Segment assets and segment liabilities for the Service and Financial Companies segment do include the financial assets and liabilities of the financial companies it contains, however.

2007 in €m	Passenger Trans-portation	Logistics	MRO	IT Services	Catering	Service and Financial Companies	Segment total	Reconciliation Not attributed	 Con-solidation	Group
Segment assets	9,938	1,179	2,294	216	1,117	3,503	18,247	10,058	– 6,308	21,997
Financial investments shown at equity	126	30	103	–	60	4	323	–	–	323
Total segment assets	10,064	1,209	2,397	216	1,177	3,507	18,570	10,058	– 6,308	22,320
Segment liabilities	7,298	522	1,153	198	546	1,542	11,259	7,150	– 2,989	15,420

2006 in €m	Passenger Trans-portation	Logistics	MRO	IT Services	Catering	Service and Financial Companies	Leisure Travel	Segment total	Reconciliation Not attributed	 Con-solidation	Group
Segment assets	8,287	1,297	2,213	267	1,006	2,865	–	15,935	9,470	– 6,735	18,670
Financial investments shown at equity	595	33	102	–	57	4	372	1,163	–372	–	791
Total segment assets	8,882	1,330	2,315	267	1,063	2,869	372	17,098	9,098	– 6,735	19,461
Segment liabilities	7,090	650	1,427	223	643	923	–	10,956	5,697	– 2,095	14,558

Segment capital expenditure includes additions to property, plant and equipment and intangible assets, as well as expenditure for equity investments shown at equity; the Service and Financial Companies segment also includes capital expenditure for non-current financial assets.

The segment result of the discontinued segment Leisure Travel for the previous year of EUR 84m, can be reconciled with the result of the discontinued segment Leisure Travel of EUR 82m by including deferred tax expense of EUR 2m.

Segment information by region for 2007

in €m	Europe including Germany	North America	Central and South America	Asia/ Pacific	Middle East	Africa	Other	**Segment total**
Traffic revenue **	11,953	2,439	335	2,317	228	296	–	17,568
Other operating revenue	2,566	951	108	819	285	123	0 *	4,852
Other segment income ***	1,548	51	8	45	13	10	15	1,690
Income from equity valuation	190	9	0 *	24	–	–	–	223
Segment assets	16,418	1,354	94	540	86	78	–	18,570
- of which from equity valuation	153	56	6	108	–	–	–	323
Segment capital expenditure	1,678	28	1	9	–	1	–	1,717
- of which from equity valuation	58	–	–	–	–	–	–	58

* Rounded below EUR 1m.
** Traffic revenue is allocated according to the place of sale.
*** Other segment income corresponds to operating income of the Group (including income from financial assets).

Segment information by region for 2006

in €m	Europe including Germany	North America	Central and South America	Asia/ Pacific	Middle East	Africa	Other	**Segment total**
Traffic revenue**	9,922	2,282	339	2,257	221	333	–	15,354
Other operating revenue	2,205	992	158	782	249	109	0*	4,495
Other segment income***	1,409	42	12	31	9	6	42	1,551
Income from equity valuation	265	8	1	26	–	–	–	300
Segment assets	15,432	861	73	549	123	60	–	17,098
- of which from equity valuation	995	53	5	110	–	–	–	1,163
Segment capital expenditure	1,394	18	1	4	–	1	–	1,418
- of which from equity valuation	5	–	–	–	–	–	–	5

* Rounded below EUR 1m.
** Traffic revenue is allocated according to the place of sale.
*** Other segment income corresponds to operating income of the Group (including income from financial assets).

The allocation of traffic revenue to regions is based on the original place of sale, whereas the allocation of other revenue is based on the geographical location of the customer, and the allocation of other segment income is based on the place the service is provided. Items resulting from investments valued at equity are allocated to regions depending on the location of the head office of the investment in question.

Regions are defined geographically, apart from traffic revenue from the countries of the former Soviet Union, Turkey and Israel, which is allocated to Europe.

The “other” column consists of items that cannot be allocated to any specific region.

Lufthansa controls its air traffic operations on the basis of network results and not on the basis of regional earnings contributions. Much the same applies to the Catering segment. Consequently, the presentation of regional segment results is of no informational value for the Lufthansa Group.

The notes on the Passenger Transportation business segment in the general section of this Annual Report include a presentation of traffic revenue generated in the Passenger Transportation segment by traffic region, rather than by original place of sale.

50) Related-party disclosures

The Lufthansa Group business segments render numerous services to related parties within the scope of their ordinary business activities. Conversely, the companies in question provide services to the Lufthansa Group as part of their normal business. These extensive supply and service relationships take place on the basis of market prices.

In addition, the Group and certain non-consolidated subsidiaries have concluded numerous billing agreements, partly governing the joint use of services. In these cases the administrative services provided are charged as cost allocations.

The Group’s cash management is centralised, and, in this respect, the Lufthansa Group also performs a “banking function” vis-à-vis the non-consolidated companies of the Group. Non-consolidated Group companies included in the Group’s cash management invest their available cash with the Group or borrow funds from the Group and carry out their derivative hedging transactions with the Group. All transactions take place on arm’s length terms.

Due to geographical proximity in many cases, a large number of subletting contracts exist between the Lufthansa Group and related parties. In these cases the Group usually charges the rental costs and incidental expenses incurred to the companies in question on a pro rata basis.

The following table shows the volume of significant services provided to or by related parties:

	Volume of services rendered		Volume of services utilised	
in €m	**2007**	2006	**2007**	2006
Non-consolidated subsidiaries				
Albatros Versicherungsdienste GmbH	2	5	51	62
Cargo Future Communications (CFC) GmbH	0*	1	5	6
Delvag Luftfahrtversicherungs-AG	11	10	9	9
Global Tele Sales (PTY) Ltd., South Africa	1	0*	8	6
Global Tele Sales Ltd., Ireland	1	1	13	10
Global Telesales of Canada, Inc.	0*	0*	6	6
LRS Lufthansa Revenue Services GmbH	9	12	53	56
Lufthansa Engineering and Operational Services GmbH	5	5	27	25
Lufthansa Global Tele Sales GmbH	1	1	10	8
Lufthansa Service-Center Kassel GmbH	1	1	8	8
Lufthansa Systems FlightNav AG, Switzerland	2	2	17	7
Lufthansa Systems Hungaria Kft	2	1	20	13
Lufthansa Systems Network Services GmbH	1	0*	40	29
Lufthansa Technical Training GmbH	8	9	22	20
Lufthansa Technik Budapest Repülögép Nagyjavító Kft.	6	5	27	22
Lufthansa Technik Logistik of America LLC	4	3	13	2
Lufthansa Technik Malta Limited	1	0*	8	6
Lufthansa Technik Tulsa Corporation	3	4	5	5
Lufthansa Technik Turbine Shannon Limited	2	2	14	13
Lufthansa WorldShop GmbH	–	1	–	51
LZ-Catering GmbH	6	9	11	15
One Stop Airline MRO Support Private Limited	15	16	1	0*
Lufthansa Systems Poland sp. z o.o.	0*	0*	6	5
Miles & More International GmbH	–	57	–	2
DLH Fuel Company mbH	7	1	450	1
GlobeGround India Private Ltd.	0*	0*	8	6
Lufthansa Systems Asia Pacific Pte. Ltd.	4	7	2	5

* Rounded below EUR 1m.

	Volume of services provided		Volume of services received	
in €m	**2007**	2006	**2007**	2006
Joint ventures				
Aircraft Maintenance and Engineering Corp.	5	4	5	3
Terminal One Group Association, L.P.	0*	0*	9	–
AFC Aviation Fuel Company mbH	0*	3	0*	361
GlobeGround Berlin GmbH	0*	0*	27	28
Alitalia Maintenance Systems S.p.A.	23	26	23	27
Lufthansa Bombardier Aviation Services GmbH	4	5	0*	0*
EFM – Gesellschaft für Enteisen und Flugzeugschleppen am Flughafen München mbH	0*	0*	8	5
Star Alliance Services GmbH	9	9	7	8
Thomas Cook AG (plus Condor Flugdienst GmbH)	78	175	3	8
Associated companies				
AviationPower GmbH	0*	0*	14	11
British Midland plc	6	0*	20	15
LSG Lufthansa Service Hong Kong Ltd.	2	2	9	8
HEICO Aerospace Holdings Corp.	–	–	16	12
Terminal 2 Betriebsgesellschaft mbH & Co oHG	3	12	129	119
BELAC LLC	0*	–	11	2
Jade Cargo International Company Limited	1	0*	6	–
Airmail Center Frankfurt GmbH	0*	0*	6	1
Swiss International Air Lines AG	2	2	2	6

* Rounded below EUR 1m.

There are no individual shareholders of Lufthansa AG exercising significant influence over the Group. For related-party transactions with members of the Executive and Supervisory Boards please refer to Note 51.

51) Supervisory Board and Executive Board

The members of the Supervisory Board and Executive Board are listed on page 184.

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

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

- Basic remuneration, paid monthly as a salary.
- Variable remuneration depends on the Lufthansa Group's operating result and the change in this result compared to the previous year. In years with weak operating results due to extraordinary exogenous factors, the Steering Committee may award Executive Board members a discretionary bonus.
- Executive Board members are also able to participate in the option programmes for managers, since 2006 with their own parameters, which vary from those of the general managers' programme (Note 42).

The following remuneration was paid to individual Executive Board members in 2007:

in €	Basic salary	Variable remuneration	Payments from maturing options programmes	Change in fair value of option programmes	Other*	**Total**
Wolfgang Mayrhuber	700,000	1,400,000	–	398,149	107,847	2,605,996
Stephan Gemkow	458,333	916,667	17,000	178,809	84,803	1,655,612
Stefan Lauer	500,000	1,000,000	34,000	186,703	104,132	1,824,835
Effective remuneration for the 2007 financial year	**1,658,333**	**3,316,667**	**51,000**	**763,661**	**296,782**	**6,086,443**
Reconciliation with recognised remuneration:						
Recognition of the discretionary bonus for 2006 as an expense in 2007**		440,000				440,000
Expenses according to the income statement for 2007	**1,658,333**	**3,756,667**	**51,000**	**763,661**	**296,782**	**6,526,443**

* Other remuneration includes, in particular, the non-cash benefit of using company cars, the discount granted in connection with option programme issues (Note 42), 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.
** The discretionary bonus was adopted in March 2007 for 2006.

The following remuneration was paid to individual Executive Board members in 2006:

in €	Basic salary	Variable remuneration	Payments from maturing options programmes	Change in fair value of option programmes	Other*	**Total**
Wolfgang Mayrhuber	700,000	1,137,788	–	149,617	103,140	2,090,545
Stephan Gemkow (from 1.6.2006)	233,333	450,275	–	48,186	72,211	804,005
Dr Karl-Ludwig Kley (until 31.5.2006)	208,333	281,875	–	–	8,752	498,960
Stefan Lauer	500,000	782,150	–	68,687	102,262	1,453,099
Effective remuneration for the 2006 financial year	**1,641,666**	**2,652,088**	**–**	**266,490**	**286,365**	**4,846,609**
Reconciliation with recognised remuneration:						
Recognition of the discretionary bonus for 2005 as an expense in 2006**		600,000	–			600,000
Discretionary bonus for 2006 recognised in 2007***		– 440,000	–			– 440,000
Expenses according to the income statement for 2006	**1,641,666**	**2,812,088**	**–**	**266,490**	**286,365**	**5,006,609**

* Other remuneration includes, in particular, the non-cash benefit of using company cars, the discount granted in connection with option programme issues (Note 42), 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.
** The discretionary bonus was adopted in March 2006 for 2005.
*** The discretionary bonus was adopted in March 2007 for 2006.

As of 31 December 2007 (2006) the members of the Executive Board hold the following shares from current option programmes:

	2003 Programme		2004 Programme		2005 Programme		2006 Programme		**2007 Programme**	
	Number of shares purchased from own funds	Number of outperformance options	Number of shares purchased from own funds	Number of outperformance options	Number of shares purchased from own funds	Number of outperformance options	Number of shares purchased from own funds	Number of outperformance options	Number of shares purchased from own funds	Number of outperformance options
Wolfgang Mayrhuber	– (6,024)	– (24)	8,808 (8,808)	24 (24)	7,416 (7,416)	24 (24)	10,169 (10,169)	90 (90)	*	45 (–)
Stephan Gemkow (from 1.6.2006)	– (1,004)	– (4)	– (1,468)	– (4)	1,236 (1,236)	4 (4)	6,779 (6,779)	60 (60)	*	30 (–)
Stefan Lauer	– (1,609)	– (8)	– (2,936)	– (8)	3,090 (3,090)	10 (10)	6,779 (6,779)	60 (60)	*	30 (–)

* The number of shares in a tranche will be set with the share price in March 2008.

See Note 42 for the caps on payments.

The pro rata change for 2007 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 2007 option programme for Mr Mayrhuber on the date of issue was EUR 505,935. The corresponding figures for Mr Gemkow and Mr Lauer were EUR 337,290 each.

Serving members of the Executive Board will benefit from various contractual entitlements when they retire.

Pensions and payments to surviving dependents were revised in 2006. For each Executive Board member a personal pension account has been set up with effect from 1 January 2006, into which, for the duration of their employment, Deutsche Lufthansa AG pays contributions amounting to 25 per cent of their contractually guaranteed annual salary and bonus. Since 1 April 2007, the obligations have been funded by equivalent contributions to an external trust.

The investment regulations governing the pension account are based on those for the Lufthansa Pension Trust investment concept for Lufthansa employees.

As of 31 December 2007, Mr Mayrhuber's retirement benefit entitlement amounted to EUR 10.6m (previous year: EUR 9.1m). That of Mr Gemkow was EUR 3.3m (previous year: EUR 2.7m) and of Mr Lauer EUR 4.9m (previous year: EUR 4.2m), respectively.

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

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

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

The cost of pension entitlements accrued in 2007 for Mr Mayrhuber was EUR 0.5m, for Mr Gemkow EUR 0.4m and for Mr Lauer EUR 0.5m. The total cost of EUR 1.4m (previous year, including the change in obligations: EUR 8.6m) plus EUR 6.5m (previous year: EUR 5.0m) in overall remuneration as shown in the remuneration table is listed under staff costs, amounting to EUR 7.9m (previous year: EUR 13.6m).

Mr Lauer is entitled to a transitional pension until he reaches the age of 60 provided he is over 55 or the term of his current contract extends beyond when he reaches the age of 55 and his services are not retained, unless for good reason for which he is responsible. His transitional pension entitlement amounts to 45 per cent of his fixed basic salary increasing by 3 percentage points up to a maximum of 60 per cent for each year of service commenced from 1 January 2007 as a full director of the Company.

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

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

Current payments to former members of the Executive Board and their surviving dependents totalled EUR 3.4m (previous year: EUR 3.5m), including remuneration from subsidiary companies, benefits in kind and concessionary travel.

Pension obligations toward former Executive Board members and their surviving dependents amount to EUR 39.7m (previous year: EUR 43.6m). They are included in pension provisions (see Note 38).

Remuneration report for the Supervisory Board In the 2007 financial year Supervisory Board remuneration included EUR 514,000 (previous year: EUR 500,000) in fixed payments for work on the Lufthansa AG Supervisory Board. In addition, variable payments amounting to EUR 2,572,000 were made (previous year: EUR 1,125,000). Variable remuneration depends on the dividend paid for the financial year. The figures for individual Supervisory Board members are shown in the table on page 181.

Other remuneration, mainly attendance fees, amounted to EUR 89,000 (previous year: EUR 77,000), including benefits for concessionary travel in accordance with IATA regulations.

As in the previous year, Dr Schlede was paid EUR 32,000 in 2007, for consultancy services in connection with the integration of Swiss International Air Lines into the Lufthansa Group.

The Lufthansa AG Supervisory Board members were also paid EUR 43,000 (previous year: EUR 47,000) for work on supervisory boards of Lufthansa Group companies.

Remuneration of individual Supervisory Board members 2007/2006

in €	2007 Fixed remuneration	2007 Remuneration for committee work	2007 Variable remuneration	2007 Total Supervisory Board remuneration	2006 Fixed remuneration	2006 Remuneration for committee work	2006 Variable remuneration	2006 Total Supervisory Board remuneration
Dipl.-Ing. Dr.-Ing. E.h. Jürgen Weber, Chairman	60,000	15,000	375,000	450,000	60,000	10,000	157,500	227,500
Frank Bsirske, Deputy Chairman	30,000	5,000	175,000	210,000	30,000	5,000	78,750	113,750
Jacques Aigrain (from 3.7.2007)	10,000	–	50,000	60,000	–	–	–	–
Dr Josef Ackermann (until 30.6.2006)	–	–	–	–	10,000	–	22,500	32,500
Dr Clemens Börsig (from 1.7.2006)	20,000	–	100,000	120,000	10,000	–	22,500	32,500
Manfred Calsow	20,000	5,000	125,000	150,000	20,000	5,000	56,250	81,250
Dr Gerhard Cromme (until 30.6.2007)	10,000	–	50,000	60,000	20,000	–	45,000	65,000
Michael Diekmann	20,000	5,000	125,000	150,000	20,000	5,000	56,250	81,250
Dipl. Vwt. Jürgen Erwert	20,000	–	100,000	120,000	20,000	–	45,000	65,000
Robert Haller	20,000	–	100,000	120,000	20,000	–	45,000	65,000
Ulrich Hartmann	20,000	10,000	150,000	180,000	20,000	5,000	56,250	81,250
Steffen Kühhirt	20,000	–	100,000	120,000	20,000	–	45,000	65,000
Dr Otto Graf Lambsdorff	20,000	–	100,000	120,000	20,000	–	45,000	65,000
Willi Rörig	20,000	1,425	107,125	128,550	20,000	–	45,000	65,000
Dr Klaus G. Schlede	20,000	15,000	175,000	210,000	20,000	10,000	67,500	97,500
Werner Schmidt	20,000	–	100,000	120,000	20,000	–	45,000	65,000
Thomas von Sturm	20,000	–	100,000	120,000	20,000	–	45,000	65,000
Mirco A. Vorwerk (until 31.7.2007)	11,667	2,917	72,916	87,500	20,000	5,000	56,250	81,250
Patricia Windaus	20,000	–	100,000	120,000	20,000	–	45,000	65,000
Dr Hans-Dietrich Winkhaus	20,000	–	100,000	120,000	20,000	–	45,000	65,000
Sabine Wolbold (from 1.8.2007)	8,333	–	41,667	50,000	–	–	–	–
Dr Michael Wollstadt	20,000	5,000	125,000	150,000	20,000	5,000	56,250	81,250
Dr Klaus Zumwinkel	20,000	–	100,000	120,000	20,000	–	45,000	65,000
Total	**450,000**	**64,342**	**2,571,708**	**3,086,050**	**450,000**	**50,000**	**1,125,000**	**1,625,000**

52) 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 available to shareholders on the Internet.

53) Auditors' fees

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

in €m	**2007**	2006
Annual audit	2.9	2.8
Other assurance or valuation services	0.2	0.4
Tax advisory services	0.4	0.2
Other services	0.6	0.3
Total	**4.1**	**3.7**

Declaration by the legal representatives

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

Cologne, 26 February 2008

Deutsche Lufthansa Aktiengesellschaft

Executive Board

Wolfgang Mayrhuber
Chief Executive Officer

Stephan Gemkow
Chief Financial Officer

Stefan Lauer
Chief Officer for Aviation Services and Human Resources

Independent Auditors' report

We have audited the consolidated financial statements prepared by Deutsche Lufthansa Aktiengesellschaft, Cologne, for the financial year from 1 January to 31 December 2007, consisting of the balance sheet, income statement, statement of changes in equity, cash flow statement and notes to the financial statements, and the Group management report. Preparing the consolidated financial statements and the Group management report in accordance with the International Financial Reporting Standards (IFRS) as applicable in the EU and the commercial law provisions to be additionally applied under Section 315a (1) of the German Commercial Code (HGB) is the responsibility of the Company's Executive Board. Our task is to assess the consolidated financial statements and the Group management report on the basis of our audit. We were also instructed to assess whether the consolidated financial statements generally comply with the IFRS.

We have conducted our Group audit according to Section 317 HGB and in accordance with the generally accepted standards for auditing financial statements laid down by the Institut für Wirtschaftsprüfer (Institute of Public Auditors in Germany) in conjunction with the International Standards on Auditing (ISA). These standards require us to plan and perform the audit in such a way that any inaccuracies and violations materially affecting the presentation of the net assets, the financial and earnings positions in the annual financial statements, in compliance with the relevant accounting rules and in the Group management report, are detected with reasonable certainty. Our knowledge of the Company's business activities and its economic and legal environment and our expectations of possible misstatements are taken into account in determining audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the Group management report are examined, primarily, on a test basis within the scope of the report. The audit includes an assessment of the individual financial statements of the companies included in the consolidated financial statements, the scope of the group of consolidated companies, the accounting and consolidation principles applied and significant estimates made by the Executive Board as well as evaluating the overall presentation of the consolidated financial statements and the Group 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 consolidated financial statements comply with the IFRS as applicable in the EU and with the commercial law provisions additionally applicable under Section 315a (1) HGB as well as with the IFRS in general and give a true and fair view of the Group's net assets, financial position and results of operations. The Group management report is in accordance with the consolidated financial statements and, on the whole, gives a true and fair view of the Group's position and suitably presents the opportunities and risks to its future development.

Düsseldorf, 26 February 2008

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Dr Norbert Vogelpoth
Auditor

Frank Hübner
Auditor

Supervisory Board and Executive Board

Supervisory Board

Dr Wolfgang Röller
Honorary Chairman of the Supervisory Board
Dresdner Bank 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 (trade union)
Employee representative
Deputy Chairman

Jacques Aigrain
President of the Management Board
Schweizerische Rückversicherungs-Gesellschaft
(Member from 3 July 2007)

Dr Clemens Börsig
Chairman of the Supervisory Board
Deutsche Bank AG

Manfred Calsow
Business economist
Employee representative

Dr Gerhard Cromme
Chairman of the Supervisory Board
ThyssenKrupp AG
(Member until 30 June 2007)

Michael Diekmann
Chairman of the Management Board Allianz SE

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

Robert Haller
Administrative staff member
Employee representative

Ulrich Hartmann
Chairman of the Supervisory Board
E.ON AG

Steffen Kühhirt
Trade union secretary ver.di
Employee representative

Dr Otto Graf Lambsdorff
Lawyer
Honorary President
Deutsche Schutzvereinigung für Wertpapierbesitz e.V.

Willi Rörig
Administrative staff member
Employee representative

Dr Klaus G. Schlede
Former Deputy Chairman of the Executive Board
Deutsche Lufthansa AG

Werner Schmidt
Chairman of the Executive Board
Bayerische Landesbank

Thomas von Sturm
Captain
Employee representative

Mirco A. Vorwerk
Purser
Employee representative
(Member until 31 July 2007)

Patricia Windaus
Flight attendant
Employee representative

Dr Hans-Dietrich Winkhaus
Member of the Shareholder Committee
Henkel KGaA

Sabine Wolbold
Purser and member of the trade union UFO
Employee representative
(Member from 1 August 2007)

Dr Michael Wollstadt
Head IT Development Network Management
Employee representative

Dr Klaus Zumwinkel
Chairman of the Management Board Deutsche Post AG until 18 February 2008

Executive Board

Wolfgang Mayrhuber
Chairman of the Executive Board
Chief Executive Officer

Stephan Gemkow
Member of the Executive Board
Chief Financial Officer

Stefan Lauer
Member of the Executive Board
Chief Officer for Aviation Services and Human Resources

Supervisory Board Committees

Steering Committee
Dipl.-Ing. Dr Ing. E.h. Jürgen Weber (Chairman)
Frank Bsirske (Deputy Chairman)
Michael Diekmann
Willi Rörig (from 19.9.2007)
Mirco A. Vorwerk (until 31.7.2007)

3 meetings in 2007

The Supervisory Board has, from its members and on the basis of parity elected a Steering Committee. Members are the Chairman of the Supervisory Board, his deputy and two other members. The Steering Committee is responsible for defining, designing and concluding the employment contracts with the Executive Board members and for other HR matters involving board members and authorised company representatives (e.g. lending in accordance with section 89 AktG). The Steering Committee represents the Company in dealings with the members of the Executive Board (section 112 AktG). It is also responsible for contracts with members of the Supervisory Board (section 114 AktG) and for lending to members of the Supervisory Board (section 115 AktG). The committee also rules on other HR matters which have to be submitted to the Supervisory Board for approval in accordance with the Rule of Procedure for the Executive Board. In the event of equal voting, the Chairman of the Supervisory Board shall have the casting vote.

Audit Committee
Dr Klaus G. Schlede (Chairman)
Manfred Calsow
Ulrich Hartmann
Dr Michael Wollstadt

2 meetings in 2007

The Supervisory Board has, from its members and on the basis of parity, elected an Audit Committee, which has four members. Chairman is a member of the Supervisory Board elected to this post. The members of the Audit Committee should have special knowledge in the area of accounting, management and financial management. The task of the Audit Committee is to discuss, in accordance with instructions from the Chairman of the Supervisory Board, accounting, risk management matters and compliance, the necessary independence of the external auditor, awarding the audit order to the external auditor, the focus of audits and the remuneration agreement, and to make recommendations in this respect to the Supervisory Board. The Audit Committee is authorised to govern the internal organisation of the committee's work in its own Rules of Procedure and to submit these to the Supervisory Board for its information.

Nomination Commitee
Ulrich Hartmann
Dr Klaus G. Schlede
Dipl.-Ing. Dr Ing. E.h. Jürgen Weber

1 meeting in 2007

The Supervisory Board has chosen, from among its shareholder representatives, a Nomination Committee consisting of three equal members. The Committee's task is to propose to the Supervisory Board suitable candidates to recommend for election to Annual General Meeting.

Arbitration Committee pursuant to section 27 (3) of the code termination act
Dipl.-Ing. Dr Ing. E.h. Jürgen Weber (Chairman)
Frank Bsirske (Deputy Chairman)
Michael Diekmann
Willi Rörig

No meetings in 2007

The task of this committee, appointed in accordance with section 9 paragraph 2 of the Company's Articles of Association, is to safeguard the rights according to section 31 paragraph 3 sentence 1 of the Codetermination Act when appointing members to the Executive Board, and when revoking their appointment.

Other mandates of the Supervisory Board members of Deutsche Lufthansa AG

Status: 31.12.2007

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

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

Jacques Aigrain
b) Swiss International Air Lines AG (Board of Directors)
Swiss Re America Holding Corporation, USA* (Board of Directors)
Swiss Re GB Plc, Great Britain* (Board of Directors)

Dr Clemens Börsig
a) Bayer AG
Daimler AG
Deutsche Bank AG (Chairman of the Supervisory Board)
Linde AG

Dr Gerhard Cromme
(Status at time of retiring from Lufthansa Supervisory Board on 30.6.2007)
a) Allianz SE
Axel Springer AG
E.ON AG
Siemens AG (Chairman of the Supervisory Board)
ThyssenKrupp AG (Chairman of the Supervisory Board)
b) BNP Paribas S.A., France
Compagnie de Saint-Gobain, France
Suez S.A., France

Michael Diekmann
a) Allianz Deutschland AG* (Chairman of the Supervisory Board)
Allianz Global Investors AG* (Chairman of the Supervisory Board)
BASF AG
Dresdner Bank AG* (Chairman of the Supervisory Board)
Linde AG (Deputy Chairman of the Supervisory Board)
b) Assurances Générales de France* (Vice President)
Riunione Adriatica di Sicurtà S.p.A.* (Vice President)

Robert Haller
a) LSG Lufthansa Service Holding AG

Ulrich Hartmann
a) Deutsche Bank AG
E.ON AG (Chairman of the Supervisory Board)
IKB Deutsche Industriebank AG (Chairman of the Supervisory Board)
Münchener Rückversicherungs-Gesellschaft AG
b) Henkel KGaA (Proprietors' Committee)

Steffen Kühhirt
a) LSG Sky Chefs Deutschland GmbH (Deputy Chairman of the Supervisory Board)

Dr Otto Graf Lambsdorff
a) HSBC Trinkaus & Burkhardt AG
IVECO Magirus AG (Chairman of the Supervisory Board)

Willi Rörig
a) Lufthansa Cargo AG (Deputy Chairman of the Supervisory Board)

Dr Klaus G. Schlede
a) Deutsche Postbank AG
Deutsche Telekom AG
b) Swiss International Air Lines AG (Board of Directors)

Werner Schmidt
a) Deutsche Kreditbank AG*
Drees & Sommer AG (Deputy Chairman of the Supervisory Board)
Herrenknecht AG (Deputy Chairman of the Supervisory Board)
Wieland-Werke AG
b) Banque LBLux S.A.* (Chairman of the Board of Directors)
DekaBank Deutsche Girozentrale (Board of Directors)
Hypo Alpe-Adria-Bank International AG, Klagenfurt* (Chairman of the Supervisory Board)
Landesbank Saar Girozentrale* (Deputy Chairman of the Board of Directors)
LB (Swiss) Privatbank AG, Zurich* (Chairman of the Board of Directors)
MKB Magyar Külkereskedelmi Bank rt., Budapest* (Chairman of the Supervisory Board)

Dr Hans-Dietrich Winkhaus
a) BMW AG
ERGO-Versicherungsgruppe AG
b) Henkel KGaA (Proprietors' Committee)

Dr Klaus Zumwinkel
a) Arcandor AG
Deutsche Postbank AG* (Chairman of the Supervisory Board)
Deutsche Telekom AG (Chairman of the Supervisory Board)
b) Morgan Stanley, USA (Board of Directors)

Mandates of the Executive Board members of Deutsche Lufthansa AG

Status: 31.12.2007

Wolfgang Mayrhuber
a) BMW AG
Eurowings Luftverkehrs AG*
Fraport AG
LSG Lufthansa Service Holding AG*
Lufthansa Cargo AG*
Lufthansa Technik AG*
Münchener Rückversicherungs-Gesellschaft AG
b) HEICO Corp., Florida (Board of Directors)
Swiss International Air Lines AG* (Board of Directors)

Stephan Gemkow
a) Delvag Luftfahrtversicherungs-AG* (Chairman of the Supervisory Board)
Evonik Industries AG
LSG Lufthansa Service Holding AG*
Lufthansa AirPlus Servicekarten GmbH* (Chairman of the Supervisory Board)
Lufthansa Cargo AG*
Lufthansa Technik AG*
b) Amadeus Global IT Group S. A. (Board of Directors)
WAM Acquisition S. A. (Board of Directors)
WAM Portfolio S. A. (Board of Directors)

Stefan Lauer
a) LSG Lufthansa Service Holding AG* (Chairman of the Supervisory Board)
Lufthansa Cargo AG* (Chairman of the Supervisory Board)
Lufthansa Flight Training GmbH* (Chairman of the Supervisory Board)
Lufthansa Systems AG* (Chairman of the Supervisory Board)
Lufthansa Technik AG* (Chairman of the Supervisory Board)
Pensions-Sicherungs-Verein VVaG (Supervisory Board)
b) AMECO Corp., Beijing (Deputy Chairman of the Board of Directors)
ESMT European School of Management and Technology GmbH (Supervisory Board)
SunExpress Günes Ekspres Havacilik A.S., Antalya (Deputy Chairman of the Board of Directors)
Landesbank Hessen-Thüringen Girozentrale (Board of Directors)

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

Major subsidiaries, joint ventures and associated companies

Major subsidiaries as of 31.12.2007

Name, registered office	Equity stake in %	Voting shares in %
Passenger Transportation segment		
Air Dolomiti S.p.A. Linee Aeree Regionali Europee, Dossobuono di Villafranca (Verona), Italy	100.00	100.00
AirTrust AG, Zug, Switzerland	100.00	100.00
Eurowings Luftverkehrs AG, Nuremberg	99.99	99.99*
Germanwings GmbH, Dortmund	99.99	100.00*
GOAL Verwaltungsgesellschaft mbH & Co. Projekt Nr. 5 KG, Grünwald	100.00	83.33
GOAL Verwaltungsgesellschaft mbH & Co. Projekt Nr. 7 oHG, Grünwald	100.00	66.67
LeaseAir GmbH & Co. Verkehrsflugzeuge V KG, Dortmund	99.99	100.00*
LLG Nord GmbH & Co. Bravo KG, Grünwald	100.00	66.67
Lufthansa CityLine GmbH, Cologne	100.00	100.00
Lufthansa Leasing GmbH & Co. Fox-Alfa oHG, Grünwald	100.00	66.67
Lufthansa Leasing GmbH & Co. Fox-Bravo oHG, Grünwald	100.00	66.67
Lufthansa Leasing GmbH & Co. Fox-Charlie oHG, Grünwald	100.00	66.67
Lufthansa Leasing GmbH & Co. Fox-Delta oHG, Grünwald	100.00	66.67
Lufthansa Leasing GmbH & Co. Fox-Echo oHG, Grünwald	100.00	66.67
Lufthansa Leasing GmbH & Co. Fox-Golf oHG, Grünwald	100.00	66.67
Lufthansa Leasing GmbH & Co. Fox-Hotel oHG, Grünwald	100.00	66.67
Lufthansa Leasing GmbH & Co. Fox-Quebec oHG, Grünwald	100.00	66.67
Lufthansa Leasing GmbH & Co. Fox-Romeo oHG, Grünwald	100.00	66.67
Lufthansa Leasing GmbH & Co. Fox-Sierra oHG, Grünwald	100.00	66.67
Lufthansa Leasing GmbH & Co. Fox-Tango oHG, Grünwald	100.00	66.67
Lufthansa Leasing GmbH & Co. Fox-Uniform oHG, Grünwald	100.00	66.67
Lufthansa Leasing GmbH & Co. Fox-Victor oHG, Grünwald	100.00	66.67
Lufthansa Leasing GmbH & Co. Fox-Yankee oHG, Grünwald	100.00	66.67
Lufthansa Leasing GmbH & Co. Golf-Lima oHG, Grünwald	100.00	66.67
Lufthansa Leasing GmbH & Co. Golf-Mike oHG, Grünwald	100.00	66.67
Lufthansa Malta Aircraft-Leasing Ltd., Luqa, Malta	100.00	100.00
Lufthansa Malta Holding Ltd., St. Julians, Malta	100.00	100.00
Lufthansa WorldShop GmbH, Frankfurt/M.	100.00	100.00
Miles & More International GmbH, Neu-Isenburg	100.00	100.00
Swiss Aviation Software AG, Basle, Switzerland	100.00	100.00
Swiss Aviation Training Ltd., Basle, Switzerland	100.00	100.00
Swiss European Air Lines AG, Basle, Switzerland	100.00	100.00
Swiss International Air Lines AG, Basle, Switzerland	100.00	100.00
Logistics segment		
cargo counts GmbH, Hattersheim	100.00	100.00
Jettainer GmbH, Raunheim	67.00	67.00
Lufthansa Cargo AG, Kelsterbach	100.00	100.00
Lufthansa Cargo Charter Agency GmbH, Kelsterbach	100.00	100.00
Lufthansa Leasing GmbH & Co. Echo-Zulu oHG, Grünwald	100.00	66.67

* 50 per cent of equity stakes and voting rights are attributed from a call option.

Name, registered office	Equity stake in %	Voting shares in %	
MRO segment			
AirLiance Materials LLC, Wilmington, USA	50.21	50.21	
BizJet International Sales & Support, Inc., Tulsa, USA	100.00	100.00	
Condor/Cargo Technik GmbH, Frankfurt/M.	100.00	100.00	
Hamburger Gesellschaft für Flughafenanlagen mbH, Hamburg	100.00	100.00	
Hawker Pacific Aerospace Inc., Sun Valley, USA	100.00	100.00	
Hawker Pacific Aerospace Ltd., Kestrel Way, Hayes, UK	100.00	100.00	
JASEN Grundstücksgesellschaft mbH & Co. oHG, Grünwald	100.00	50.00	SPE
Lufthansa Technik AERO Alzey GmbH, Alzey	100.00	100.00	
Lufthansa Technik AG, Hamburg	100.00	100.00	
Lufthansa Technik Aircraft Services Ireland Limited, Shannon, Ireland	100.00	100.00	
Lufthansa Technik Airmotive Ireland Holdings Ltd., Co. Dublin, Ireland	100.00	100.00	
Lufthansa Technik Airmotive Ireland Leasing Ltd., Co. Dublin, Ireland	100.00	100.00	
Lufthansa Technik Airmotive Ireland Ltd., Co. Dublin, Ireland	100.00	100.00	
Lufthansa Technik Immobilien- und Verwaltungsgesellschaft mbH, Hamburg	100.00	100.00	
Lufthansa Technik Logistik GmbH, Hamburg	100.00	100.00	
Lufthansa Technik North America Holding Corp., Wilmington, USA	100.00	100.00	
Lufthansa Technik Objekt- und Verwaltungsgesellschaft mbH, Hamburg	100.00	100.00	
Lufthansa Technik Philippines, Inc., Manila, Philippines	51.00	51.00	
Shannon Aerospace Ltd., Co. Claire, Ireland	100.00	100.00	
Catering segment			
41/42 Bartlett (Pty) Ltd., Johannesburg, South Africa	100.00	100.00	
Aerococina S.A. de C.V., Mexico City, Mexico	51.00	51.00	
AIRO Catering Services Eesti OÜ, Tallinn, Estonia	100.00	100.00	
AIRO Catering Services Sweden AB, Stockholm-Arlanda, Sweden	100.00	100.00	
AIRO Catering Services – Ukraine, Kiev, Ukraine	100.00	100.00	
Arlington Services, Inc., Wilmington, USA	100.00	100.00	
Arlington Services Mexico, S.A. de C.V., Mexico City, Mexico	100.00	100.00	
Arlington Services Panama S.A., Panama City, Panama	100.00	100.00	
Bahia Catering Ltda., São Cristóvão (Salvador), Brazil	95.00	95.00	
Capital Gain International (1986) Ltd., Hong Kong, Hong Kong	100.00	100.00	
Caterair Holdings Corporation, Wilmington, USA	0.15	2.00	SPE
Caterair International Corporation, Dover, USA	0.15	100.00	
Caterair Servicos de Bordo e Hotelaria S.A., Rio de Janeiro, Brazil	100.00	100.00	
Caterair Taiwan In-Flight Services, Inc., Taipei, Taiwan	100.00	100.00	
Cater Suprimento de Refeicoes, Ltda., Rio de Janeiro, Brazil	100.00	100.00	
Comercializadora de Servicios Limitada, Santiago de Chile, Chile	100.00	100.00	
Comisariato de Baja California, S.A. de C.V., Tijuana, Mexico	51.00	51.00	
Comisariatos Gotre, S.A. de C.V., Torreon, Mexico	51.00	51.00	
Feenagh Investments (Proprietary) Ltd., Johannesburg, South Africa	100.00	100.00	
Inflight Catering (Pty) Ltd., Johannesburg, South Africa	100.00	100.00	
Inflight Catering Services Limited, Dar es Salaam, Tanzania	61.99	61.99	
Inflight Management Solutions GmbH, Neu-Isenburg	100.00	100.00	
Inversiones Turisticas Aeropuerto Panama, S.A., Panama City, Panama	100.00	100.00	
LSG-Airport Gastronomiegesellschaft mbH, Neu-Isenburg	100.00	100.00	
LSG Asia GmbH, Neu-Isenburg	100.00	100.00	

SPE: special purpose entity.

Major subsidiaries as of 31.12.2007 (continued)

Name, registered office	Equity stake in %	Voting shares in %
LSG Catering China Ltd., Hong Kong, Hong Kong	100.00	100.00
LSG Catering Guam, Inc., Guam, USA	100.00	100.00
LSG Catering Hong Kong Ltd., Hong Kong, Hong Kong	100.00	100.00
LSG Catering Saipan, Inc., Saipan, Mikronesia	100.00	100.00
LSG Catering (Thailand) Ltd., Bangkok, Thailand	100.00	100.00
LSG-Food & Nonfood Handel GmbH, Frankfurt/M.	100.00	100.00
LSG Holding Asia Ltd., Hong Kong, Hong Kong	100.00	100.00
LSG Lufthansa Service Asia Ltd., Hong Kong, Hong Kong	100.00	100.00
LSG Lufthansa Service Cape Town (Pty) Ltd., Cape Town, South Africa	100.00	100.00
LSG Lufthansa Service Catering- und Dienstleistungsgesellschaft mbH, Neu-Isenburg	100.00	100.00
LSG Lufthansa Service Enterprises Ltd., Hong Kong, Hong Kong	100.00	100.00
LSG Lufthansa Service Europa/Afrika GmbH, Neu-Isenburg	100.00	100.00
LSG Lufthansa Service Guam, Inc., Guam, USA	100.00	100.00
LSG Lufthansa Service Holding AG, Neu-Isenburg	100.00	100.00
LSG Lufthansa Service Saipan, Inc., Saipan, Mikronesia	100.00	100.00
LSG Lufthansa Service - Sky Chefs do Brasil Catering, Refeições Ltda., São Paulo, Brazil	100.00	100.00
LSG Sky Chefs Australasia Pty Limited, Sydney, Australia	100.00	100.00
LSG Sky Chefs Belgium N.V., Zaventem, Belgium	100.00	100.00
LSG Sky Chefs Birmingham Ltd., Feltham, UK	100.00	100.00
LSG Sky Chefs Building AB, Stockholm, Sweden	100.00	100.00
LSG Sky Chefs Catering Logistics GmbH, Neu-Isenburg	100.00	100.00
LSG Sky Chefs Danmark A/S, Kastrup, Denmark	100.00	100.00
LSG Sky Chefs Deutschland GmbH, Neu-Isenburg	100.00	100.00
LSG Sky Chefs de Venezuela C.A., Caracas, Venezuela	99.99	99.93
LSG Sky Chefs España S.A., El Prat de Llobregat, Spain	100.00	100.00
LSG Sky Chefs Europe Holdings Ltd., Horley, UK	100.00	100.00
LSG Sky Chefs/GCC Ltd., Feltham, UK	50.00	50.00
LSG Sky Chefs Havacilik Hizmetleri A.S., Sefaköy-Istanbul, Turkey	100.00	100.00*
LSG Sky Chefs (India) Private Ltd., Mumbai, India	100.00	100.00
LSG Sky Chefs In-Flight Logistics Asia Pacific Ltd., Hong Kong, Hong Kong	100.00	100.00
LSG Sky Chefs Istanbul Catering Hizmetleri A.S., Istanbul, Turkey	100.00	100.00*
LSG Sky Chefs Korea Co Ltd., Incheon, South Korea	80.00	80.00
LSG Sky Chefs New Zealand Limited, Auckland, New Zealand	100.00	100.00
LSG Sky Chefs Norge AS, Oslo, Norway	100.00	100.00
LSG Sky Chefs Objekt- und Verwaltungsgesellschaft mbH, Neu-Isenburg	100.00	100.00
LSG Sky Chefs Schweiz AG, Rümlang, Switzerland	100.00	100.00
LSG Sky Chefs S.p.A., Case Nuove di Somma Lombardo, Italy	100.00	100.00
LSG Sky Chefs Supply Chain Solutions, Inc., Wilmington, USA	100.00	100.00
LSG Sky Chefs Sverige AB, Stockholm, Sweden	100.00	100.00
LSG Sky Chefs (Thailand) Ltd., Bangkok, Thailand	64.30	100.00
LSG Sky Chefs UK Ltd., Feltham, UK	100.00	100.00
LSG Sky Chefs USA, Inc., Wilmington, USA	100.00	100.00
LSG Sky Chefs Verwaltungsgesellschaft mbH, Neu-Isenburg	100.00	100.00
LSG-Sky Food GmbH, Alzey	100.00	100.00
LSG South America GmbH, Neu-Isenburg	100.00	100.00

* 70 per cent of the voting rights are attributed from a call option.

Name, registered office	Equity stake in %	Voting shares in %	
Orderich Company Ltd., Hong Kong, Hong Kong	100.00	100.00	
Riga Catering Service SIA, Riga, Latvia	58.50	58.50	
SC International Services, Inc., Wilmington, USA	100.00	100.00	
SCIS Air Security Corporation, Wilmington, USA	100.00	100.00	
ServCater Internacional Ltda., Guarulhos, Brazil	90.00	90.00	
Siam Flight Services Ltd., Bangkok, Thailand	49.00	66.67	
Sky Chefs Argentine, Inc., Wilmington, USA	100.00	100.00	
Sky Chefs Chile S.A., Santiago de Chile, Chile	100.00	100.00	
Sky Chefs De Mexico, S.A. de C.V., Mexico City, Mexico	51.00	51.00	
Sky Chefs de Panama, S.A., Panama City, Panama	100.00	100.00	
Sky Chefs, Inc., Wilmington, USA	100.00	100.00	
Western Aire Chef, Inc., Wilmington, USA	100.00	100.00	
IT Services segment			
Lufthansa Systems Aeronautics GmbH, Raunheim	100.00	100.00	
Lufthansa Systems Airline Services GmbH, Kelsterbach	100.00	100.00	
Lufthansa Systems Aktiengesellschaft, Kelsterbach	100.00	100.00	
Lufthansa Systems Americas, Inc., Miami, USA	100.00	100.00	
Lufthansa Systems AS GmbH, Norderstedt	100.00	100.00	
Lufthansa Systems Berlin GmbH, Berlin	100.00	100.00	
Lufthansa Systems Business Solutions GmbH, Raunheim	100.00	100.00	
Lufthansa Systems Infratec GmbH, Kelsterbach	100.00	100.00	
Lufthansa Systems Passenger Services GmbH, Kelsterbach	100.00	100.00	
Lufthansa Systems Process Management GmbH, Neu-Isenburg	100.00	100.00	
Service and Financial Companies			
AirPlus International AG, Kloten, Switzerland	100.00	100.00	
AirPlus International, Inc., Springfield, USA	100.00	100.00	
AirPlus International Limited, London, UK	100.00	100.00	
AirPlus International S.r.l., Rome, Italy	100.00	100.00	
Lufthansa AirPlus Servicekarten GmbH, Neu-Isenburg	100.00	100.00	
Lufthansa Commercial Holding GmbH, Cologne	100.00	100.00	
Lufthansa Flight Training Berlin GmbH, Berlin	100.00	100.00	
Lufthansa Flight Training GmbH, Frankfurt/M.	100.00	100.00	
Lufthansa International Finance (Netherlands) N.V., Amsterdam, Netherlands	100.00	100.00	
Lufthansa Malta Finance Ltd., St. Julians, Malta	100.00	100.00	
MARDU Grundstücks-Verwaltungsgesellschaft mbH & Co. oHG, Grünwald	100.00	50.00	SPE
MUSA Grundstücks-Verwaltungsgesellschaft mbH & Co. oHG, Grünwald	100.00	50.00	SPE
Quinto Grundstücksgesellschaft mbH & Co. oHG, Grünwald	99.73	100.00	
LH-Strategy-Fonds, Luxembourg, Luxembourg	100.00	100.00	SPE

SPE: special purpose entity.

Major joint ventures as of 31.12.2007 *

Name, registered office	Equity stake in %	Voting shares in %	Different financial year
Passenger Transportation segment			
CityLine Avro Simulator und Training GmbH Berlin, Berlin	50.00	50.00	
Günes Ekspres Havacilik Anonim Sirketi (SunExpress), Antalya, Turkey	50.00	50.00	
Logistics segment			
Global Logistics System Europe Company for Cargo Information Services GmbH, Frankfurt/M.	46.85	42.86	
Shanghai Pudong International Airport Cargo Terminal Co. Ltd., Shanghai, China	29.00	22.22	
MRO segment			
Aircraft Maintenance and Engineering Corp., Beijing, China	40.00	42.86	
Alitalia Maintenance Systems S.p.A., Rome, Italy	40.00	40.00	
Catering segment			
Gansu HNA LSG Sky Chefs Co., Ltd., Lanzhou, China	49.00	40.00	
LSG Gate Gourmet Paris S.A.S. i.L., Roissy, France	50.00	50.00	
Service and Financial Companies			
AirPlus Air Travel Card Vertriebsgesellschaft mbH, Vienna, Austria	33.33	33.33	

* Accounted for under the equity method.

Major associated companies as of 31.12.2007 *

Name, registered office	Equity stake in %	Voting shares in %	Different financial year
Passenger Transportation segment			
Alpar Flug- und Flugplatz-Gesellschaft AG, Belp, Switzerland	17.00	17.00	
British Midland plc, Donington Hall, UK	30.00	30.00	
Logistics segment			
Jade Cargo International Company Limited, Shenzhen, China	25.00	28.57	
time:matters Holding GmbH, Düsseldorf	49.00	49.00	
MRO segment			
BELAC LLC, Florida 34677, USA	21.05	21.05	
HEICO Aerospace Holdings Corp., Florida 33021, USA	20.00	20.00	
Catering segment			
CateringPor – Catering de Portugal, S.A., Lisbon, Portugal	49.00	49.00	
CLS Catering Services Ltd., Richmond, Canada	40.00	40.00	
Hongkong Beijing Air Catering Ltd., Hong Kong, Hong Kong	45.00	45.00	
Hongkong Shanghai Air Catering Ltd., Hong Kong, Hong Kong	45.00	45.00	
Inflight Service Production Sweden AB, Sigtuna, Sweden	25.00	25.00	
Inflite Holdings (Cayman) Ltd., Grand Cayman, Cayman Islands	49.00	49.00	September
Inflite Holdings (St. Lucia) Ltd., Castries, St. Lucia	49.00	49.00	September
LSG Lufthansa Service Hong Kong Ltd., Hong Kong, Hong Kong	38.12	38.12	
Nanjing Lukou International Airport LSG Catering Co Ltd., Nanjing, China	40.00	40.00	
Xian Eastern Air Catering Co. Ltd., Xian, China	30.00	28.57	
ZAO Aeromar, Moscow, Russia	49.00	49.00	

* Accounted for under the equity method.

Ten-year statistics

		2007	2006	2005
Consolidated income statement Lufthansa Group				
Revenue [1]	€m	22,420	19,849	18,065
Result				
Operating result	€m	1,378	845	577
Profit/loss from ordinary activities [2]	€m	1,586	1,078	719
Profit/loss before income taxes [2) 10]	€m	2,125	1,129	875
Income taxes [10]	€m	365	232	263
Result attributable to shareholders of Deutsche Lufthansa AG	€m	1,655	803	453
Main cost items				
Staff costs	€m	5,498	5,029	4,853
Fees and charges	€m	3,174	2,824	2,543
Fuel for aircraft	€m	3,860	3,355	2,662
Depreciation, amortisation and impairment	€m	1,204	1,051	1,398
Net interest	€m	– 194	– 254	– 248
Consolidated balance sheet				
Asset structure				
Non-current assets [5]	€m	14,076	12,969	12,318
Current assets [5]	€m	8,244	6,492	6,954
- of which liquid assets	€m	3,607	2,538	3,598
Capital structure				
Shareholders' equity [3]	€m	6,900	4,903	4,522
- of which issued capital [4]	€m	1,172	1,172	1,172
- of which reserves	€m	4,018	2,648	2,707
- of which profit/loss for the period	€m	1,655	803	453
- of which minority interest	€m	55	280	190
Debt	€m	15,420	14,558	14,750
- of which retirement benefit obligations	€m	2,461	3,814	4,022
- of which financial liabilities	€m	3,345	2,956	3,563
Total assets	€m	22,320	19,461	19,272
Other financial data Lufthansa Group				
Capital expenditure	€m	1,737	1,929	1,829
- of which on tangible and intangible assets	€m	1,621	1,380	1,221
- of which on financial assets	€m	116	549	608
Cash flow from operating activities	€m	2,862	2,105	1,956
Free cash flow	€m	2,688	584	815
Indebtedness				
Gross	€m	3,369	2,971	3,605
Net [9]	€m	–768	– 101	– 143
Deutsche Lufthansa AG				
Net profit/loss for the year	€m	1,123	523	455
Accumulated losses	€m	–	–	–
Transfer to/withdrawals from reserves	€m	551	– 202	– 226
Dividends proposed/paid	€m	572	321	229
Dividends per share proposed/paid	€	1.25	0.7	0.5

2004	2003	2002	2001	2000	1999*	1998*
16,965	15,957	16,971	16,690	15,200	12,795	11,737
383	36	718	28	1,042	723	1,060
954	– 176	1,544	– 378	1,456	983	1,437
541	– 814	904	– 807	1,189	974	1,251
133	164	182	– 202	503	334	519
404	– 984	717	– 633	689	630	732
4,813	4,612	4,660	4,481	3,625	3,232	2,867
2,542	2,290	2,239	2,311	2,250	2,095	1,930
1,819	1,352	1,347	1,621	1,499	908	864
1,112	1,930	1,243	1,714	1,022	933	866
– 331	– 341	– 415	– 398	– 256	– 219	– 196
11,543	10,885	12,103	13,244	11,082	9,672	8,713
6,527	5,847	7,034	4,962	3,728	3,215	3,579
3,788	2,721	3,638	1,182	970	778	1,667
4,014	2,696	4,172	3,528	4,165	3,733	3,314
1,172	977	977	977	977	977	976
2,398	2,660	2,431	3,154	2,448	2,084	1,596
404	– 984	717	– 633	689	630	732
40	43	47	30	51	42	10
14,056	14,036	14,965	14,678	10,645	9,154	8,978
4,132	4,327	4,020	3,701	3,354	2,993	2,760
3,306	3,240	4,713	4,446	2,408	2,300	2,375
18,070	16,732	19,137	18,206	14,810	12,887	12,292
1,783	1,155	880	2,979	2,446	1,938	1,898
1,647	992	646	2,549	1,769	1,338	1,669
136	163	234	430	677	600	229
1,881	1,581	2,312	1,736	2,140	809	1,860
1,061	1,024	2,813	– 796	444	– 433	773
3,370	3,312	4,771	4,995	2,444	2,320	2,404
– 418	591	1,133	3,812	1,475	1,542	737
265	– 1,223	1,111	– 797	445	402	401
–	–	– 797	–	–	–	–
– 128	1,223	– 85	–	– 216	– 188	– 187
137	–	229	–	229	215	215
0.3	–	0.6	–	0.6	0.56	0.56

Ten-year statistics (continued)

		2007	2006	2005
Operational ratios Lufthansa Group				
Profit/loss-revenue ratio (profit/loss before taxes [2) 10)]/revenue[1)])	%	9.5	5.7	4.8
Return on total capital (profit/loss before taxes [2) 10)] plus interest on debt/total assets)	%	11.2	8.2	7.0
Return on equity (Profit after income taxes/shareholders' equity[3)])	%	25.5	18.3	13.5
Return on equity (profit/loss before taxes [2) 10)]/shareholders' equity[3)])	%	30.8	23.0	19.3
Equity ratio (shareholders' equity [3)]/total assets)	%	30.9	25.2	23.5
Gearing [8)] (net indebtedness plus retirement benefit obligations/shareholders' equity[3)])	%	24.5	75.7	85.8
Leverage (net indebtedness/total assets)	%	–3.4	– 0.5	– 0.7
Internal financing ratio (cash flow/revenue)	%	164.8	109.1	106.9
Dynamic gearing (net indebtedness – cash flow ratio)	%	–26.8	– 4.8	– 7.3
Revenue efficiency (cash flow/revenue [1)])	%	12.8	10.6	10.8
Net working capital (current assets less short-term debt) [5)]	€bn	0.0	– 0.2	0.0
Personnel ratios				
Annualised average employee total		100,779	93,541	90,811
Revenue [1)]/employee	€	222,467	212,196	198,930
Staff costs/revenue [1)]	%	24.5	25.3	26.9
Traffic data Lufthansa Group [6)]				
Total available tonne-kilometres	millions	30,339.3	26,666.8	26,485.6
Total revenue tonne-kilometres	millions	22,198.0	19,215.7	18,726.6
Overall load factor	%	73.2	72.1	70.7
Available seat-kilometres	millions	169,108.4	146,719.6	144,181.9
Revenue passenger-kilometres	millions	130,892.9	110,329.5	108,184.5
Passenger load factor	%	77.4	75.2	75.0
Passengers carried	millions	62.9	53.4	51.3
Paid passenger tonne-kilometres	millions	13,154.6	11,112.3	10,897.5
Freight/mail	t	1,910,846	1,758,968	1,735,771
Freight/mail tonne-kilometres	millions	9,043.4	8,103.4	7,829.1
Number of flights [7)]		749,431	664,382	653,980
Flight kilometres	millions	979.3	794.6	794.1
Aircraft utilisation (block hours)		1,629,416	1,341,810	1,340,948
Aircraft in service		513	430	432

The figures differ slightly from those published earlier, since they have been rounded off to the nearest million in euros.

* Figures are converted from DM into EUR.

1) The figure for 1998 has been adjusted for the changed allocation of commission payments.
2) From 2005 profit/loss from operating activities before income taxes (up to 2004 profit/loss before taxes) including other taxes. Previous year adjusted.
3) From 2005 shareholders' equity including minority interest. Previous years adjusted.
4) Capital increase by EUR 195,379,200 (76,320,000 shares) in 2004.

2004	2003	2002	2001	2000	1999*	1998*
3.2	– 5.1	5.3	– 4.8	7.8	7.6	10.7
5.8	– 1.7	7.6	– 1.7	10.5	10.0	12.8
10.2	–36.3	17.3	–17.1	16.5	17.1	22.1
13.5	– 30.2	21.7	– 22.9	28.5	26.1	37.7
22.2	16.1	21.8	19.4	28.1	29.0	27.0
92.5	182.4	123.5	213.0	115.9	121.5	105.5
– 2.3	3.5	5.9	20.9	10.0	12.0	6.0
105.5	136.9	262.7	58.3	87.5	41.8	98.0
– 22.2	37.4	49.0	219.6	68.9	190.6	39.6
11.1	9.9	13.6	10.4	14.1	6.3	15.8
0.9	– 0.3	– 0.4	– 1.5	– 1.0	– 1.1	– 0.2
92,743	94,798	94,135	87,975	69,523	66,207	54,867
182,925	168,326	180,284	189,713	218,633	193,258	213,917
28.4	28.9	27.5	26.8	23.8	25.3	24.4
25,950.3	23,237.3	22,755.6	23,941.3	23,562.8	21,838.8	20,133.6
18,445.0	16,226.5	16,080.8	16,186.9	16,918.0	15,529.1	14,170.4
71.1	69.8	70.7	67.6	71.8	71.1	70.4
140,647.7	124,026.6	119,876.9	126,400.4	123,800.8	116,383.3	102,354.4
104,063.7	90,708.2	88,570.0	90,388.5	92,160.4	84,443.1	74,668.4
74.0	73.1	73.9	71.5	74.4	72.6	73.0
50.9	45.4	43.9	45.7	47.0	43.8	40.5
10,484.0	9,137.9	8,922.8	9,105.4	9,251.9	8,458.3	7,474.1
1,752,900	1,580,430	1,624,983	1,655,870	1,801,817	1,745,306	1,702,733
7,961.0	7,088.6	7,158.0	7,081.5	7,666.1	7,070.7	6,696.3
647,785	543,549	517,922	540,674	550,998	655,589	618,615
798.7	703.6	668.1	687.9	678.0	668.7	636.4
1,351,932	1,172,034	1,112,062	1,157,982	1,154,442	1,092,893	1,010,897
377	382	344	345	331	306	302

5) Financial statements from 2004 according to new IAS 1 balance sheet standards. Figures for previous years roughly comparable.
6) Since 1997 Condor is no longer included, from 2003 including Air Dolomiti, from 2006 including Eurowings.
7) From 2000 number of flights includes only "real flights". The omitting of ground transports, particularly by Lufthansa Cargo, has led to a marked drop in the number of flights.
8) Since 2004 net indebtedness plus retirement benefit obligations; previous years adjusted.
9) From 2005 incl. non-current bonded loans (payable at any time).
10) Incl. discontinued operations of the Leisure Travel segment.

Glossary

Aviation terminology

Average yields Average revenue earned per unit of output; normally based on total passenger-kilometres or tonne-kilometres sold, but they can also be calculated per unit of traffic volume, e.g. per passenger carried or per kilometre flown.

Block time The time from the moment an aircraft leaves its parking position ("off-blocks time") to taxi to the runway for take-off until it comes to a complete standstill at its final parking position at the destination airport ("on blocks").

Budget/No-frills carriers "Budget/No-frills" carriers are airlines which offer largely low fares but no service whatsoever, either on board or on the ground. They fly mainly from small airports in rural locations, for example, Hahn airport.

Hub airlines use an airport as central connecting point – a hub. Passengers and goods are transported from the original starting point to the hub. From there, passengers and goods are carried to their final destination by a second flight.

Load factor Measure of capacity utilisation in per cent. Ratio of capacity sold (revenue tonne-kilometres) to capacity offered (available tonne-kilometres). The passenger load factor is the proportion of seats sold, the cargo load factor is the proportion of freight capacity sold and the overall load factor is the degree of utilisation of total available capacity (i.e. in both passenger and cargo business).

Passenger Transportation segment The Passenger Transportation segment comprises the passenger airlines consolidated in the annual financial statements/interim financial statements: Lufthansa, Lufthansa CityLine, Air Dolomiti and, as of 31 December 2005, the Eurowings Group (incl. Germanwings). SWISS is currently included at equity in the segment result via AirTrust. The published traffic figures comprise the performance data of Lufthansa Passenger Airlines – that is, Lufthansa German Airlines plus its regional partner airlines Air Dolomiti, Augsburg Airways, CityLine, Contact Air and Eurowings.

Seat-kilometre/tonne-kilometre Standard output unit for air transportation. A revenue seat/passenger-kilometre (RPK) denotes one fare-paying passenger transported one kilometre. A revenue tonne-kilometre (RTK) denotes one tonne of load (passengers and/or cargo) transported one kilometre.

Financial Terminology

Call option The right to purchase a specified amount of the underlying security within a specified period of time at an agreed price.

Cash flow Measure of a company's financial and earnings potential. It is calculated as the difference between the inflow and outflow of cash and cash equivalents generated from ongoing business activities during the financial year. (See Cash Flow Statement, page 117).

Compliance Institutionalised arrangements for ensuring that a company's management and staff duly comply with all statutory provisions and prohibitions. Lufthansa has established a Compliance Office for this purpose. It maintains an insider directory which comprises all persons with access to insider information. An ad hoc clearing team assembled from various departments monitors issues for their ad hoc relevance.

Deferred taxes Tax charges and accruals allocated for payment in a later financial year. Deferred taxes reflect the temporary differences between assets and liabilities recognised for financial reporting purposes and such amounts recognised for income tax purposes.

Directors' dealings Transactions by members of a company's executive or supervisory board, or their family members, involving "their" company's securities. Under German law, any such dealings must be disclosed if they exceed EUR 5,000 within a calendar year.

Dividend yield Indicator for assessing the profitability of an investment in equities. It is determined by dividing the dividend by the share price at the close of the reporting year and then multiplying it by 100.

EBIT Financial indicator denoting earnings before interest and taxes.

EBITDA Financial indicator denoting earnings before interest, taxes, depreciation and amortisation. Depreciation and amortisation includes write-downs of tangible and intangible assets and of long- and short-term financial assets, as well as impairments of investments accounted for using the equity method and of assets held for sale.

Equity ratio Financial indicator expressing the ratio of shareholders' equity to total assets.

Equity method Accounting method for measuring income derived from a company's investment in associated companies or joint ventures. Under the equity method, investment income equals a share of net income proportional to the size of the equity investment.

Free cash flow Financial indicator expressing the cash flow from operating activities remaining in the reporting period after deducting the net cash funds used for investing activities.

Gearing Financial indicator expressing the ratio of net debt plus retirement benefit obligations to shareholders' equity.

Group of consolidated companies Group of subsidiaries included in the consolidated financial statements.

Impairment Unscheduled write-down of an asset if the recoverable amount falls below the carrying amount. The recoverable amount is the higher of an asset's net selling price and its value in use. By contrast, a scheduled write-down of an asset (depreciation or amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Internal financing ratio Financial indicator expressing the degree to which capital expenditure was financed from the cash flow generated.

Lufthansa Pension Trust Company pension commitments which exist for employees in Germany and staff seconded to other countries which are financed largely via provisions for retirement benefit obligations. In 2004, Lufthansa set up a dedicated fund of plan assets with a view to financing future pension payments. The goal is to fully counterfinance the retirement pension obligations within 10 to 15 years. The pension provisions previously reported in the balance sheet were reduced by the value of the Trust's assets as of the cut-off date. Lufthansa intends to transfer an average of EUR 565m each year to the Trust.

Net indebtedness Financial indicator expressing long-term financial debt less liquid funds and securities held as current assets.

Operating result Measure of profitability denoting the result from operating activities less book profits (and losses), write-backs of provisions, currency gains and losses on valuation at the balance sheet date of long-term financial liabilities, and other periodic expenses and income. See also page 49.

Profit-revenue ratio Financial indicator denoting the ratio of the net result to revenue.

Put option Sales option or the associated contract giving the option buyer the right to sell a specified amount of the underlying security within a specified period of time at an agreed price (strike price).

Retained earnings Transfer of profit to shareholders' equity with a view to strengthening a company's financial base.

Return on equity Financial indicator expressing the ratio of net profit to shareholders' equity.

Total shareholder return Financial indicator expressing the overall return that the investor earns from the increase in stock market value or share price plus the dividend payment. The total shareholder return is calculated from the share price at the close of the reporting year plus the dividend paid in respect of the previous year, multiplied by 100 and divided by the share price at the close of the previous year.

Traffic revenue Revenue generated from flight operations. It comprises revenue from transporting passengers and cargo as well as related ancillary services.

Working capital Financial indicator for assessing a company's liquidity, measured as the difference between a company's current assets and its current liabilities.

Credits

Published by
Deutsche Lufthansa AG
Von-Gablenz-Str. 2–6
50679 Cologne

Entered in the Commercial Register of Cologne
District Court under HRB 2168

Editorial staff
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Photos
Deutsche Lufthansa AG
Matthias Just, Reutlingen
Fraport AG

Concept, design and realisation
Kirchhoff Consult AG, Hamburg

Printed by
Broermann Offset-Druck, Troisdorf

Printed in Germany
ISSN 1616-0231

The Annual Report in German or English is also available on CD-ROM.

The Lufthansa Annual Report 2007 is a translation of the original German Lufthansa Geschäftsbericht 2007. Please note that only the German version is legally binding.

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Information published in the Annual Report 2007, with regard to the future development of the Lufthansa Group and its subsidiaries consists purely of forecasts and assessments and not of definitive historical facts. Its purpose is exclusively informational identified by the use of such cautionary terms as “believe”, “expect”, “forecast”, “intend”, “project”, “plan”, “estimate” or “intend”. These forward-looking statements are based on all discernible information, facts and expectations available at the time. They can, therefore, only claim validity up to the date of their publication.

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

Financial calendar 2008/2009

2008

12 March Press Conference and Analysts' Conference on 2007 result

25 April Release of Interim Report January – March 2008

29 April Annual General Meeting Cologne

30 July Release of Interim Report January – June 2008

29 Oct. Press Conference and Analysts' Conference on interim result January – September 2008

2009

11 March Press Conference and Analysts' Conference on 2008 result

24 April Annual General Meeting Cologne

30 April Release of Interim Report January – March 2009

30 July Release of Interim Report January – June 2009

29 Oct. Press Conference and Analysts' Conference on interim result January – September 2009

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