Lufthansa Group

Lufthansa – First choice

Annual Report 2014

Lufthansa Group

The Lufthansa Group is the world's leading aviation group. Its portfolio of companies consists of network airlines, low-cost carriers and aviation service companies. Its combination of business segments makes the Lufthansa Group a globally unique aviation group whose integrated value chain not only offers financial synergies but also gives it an edge over its competitors in terms of know-how.

Key figures Lufthansa Group		2014	2013	Change in %
Revenue and result				
Total revenue	€m	30,011	30,027	−0.1
of which traffic revenue	€m	24,388	24,568	−0.7
Operating result	€m	954	699	36.5
EBIT	€m	459	892	−48.5
EBITDA	€m	1,990	2,670	−25.5
Net profit/loss	€m	55	313	−82.4
Key balance sheet and cash flow statement figures				
Total assets	€m	30,474	29,108	4.7
Equity ratio	%	13.2	21.0	−7.8 pts
Net indebtedness	€m	3,418	1,695	101.7
Cash flow from operating activities	€m	1,977	3,290	−39.9
Capital expenditure (gross)	€m	2,777	2,499	11.1
Key profitability and value creation figures				
Adjusted operating margin[1]	%	3.7	3.0	0.7 pts
EBITDA margin	%	6.6	8.9	−2.3 pts
CVA	€m	90	3,133	−97.1
Lufthansa share				
Share price at year-end	€	13.83	15.42	−10.3
Earnings per share	€	0.12	0.68	−82.4
Suggested dividend per share	€	–	0.45	−100.0
Traffic figures[2]				
Passengers	thousands	105,988	104,593	1.3
Freight and mail	thousand tonnes	1,924	1,965	− 2.1
Passenger load factor	%	80.1	79.8	0.3 pts
Cargo load factor	%	69.9	69.1	0.8 pts
Flights	number	1,001,975	1,028,260	− 2.6
Employees				
Average number of employees	number	118,973	117,414	1.3
Employees as of 31.12.	number	118,781	118,285	0.4

[1] Performance indicator to enable comparison with other airlines: (operating result + write-backs of provisions) / revenue.
[2] Previous year's figures have been adjusted.

Date of publication: 12 March 2015.

Business segments

Passenger Airline Group

The network carriers Lufthansa Passenger Airlines, SWISS and Austrian Airlines operate a global route network based on a market strategy of providing high quality, safety, punctuality, reliability and professional service. The portfolio also includes the low-cost airline Germanwings and the equity investments in the carriers Brussels Airlines, JetBlue and SunExpress.

Passenger Airline Group		2014	Change in %
Revenue	€m	23,320	–0.8
of which traffic revenue	€m	21,564	–0.8
Operating result	€m	553	7.8
Adjusted operating margin	%	2.9	0.2 pts
Segment result	€m	726	12.2
EBITDA*	€m	1,697	–20.9
CVA	€m	37	–78.9
Segment capital expenditure	€m	2,248	22.1
Employees as of 31.12.	number	54,960	–0.6

Logistics

Lufthansa Cargo is the logistics specialist within the Lufthansa Group and Europe's leading cargo airline. As well as marketing the freight capacities of Lufthansa Passenger Airlines' and Austrian Airlines' passenger aircraft, the company operates its own fleet of cargo aircraft, comprising 16 Boeing MD11Fs and four B777Fs.

Logistics		2014	Change in %
Revenue	€m	2,435	–0.3
of which traffic revenue	€m	2,364	–0.6
Operating result	€m	100	26.6
Adjusted operating margin	%	4.3	0.7 pts
Segment result	€m	120	34.8
EBITDA*	€m	187	39.6
CVA	€m	49	
Segment capital expenditure	€m	214	–32.7
Employees as of 31.12.	number	4,663	0.1

MRO

Lufthansa Technik is the world's leading independent provider of maintenance, repair and overhaul services (MRO) for civilian commercial aircraft. The portfolio consists of a variety of different product structures and combinations, from the repair of individual components to consultancy services and the fully integrated supply of entire fleets.

MRO		2014	Change in %
Revenue	€m	4,337	3.8
of which external revenue	€m	2,673	3.0
Operating result	€m	392	–3.0
Adjusted operating margin	%	9.4	–1.5 pts
Segment result	€m	429	–6.1
EBITDA*	€m	438	–26.3
CVA	€m	245	–35.0
Segment capital expenditure	€m	118	–13.2
Employees as of 31.12.	number	20,079	0.8

Catering

The LSG Sky Chefs group is the global market leader in airline catering and in all upstream and downstream in-flight service processes. Its portfolio covers airline catering, on-board service equipment and logistics, in-flight service management, in-flight sales and services at airports. The company also operates in adjacent markets, such as services for trains and supplying the retail sector.

Catering		2014	Change in %
Revenue	€m	2,633	4.7
of which external revenue	€m	2,022	5.9
Operating result	€m	100	–4.8
Adjusted operating margin	%	3.8	–0.5 pts
Segment result	€m	95	–22.8
EBITDA*	€m	148	–12.9
CVA	€m	–7	
Segment capital expenditure	€m	140	27.3
Employees as of 31.12.	number	32,843	1.7

IT Services

Lufthansa Systems offers consultancy and IT services for selected industries and is a global leader in the aviation sector. Its portfolio includes advising on, developing and implementing bespoke industry solutions along with operating both systems and applications at its own data centres. Following the sale of its IT Infrastructure unit, this business segment is to be dissolved in the 2015 financial year.

IT Services		2014	Change in %
Revenue	€m	646	0.9
of which external revenue	€m	270	1.9
Operating result	€m	37	2.8
Adjusted operating margin	%	6.0	0.4 pts
Segment result	€m	–12	–
EBITDA*	€m	–85	–
CVA	€m	–170	
Segment capital expenditure	€m	18	–10.0
Employees as of 31.12.	number	2,721	0.1

* Without Group-internal profit and loss transfer/investment income.

2014 figures

30.0
Revenue in EUR bn

954
Operating result in EUR m

1,977
Operating cash flow in EUR m

2,777
Capital expenditure in EUR m

90
Cash Value Added in EUR m

–7.4
Total Shareholder Return in per cent

←

Key figures

Lufthansa Group overview

Contents

#1

The Lufthansa Group is the world's leading aviation group.
We operate one of the biggest aircraft fleets in the world, and are market leader with our service companies in their respective industries. This set-up is unique. It provides us with both a knowledge-based advantage in many aspects of our business as well as a reassuring financial stability that enables us to act entrepreneurially and to create value through economic cycles. However, reinventing ourselves regularly is not only an ability but also a necessity in order to develop our business successfully. We do so by focusing on seven fields of action in our strategic programme "7to1 – Our Way Forward":

↗ Customer centricity and quality focus ↗ New concepts for growth ↗ Innovation and digitalisation ↗ Effective and lean organisation ↗ Culture and leadership ↗ Value-based steering ↗ Constantly improving efficiency

Seven fields of action, one goal:
Lufthansa – First choice for customers, employees, shareholders and partners.

Karl Ulrich Garnadt
Executive Board member
Chief Executive Officer
Lufthansa German Airlines

Born in 1957, diploma in commercial air transport, Executive Board member since 1 May 2014, at Lufthansa since 1979

Dr Bettina Volkens
Executive Board member
Chief Officer Corporate Human Resources and Legal Affairs

Born in 1963, lawyer, Executive Board member since 1 July 2013, at Lufthansa since 2012

Carsten Spohr
Chairman of the Executive Board and CEO

Born in 1966, industrial engineer, Chairman of the Executive Board and CEO since 1 May 2014, Executive Board member since 1 January 2011, at Lufthansa since 1994

Simone Menne
Executive Board member
Chief Officer Finances and Aviation Services

Born in 1960, business administration graduate, Executive Board member since 1 July 2012, at Lufthansa since 1989

Harry Hohmeister
Executive Board member
Chief Officer Group Airlines, Logistics and IT

Born in 1964, diploma in commercial air transport, Executive Board member since 1 July 2013, at Lufthansa since 1985

Ladies and gentlemen,

2014 was an eventful year for the Lufthansa Group. Among the major challenges for the entire industry were the political crises in Ukraine and the Middle East, as well as the adverse effects on global aviation of the Ebola epidemic in West Africa. In addition to this, we faced enormous competitive pressure – from low-cost carriers in Europe as well as from state-owned Gulf airlines on routes to Asia. And finally, the large-scale strikes by our own pilots had a significant impact on our business performance last year.

We are therefore very pleased that we still managed to end 2014 with a new record: never before as many passengers have flown with our airlines; 106 million passengers placed their trust in us last year. Our quality offensive at the airlines is already paying off. Our other business segments also increased their customer numbers. Lufthansa Technik, for example, served a total of 3,290 aircraft on an exclusive basis for almost 800 customers worldwide, which was an impressive 17 per cent increase on the previous year.

Overall, the past financial year therefore featured some positive developments despite the major challenges. Among the less positive events were undoubtedly the strikes. Already in spring, the Group was significantly affected by the industrial action taken by staff outside of our Company, before the pilots at Lufthansa Passenger Airlines, Germanwings and Lufthansa Cargo went on strike for three full days in April. At this point, our airlines were also faced with an increasingly severe downturn in demand. This trend was exacerbated by the strikes by the pilots' union Vereinigung Cockpit. By June, the sharp fall in yields forced us to adjust our profit forecast for the full year. In total, there were 15 days of strikes and more than 8,600 flight cancellations in 2014, which had a negative impact both on our customers' confidence in our reliability as well as on our earnings, particularly those of Lufthansa Passenger Airlines. Although the latter still ended the year with a positive operating result, the figure was nonetheless down on the previous year – despite the strong tailwind from the new depreciation method for aircraft.

Our other airlines reported a better performance. SWISS was able to increase its earnings further in a challenging environment. Austrian Airlines recorded another positive operating result. However, of even greater importance for the future of this company was the pivotal agreement with its labour union partners concerning sustainable and more competitive structures – a major success for all sides. Lufthansa Cargo increased its earnings despite additional burdens. As in the previous years, Lufthansa Technik's earnings were excellent and once again made a substantial contribution towards stabilising the Group's result for the period. Earnings at LSG Sky Chefs were only slightly lower than in the previous year and were clearly positive. Lufthansa Systems was able to keep its earnings stable.

In the end, the Lufthansa Group recorded an operating result of EUR 954m, an increase of around 36 per cent on the previous year. However, the accounting effects of the aforementioned change to the depreciation method for aircraft and reserve engines were also included here. Without these effects, our operating result would have been down on the previous year. We therefore cannot be satisfied with this financial result, although we certainly can with the way in which we achieved it, given all the adversity we faced. In the meantime we have laid the foundations for sustainable improvements in our earnings. In our strategic programme "7to1 – Our Way Forward", we have defined seven fields of action that should enable us to live up to our claim to be "Lufthansa – First choice", the slogan of this year's annual report. This is the basis for the successful further development of the Lufthansa Group. Over the course of the year, we have already laid essential foundations and achieved the first interim objectives, such as selling the Infrastructure unit of our IT Services business segment and carving-out Miles & More into a separate legal entity.

Setting-up the new Eurowings as a European low-cost airline and our partnership with the Chinese carrier Air China also represent major steps on the journey towards our goal of safeguarding the future of our Company and making Lufthansa the benchmark in the aviation sector once again.

With the introduction of new financial performance indicators for the 2015 financial year we have also increased transparency in the internal and external assessment of the Company's performance. Starting in the new financial year, we will be reporting to you, our shareholders, on the commercial performance of the Lufthansa Group using the key performance indicators EACC (Earnings After Cost of Capital) and Adjusted EBIT (adjusted earnings before interest and taxes). In conjunction with the introduction of the new performance indicators, we have also modernised our dividend policy. It allows for consistently high dividend amounts. To avoid paying out dividends from the substance of the Company, however, we will continue to propose a dividend only if it is covered by a sufficient net result for the year in the individual financial statements for Deutsche Lufthansa AG prepared in accordance with the German Commercial Code (HGB).

Unfortunately, this was not the case in the 2014 financial year. The negative change in market values of our fuel hedges had an adverse impact on the individual financial statements in accordance with HGB, as did increasing pension liabilities – due to falling interest rates – and negative effects from the outsourcing of Lufthansa Systems' Infrastructure unit. As a result, and in line with our dividend policy, no dividend will be paid for the 2014 financial year.

With the year of laying foundations behind us, we now have the year of implementation ahead of us, so that we can achieve the improvement in earnings that is so urgently needed. We want, for instance, to successfully take the decisive final step with Lufthansa Passenger Airlines on our journey towards becoming the first, private five-star airline in the western hemisphere. This will underscore our claim to be a premium airline and allow us to offer our customers the best and latest products in all booking classes. In parallel, we will concentrate on further expanding Eurowings and create the conditions for further profitable growth for our commercially successful business segments. In our other companies, we will increase profitability and make the changes necessary to do this. We will also push ahead with the further organisational development of the Lufthansa Group by modernising structures and systematically utilising synergies wherever it makes operational and strategic sense to do so.

For the 2015 financial year, we are forecasting an Adjusted EBIT of more than EUR 1,5bn. However, our earnings will also depend on the development of the oil price, the euro exchange rate against the US dollar and the Swiss franc, and the performance of the Passenger Airline Group's average yields. The further course of the wage negotiations at Lufthansa Passenger Airlines will also play a role here.

Dear shareholders, on 1 May 2014 I took over from Christoph Franz as Chairman of the Executive Board and CEO of Deutsche Lufthansa AG. Together with my colleagues on the Executive Board, Karl Ulrich Garnadt, Harry Hohmeister, Simone Menne and Dr Bettina Volkens, we are working on leading your Company towards a future characterised by sustainable success: Lufthansa – First choice for customers, employees, shareholders and business partners: that is our shared objective.

We are well positioned and open to change, and we have the best employees who want to achieve this objective together with us. Thank you for your continued trust and your support.

Frankfurt, March 2015
Carsten Spohr
Chairman of the Executive Board and CEO of Deutsche Lufthansa AG

Lufthansa – First choice

The fields of action of our strategic programme “7to1 – Our Way Forward”

02 / New concepts for growth

We are focused on the continuous profitable development of our Group and our companies.

03 / Innovation and digitalization

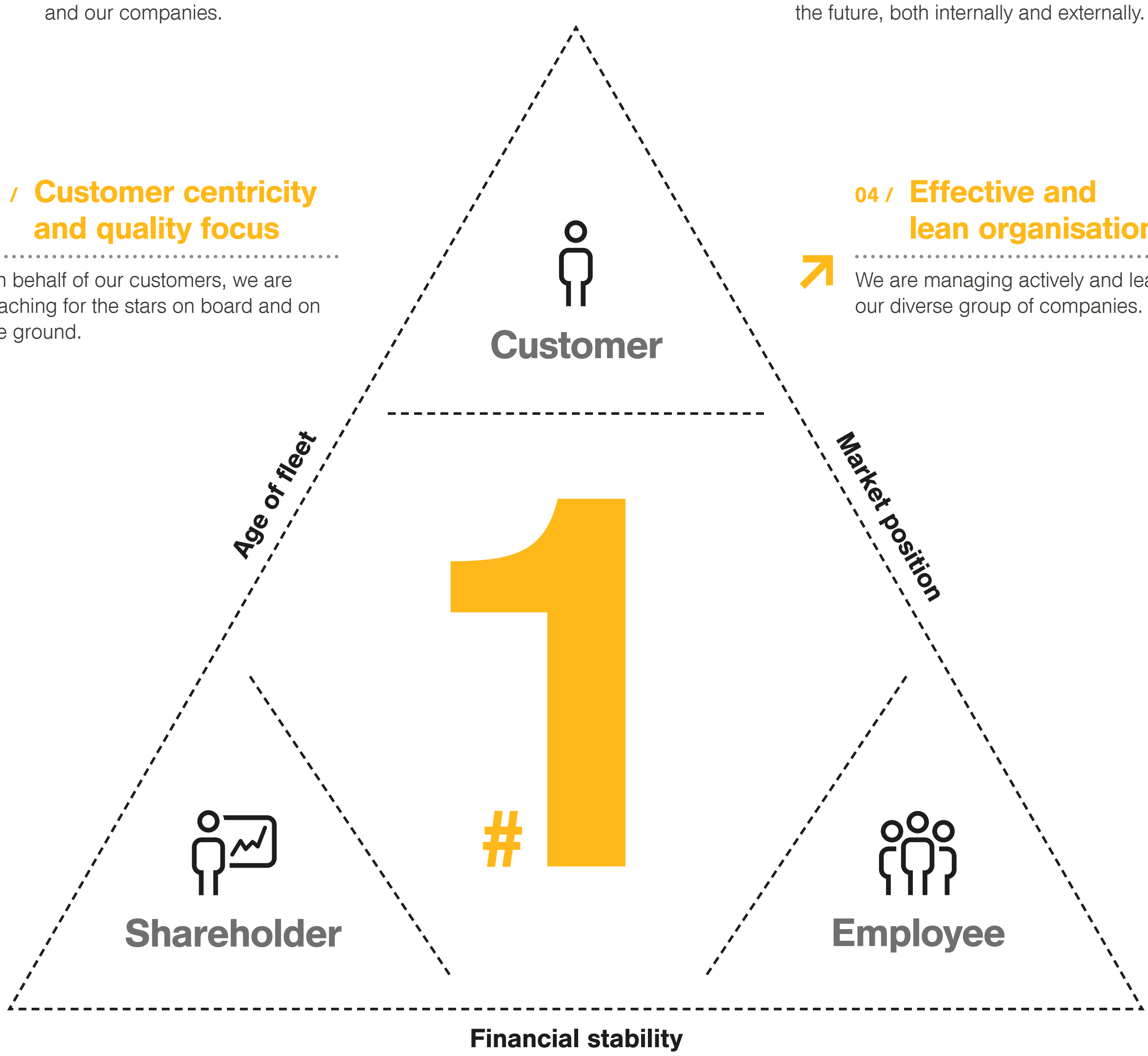
With new solutions and business models, we are making the Company viable for the future, both internally and externally.

01 / Customer centricity and quality focus

On behalf of our customers, we are reaching for the stars on board and on the ground.

04 / Effective and lean organisation

We are managing actively and lean our diverse group of companies.



07 / Constantly improving efficiency

A permanent focus on developing and implementing earning improvement potentials is a continuous management task for us.

05 / Culture and leadership

Motivation and passion for aviation are what sets us apart.

06 / Value-based steering

With the right choice of financial performance indicators, we are making sure that our financial resources are allocated in the best way.

What we have already achieved in 2014 ...

Lufthansa – First choice

Successful measures on our "Our Way Forward" in 2014

01 / Customer centricity and quality focus

- The new First and Business Class is introduced on more than 100 Lufthansa Passenger Airlines' long-haul aircraft. This means that the entire long-haul fleet of the Passenger Airline Group will soon have fully flat beds in Business Class. The installation of Premium Economy Class starts at Lufthansa Passenger Airlines.

- Across all of the Group's airlines and companies, initiatives to improve quality make good progress.

02 / New concepts for growth

- Lufthansa Passenger Airlines transfers its connections outside of the Frankfurt and Munich hubs to Germanwings as planned. The decision to establish the new Eurowings paves the way for the systematic further expansion of this business.

- In future, Lufthansa Technik will also carry out maintenance work on aircraft at a maintenance facility in Puerto Rico, the construction of which began in 2014. LSG Sky Chefs drives its growth by means of partnerships in airline catering as well as in adjacent markets. Miles & More is successfully carved out in order to utilise up growth potential.

03 / Innovation and digitalization

- The Lufthansa Group fosters its activities in the area of innovation. An innovation fund to support innovative solutions and technologies is launched, and an innovation hub is established in Berlin to strengthen links with relevant start-up companies.

- "Innovator Awards" are given to employees for developing and implementing innovative ideas and projects for the first time.

04 / Effective and lean organisation

- The optimisation of administrative areas makes progress. The planned transfer of various administrative functions to the newly established Lufthansa Global Business Services is implemented successfully. Administrative processes continue to consist of the same high quality, but are now also standardised and conducted efficiently and cost-effectively from a single source for the entire Lufthansa Group. This makes the individual business segments leaner in the future.

- Austrian Airlines and employee representatives agree on new structures that are viable for the future.

05 / Culture and leadership

- Managers at the Lufthansa Group use uniform principles throughout the entire Company to manage their staff and areas. The newly developed Leadership Principles Driving Business, Leading Change, Creating Spirit, Fostering Talent and Mastering Complexity are put in even more focus across all of the Group's companies.

06 / Valued-based steering

- The Lufthansa Group adopts a new system of financial key performance indicators to manage the Company. The introduction of EACC and EBIT as key performance indicators reduces the complexity of reporting systems and makes internal and external reporting more closely interconnected. The new key performance indicators are more transparent and easier to use, which should help to embed value-based management even more firmly within the Company.

07 / Constantly improving efficiency

- The SCORE programme sees the implementation of more than 2,700 projects, with a gross earnings contribution of EUR 974m in 2014, thus successfully helping to stabilise earnings. For the coming years, too, there are plenty of further measures to improve earnings in the pipeline.
- An agreement to outsource the IT Infrastructure unit of the IT Services segment is signed.

“Our most important priority, apart from safety, is our future viability.”

#1

Carsten Spohr, Chairman of the Executive Board and CEO

» **Mr Spohr, “Lufthansa – First choice” is the slogan of this annual report for the 2014 financial year. What makes the Lufthansa Group the company of choice?**
Being the first choice primarily means enjoying a high level of trust. I am very grateful that we have not lost this trust among our customers, our employees and our shareholders, in spite of all the turbulence over the past year.

Our employees throughout the Company put every effort into impressing our customers every single day and demonstrating that the Lufthansa Group is the right choice – on the ground and on board our aircraft, at our airlines and at our service companies. However, we do not just want to be the first choice for our customers. Our aim is also to remain the first choice for our employees and, last but not least, in the capital market for our shareholders.

» **Trust is a valuable asset. How can the Lufthansa Group succeed in maintaining this trust despite the challenging operating environment?**
By acting in a sustainable manner. It is my duty and my understanding of managing the company successfully long-term to balance the interests of stakeholders – and to do so with sustainable prospects and viable structures for everyone. It is no coincidence that the triangle which represents the balance between these interests serves as an important basis for how we act.

» **What do you consider to be the key to this difficult task?**
We are a service company. Our focus is on serving the needs of our 106 million passengers and our customers in our service companies as best we can. To achieve this, we have to meet the highest quality standards in our industry and offer the best products and excellent services in each sector.

» **That means the customer is the priority for you?**
Yes. Even if this is not an end in itself. We can only generate adequate returns for our shareholders and ensure that our employees have jobs with prospects if we have satisfied and loyal customers. How we act is therefore guided by the question: what is the customer willing to pay for and how do we produce this at the required quality every single day?

» **What is your answer to this question?**
We always start by focusing on the most important thing: the safety of our passengers and crews. Beyond this, our aim is to achieve the highest level of product quality in all areas of the Company. The Lufthansa Group is a network of premium service providers in their respective sectors. This is why we have also declared 2015 to be the year of the new Lufthansa premium quality.

» **What does that mean exactly?**
We will have the latest product in First, Business and Economy Class in all of Lufthansa Passenger Airlines’ long-haul aircraft. By the end of the year, this will also be true for the new Premium Economy Class. We want to be the first European airline to reach the highly regarded five-star level. It goes without saying that we also offer outstanding service and consistent products at SWISS and Austrian Airlines, as well as new lounges at our Zurich and Vienna hubs. Our high level of investment is now delivering clear benefits for our customers and, as a result of more stable revenue, for our shareholders, too.

» **The Lufthansa Group is not just made up of airlines, however, but also includes service companies such as Lufthansa Technik and LSG Sky Chefs.**
That is correct. All of the service companies in the Lufthansa Group are economically successful market leaders in their respective industries.

For this very reason, I believe that the two biggest of these companies, Lufthansa Technik and LSG Sky Chefs, have excellent opportunities to increase their market presence and expand their product range. However, other successful companies like AirPlus and Miles & More also have enormous potential to build on their successes.

» **Are the service companies in the Lufthansa Group doing better than the airlines?**
In recent years, we have seen that at least the financial performance of our service companies has been more stable than that of our airlines. This is also because they have expanded into other countries as markets have developed. Our service companies are therefore sometimes able to operate more cost-effectively than our airlines, which are tied to their home markets.

» **Why is that so?**
Germany, Austria and Switzerland are no low-wage countries, as everyone knows. For the airlines in particular, it is therefore especially important to provide outstanding quality and to counteract cost disadvantages. However, it goes without saying that our goal is to provide the best possible quality in all of the Lufthansa Group's companies at all times.

» **Taking all of that into consideration, how do you view the Lufthansa Group?**
It cannot be stressed enough: the Lufthansa Group is the world's leading aviation group today. We are very proud of this – particularly in our anniversary year of 2015 – when we look back at our modest relaunch 60 years ago. Today, we operate one of the biggest aircraft fleets in the world, and our service companies are market leaders in their respective industries. This set-up is unique and gives us a real competitive advantage. It provides us with both a knowledge-based advantage in many aspects of our business as well as a level of financial stability that enables us to act entrepreneurally and to create value, irrespective of economic cycles. However, we can and we have to regularly question this strategy.

» **What are the specific challenges facing you?**
While we are building on the strengths of our service companies, we need to openly identify and address potentials for improvement in our passenger business. That is the core of our programme "7to1 – Our Way Forward". Our excessively high costs are a major weakness. Getting a handle on them is a big challenge and has the potential to cause conflict – as we experienced in the past financial year, particularly in our negotiations with the pilots' union Vereinigung Cockpit. At the same time, we must increase our revenue through our quality offensive and make our airlines' route networks even more attractive – through new partnerships, for example, such as most recently with Air China.

» **In Europe and, indeed, worldwide, point-to-point traffic is growing. However, the business models of the Lufthansa Group's airlines are focused primarily on hubs.**
Our growing business in direct traffic outside our hubs will play a central and indispensable role in the future development of the Lufthansa Group. Traffic volumes in direct traffic within Europe are already today several times greater than travel via the hubs. This market offers us attractive opportunities, and that is why we want to further build on the success of our Wings airlines.

» **Some nine months ago, you outlined seven new strategic fields of action. Are these strategic fields already being implemented?**
Over the last few months, we have laid some essential foundations for our further development. Now, we are concentrating on implementation. This also applies to the first-time application of the new value-based management indicators that we outlined in December 2014. Our aim now is to determine which structures will enable the Lufthansa Group to be successful in the future.

» **Will SCORE be part of these structures?**
With SCORE, we have been implementing a very successful earnings improvement programme for three years. Without the resulting successes, we would not have been able to overcome the challenges of the market as effectively. The process improvements that we developed are now gradually becoming part of our routine. You could say that SCORE will never finish. Our focus now is increasingly on the organisational structure of the Group. I am certain that this area in particular will see a number of exciting developments in the course of the year.

» **Looking ahead, how do you measure your success in the future?**
By every year being better than the year before. Our most important priority, apart from safety, is our future viability.

Measures 2015

01 / Customer centricity and quality focus

Five-star quality: Lufthansa Passenger Airlines finalises the introduction of the new First, Business and Premium Economy Class with additional services on board and on the ground.

02 / New concepts for growth

The new Eurowings: profitable growth in direct traffic within Europe and all over the world.

03 / Innovation and digitalization

Looking to the future: implementing of initial innovation potential with external partners.

04 / Effective and lean organisation

Leaner, more agile, more efficient: the Lufthansa Group exploits its synergy potential and pools its organisational strengths.

05 / Culture and leadership

Structures for quicker decision-making and consent implementation: culture is a key element of success.

06 / Value-based steering

New key performance indicators: value-based management of the Company using EACC and EBIT for the first time.

07 / Constantly improving efficiency

Continuous improvement: change remains a long-term activity of the Company even after the SCORE programme ends.

Wolfgang Mayrhuber, Chairman of the Supervisory Board

Ladies and gentlemen,

In the financial year 2014, the Supervisory Board again carried out the duties conferred on it by law, the Company's Articles of Association and its internal regulations: to appoint the members of the Executive Board, to supervise their work and to advise them. The Executive Board's reporting obligations and the list of transactions requiring authorisation are defined by law and are specified in internal regulations.

The Executive Board provided us with full, timely information on the competitive environment, planned Company policy as well as all significant strategic and operating decisions.

Larger items of projected capital expenditure and equity investments as well as planned Group financing activities were coordinated with us. As Chairman of the Supervisory Board I read the minutes of the Executive Board meetings and discussed the current course of business with the Chief Executive Officer on an ongoing basis.

In 2014, the Supervisory Board held five meetings, on 7 February, 12 March, 28 April, 17 September and 3 December. In December we carried out the regular review of the efficiency of our working practices and together with the Executive Board issued an updated declaration of compliance with the German Corporate Governance Code, which can be found on the Lufthansa Group website at i www.lufthansagroup.com/declaration-of-compliance. There were no conflicts of interest requiring disclosure in 2014. No member of the Supervisory Board was present at fewer than half the meetings of the Supervisory Board or the Supervisory Board committees.

Our meetings focused on the economic development of Deutsche Lufthansa AG and its associated companies. Special attention was paid to the considerable disruption caused by multiple pilots' strikes at Lufthansa Passenger Airlines, Lufthansa Cargo and Germanwings, the progress made on the SCORE programme and the legal and collective bargaining effects of transferring flight operations from Austrian Airlines to Tyrolean Airways Tiroler Luftfahrt GmbH in the financial year 2012. In September we held intensive talks with the Executive Board on the package of strategic measures dubbed "7to1 – Our Way Forward", which is intended to create more competitive structures in a total of seven action areas in order to ensure the future viability of the Lufthansa Group and enable further growth in the airline industry.

We approved the purchase of a total of 25 aircraft from the Airbus A320 family for the Group's airlines and the wet leases for up to seven long-haul aircraft from the A330 family for the new Eurowings. We also gave our approval to the carve-out of the Miles & More division from Deutsche Lufthansa AG into Miles & More International GmbH and the planned break-up of Lufthansa Systems AG and subsequent sale of its IT Infrastructure unit to the IBM Group.

The Executive Board informed us regularly of changes in the shareholder structure, the performance of the Lufthansa share, transactions with derivative financial instruments, and allocations to and returns from the Lufthansa pension fund. The disclosures required by takeover law made in the combined management report by the Executive Board in accordance with Sections 289 Paragraph 4 and 315 Paragraph 4 of the German Commercial Code require no further comment.

On 7 February 2014 and at the recommendation of the Steering Committee, which met five times in 2014, the Supervisory Board appointed Mr Carsten Spohr to succeed Dr Christoph Franz as Chairman of the Executive Board and CEO with effect from 1 May 2014. As mentioned in the Supervisory Board's report for the previous year, Dr Franz ended his work for the Executive Board in agreement with the Company on 30 April 2014. At the meeting held on 12 March 2014, the Supervisory Board followed another recommendation from the Steering Committee and appointed Mr Karl Ulrich Garnadt, previously Chairman of the Executive Board and CEO of Lufthansa Cargo AG, to take Mr Spohr's seat on the Executive Board of Deutsche Lufthansa AG, with responsibility for Lufthansa Passenger Airlines. The appointment was made for the period from 1 May 2014 to 30 April 2017.

On 17 September 2014, again following the recommendation of the Steering Committee, the Supervisory Board appointed Ms Simone Menne as a member of the Executive Board of Deutsche Lufthansa AG with responsibility for Finances and Aviation Services until 30 June 2020.

The Arbitration Committee and the Nomination Committee were not convened in the reporting year.

The Audit Committee met five times in 2014, four of the meetings in the presence of the auditors. The Audit Committee discussed the interim reports with the CFO before their publication. The committee also dealt with the supervision of accounting processes and the effectiveness of the internal control system, risk management and internal auditing systems. The members received regular reports on risk management, compliance and the work of the Group's internal audit department. They looked in detail at the new concept for value-based management to be established in 2015 and the changes to the Lufthansa Group's dividend policy.

Information on the committees' work was provided at the beginning of the subsequent Supervisory Board meeting.

Dr Jürgen Hambrecht left the Supervisory Board at the close of the Annual General Meeting on 29 April 2014. He was a member of the Supervisory Board for six years and was closely involved in preparing important staff decisions as a member of both the Steering Committee and the Nomination Committee. The Supervisory Board thanks him for his sense of responsibility, his pragmatism and the great commitment he brought to his work.

Ms Monika Ribar was elected to the Supervisory Board to succeed Dr Hambrecht at the Annual General Meeting on 29 April 2014. On the same day, the Supervisory Board elected Ms Ribar as a member of the Audit Committee, where she succeeds Dr Karl-Ludwig Kley, who took over the posts on the Steering Committee, Arbitration Committee and Nomination Committee left vacant by the departure of Dr Hambrecht. Dr Werner Brandt was elected as Chair of the Audit Committee.

Ms Ilona Ritter left the Supervisory Board as of 31 December 2014. She was replaced as of 1 January 2015 by the substitute member Mr Jan-Willem Marquardt, who was elected by the staff of the Lufthansa Group. The Supervisory Board thanks Ms Ritter for her responsible contribution to its work. Mr Jan-Willem Marquardt was elected to succeed her on the Audit Committee with effect from 11 March 2015.

We appointed PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Dusseldorf, who were elected as auditors for Deutsche Lufthansa AG and the Group at the Annual General Meeting 2014, to audit the financial statements and the consolidated financial statements, the combined management report and the system for the early identification of risks. The Audit Committee acknowledged the declaration of independence provided by PricewaterhouseCoopers and discussed the main topics of the audit. No potential 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) issued by the International Accounting Standards Board (IASB), taking account of interpretations by the IFRS Interpretations Committee as applicable in the European Union (EU). The auditors audited the annual financial statements and consolidated financial statements of Deutsche Lufthansa AG and the combined management report as of 31 December 2014 in accordance with the legal requirements, and had no reservations to make. They further confirmed that the system for the early identification of risks established by the Executive Board is suitable for the early identification of developments which could endanger the Company's continued existence. During their audit the auditors did not come across any facts in contradiction with the declaration of compliance.

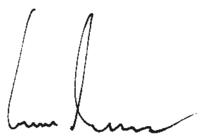
In early March 2015, the Audit Committee discussed the audit reports in detail with the CFO in the presence of the two auditors who had signed the financial statements. At the Supervisory Board accounts meeting the auditors reported on their audit findings and answered questions. We examined in detail the financial statements and the consolidated financial statements of Deutsche Lufthansa AG as well as the combined management report and had no objections to make. We agree with the Executive Board's proposal not to pay a dividend and to balance the net loss according to HGB for the financial year 2014 by means of a transfer from the capital reserve. The financial statements and the consolidated financial statements were approved. The 2014 annual financial statements of Deutsche Lufthansa AG as prepared by the Executive Board have thereby been adopted.

In January 2015, Dr Bernhard Walter, the former Chairman of the Executive Board of Dresdner Bank, passed away at the age of 72, as did Mr Jan Stenberg, the former CEO of SAS Scandinavian Airlines, at the age of 75. Dr Walter was a member of our Supervisory Board from 1998 to 2000 and was closely involved in the timely and far-sighted appointment of Executive Board members as a member of the Steering Committee. Mr Stenberg was a member of our Supervisory Board from 1998 to 2003 and contributed his international experience as CEO of one of the Star Alliance's five founding members to the work of the Board. We will always remember both gentlemen with respect.

The year 2014 was marked by various factors that affected the results of the Lufthansa Group. Performance was severely hindered by strikes throughout the year. They were accompanied by intense competition and the ensuing decline in average yields from the passenger business. The Executive Board had to alter the original forecast for the operating result as early as June from EUR 1.3 to 1.5bn to around EUR 1bn. Fuel price movements in the last quarter had a positive impact on earnings, although political instability also affected demand. Under these circumstances the result finally reported for the financial year 2014 can be considered acceptable.

The Supervisory Board expressly thanks the Executive Board and the employees of the Lufthansa Group for their work under very difficult conditions and their great personal commitment.

Cologne, 11 March 2015



For the Supervisory Board
Wolfgang Mayrhuber, Chairman

Lufthansa share

Total shareholder return of –7.4 per cent in 2014. / No dividend for the financial year 2014. / Majority of analysts recommend holding the share. / Shareholder structure changes slightly. / Comprehensive, transparent communication with capital markets to continue. / The Lufthansa share is part of major share indices.

Lufthansa share loses value in 2014

The price of the Lufthansa share fell by 10.3 per cent in financial year 2014. Including the dividend payment of EUR 0.45, the shareholders of the Lufthansa Group received a total return of –7.4 per cent in 2014. The share price was very volatile over the course of the year. In the first quarter the share price rose by 23.3 per cent before falling by 17.5 per cent in the second quarter following the adjustment to the earnings forecast for 2014 and 2015. As a result, at the middle of the year the share was only trading at 1.7 per cent above its opening price for the year. In the third quarter, the Lufthansa share declined by 20.2 per cent due to uncertainty surrounding the development of price competition and the strikes by the pilots' union Vereinigung Cockpit. These losses were partly recouped in the fourth quarter (+10.6 per cent) supported by the considerable fall in the oil price.

The share reached its high price for the year on 4 April 2014 at EUR 20.26, followed by the low for the year on 10 October 2014 at EUR 10.88. The share closed the year at EUR 13.83. This meant that the share underperformed in comparison to the DAX index (+2.7 per cent).

On 11 December 2014, the Lufthansa Group presented its new concept for value-based management. As of the financial year 2015, the CVA is to be replaced as the key management metric by Earnings After Cost of Capital (EACC).

The Lufthansa Group also presented a new dividend policy to its shareholders on the same day. Changes in the depreciation policy for aircraft and engines, along with the switch in financial management indicators in the new financial year, made it necessary to revise the policy. In line with the new dividend policy, a dividend payment of 10 to 25 per cent of EBIT should be made from financial year 2015 (payout in 2016), if and insofar as a positive HGB result allows for this. This means that the absolute amount of the dividend will be in the same range as under the previous policy. Shareholders will continue to participate directly in the Company's success.

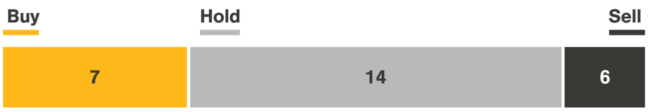
The Lufthansa share: key figures

		2014	2013	2012	2011	2010
Year-end share price	€	13.83	15.42	14.24	9.19	16.36
Highest share price	€	20.26	17.10	14.47	17.39	17.77
Lowest share price	€	10.88	12.93	8.02	8.35	10.34
Number of shares	millions	462.8	461.1	459.9	457.9	457.9
Market capitalisation (at year-end)	€bn	6.4	7.1	6.5	4.2	7.5
Earnings per share	€	0.12	0.68	2.68	–0.03	2.47
Cash flow from operating activities per share	€	4.27	7.15	6.20	5.14	6.71
Dividend per share	€	–	0.45	–	0.25	0.6
Dividend yield (gross)	%	–	2.9	–	2.7	3.7
Dividend	€m	–	207.5	–	114.5	274.8
Total shareholder return	%	–7.4	8.3	57.7	–40.2	39.2

Due to Deutsche Lufthansa AG's considerably negative HGB result, no dividend is paid for the 2014 financial year. A payout to the shareholders would directly reduce the Company's equity. In a case like this, the usual dividend policy stipulates that no payment be made, in order not to erode the Company's financial substance.

Further information on the performance indicators for value-based management and on the new dividend policy is provided in the chapter "Financial strategy" on p. 28.

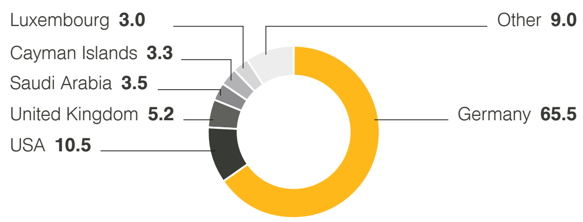
Analysts' recommendations* as of 31.12.2014



* Target price: EUR 13.97, average of 27 analysts.
Range: from EUR 9.60 up to EUR 22.20.

Analysts give Lufthansa share a balanced valuation
A majority of analysts recommend holding the Lufthansa share. Out of 27 equities analysts, 14 recommended the share as a "hold" at year-end 2014. Seven considered the share as a "buy" and six as a "sell".

Shareholder structure by nationality as of 31.12.2014 in %

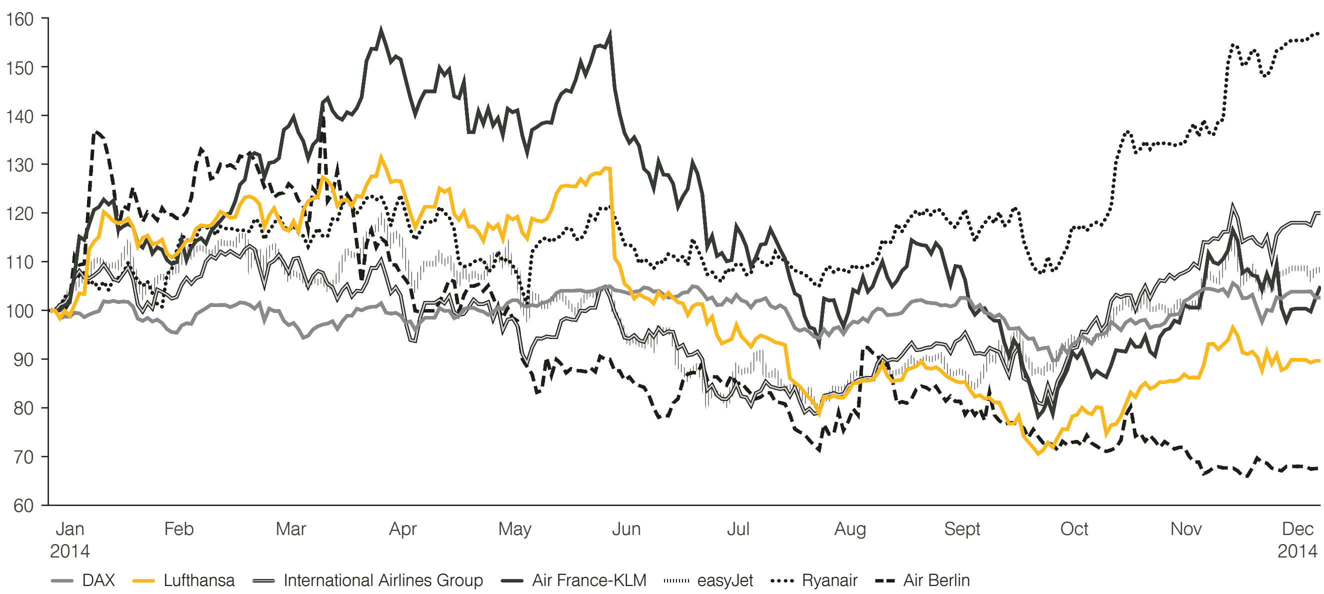


Free float: 100%

Slight changes in foreign share ownership and structure of major shareholders
In order to protect international air traffic rights and its operating licence, the German Aviation Compliance Documentation Act (LuftNaSiG) requires Lufthansa to provide evidence that a majority of its shares are held by German shareholders. For this reason, all Lufthansa shares are registered shares with transfer restrictions.

According to the shareholders' register, at the end of 2014, German investors held 65.5 per cent of the shares (previous year: 62.4 per cent). The second largest group with 10.5 per cent was shareholders from the USA (previous year: 11.5 per cent). Investors from the UK accounted for 5.2 per cent of share capital (previous year: 3.6 per cent), followed by Saudi Arabia with 3.5 per cent (previous year: 2.2 per cent) and the Cayman Islands with 3.3 per cent (previous year: 3.9 per cent). The shareholder structure therefore easily complies with the relevant provisions of the German Aviation Compliance Documentation Act (LuftNaSiG).

Performance of the Lufthansa share, indexed as of 31.12.2013, compared with the DAX and competitors, in %



The free float for Lufthansa shares is 100.0 per cent, as per the definition of Deutsche Börse. As of the reporting date 60.3 per cent (previous year: 63.5 per cent) of the shares were held by institutional investors and 39.7 per cent by private individuals (previous year: 36.5 per cent).

The structure of the main institutional shareholders in the Lufthansa Group changed over the course of the year. BlackRock, Inc. reduced its stake to 2.96 per cent (previous year: 5.43 per cent). Templeton Global Advisors remained the largest shareholder in the Lufthansa Group at year-end 2014, its holding unchanged at 5.00 per cent. In third place is The Capital Group Companies, a major investor since 2012, with 2.95 per cent (previous year: 4.75 per cent).

All the transactions requiring disclosure and published during the financial year 2014, as well as the quarterly updates on the shareholder structure, are shown on the website i www.lufthansagroup.com/investor-relations.

Lufthansa Group pursues intensive dialogue with investors
As in prior years, the Lufthansa Group again provided all its shareholders with timely, comprehensive and objective information in 2014. Continuous dialogue with investors is a vital condition for their confidence in the Company. In 2014 and in addition to the quarterly meetings, the Executive Board and the Investor Relations team held 26 roadshows and 13 investor conferences to inform institutional investors about current developments at the Lufthansa Group. This involved more than 300 one-on-one and group meetings. Special attention was also paid to German private investors. Our investor relations representatives were available to answer questions at six special forums organised for private investors. This communications platform is to be extended in 2015. The service for private shareholders also includes the shareholder information letter, which was again published twice in 2014 and can be viewed on the Investor Relations website. The site also contains the financial calendar and the dates of all the conferences and shareholder events that the Lufthansa Group will be attending.

In addition to the annual and interim reports, the monthly Investor Info provides the capital markets with the latest traffic figures for the airborne companies and other current news from the Lufthansa Group. On request, creditors and bondholders are also sent our Creditor Info several times a year, which contains information of relevance to them. All the publications, financial reports, presentations, background information, speeches and the latest news are also available at i www.lufthansagroup.com/investor-relations.

Included in the DAX and other important indices
As a member of the DAX, the Lufthansa Group is one of the 30 largest publicly listed companies in Germany. At year-end the share had a weighting of 0.79 per cent in the leading German index. With a market capitalisation of EUR 6.4bn the Lufthansa Group came in 32nd place (previous year: 28th) in the ranking of publicly listed companies in Germany by market capitalisation. In terms of stock market turnover the Lufthansa share moved up three places to number 19. Trading volume for the share amounted to 1,289,605,341 shares in 2014; this represents a transaction volume of EUR 19.3bn (previous year: EUR 12.7bn).

The Lufthansa share is included in many international share indices. Furthermore, it features in the FTSE4Good, Ethibel and ECPI sustainability indices.

In addition to its stock market listings in Germany, investors restricted to assets denominated in US dollars can gain exposure to the Lufthansa Group via the Sponsored American Depository Receipt Program (ADR). Since 2011, the Lufthansa ADRs have also been registered on the standardised trading and information platform OTCQX.

The Lufthansa share: data

ISIN International Security Identification Number	DE0008232125
Security identification number	823212
German stock exchange code	LHA
Stock exchanges	Frankfurt, Stuttgart, Munich, Hannover, Dusseldorf, Berlin, Hamburg, Xetra
Prime sector	Transport & Logistics
Industry	Airlines
Indices (Selection)	DAX, DivDAX Price Index, EURO STOXX Index, Bloomberg World Airlines Index, S&P Europe 350 Index, FTSE Eurofirst Supersector Index

Annual review
Key events in 2014

March

The new Premium Economy Class from Lufthansa Passenger Airlines is presented to trade visitors at the ITB on 5 March 2014. It has been bookable since May 2014 and has been initially available on the Boeing 747-8 since November 2014. The new seats, which give customers up to 50 per cent more room than in the Economy Class, are to be installed successively in the entire long-haul fleet by autumn 2015.

April

Strikes by the pilots' union Vereinigung Cockpit at Lufthansa Passenger Airlines, Germanwings and Lufthansa Cargo depress the operating result for 2014 by a total of EUR 222m. The first strike takes place from 2 to 4 April 2014. It was preceded by long, intense talks and negotiations about pay and the future shape of the pilots' transitional retirement benefits. Over the course of the year, there are a total of 15 strike days and more than 8,600 flight cancellations.

May

Carsten Spohr becomes **Chairman of the Executive Board and CEO of Deutsche Lufthansa AG** as of 1 May 2014. Karl Ulrich Garnadt is simultaneously appointed to the Executive Board to succeed Carsten Spohr as Chief Officer Lufthansa German Airlines.

June

On 11 June 2014, the **Lufthansa Group** adjusts its **earnings forecast** due to the non-recurring effects of strikes, the depreciation of the Venezuelan bolivar and revenue below expectations in the passenger and cargo businesses. The Executive Board forecasts a reported operating result of EUR 1.0bn for the financial year 2014. This does not include the costs of strike action from July 2014 onwards.

July

In July 2014, the **Lufthansa Group** and **Air China** sign a memorandum to prepare a **commercial joint venture** between the two companies for the Passenger Airline Group. The first phase of this new partnership agreement comes into effect with the winter flight timetable at the end of October 2014.

On 9 July 2014, the Chairman of the Executive Board and CEO of Deutsche Lufthansa AG, Carsten Spohr, gives a public presentation of the **strategic programme "7to1 – Our Way Forward"** on the planned development of the Lufthansa Group.

On 15 July 2014, the **"Fanhansa Siegerflieger"** aircraft lands at Berlin-Tegel airport with the German football world champions. The Boeing 747-8 on flight number LH 2014 first completes a flypast for the fans assembled in the centre of Berlin, who give the world champions a great reception.

September

All Nippon Airways (ANA), Japan's biggest airline, and **Lufthansa Cargo** start a **strategic joint venture** in September 2014 on routes between Japan and Europe. This is the first joint venture of its kind in the global airfreight industry. Customers benefit from a wider range of services and more flight connections.

In September 2014, the **Miles & More bonus business** is carved out into an **independent unit,** the wholly owned Lufthansa German Airlines subsidiary Miles & More GmbH. Through greater independence, Europe's leading customer loyalty programme is intended to become even more successful and attractive in this new legal structure.

October

In October, **SWISS** announces its intention to make comprehensive investments in the years ahead in modern aircraft, attractive destinations and product as part of its **"Next Generation Airline of Switzerland"** strategy. A new cabin layout is introduced on the European Airbus fleet in late November 2014 and new, fresh in-flight catering products from Switzerland are offered in Economy Class.

Austrian Airlines and its subsidiary Tyrolean Airways sign on a completely **new collective agreement** with the labour union partners on 31 October 2014. This new Group collective agreement covers some 900 pilots and 2,300 flight attendants at the company from 1 December 2014. It governs the future salaries and pensions, working hours and career development for cockpit and cabin crews.

The Lufthansa Group and Lufthansa Systems AG take a joint decision to **alter the strategic direction of Lufthansa Systems,** to split the company into three parts and to dissolve the strategic IT Services segment. The IT Infrastructure unit is acquired by IBM in 2015 as part of a long-term outsourcing agreement.

November

In mid-November 2014, the groundbreaking ceremony takes place for the **new Lufthansa Technik overhaul centre in Puerto Rico.** It signals a further boost to Lufthansa Technik's presence on the American continent and adds to the company's maintenance capacities for aircraft in the Airbus A320 family.

With the opening of **a new site in Sofia, LSG Sky Chefs** is now also present in Bulgaria. The joint venture with Bulgaria Air Group and Alpha Group/dnata is one of six new sites and three new joint ventures entered into by LSG Sky Chefs in 2014.

December

The Lufthansa Group sets a new **passenger record** in the 2014 financial year. The airlines in the Passenger Airline Group carried **106 million** passengers, the highest figure in the history of the Lufthansa Group. Revenue seat-kilometres also reach a new high of 214.6 billion.

In December 2014, the Supervisory Board gives its approval to further elements of the Wings concept adopted by the Executive Board. Under the brand name of **Eurowings,** from 2015 the Eurowings airline and other airlines in Europe are planning to win new customers with a **range of short- and long-haul direct flights** offering quality at low cost.

Combined management report

To the extent that the combined management report refers to sources other than the combined management report or the consolidated financial statements (e.g. internet sites), the contents of these sources are not part of the combined management report and are solely for informational purposes.

Standards applied and changes in the group of consolidated companies

The consolidated financial statements for 2014 and the quarterly reports are prepared in accordance with the International Financial Reporting Standards (IFRS) and the interpretations of the IFRS Interpretations Committee as applicable in the European Union (EU). The commercial law provisions of Section 315a Paragraph 1 of the German Commercial Code (HGB) have also been applied. All mandatory standards and interpretations for the 2014 financial year were respected. Changes in the reporting standard resulted from IFRS 11 "Joint Arrangements", which was obligatory for the first time as of 1 January 2014. In accordance with this standard, the equity investment in Aerologic GmbH is no longer accounted for using the equity method. Instead, the income and expenses, and assets and liabilities of this company are now recognised in the consolidated financial statements on a pro rata basis. The figures for the previous year have been adjusted accordingly. This change had no material effect in 2014 or the previous year. The other standards and interpretations mandatory for the first time as of 1 January 2014 also had no significant effect on the Group's net assets, financial and earnings position as shown in the present annual report. More information can be found in the Notes to the consolidated financial statements on p. 154.

There have been no significant changes to the group of consolidated companies since this time last year. The individual changes compared with year-end 2013 are shown in "Note 1" to the consolidated financial statements on p. 159. These changes had no significant effect on the consolidated balance sheet and the consolidated income statement in comparison with the same period last year.

Principles of the Group

Business activities and Group structure

✈ The Lufthansa Group is made up of five business segments, which each hold leading market positions. / The passenger airlines form the Lufthansa Group's biggest business segment. / Lufthansa Cargo is one of the world's leading freight airlines. / The service segments provide a wide range of services for the airline industry. / The IT Infrastructure unit is to be sold to IBM and the IT Services business segment is dissolved. / The composition of the Executive Board changed during the year.

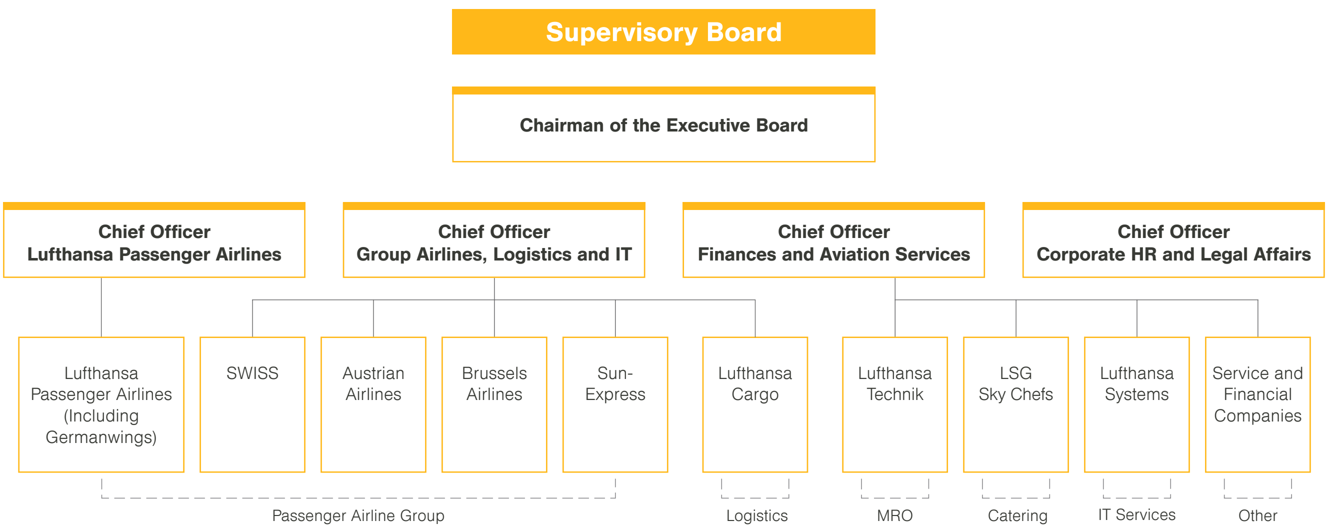
Portfolio of business segments reorganised
The Lufthansa Group is a global aviation group with a total of around 540 subsidiaries and equity investments, which in the financial year 2014 were organised into five business segments: Passenger Airline Group, Logistics, MRO, Catering and, up to the end of 2014, IT Services. All the segments occupy a leading position in their respective markets. In 2014, the Lufthansa Group generated revenue of EUR 30.0bn and employed an average of 118,973 staff.

The biggest business segment in the Lufthansa Group is the Passenger Airline Group. Lufthansa Passenger Airlines, SWISS and Austrian Airlines are network carriers serving the global market and all passenger segments. Germanwings operates direct flights within Europe. Investments in the Belgian network carrier Brussels Airlines and the German-Turkish charter airline SunExpress complete the airline portfolio. The airline group defended its European market leadership in the reporting period, again recording the greatest number of passengers and the highest revenue of any European airline.

The Logistics segment with its freight airline Lufthansa Cargo is one of the world's leading providers of standard, express and special cargo.

The service segments MRO, Catering and IT Services, offer a wide range of services for customers both inside and outside the Group. Lufthansa Technik is the world's leading provider of maintenance, repair and overhaul services for civil aircraft. Its range of products extends from one-off jobs to the servicing of entire fleets.

Lufthansa Group structure



The Catering segment is the global market leader in airline catering and supplies regional, national and international carriers. The LSG Sky Chefs group is also increasingly present in adjacent markets, where it offers both catering products and services in connection with in-flight articles.

The IT Services segment was one of the leading global IT services providers to the airline industry. Given the long-term investments required in the IT infrastructure area, the Lufthansa Group is splitting Lufthansa Systems AG into its three segments. The IT Infrastructure unit was sold to the IT services provider IBM as part of an outsourcing agreement. The deal is due to be completed in the first half-year of 2015. Following this fundamental change, the IT Services segment was dissolved at the beginning of the 2015 financial year. Its remaining segments, Airline Solutions and Industry Solutions, will remain in the Lufthansa Group as independent companies within the Other business segment.

The Lufthansa Group's strategic formation is reviewed and adjusted continuously in order to lay the basis for a stable business performance with a diversified portfolio of business segments that offset economic fluctuations.

No change in Group structure, changes to membership of the Executive Board

Deutsche Lufthansa AG has the management and supervisory structures typical for companies in Germany. The Executive Board is responsible for managing the Company and defining its strategic direction. In doing so, the aim is to increase Company value sustainably. The Supervisory Board appoints, advises and supervises the Executive Board.

Deutsche Lufthansa AG is managed by an Executive Board comprising five members. Chairman of the Executive Board and CEO since 1 May 2014 is Mr Carsten Spohr. In this role he succeeds Dr Christoph Franz, who left the Company at his own request. Mr Spohr was previously in charge of Lufthansa Passenger Airlines. His successor in this function is Mr Karl Ulrich Garnadt, who was appointed by the Supervisory Board on 12 March 2014 as a member of the Executive Board and as CEO Lufthansa German Airlines. Ms Simone Menne is Chief Officer Finances and Aviation Services. On 17 September 2014, the Supervisory Board renewed Ms Menne's appointment until 30 June 2020. Dr Bettina Volkens is Chief Officer Human Resources and Legal. In addition to her previous responsibilities, Dr Bettina Volkens also assumed the role of Chief Human Resources Officer at Lufthansa Passenger Airlines as of 1 May 2014. Mr Harry Hohmeister is Chief Officer Group Airlines, Logistics and IT.

Deutsche Lufthansa AG is the parent company and the largest single operating company in the Lufthansa Group. The individual business segments are run as separate Group companies, with the exception of Lufthansa Passenger Airlines. They have their own profit and operating responsibility and are monitored by their respective supervisory boards, in which members of Deutsche Lufthansa AG's Executive Board are also represented. Further information can be found in the management report chapter "Coporate Governance" starting on p. 127 and in the Notes to the consolidated financial statements, "Note 44" on p. 219.

Goals and strategies

✈ Increasing company value, profitable growth and customer satisfaction are the strategic pillars of the Lufthansa Group. / The overall target is to be "Lufthansa – First choice". / "7to1 – Our Way Forward" strategic programme defines seven fields of action for the development of the Company. / Financial stability provides room for manoeuvre.

Group strategy

Main pillars of the strategy are confirmed and will be expanded:
Since new members have joined the Executive Board and its responsibilities have been reorganised, the Lufthansa Group has reviewed and refined its strategy. The previous pillars of the strategy have been confirmed:

- Increase company value
- Profitable growth and active role in shaping the aviation industry
- Continuously increase customer satisfaction

The Lufthansa Group's objective is to be the first choice for customers, employees, shareholders and partners.

Seven fields of action have been defined to reach these goals, in which strategic steps are to be implemented across all segments in the years ahead, under the title "7to1 – Our Way Forward". They ensure the future viability of the Lufthansa Group, taking into account the key success factors of financial stability, market position and fleet age. The seven areas of action and their individual activities are directed at the overarching objective of ensuring that Lufthansa remains the first choice and are as follows:

- Customer centricity and quality focus
- New concepts for growth
- Innovation and digitalization
- Effective and lean organisation
- Culture and leadership
- Value-based steering
- Constantly improving efficiency

Customer satisfaction and a focus on quality secure customer loyalty
In the years ahead, the Lufthansa Group will focus even more sharply on customer orientation in all of its operating segments. Key building blocks for this development are continuous investment in quality, as well as products and services tailored even more closely to individual customers.

Investments in product quality include, above all, the 263 aircraft with a list value of EUR 37bn that were on the order list of the Passenger Airline Group at the beginning of 2015. They will be delivered by 2025 to cover future replacement and growth needs. More information is available in the "Fleet" chapter on p. 57. In 2014, the Lufthansa Group ordered 25 new Airbus A320 aircraft at a total list price of EUR 2.5bn. Continuing the fleet renewal programme not only increases travel comfort for customers and boosts the environmental efficiency of the fleet, but it also reduces the number of different aircraft types and thus the complexity of the fleet for the Lufthansa Group.

Passengers' in-flight experience is also undergoing improvements on board the state-of-the art aircraft fleet. These extensive investments in the airlines' in-flight products enable the Lufthansa Group to differentiate itself better from the competition. At Lufthansa Passenger Airlines, all aircraft should be equipped with the latest generation of products by the third quarter of 2015. All aircraft flying long-haul routes will then be fitted with the new First Class, Business Class, Premium Economy and Economy Class, as well as with FlyNet internet access.

Continuous improvements are also being made to the in-flight service. Lufthansa Passenger Airlines aims to be the first western airline with a five-star quality standard, which only a few carriers in the world can claim. Lufthansa Passenger Airlines and SWISS will also tailor their products, services and communication on board more to passengers' individual needs. At Lufthansa Passenger Airlines, the range of food and drinks in Business Class is also to be upgraded.

Positive feedback from customers at all the Group's network carriers is an indication that the ongoing quality offensive has already won the passengers' approval.

The other business segments are also pursuing their quality leadership initiatives. In the Logistics segment, Lufthansa Cargo took delivery of its third and fourth Boeing 777 freighters in 2014, out of a total of five on order. The IT environment for freight handling at Lufthansa Cargo is also to be further modernised. The key benefits here are improved data quality, increased security, paperless data communication and consistent process management. The flexibility of the new system makes everyday work easier and thereby saves time and money for the company as well as for its customers.

Lufthansa Technik has reorganised its sales structure to enable it to offer its global customers more individual services across different products in future, and to keep growing in the highly competitive MRO market.

LSG Sky Chefs is increasing its proximity to the market and broadening its customer focus to meet increasingly differentiated customer needs for specific in-flight service programmes and in-flight sales models. Today, LSG Sky Chefs is already able to cover the entire value chain, from procurement and the development of innovative products to logistics and fulfilment. In future, LSG Sky Chefs plans to increase its service quality even further, to develop new products and concepts based on modern technologies and communication platforms, and to gain an extensive knowledge of consumer trends and needs.

When the objective of quality leadership in all markets and business segments was defined for the Lufthansa Group, a Group-wide “Quality Circle” was set up to establish and advance this goal in all companies. It is chaired by the Chairman of the Executive Board and CEO of the Lufthansa Group and includes the Chairs of the Executive Board and CEOs of all the segments.

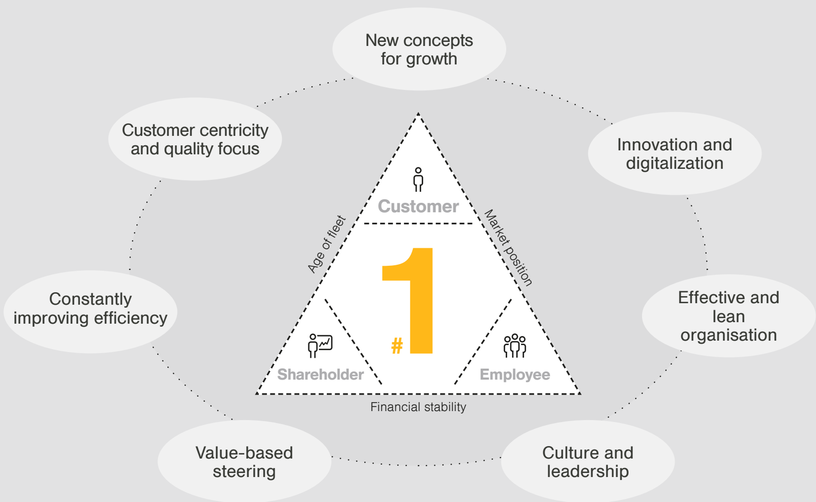
New concepts create profitable growth

The strategic development of the Lufthansa Group, and of each individual operating segment, range from organic growth to strategic acquisitions, and from the expansion of existing partnerships to the establishment of new ones. As part of the ongoing global trend towards consolidation, all possible acquisitions which have the potential to significantly increase the competitiveness of the Lufthansa Group and create value for its shareholders will be examined. To exploit opportunities from cooperations and partnerships, the Lufthansa Group strives to be the first-choice partner for all stakeholders from a financial, cultural and strategic perspective.

In Europe, the progress of consolidation in the airline industry still has a long way to go to reach the level achieved in North America, for instance. Existing partnerships are to be expanded – in the case of the passenger business, the North Atlantic joint venture A++, the Japanese joint venture J+ and, in future, the Chinese joint venture with Air China, for instance – while new partnerships and cooperation agreements will be examined wherever they serve the strategic development of the Lufthansa Group and support its sustainably profitable course of growth. This approach is followed both in the passenger business by reviewing further joint ventures with a regional focus, as well as in our service companies by looking at possible partnerships in the areas of logistics, MRO and catering.

By 2020, the Lufthansa Group intends to generate 40 per cent of its revenue from segments other than the network airlines. In this segment, the focus is initially on boosting profitability before generating further growth with the larger number of aircraft.

Our Way Forward



With its new short- and long-haul concept for the new Eurowings, the Lufthansa Group has delivered a customer-oriented response to price-sensitive demand for direct flights. In future, the Lufthansa Group intends to generate a significant share of revenue with point-to-point traffic.

The aviation service companies, particularly Lufthansa Technik and LSG Sky Chefs, are addressing growth opportunities identified in America and Asia and in adjacent product markets. Other segments, such as Miles & More and AirPlus, are winning new markets by expanding their service portfolios. Furthermore, the Lufthansa Group continuously reviews opportunities from new fields of business along the entire travel and transport value chain.

The range of investment in the MRO segment stretches from new stations for highly efficient and innovative engine washes to the maintenance of the latest aircraft components. A new facility for overhauling short- and medium-haul aircraft is being built in Puerto Rico. A new wheel and brake shop floor is under construction in Frankfurt and is due to go into operation in early 2017.

In the Catering segment, acquisitions of various operations and extensive capital expenditure in new production facilities in growth regions not only enable the company to enter new markets, but also to further increase the quality of service for airline customers.

Including more partners from outside the travel sector in the Miles & More programme will make it more attractive, not only for status passengers, but also, and in particular, for the group of occasional flyers, which in turn will enable the platform to grow.

Innovation and digitalisation drive new developments and reinforce the culture of change

Great importance is drawn on the management of innovation and digitalisation in the Lufthansa Group. A Group-wide innovation unit has been established to strengthen the culture of change through out the Lufthansa Group. Its role is to systematically promote existing ideas and projects and get them to market faster. An innovation budget has been set up for this purpose and concrete innovation targets defined across the Group. An annual internal Innovator Award has been created to embed a culture of change at an emotional level and to boost innovation, and work has begun to implement technological infrastructures for the innovation management process.

To give the Lufthansa Group additional impetus from outside, an "Innovation Hub" was founded in Berlin in 2014. The team working there, which consists of internal and external staff with start-up experience, will work with partners to develop digital content for products, services and processes along the air travel chain, from booking to arrival at the final destination, thereby contributing towards anticipating and shaping future customer needs.

Lufthansa Technik in particular already holds important patents and is working on new cutting-edge technologies and modern products that meet market needs. They include innovative repair methods for new aircraft models and procedures to cut kerosene consumption and noise levels as a service for airline customers.

Strategic innovations in the area of partnerships are vital to keep developing the global market position of the Lufthansa Group. As in the past – such as with the establishment of the Star Alliance and the first commercial joint ventures in the airline industry – the Lufthansa Group intends to continue playing a major role in shaping the ongoing development of the entire aviation industry by means of strategic innovations.

New governance structure supports an effective and efficient organisation and accelerates decision-making processes

Further improvements in the cooperation between operating segments are planned, also in terms of processes. A focus on standardised processes is intended to facilitate cooperation within the Lufthansa Group. The aim of this organisational programme is to identify best practices by comparing similar processes in different business entities and to establish these processes as a benchmark standard for the Lufthansa Group. At the same time, the Shared Services units and the centres of excellence are to be developed. These initiatives are intended to deliver faster decision-making processes, more streamlined hierarchies, fewer points of contact and lower costs, as well as boosting productivity and agility. They will enable the Lufthansa Group to deploy its collective strengths to the full and stay competitive in a volatile and dynamic market.

Activities to support and assist employees aim to ingrain the new culture

The commitment of its staff and managers has made the Lufthansa Group a leading aviation group. One key success factor was and is the employees' desire to lead the Lufthansa Group successfully into the future and to contribute to the success of their company. And just as with the investment in its fleet, products and services, the Lufthansa Group also invests in its employees, whose discerning service delights customers around the world on the ground and in the air every day. In this context, the aim is to transfer responsibility to individuals, measure their performance more accurately and encourage the rotation of staff and managers between the different operating segments.

The leadership principles adopted in late 2013 apply to all the managers in the Lufthansa Group and are intended to reinforce this culture. They are applied accordingly to the selection, incentivisation and development of talented staff and managers. A change management programme has been set up to accompany this change process.

Altogether, these activities are meant to help all employees and managers in the Lufthansa Group to think and act in a networked, open-minded way and to increase the level of mutual trust.

Increasing enterprise value is the basis for successful development

The ability to create sustainable value is the fundamental condition for the Lufthansa Group to keep investing successfully for the benefit of its customers in its business segments, fleets, products and services, as well as in its staff. It is also required for the purpose of meeting the Lufthansa Group's obligation to give its shareholders an adequate financial return and for keeping the product and service promise given to customers. Increasing company value is therefore the foundation for the successful development of the Lufthansa Group.

To optimise capital allocation within the Group and to establish value creation as a guiding principle at all levels, the Lufthansa Group has introduced new parameters for value-based management. The previous management metrics "operating result" and "cash value added" (CVA) are being replaced by a more transparent and less complex system that makes it possible internally and externally to set incentives for further value creation. Details can be found in the chapter "Management system and supervision" on p. 29.

One important goal is to maintain the investment grade rating. As an expression of financial strength, it enables the Lufthansa Group to obtain financing on favourable terms in the future. For further details see the next chapter, "Financial strategy" on p. 28.

Moving SCORE into routine operations contributes to continuous efficiency gains

In an industry as competitive as the airline business, efficiency gains must always be on the agenda in all areas. For this reason, the SCORE programme, its measurement logic and the monitoring of efficiency initiatives are to be incorporated into routine processes at all companies.

The SCORE programme was launched in the Lufthansa Group in 2012; it runs until 2015 and aims for lasting increases in profitability. All of the Group companies continue to work at top priority to implement around 5,600 individual segment-specific and cross-segment measures. The sustainable earnings improvement is intended to make a key contribution to safeguarding the ongoing programme of investment. An overview of the main activities in 2014 can be found in the section "SCORE programme" on p. 42.

SCORE, along with the cultural change it inspires in both our managers and our employees, is therefore laying the foundations for long-term agility and adaptability beyond 2015.

To ensure that continuous efficiency gains remain on the agenda for the Lufthansa Group even after the programme comes to an end, steps have been taken to embed SCORE processes into the organisational structure. They consist of defining an annual minimum profitability increase to compensate for cost inflation and income deflation, both at the level of the Lufthansa Group and in derived form for the individual operating segments. This sets the stage for responding more flexibly to changing market conditions and customer demands in future and for earning adequate returns on capital. It therefore enables growth and sustainable value creation and ensures long-term job security.

"7to1 – Our Way Forward" will set the Lufthansa Group up for the challenges of the future

The future development of the Lufthansa Group is determined by the pillars of the Company strategy, to increase company value, generate profitable growth, play an active role in shaping the aviation industry and to achieve ever higher levels of customer satisfaction. Its combination of operating segments makes the Lufthansa Group a globally unique aviation group whose integrated value chain not only offers financial synergies but also gives it an edge over its competitors in terms of know-how.

The network airlines remain the core of the Lufthansa Group, but the companies outside the network airlines will contribute a growing share of revenue and earnings. The new Eurowings is creating an additional player in the low-cost segment, both for short-haul routes in Europe and long-haul leisure travel routes. The service companies remain a strategic competitive advantage for the Lufthansa Group, and if their margins stay stable, they will continue to grow. Their strong market position provides a natural hedge against the pressures exerted on the network and point-to-point airlines by the growth of their competitors.

Financial strategy

Financial strength creates sustainable competitive advantages and trust
The core of the financial strategy is to safeguard the strong financial profile, credit rating and thus the financial stability of the Lufthansa Group. It systematically aims to support and promote the strategic and operating performance of the Company. Its objective is to ensure access to capital on favourable terms at all times.

Its financial stability gives the Lufthansa Group room for manoeuvre, which represents a significant advantage in competition with other airlines. Strict application of the financial strategy is therefore a prerequisite for the Lufthansa Group to respond flexibly to permanent changes in the underlying conditions and to play an active part in shaping the environment in which it operates. Its financial profile makes the Lufthansa Group a trusted and valued partner for customers and business partners alike.

Financial strategy is the basis for all main planning and decision-making processes
To maintain its financial stability, the Group systematically strives to meet the following strategic targets:

- **Maintain a good credit rating from the point of view of the investors and lending institutions:** The aim is to maintain and further strengthen the existing investment grade rating.
- **Ensure adequate liquidity:** The aim is to have minimum liquidity of EUR 2.3bn at all times. In times of volatility in demand and financial markets, this reduces liquidity and refinancing risks.
- **Manage net debt:** The aim is a debt repayment ratio of 45 per cent, but no less than 35 per cent. The debt repayment ratio measures the Group's ability to service its debt. It is an adjusted measure of cash flow from operating activities in relation to net debt, including pension obligations. With these targets, the Group would easily meet the corresponding criteria set by the rating companies for an investment grade rating.
- **Maintain a stable capital structure:** The aim is to optimise the cost of capital by means of an appropriate capital structure. In the medium term, the goal is an equity ratio of 25 per cent. The plan is to achieve this target by retaining sufficient profits and continuing the successive funding of pension obligations. However, this ratio is subject to external factors (interest rate) and to great volatility, because IFRS requires that pension obligations are measured as of the reporting date.
- **Maintain a largely unencumbered fleet:** The aim is to ensure a high degree of financial and operating flexibility for the Lufthansa Group. The bulk of the aircraft fleet is unencumbered and wholly owned by the Group.
- **Hedge against external financial risks:** The aim is to manage the Lufthansa Group's financial risks by smoothing price fluctuations using rule-based and integrated risk management procedures, in particular by hedging fuel, exchange rate and interest rate risks.

Shareholders participate in the Company's success
Letting shareholders participate in the Company's success is a central tenet of the Lufthansa Group. When the Company's key performance indicators were altered in December 2014, changes were also made to the dividend policy of the Lufthansa Group.

The dividend proposal is now primarily based on EBIT, which is the main earnings indicator for the Group under IFRS. A regular dividend ratio of 10 to 25 per cent of EBIT is the aim. This dividend proposal requires sufficient net profit for the year in the individual financial statements for Deutsche Lufthansa AG prepared in accordance with the German Commercial Code; see from p. 142.

Development of earnings and dividends

		2014	2013	2012	2011	2010
Operating result	in €m	954	699[1]	839	820	1 020
Net profit/loss (Group)	in €m	55	313	1 228	–13	1 131
Net profit/loss (HGB)	in €m	–732	407	592	–116	483
Dividend per share	in €	–	0.45	–	0.25	0.60
Dividend ratio (based on operating result)	in %	–	29.8	–	14.0	26.9[2]
Dividend yield (gross)	in %	–	2.9	–	2.7	3.7

[1] Previous year's figure have been adjusted due to IFRS 11.
[2] 31.4% based on the operating result of 876m reported for 2010.

In addition to the regular dividend payment, the dividend policy also allows for shareholders to participate in a particularly positive performance by the Company by means of a special dividend or share buy-back.

Information on performance against the strategic targets for 2014 and the dividend proposal by the Executive Board and Supervisory Board of Deutsche Lufthansa AG for the financial year can be found in the economic report in the section "Target achievement" on p. 43 and in the "Earnings position" chapter on p. 51. A summary of the strategic goals for the financial year 2015 can be found in the section "Outlook for the Lufthansa Group" from p. 122.

Management system and supervision

Value-based management system aims for sustainable increase in the value of the Lufthansa Group. / Value contribution in the financial year is a positive CVA of EUR 90m. / From 2015, EACC will replace CVA as the main performance indicator for value contribution. / Variable remuneration for managers largely dependent on Company's performance.

Sustainable increase in company value remains the ultimate objective

Since 1999, the leadership and management of the Lufthansa Group have aimed to increase company value sustainably, i.e. across industry cycles.

This approach is an integral part of all planning, management and controlling processes. The demands made of the Company by shareholders in terms of an appropriate return on capital and sustainable capital appreciation are firmly embedded in the whole system of corporate management. The achievement of value creation targets is reviewed on a regular basis and the results are incorporated into internal and external reporting. The value-based management system is also linked to performance-related pay. Details can be found in the section "Variable remuneration for managers is linked to the Company's performance" starting on p. 31.

Value contribution has been measured by CVA since 1999

Since value-based management was introduced, the main performance indicator for the Lufthansa Group has been cash value added (CVA). CVA is based on the return expectations of all investors and lenders and measures the value contribution generated in the reporting period by each individual business segment and by the Group as a whole.

The CVA is an absolute residual amount, which is calculated as the difference between the cash flow generated in a given year and the minimum cash flow required to increase the value of the Company. If the cash flow generated is higher than the minimum required cash flow, the value creation is expressed by a positive CVA. The individual parameters are calculated as follows:

The minimum required cash flow is the sum of the required return on capital employed, the capital recovery rate and the flat tax rate. The capital base is defined as the total of non-current and current assets less interest-free liabilities. It is measured at historic cost. The pace of depreciation and amortisation therefore has no effect on the calculation and evolution of the capital base. The required return on capital is calculated using the weighted average costs of debt and equity for the Lufthansa Group and for the individual operating segments (Weighted Average Cost of Capital – WACC).

In 2014, the WACC was derived from the following parameters:

Return on capital 2014

in %

Risk-free market interest rate	2.6
Market risk premium	5.2
Beta factor	1.1
Proportion of equity	50.0
Proportion of debt	50.0
Cost of equity	**8.4**
Cost of debt	**3.4**

These parameters are reviewed every year and updated as necessary for the following year's corporate planning and performance measurement. Short-term fluctuations are smoothed in order to ensure the long-term character of the concept. In the course of the regular review of the individual parameters of CVA, it became apparent that, given consistently low interest rates and further falls in the risk premium for shareholders' equity, it was necessary to adjust the WACC. In the financial year 2014, a WACC of 5.9 per cent was used for the Lufthansa Group.

On the basis of the financial strategy, a target capital structure of 50 per cent equity at market value and 50 per cent debt is used to calculate the WACC for both the Group and the business segments. The different segment risks are factored in by means of individual costs of equity, and therefore total costs of capital. In this way, the Lufthansa Group ensures that the allocation of capital to projects in the business segments is adjusted for risk. The following table illustrates the required return on capital for the Lufthansa Group and its individual business segments:

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

in %	2014	2013	2012	2011	2010
Group	5.9	6.2	7.0	7.0	7.9
Passenger Airline Group	5.9	6.2	7.0	7.0	7.9
Logistics	6.2	6.5	7.2	7.2	8.2
MRO	5.6	6.0	6.7	6.7	7.6
Catering	5.9	6.2	7.0	7.0	7.9
IT Services	5.6	6.0	6.7	6.7	7.6

The minimum required cash flow includes what is known as capital recovery, in order to reflect the depletion of the Company's non-current assets in the production process. This is derived from total depreciable non-current assets and represents the amount that needs to be put by every year and invested at a rate equivalent to the WACC in order to recoup the amount of the purchase costs by the end of the asset's useful life. The relevant useful life for CVA is that used for depreciation and amortisation purposes.

Finally, the expected tax payment is added by applying a surcharge of currently 0.6 per cent of the capital base. The minimum required cash flow for 2014, taking the new useful life of aircraft and reserve engines and the related changes into account, amounted to EUR 2.9bn (previous year: EUR 2.9bn).

In the Lufthansa Group, the cash flow effectively generated is represented by the performance indicator EBITDA^{plus}, which is made up of an operating and a financial component. The operating component of EBITDA^{plus} is derived from the operating result by adjusting it for non-cash items.

Reconciliation EBITDA^{plus}

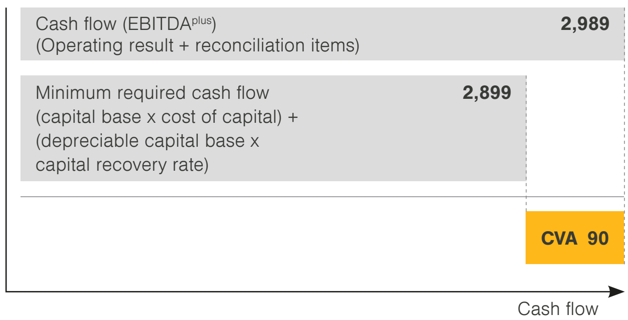
in €m	2014	2013*
Operating result	**954**	**697**
Depreciation and amortisation	1,413	1,697
Result from disposal of property, plant and equipment	11	3
Income from reversal of provisions	168	191
Impairment losses on intangible assets and property, plant and equipment	–63	–137
Change in pension provisions before interests	159	242
Operating EBITDA^{plus}	**2,642**	**2,693**
Pro rata pre-tax results of non-consolidated equity investments	259	210
Interest income	163	120
Result from disposal of financial assets	–128	15
Impairment charges/addition of financial capital base	53	–
Financial cash flow EBITDA^{plus}	**347**	**345**
Non-recurring effects		**3,002**
Cash flow EBITDA^{plus}	**2,989**	**6,040**

* As reported in previous year.

These are principally depreciation and amortisation, income from the write-back of provisions and net changes in pension provisions. Then the financial component of EBITDA^{plus} is added, comprising pro rata pre-tax earnings of non-consolidated equity investments, net interest income and earnings contributions from the disposal of financial investments. This ensures that EBITDA^{plus} includes all significant cash-relevant items. In the reporting year, the Lufthansa Group's EBITDA^{plus} came to EUR 3.0bn (previous year: EUR 6.0bn).

In order to obtain the CVA, the minimum required cash flow is then deducted from EBITDA^{plus}.

Calculation of cash value added (CVA) 2014 in €m



Lufthansa Group generates value contribution of EUR 90bn in 2014

In the financial year 2014, the Lufthansa Group generated a positive CVA of EUR 90m.

Value creation (CVA) of the Lufthansa Group and the business segments

in €m	2014	2013	2012	2011	2010
Group	90	3,133	375	99	71
Passenger Airline Group	37	175	–340	–122	–198
Logistics	49	–41	65	202	233
MRO	245	377	241	152	172
Catering	–7	29	39	–25	–28
IT Services	–170	32	7	23	–23

EACC replaces CVA as the main indicator of value creation

Changes to the depreciation policy caused by changes to the useful lives and lower residual values for aircraft and reserve engines, as well as the demands of capital markets and other stakeholders, have made it necessary to review CVA as the main performance indicator. After evaluating various alternatives, the Executive Board of the Lufthansa Group decided to replace CVA with Earnings After Cost of Capital (EACC), which is intended to make the value-based management of the Company even more explicit.

The new metric is more transparent, easier to handle and can be fully integrated in the system of key performance indicators for value-based management. It therefore reflects shareholder demands for an appropriate return on capital and sustainable increases in the value of the Company now and in the future. In addition to the absolute contributory value EACC, there will also be a heightened management focus in future on Return On Capital Employed (ROCE) for the purpose of assessing and managing capital allocation accordingly.

This new metric is less complicated to calculate and therefore easier for all stakeholders to understand. Bringing internal management criteria more closely into line with external reporting parameters also increases transparency for internal and external stakeholders. The new system of key performance indicators was made an integral part of all planning, management and control processes at the beginning of 2015.

EACC is an absolute measure of value added and is calculated on the basis of earnings before interest and taxes (EBIT) in a given financial year. From 2015 onwards, this will also include the result from equity investments. EBIT is increased by interest income on liquidity, because EBIT represents earnings before interest and taxes. From 2015 onwards, the main earnings metric for the company's forecasts will be Adjusted EBIT. EBIT is adjusted for asset valuations and disposals and for the measurement of pension provisions.

Taxes of 25 per cent will be deducted from EBIT plus interest income on liquidity.

The cost of capital, i.e. the return expected by investors and lenders, is deducted from this figure. It is based on the return expected by these providers of equity and debt and on the capital base, i.e. the average capital employed in a given year.

The capital base is in turn made up of total non-current and current assets, less non-interest bearing liabilities such as provisions. A positive EACC means that the Company has created value in a given financial year.

The Lufthansa Group aspires to increase the value of the Company over the business cycle. This has been achieved in the past. In the last ten years, for example, the Lufthansa Group has generated a positive aggregate value, as defined by CVA, of EUR 6.0bn.

The following section dealing with the variable remuneration of managers relates to the financial year 2014. It is still based on CVA as a performance indicator. Work is still underway to migrate remuneration systems to the new performance indicators for the financial year 2016.

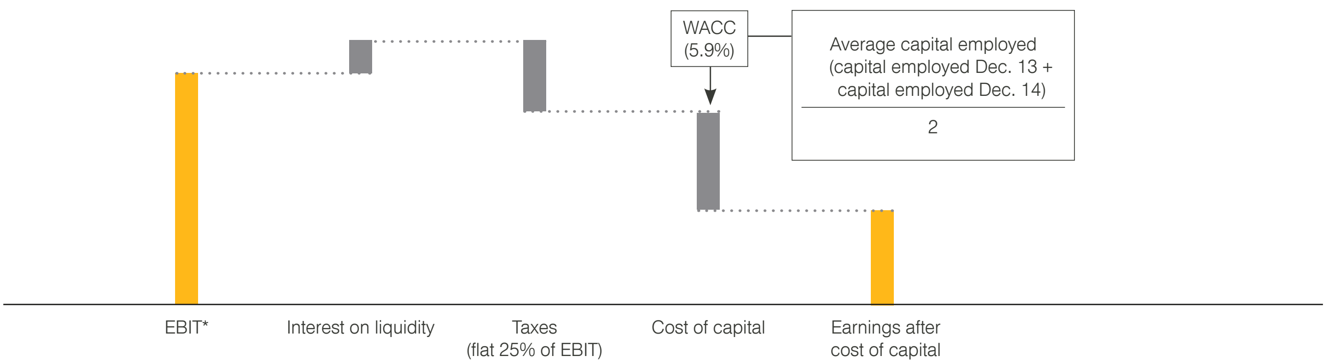
Variable remuneration for managers is linked to the Company's performance

The Lufthansa Group's system of remuneration for the Executive Board, managers and staff traditionally attaches great importance to incentive programmes which are linked to the performance of the individual and the Company.

The bonus system for managers was reorganised with effect from 2014. The aim is to reinforce the performance culture within the Company. At the same time, greater emphasis is placed on the Company's financial success as the core criterion. Managers now receive a performance-related bonus made up of three components in addition to their basic salary.

The first component, which rewards individual performance, is known as "LH-Reward". Line managers have an overall budget for paying individual bonuses to the employees who report to them. Managers decide independently whether and in what amount those managers reporting to them receive a contribution.

Calculation of EACC as of 31.12.2014



$$\text{ROCE} = \frac{\text{EBIT + Interest on liquidity – 25\% taxes}}{\text{Average Capital Employed}}$$

* Based on the new calculation method for 2015.

"LH-Success" is the second component; it focuses on the performance of the Company and is based on targets for the Group and the business segment. For Executive Board members and managers, the Group's performance is measured by equal reference to the operating margin and the cumulative cash value added (CVA) for the Group over three years. The three-year reference period reflects the aim of creating sustainable value. The economic performance of the business segment is captured by the CVA for the segment and by achievement of the targets defined by SCORE. In addition, each business segment can define its own specific key performance indicators (KPI).

Since 1997, the third component has been the long-term share programme "LH-Performance". This annual programme ties one component of remuneration to the performance of the Lufthansa share and therefore rewards the increase in company value.

"LH-Performance" combines a personal investment by the participants in Lufthansa shares with the granting of appreciation rights. Participation is obligatory for members of the Executive Board and voluntary for managers and non-payscale staff. The Lufthansa Group offers a discount on the personal investment. In return the shares are subject to a lock-up period until the end of the programme. The appreciation rights are made up of a performance and an outperformance option. A payment is made on the performance option if the performance of the Lufthansa share at the end of the programme has exceeded a predetermined hurdle rate, which is based on the Lufthansa's cost of equity over the duration of the programme. The outperformance option generates a payment at the end of the programme if the Lufthansa share has performed better over the course of the programme than a basket made up of the shares of the main European competitors. Payments under the performance and outperformance options are both capped.

Since 2011, the renewed LH-Performance programmes run for four years. More information on the share programmes can be found at i www.lufthansagroup.com/investor-relations and in the "remuneration report" from p.132. The report also includes additional information on the remuneration of members of the Executive Board and Supervisory Board.

Calculation of EACC, ROCE and Cost of Capital

in €m	**2014**	2013[4]	Change in %
Reveue	30,011	30,027	−0.1
Other operating income	2,103	2,122	−0.9
Total operating income	**32,114**	**32,149**	**−0.1**
Operating expenses	31,235	31,337	−0.3
Result from equity investments	121	124	−2.4
EBIT[1]	**1,000**	**936**	**6.8**
Adjusted EBIT	1,171	986	18.8
Interest on liquidity	84	67	25.4
Taxes (assumption 25% of EBIT + Interest on liquidity)	−271	−251	8.1
Cost of capital[3]	−1,036	−1,090	−4.9
EACC	**−223**	**−338**	**−33.9**
ROCE[2] in %	**4.6**	**4.3**	**0.3 pts**
Balance sheet total	**30,474**	**29,108**	**4.7**
Non-interest bearing liabilities			
of which liabilities from unused flight documents	2,848	2,635	8.1
of which trade payables, other financial liabilities, other provisions	5,141	5,113	0.5
of which advance payments, deferred income, other non-financial liabilities	2,103	2,151	−2.2
of which others	2,798	1,664	68.1
Capital employed	**17,584**	**17,545**	**0.2**
Average capital employed	**17,565**	**17,582**	**−0.1**
WACC in %	**5.9**	**6.2**	
Cost of capital[3]	**1,036**	**1,090**	**−4.9**

[1] Based on the new calculation method for 2015.
[2] (EBIT + Interest on liquidity −25% taxes) / average capital employed.
[3] WACC x average capital employed.
[4] Previous year's figures have been adjusted due to IFRS 11.

Legal and regulatory factors

Regulatory and other factors adversely affect the course of business for the Lufthansa Group. / Flight operations in Frankfurt are permanently restricted by the night-flight ban. / Ever tighter rules on consumer protection impact on the Company. / The Lufthansa Group is in favour of the implementation of the Single European Sky.

The Lufthansa Group and its business segments are subject to numerous legal and regulatory standards. The legal and regulatory environment is also becoming increasingly complex. The formal demands made of the company are increasing all the time. This applies to financial law, consumer protection legislation and general corporate governance requirements, as well as to the steps necessary for the avoidance of liability risks. As a result, an ever-larger share of resources has to be dedicated to avoiding and warding off legal risks and to complying with and implementing legal changes.

By way of illustration, the following paragraphs highlight developments in which the legal environment leads to a particularly extensive use of resources or to competitive disadvantages.

Flight operations in Frankfurt are permanently restricted by night-flight ban

Since the new north-west runway was opened in Frankfurt, a night-flight ban has been in place between 11 p.m. and 5 a.m. During the peripheral hours of the night (10 p.m. to 11 p.m. and 5 a.m. to 6 a.m.) only 133 scheduled flights are permitted on average over the year. Last year this again resulted in aircraft already taxiing to the runway having to return to the departure gate and passengers having to stay overnight in Frankfurt. Exemptions for departures between 11 p.m. and midnight will only be granted if the delay is due to factors beyond the control of the airline involved, for example if weather conditions restrict operations. The Lufthansa Group airlines' flight timetable is in line with these rules and tries to ensure the greatest regularity possible for passengers, despite the adverse economic effects. Further information can be found in "Noise legislation" on p. 108 of the Risk and Opportunities Report.

Ever tighter consumer protection rules

As an international company, the Lufthansa Group is bound by a large number of national, European and international consumer protection regulations. It goes without saying that the Company complies with these standards. It can nonetheless be observed that these regulations are increasingly being tightened to the detriment of companies. In some cases, rulings have gone against companies and against the letter of the law. Concrete examples of this and their effects on the Lufthansa Group are described in the Risks and Opportunities Report in the "Consumer protection" section from p. 108.

EU emissions trading and national air traffic tax – competitive discrimination remains

The subject of climate protection remains a high priority for the airline industry and for the Lufthansa Group. As part of the proposal for CO_2-neutral growth, the airline industry has set its own ambitious goals for reducing CO_2 emissions. It aims for an annual improvement of 1.5 per cent in the fuel and CO_2 efficiency of global air transport in the period up to 2020. Despite traffic growth, emissions are to remain constant from 2020 and by 2050 are even to be reduced by a net 50 per cent compared with 2005.

The EU Emissions Trading Scheme for aviation also aims to protect the climate. Despite the fundamental agreement at negotiations at ICAO level in autumn 2013, the European Commission still insists on implementing its solution, which is limited to the EU. In view of the ICAO results, it has restricted the emissions trading system to inner-European flights until 2016. A return to the old system and the ensuing international conflicts after 2016 is not likely, but cannot be ruled out either. The EU has made further resolutions on emissions trading subject to developments at the ICAO towards a global market-based system based on the concept of CO_2-neutral growth by 2020. This puts EU airlines at a disadvantage compared with their non-European competitors and severely limits the desired positive effects for the climate.

A functioning emissions trading scheme and competitive neutrality are inextricably linked and are essential for a sustainable climate policy. This is also the declared aim of the German federal government.

Maintaining national rules on air traffic taxes in some EU states causes further expenses for air traffic companies. These include the UK, France, Germany and Austria. Unilateral moves by countries lead to avoidance strategies and a distortion of competition as a result of domestic and foreign companies being affected to different degrees. In addition, the German tax, in particular, deprives domestic airlines of funds amounting to some EUR 530m per year, which are required for the acquisition of fuel-efficient aircraft. Ecological and economic benefits are therefore lost, both directly and indirectly.

In November 2014 the German Constitutional Court ruled that the air traffic tax levied since 2011 is consistent with the German Basic Law and does not infringe the basic rights of air traffic companies or passengers. The tax was justified for financing public services and climate protection, it said. Hopes were therefore dashed that this discriminatory unilateral measure by Germany would be abolished quickly. In view of the delicate economic state of European air traffic and the current coalition agreement, an increase seems unlikely, however.

Single European Sky still a pipe dream

The international organisation of air traffic control is by far the most important EU project for a comprehensive climate and sustainability policy for air transport. For this reason, the European Parliament and the European Council adopted the Single European Sky (SES) in 2004. However, ten years later, the project has still not been implemented due to the resistance of many member states.

The European Commission has now proposed a further reform to the legal framework for SES, known as SES II plus, but the member states are as yet reluctant to accept it. The Functional Airspace Blocks established with great effort as part of SES do not yet meet the high expectations that were set for them. The performance goals set for the national air traffic control organisations have also been missed by large margins across Europe. Successful implementation would mean more airspace capacity, fewer delays, more stable flight plans, lower air traffic control fees and considerable savings in fuel and emissions for the airlines in the Lufthansa Group as well as for other European airlines.

The Lufthansa Group believes that the implementation of the Single European Sky would be a key step towards sustainable growth and cost savings for all airlines and towards reducing environmental impacts by making flight connections faster.

The Lufthansa Group is an active member of the SESAR (SES Air Traffic Management Research) Deployment Alliance, which consists of several airlines, air traffic control agencies and airports. In early December 2014 this group was appointed by the European Commission to lead the implementation of the technical component of SES for the first six years.

Principles of free and fair competition jeopardised by market liberalisation and regulation

Since the 1990s, the USA and the EU have pursued the political goals of liberalising and privatising the airline industry, with the aim of using market mechanisms and efficient competition to make air travel economically and financially independent. With some restrictions within the EU, the USA and between them both, this has largely succeeded. However, the very high level of state ownership of air transport companies and infrastructure means that air traffic is still not governed by the World Trade Organisation, so the competition regulation urgently needed for market liberalisation only takes place via market access and ultimately the bilateral and multilateral air traffic agreements. It is virtually impossible to monitor market behaviour on routes from the EU to third-party countries once market access has been granted. This system reflects the sovereign nature of international air traffic relations, which are based on the principle of nationality. These relations are governed not by trade law but by international law, and so the principles of mutual consent, respect for the other party's interests and reciprocity apply. Enforcement takes place by means of voluntary self-regulation.

The emergence of state-owned entities, primarily from the Gulf region, whose owners have rejected this international consensus, now threatens the functioning of a global market based on bilateral and multilateral treaties, in which private and state-owned companies used to operate alongside one another in accordance with the principles described above. Without the WTO to resolve disputes and with no national self-regulation, there is more and more cut-throat competition, which ignores fundamental principles of a sustainable and social market economy. The consequence is a drastic shifting of traffic, infrastructure and economic benefits to regions outside of Europe with scarcely comparable environmental, social and consumer standards. Policy-makers in Europe have fought for decades for compliance with these standards. The influence of these and other factors on the risks and opportunities faced by the Lufthansa Group are discussed in the "Risks and opportunities report" in the section on "Market liberalisation and regulation" starting on p. 108.

Embargo policy entails strict conditions

Embargoes relevant for the Lufthansa Group not only affect the import and export of goods and the provision of services, but also the movement of capital and payments as well as the signing and performance of contracts.

Due to the range of its services, the business of Lufthansa Technik is also particularly exposed to economic embargoes. The provisions of some embargoes prevent Lufthansa Technik from rendering services to airlines from certain countries or to certain legal or natural persons. In some cases, contracts require approval by the authorities, which is generally only given subject to strict conditions that have a severe effect on the contracts' profitability. These may be conditions relating to the vertical integration of services (technically sensible modifications may not be carried out in some cases) or requirements that the work performed and materials used must be precisely documented and regular written reports submitted. Restrictions on the movement of capital and payments constitute an additional burden for Lufthansa Technik and the other companies in the Lufthansa Group.

Breaches of embargo conditions can result in severe penalties. Permanent monitoring and compliance with foreign trade regulations and embargoes and the maintenance and continuous improvement of functioning export controls are complex and expensive tasks.

Research and development

Both in its individual companies and across business segments, the Lufthansa Group works continuously on innovative products and research and development projects. In some cases these activities are coordinated centrally. However, most are run separately in the individual segments, as they focus on different areas. The prominent culture of innovation that characterises the individual companies and their staff plays a key role in enhancing and expanding the range of products. This regularly generates opportunities for further growth, greater profitability, lower environmental impact and more efficiency.

The activities to develop new services and products are described in the chapters on "Group strategy" starting on p. 24 and the individual "business segments" on p. 60 – 90 as well as in the "Risks and opportunities report" starting on p. 103. Further information on research and development activities, including research projects and sustainability initiatives, can also be found in the chapter "Corporate responsibility" from p. 96.

In addition to research and development activities typically driven by products and technologies, the Lufthansa Group pursues a systematic approach to boost internal and external innovation as part of its strategy. This is ensured by the central coordination of an integrated, standardised, innovation management process for the entire Group which realises synergies between segments efficiently, from the generation through to the implementation of ideas, and actively promotes individual initiatives. One central development project for the whole Lufthansa Group is the establishment of the "Innovation Hub" in Berlin. More information can be found in "Group Strategy" from p. 24 and in the "Risks and opportunities report" on p. 112.

Economic report

Macroeconomic situation

The global economy grew slightly more in 2014 than in the previous year. / The German economy slightly outperforms Europe. / Exchange rate effects depress the Lufthansa Group's operating result by EUR 40m. / Falling oil prices reduce the Lufthansa Group's fuel costs by EUR 364m. / Falling interest rates lead to an increase in pension liabilities.

Global economic growth slightly faster than the previous year
Despite many political conflicts and crises, the world economy performed slightly better in 2014. After the global economy grew by 2.6 per cent in 2013, the growth rate picked up to 2.7 per cent in 2014.

GDP development

in %	2014*	2013	2012	2011	2010
World	2.7	2.6	2.5	3.1	4.3
Europe	1.4	0.3	−0.1	2.0	2.3
Germany	1.5	0.2	0.6	3.7	3.9
North America	2.4	2.2	2.3	1.7	2.6
South America	0.9	2.7	2.6	4.1	5.8
Asia/Pacific	4.7	4.8	4.7	4.7	7.4
China	7.3	7.7	7.7	9.3	10.5
Middle East	3.1	2.7	2.5	5.6	5.5
Africa	3.5	3.8	5.6	0.7	5.0

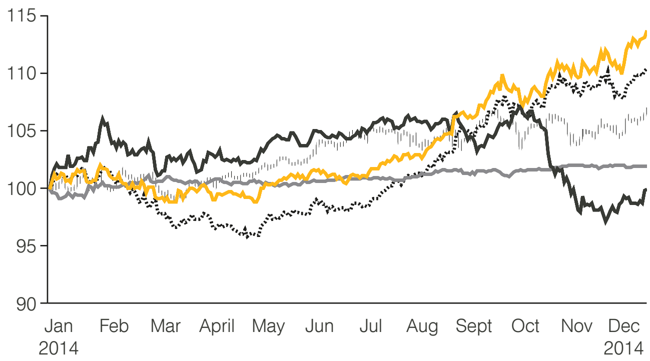
Source: Global Insight World Overview as of 15.1.2015.
* Forecast.

In the USA, the year 2014 began on a subdued note. This was due to a hard winter and a temporary weakness in the property and IT markets, the effects of which were largely made up for in the second quarter already. In the third and fourth quarters, the US economy benefited greatly from a rise in consumer confidence. Positive labour market data and greater household income as a result of lower energy prices contributed to this upturn. Altogether, the US economy grew by 2.4 per cent in the reporting period (2013: 2.2 per cent). As in previous years, the economic performance in Latin America was very mixed. Columbia's economy grew by 5.1 per cent, for example, whereas output in Venezuela contracted by 4.1 per cent. Altogether, the Latin American economies grew by 0.9 per cent (2013: 2.7 per cent).

In Japan, the economy was flat in 2014, with growth of just 0.2 per cent (2013: 1.6 per cent). An increase in the sales tax as of 1 April 2014 had a stronger and more lasting effect on consumer spending and capital expenditure than had been expected. This particularly affected private households, which suffered a decline in real incomes due to higher taxes and more expensive imports.

In the Asian emerging markets, the pace of growth was virtually unchanged year on year. Without Japan, economies in the Asia/Pacific region grew by 5.8 per cent, compared with growth of 5.9 per cent the year before. China and India accounted for much of this growth. China's economy expanded by 7.3 per cent in 2014, which was below the previous year's figure of 7.7 per cent. The change was again due to economic policies intended to mitigate unsustainable trends in lending and property prices. Economic growth in India rose from 5.0 to 5.9 per cent.

Currency development 2014
EUR 1 in foreign currency, indexed to 100%



Source: Bloomberg

Economic performance in the Middle East and Africa was also very mixed. One key factor was the very different effects caused by the sharp fall in the oil price in the second half of 2014. Countries in the region adversely affected by low oil prices include Kuwait, Iran, Saudi Arabia, Libya, the United Arab Emirates, Angola and Nigeria. By contrast, Jordan, Lebanon, Morocco, Tunisia, South Africa and Zambia all benefit from low oil prices. Overall, the economies of the Middle East grew by 3.1 per cent (2013: 2.7 per cent) and those in Africa by 3.5 per cent (2013: 3.8 per cent).

Compared with the previous year, the European economies grew somewhat faster, but again with stark regional differences. Restrictive lending, high levels of private and public debt, high unemployment and slow wage growth all had a negative effect on a number of countries. Europe as a whole reported economic growth of 1.4 per cent in 2014 (2013: 0.3 per cent). In the European Union, the growth rate was slightly lower at 1.3 per cent (2013: 0.1 per cent). The growth rate in Germany was 1.5 per cent (2013: 0.2 per cent).

Currency development EUR 1 in foreign currency

	2014	2013	2012	2011	2010
USD	1.3263	1.3279	1.2851	1.3910	1.3239
JPY	140.33	129.41	102.49	110.74	115.94
CHF	1.2145	1.2306	1.2052	1.2303	1.3780
CNY	8.1742	8.1632	8.1111	9.0023	8.9789
GBP	0.8059	0.8489	0.8109	0.8676	0.8574

Source: Bloomberg, annual average daily price.

No clear trend in exchange rates

Some currencies saw little change in their exchange rates in 2014 compared with the average rates in 2013. The US dollar barely moved year on year, only rising by 0.1 per cent against the euro. Also largely unchanged year on year were the Chinese renminbi, which saw a small drop of 0.1 per cent, and the Swiss franc, which appreciated slightly by 1.3 per cent against the euro. The pound sterling and the Japanese yen moved more sharply than the previous year. The pound gained 5.1 per cent against the euro, whereas the yen dropped by 8.5 per cent against the euro. By means of its proven, rule-based hedging policy, the Lufthansa Group tries to mitigate the influence of exchange rate fluctuations on its business performance. More on this topic can be found in the "Risk and opportunities report" starting on p. 110. Taking these hedges into account, currency movements had an overall negative effect of EUR 40m on the Lufthansa Group's operating result for 2014.

Further falls in short and long-term interest rates

Short-term interest rates in the euro area fell by 8.5 per cent compared with the previous year. Average 6-month Euribor was 0.31 per cent (previous year: 0.34 per cent). For long-term funding, the average 10-year euro swap fell year on year from 1.91 per cent to 1.46 per cent. The Lufthansa Group uses the positive correlation between the operating result, which is dependent on the strength of the economy, along with short-term interest movements as an inherent hedging mechanism, meaning that it holds most of its financial liabilities at floating rates. Details can be found in the "Risk and opportunities report" from p. 111.

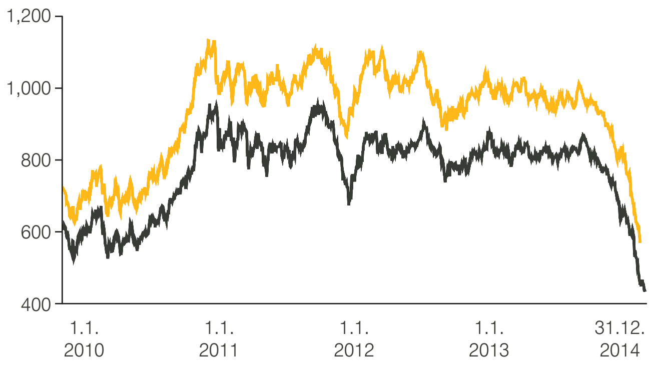
The discount rate, which is derived from the average return on a basket of investment-grade corporate bonds, fell from 3.75 to 2.6 per cent in 2014. This pushed up pension liabilities sharply and so reduced the equity ratio of the Lufthansa Group. More information on this topic can be found in the "Notes to the consolidated financial statements" on p. 188.

Oil prices down sharply in 2014

In the first half-year of 2014, the average price for a barrel of Brent crude was unchanged year on year at USD 108.8. Only towards the end of the first half-year did prices rise to USD 115.1. In the second half of the year, prices then fell sharply. In December a barrel of Brent cost an average of USD 63.13. On 31 December 2014 a barrel of Brent Crude cost USD 57.33. The average price in the second half of 2014 was USD 90.1/barrel. For the full year, the average was USD 99.4/barrel or 8.6 per cent less than in the previous year.

The jet fuel crack, the price difference between crude oil and kerosene, moved between USD 11.0/barrel and USD 21.1/barrel in 2014. In the second half of the year, the jet fuel crack moved between USD 12.4/barrel and USD 21.1/barrel. On average over the year, it traded at USD 15.5/barrel and thus 7.0 per cent lower than in the previous year. The jet fuel crack at year-end was USD 14.8/barrel.

Price development of crude oil and kerosene in USD/t



Source: Lufthansa, based on market data.

The average price for kerosene was USD 908.1/tonne in 2014. After hedging, the Lufthansa Group's fuel costs, including fuel hedging, fell year on year by 5.1 per cent or EUR 364m. Volumes and exchange rates had no significant effect.

The fuel price is a central factor behind changes in the Lufthansa Group's expenses. To limit the ensuing risks, the Company has a systematic risk management system for fuel with a rule-based hedging strategy with a time horizon of up to 24 months. This means that there are also periods in which fuel hedging does not deliver a positive earnings contribution. As a result, fuel hedging in 2014 depressed the operating result by EUR 149m. This figure is included in the changes to overall fuel costs described above. Detailed information on the Lufthansa Group's hedging policy can be found in the "Risk and opportunities report" from p. 109. As well as hedging fuel prices, another approach to reducing fuel costs is the analysis and implementation of operational savings as part of the fuel efficiency project. More details can be found in the chapter on "Lufthansa Passenger Airlines" on p. 68.

Sector developments

✈ Aviation is a long-term growth industry. / Sales worldwide increased in 2014, with large regional disparities. / Revenue passenger-kilometres rise by 5.9 per cent. / Airfreight traffic grows more slowly than passenger traffic once again. / Global airline industry is able to almost double its net profit. / Airline sector is in a state of flux.

Developments in the airline sector affect all the segments in the Lufthansa Group. The effects are either direct in the case of the companies in the Passenger Airline Group, or indirect via their impact on key customer groups of the service companies.

Regional developments in passenger traffic continue to vary
Air traffic varied again from one region to another in the reporting period in the same fashion as macroeconomic performance. European airlines reported sales growth of 5.8 per cent in 2014, according to information from the International Air Transport Association (IATA). The German Aviation Association (BDL) put sales growth in Germany below this at 2.3 per cent. Airlines from the Asia/Pacific region saw an increase in sales of 7.1 per cent and North American carriers of 2.7 per cent. Latin American airlines increased revenue passenger-kilometres by 6.4 per cent, whereas air traffic in Africa grew by just 0.3 per cent. Carriers from the Middle East again reported very high growth of 12.6 per cent in 2014. Air transport remains a long-term growth industry with an average growth rate in revenue passenger-kilometres of around 6 per cent in the period 2010 to 2014.

Total revenue passenger-kilometres picked up by an average of 5.9 per cent worldwide. According to the IATA, premium traffic was up on the previous year by 3.4 per cent.

Sales performance 2014

in % compared with previous year	Revenue passenger-kilometres	Cargo tonne-kilometres
Europe	5.8	2.0
North America	2.7	2.4
Central and South America	6.4	0.1
Asia / Pacific	7.1	5.4
Middle East	12.6	11.0
Africa	0.3	6.7
Industry	**5.9**	**4.5**

Source: IATA Air Passenger / Air Freight Market Analysis 12 / 14.

Growth in airfreight traffic again slower than passenger traffic
The global volume of airfreight rose by 4.5 per cent. Sales for the airlines from the Middle East went up fastest here too, at 11.0 per cent, followed by airlines from Africa (+6.7 per cent) and Asia/Pacific (+5.4 per cent). Growth for cargo airlines in Europe was weaker at 2.0 per cent. Sales by airlines in the Latin America region were flat year on year (+0.1 per cent), whereas sales by North America carriers rose by 2.4 per cent.

Growth in international air traffic also boosted demand for downstream services in the catering and maintenance, repair and overhaul markets that are relevant to the Lufthansa Group. Further details are available in the sections "MRO business segment" from p. 77 and "Catering business segment" from p. 81.

Global airline industry expects earnings to go up sharply in 2014
IATA raised its industry forecast for 2014 and is now forecasting a net profit for the global airline industry of USD 19.9bn. This is a much higher profit than in the previous year (USD 10.6bn). The earnings situation also improved for European airlines. Here, the sector is predicted to earn net profits for 2014 of USD 2.7bn. Airlines in North America are again predicted to have the highest net profits of all regions at USD 11.9bn.

Global air transport is still in a process of change
Competition in the airline industry was again in flux in the reporting year.

The Gulf carrier Etihad Airways expanded its activities in Europe substantially. Since the first quarter of 2014, when the Gulf airline acquired an interest in Darwin Airlines from Switzerland, it has been providing feeder flights to and from various European airports under the name of Etihad Regional.

Etihad Airways has also acquired 49 per cent of the Italian carrier Alitalia. A contract was signed in August 2014. The merger was approved by the competition directorate of the European Commission subject to certain conditions. By its own account, Etihad is planning with other investors to invest a total of EUR 1.8bn in Alitalia in the next four years.

In August 2014, the German Federal Aviation Authority announced that it expected to withdraw aviation rights in the form of code-share agreements from Etihad Airways. The 34 flight connections used jointly with Air Berlin have nonetheless been allowed to continue for the 2014 winter flight timetable. Etihad holds a 29.2 per cent interest in Air Berlin. This investment has already been approved by the German Federal Aviation Authority subject to conditions.

In September, Air Berlin cancelled an order for 33 aircraft with manufacturer Boeing. At stake were 18 medium-haul jets from the B737 series and 15 long-haul B787s, with a total list price of around USD 5bn (EUR 3.9bn). The airline justified its move with a reduction in capital spending to improve its balance sheet structure.

The Irish low-cost carrier Ryanair placed an order for 100 aircraft of the B737 MAX 200 type in September 2014, with a list price of USD 11bn. It also agreed an option for a further 100 aircraft. This order is intended to replace older B737-800 aircraft and generate further growth.

In September 2014, the British low-cost carrier EasyJet ordered 27 additional Airbus A320 aircraft, continuing its growth trajectory.

IAG ordered 20 A320neo aircraft for British Airways in July 2014 and eight A330s for Iberia in September. Iberia was hit by industrial action in the first quarter of 2014, which came to an end in March when the collective bargaining partners reached an agreement.

Air France-KLM suffered a massive pilots' strike in the third quarter, which lasted for two weeks and depressed earnings significantly. One of the main reasons for the strike was management's plans to expand outside the Group's home markets with its low-cost airline Transavia. Partly as a result of this strike, the company was forced to issue three profit warnings in 2014 and to postpone the delivery of Boeing 777 aircraft originally planned for 2015/16.

Delta from the USA and Virgin Atlantic from the UK established a transatlantic joint venture in the first quarter, which adds to the existing joint ventures on North American routes. The transatlantic joint venture between IAG, American Airlines and Finnair was joined by US Airways, which is also a member of the oneworld alliance. TAM and US Airways joined the oneworld alliance at the end of the first quarter. They both left the Star Alliance as a result of their mergers with LAN (TAM) and American Airlines (US Airways).

In July 2014, the Indian airline Air India joined the Star Alliance, the largest global airline alliance, which also counts the Lufthansa Group as a member. Mutual recognition of frequent flyer status in Air India's Flying Returns programme and the frequent flyer programmes operated by the members of the Star Alliance also came into effect at the same time. Air India extends the alliance route network with the addition of 400 daily flight connections and 35 new destinations in India.

In July 2014, the Lufthansa Group and Air China signed a memorandum of understanding to prepare a commercial joint venture between the two companies. This partnership is intended to add to the Lufthansa Group's existing joint ventures with United Airlines and with Air Canada between Europe and North America (since 1998) and with ANA (since 2012) on routes between Europe and Japan. It will give the Lufthansa Group airlines even better access to China, the second largest air traffic market in the world after the USA. The first phase of this new partnership agreement came into effect with the winter flight timetable at the end of October 2014.

Course of business

All business segments report positive operating results. / New CEO in office since May. / Declining average yields and various strikes have a significant adverse effect on the operating result of Lufthansa Passenger Airlines. / Earnings forecast revised downwards accordingly. / Austrian Airlines reaches agreement with the collective bargaining partners. / Supervisory Board approves important investments. / Reduced earnings forecast is achieved. / New indicators for value-based management introduced. / SCORE continues to make an important contribution.

Overview of the course of business

All business segments again report positive operating results

Last year the course of business at the Lufthansa Group was dominated by declining yields and the consequences of the strikes by the pilots' union Vereinigung Cockpit for Lufthansa Passenger Airlines. The service companies again had a stabilising effect on the Lufthansa Group's business and earnings performance over the year as a whole.

The airline business is characterised by seasonal fluctuations, but the yields for the Passenger Airline Group deteriorated increasingly compared with the previous year. After a positive start to the year, a negative pricing trend set in at the end of the first quarter and stabilised at a low level towards year-end. The main reasons were general overcapacities on the market, as well as partly Company-specific factors such as competition from low-cost carriers and market players from the Middle East, and the threatened and actual strikes by the pilots' union Vereinigung Cockpit.

Within the Passenger Airline Group, the picture was mixed. The operating profit at Lufthansa Passenger Airlines fell sharply primarily due to the strikes and the ensuing decline in bookings. SWISS improved significantly on its result for the previous year. Austrian Airlines reported an operating profit again, although this was well down on the previous year due to the severance payments made to facilitate the signing of a Group wage settlement for Austrian Airlines. None of the airlines saw the positive effects of adjusting depreciation and amortisation policy impact their bottom line in full. Overall, the Passenger Airline Group only managed an operating result on par with the previous year.

Lufthansa Cargo was able to increase its earnings sharply year on year, despite the adverse effects of altering its depreciation policy. This was mainly thanks to its flexible and demand-oriented capacity management. Whereas growth at Lufthansa Passenger Airlines prompted capacity growth in passenger aircraft, available freighter capacity was reduced substantially.

A strong influx of new orders and the successful implementation of SCORE activities enabled the MRO segment to achieve another high operating profit that was slightly down on the year.

LSG Sky Chefs also reported a good operating result, although this was slightly lower than the previous year. In its final reporting year, the IT Services segment improved slightly on the previous year's result.

Significant events

Strikes depress results substantially

Several strikes by the pilots' union Vereinigung Cockpit at Lufthansa Passenger Airlines, Germanwings and Lufthansa Cargo had a severe impact on the result. The first strike took place from 2 to 4 April 2014. The Lufthansa Group incurred a direct loss of earnings amounting to some EUR 60m as a result of this industrial action. The strike was preceded by protracted, intense talks and negotiations about pay and future transitional benefits for pilots. Between late August and the end of the year, another ten strikes were announced, nine of which actually took place in different areas and with varying durations. In some cases, they disrupted flight operations significantly and were thereby responsible for further lost earnings of around EUR 162m during this period. Overall, the strikes by the pilots' union Vereinigung Cockpit caused a loss of earnings of EUR 222m at the Lufthansa Group in the reporting year. This figure is based on internal estimates and is made up of EUR 116m in lost earnings during the strike itself and EUR 106m in lost future bookings as calculated using statistical methods.

It is still unclear whether the adverse effect on customers' booking patterns of the strikes threatened by the pilots' union is long-term, thereby resulting in a structural shift towards lower booking volumes in future.

Industrial action by various interest groups outside the Lufthansa Group also had an impact on the Company's earnings. On 21 February 2014, the public-sector staff operating the security checks at Frankfurt Airport went on strike in response to a call by the trade union ver.di. This caused delays and cancellations throughout the day, which severely inconvenienced passengers and impacted the Company's earnings accordingly.

In the course of collective bargaining for public-sector workers, the trade union ver.di also called for nationwide warning strikes at German airports on 27 March 2014. Most domestic German flights and European connections planned for that day between 6 a.m. and 2 p.m. had to be cancelled.

Overall, the Lufthansa Group incurred losses of some EUR 232m as a result of strike action in the 2014 financial year.

Lufthansa Group adjusts earnings forecast

On 11 June 2014, the Lufthansa Group adjusted its earnings forecast due to non-recurring expenses from strikes and the devaluation of the Venezuelan bolivar and also due to the fact that revenue in the passenger and freight business was below expectations. After this date, the Executive Board's projection for the financial year 2014 was a reported operating result of around EUR 1.0bn. This did not include the costs of any strikes after July 2014. The forecast was narrowed down again in October, with the Lufthansa Group projecting that they would still report an operating result of EUR 1.0bn, but now including all strike costs up to the end of October. Originally the Group had been expecting a reported operating result for 2014 of between EUR 1.3bn and EUR 1.5bn.

The earnings target for 2015 was also adjusted over the course of the year. In March, the Lufthansa Group restated its long-term target for the operating result from EUR 2.3bn to EUR 2.65bn due to the change in depreciation policy. Consequently, in June, the earnings target was revised to EUR 2.0bn, subject to a stable global economy, and in October it had to be corrected again, this time to well "above the previous year" after risks to revenue and the macroeconomic environment had materialised.

New strategic programme of work presented

Carsten Spohr, Chairman of the Executive Board and CEO of Deutsche Lufthansa AG since 1 May 2014, presented his strategic programme for the planned development of the Lufthansa Group, entitled "7to1 – Our Way Forward", on 9 July 2014. The presentation can be found at i www.lufthansagroup.com/investor-relations. Further comments on "7to1 – Our Way Forward" can be found in the chapter "Goals and strategies" from p. 24 and in the "interview" with Carsten Spohr starting on p. 8.

Supervisory Board approves important investments

On 16 September 2014 and at the recommendation of the Executive Board, the Supervisory Board of Deutsche Lufthansa AG approved the purchase of 15 modern aircraft from the Airbus A320neo (new engine option) family to replace older aircraft, probably at SWISS, and ten A320ceo (current engine option) to replace Bombardier CRJ900s, probably at Eurowings. The Supervisory Board also approved capital expenditure of some EUR 60m by Lufthansa Technik AG to build a new wheel and brake workshop at its Frankfurt site.

Austrian Airlines reaches agreement with collective bargaining partners

Austrian Airlines and its subsidiary Tyrolean Airways signed a completely new collective agreement with their social partners on 31 October 2014. This new Group wage agreement applies from 1 December 2014 to roughly 900 pilots and 2,300 flight attendants at the Austrian Airlines Group. It governs the future salaries and pensions, working hours and career development for cockpit and cabin crew. Under a parallel agreement, flight operations are due to be transferred (back) from Tyrolean Airways to Austrian Airlines as of 1 April 2015. The settlement was reached after much litigation between staff representatives and Austrian Airlines concerning the legality and effects of transferring flight operations from Austrian Airlines to Tyrolean Airways in 2012. The law suits brought by the works council that were most relevant to Austrian Airlines have since been withdrawn in line with the agreements.

Lufthansa Passenger Airlines and UFO reach far-reaching agreement

Lufthansa Passenger Airlines and the flight attendants' union UFO reached an agreement in mid-September 2014 on growth and the safeguarding of existing jobs on Lufthansa routes with a high proportion of leisure travellers. Lufthansa Passenger Airlines had previously announced its intention to continue operating up to 14 Airbus A340-300 aircraft in a cabin configuration optimised for leisure travel. Furthermore, Lufthansa Passenger Airlines and UFO were at least able to agree on the outline of further negotiations to revise retirement benefit schemes. Together, the collective bargaining partners want to redesign the systems of retirement and transitional benefits to put them on a sound footing for the future. However, what the further negotiations will achieve remains to be seen.

Lufthansa Systems to sell IT Infrastructure segment

On 21 October 2014, the Executive Board of Deutsche Lufthansa AG decided to enter into final negotiations on the sale of the IT Infrastructure segment of Lufthansa Systems AG, and at the same time to sign an IT service contract for the Lufthansa Group with the IBM Group. Lufthansa Systems AG will be split into its three segments beforehand. The contract was signed with IBM on 15 November 2014, and the Supervisory Board of Deutsche Lufthansa AG approved the transaction on 3 December 2014. The transaction is expected to be closed in the first half-year of 2015.

Lufthansa Group to introduce new performance indicators for value-based management of the Group and new dividend policy in 2015
The Lufthansa Group is introducing a new concept for value-based management in 2015. Earnings After Cost of Capital (EACC) and Return On Capital Employed (ROCE) will then replace Cash Value Added (CVA). This confirms the principle of value-based management for the Group. The new performance indicators are less complex and more transparent, thus providing a better foundation for sustainable commercial decisions.

The dividend policy is also to be altered as of the financial year 2015 (dividend payments in 2016). In future, the intention is to distribute 10 to 25 per cent of earnings before interest and taxes (EBIT), subject to sufficient net profit as defined by German commercial law (HGB). Therefore, dividend payments will still be possible in the same range as before, and the shareholders will continue to participate in the Company's success.

Changes in the Executive Boards of the Lufthansa Group, the operating segments and Group companies
At its meeting on 7 February 2014, the Supervisory Board of Deutsche Lufthansa AG appointed Mr Carsten Spohr as Chairman of the Executive Board of Deutsche Lufthansa AG with effect from 1 May 2014. Other changes were made to the management boards in the Lufthansa Group at the same time.

At its meeting on 12 March 2014, the Supervisory Board appointed Mr Karl Ulrich Garnadt as a member of the Executive Board and Chairman of the Lufthansa Passenger Airlines Board. Mr Garnadt had been Chairman of the Executive Board and CEO of Lufthansa Cargo AG since January 2011. He was succeeded as of 1 May 2014 by Mr Peter Gerber, previously Executive Board member of Lufthansa Passenger Airlines for HR, Services and IT.

In addition to her previous responsibilities, Dr Bettina Volkens also assumed the role of Chief Human Resources Officer at Lufthansa Passenger Airlines as of 1 May 2014. Since 1 July 2013, she has been Chief Human Resources Officer and the Executive Board's Chief Officer for Human Resources and Legal at Deutsche Lufthansa AG.

At its meeting held on 16 September 2014, the Supervisory Board of Deutsche Lufthansa AG renewed the appointment of Simone Menne, Chief Officer Finances and Aviation Services, until 30 June 2020. She has held this position since 1 July 2012.

Mr Erdmann Rauer succeeded Mr Walter Gehl as Chairman of the Executive Board and CEO of LSG Lufthansa Service Holding AG (LSG Holding) as of 1 October 2014. Mr Gehl was Chairman of the Executive Board and CEO of LSG Holding from March 2005 until September 2014, and has now retired. The Supervisory Board of LSG Holding also appointed Dr Kristin Neumann as Chief Financial Officer and Head of Human Resources at LSG Holding with effect from 1 July 2014. She takes over from Mr Jens Theuerkorn, whose contract ended as planned with his retirement on 30 June 2014. Mr Theuerkorn had been Chief Financial Officer since July 2009.

At its meeting on 15 September 2014, the Supervisory Board of Lufthansa Technik AG appointed Dr Johannes Bußmann as the new Chairman of the Executive Board and CEO. Dr Bußmann will take over on 1 April 2015 from Mr August Wilhelm Henningsen, who will retire in 2015. At its meeting on 25 November 2014, the Supervisory Board of Lufthansa Technik AG appointed Mr Antonio Schulthess to the Executive Board. Mr Schulthess will take office on 15 March 2015. A decision on the division of responsibilities will be taken in 2015.

Dr Andreas Otto became Chief Commercial Officer at Austrian Airlines AG with effect from 1 October 2014. The Supervisory Board of Lufthansa Cargo AG has appointed Dr Alexis von Hoensbroech, previously Commercial Director Frankfurt at Lufthansa Passenger Airlines, to succeed him as Chief Officer Product and Sales at Lufthansa Cargo AG with effect from 1 December 2014.

SCORE programme

Between its launch in February 2012 and the end of 2014, the SCORE programme has made a gross contribution of more than EUR 2.5bn to the Lufthansa Group's operating result. During this period, staff from all areas of the Lufthansa Group have developed more than 7,500 ideas, activities and projects, of which over 5,900 have already had a positive impact on earnings. It will nonetheless not be possible to reach the original target of improving earnings by EUR 1.5bn, from an operating result of EUR 820m in 2011 to EUR 2.3bn in 2015, largely because average yields for the airlines have fallen disproportionately on a long-term basis.

In 2014, the SCORE programme again made a vital contribution to the earnings performance. Structural changes were implemented in the reporting period, as well as steps to cut costs and boost income. Many of them were initiated at the start of the programme and are now having a positive effect. The Lufthansa Group has been able to realise long-term synergies, especially at the airlines.

They include merging the check-in areas for Lufthansa Passenger Airlines, SWISS and Austrian Airlines at more and more airports outside their home markets. Passengers can now often check in luggage much earlier and transfer more easily between flights with several Lufthansa Group airlines. The joint check-in heightens the perception of the Lufthansa Group as a single company and reduces the number of desks per airport at the same time.

Another example of better coordination between the airlines are the new regional "Remote Ticketing Centres", which assist customers of all the airlines in the Lufthansa Group when flights are disrupted for any reason. They have made it possible to close the ticket desks at larger stations.

Alongside the airlines, the service companies are also contributing to the earnings improvement programme with cost-cutting, income-generating and structural measures. Particularly important are the increasingly positive effects generated from efficiency boosting measures also initiated in administrative areas when the programme was started, and these effects have been achieved by careful analysis and process optimisation. Successful initiatives in individual companies are increasingly also transferred to other areas of the Group.

In the reporting period, the service companies extended their activities aimed at boosting income. Lufthansa Technik is focusing its SCORE projects on the growth markets of Asia and America, for example. For LSG Sky Chefs too, these markets are key to increasing income in future.

All areas of the Group functions have been reviewed to identify potential synergies and opportunities for savings as part of the optimisation scheme. Organisational processes have been simplified as a result, while structures have been streamlined and made more effective, for instance by outsourcing administrative tasks to shared service centres. This has generated cost savings by reducing the number of staff and other operating costs.

Another key earnings contribution to SCORE will come from increasing the Group's leverage in purchasing negotiations through having all companies work closely together. A programme entitled "Lufthansa Procurement Power" has been set up within SCORE to achieve this. Its earnings contribution to date (2012 to 2014) stands at EUR 414m as of November 2014. The SCORE purchasing target of EUR 500m is expected to be reached within the SCORE period.

The main focus of SCORE will now increasingly shift to transferring ongoing initiatives and the management logic successfully established by SCORE into the organisational structures of line management, as part of the "7to1 – Our Way Forward" strategic programme. The adaptability induced by the programme is to be maintained and exploited even after SCORE comes to an official end in 2015. Further details can be found in the chapter "Goals and strategies" from p. 24 and from p. 1 "Lufthansa – First choice".

Target achievement

Lufthansa Group meets revised earnings forecast
For the Passenger Airline Group and Logistics segments in particular, the financial year 2014 was challenging. Tough competition, increasing overcapacities and regional crises resulted in lower yields and negative effects on earnings, as did the strikes called by the pilots' union Vereinigung Cockpit. As a result, the Executive Board of Deutsche Lufthansa AG corrected its operating profit forecast for the year 2014 already in June 2014 from EUR 1.3 to 1.5bn to EUR 1.0bn before strike costs in the second half of the year. Later in the year and despite further earnings lost to strikes in the interim, the forecast was confirmed at an operating result of EUR 1.0bn before strike costs in November and December.

Target achievement for the Lufthansa Group and business segments

	Revenue			Operating result		
	Revenue 2013 in €m	**Forecast for 2014***	**Revenue 2014** in €m	Result 2013 in €m	**Forecast for 2014***	**Result 2014** in €m
Lufthansa Passenger Airlines	17,302		17,098	282	significantly above previous year, but diluted by project costs	252
SWISS	4,223		4,241	226	significantly above previous year	289
Austrian Airlines	2,069		2,069	25	significantly above previous year	10
Reconciliation	–84		–88	–20		2
Passenger Airline Group	23,510	up to +5% above previous year	23,320	513	€ 950 to 1,100m (incl. € 300m project costs at Lufthansa Passenger Airlines	553
Logistics	2,443	significantly above previous year	2,435	79	significantly above previous year, at least on previous year's level	100
MRO	4,180	in line with market growth	4,337	404	on par with 2012 (€ 328m)	392
Catering	2,514	slightly above previous year	2,633	105	slightly above previous year	100
IT Services	640	slightly above previous year	646	36	slightly above previous year	37
Other	0			–395	significant improvement due to lower restructuring costs	–211
Internal revenue / Reconciliation	–3,260		–3,360	–43		–17
Lufthansa Group reported	30,027	**slightly above previous year**	30,011	699	**€ 1,300 to 1,500m**	954
Restructuring costs					€ 80m	
Project costs Lufthansa Passenger Airlines					€ 300m	
Lufthansa Group normalised		**slightly above previous year**			**€ 1,680 to 1,880m**	

* As in the Annual Report 2013 reportet.

In the end, an operating result of EUR 954m was achieved before strike costs of EUR 62m in November and December (previous year: EUR 699m). This earnings improvement is, however, less than the positive impact of EUR 351m from changing the depreciation policy.

At EUR 30.0bn, the Lufthansa Group's revenue was on par with the previous year (EUR 30.0bn). The forecast was for a slight increase in revenue year on year. Once again, the two segments Passenger Airline Group and MRO delivered the largest earnings contributions.

Lufthansa Passenger Airlines forecast higher revenue and an improvement in its operating result for 2014. Neither target was met. Revenue fell slightly to EUR 17.1bn (–1.2 per cent) and the operating result declined from EUR 282m to EUR 252m (–10.6 per cent). The main reasons for this negative performance were lower yields and the effects of the pilots' strikes on earnings. Positive effects on earnings stemmed from lower depreciation and amortisation, continuing the transfer of loss-making European traffic outside the hubs in Frankfurt and Munich to Germanwings, and a significant reduction in unit costs.

SWISS forecast higher revenue and an operating result well above the previous year for the financial year 2014. Again, both targets were met. Revenue went up slightly by 0.4 per cent to EUR 4.2bn and the operating result climbed significantly to EUR 289m (+27.9 per cent). Here too, the main reasons were the change in depreciation policy, cost savings thanks to SCORE, and the fleet roll-over to aircraft with extended capacities.

Austrian Airlines projected higher revenue for the 2014 financial year and an improvement in its operating result. Revenue was flat (EUR 2.1bn) and the operating result fell to EUR 10m (previous year: EUR 25m). The latter was due to the non-recurring effects of severance payments made as part of the new collective wage agreement. The change in depreciation policy had a positive effect here, too.

The Passenger Airline Group forecast an increase in revenue and operating result for 2014. With EUR 23.3bn (–0.8 per cent), its revenue target was not met. As load factors were constant, the effects of intense competition, overcapacities in some markets and numerous strikes were reflected in lower yields. These factors also weighed upon the operating result, which rose by 7.8 per cent year on year to EUR 553m.

The Logistics segment expected its operating profit to rise significantly in 2014 compared with the previous year. Its operating result was up by 26.6 per cent to EUR 100m. Flexible and demand-driven capacity management again paid-off here, and made up for the adverse effect of changes in the depreciation policy.

For 2014, the MRO segment projected revenue growth in line with the market and an operating result at the same level as 2012 (EUR 328m). Revenue increased by 3.8 per cent to EUR 4.3bn and the operating result of EUR 392m was 3.0 per cent down on the previous year, but well above the forecast. This clearly positive performance stemmed from successful revenue growth and the Company's consistent cost management.

The Catering segment forecast a slight increase in revenue and operating result for 2014. Revenue improved by 4.7 per cent to EUR 2.6bn. The operating result fell from EUR 105m to EUR 100m (–4.8 per cent). Lower earnings were mainly due to an unexpected rise in the cost of materials and staff costs.

The IT Services segment was expecting a slight increase in revenue and a slight decline in its operating result for the financial year 2014. Revenue climbed by 0.9 per cent to EUR 646m and the operating result increased by 2.8 per cent to EUR 37m.

Key figures Passenger Airline Group

		Result 2013	**Forecast for 2014**	**Result 2014**
Fleet (Aircraft)	number	622	overall stable	–1.1%
Capacity (ASK)	millions	262,682	approx. +5%	+2.1%
Sales (RPK)	millions	209,652	up more than capacity	+2.4%
Passenger load factor (SLF)	in %	79.8	slight increase	+0.3 pts
Pricing (Average yields)	€ cent	10.4	negative	–3.1%
Unit revenue (RASK)	€ cent	8.3	slightly negative	–2.8%
Unit costs (CASK excluding fuel)	€ cent	6.7	approx. –4%	–3.0%

Value creation remains positive

The Lufthansa Group forecast a sharp increase in net profit for 2014. This forecast was not met; net profit fell from EUR 313m to EUR 55m, largely due to losses in connection with the sale of the infrastructure segment of Lufthansa Systems to IBM and an increase in the market value of the conversion options for JetBlue shares embedded in the convertible bond issued by the Lufthansa Group.

However, the aim of creating sustainable value was achieved again, as expressed in a positive CVA.

In the medium term, the Company is aiming for an equity ratio of 25.0 per cent. In 2013, the ratio came to 21.0 per cent, and in 2014 it fell to 13.2 per cent. This decline is mainly due to the key date valuation of pension provisions carried out for the first time in 2013, the result of which is recognised directly in equity. Last year, the discount rate actuarial fell from 3.75 per cent to 2.60 per cent, which was one of the main reasons for the decline of 7.8 percentage points in the equity ratio.

The target for the debt repayment ratio is at least 35 per cent. In 2013, the figure was 37.0 per cent and in 2014, it came to 20.6 per cent. The sharp rise in pension provisions and the increase in net debt also had a adverse impact on this ratio.

The Lufthansa Group's target of maintaining minimum liquidity of EUR 2.3bn was achieved in 2014 with a figure of EUR 2.7bn. The fleet was still largely owned and unencumbered in 2014.

Structural increases in the profitability of the Lufthansa Group are required

2014 was a very challenging year for the Lufthansa Group. Business performance was severely affected by a wide range of factors. The staff and managers again demonstrated that they are able to respond successfully and at short notice to all kinds of challenges. However, the financial result for the financial year must be described as unsatisfactory, as it fell well short of the annual forecast. It remains a necessity to structurally improve the profitability of the Lufthansa Group.

The forecasts and other financial targets set by the Lufthansa Group and its operating segments for the financial year 2015 are presented together in the section "Outlook for the Lufthansa Group" starting on p. 122.

Lufthansa Group forecast financial profile

	Result 2013	**Forecast for 2014**	**Result 2014**
Equity ratio	21.0%	rising towards 25%	13.2%
Debt repayment ratio	37.0%	slight increase	20.6%
Liquidity	€ 4.7bn	declining towards € 3.0–3.5bn	€ 2.7bn
Free cash flow	€ 1.3bn	negative	€ –297bn
Fleet	largely unencumbered	largely unencumbered	largely unencumbered

Earnings position

Revenue is stable year on year at EUR 30.0bn. / Growth of the service companies compensates for falling traffic revenue at the airlines. / Operating result increases to EUR 954m, primarily as a result of lower depreciation and amortisation and the effects of cheaper fuel. / Strikes by pilots reduce earnings by EUR 222m. / Group net profit falls to EUR 55m. / Earnings per share amount to EUR 0.12. / No dividend shall be paid for the 2014 financial year.

Revenue and income

Traffic figures of the Lufthansa Group's airlines*

		2014	2013	Change in %
Passengers	thousands	105,988	104,593	1.3
Available seat-kilometres	millions	268,105	262,682	2.1
Revenue seat-kilometres	millions	214,641	209,652	2.4
Passenger load factor	%	80.1	79.8	0.3 pts
Freight/mail	thousand tonnes	1,924	1,965	−2.1
Available cargo tonne-kilometres	millions	14,659	14,893	−1.6
Revenue cargo tonne-kilometres	millions	10,249	10,285	−0.4
Cargo load factor	%	69.9	69.1	0.8 pts
Total available tonne-kilometres	millions	41,548	41,218	0.8
Total revenue tonne-kilometres	millions	31,308	30,879	1.4
Overall load factor	%	75.4	74.9	0.5 pts
Flights	number	1,001,975	1,028,260	−2.6

* Previous year's figures have been adjusted.

Operating income of EUR 32.2bn for the financial year 2014 was roughly the same as the previous year.

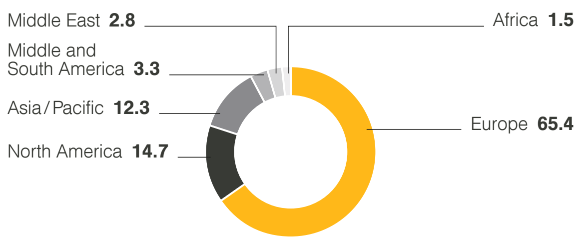
Revenue was also virtually unchanged year on year at EUR 30.0bn. Although traffic revenue fell slightly by 0.7 per cent to EUR 24.4bn despite greater traffic, other revenue rose by 3.0 per cent to EUR 5.6bn.

Traffic revenue down by 0.7 per cent
Traffic revenue for the Group contracted by 0.7 per cent to EUR 24.4bn. While the higher sales boosted revenue by 2.1 per cent, a 2.3 per cent drop in prices (including fuel surcharge and air traffic tax) and negative exchange rate effects (−0.5 per cent) led to a reduction in revenue. The decline in traffic revenue, primarily due to pricing and exchange rates, was the main reason why it was not possible to reach the higher revenue target set the year before.

The Passenger Airline Group segment accounted for the bulk of traffic revenue, contributing 88.4 per cent. Revenue here was 0.8 per cent down on the previous year, at EUR 21.6bn. While sales volumes were up by 2.4 per cent, lower prices (−2.7 per cent) and negative exchange rate effects (−0.5 per cent) resulted in a reduction in revenue.

Traffic revenue in the Logistics segment was down by 0.6 per cent at EUR 2.4bn. Despite prices beings higher (+1.6 per cent), the decline stemmed from lower sales (−1.4 per cent) and adverse exchange rate effects (−0.8 per cent).

Traffic revenue Group* in %



* Business segments Passenger Airline Group and Logistics.

Other revenue up by 3.0 per cent
Other revenue derives primarily from the MRO, Catering and IT Services segments, and to a lesser extent from the Passenger Airline Group and Logistics as well. It increased by EUR 164m, or 3.0 per cent, to EUR 5.6bn in the reporting year.

Of this, the MRO segment generated EUR 2.7bn (+3.0 per cent), Catering EUR 2.0bn (+5.9 per cent) and IT Services EUR 270m (+1.9 per cent). The airborne companies in the Passenger Airline Group and Logistics segments contributed EUR 658m (−4.6 per cent) to other revenue.

Revenue and income

	2014 in €m	2013 in €m	Change in %
Traffic revenue	24,388	24,568	–0.7
Other revenue	5,623	5,459	3.0
Total revenue	**30,011**	**30,027**	**–0.1**
Changes in inventories and work performed by the entity and capitalised	212	158	34.2
Other operating income	1,953	2,043	–4.4
Total operating income	**32,176**	**32,228**	**–0.2**

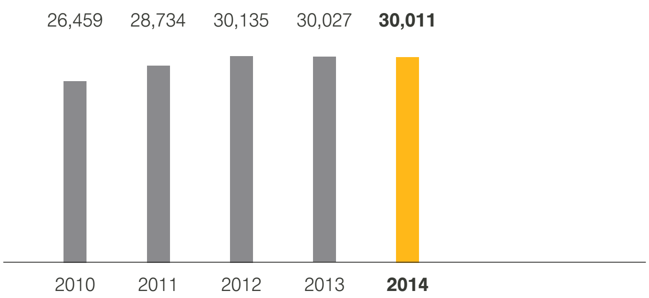
Revenue was again dominated by the Passenger Airline Group. The Group's external revenue contracted slightly by 0.1 per cent to EUR 30.0bn. The Passenger Airline Group segment's share of total revenue decreased to 75.4 per cent (–0.7 percentage points). The Logistics segment accounted for 8.0 per cent of total revenue, Lufthansa Technik for 8.9 per cent, Catering for 6.8 per cent and IT Services for 0.9 per cent.

External revenue by segment 2014

	External revenue in €m	Year on year change in %	Share of total revenue in %
Passenger Airline Group	22,636	–0.9	75.4
Logistics	2,410	–0.4	8.0
MRO	2,673	3.0	8.9
Catering	2,022	5.9	6.8
IT Services	270	1.9	0.9

A regional breakdown of revenue by sales location is given in the segment reporting section; see the Notes to the consolidated financial statements, "Note 42" from p. 216. The regional distribution of traffic revenue by traffic region for the segments Passenger Airline Group and Logistics is described in the chapters on the respective business segments on p. 64 and p. 74.

Revenue in €m



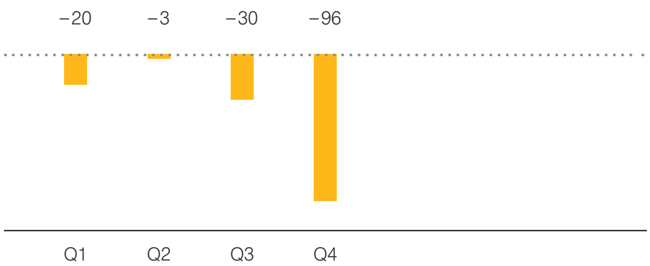
Other operating income down 4.4 per cent on previous year
Other operating income fell by EUR 90m (–4.4 per cent) to EUR 2.0bn. Higher write-ups on non-current assets (EUR +28m) were offset by lower income from the write-back of provisions (EUR –23m), lower exchange-rate gains (EUR –44m), lower income from training services (EUR –15m) and from subleasing aircraft (EUR –11m). Other items did not vary significantly compared with the previous year. "Note 6" to the consolidated financial statements from p. 169 contains a detailed list of other operating income.

Expenses

Year-on-year changes in operating expenses were characterised by a lower cost of materials and services and an increase in other operating expenses. Overall, they rose slightly by 0.1 per cent to EUR 31.4bn.

Lower cost of materials and services due to decline in fuel costs
The cost of materials and services dropped by 1.2 per cent to EUR 17.3bn in the financial year 2014. Fuel costs were the main factor behind the decrease, falling by 5.1 per cent to EUR 6.8bn. This trend is wholly due to the 5.1 per cent decline in prices (after price hedging). The effects of lower volumes (–0.1 per cent) were offset by negative exchange rate effects (+0.1 per cent). Fuel costs included a negative result of price hedging of EUR 149m (previous year: EUR 125m). Expenses for other raw materials, consumables and supplies were up by 2.9 per cent at EUR 2.7bn.

Result of fuel price hedging per quarter 2014 in €m



Fees and charges went up by 1.9 per cent to EUR 5.3bn. Higher take-off and landing fees (+4.1 per cent), passenger fees (+6.4 per cent) and security fees (+12.7 per cent) were offset mainly by lower handling charges (–2.7 per cent). Expenses for the air traffic tax rose by 2.3 per cent to EUR 361m. Other purchased services went down by 1.0 per cent to EUR 2.5bn.

Expenses

	2014 in €m	2013 in €m	Change in %	Percentage of operating expenses in %
Cost of materials and services	17,283	17,498	−1.2	55.0
of which fuel	6,751	7,115	−5.1	21.5
of which fees and charges	5,265	5,167	1.9	16.8
of which operating lease	52	94	−44.7	0.2
Staff costs	7,335	7,356	−0.3	23.4
Depreciation	1,512	1,767	−14.4	4.8
Other operating expenses	5,279	4,756	11.0	16.8
of which sales commissions paid to agencies	322	366	−12.0	1.0
of which indirect staff costs and external staff	955	897	6.5	3.0
of which rental and maintenance expenses	826	791	4.4	2.6
Total operating expenses	**31,409**	**31,377**	**0.1**	**100.0**

Whereas external MRO services rose by 7.9 per cent, there was a significant fall in charter expenses (−33.0 per cent) and expenses for operating leases (−44.7 per cent).

Staff costs 0.3 per cent lower
Staff costs sank by 0.3 per cent to EUR 7.3bn in the reporting period. On average over the year, the Group had 118,973 employees (+1.3 per cent). 1.1 per cent of the increase stemmed from the larger group of consolidated companies in the MRO and Catering segments. The resultant additional expenses were offset by lower restructuring costs for SCORE of EUR 62m (previous year: EUR 245m) and lower additions to pension provisions as a result of lower interest rates.

Depreciation and amortisation down sharply due to adjustment to useful lives of aircraft the previous year
Depreciation and amortisation fell by 14.4 per cent to EUR 1.5bn in the financial year 2014. The decline in the depreciation of aircraft was even steeper, down by 20.2 per cent to EUR 1.1bn. It was due to the changes made the previous year, which extended the useful lives of aircraft and reserve engines from twelve to 20 years and reduced their residual value from 15 per cent to 5 per cent at the same time. The reason that adjusting the useful lives produced greater savings on depreciation of EUR 351m in the reporting period (previous year: EUR 63m) is that in the previous year, the effect was mitigated by reducing residual values from 15 to 5 per cent.

Impairment losses came to a total of EUR 100m in the reporting year (previous year: EUR 137m). Of the total, EUR 22m (previous year: EUR 124m) was for two Boeing 747-400s, five B737-500s and five Canadair Regional Jet 700s. Other impairment losses related to goodwill (EUR 7m), other intangible assets (EUR 23m) and other plant, property and equipment (EUR 48m). EUR 50m of the impairment losses on other intangible assets and property, plant and equipment were recognised on assets held for sale from the IT infrastructure segment of Lufthansa Systems AG (other impairment charges of EUR 8m on financial assets are recognised as expenses in the financial result). Other impairment charges of EUR 2m (previous year: EUR 8m) were recognised on spare parts for aircraft and items of property, plant and equipment reported as being held for sale in the consolidated balance sheet. These impairment charges are recognised in other operating expenses.

Other operating expenses up by 11.0 per cent due to higher book losses and exchange rate losses
Other operating expenses rose year on year by 11.0 per cent to EUR 5.3bn. Book losses climbed sharply to EUR 176m, of which EUR 160m was due to the planned sale of the IT Infrastructure segment of Lufthansa Systems AG. Exchange rate losses went up to EUR 332m, partly due to the higher US dollar. Indirect staff costs were also higher (EUR +58m), as were rent and maintenance expenses (EUR +35m), but agency commissions were lower (EUR −44m). The individual other items did not vary significantly compared with last year.

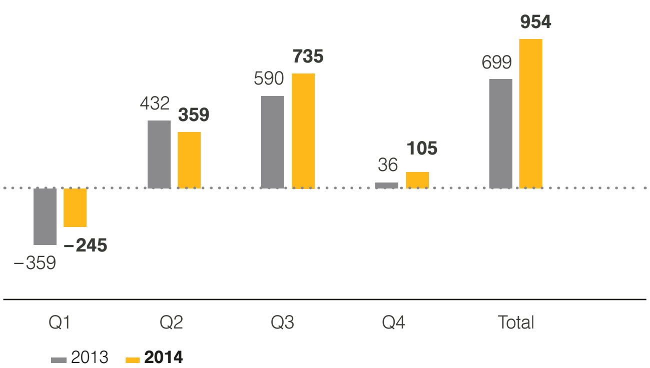
Earnings development

The operating result fell by EUR 255m to EUR 954m compared with the same period last year. Positive year-on-year effects included lower depreciation following the adjustment to the useful lives of aircraft (EUR 351m) and lower restructuring expenses for SCORE (EUR 183m). Pilots' strikes and their effects depressed earnings by EUR 222m, however.

The operating result did not meet the forecast given in the previous year's annual report, partly because the Passenger Airline Group did not achieve its revenue targets and partly because of the costs of the pilots' strikes.

All operating segments made positive earnings contributions to the Group's comprehensive income. The operating environment remained challenging, however, which was reflected in the performance indicators for the passenger airlines. Despite the considerable savings from changing the amortisation and depreciation policy, the Passenger Airline Group was only able to report a slight year-on-year improvement in earnings (EUR +40m).

Development of operating result by quarter in €m



Operating result reaches EUR 954m

The profit from operating activities as defined by IFRS fell sharply by EUR 84m year on year to EUR 767m. As in prior years, to obtain the operating result it was adjusted for net book gains, write-backs of provisions, impairment losses, results of financial investments and measurements of financial liabilities on the reporting date. This adjusted operating result facilitates comparison of the financial performance with other financial years. The adjustments applied are shown in the "Reconciliation of results" table on p. 51.

In 2014, net expenses totalling EUR 187m (previous year: net income of EUR 152m) were eliminated in this way. After these adjustments, the operating profit came to EUR 954m (previous year: EUR 699m). The adjusted operating margin, calculated by adding write-backs of provisions, was 3.7 per cent (previous year: 3.0 per cent).

In the segment reporting, the companies in the Lufthansa Flight Training Group were reclassified from the "Other" segment to the Passenger Airline Group as of 2014. The figures for the previous year have been adjusted accordingly.

Profit breakdown of the Lufthansa Group

	2014 in €m	2013 in €m	Change in %
Operating income	32,176	32,228	−0.2
Operating expenses	−31,409	−31,377	0.1
Profit from operating activities	**767**	**851**	**−9.9**
Financial result	−587	−305	−92.5
Profit/loss before income taxes	**180**	**546**	**−67.0**
Income taxes	−105	−220	−52.3
Profit/loss from continuing operations	**75**	**326**	**−77.0**
Profit/loss attributable to minority interests	−20	−13	−53.8
Net profit/loss attributable to shareholders of Deutsche Lufthansa AG	**55**	**313**	**−82.4**

The contribution of the individual business segments to the operating profit varied enormously. At the airborne companies, the effect on earnings of the increasingly challenging market and competitive environment was offset by the savings from adjusting the useful lives of passenger aircraft. Profit for the Passenger Airline Group improved year on year by EUR 40m, or 7.8 per cent, to EUR 553m. Despite a fall of 0.6 per cent in traffic revenue, the operating profit for the Logistics segment increased by 26.6 per cent to EUR 100m. The MRO segment reported slightly lower earnings of EUR 392m (−3.0 per cent). The Catering and IT Services segments generated operating profits of EUR 100m (−4.8 per cent) and EUR 37m (+2.8 per cent) respectively. The other Group companies, which under IFRS 8 do not require separate reporting, and the central Group functions contributed to the operating result with a total of EUR −211m (previous year: EUR −395m). At central Group functions, earnings were boosted by the decline in expenses to EUR 62m (previous year: EUR 245m), charged to this cost centre by the other segments for restructuring activities as part of the SCORE programme.

The variation in seasonal earnings was similarly pronounced. Earnings for the individual business segments in the Group also have their own variations and ranges of fluctuation. Altogether, their disparate performance in the financial year 2014 had a stabilising effect on the Group's operating result.

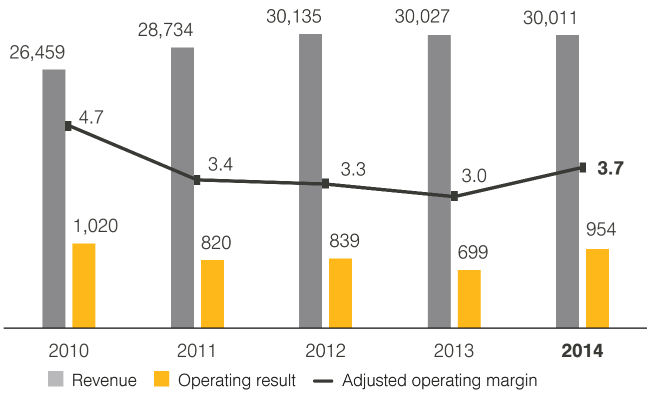
Financial result down significantly

The financial result declined by EUR 282m to EUR –587m. Within this, the result from equity investments only fell slightly by EUR 3m. Although the result from investments accounted for using the equity method fell to EUR 77m (previous year: EUR 91m), the remaining result from equity investments improved to EUR 44m (previous year: EUR 33m). Net interest developed positively to EUR –279m (previous year: EUR –346m) thanks to lower interest expenses. The result from other financial items was down sharply by EUR 346m at EUR –429m. Expenses of EUR 297m (previous year: EUR 49m) were attributable to the higher market value of conversion options associated with the convertible bond issued in 2012, which entitles the holder to acquire the Lufthansa Group's shares in JetBlue. Lower fair values for the options used in hedging (mainly fuel hedging) also resulted in expenses of EUR 212m (previous year: EUR 20m). Changes in the value of hedging instruments considered as held for trading under IAS 39 accounted for further income of EUR 96m (previous year: expenses of EUR 11m). Impairment losses on loans accounted for expenses of EUR 16m (previous year: EUR 3m). EUR 8m of the total stemmed from write-downs on financial assets at the IT Infrastructure segment of Lufthansa Systems AG, which is held for sale.

Net profit down by EUR 258m compared with a year ago

Earnings before interest and tax (EBIT) came to EUR 459m. In the previous year, EBIT amounted to EUR 892m. It includes the profit from operating activities, the result from equity investments and other financial items. Adding depreciation and amortisation results in EBITDA of EUR 2.0bn (previous year: EUR 2.7bn). The profit from operating activities and the financial result added up to a profit before income taxes of EUR 180m. This was EUR 366m lower than the year before.

Development of revenue, operating result in €m
and of the adjusted operating margin in %



Deducting income tax of EUR 105m (previous year: EUR 220m) and earnings attributable to minority interests of EUR 20m (previous year: EUR 13m) resulted in net profit attributable to the shareholders of Deutsche Lufthansa AG of EUR 55m (previous year: EUR 313m).

Earnings per share amounted to EUR 0.12 (previous year: EUR 0.68), see also "Note 15" to the consolidated financial statements on p. 173.

Long-term overview of earnings is volatile

The Lufthansa Group and its business segments operate in a volatile environment, which is severely exposed to economic cycles and other external factors. Despite this, the Company is confident of its ability to generate stable income, even during times of crisis, and to benefit disproportionately from economic upswings. Even in weaker economic phases of the years 2010 to 2012, it was able to generate positive operating results in spite of the difficulties. Earnings for 2013 and 2014 (EUR 699m and EUR 954m) were depressed by many non-recurring factors, which in some cases were necessary to improve productivity for more demanding economic times. Under these circumstances – and especially given the level of earnings adjusted for non-recurring expenses – the result for the financial year 2014 itself cannot be considered satisfactory, but rather the way in which the Company dealt with challenging headwinds.

Reconciliation of results

in €m	2014 Income statement	2014 Reconciliation with operating result	2013 Income statement	2013 Reconciliation with operating result
Total revenue	**30,011**	**–**	**30,027**	**–**
Changes in inventories	212	–	158	–
Other operating income	1,953	–	2,043	–
of which book gains and current financial investments	–	–71	–	–53
of which income from reversal of provisions	–	–168	–	–191
of which write-ups on capital assets	–	–38	–	–10
of which period-end valuation of non-current financial liabilities	–	–2	–	–28
Total operating income	**32,176**	**–279**	**32,228**	**–282**
Cost of materials and services	–17,283	–	–17,498	–
Staff costs	–7,335	–	–7,356	–
of which past service costs	–	–3	–	–12
Depreciation	–1,512		–1,767	
of which impairment losses	–	100	–	137
of which effects from adjusting the depreciation of aircraft	–	–	–	–68
Other operating expenses	–5,279		–4,756	
of which impairment losses on assets held for sale – non-operating	–	2	–	8
of which expenses incurred from book losses and current financial investments	–	187	–	33
of which period-end valuation of non-current financial liabilities	–	180	–	32
Total operating expenses	**–31,409**	**466**	**–31,377**	**130**
Profit/loss from operating activities	**767**	**–**	**851**	**–**
Total from reconciliation with operating result	–	187	–	–152
Operating result	**–**	**954**	**–**	**699**
Result from equity investments	121	–	124	–
Other financial items	–429	–	–83	–
EBIT	**459**	**–**	**892**	**–**
Write-downs (included in profit from operating activities)	1,512	–	1,767	–
Write-downs on financial investments (including at equity)	19	–	11	–
EBITDA	**1,990**	**–**	**2,670**	**–**

Net result for the year according to HGB

The Lufthansa Group's current dividend policy provides for a dividend ratio of between 30 and 40 per cent of the operating result, as long as a dividend payment is possible from the net profit for the year as shown in the individual financial statements for Deutsche Lufthansa AG drawn up according to the commercial law provisions, and if there are no other opposing considerations; see also the "Financial strategy" chapter on p. 28.

Full details of the individual financial statements for Deutsche Lufthansa AG in accordance with German commercial law can be found starting from p. 142. They present a net result for the financial year 2014 of EUR –732m.

The resulting net loss for the year is to be balanced out by a transfer from the capital reserve in the same amount. No dividend shall be paid for the 2014 financial year. When positive results are again achieved, the Lufthansa Group intends to distribute dividends once again according to its dividend policy.

Assets and financial position

Capital expenditure rises to EUR 2.8bn. / The majority of this is for new aircraft and replacement parts. / Free cash flow is negative due to the high level of capital expenditure. / Total assets up to EUR 30.5bn. / Further reductions in financial liabilities. / Shareholders' equity is reduced as a result of increasing pension provisions. / Fleet size remains roughly the same. / Favourable refinancing opportunities utilised during the year. / Rating confirmed.

Capital expenditure

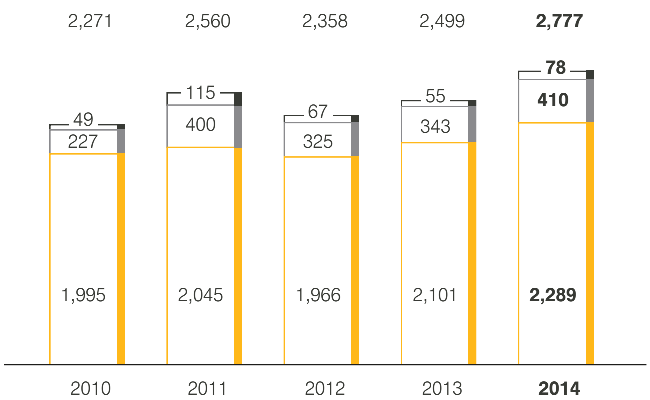
Investment safeguards the Group's future development
While maintaining its strict cost management from the previous year, the Lufthansa Group again made important investments in the financial year 2014 in order to open up prospects for the future. The comprehensive fleet renewal programme was pursued consistently. Fuel-efficient aircraft will improve the sustainable cost base significantly in the years ahead. The Group's capital expenditure rose substantially year on year by 11.1 per cent to EUR 2.8bn. Primary investment in down payments and final payments for aircraft, aircraft overhauls and equipment increased by 8.9 per cent.

Capital expenditure for other items of property, plant and equipment and for intangible assets, known collectively as secondary investment, rose by 19.5 per cent to EUR 410m. Property, plant and equipment, such as technical equipment and machinery, or operating and office equipment, accounted for EUR 303m of the total (previous year: EUR 249m). EUR 107m (previous year: EUR 94m) was invested in intangible assets such as licences and goodwill.

Financial investments of EUR 78m (previous year: EUR 55m) related to share purchases, capital increases and loans.

The Passenger Airline Group accounted for EUR 2.2bn of the total, the largest share of capital expenditure in 2014 (previous year: EUR 1.8bn). Expenses were primarily on new aircraft and down payments for aircraft. Overall, the Passenger Airline Group segment invested in 28 aircraft: two Airbus A380s, six Boeing 747-8s, one B777, one A330, ten A320s, two A319s and four Dash 8-400s. One A330 and one A320 were also reclassified from operating leases to financial leases after the contracts were extended. This capital expenditure also includes aircraft overhauls and down payments.

Primary, secondary and financial investments in €m*



* Excluding acquired net assets from changes in group of consolidated companies.

Primary investments Secondary investments Financial investments

Capital expenditure of EUR 214m in the Logistics segment (previous year: EUR 318m) mainly related to the purchase of two B777F freighter aircraft and down payments on the new Cargo Centre.

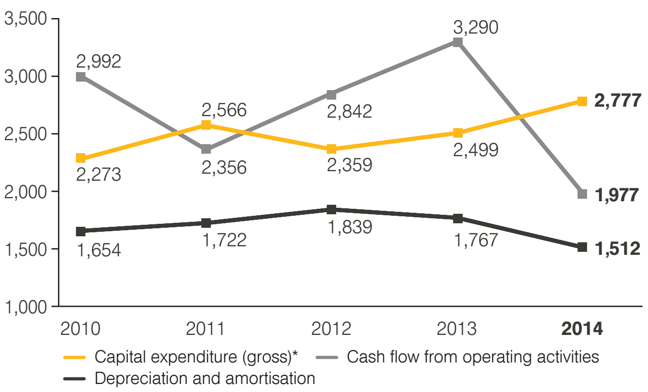
Capital expenditure in the MRO segment of EUR 118m (previous year: EUR 136m) was partly for the purchase of reserve engines and shares and granting of loans. Capital expenditure of EUR 140m (previous year: EUR 110m) in the Catering segment consisted of maintaining existing production facilities, purchasing shares in companies and extending loans to equity investments. In the IT Services segment, capital expenditure was roughly on a par with the previous year at EUR 18m (previous year: EUR 20m).

Cash flow

Cash flow from operating activities down to EUR 2.0bn

The Lufthansa Group's cash flow from operating activities came to EUR 2.0bn in the reporting year, which is EUR 1.3bn or 39.9 per cent below the previous year's figure. Starting from a profit before income taxes that was EUR 366m lower than in the previous year, the elimination of non-cash depreciation and amortisation and of cash flows attributable to investing and financing activities had a negative impact of EUR 144m on the calculation of cash flow from operating activities compared with the previous year. Changes in working capital and income tax payments caused further declines of EUR 1.0bn and EUR 127m respectively, while non-cash changes in the valuation of financial derivatives recognised in profit or loss boosted cash flow from operating activities by EUR 333m. The negative year-on-year change in working capital is partly due to positive effects the previous year from changes in SCORE restructuring expenses (EUR 260m) and pension provisions (EUR 140m). Current receivables were also much higher than the previous year for reasons related to the reporting date and billing, and current liabilities were lower; both of these factors had an adverse effect on working capital.

Capital expenditure, cash flow from operating activities and depreciation and amortisation in €m



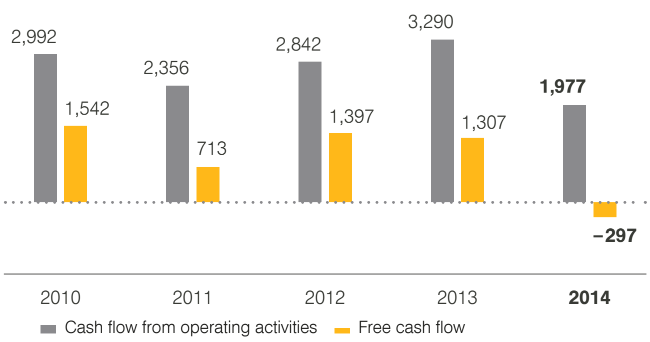
* Capital expenditure shown without pro rata profit/loss from the equity valuation.

Free cash flow negative due to higher capital expenditure

Gross capital expenditure for the Lufthansa Group came to EUR 2.9bn. This included the primary, secondary and financial investment described above as well as repairable spare parts for aircraft.

Asset disposals gave rise to income of EUR 161m in 2014 (previous year: EUR 233m). Aircraft disposals accounted for EUR 99m and repayments received for loans for EUR 32m. Interest and dividend income went up by 24.0 per cent to EUR 393m. This brought total net cash used for investing activities to EUR 2.3bn (previous year: EUR 2.0bn).

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



After deducting this net cash used for investing activities, free cash flow for the financial year 2014 was negative at EUR 297m (previous year: positive free cash flow of EUR 1.3bn). The internal financing ratio, that is the proportion of capital expenditure financed from cash flow, came to 71.2 per cent (previous year: 131.7 per cent).

Further reductions in financial liabilities

In the financial year 2014, the Lufthansa Group retained its policy of funding pension obligations flexibly over the medium term. A total of EUR 736m was funded in Germany and abroad.

The purchase of securities for EUR 974m and the sale of securities for EUR 1.8bn resulted in a net cash inflow of EUR 784m (previous year: net outflow of EUR 421m).

The balance of financing activities resulted in a net cash outflow of EUR 1.1bn (previous year: EUR 904m). New borrowing of EUR 1.1bn, notably from the issue of a euro bond for EUR 500m and from several aircraft financing arrangements, was offset by scheduled capital repayments totalling EUR 1.6bn – in particular from the scheduled redemption of a bond for EUR 850m and the repayment of a borrower's note loan for EUR 104m. Other cash outflows were for interest payments (EUR 380m) and dividend payments, including dividends paid to minority interests (EUR 222m).

Liquidity reduced according to plan

Cash and cash equivalents decreased by EUR 585m in the reporting period to EUR 828m at year-end. This includes an increase of EUR 6m in cash and cash equivalents due to exchange rate movements. In total, cash and cash equivalents plus current securities came to EUR 2.6bn (previous year: EUR 4.6bn).

Assets

Substantial investment leads to growth in non-current assets

The Group's total assets rose by EUR 1.4bn to EUR 30.5bn as of 31 December 2014. Non-current assets were up by EUR 2.8bn, while current assets fell by EUR 1.4bn.

Within non-current assets, the item aircraft and reserve engines increased by EUR 1.2bn to EUR 13.6bn, largely due to additions in the current financial year. Repairable spare parts for aircraft increased by EUR 124m. The other equity investments item increased by EUR 276m, which was made up largely of positive changes in the market value of the JetBlue shares (EUR +318m), less EUR 38m following the sale of shares in The Airline Group Limited. The increase of EUR 264m in derivative financial instruments stemmed primarily from currency and interest rate hedging and was offset by a fall in the market values of fuel hedges. Claims related to deferred tax assets increased, primarily due to an increase in pension provisions following the change in the discount rate.

Within current assets, receivables rose sharply by EUR 395m to EUR 4.0bn. Cash and cash equivalents, consisting of current securities, bank balances and cash-in-hand, declined by EUR 2.0bn to EUR 2.7bn. Assets held for sale increased slightly by EUR 18m to reach EUR 89m.

Higher pension provisions reduce equity substantially

Moving to equity and liabilities, shareholders' equity (including minority interests) came to EUR 4.0bn as of the reporting date; a fall of 34.0 per cent. Assuming a slightly positive after-tax result of EUR 75m, this decline stems mainly from the increase of EUR 2.1bn in pension provisions recognised without effect on profit and loss, due in particular to the lower discount rate used compared with the previous year. However, positive changes in the market value of financial assets (EUR +75m) and positive differences from currency translation (EUR +95m) increased shareholders' equity correspondingly. The equity ratio fell from 21.0 per cent at year-end 2013 to 13.2 per cent as of the reporting date.

Abbreviated cash flow statement of the Lufthansa Group

	2014 in €m	2013 in €m	Change in %
Profit/loss before income taxes	180	546	–67.0
Depreciation and amortisation/reversals	1,508	1,739	–13.3
Net proceeds on disposal of non-current assets	140	–11	
Net interest/result from equity investments	158	222	–28.8
Income tax payments	–220	–93	136.6
Measurement of financial derivatives through profit or loss	413	80	416.3
Change in working capital	–202	807	–125.0
Cash flow from operating activities	**1,977**	**3,290**	**–39.9**
Investments and additions to repairable spare parts	–2,877	–2,538	13.4
Purchase/disposal of shares/non-current assets	210	238	–11.8
Dividends and interest received	393	317	24.0
Net cash from/used in investing activities	**–2,274**	**–1,983**	**14.7**
Free cash flow	**–297**	**1,307**	**–122.7**
Purchase/disposal of securities/fund investments	**784**	**–421**	**–286.2**
Capital increase	–	–	–
Transactions with minority interests	–	–9	–
Non-current borrowing and repayment of non-current borrowing	–470	–457	2.8
Dividends paid	–222	–14	
Interest paid	–380	–424	–10.4
Net cash from/used in financing activities	**–1,072**	**–904**	
Changes due to currency translation differences	6	–13	
Cash and cash equivalents 1.1.	**1,407**	**1,438**	**–2.2**
Cash and cash equivalents 31.12.	**828**	**1,407**	**–41.2**

Development of earnings, equity and equity ratio

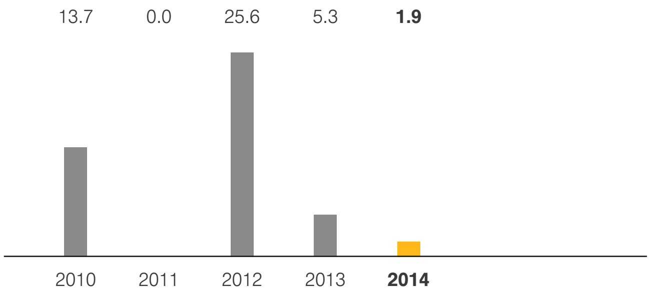
		2014	2013	2012	2011	2010
Result*	€m	75	326	1,241	4	1,143
Equity*	€m	4,031	6,108	4,839	8,044	8,340
Equity ratio*	%	13.2	21.0	16.9	28.6	28.4

* Including minority interests.

Non-current liabilities and provisions climbed sharply by EUR 3.4bn to EUR 15.5bn. Current liabilities and provisions were the same as in the previous year at EUR 11.0bn. Within non-current liabilities, pension provisions went up by EUR 2.5bn to EUR 7.2bn, mainly due to a fall in the discount rate from 3.75 per cent to 2.6 per cent. Non-current borrowing rose by a total of EUR 541m, due in particular to the issue of a EUR 500m bond in September 2014. The increase in negative market values of derivative financial instruments (EUR +293m) was due to the change in fair value of EUR 297m attributable to the conversion option included in the convertible bond issued in 2012, which entitles the holder to acquire the Lufthansa Group's shares in JetBlue. The measurement of other financial derivatives revealed a reduction of EUR 184m in the negative market values of exchange rate and interest rate hedges and an increase of EUR 180m in the negative market value of fuel hedges, due to the sharp fall in the oil price.

Within current liabilities and provisions, financial borrowing fell by a total of EUR 920m, mainly due to the redemption of a bond for EUR 850m. Liabilities from unused flight documents went up by EUR 213m to EUR 2.8bn. Trade payables and other financial liabilities increased by EUR 90m to EUR 4.6bn. The significant increase in negative market value of derivative financial instruments of EUR 583m mainly derives from an increase in fuel hedges of EUR 545m.

Return on equity in %

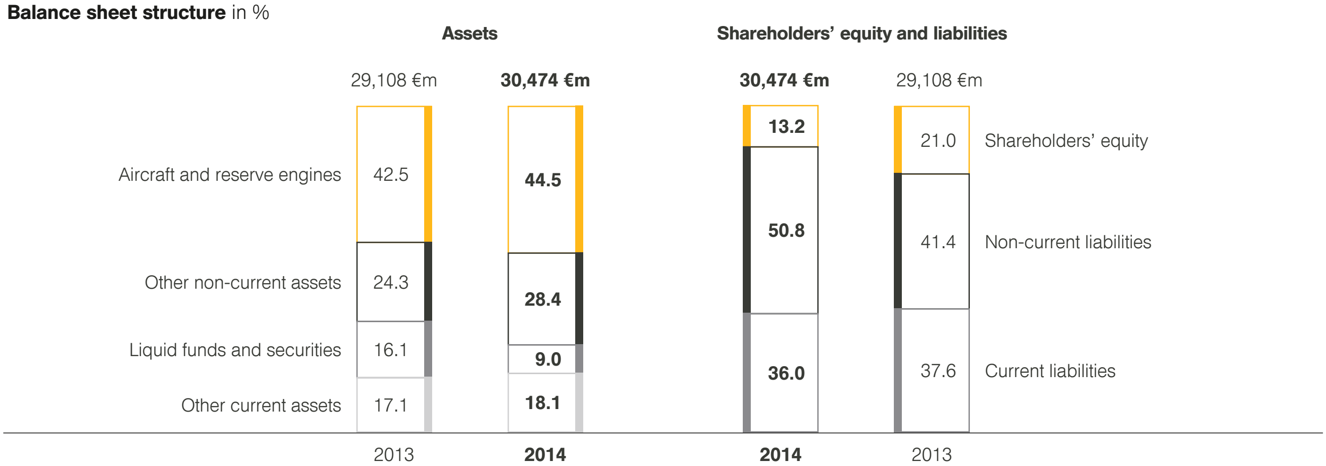


Volatile interest rates and oil prices leave their mark on the balance sheet structure

Non-current funding accounts for 64.0 per cent of the balance sheet total (previous year: 62.4 per cent). Non-current financing now covers 87.7 per cent of non-current assets (previous year: 93.5 per cent).

Net debt climbed to EUR 3.4bn (previous year: EUR 1.7bn). This is the balance of gross financial debt and available financial assets plus non-current securities that can be liquidated at short notice.

Balance sheet structure in %



Debt repayment ratio

in €m	2014	2013
Cash flow from operating activities	1,977	3,290
Change in working capital	202	–807
Interest income	256	228
Interest paid	–380	–424
Dividends received	137	89
Adjusted cash flow from operating activities	**2,192**	**2,376**
Net indebtedness and pensions	**10,649**	**6,413**
Debt repayment ratio in %	**20.6**	**37.0**

The debt repayment ratio went down to 20.6 per cent (previous year: 37.0 per cent). It is therefore below the minimum figure of 35 per cent set by the Lufthansa Group. The target rate of 45 per cent is unchanged from the previous year. Further information can be found in the chapter "Financial strategy" starting on p. 28. An overview of the main performance indicators can be found in the "Ten-year overview" starting on p. 234.

Calculation of net indebtedness

	2014 in €m	2013 in €m	Change in %
Liabilities to banks	1,057	1,254	–15.7
Bonds	1,468	1,812	–19.0
Other non-current borrowing	3,433	3,271	5.0
	5,958	**6,337**	**–6.0**
Other bank borrowing	198	56	253.6
Group indebtedness	**6,156**	**6,393**	**–3.7**
Cash and cash equivalents	953	1,552	–38.6
Securities	1,785	3,146	–43.3
Net indebtedness	**3,418**	**1,695**	**101.7**
Pension provisions	7,231	4,718	53.3
Net indebtedness and pensions	**10,649**	**6,413**	**66.1**

Although available liquidity and net debt were in line with expectations, the balance sheet structure came under pressure from lower interest rates and a corresponding rise in pension liabilities.

Group fleet – Number of commercial aircraft and fleet orders
Lufthansa Passenger Airlines inclusive Germanwings and regional airlines (LH), SWISS (LX), Austrian Airlines (OS) und Lufthansa Cargo (LCAG) as of 31.12.2014

Manufacturer/type	LH	LX	OS	LCAG	Group fleet	of which finance lease	of which operating lease	Change compared with 31.12.13	Additions 2015 to 2025	Additional options
Airbus A319	73	5	7		85	10	6	+2		
Airbus A320	72	28	16		116	19	1	+10	112	50
Airbus A321	62	8	6		76	2		–	48	
Airbus A330	19	16			35	1		–1	1	
Airbus A340	42	15			57	3	3	–4		
Airbus A350					0			–	25	30
Airbus A380	12				12			+2	2	
Boeing 737	22				22			–7		
Boeing 747	32				32			+3	4	
Boeing 767			6		6	2		–		
Boeing 777			5	4	9	1		+3	41	29
Boeing MD-11F				16	16			–2		
Bombardier CRJ	46[1]				46			–7		
Bombardier C-Series					0			–	30	30
Bombardier Q-Series			18		18			+4		
ATR					0			–8		
Avro RJ		20			20		6	–		
Embraer	43[1]				43			–		
Fokker F70			7		7		1	–2		
Fokker F100			15		15			–		
Total aircraft	**423**	**92**	**80**	**20**	**615**	**38**	**17**	**–7**	**263**	**139**

[1] Partly let to Lufthansa regional airlines.

Fleet

Ongoing fleet renewal is progressing to plan
The Lufthansa Group's fleet is by far the largest asset in the Company's balance sheet. Operating a modern fleet that is both economically and ecologically efficient is key to the financial success of the Lufthansa Group. Aircraft from the world's two largest manufacturers, Airbus and Boeing, make up the majority of the fleet. Aircraft from Bombardier, Embraer, Fokker and BAE Systems are also deployed on short and medium-haul routes.

As of the reporting date, the fleet consisted of 615 aircraft with an average age of 11.5 years (previous year: 11.2 years). This is seven aircraft fewer than the year before. Available seat kilometres were increased by 2.1 per cent, in particular by replacing smaller aircraft with larger ones, as well as by reconfiguring parts of the fleet and making seasonal adjustments to flight classes.

Fleet orders Lufthansa Group

		Deliveries
Long-haul fleet		
2	Airbus A380	2015
4	Boeing 747-8	2015
34	Boeing 777X	2020 to 2025
6	Boeing 777-300ER	2016
1	Boeing 777F	2015
25	Airbus A350	2016 to 2023
1	Airbus A330	2016
Short-haul fleet		
45	Airbus A320 family	2015 to 2017
115	Airbus A320neo family	2015 to 2025
30	Bombardier C-Series	2016 to 2017

The Lufthansa Group's fleet policy is aimed at continuity and at reducing complexity. In recent years, the number of aircraft types in operation has been reduced considerably and is to be cut back further in future with the help of the orders that have been placed for new aircraft. The majority of the fleet is still owned by the Lufthansa Group and is unencumbered; it is supplemented by a small proportion of aircraft leased externally. This enables the Company to respond flexibly to fluctuations in demand and to increase or reduce its capacity at short notice.

A total of twelve long-haul aircraft were delivered to the Lufthansa Group in 2014. Two Airbus A380s, six Boeing 747-8s and one A330 were deployed at Lufthansa Passenger Airlines. One B777 was added to the Austrian Airlines fleet. Lufthansa Cargo received two B777F freighters. The airlines in the Lufthansa Group received twelve new aircraft from the A320 family for their short and medium-haul fleets, of which two A319s went to Germanwings, which is consolidated in Lufthansa Passenger Airlines. Austrian Airlines received one Fokker 70 and four Bombardier Dash Q400s.

In 2015, the Lufthansa Group is expecting deliveries of two A380s, four B747-8s, ten aircraft from the A320 family and one B777F for Lufthansa Cargo.

A total of 29 new aircraft were ordered in 2014. They include ten aircraft from the A320 family for Lufthansa Passenger Airlines, 15 aircraft from the A320 family for SWISS, and four Dash Q400s for Austrian Airlines. Approval was also given to the operating lease for a Fokker 70 for Austrian Airlines.

Overall, the Lufthansa Group's order list contains 263 aircraft for delivery by 2025. A total of 160 aircraft from the A320 family form the bulk of this order. The adjacent table provides further details.

Financing

All financing activities are aligned with the Lufthansa Group's financing strategy and the targets defined therein. Details can be found in the chapter "Financial strategy" on p. 28.

Central financial management optimises cash flows throughout the Group
The Lufthansa Group has an integrated financial management function, where all of the Group companies' cash flows are collected, centrally managed and optimised. The integrated financial and liquidity planning for the whole Group ensures that the Company, its business segments and Group companies always have sufficient liquidity. At the end of every month, the cash flow planning for all Group companies is updated for the next 24 months. The financial reporting system provides all the companies with information on their actual financial status and forecast cash flows. The Group-wide cash management system and the inter-Group financial equalisation mechanism reduce the borrowing requirement and optimise the investment of the Group's liquid funds.

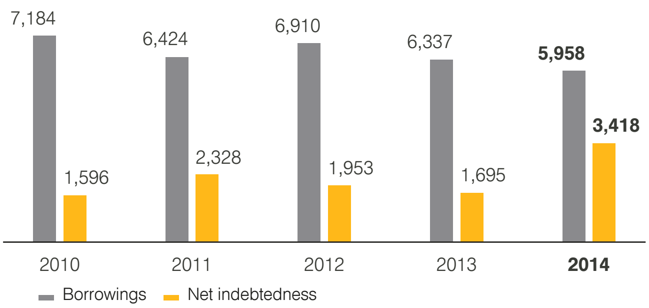
It is generally Deutsche Lufthansa AG that raises the necessary external funds for the Group, passing these on to Group companies where necessary by means of internal Group loans. Only in exceptional cases do Group companies raise external funds directly, in coordination with central financial management.

Diverse sources of funding ensure favourable terms
The financing instruments are chosen in each case on the basis of the financial strategy, see "Financial strategy" section on p. 28. The financing mix is aimed at reducing the cost of funding and maintaining a balanced term structure and a diversified portfolio of investors and lenders.

Thanks to its good credit rating in particular, the Lufthansa Group can draw on a wide range of different financing instruments. Aircraft financing plays an important role because, when combined with the good rating, it is available on particularly favourable terms. Funds are also raised regularly by means of unsecured borrowing, such as issuing bonds on capital markets. Its creditor relations activities enable the Lufthansa Group to stay in permanent contact with lenders worldwide, and therefore strengthen its investor base.

Borrowing mainly takes place in euros, the reporting currency. The risk management strategy provides for 85 per cent of financial liabilities to be held at floating rates of interest. More information can be found in the Notes to the consolidated financial statements, "Note 41" starting on p. 209 under "Interest rate risks". The current financing structure is described in "Note 35" to the consolidated financial statements on p. 197. The Lufthansa Group's main financial liabilities do not include covenants.

Development of borrowings and net indebtedness in €m



Furthermore, the Lufthansa Group has bilateral credit lines totalling EUR 830m with a large number of banks. As of the end of the 2014 financial year, a total of EUR 75m from these lines of credit had been used. They each run for two years and are extended for another two years after one year has elapsed, making them an additional liquidity reserve for the Lufthansa Group.

Aircraft financing and one capital market transaction completed successfully

In 2014, the Lufthansa concluded Japanese operating lease (JOL) transactions on the basis of seven Airbus A320 aircraft. This enabled funds totalling EUR 227m to be raised on very advantageous terms, even compared with the attractive financing alternatives currently available on the capital markets. These JOL deals are repaid continuously over the eleven-year term of the respective contracts.

In September 2014, the Lufthansa Group relaunched its Euro Medium Term Note (EMTN) programme, a form of debt issuance programme. The programme enables the Group to issue bonds on the capital market at very short notice. It is listed on the Luxembourg stock exchange.

In September 2014, the Lufthansa Group used the attractive conditions on capital markets to issue a five-year bond for EUR 500m under its existing EMTN programme. The bond matures on 12 September 2019 and pays a coupon of 1.125 per cent p.a. The issue was oversubscribed threefold and has the lowest coupon ever paid by a company rated BBB– or below for an euro transaction of this volume and maturity. The conditions of the bond underline the high level of confidence in the Lufthansa Group in general and specifically as a borrower.

Unsecured loans with rolling repayments were taken out with a Japanese lender on extremely favourable terms. They have a volume of nearly EUR 30m and maturities of seven years.

There was no significant off-balance-sheet financing in the reporting year. However, various Lufthansa Group companies did enter into rental and/or operating lease contracts. These mainly relate to leases for aircraft and property, see the Notes to the consolidated financial statements, "Note 20" starting from p. 181.

Ongoing funding of pension obligations continues

The funding of pension obligations was continued in 2014. Contributions of EUR 736m were made across the Group. The funding of German pension obligations accounted for EUR 596m. Contributions of around EUR 600m a year have been made on a voluntary basis since 2004 and are reviewed annually.

Development of ratings

Rating/outlook	**2014**	2013	2012	2011	2010
Standard & Poor's	BBB–/ stable	BBB–/ stable	BBB–/ stable	BBB–/ stable	BBB–/ stable
Moody's	Ba1/ positiv	Ba1/ stable	Ba1/ stable	Ba1/ stable	Ba1/ stable

Ratings confirmed

The two rating agencies Standard & Poor's and Moody's confirmed their ratings for the Lufthansa Group again last year. Moody's raised its outlook for the Ba1 rating from stable to positive on 28 May 2014. There was no change in either rating after the earnings target was revised. The current grades reflect the sound financial profile and the diversification across a broad route network and various business segments.

Lufthansa's credit ratings

Standard & Poor's (November 2014)*	**Moody's Investors Service** (May 2014)*
Long-term: BBB- Short-term: A-3 Outlook: Stable	Long-term: Ba1 Short-term: Not Prime Outlook: Positive
Strengths	**Strengths**
+ One of the largest global network carriers with an excellent competitive position. Strong positions at hubs in Frankfurt, Munich and Zurich	+ One of the largest airlines in the world with a very diversified route network in terms of geography
+ Well diversified business profile with leading positions in maintenance, repair and overhaul services as well as airline catering. Good geographic diversification	+ Robust business profile with diversified business segments reduces its exposure to volatility in passenger and cargo business
+ Balanced exposure to high-yielding, premium long-haul traffic across its route portfolio, and a leading domestic market position in Germany	+ Maintenance, repair and overhaul (MRO) and catering business segments deliver stable profit contribution and help to mitigate the exposure to industry volatility
+ Strong liquidity position	+ Solid liquidity position
+ SCORE restructuring programme to focus on profitability and efficiency	+ Company-wide programme SCORE launched in 2012 to generate synergies and cost reductions
Weaknesses	**Weaknesses**
− Operating performance held back by pilot strikes and increased competition	− Profitability of the Passenger Airline Group depends on external factors including uncertain fuel prices, economic development in Europe and competition from low-cost carriers
− Fairly high financial leverage and significant pension liabilities	− Limited flexibility to increase the share of secured financing

* Latest report.

Overall statement by the Executive Board

In the opinion of the Executive Board, the Lufthansa Group performed well in 2014. However, it is important to differentiate between the unsatisfactory development of the operating result and the progress made in operating efficiency.

For instance, the operating result improved considerably, even if it did not meet the Company's own expectations. The significantly positive effects of changing the depreciation policy for aircraft and reserve engines did not result in an equivalent earnings improvement. The weak performance of Lufthansa Passenger Airlines was the main reason why the earnings target was not met. Numerous strikes by the pilots' union Vereinigung Cockpit depressed the result, as competition also put pressure on yields.

Other companies reported a better performance. SWISS met its targets in a difficult market environment. Austrian Airlines fell short of expectations due to non-recurring effects, but still reported a positive result. Its forward-looking agreement with the collective bargaining partners was a vital step in its restructuring.

The Logistics, MRO and IT segments met or exceeded their respective forecasts. Catering was flat, remaining slightly below its own expectations, but its profitability was still above the long-term average. All of the companies made positive contributions to the earnings of the Lufthansa Group.

It is in the light of these circumstances that the roadmap "7to1 – Our Way Forward" set the right course for the future development of the Lufthansa Group in the summer. The point-to-point airlines and service companies are to generate an increasing share of revenue in the years ahead, whereas the network carriers will focus on improving their margins.

The numerous strikes in 2014 were in part the result of attempting to break up rigid structures and so ultimately demonstrate the Executive Board's determination to increase the future viability and profitability of these companies. It will now be important to realise this plan together with the collective bargaining partners.

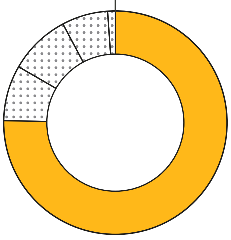
A comprehensive restructuring, in particular of retirement and transitional benefits, is of great importance. And this can be seen by the steep rise in pension liabilities and the resultant level of the Group's debt. Especially given the stated circumstances, maintaining the investment grade rating has top priority and plays a vital role in the Executive Board's deliberations.

In 2014, the Group again earned its cost of capital and also created EUR 90m in value in the form of a positive CVA. The introduction of new financial performance indicators in 2015 sets the course for the less complex and more transparent management of the Company, both from the perspective of the Executive Board and that of the shareholders. Adjusting the dividend policy ensures that shareholders will continue to be treated as before in terms of dividend distributions. The explicit aim remains to create value for shareholders over the economic cycle.

Business segment Passenger Airline Group

Revenue **23.3** €bn   Operating result **553** €m

75.4 %
Share of
Group revenue



Leading group of European quality carriers

Passenger Airline Group is the leading airline group in Europe. / Airline group is of vital importance for value creation in the Lufthansa Group. / Business is adversely affected by strikes. / Revenue at previous year's level despite record passenger numbers and load factor. / Operating profit is up as a result of lower depreciation and amortisation and a decrease in fuel costs.

Key figures Passenger Airline Group					of which Lufthansa Passenger Airlines[3]		
		2014	2013	Change in %	**2014**	2013	Change in %
Revenue	€m	23,320	23,510	−0.8	17,098	17,302	−1.2
of which with companies of the Lufthansa Group	€m	684	672	1.8			
Operating result	€m	553	513	7.8	252	282	−10.6
Adjusted operating margin	%	2.9	2.7	0.2 pts	2.2	2.3	−0.1 pts
Segment result	€m	726	647	12.2			
EBITDA[1]	€m	1,697	2,146	−20.9	1,083	1,450	−25.3
CVA	€m	37	175	−78.9			
Segment capital expenditure	€m	2,248	1,841	22.1			
Employees as of 31.12.	number	54,960	55,272	−0.6	40,199	40,417	−0.5
Average number of employees	number	55,516	55,360	0.3	40,608	40,552	0.1
Passengers[2]	thousands	105,988	104,593	1.3	77,547	76,261	1.7
Flights[2]	number	992,218	1,016,435	−2.4	701,499	715,035	−1.9
Available seat-kilometres[2]	millions	268,105	262,682	2.1	197,478	193,807	1.9
Revenue seat-kilometres[2]	millions	214,641	209,652	2.4	156,826	153,334	2.3
Passenger load factor[2]	%	80.1	79.8	0.3 pts	79.4	79.1	0.3 pts
Average yields	€ cent	10.0	10.4	−3.1			
Unit revenue (RASK)	€ cent	8.0	8.3	−2.8			
Unit cost (CASK)	€ cent	8.8	9.2	−3.9			

[1] Before profit/loss transfer from other companies.
[2] Previous year's figures have been adjusted.
[3] Including Germanwings and regional partners.

Business and strategy

Passenger Airline Group is the leading airline group in Europe
Passenger transport is the core business segment of the Lufthansa Group. In the Passenger Airline Group business segment, the airlines Lufthansa Passenger Airlines (including Germanwings), SWISS and Austrian Airlines operate in an airline group that creates important synergies by coordinating its activities. In addition, the Lufthansa Group holds equity interests in the carriers Brussels Airlines, SunExpress and JetBlue, which are presented as financial investments.

The airline group is of vital importance for the value creation of the Lufthansa Group and its service companies. The Executive Board of the Lufthansa Group manages and ensures the strategic cooperation within the airline group. A special Executive Board function, Chief Officer Group Airlines, Logistics and IT, reflects the overarching importance of this business segment.

Customers are at the heart of the airline group's market strategy, which is based on the pillars of high quality, safety, punctuality, reliability and professional service.

By developing its product portfolio further and continuously harmonising its process, the Passenger Airline Group offers its customers a global route network of 271 destinations in 107 countries. The hubs in Frankfurt, Munich, Zurich and Vienna form the basis for the Passenger Airline Group's multi-hub strategy. They allow the airline group's customers to define and fulfil their travel wishes individually by drawing on a wide-ranging and dependable selection of travel possibilities.

Increasing commercial integration between the airlines – in sales activities, stations outside the hubs and network planning, for example – make it possible to realise synergies and open up additional income potential.

As part of a reorganisation of the flight training activities, Lufthansa Flight Training is being reclassified from the Other business segment to the Passenger Airline Group business segment, where it forms part of Lufthansa Passenger Airlines. The figures for the previous year have been adjusted accordingly. Thereafter, the plan is to merge Lufthansa Flight Training with SWISS Aviation Training in order to generate further synergies in this area.

Quality leadership and partnerships to stabilise yields
The Passenger Airline Group continually invests in increasing the comfort of its passengers and in improving the ecological sustainability of its flight operations with regards to fuel and noise emissions. One important component of this is to reduce the diversity of the fleet and switch to more cost-efficient aircraft types. In 2014, the Passenger Airline Group fleet saw the arrival of 27 modern aircraft to replace older existing aircraft. In addition to the latest in-flight products for passengers, they will also provide noticeable relief from noise and fuel emissions for people living near airports. The new aircraft are up to 30 per cent quieter than their predecessors. Fuel efficiency and CO_2 emissions per passenger are also much better, which reduces the unit costs. Between 2015 and 2025, the Lufthansa Group expects to take delivery of 263 aircraft with a total list price of some EUR 37bn.

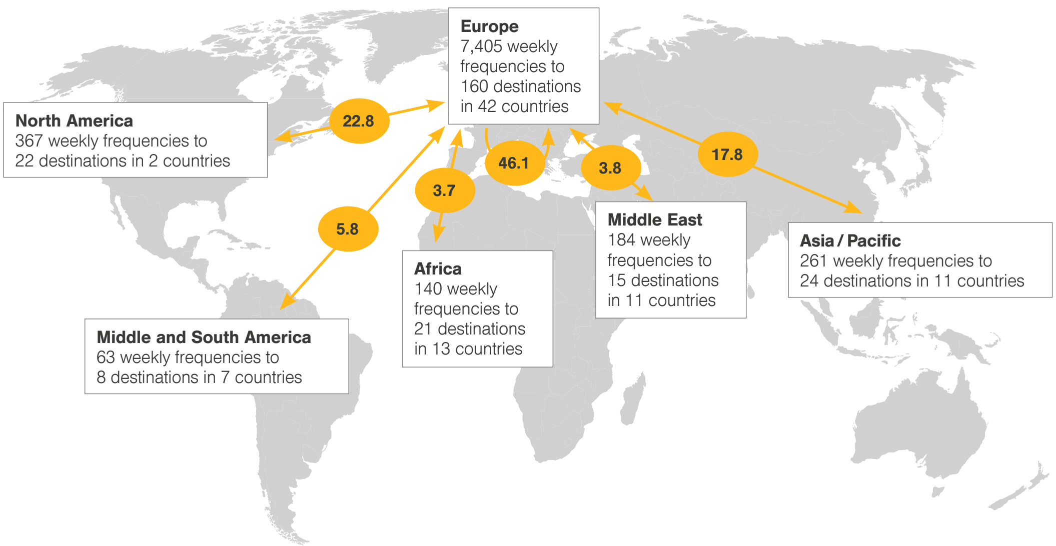
In September 2014, the Supervisory Board of Deutsche Lufthansa AG approved the purchase of an additional 15 state-of-the-art Airbus A320neo (new engine option) aircraft as well as ten A320ceo (current engine option) aircraft for the Passenger Airline Group.

As competition remains intense, all of the airlines in the Passenger Airline Group are working to boost their profitability. They are focusing on stabilising average yields by means of quality leadership and superior network quality, as well as by cutting unit costs. The process of implementing a modern in-flight product throughout will be finalised in summer 2015 with the installation of the new First, Business and Premium Economy Class at Lufthansa Passenger Airlines. All of the other airlines in the airline group have already fitted modern fully flat seats in their Business Class.

For many years, the main long-haul routes markets have been safeguarded by means of joint ventures with United Airlines and Air Canada on routes between Europe and North America, and with the Japanese airline ANA on routes between Europe and Japan. In 2014, a memorandum of understanding was also signed with the leading Chinese airline, Air China. Closer cooperation between the two airlines began at the start of the winter flight timetable in late October 2014. Together with its partners and within the Star Alliance, the Passenger Airline Group offers a uniquely extensive route network to destinations all over the world.

Innovation differentiates the group from its competitors
Innovative products also play a vital role in differentiating the group from its competitors, such as the introduction of a wireless in-flight entertainment system on Lufthansa Passenger Airlines' short and medium-haul routes. Another important element is the further development of Miles & More, Europe's leading customer loyalty programme. In September 2014, the corresponding bonus business was carved out into an independent company, which is intended to grow by offering a wider range of innovative products and to tie customers in even more closely to the Passenger Airline Group. The relevant resolutions were passed by the Executive Board, Supervisory Board and at the Annual General Meeting in the first half of the year. Further information on this and the individual companies in the airline group is provided in the relevant chapters, starting on p. 66.

Destinations of Passenger Airline Group* and share of traffic revenue in %



* Frequencies per week Lufthansa Passenger Airlines, SWISS and Austrian Airlines.

Innovative new catering strategies have been developed for Germanwings and SunExpress in cooperation with LSG Sky Chefs. They combine the quality of a catering product with buy-on-board processes. Further information on the individual companies in the airline group is provided in the relevant chapters, starting on p. 66.

Focus on reducing costs

Successful initiatives to cut unit costs have been completed at Lufthansa Passenger Airlines, above all in connection with the modernisation of the fleet and adapting travel class configurations to specific markets. Over the course of the year, further progress was made on switching the Airbus A340 fleet to a two-class configuration with lower unit costs for routes where premium demand is lower.

SWISS increased the capacities of its A320 aircraft by twelve seats and its A321s by 19 seats with a new layout and new seats. An independent fleet with products adapted to regional demand and lower unit costs was established and expanded in Geneva.

Austrian Airlines was able to use one additional long-haul aircraft with an updated in-flight product. At the same time, a forward-looking wage agreement was signed, which removed the remaining legal uncertainty surrounding the transfer of flight operations in 2012. By reducing unit costs again, it also made the company more competitive.

Lufthansa Group's presence in direct traffic to increase significantly

Direct flights outside the hubs in Frankfurt and Munich were transferred successfully from Lufthansa Passenger Airlines to Germanwings by January 2015. From late 2015, the airlines in the Lufthansa Group will offer high-quality, low-cost, point-to-point connections on short and long-haul routes within and from Europe under the Eurowings brand and so win new customers.

In the new concept, the two airlines Germanwings and Eurowings will initially fly wing to wing. According to current planning, Eurowings' existing fleet of 23 Bombardier CRJ900 jets is to be replaced for the new European connections with up to 23 Airbus A320s between February 2015 and March 2017. Ten new A320s have been ordered for this purpose. Up to 13 more A320s will also be delivered to Eurowings from the Lufthansa Group's current orders.

Thus, by the end of 2017, Eurowings will have a modern and homogeneous A320 fleet whose fuel efficiency will deliver further cost advantages. In the coming year, further European routes will be offered under the Eurowings brand, which will be flown from a new Eurowings base outside Germany.

Alongside the European routes, Eurowings also intends to offer low-cost, point-to-point, long-haul connections from the end of 2015. A corresponding letter of intent to operate the aircraft on behalf of Eurowings was signed in December 2014 with SunExpress, a joint venture between the Lufthansa Group and Turkish Airlines. Both short and long-haul Eurowings flights will adopt the successful Germanwings strategy of giving passengers a choice between Best, Smart and Basic fares. The first intercontinental destinations for the new Eurowings will be in the Caribbean, the Indian Ocean and southern Africa. Modern, long-haul A330-200s from Airbus, which are quiet and have low emissions, will be used on these connections. They are expected to be based at Cologne/Bonn Airport.

Markets and competition

Disparities in trends between regions continue

Differences between the airlines' performance in the individual regions continued in the reporting period. On European short and medium-haul routes, there is an increasing divergence between classic network airlines and providers of direct flights in point-to-point traffic. The European low-cost airlines expanded disproportionately and the share of direct connections in point-to-point traffic thereby increased.

Market-leading low-cost airlines are increasingly penetrating the high-grade business travel segment, both by offering flights to primary and secondary airports and by adapting their products and distribution channels to different target groups. This is causing their unit costs to rise, but they are still well below those of the established network airlines. At the same time, the low-cost airlines have been able to increase their unit revenue disproportionately. The growth of the low-cost airlines and competition in this segment is increasingly to the detriment of transfer traffic at the hubs. Their high proportion of transfer passengers means that the companies in the Passenger Airline Group suffer a structural disadvantage compared with other airlines in the sector.

In this context, it was particularly important to complete the transfer of direct flights outside the hubs from Lufthansa Passenger Airlines to Germanwings, and to adapt the organisational structure in Geneva for SWISS.

In North America, the market consolidation and the capacity discipline of the remaining players continues to pay off. Previous loss-making network carriers have been successfully restructured and their profitability is now above average thanks to the factors mentioned earlier. Long-haul traffic between Europe and North America is still dominated by three major joint ventures, among them the leading joint venture A++, in which the Passenger Airline Group participates in. Profitability on these routes is still higher than average, although average yields have fallen sharply in some cases as a result of substantial capacity increases by competitors.

By contrast, long-haul routes between Europe and Asia are still served by a larger number of market participants. A variety of products and divergent cost structures make the market more diverse. Overcapacities, caused particularly by the fast-growing Middle Eastern airlines, are depressing yields and so ultimately the earnings reported by the Passenger Airline Group. The Passenger Airline Group is responding with the quality enhancements and partnerships described above to stabilise yields, as well as by modernising its fleet and adjusting its class configurations to reduce unit costs.

Course of business and operating performance

Numerous strikes hold back business

The many strikes by the pilots' union Vereinigung Cockpit dominated the year 2014 at Lufthansa Passenger Airlines. Strikes by third parties at the beginning of the year also affected passenger business at German airports. Overall, strike action and the associated reluctance concerning bookings depressed earnings for the Passenger Airline Group by EUR 215m. It is still unclear whether the lasting strike threats by the pilots' union will have an adverse effect on customers' booking patterns, resulting in a structural shift towards lower booking volumes in future.

New structure introduced for surcharges on intercontinental connections

Since April 2014, the airlines in the Passenger Airline Group have been levying uniform surcharges for intercontinental connections on the basis of the entire route flown rather than the individual segments, as before. This will remove the difference between passengers with connecting flights and those with direct flights. Ticket surcharges for flights within Europe will also be adjusted at the same time, and will be differentiated based on travel class, as is already the case for intercontinental flights.

SCORE supports airlines' integration

In the reporting year, the airlines in the Lufthansa Group began to reorganise some central passenger services at international stations. In future, regional ticketing centres will be responsible for ticketing matters and providing assistance in irregular flight situations for all airlines in the Lufthansa Group. There have been similar arrangements at selected stations in the past. Now this remote ticketing concept is to be rolled out in a standardised form for all airlines in the Lufthansa Group. Passengers can still obtain personal assistance from staff at the stations, who will facilitate the contact between passengers and the service centres. The remote ticketing concept is part of a whole series of innovations that are gradually being introduced at international stations, which include common check-in desks, a new design, and the pooling of administrative and operational tasks.

Passenger Airline Group sets new record for passenger numbers and load factors

The Passenger Airline Group carried a total of 106 million passengers in 2014. This represents an increase of 1.3 per cent compared with the previous year. Capacity was extended by 2.1 per cent in the reporting period, although the number of flights fell by 2.6 per cent. This is largely due to the ongoing fleet roll-over to larger aircraft at Lufthansa Passenger Airlines and SWISS. Sales rose by 2.4 per cent. The passenger load factor increased to 80.1 per cent. This represents an increase of 0.3 percentage points.

Traffic revenue in the Americas traffic region went up by 2.0 per cent on the back of significant sales growth (+4.8 per cent). As capacity was increased by 6.8 per cent, the load factor contracted by 1.6 percentage points to 84.1 per cent. Average yields declined by 2.7 per cent.

Traffic revenue dropped 0.8 per cent in the Europe traffic region. Average yields fell by 2.2 per cent, with capacity up by 0.1 per cent. Combined with sales growth of 1.5 per cent, this boosted the passenger load factor to 75.7 per cent (+1.0 percentage point).

Capacity in the Asia/Pacific traffic region was increased by 1.9 per cent. Sales were 2.2 per cent higher, taking the passenger load factor up by 0.3 percentage points to 82.0 per cent. Average yields fell by 4.5 per cent, which cut traffic revenue by 2.4 per cent.

Capacity was reduced (–6.1 per cent) in the Middle East/Africa traffic region. Sales there sank by 3.2 per cent. The load factor went up to 76.5 per cent (+2.3 percentage points). Average yields fell by 4.3 per cent and traffic revenue by 7.4 per cent.

Revenue and earnings development

The Lufthansa Flight Training Group companies have been included in the Passenger Airline Group segment since 2014. The figures for the previous year have been adjusted accordingly.

Revenue remains stable year on year

Although traffic was up on the year, traffic revenue for the segment did not increase, but fell slightly by 0.8 per cent against the previous year to EUR 21.6bn. While sales volumes were up by 2.4 per cent, lower prices (–2.7 per cent) and negative exchange rate effects (–0.5 per cent) resulted in lower revenue. Total revenue also declined by 0.8 per cent to EUR 23.3bn. Other operating income tumbled by 20.7 per cent to EUR 868m. The decline stems from lower exchange rate gains (EUR –84m) and above all a fall in income from restructuring costs charged to Group functions as part of SCORE, which only came to EUR 29m, compared with EUR 128m the previous year. As a result, total operating income sank by 1.7 per cent to EUR 24.2bn.

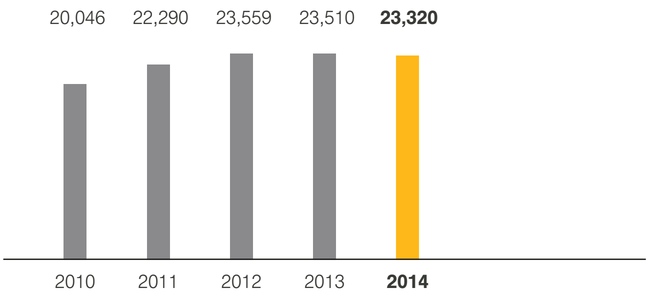
The adverse effect of prices and exchange rates on traffic revenue was the main reason why it was not possible to achieve the revenue growth forecast the previous year.

Trends in traffic regions*
Passenger Airline Group

	Net traffic revenue in €m external revenue		Number of passengers in thousands		Available seat-kilometres in millions		Revenue seat-kilometres in millions		Passenger load factor in %	
	2014	Change in %	**2014**	Change in %	**2014**	Change in %	**2014**	Change in %	**2014**	Change in pts
Europe	10,060	–0.8	84,983	1.3	91,928	0.1	69,574	1.5	75.7	1.0
America	6,151	2.0	10,131	4.4	90,179	6.8	75,870	4.8	84.1	–1.6
Asia/Pacific	3,735	–2.4	6,340	0.5	62,013	1.9	50,841	2.2	82.0	0.3
Middle East/Africa	1,618	–7.4	4,534	–3.0	23,985	–6.1	18,356	–3.2	76.5	2.3
Total	**21,564**	**–0.8**	**105,988**	**1.3**	**268,105**	**2.1**	**214,641**	**2.4**	**80.1**	**0.3**

* Including Germanwings.

Revenue Passenger Airline Group in €m



Expenses down by 1.9 per cent

Operating expenses fell by 1.9 per cent to EUR 23.6bn. A decline in the cost of materials and services to EUR 15.2bn (–1.1 per cent) and in depreciation and amortisation (–21.5 per cent) was offset by higher other operating expenses (+1.5 per cent). The main reason for the lower cost of materials and services was the fall of 4.3 per cent in fuel costs. Higher volumes (+0.7 per cent) were offset by a decline of 5.0 per cent in prices (after hedging).

Fees and charges rose by 2.1 per cent to EUR 5.0bn. Increases in passenger fees (+6.4 per cent), security fees (+12.7 per cent) and take-off and landing fees (+4.2 per cent) were partly offset by a fall of 2.8 per cent in handling charges. Within other purchased services, external MRO services were up by 6.6 per cent. By contrast, charter expenses and expenses for operating leases were down sharply by 42.8 per cent and 56.0 per cent respectively.

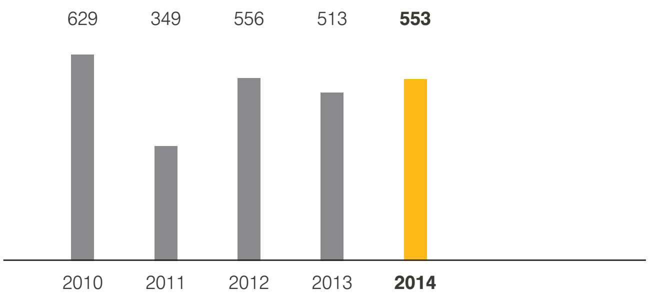
Expenses Passenger Airline Group

	2014 in €m	2013 in €m	Change in %
Cost of materials and services	15,161	15,336	–1.1
of which fuel	6,294	6,578	–4.3
of which fees	5,011	4,909	2.1
of which operating lease	33	75	–56.0
of which MRO services	1,862	1,746	6.6
Staff costs	4,237	4,252	–0.4
Depreciation and amortisation	1,140	1,453	–21.5
Other operating expenses	3,097	3,051	1.5
of which agency commissions	307	344	–10.8
of which external staff	554	532	4.1
Total operating expenses	**23,635**	**24,092**	**–1.9**

The average number of employees for the year fell by 0.3 per cent to 55,516, while staff costs were 0.4 per cent lower at EUR 4.2bn. The decline was mainly due to lower additions to pension provisions, in turn a result of interest rate changes, and also due to lower restructuring costs for SCORE measures.

Depreciation and amortisation fell considerably by 21.5 per cent to EUR 1.1bn. Adjusting the useful life of airliners and reserve engines reduced depreciation by EUR 360m in 2014.

Operating result Passenger Airline Group in €m



Other operating expenses rose by 1.5 per cent to EUR 3.1bn. Higher exchange rate losses (EUR +46m) and indirect staff costs (EUR +22m) were partly offset by lower commissions paid to travel agents (EUR –37m).

Operating profit up to EUR 553m due to lower depreciation and amortisation

The operating result for the Passenger Airline Group rose year on year by EUR 40m to EUR 553m. Lower fuel costs and depreciation increased earnings significantly, although they would have been higher still without the loss of revenue due to pricing and exchange rate effects and pilot strikes. Comments on the earnings of the individual airlines can be found in the following sections starting on p. 66.

Other segment income of EUR 180m (EUR +25m) was attributable to book gains on the disposal of non-current assets (EUR 17m), write-ups on non-current assets (EUR 30m) and income from write-backs of provisions (EUR 134m). Other segment expenses came to EUR 46m (EUR –11m). Of total impairment losses of EUR 37m, EUR 22m related to two Boeing B747-400s, five B737-500s and five Canadair Regional Jet 700s, which have been decommissioned or are held for disposal. Further impairment losses of EUR 15m were recognised on intangible assets.

The result of the equity valuation was EUR 39m (previous year: EUR 36m) and consisted of Terminal 2 GmbH & Co. OHG (EUR 27m), SunExpress (EUR 23m) and SN Airholding (EUR –11m). The segment result improved overall by EUR 79m to EUR 726m.

Segment capital expenditure grows to EUR 2.2bn

Segment capital expenditure went up by 22.1 per cent to EUR 2.2bn. It comprised the 28 aircraft listed in the "Assets and financial position" chapter on p. 52, as well as aircraft overhauls and down payments.

Long-term overview shows considerable volatility

The long-term overview highlights the profitability and thus the importance of the Passenger Airline Group for the Lufthansa Group, as well as the effect on earnings of the economic cycle. In 2010, the first year after the global financial crisis peaked, the Lufthansa Group was already able to report a respectable operating result. In the years thereafter, by contrast, the gloomier economic environment and the high oil price had a significant impact on the earnings of the Passenger Airline Group. Significant non-recurring effects had a positive impact on the earnings situation in 2012. Business began to stabilise again in 2013. In the reporting year, however, the slight earnings improvement only came about thanks to lower amortisation and depreciation. Earnings were planned to increase substantially, but were held back by lower average yields due to intense competition and numerous strikes. The need to make structural improvements to earnings remains unchanged.

Lufthansa Passenger Airlines

Business and strategy

Lufthansa Passenger Airlines to become the first fully private five-star airline

Lufthansa Passenger Airlines is the largest airline in Germany. It operates the two biggest German hubs in Frankfurt and Munich as well as long-haul flights from Dusseldorf. Since summer 2013, direct traffic outside the hubs has successively been transferred to its low-cost subsidiary Germanwings. The regional airlines Cityline, Air Dolomiti and Eurowings are also assigned to Lufthansa Passenger Airlines. They operate as low-cost production platforms on its behalf and for its account. Lufthansa Passenger Airlines operates a global route network of 235 destinations in 78 countries with a fleet of more than 400 aircraft.

Lufthansa Passenger Airlines sees itself as a leading global quality carrier, offering its customers high-quality products in all travel classes. In the reporting year, it generated 42.2 per cent of long-haul revenue in Business and First Class (previous year: 41.5 per cent).

Its strategic objectives are based on the conviction that Germany is the core market for Lufthansa Passenger Airlines and Europe its home market, whereby the steady expansion of the private travel segment offers growth potential for the future. Lufthansa Passenger Airlines continues to strive for quality leadership in all of its markets and to become the first five-star airline in the western hemisphere. In the context of this quality offensive, direct customer service is at the centre of all of its activities. Existing services are being personalised and additional benefits established.

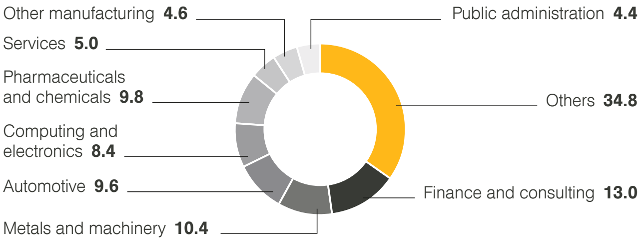
Lufthansa Passenger Airlines modernises its fleet and reorganises its core business

Macroeconomic developments, strikes and the general erosion of average yields weighed heavily on the business performance of Lufthansa Passenger Airlines in the reporting period. In this difficult environment, the company reduced its planned capacity growth and concentrated on accelerating the renewal of its fleet.

The ongoing fleet modernisation and efficiency gains enabled Lufthansa Passenger Airlines to cut unit costs substantially, especially on long-haul routes. In addition, the new aircraft are more fuel-efficient and make less noise, thereby contributing to improving the company's performance in terms of both economy and ecology. Further progress on adapting the A340-300 fleet to a two-class configuration for routes with lower premium demand also helped to reduce unit costs. In future, Lufthansa Passenger Airlines will deploy more of this capacity in the promising, fast-growing private travel segment, especially on long-haul routes.

The new connection to Tampa, Florida from September 2015 is a first step in this direction. Other attractive connections will follow in the winter flight timetable 2015/2016.

Sector origin of Lufthansa Passenger Airlines' corporate customers in %



Biggest product upgrade in company history started

The biggest product upgrade in the history of Lufthansa Passenger Airlines is a vital move towards stabilising yields in a market affected by overcapacities. This includes the introduction of the new Premium Economy Class. Bookings were above expectations as soon as marketing started, which shows that with innovative services and up to 50 per cent more space than a seat in Economy Class, Lufthansa Passenger Airlines is not only reaching price-conscious business travellers, but also the fast growing target group of leisure travellers. The new seats will be installed successively in the entire long-haul fleet by the third quarter of 2015.

Even before its first scheduled flight, the new Lufthansa Passenger Airlines travel class was winning awards. The seat in Premium Economy Class received the prestigious Red Dot Design Award, as did the new Business Class seat.

Alongside its Premium Economy Class, Lufthansa Passenger Airlines is also working intently on upgrades to First and Business Class on board its long-haul aircraft. The refit will be completed by late summer 2015. Since 1 December 2014, the entire new Boeing 747-8 fleet has offered this modern and exclusive travel experience in all four service classes.

With "Lufthansa Entertainment", Lufthansa Passenger Airlines is also a pioneer in Europe in terms of in-flight entertainment on short and medium-haul routes. Since last summer, 20 Airbus A321 aircraft have already been fitted with a wireless in-flight entertainment system. Passengers on selected routes can now use individual entertainment and information services with their own smartphones, tablets or notebooks. Potential for new services and interaction with customers is also to be developed beyond the range of entertainment programmes. In addition to the existing products on offer from the Lufthansa WorldShop, the plan is to develop further services to open up additional sources of income.

In January 2015, Lufthansa Passenger Airlines successfully completed the transfer of decentralised European traffic to Germanwings, its quality carrier in the low-cost segment. The aim is to secure decentralised point-to-point connections over the long-term and to compete successfully against the fast growing low-cost airlines. Germanwings still assumes that, having reduced its losses considerably in the reporting year, it will break even in 2015.

In September 2014, the Miles & More bonus business was carved out into an independent legal entity, Miles & More GmbH, a wholly-owned subsidiary of Lufthansa Passenger Airlines. Europe's leading customer loyalty programme with over 25 million members should be even more successful in the new legal structure and, thanks to additional programme partners and a presence in new markets and market segments, even more attractive for customers. Substantial revenue and earnings growth is planned for the years ahead.

Markets and competition

Lufthansa Passenger Airlines confronts strong competition with substantial investments

Lufthansa Passenger Airlines remains exposed to intense and increasing competition, as described in the chapter "Business segment Passenger Airline Group" on p. 61. This has a lasting and negative effect on the pricing environment. The key drivers in this context are increasing competition from low-cost carriers in Europe, capacity growth on routes between Europe and North America, and above all the unfettered growth of Gulf carriers, which depresses earnings on routes between Europe and Asia in particular. As a network carrier with a high proportion of transfer passengers, Lufthansa Passenger Airlines is also more exposed to competition than other airlines in the Lufthansa Group.

Faced with these conditions, Lufthansa Passenger Airlines cut its planned capacity growth several times over the course of the year. During the winter timetable, a further five aircraft were withdrawn from European traffic and three from intercontinental traffic.

Slower capacity growth and the substantial investments in the in-flight product described above are intended to mitigate the adverse effects of intense competition on Lufthansa Passenger Airlines.

Course of business and operating performance

Strikes depress earnings for 2014 by EUR 215m

Numerous strikes by pilots at both Lufthansa Passenger Airlines and Germanwings weighed heavily on the operating result for the reporting period. The strike ballot conducted by the pilots' union Vereinigung Cockpit in March 2014 was followed by a three-day strike in early April. With some 3,800 flight cancellations and around 425,000 passengers affected, it was one of the biggest strikes in the history of Lufthansa Passenger Airlines.

The strike was preceded by protracted, intense talks and negotiations about pay and the form of future transitional benefits. In the busy third quarter, there were five more calls for strikes at short notice, four of which actually took place in connection with different focal points and with varying durations. In some cases, they disrupted flight operations considerably. Lufthansa Passenger Airlines was able to minimise the inconvenience to passengers by taking early precautions, drawing up alternative flight timetables and providing extensive information. There were five more strikes in the fourth quarter, which again caused considerable disruption.

Over the course of the year, it became increasingly clear that the latent and continuous threat of strikes by pilots was having an adverse effect on passengers' booking patterns. Including other strikes by groups represented by the trade union ver.di, Lufthansa Passenger Airlines suffered losses of EUR 215m in the reporting year as a result of strikes and bookings lost during the strikes. In addition to the earnings lost directly to flight cancellations, the financial result for Lufthansa Passenger Airlines was also impaired by the reputational damage.

The cancellation of the collective agreement on transitional benefits by Lufthansa Passenger Airlines in 2013 was one of the main reasons for the strike. This decades-old agreement enables pilots to retire on up to 60 per cent of their salary from the age of 55. Lufthansa Passenger Airlines wants to raise the average age of retirement for pilots in stages, from 58 at present to 61 by 2021. Over a period of ten years until 2023, it also wants all cockpit staff to work for a maximum of one year longer than necessary under the current agreement if the average retirement age is not reached. Modern rules are to be agreed with the union for new pilots.

Receivables from ticket sales denominated in Venezuelan bolivars also depressed earnings at Lufthansa Passenger Airlines. Only some of these receivables could be repatriated due to limits on the transport of hard currencies. Steps were taken to adjust capacities and sales, however, which limited the risk exposure and slowed the increase in outstanding bolivar receivables.

Implementation of SCORE activities delivers significant cost savings and efficiency gains

In the third year of its SCORE programme, Lufthansa Passenger Airlines concentrated on implementing more than 350 individual measures to cut costs and increase efficiency. In the 2014 financial year, measures were implemented at Lufthansa Passenger Airlines with a gross earnings improvement volume of EUR 447m.

A number of important structural changes have been made, such as transferring direct traffic to Germanwings and restructuring the regional airlines. Lufthansa Passenger Airlines' ground production and administration processes have been modernised and optimised. Operating workflows have also been streamlined by establishing new roles and rules.

Lufthansa Passenger Airlines also tackled the challenging competitive environment with a large number of steps to increase the profitability of intercontinental traffic. Seating capacity and fleet productivity were improved and ground times reduced for Lufthansa Passenger Airlines aircraft.

In 2014, the significant reductions in unit costs came mainly from lower fuel costs, due partly to the lower cost of kerosene and partly to steps to increase fuel efficiency, as well as from consistent modernisation with new, more efficient and larger aircraft. These reductions are nonetheless offset by pressure on revenue as a result of rising overcapacities, particularly on routes to North America and Asia and within Europe.

Although the market was challenging, Lufthansa Passenger Airlines was able to boost the load factors for its aircraft year on year by managing capacity and sales flexibly and in line with demand. Over the course of the year, it posted new records for passenger numbers and load factors.

For the fourth time in a row, Lufthansa Passenger Airlines was named "Europe's Leading Airline" at the World Travel Awards. It had previously collected the title of "Best Transatlantic Airline" at the World Airline Awards.

Revenue and earnings development

Fall in operating profit

Around 78 million passengers (+1.7 per cent) flew with Lufthansa Passenger Airlines in 2014. An increase in available seat-kilometres (+1.9 per cent) through the usage of larger aircraft and optimised capacity management made it possible to reduce the number of flights by 1.9 per cent. Strikes by the pilots' union Vereinigung Cockpit held back capacity growth. As revenue seat-kilometres increased even faster – by 2.3 per cent – the passenger load factor also rose to 79.4 per cent (+0.3 percentage points).

Lufthansa Passenger Airlines generated revenue of EUR 17.1bn (–1.2 per cent) in 2014 and achieved an operating result of EUR 252m (EUR –10.6 per cent). The decline in revenue and earnings was largely due to the negative impact of pilots' strikes and the fall of 3.3 per cent in average yields. The adjusted operating margin was 2.2 per cent (previous year: 2.3 per cent).

SWISS

SWISS*

		2014	2013	Change in %
Revenue	€m	4,241	4,223	0.4
Operating result	€m	289	226	27.9
EBITDA	€m	511	525	–2.7
Employees as of 31.12.	number	8,694	8,647	0.5
Average number of employees	number	8,690	8,573	1.4
Passengers	thousands	17,270	17,039	1.4
Flights	number	163,766	166,312	–1.5
Available seat-kilometres	millions	47,285	46,348	2.0
Revenue seat-kilometres	millions	39,388	38,609	2.0
Passenger load factor	%	83.3	83.3	0.0 pts

* Including Edelweiss Air.
Further information on SWISS can be found at www.swiss.com.

Business and strategy

Flag carrier upholds Swiss values

Swiss International Air Lines (SWISS) is Switzerland's national airline and Zurich is its hub. Together with its sister company Edelweiss, it serves a global route network of 103 destinations with a fleet of some 100 aircraft. SWISS stands for traditional Swiss values, such as quality, punctuality and hospitality, and is committed to outstanding product and service quality. SWISS offers a three-class product on all intercontinental routes, with First, Business and Economy Class. Edelweiss Air, Switzerland's leading holiday airline, complements the SWISS product.

Markets and competition

SWISS focuses on its strategy "Next-Generation Airline of Switzerland"

As described in the chapter on the "Passenger Airline Group" on p. 61, SWISS is also hard hit by intense competition, especially from European low-cost airlines and the growing Gulf carriers. Therefore, as part of its "Next Generation of Switzerland" strategy, the airline is to invest several billion euros in its fleet and make its product and service quality even more attractive for its passengers. This includes introducing the new HUB+ business model, which will expand the traditional hub system in Zurich to include a point-to-point system. This will enable SWISS to offer 25 new destinations from Zurich in cooperation with sister company Edelweiss Air from the 2015 summer flight timetable onwards. This extra capacity comes mainly from greater aircraft productivity and requires no additions to the fleet.

SWISS continues to develop its business in line with its strategic approach at the station in Geneva too. There, the airline is adding ten new destinations to its European route network in order to adapt its flights to local demand. SWISS will cease flight operations in Basel at the end of May 2015, however. Changes in market conditions and the difficult political environment mean that the company has no prospect of earning a reasonable return in Basel with its current products.

SWISS launches new website and pricing schemes

SWISS completely overhauled its i www.swiss.com website in the second quarter of 2014 in response to changing customer needs. The new site is more user-friendly and has many additional functions. For flights to European destinations, SWISS also introduced a pricing scheme in Zurich and Basel in the third quarter of 2014 that is similar to the one employed in Geneva. The new pricing scheme lets SWISS passengers profit from attractive fares with no minimum stay and also attractive one-way fares.

Course of business and operating performance

SWISS continues to invest in fleet renewal

SWISS invests continually in a modern fleet. The certification of the Bombardier CSeries is expected for the second half-year of 2015; it is to replace the current Avro RJ100 on short and medium-haul routes. SWISS is the launch customer for this aircraft type. Two Avro RJ100s had already been retired from service at the end of 2014 and replaced by aircraft on wet leases from Helvetic, a partner of SWISS. In 2016, a new Airbus A321ceo will join the SWISS fleet. Between 2019 and 2022, SWISS will also take delivery of ten A320neos and five A321neos to replace the same number of older aircraft of this type. Six Boeing 777s will be added to the long-haul fleet from 2016.

Refit for European and long-haul Airbus fleets

The reconfiguration of the aircraft types A320 and A321 to achieve greater seating capacity began in November 2014. A new cabin concept and new seats will boost capacities in the A320 by twelve seats, and by 19 seats in the A321. The new layout will give passengers greater comfort and more leg-room. The first reconfigured aircraft has been in service since December 2014. A new concept for in-flight catering in Economy Class accompanies the new layout. In the second quarter of 2014, Edelweiss Air equipped its two long-haul aircraft with the Economy Max Class, featuring greater seat pitch, and the Business Class, with fully flat seats. This improvement to the customer experience paid off – at the World Travel Awards 2014, SWISS was voted "Europe's Leading Airline Business Class" for the fourth time in a row.

SCORE contributes to sustainable earnings improvement

SWISS is running 320 projects as part of the SCORE programme, of which a total of 117 had been successfully implemented at year-end 2014. Another 111 activities are already delivering positive earnings contributions as ongoing projects. One of the main drivers in 2014 was the introduction of additional services under the name of "SWISS Choice", which is a key component of the airline's commercial strategy.

They include such fee-based options as reserving a particular seat or ordering a surprise such as champagne or chocolate cake in advance. Numerous fuel-efficiency projects also made lasting contributions to earnings, including further improvements in flight planning.

Preparations underway for collective agreements for airborne staff

The agreement negotiated with representatives of the two groups of cockpit staff to merge the two pilots' unions was rejected in summer 2014 by the Airbus pilots. SWISS then negotiated a flexible and forward-looking collective wage agreement with IPG, the trade union representing Avro pilots. In early December 2014, SWISS and the board of the pilots' association AEROPERS agreed on the principles of a new collective agreement for the Airbus pilots. Should it be adopted, the agreement will be valid from 1 April 2015 and will replace the existing collective wage agreement. SWISS also agreed on the principles of a new collective wage settlement with representatives of cabin staff in early 2015. If it is adopted by the cabin staff, it will replace the existing collective agreements in Zurich as of 1 May 2015.

Revenue and earnings development

Traffic continues to increase

The North Atlantic traffic region again performed particularly well, while the result for the Asian region was weaker due to exchange rates and tough competition. European traffic remained under severe pressure. Passenger numbers rose to 17 million (+1.4 per cent), another new record. The number of flights fell by 1.5 per cent at the same time, and the passenger load factor was unchanged year on year at 83.3 per cent. Across the entire route network, SWISS added 2.0 per cent to its available seat-kilometres and increased the number of revenue seat-kilometres by 2.0 per cent at the same time. This sales increase kept traffic revenue stable (–0.1 per cent), despite a decline of 2.0 per cent in average yields.

Revenue and earnings up again

Last year, SWISS was able to increase both revenue and the operating result compared with the previous year. Revenue improved by 0.4 per cent to EUR 4.2bn and the operating result was up by 27.9 per cent to EUR 289m. Consistent capacity management aimed at maximising load factors, which resulted in an increase in sold seat-kilometres, and the ongoing SCORE activities both had a positive impact on earnings.

Austrian Airlines

Austrian Airlines*

		2014	2013	Change in %
Revenue	€m	2,069	2,069	–
Operating result	€m	10	25	–60.0
EBITDA	€m	109	201	–45.8
Employees as of 31.12.	number	6,067	6,208	–2.3
Average number of employees	number	6,218	6,235	–0.3
Passengers	thousands	11,171	11,293	–1.1
Flights	number	126,953	135,088	–6.0
Available seat-kilometres	millions	23,343	22,528	3.6
Revenue seat-kilometres	millions	18,428	17,709	4.1
Passenger load factor	%	78.9	78.6	0.3 pts

* Further information on Austrian Airlines can be found at www.austrian.com.

Business and strategy

Austrian Airlines is the specialist for Central and Eastern Europe

Austrian Airlines is Austria's largest airline, operating a global route network to some 118 destinations. Its route network in Central and Eastern Europe is very extensive, with 40 destinations. The attractive geographic position of its home base in Vienna, situated in the heart of Europe, makes it an ideal hub between East and West. Flight operations at the Austrian Airlines Group still take place from its wholly-owned subsidiary Tyrolean Airways; they are to be transferred back to Austrian Airlines by 1 April 2015.

Markets and competition

Innovation and service are key factors in a difficult environment

Austrian Airlines remains exposed to intense and increasing competition, as described in the chapter on the Passenger Airline Group on p. 61. The crises in Ukraine, Russia and the Middle East also continue to represent a challenge for Austrian Airlines in its current business. Capacity to several destinations has therefore had to be reduced and some routes have been suspended temporarily. Revenue was also depressed by the enduring weakness of the Japanese yen. Austrian Airlines is improving its products and services and using continuous capacity management, cost-cutting initiatives and measures to improve revenue quality in order to counteract the permanently tense competitive situation at the Vienna hub and the resulting weak average yields from European traffic.

In this context, Austrian Airlines has recently started using the new Hub Player concept to support its sales. This is a data network that enables end customers to get information about various leisure travel services from different providers almost in real time. Sales partners can now access the latest offers from Austrian Airlines directly and put them together to make tailored packages for their customers. This puts Austrian Airlines at the forefront of innovation in Austria.

At the renowned World Airline Awards organised by Skytrax, Austrian Airlines was again awarded one of the top rankings in 2014. Its service on the ground and in the air won first prize in the category "Best Airline Staff Service in Europe". Austrian Airlines was also voted among the top five airlines in Europe, moving up one place from previous year's position.

The "smart upgrade" option on all Austrian Airlines long-haul flights was a great success and has therefore been expanded. Passengers on all scheduled European flights are now able to bid for an auctioned seat in the Austrian Business Class. Passengers submit their bids online and find out within 72 hours of departure whether they have been upgraded to a Business Class seat. The success of the smart upgrade concept has enabled Austrian Airlines to increase its additional revenue considerably.

Course of business and operating performance

Negotiated solution opens the way to collective agreement

After intense negotiations, the management and works council for flight crew at Tyrolean Airways agreed in early October 2014 on the outline of a new collective agreement for the roughly 3,200 flight staff. The Supervisory Board of Austrian Airlines has also green-lit the proposed solution. On 31 October 2014, the new collective agreement was finally signed by the chamber of commerce, representing the employers, and by the trade union. It applies to the approximately 900 pilots and 2,300 flight attendants from 1 December 2014, and governs the future salaries and pensions, working hours and career development for cockpit and cabin crew.

An important element of the settlement is the consolidation of employment contracts for all flight attendants and pilots at Austrian Airlines, which is to take effect by 1 April 2015. Severance payments and covenants not to sue are also to be signed with the individual employees. As a result of the collective agreement, the union and the works council withdrew the pending lawsuits brought by them against the transfer of flight operations from Austrian Airlines to Tyrolean Airways in 2012 and the continued validity of the former collective bargaining agreement.

The new collective agreement is an important step for Austrian Airlines towards improving its competitiveness and the future viability of the company.

SCORE contributes to earnings improvement

The SCORE activities at Austrian Airlines are also bearing fruit. A large part of the maintenance work for Fokker and Airbus aircraft has been moved from the high season in summer to the winter, thereby making more efficient use of existing capacities. Parallel sales structures for Lufthansa Passenger Airlines and Austrian Airlines in 18 Eastern European countries have also been dissolved and sales management has been pooled in Vienna.

One Boeing 777 and four Bombardier Dash 8-Q400 turboprops were added to the Austrian fleet. Two of these aircraft have been in service on wet leases in regional traffic for SWISS since 1 November 2014.

New CCO as of 1 October 2014

Dr Andreas Otto assumed the role of Chief Commercial Officer at Austrian Airlines as of 1 October 2014. The former Chief Officer Product and Sales at Lufthansa Cargo succeeds Dr Karsten Benz, who moved to the new position of Group Infrastructure Officer at the Lufthansa Group in Frankfurt, also as of 1 October 2014.

Revenue and earnings development

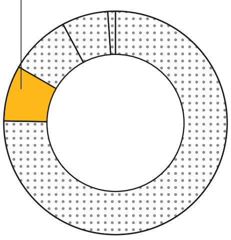
Positive operating result achieved

With 11.2 million passengers, Austrian Airlines transported 1.1 per cent fewer customers than in 2013. Its capacity went up by 3.6 per cent and sales rose by 4.1 per cent. The load factor of 78.9 per cent was higher than the previous year (+0.3 percentage points). Traffic revenue declined slightly (–0.2 per cent) and average yields contracted by 4.1 per cent.

Revenue of EUR 2.1bn was on par with the previous year. The operating result for Austrian Airlines was positive in 2014 at EUR 10m. This is EUR 15m less than the previous year, despite the positive impact on earnings of the new amortisation and depreciation policy, and is mainly due to the non-recurring effect of the severance payments made to flight staff.

Business segment Logistics

Revenue **2.4** €bn Operating result **100** €m



One of the largest cargo airlines

Lufthansa Cargo is Europe's leading freight airline. / Comprehensive range of products on offer for the airfreight business worldwide. / The load factor of the aircraft remains high despite tough competition. / Revenue is at the previous year's level; operating result increases significantly despite higher depreciation and amortisation.

Key figures Logistics

		2014	2013[2]	Change in %
Revenue	€m	2,435	2,443	−0.3
of which with companies of the Lufthansa Group	€m	25	24	4.2
Operating result	€m	100	79	26.6
Adjusted operating margin	%	4.3	3.6	0.7 pts
Segment result	€m	120	89	34.8
EBITDA[1]	€m	187	134	39.6
CVA	€m	49	−41	
Segment capital expenditure	€m	214	318	−32.7
Employees as of 31.12.	number	4,663	4,660	0.1
Average number of employees	number	4,656	4,625	0.7
Freight and mail	thousand tonnes	1,669	1,715	−2.7
Available cargo tonne-kilometres	millions	12,354	12,490	−1.1
Revenue cargo tonne-kilometres	millions	8,612	8,731	−1.4
Cargo load factor	%	69.7	69.9	−0.2 pts

[1] Before profit/loss transfer from other companies.
[2] Previous year's figures have been adjusted.

Business and strategy

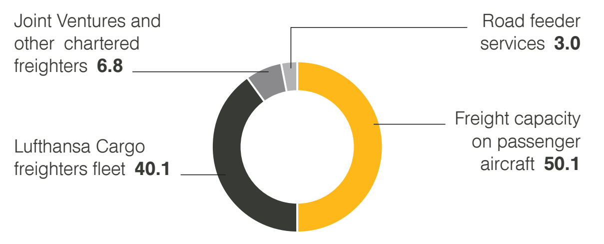
Lufthansa Cargo is Europe's leading freight airline

Lufthansa Cargo is the logistics specialist within the Lufthansa Group. As of 31 December 2014, the company's own fleet consisted of 16 MD-11F cargo aircraft and four of the five Boeing 777Fs on order. In addition to Lufthansa Cargo AG, the Logistics segment includes the airfreight container management specialist Jettainer Group and the equity investment in the cargo airline AeroLogic GmbH. AeroLogic is based in Leipzig and flies its eight B777 freighters to 20 destinations around the world on behalf of its two shareholders, Lufthansa Cargo and DHL Express. It has been consolidated pro rata as a joint operation in line with IFRS 11 since 1 January 2014. The company was previously accounted for using the equity method. The figures for the previous year have been adjusted accordingly. Lufthansa Cargo also has equity investments in various handling companies. In freight handling, the investment in Shanghai Pudong International Airport Cargo Terminal (PACTL) in particular has been successful for many years. Lufthansa Cargo markets capacities on its own freighters and chartered cargo aircraft, along with belly capacities on passenger aircraft operated by Lufthansa Passenger Airlines and Austrian Airlines.

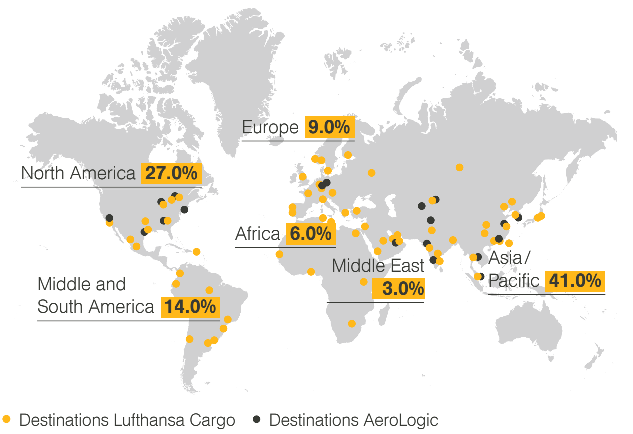
Freight and passenger aircraft are combined efficiently worldwide

The focus of Lufthansa Cargo's operations lies in the airport-to-airport airfreight business. Its product portfolio encompasses standard and express freight as well as highly specialised products. These include the transport of live animals, valuable cargo, mail and dangerous goods, as well as the growing sector of temperature-sensitive goods. Lufthansa Cargo has invested in specialised infrastructure at Frankfurt Airport to handle these sensitive goods, such as the Frankfurt Animal Lounge or the Lufthansa Cargo Cool Centre.

Composition of Logistics capacity in %



Locations Lufthansa Cargo Freighters fleet



Frankfurt Airport acts as the main hub for the freighter fleet. Other important hubs are Munich and Vienna, with their extensive long-haul networks. Lufthansa Cargo transports nearly half its freight on board cargo aircraft and roughly the same amount on board passenger aircraft. Around 3.0 per cent of cargo tonnage is carried by truck in what are known as road feeder services. These are principally used for transport to and from airports. All the product segments benefit from a tightly knit global network of over 300 destinations in some 100 countries, which is made possible by combining capacities from different production platforms.

In its "Lufthansa Cargo 2020" programme, the segment intends to use the strategic action areas defined by the Lufthansa Group to simplify, optimise and automate its airfreight processes. The aim is to maintain its position as an innovation driver and industry leader and to make lasting improvements to its unit cost base. Lufthansa Cargo is investing in new aircraft, a new cargo centre and in digital processes. Similarly, quality enhancements and global partnerships should help the company to build on its leading position in the airfreight industry.

A strategic joint venture has been set up with All Nippon Airways (ANA) on routes between Japan and Europe. This is the first joint venture of its kind in the global airfreight industry. ANA and Lufthansa Cargo will thereby be able to coordinate activities such as network planning, pricing, sales and handling on joint venture routes in future. This close partnership received its first booking on 1 December 2014. With the partnership having started on westbound flights, it is now to be extended to connections to Japan in the course of 2015.

Markets and competition

Asia/Pacific and North America remain the most important traffic regions

Although global demand for airfreight increased slightly in 2014, traffic at Lufthansa Cargo declined and did not meet expectations dating from the beginning of the year. Only towards year-end did demand improve thanks to Christmas business. Germany and Europe remain the main markets for Lufthansa Cargo, accounting for around 50 per cent of sales. Its main traffic regions were again Asia/Pacific and North America. Lufthansa Cargo's competitors are primarily other airlines with significant freight capacities in their long-haul fleets, as well as airlines with a mix of cargo and passenger aircraft and pure freighter operators.

Long-term business relations with strategic partners

Lufthansa Cargo again attached great importance to developing the long-term relationships with its strategic partners in 2014. Lufthansa Cargo's "Global Partnership Programme" plays a vital role as a platform for sustainable growth here. The eleven Global Partners Agility, CEVA, DACHSER, DB Schenker, DHL Global Forwarding, Expeditors, Hellmann, Kühne+Nagel, Panalpina, UPS and UTi represent around half of Lufthansa Cargo's revenue.

As well as ensuring long-term customer loyalty, the programme is intended to optimise process harmonisation and enable all the partners to participate in the global growth of the airfreight market. At the fifteenth Global Partner Council, the annual summit meeting between Lufthansa Cargo and its Global Partners, the US logistics provider Expeditors (member since 2007) was presented with the "Planet Award of Excellence". In making its selection, Lufthansa Cargo not only considers transported tonnage, but also how cooperation between the two companies promotes innovative sales channels and contributes to digitalising airfreight processes.

As well as the Global Partners, small and medium-sized hauliers are also very important for Lufthansa Cargo. They have specialised key account management and their own "Business Partnership Programme".

Customers present Platinum Award to Lufthansa Cargo

Lufthansa Cargo again received several prizes from its own customers in 2014. Europe's leading cargo airline was given the "Platinum Award" at the renowned "Air Cargo Excellence Awards" as part of the 2014 World Cargo Symposium in Los Angeles. The American logistics provider Expeditors International also recognised Lufthansa Cargo with its "Award of Excellence". For the twelfth time in a row, Portuguese airfreight customers voted to award Lufthansa Cargo their "Prémios de Carga Transportes & Negócios".

Course of business and operating performance

"Lufthansa Cargo 2020" remains on track for the future

Lufthansa Cargo again reported high load factors for its aircraft in 2014. Competition remained challenging in the reporting year, but the cargo airline made a profit thanks to its flexible, demand-oriented capacity management, and even increased earnings substantially year on year despite the changes to its amortisation and depreciation policy. Active capacity management particularly entailed the flexible deployment of freighter aircraft. Whereas cargo capacity on passenger aircraft increased by 3.9 per cent, available freight capacities were cut by 5.8 per cent.

In the reporting year, Lufthansa Cargo pursued its "Lufthansa Cargo 2020" programme with great resolve. The global roll-out of a new IT system for freight handling began and marketing activities for lucrative express products were scaled up. The use of the efficient Boeing 777F cut costs significantly in particular. The 'Triple Seven' is quieter, more economical and more reliable than all other cargo aircraft in its class.

Lufthansa Cargo extended its route network again in 2014. Milan in Italy was integrated as a freighter station in the spring and the cargo airline bolstered its presence in Africa. Lagos in Nigeria was included in the freighter route network in mid-September.

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 %	
	2014	Change in %	**2014**	Change in %	**2014**	Change in %	**2014**	Change in %	**2014**	Change in pts
Europe	211	−2.8	557	−6.5	684	1.9	343	−4.3	50.1	−3.2
America	966	1.0	512	0.1	5,570	−1.0	3,788	0.6	68.0	1.1
Asia/Pacific	969	−1.8	467	−0.1	4,916	−1.4	3,829	−2.4	77.9	−0.8
Middle East/Africa	218	1.4	133	−4.8	1,184	−2.1	652	−4.8	55.1	−1.6
Total	**2,364**	**−0.5**	**1,669**	**−2.7**	**12,354**	**−1.1**	**8,612**	**−1.4**	**69.7**	**−0.2**

Tunis, the capital of Tunisia, was included in the route network in late October. Lufthansa Cargo is also sharpening its focus on the oil and gas industry. Customers are expected to benefit from direct contacts around the world who offer solutions to often demanding transport problems at any time. A dedicated industry team was set up for this purpose in April and is coordinated from Oslo. As of November, a Boeing 777F flies every Saturday directly between Houston and Stavanger, two of the most important global locations for the oil and gas industry.

Lufthansa Cargo leads the industry in digitalisation and security

In 2014, Lufthansa Cargo continued to establish itself as a digital pioneer in its sector. The cargo airline set up a digitalisation programme with the aim of connecting all the players in the transport chain, from booking to delivery, in a digital network by 2020. In the long run, customers will benefit from greater transparency, higher speeds, better quality and more efficiency, which in turn enables them to be more flexible. Lufthansa Cargo has been working on the introduction of the electronic air waybill since 2013. Implementing the eAWB will establish electronic communications as the legal foundation for the transport contract – another step towards a paperless future. In early July 2014, the first customer delivered its shipment to Frankfurt with no paper documentation at all. By the end of the year, more than 30 per cent of Lufthansa Cargo stations worldwide were able to import and process electronic air waybills.

Lufthansa Cargo hosted its sixth security conference in spring 2014. Around 250 representatives from the logistics industry attended the conference, entitled “Airfreight security 2020: Identifying risks – Forming alliances”. In 2014, Lufthansa Cargo continued its long tradition of running prompt and professional aid flights to crisis regions in response to humanitarian catastrophes. In late October and early November, an MD-11F carried 70 tonnes of emergency aid on special terms to Freetown in Sierra Leone for use in regions affected by Ebola.

Successful implementation of SCORE continues

Last year, Lufthansa Cargo initiated and implemented a large number of measures as part of the Group-wide SCORE earnings improvement programme. More precisely, nearly 300 individual activities in the SCORE programme contributed gross earnings improvements adding up to EUR 116m. The SCORE activities were therefore able to make up for countervailing market and cost factors and also contribute to boosting the net result. Key individual activities in 2014 concerned the repositioning of express products, the renegotiation of fuel supply agreements and the optimisation of refuelling procedures, among others.

Two new appointments to the Executive Board of Lufthansa Cargo

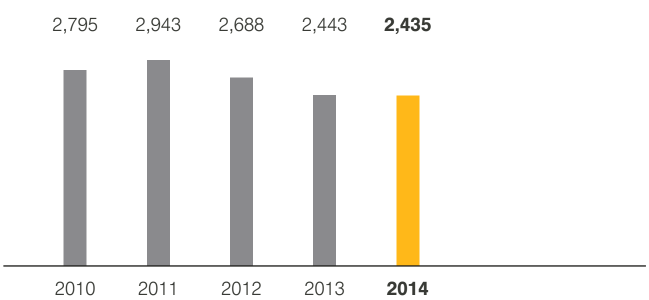
Mr Peter Gerber became Chairman of the Executive Board and CEO of Lufthansa Cargo on 1 May 2014. He was previously responsible for Human Resources, IT and Services on the Lufthansa Passenger Airlines Board. Between 2009 and May 2012, he was in charge of Finance, IT and Human Resources on the Executive Board of Lufthansa Cargo. Mr Karl Ulrich Garnadt, his predecessor as Chairman of the Executive Board and CEO of Lufthansa Cargo, was appointed to the Executive Board of Deutsche Lufthansa AG.

Since 1 December 2014, Dr Alexis von Hoensbroech, previously Commercial Director Frankfurt at Lufthansa Passenger Airlines, has been Chief Officer Product and Sales at Lufthansa Cargo. His predecessor, Dr Andreas Otto, became Chief Commercial Officer at Austrian Airlines as of 1 October 2014.

Operating performance marred by slight fall in traffic

Traffic at Lufthansa Cargo declined slightly in 2014 compared with the previous year. The transported tonnage sank by 2.7 per cent. Available tonne-kilometres were reduced by 1.1 per cent, and cargo tonne-kilometres fell by 1.4 per cent. The cargo load factor fell by 0.2 percentage points compared with 2013. Although cargo capacities on passenger aircraft were increased, the company’s own freighter capacities were reduced significantly in some cases. Average yields improved by 0.7 per cent.

Revenue Logistics in €m



Freight volumes in the Americas traffic region were virtually unchanged year on year (+0.1 per cent). Cargo tonne-kilometres rose by 0.6 per cent and available tonne-kilometres were reduced by 1.0 per cent. This led to a 1.1 percentage point increase in the load factor.

Freight volumes in the Asia/Pacific region were also flat year on year (–0.1 per cent). Capacity here was cut by 1.4 per cent. Cargo tonne-kilometres fell by 2.4 per cent, trimming the cargo load factor by 0.8 percentage points.

Operating expenses Logistics

	2014 in €m	2013 in €m	Change in %
Cost of materials and services	1,690	1,797	–6.0
of which fuel	453	533	–15.0
of which fees	278	286	–2.8
of which charter expenses	702	721	–2.6
of which MRO services	121	128	–5.5
Staff costs	387	388	–0.3
Depreciation and amortisation	64	27	137.0
Other operating expenses	272	249	9.2
Total operating expenses	**2,413**	**2,461**	**–2.0**

The Middle East/Africa traffic region recorded a significant downturn in cargo volumes. Transported tonnage was down 4.8 per cent on 2013. While sales to and from Egypt increased again, volumes in the Middle East went down significantly. Capacity was cut by 2.1 per cent. As cargo tonne-kilometres declined by 4.8 per cent, the load factor fell by 1.6 percentage points.

Freight volumes within Europe fell by 6.5 per cent. Available tonne-kilometres rose by 1.9 per cent but cargo tonne-kilometres fell by 4.3 per cent, causing the load factor in this traffic region to drop by 3.2 percentage points compared with the same period last year.

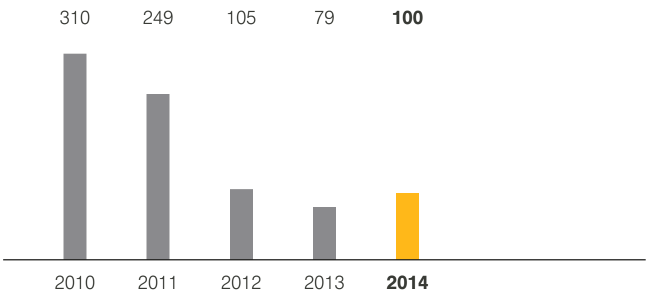
Revenue and earnings development

Operating result up substantially

Revenue at Lufthansa Cargo in 2014 was virtually unchanged year on year at EUR 2.4bn (–0.3 per cent). Traffic revenue fell slightly (–0.6 per cent) due to lower volumes. Other revenue went up to EUR 55m (+5.8 per cent) thanks to higher handling income. Other operating income of EUR 78m was 19.6 per cent below last year's figure, primarily as a result of a decrease in the foreign exchange result and in reimbursements from the Group for restructuring measures in connection with the SCORE programme. Total operating income fell to EUR 2.5bn (–1.1 per cent).

Operating expenses fell by 2.0 per cent year on year to EUR 2.4bn. This was largely due to the lower volume-related cost of materials and services, which stood at EUR 1.7bn (–6.0 per cent). Within this item, there were declines in fuel costs to EUR 453m (–15.0 per cent), charter expenses (capacity-related) to EUR 702m (–2.6 per cent), fees and charges to EUR 278m (–2.8 per cent) and MRO expenses to EUR 121m (–5.5 per cent).

Operating result Logistics in €m



Staff costs were virtually unchanged compared with the previous year, falling by just 0.3 per cent to EUR 387m. The companies in the Logistics segment had an average of 4,656 employees in the reporting period (+0.6 per cent).

Depreciation and amortisation went up by EUR 37m to EUR 64m due to the change in the useful lives for aircraft and the addition of the new Boeing 777 cargo aircraft.

Other operating expenses rose to EUR 272m (+9.2 per cent), mainly due to higher exchange rate losses.

In the reporting period, the Logistics segment generated an operating result of EUR 100m, which is considerably higher than last year's figure of EUR 79m.

Segment capital expenditure still high

Other segment income and expenses remained low. The segment result was EUR 120m (previous year: EUR 89m). This includes a result from equity investments of EUR 16m from companies accounted for using the equity method, virtually unchanged from the previous year.

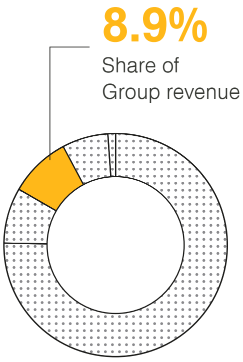
Segment capital expenditure went down to EUR 214m in the reporting period (previous year: EUR 318m), which stemmed primarily from lower payments for the purchase of Boeing 777F aircraft. Capital expenditure on the construction of the new airfreight logistics terminal and IT projects went up, however.

Long-term overview shows volatility in the logistics sector

The Logistics segment has earned regular operating profits over the last five financial years, albeit at highly varying levels. Strong earnings in 2010 and 2011 were buoyed by the positive economic cycle. 2012 and 2013 saw earnings fall repeatedly in a weak market, before the company turned the corner in 2014 with an operating profit of EUR 100m.

Business segment MRO

Revenue **4.3** €bn Operating result **392** €m



Worldwide leading provider of maintenance, repair and overhaul services

Lufthansa Technik is a leading global provider of maintenance, repair and overhaul services for civil, commercial aircraft. / "We Grow" programme aims for profitable growth. / Global capacities and flexibility are key competitive factors. / Good orders lead to higher revenue and an operating profit at the previous year's strong level.

Key figures MRO

		2014	2013	Change in %
Revenue	€m	4,337	4,180	3.8
of which with companies of the Lufthansa Group	€m	1,664	1,584	5.1
Operating result	€m	392	404	−3.0
Adjusted operating margin	%	9.4	10.9	−1.5 pts
Segment result	€m	429	457	−6.1
EBITDA*	€m	438	594	−26.3
CVA	€m	245	377	−35.0
Segment capital expenditure	€m	118	136	−13.2
Employees as of 31.12.	number	20,079	19,917	0.8
Average number of employees	number	20,085	19,927	0.8
Fully consolidated companies	number	21	20	5.3

* Before profit/loss transfer from other companies.

Business and strategy

Lufthansa Technik – the world's leading MRO provider
Lufthansa Technik is the world's leading independent provider of maintenance, repair and overhaul services (MRO) for civilian commercial aircraft. The Lufthansa Technik group includes 31 technical maintenance operations around the world with a total of around 20,000 employees. The company also holds direct and indirect stakes in 53 companies. Lufthansa Technik's investment portfolio saw a number of changes in 2014: Lufthansa Technik Airmotive Ireland (LTAI) was closed due to declining revenue and dwindling market opportunities. Lufthansa Technik Puerto Rico was established, as was a joint venture between Lufthansa Technik AG and LIST components & furniture GmbH to offer innovative total cabin solutions for business and private jets under the name of INAIRVATION.

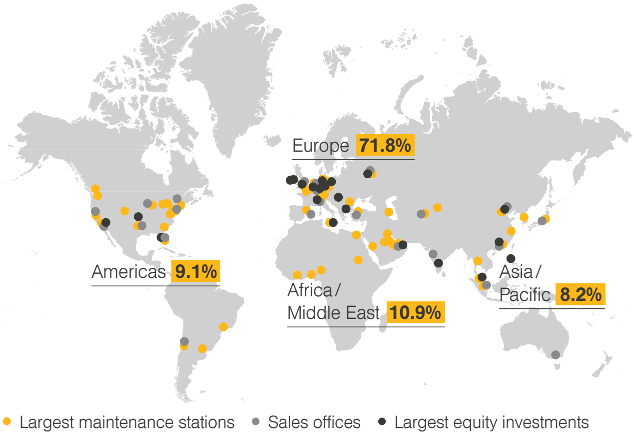
Lufthansa Technik's range of services is provided by seven divisions: maintenance, aircraft overhaul, engines, components, aircraft systems, innovation, and completion and servicing of VIP aircraft. The portfolio covers a variety of different product structures and combinations, from the repair of individual components to consultancy services and the fully integrated supply of entire fleets. These total support services are the most popular, because they offer customers extensive assistance, which can extend to complete fleet management. By developing new products and services, one of the benefits that Lufthansa Technik offers is to enable airlines to put new aircraft types into scheduled operations safely and to use fuel efficiently. Lufthansa Technik gave further demonstrations of its expertise in 2014. On behalf of the federal German government and in association with the Robert-Koch-Institute, the company converted a wide-bodied Airbus A340-300 into an evacuation plane with a special isolation unit for helpers infected by the Ebola virus.

International presence strengthened
Lufthansa Technik's main strategic objective is profitable growth. It has set up the "We Grow" programme to achieve this goal, which pursues opportunities for organic and inorganic growth, reflecting the Lufthansa Group's action area "new concepts for growth".

Lufthansa Technik aims to significantly increase revenue in the next five years. The main vectors for achieving this goal are to expand the company's international presence and to invest substantially in innovative products, technologies and processes.

By establishing a site for the overhaul of short and medium-haul aircraft of the Airbus A320 family in Puerto Rico, Lufthansa Technik is extending its international reach and boosting its presence in America.

Locations Lufthansa Technik



Share of revenue by region.

Lufthansa Technik Logistik Services (LTLS) opened a new branch in Shenzhen, China, under the umbrella of Lufthansa Technik Shenzhen (LTS). This paves the way for the aviation logistics specialist to serve the growing Chinese market more directly.

Another step in Lufthansa Technik's growth and innovation strategy is its investment of nearly EUR 60m in the construction and furnishing of a new wheel and brake workshop in Frankfurt. The building will commence operations at the start of 2017. It will enable Lufthansa Technik to keep growing in the wheel and brake maintenance segment too.

Lufthansa Technik takes concrete steps for innovation and growth
As another step in its growth and innovation strategy, Lufthansa Technik is pooling all activities relating to the development and production of cabin products in a separate operating segment called "Original Equipment Innovation". This completes the organisational groundwork for an active positioning as a developer and manufacturer of products relating to the aircraft cabin. Central innovation management will strengthen the specialisation in the various innovation activities, and the financial volume available for these will go up considerably.

The partnership relating to component maintenance for Boeing 787 aircraft between Lufthansa Technik and the component supplier UTC Aerospace Systems was successfully expanded. The agreement puts Lufthansa Technik in a position to develop and apply complex repairs for most B787 technologies.

Lufthansa Technik AERO Alzey (LTAA) was made an "Authorized Service Center" for the GE CF34 series engines, which are used on Bombardier Challenger and Embraer Lineage aircraft.

By establishing a new sales structure, Lufthansa Technik has paved the way towards expanding its business in the important Asian and US markets.

Markets and competition

Price sensitivity and partnerships are the key features of the MRO segment
In 2014, a total of eleven airlines with 47 aircraft ceased flight operations; on the other hand, 45 start-ups with a total of 117 aircraft started operations. Increasing MRO capacities and airlines' persistently tight financial situations are leading to consistently high pricing pressure in the MRO business.

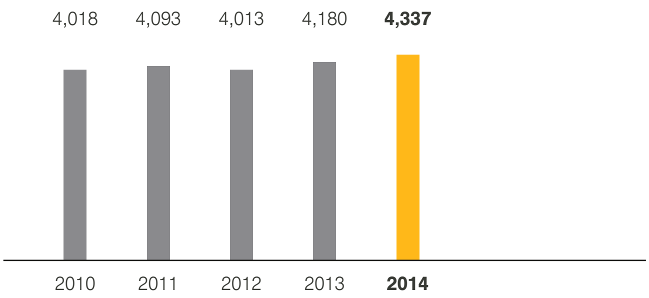
Lufthansa Technik's main competitors are aircraft, engine and component manufacturers (original equipment manufacturers or OEMs), the MRO operations of other airlines as well as independent providers. The OEMs continue to move into the MRO market. High development costs and low margins on aircraft sales are pushing aircraft, component and engine manufacturers to expand their after-sales activities. As a result, they are making it difficult for MRO providers to gain access to intellectual property and are pursuing highly restrictive licensing policies. Lufthansa Technik was again able to address this challenge in the reporting year, mainly with more OEM partnerships.

Lufthansa Technik remains the global market leader among independent MRO providers
Lufthansa Technik has 795 customers around the world, mostly airlines and aircraft leasing companies, but also operators of VIP jets and public-sector clients. The company's most important sales market is still Europe, including the former CIS states. This region accounted for 67 per cent of revenue in 2014, unchanged from the previous year, as was revenue in the Asia/Pacific growth region (7 per cent). The Americas region (8 per cent) and Middle East and Africa (7 per cent) both took a slightly larger share than the previous year. 11 per cent of total revenue stemmed from leasing companies and operators of VIP jets.

Course of business and operating performance

Important contracts renewed and signed
In the reporting year, Lufthansa Technik won 30 new customers and signed 325 contracts with a volume of EUR 3.1bn for 2014 and the following years. The number of aircraft serviced under exclusive contracts went up again in the reporting period to 3,290 (+17 per cent).

Revenue MRO in €m



Important new agreements included a ten-year contract concluded with Emirates to overhaul the landing gear on its Boeing 777-300ER fleet and the signing of a contract with South Korean airline Asiana to overhaul its V2500 engines. Scandinavian Airlines became the first customer for the HelioJet cabin lighting system and signed a contract for more than 150 C checks on its short and medium-haul aircraft.

The American carrier JetBlue Airways became the first customer acquired for the new base maintenance site in Puerto Rico. Israir Airlines, a successful Israeli provider of scheduled and charter flights, has signed a technical operations management agreement with Lufthansa Technik AG for its A320 fleet. This makes Lufthansa Technik the first foreign MRO provider to be given an aircraft maintenance permit by the Israeli civil aviation authority. International Jet Management (IJM) and the Lufthansa Technik subsidiary Lufthansa Bombardier Aviation Services (LBAS) signed a maintenance contract for the latest Bombardier aircraft type, the Challenger 350 Business Jet.

By the end of 2015, Lufthansa Technik will have installed the new Premium Economy Class on a total of 95 long-haul aircraft from Lufthansa Passenger Airlines, and a new Business Class and a new in-flight entertainment system in 80 aircraft.

Global capacities and flexibility are key competitive factors
Continuous expansion of production capacities is an important element of Lufthansa Technik's marketing presentation. In this connection, further component and engine maintenance facilities were added at Lufthansa Technik Shenzhen and the airframe-related components unit was expanded, partly by installing a second autoclave. Lufthansa Technik Philippines successfully carried out the first C4 check on an Airbus A380. Only a few MRO providers in the world are licensed to perform these checks.

SCORE generates significant earnings contributions
Lufthansa Technik remains committed to developing systematic measures for ensuring the future viability of the company and a sustainable increase in earnings as part of the SCORE programme. As in the previous year, these measures have made a significant contribution to the company's operating result. Substantial contributions came from the flagship projects in the LHT divisions and from NETwork, the overarching project to reduce costs in administrative functions. The company is already looking at developing additional measures for subsequent years.

Revenue and earnings development

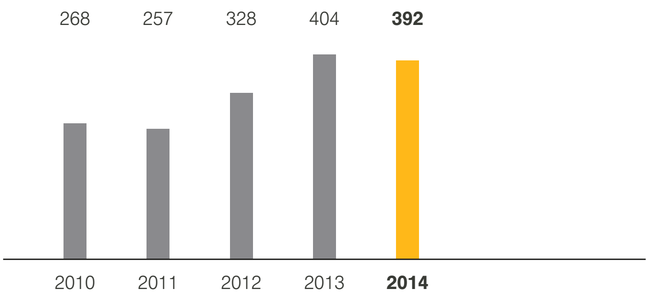
Good orders lead to further revenue growth
Revenue increased to EUR 4.3bn (EUR +157m) in 2014. Revenue from Group companies climbed to EUR 1.7bn (EUR +80m) due to the major modification programmes underway at Lufthansa Passenger Airlines. At the same time, external revenue rose by 3.0 per cent to EUR 2.7bn. Revenue growth was divided roughly half and half between Lufthansa Technik AG and its subsidiaries. Other operating income was EUR 52m down on the previous year at EUR 177m. All in all, the MRO segment reported operating income of EUR 4.5bn (+2.4 per cent).

Operating expenses MRO

	2014 in €m	2013 in €m	Change in %
Cost of materials and services	2,154	2,069	4.1
of which raw materials, consumables and supplies	1,422	1,394	2.0
of which external services	611	582	5.0
Staff costs	1,186	1,227	–3.3
Depreciation and amortisation	93	99	–6.1
Other operating expenses	689	610	13.0
Total operating expenses	**4,122**	**4,005**	**2.9**

Total operating expenses rose to EUR 4.1bn (+2.9 per cent). In line with the higher volume of modifications and the increase in total output in the engines unit, the cost of materials and services went up by 4.1 per cent to EUR 2.2bn. Depreciation and amortisation of EUR 93m was slightly below last year's (–6.1 per cent). Other operating expenses went up to EUR 689m (+13.0 per cent), largely due to exchange rate movements.

Operating result MRO in €m



A restrictive approach to new recruitment as well the closure and restructuring of various companies kept the average workforce for the year stable at 20,085 (+0.8 per cent) year on year despite revenue growth.

In combination with the transfer of administrative jobs within the Lufthansa Technik group, this reduced staff costs by 3.3 per cent year on year to EUR 1.2bn.

Thanks to its revenue growth and the successful implementation of several SCORE projects, Lufthansa Technik reported a high operating profit of EUR 392m (–3.0 per cent), confirming the previous year's very good result.

Another significant effect within the segment result compared with the previous year was the revaluation of a US dollar loan, which pushed up other expenses to EUR 89m (EUR +70m). The contribution from equity investments accounted for using the equity method fell to EUR 14m (EUR –5m) due to a change in the portfolio.

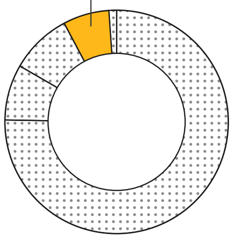
Segment result remains high
The segment result came to EUR 429m (–6.1 per cent). Segment capital expenditure declined to EUR 118m (–13.2 per cent). Key investments included the purchase of reserve engines at Lufthansa Technik Airmotive Ireland Leasing, mostly to expand the Group fleets, as well as technology and innovation projects as part of the segment's growth strategy.

Long-term overview shows stable earnings performance
As in prior years, Lufthansa Technik earned an operating profit of well over EUR 300m in the reporting period, confirming the stabilising effect of the MRO segment on the Lufthansa Group. Thanks to further cost-cutting measures and an influx of new orders, the operating result of EUR 392m nearly matched the previous year's very strong earnings.

Business segment Catering

Revenue **2.6** €bn Operating result **100** €m

6.8%
Share of
Group revenue



Global market leader in airline catering

LSG Sky Chefs is the global market leader in airline catering. / It remains focused on profitable growth and strict cost management. / LSG Sky Chefs steadily expands its global network. / Greater demand leads to further revenue growth. / Operating profit is at the previous year's high level.

Key figures Catering

		2014	2013	Change in %
Revenue	€m	2,633	2,514	4.7
of which with companies of the Lufthansa Group	€m	611	605	1.0
Operating result	€m	100	105	–4.8
Adjusted operating margin	%	3.8	4.3	–0.5 pts
Segment result	€m	95	123	–22.8
EBITDA*	€m	148	170	–12.9
CVA	€m	–7	29	
Segment capital expenditure	€m	140	110	27.3
Employees as of 31.12.	number	32,843	32,307	1.7
Average number of employees	number	32,526	31,375	3.7
Fully consolidated companies	number	122	118	3.4

* Before profit/loss transfer from other companies.

Business and strategy

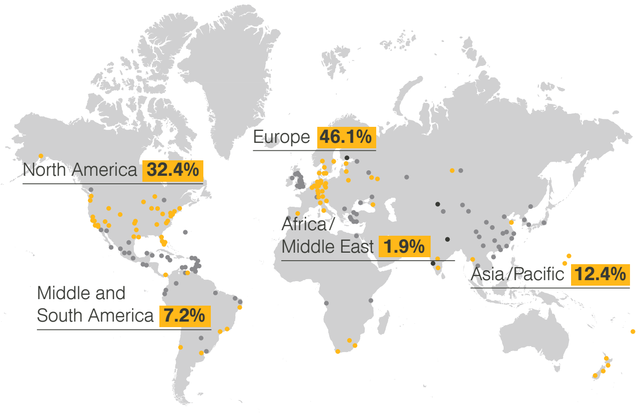
LSG Sky Chefs continues to expand
LSG Sky Chefs is the global market leader in airline catering as measured by market share, quality and innovation. With 210 catering facilities in 51 countries, LSG Sky Chefs has the largest network of production sites in the industry. In Germany and the USA the company is present at almost all significant airports. In the emerging markets of Latin America, Asia/Pacific, Africa and Eastern Europe the site network is being extended continuously. As of year-end 2014, the group consisted of 159 companies and supplied airline customers at 214 airports. The parent company for the group, LSG Lufthansa Service Holding AG, is based in Neu-Isenburg. Year-on-year changes in the group of consolidated companies related to the first-time full consolidation of Starfood Finland Oy, Finland, Supply Chain S.à.r.l., Luxembourg, LSG Linearis S.A.S., France, as well as LSG Sky Chefs Kenya Limited, Kenya.

The global company network comprises a large number of the company's own sites, as well as extensive joint ventures with airlines, airport operators and local companies, primarily in Latin America, China, Russia and the UK. These partnerships have existed for many decades in some cases and are always being expanded.

Strategic focus on profitable growth and strict cost management
In recent years LSG Sky Chefs has extended its portfolio to areas related to its core business segment. One approach is to offer airline customers additional services in order to meet their increasingly differentiated demands. This concerns both culinary excellence in ethnic food, for which demand is growing, and the complete management of in-flight sales processes, starting with the identification of consumer needs and covering product selection, demand forecasts, logistics, sales processes and billing. Secondly, the company provides development and purchasing, planning, transport and warehouse logistics services for catering equipment via its SPIRIANT subsidiary. LSG Sky Chefs increasingly also offers its wide-ranging expertise in the areas of culinary excellence and logistics to operators of trains, school and university canteens and retail chains. To enrich its own competences the company actively enters into new partnerships.

LSG Sky Chefs also continues to build on profitable growth to secure its sustainable commercial success, via both geographic expansion and the extension of its group portfolio. To increase customer benefits and customer satisfaction, the company relies on product and process innovations as well as on the permanent development of its service quality and consistency.

Locations Catering



Share of revenue by region.

At the same time LSG Sky Chefs practices strict cost management by means of ongoing process optimisation and the increasing standardisation of its highly decentralised network. The focus is on managing the cost of materials by pooling volumes and applying modern supplier management methods, on making staff costs more flexible and on introducing new business models in response to changing customer needs.

Markets and competition

Market for airline catering profits from trend towards upgrading service strategies
The company assumes that passenger volumes will continue to grow, also in the years ahead. Low-cost and charter airlines will continue to take a disproportionate share of this growth. Based on this forecast for the airline industry overall, LSG Sky Chefs is predicting a growth in market volumes for classic airline catering.

Network airlines are showing a growing interest in upgrading their service strategies, because these are seen as an opportunity for differentiation. Low-cost and charter airlines are betting on hybrid models that combine traditional in-flight service with innovative in-flight sales programmes and have already proven to be very successful. Wide-ranging, intelligent onboard retail programmes that go well beyond food and beverages to include entertainment, experiences and convenient shopping are seeing greater demand. They enhance the passenger's travel experience and generate additional income for the airlines.

Competition in LSG Sky Chefs' market remains fragmented. There is only one global competitor and a limited number of local and regional providers, which are increasingly expanding, however. In recent years a few new companies from the logistics and catering industries have moved into the airline catering market. They mainly offer services for the in-flight sales programmes of the low-cost carriers and the less complex in-flight service on short-haul routes and in Economy Class, where the freshness and culinary excellence of the food on offer have a lower priority.

LSG Sky Chefs is the global market leader serving all international airlines

LSG Sky Chefs continues to hold pole position in the airline catering market, with a global market share of 29 per cent. Based on its own calculations it has a market share in America and Europe of around 40 and 45 per cent respectively. In Asia, where catering at the hubs is still often carried out by the hub carriers themselves, LSG Sky Chefs has been active for nearly 25 years and continues to hold the leading position as an independent provider. In Eastern Europe and Africa in particular the company is permanently expanding its market presence at rapidly growing airports.

The company's customer base includes all international as well as numerous national and regional airlines. The intensity, scope and duration of the business relationships with around 300 key accounts vary greatly and range from global contracts to agreements for individual sites.

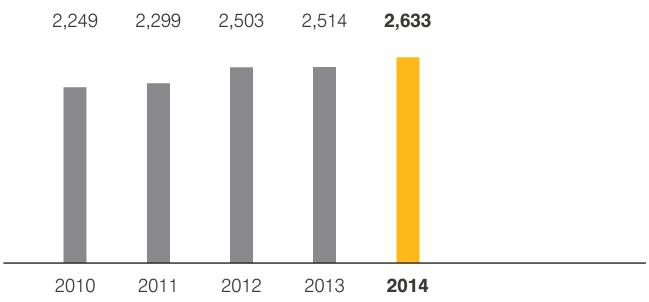
Course of business and operating performance

LSG Sky Chefs receives new orders from around the world

The financial year 2014 saw stronger demand for airline catering services. It was based on higher passenger numbers and slight upgrades to in-flight service at some airlines. LSG Sky Chefs was able to increase its revenue in nearly all markets. The only exception was Eastern Europe, where demand fell as a result of the political instability.

New contracts were signed with customers for airline catering and for ancillary services. Particularly noteworthy were the global agreement with Delta Airlines, the deeper relationship with JetBlue Airlines in the USA, the renewal of the catering contracts with Emirates, Singapore Airlines and Qantas in New Zealand and new in-flight retail contracts with Germanwings, SunExpress and Air Baltic in their respective markets and with Spirit Airlines in North and South America. Cooperation was also strengthened with the fast growing carriers from the Middle East, particularly at their new destinations in North America.

Revenue Catering in €m



LSG Sky Chefs was also able to bolster its market position in the rail sector. Innovative service concepts made it possible to sign new contracts with the French operator of high-speed trains iDTGV and the Italian provider NTV.

Continuous expansion of global network

The company's network continued to grow in the reporting period. Its extensive presence in Russia was increased to ten sites with the market entry in Rostov on Don as part of the Aeromar joint venture with Aeroflot. In China, LSG Sky Chefs signed a new joint venture in Wenzhou. Other new joint ventures enabled the company to enter the market in Sofia, Bulgaria, and at Tokyo-Narita and Tokyo-Haneda airports in Japan. In addition, the company acquired the pre-production site for LSG Sky Chefs Finland in Helsinki and opened modern new production plants at the growth sites Panama and Nanjing, China.

SPIRIANT, a subsidiary active in the development and logistics of in-flight service equipment, established its first branch in Dubai to cater to rising demand in the region for high-quality in-flight service. In New Zealand, LSG Sky Chefs acquired the retail business of Naturezone, creating a new commercial opportunity.

Quality and innovation are rewarded

The group's focus on high service quality, innovation and sustainability were again rewarded with numerous prizes in the financial year. At the Medina Quality Awards five LSG Sky Chefs facilities made it onto the winner's podium for consistently meeting quality and food safety standards. SPIRIANT received four "Good Design" awards, beating several thousand companies from 48 nations to win this coveted design prize. In addition, both United Airlines and Lufthansa German Airlines recognised many LSG Sky Chefs plants for their outstanding product and service quality.

The company's SCORE projects advanced successfully. They are aimed primarily at making the company more competitive by means of structural adjustments, especially in the mature North American and European markets, and at exploiting growth opportunities in all areas and regions.

Revenue and earnings development

Revenue up significantly
Revenue in the Catering business segment developed positively again in 2014. It went up by 6.8 per cent year on year after adjustment for exchange rates. In nominal terms, it rose by 4.7 per cent to EUR 2.6bn. Newly consolidated companies contributed EUR 22m to the revenue growth.

External revenue increased to EUR 2.0bn (+5.9 per cent). Internal revenue went up by 1.0 per cent to EUR 611m.

Other operating income rose by EUR 7m on the year to EUR 93m. Overall, total operating income improved by EUR 126m to EUR 2.7bn.

Total operating expenses of EUR 2.6bn were 5.3 per cent higher than the previous year. The cost of materials and services increased by 4.7 per cent to EUR 1.2, primarily as a result of higher sales volumes.

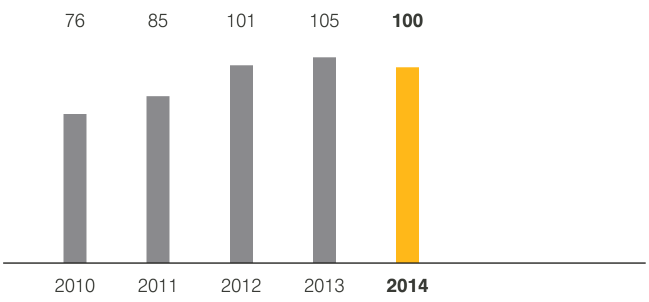
Operating expenses Catering

	2014 in €m	2013 in €m	Change in %
Cost of materials and services	1,156	1,104	4.7
Staff costs	964	927	4.0
Depreciation and amortisation	65	62	4.8
Other operating expenses	441	402	9.7
Total operating expenses	**2,626**	**2,495**	**5.3**

In the financial year 2014, the LSG Sky Chefs group had an average of 32,526 employees (+3.7 per cent). The higher figure is largely due to greater sales volumes and to companies in Europe consolidated for the first time. This caused staff costs to increase by 4.0 per cent to EUR 964m. As a percentage of revenue, staff costs fell slightly by 0.3 percentage points, however. Depreciation and amortisation was up by EUR 3m on the previous year, at EUR 65m. Other operating expenses rose to EUR 441m (+9.7 per cent) due mainly to the higher volume of business and higher expenses for outside staff.

LSG Sky Chefs reported an operating profit of EUR 100m for the financial year 2014 (previous year: EUR 105m).

Operating result Catering in €m

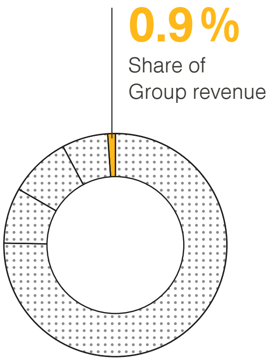


Segment result down, mainly due to non-recurring factors
In the reporting year, the balance of other segment income and expenses was EUR –13m, a substantial decline of EUR 12m on the previous year's figure. The main reason for the decline were impairment losses recognised on goodwill in Russia and Turkey. The result of the equity valuation went down by EUR 11m to EUR 8m, particularly due to the slump in the exchange rate for the rouble. The segment result for LSG Sky Chefs was therefore EUR 95m (previous year: EUR 123m). Segment capital expenditure was EUR 30m up on the previous year at EUR 140m.

Long-term overview shows high earnings level for the last three years
In the past five years LSG Sky Chefs has always earned a positive operating result and so contributed to stabilising earnings for the Lufthansa Group. Earnings in the last three financial years were particularly high at around EUR 100m.

Business segment IT Services

Revenue **646** €m   Operating result **37** €m



Leading IT service provider for the air transport industry

Lufthansa Systems is a leading global IT provider in the aviation industry. / The IT Services business segment is to be discontinued as part of the strategic realignment. / The IT Infrastructure unit is to be sold to IBM. / Airline Solutions and Industry Solutions will remain as independently operating companies in the Lufthansa Group. / Revenue and operating result increase slightly.

Key figures IT Services

		2014	2013	Change in %
Revenue	€m	646	640	0.9
of which with companies of the Lufthansa Group	€m	376	375	0.3
Operating result	€m	37	36	2.8
Adjusted operating margin	%	6.0	5.6	0.4 pts
Segment result	€m	–12	34	–
EBITDA*	€m	–85	73	–
CVA	€m	–170	32	
Segment capital expenditure	€m	18	20	–10.0
Employees as of 31.12.	number	2,721	2,718	0.1
Average number of employees	number	2,722	2,724	–0.1

* Before profit/loss transfer from other companies.

Business and strategy

Lufthansa Systems is a leading global IT provider in the airline industry
Lufthansa Systems is a full-service provider of IT services. Its segments Airline Solutions, Industry Solutions and Infrastructure Services cover the complete spectrum of IT services – from consultancy to the development and implementation of customised applications and systems operations. The Airline Solutions segment has a leading global role in airline IT. Industry Solutions offers its consultancy and IT services in the areas of transport and logistics, industry, media and publishing, energy, healthcare and tourism. The Infrastructure unit mainly provides standardised IT services for the companies in the Lufthansa Group.

The company has sites in Germany and in 16 other countries in Europe, Asia and America. Its global presence not only ensures proximity to clients and fast reactions across all time zones, but also contributes to competitive cost structures by internationalising the production process.

IT Infrastructure unit to be sold to IBM, IT Services segment to be discontinued
The market for IT infrastructure is increasingly dominated by large providers with global operations that can use economies of scale to generate considerable cost advantages. Furthermore, their size and financial strength enable these providers to invest continuously in new technologies. In the long run, Lufthansa Systems cannot fund the investment that would be necessary to survive in this market on its own. The Lufthansa Group and Lufthansa Systems have therefore taken a joint decision to alter the strategic direction of Lufthansa Systems.

In the course of this strategic realignment, today's Lufthansa Systems AG is to be split into three companies. The Lufthansa Group outsources its IT infrastructure services to IBM from 2015 under a long-term agreement. At the same time IBM takes over the current Infrastructure segment of Lufthansa Systems AG as part of the outsourcing. This IT partnership improves the cost base and ensures that the Lufthansa Group and its subsidiaries have access to the latest IT technology at much lower cost. The sale of the IT Infrastructure is to be completed in the first half of 2015. Further details of the divestment and its financial consequences are described in the chapter "Earnings position" on p. 68.

Locations Lufthansa Systems

Airline Solutions and Industry Solutions will remain as independently operating companies in the Lufthansa Group. Airline Solutions will continue to expand its know-how and its product portfolio in the airline market. With its great potential for innovation, the company can help the airlines in the Passenger Airline Group to compete better by differentiating themselves and act as a driver for harmonising Group processes at the same time. The deep process and advisory expertise at Industry Solutions make it a successful systems integrator and an important partner for the service companies in the Lufthansa Group.

The splitting of Lufthansa Systems AG and the sale of the IT Infrastructure segment therefore means that IT Services will cease to exist as an independent strategic business segment of the Lufthansa Group and will no longer be the subject of separate reporting.

Markets and competition

Market for IT services is defined by intense competition
Alongside the companies in the Lufthansa Group, the customer base of Lufthansa Systems includes around 300 airlines of all sizes and business models, as well as 150 other companies, from SMEs to DAX-listed groups.

The market for IT services is highly competitive. Offshoring services continue to exert severe pressure on prices and margins. At the same time virtualisation and cloud computing offer companies new ways of consolidating their IT environments without having to invest in their own IT infrastructure in the form of data centres. Furthermore, efficient IT is becoming ever more decisive for the performance of business processes and so for a company's competitiveness.

Lufthansa Systems accompanies its customers through this digital transformation with its extensive sector know-how, wide-ranging IT expertise and innovative solutions. The Airline Solutions unit focuses on developing applications for the continued optimisation of airlines' business processes as well as the harmonisation of their IT processes.

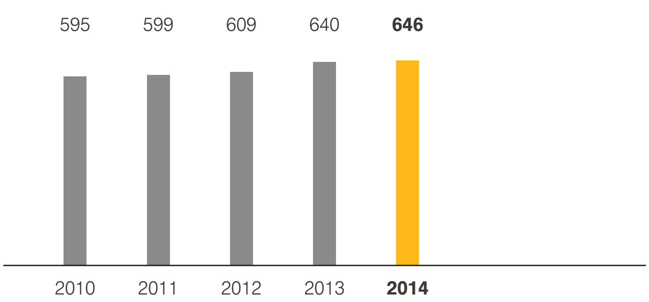
Industry Solutions focuses on IT consultancy, IT system development and integration and applications management, making it an innovative provider in the German IT market. Its precise knowledge of sector-specific processes and its technological know-how enable customers to increase the efficiency of their processes, cut costs and boost income.

Course of business and operating performance

Customers mainly ordering new, innovative solutions
Last year, the market for airline IT continued its recovery, mainly due to improved profitability of the global airline industry and despite stiff ongoing competition. One clear emphasis was put on investments in mobile services. Opening up new sources of income and improving services and communication with customers have a high priority for airlines.

With its broad portfolio of innovative IT solutions the Airline Solutions unit is well placed in this field. It covers all the core processes of an airline, irrespective of their business model.

Revenue IT Services in €m



In 2014, Lufthansa Systems again signed numerous new contracts and renewed existing agreements. Many new customers were acquired for the innovative navigation solutions. They include the British company easyJet, which since May 2014 has been flying with a completely paperless cockpit and digital navigation charts from Lufthansa Systems. Other new companies in this area include Eurowings, Iberia, La Compagnie and Aegean Airlines. ANA from Japan chose the revenue accounting solution Sirax and extended its licence for the pricing solution ProfitLine/Price. Japan Airlines was acquired as the launch customer for NetLine/Load. This solution enables airlines to optimise and expedite aircraft loading.

Code-sharing is an important way for airlines to make themselves more attractive and boost their income. SWISS and TAP from Portugal joined the growing circle of new users of SchedConnect, a solution to optimise code-share management. Austrian Airlines and Turkish Airlines renewed their existing contracts.

The wireless in-flight entertainment solution BoardConnect from Lufthansa Systems was applauded as a cutting-edge innovation for the travel industry at the Travel Distribution Summit in London. BoardConnect is in use at Virgin Australia, Lufthansa German Airlines and the Israeli flag carrier El Al. The app that enables passengers to access BoardConnect contents during the flight from their own smartphone, tablet computer or notebook has now been downloaded more than 1.5 million times.

Lufthansa Systems signed numerous important contracts
The market for IT consultancy and systems integration companies in Germany is growing at an annual rate of around 5 per cent. Market growth is increasingly being driven by the digitalisation of business processes, new service models (cloud, software as a service), data analytics, big-data and mobility solutions. The performance of the Industry Solutions unit reflects this positive trend. It expanded its business with customers from selected sectors and with companies in the Lufthansa Group.

The segment was able to sign various contracts for SAP advisory services, including with CSL Behring AG, Sanofi-Aventis, CRM Consulting and SAP AG. Long-established partnerships with Bosch Thermotechnik, Hermes and Hamburg Südamerikanische Dampschifffahrts-Gesellschaft were also intensified.

Lufthansa Cargo will be organising its application management with the EasyMain solution for the next five years. In addition, further consultancy projects were completed for Lufthansa Technik and LSG Sky Chefs.

A contract was awarded by E.ON for process consultancy and more work was carried out for Vattenfall. TransPORT rail, a new IT system for rail logistics, was successfully introduced at the Port of Hamburg for the Hamburg Port Authority. The system manages all rail movements and platform bookings, supports the loading of rolling stock and ensures the transparent exchange of information between all the partners involved.

In the cruise sector the Industry Solutions unit equipped cruise ships with modern IT and communications solutions. Celebrity Cruises placed an order to fit its entire fleet with Velimo Light, which enables passengers on board to watch the latest Hollywood films, listen to music and surf the internet wirelessly with their own mobile devices. The Holland America Line appointed Industry Solutions to install the infotainment platform Velimo and a convergent WiFi network.

Revenue and earnings development

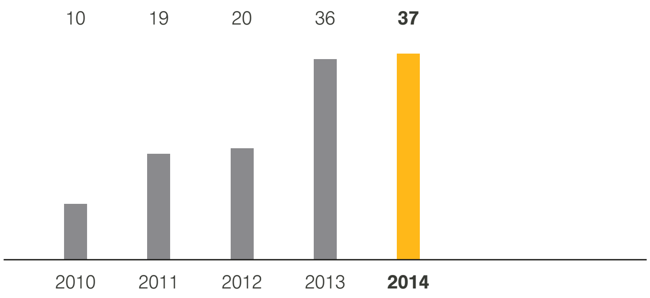
Revenue up slightly
As in the previous year, business performance at Lufthansa Systems in 2014 was characterised by moderate revenue growth and continued cost-cutting measures. Revenue came to EUR 646m (+0.9 per cent). This is made up of revenue from the Lufthansa Group of EUR 376m (+0.3 per cent) and revenue from external customers of EUR 270m (+1.9 per cent).

Other operating income came to EUR 30m (+EUR 2m). Total operating income was therefore EUR 676m in the reporting period (+1.2 per cent). The cost of materials and services declined by 10.4 per cent to EUR 112m. This is largely due to the implementation costs for operator models incurred the previous year.

Operating expenses IT Services

	2014 in €m	2013 in €m	Change in %
Cost of materials and services	112	125	–10.4
Staff costs	249	238	4.6
Depreciation and amortisation	31	35	–11.4
Other operating expenses	247	234	5.6
of which external staff	73	67	9.0
of which rent/maintenance of IT	121	116	4.3
Total operating expenses	**639**	**632**	**1.1**

Operating result IT Services in €m



The average number of employees was 2,722, virtually unchanged year on year (–0.1 per cent). Staff costs climbed by 4.6 per cent to EUR 249m, mainly as a result of the two-stage wage increase and higher expenses for severance payments. These severance payments were partly charged on to the Lufthansa Group as part of SCORE. Depreciation and amortisation of property, plant and equipment, and intangible assets came to EUR 31m (EUR –4m).

Other operating expenses went up by 5.6 per cent to EUR 247m. More project work for the Lufthansa Group, exchange rate losses and other minor matters were responsible for the increase. Total operating expenses came to EUR 639m (+1.1 per cent).

Despite considerable restructuring, the operating result was +2.8 per cent above the figure for the previous year at EUR 37m. Capital expenditure on property, plant and equipment and intangible assets resulted in a cash outflow of EUR 18m (EUR –2m).

Segment result
The segment result was EUR –12m (previous year: EUR 34m). The steep fall is primarily due to impairment losses in connection with the reorganisation of the Lufthansa Systems Group. Segment capital expenditure declined to EUR 18m (–10.0 per cent).

Long-term overview shows positive trend
Sustainable earnings growth over recent years stabilised at a good level in 2014. This is reflected in the development of the operating result.

Other

✈ Lufthansa Flight Training has been part of Lufthansa Passenger Airlines since 1 July 2014. / The Other segment therefore consists largely of AirPlus and central Group functions. / AirPlus's revenue and earnings rise. / Group functions increase their earnings. / The segment's operating result improves substantially as a result of lower restructuring costs.

Other

	2014 in €m	2013 in €m	Change in %
Total operating income	1,246	1,051	18.6
Operating result	−211	−395	46.6
Segment result	−170	−310	45.2
EBITDA*	−339	37	–
Segment capital expenditure	18	9	100.0
Employees as of 31.12.	3,515	3,411	3.0
Average number of employees	3,468	3,403	1.9

* Before profit/loss transfer from other companies.

The segment Other comprises the service and financial companies of the Lufthansa Group. Central Group functions are also organised in this segment.

The Lufthansa Group intends to re-pool its expertise in the field of flight training. It plans to merge Lufthansa Flight Training GmbH (LFT) and Swiss Aviation Training AG (SAT). LFT was initially assigned to Lufthansa Passenger Airlines, within the Passenger Airline Group segment, as of 1 July 2014. LFT's results are now consolidated there. The relevant figures for the segment from the current financial year as well as the figures from the previous year have been adjusted accordingly.

The Other segment now consists largely of AirPlus and Central Group Functions. Following the dissolution of the IT Services segment, the successor companies and subsidiaries of Lufthansa Systems remaining in the Lufthansa Group will also be assigned to this segment from 2015 onwards.

AirPlus develops virtual payment solutions for business travel sector

AirPlus is one of the leading worldwide providers of solutions for paying for and analysing business travel. Under the AirPlus International brand, the company supplies tailored products and integrated solutions with which companies can make their everyday travel management simpler and more cost-effective. AirPlus enables its customers to achieve full company-wide transparency on all business travel expenses, providing all of the means to effectively account for travel expenses. The company is headquartered in Neu-Isenburg.

AirPlus now also has offices and subsidiaries in over 25 countries around the world. Some 1,200 employees served over 43,000 corporate customers last year. In 2014, AirPlus again played a leading role in product development, consolidating its position as the preferred supplier of payment and billing solutions in the business travel industry.

With its virtual payment solution A.I.D.A. (AirPlus Integrated Data and Acceptance), AirPlus offers greater flexibility and security when booking and paying for business travel services. AirPlus developed this solution especially for travel operators in 2014 to enable the process improvements it delivers to be achieved across the entire business travel sector.

The hotel solutions provider Hotel Reservation Service (HRS) has made the A.I.D.A. solution available to its commercial customers. As a result, their business travellers no longer have to pay individually at the hotel. Instead, all hotel bookings are settled centrally. The integrated A.I.D.A. functionality automatically generates a virtual MasterCard number and sends it to the hotel. Bills are then settled via the AirPlus company account.

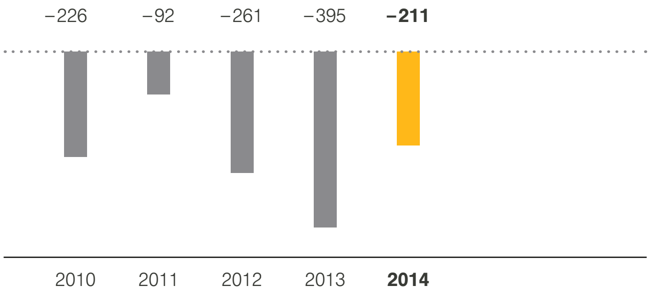
Sustainability also plays a strategic role in product development, with AirPlus introducing the Green Company Account in Germany in 2014. Companies can now show that their business travel is environmentally friendly with the world's first completely carbon-neutral corporate travel card.

Compared with the previous year, the billing volume of cards issued by the company itself increased by 7.2 per cent. This performance was reflected in the operating income, which was up by 11.4 per cent to EUR 341m. Operating expenses went up by 3.4 per cent to EUR 302m. As the previous year's operating result was depressed by write-downs of receivables and expenses from prior years, the operating result in the reporting period went up by EUR 25m to EUR 39m.

Group functions report higher earnings
The results for the Other segment are largely determined by the Group functions, whose earnings reflect the currency hedging and financing activities carried out by Deutsche Lufthansa AG on behalf of the companies in the Group. The segment result is therefore heavily exposed to exchange rate movements.

In 2014, the performance of the Group functions was again driven mainly by currency movements. Exchange rate movements resulted in a net loss. Total operating income climbed by 17.0 per cent to EUR 721m, while operating expenses decreased by 4.7 per cent to EUR 988m. The result therefore improved to EUR –267m.

Operating result Other in €m



Significant improvement in result for the Other segment
The Other segment generated total operating income of EUR 1.2bn (+18.6 per cent) in the financial year 2014. Operating expenses which include companies' restructuring expenses for SCORE to Group functions only rose by 0.8 per cent to EUR 1.5bn. This improved the operating result significantly to EUR –211m (previous year: EUR –395m.) The segment result also went up accordingly to EUR –170m (previous year: EUR –310m).

Employees

The Lufthansa Group is one of the biggest employers in Germany. / Number of employees has risen slightly. / HR department assists staff and managers with the diverse change processes. / Negotiations with the German collective bargaining partners are continuing. / Good wage settlements and agreements with collective bargaining partners outside Germany. / The Lufthansa Group assumes its social responsibility, even in difficult situations.

Human resources manages direct and indirect change in the Lufthansa Group
2014 was a challenging year for human resources management. It involved developing employees and sharpening their focus on performance, as well as refining the collective bargaining framework and human resources strategy. The HR department sees its task as providing support and expert advice on the many aspects of job reductions, which are currently a challenging topic, negotiating wage settlements, and assisting staff and managers in the change processes that are underway.

A large number of staff meetings and dialogue events were organised in the reporting year in order to keep employees informed and to receive their feedback. Regular staff surveys were also carried out in the Lufthansa Group in order to include the opinions of employees in the change process.

Employees as of 31.12.2014

		2014	2013	Change in %
Group employees	number	118,781	118,285	0.4
of which Passenger Airline Group	number	54,960	55,272	−0.6
of which Logistics	number	4,663	4,660	0.1
of which MRO	number	20,079	19,917	0.8
of which Catering	number	32,843	32,307	1.7
of which IT Services	number	2,721	2,718	0.1
of which Other	number	3,515	3,411	3.0
Revenue per employee	thousands €	252	256	−1.4
Revenue per full-time equivalence	thousands €	290	292	−0.9

Slight increase in staff numbers
At year-end 2014, the Lufthansa Group had a total of 118,781 employees worldwide, which represents a small increase of 0.4 per cent. With 67,155 employees, the Lufthansa Group is still one of the biggest employers in Germany. At the same time, it is a global company, with 51,626 employees in 82 countries outside Germany.

The average age of the workforce rose from 41.9 to 42.3 years. Average seniority rose slightly from 14.5 years to 14.8 years. 28.0 per cent of all staff work part-time. In 2014, a total of 17,125 employees left the Company and 17,781 joined. Personnel turnover climbed by 2.7 percentage points to 13.4 per cent. Revenue per employee came to some EUR 252,000, an decrease of 1.4 per cent.

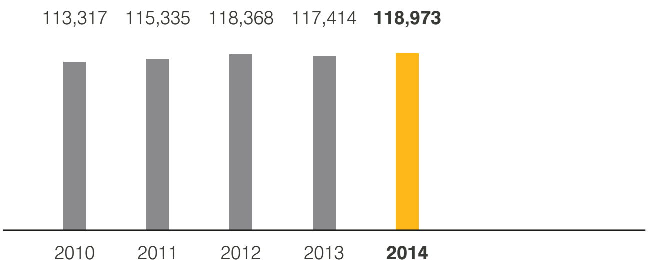
Focus on developing collective bargaining structures
Negotiations on many new staff agreements were at the centre of collective bargaining in 2014. Negotiations with all collective bargaining partners in Germany, on retirement benefits in particular, are still taking place. Lufthansa Group's aim remains to reorganise retirement benefits for employees and safeguard the competitiveness of the Company in the long term.

Negotiations continue with all collective bargaining partners
Persistently low interest rates and longer periods over which a pension is paid have caused provisions for current schemes in the balance sheet to go up significantly. The retirement benefit agreements were terminated at the end of 2013 and negotiations on sustainable retirement benefits were commenced with collective bargaining partners in 2014.

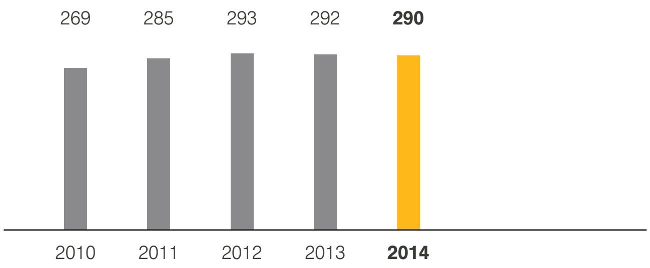
Fundamentally, the Lufthansa Group strives to reconcile the retirement benefit needs of current and future staff with the economic realities of the Company's operating environment.

Negotiations with cockpit staff initially focused on reshaping the current system of transitional benefits. The employers put forward several concrete proposals, but no agreement could be reached with the pilots' union Vereinigung Cockpit by the end of the year. Vereinigung Cockpit organised a large number of strikes over the course of the year. In April 2014, the pilots' union carried out the longest strike in the Company's history.

Employees average number



Revenue per full-time equivalence Lufthansa Group in € thousands



Following the first strikes by Vereinigung Cockpit, it was agreed that the collective bargaining partners would begin a process of moderated talks based on the Harvard negotiation principles. Although these delivered initial positive results, the process was interrupted by further industrial action and has not been resumed since. Repeated rounds of talks have still been held with the pilots' union Vereinigung Cockpit, however. In the meantime, negotiations have been held on the collective wage agreement and ideas have been exchanged on the new Eurowings and staffing a lower-cost sub-fleet of up to 14 Airbus A340s. They were not successful, however.

At the end of the reporting year, there were further strikes, which led to a demand from Company management that the pilots' union Vereinigung Cockpit agree to arbitration on the topic of retirement benefits. Vereinigung Cockpit rejected this suggestion and made its own demand for arbitration on all outstanding topics. No agreement on arbitration has been reached as yet. Within the reporting year, a total of eleven strikes were announced by the pilots' union, ten of which were actually carried out.

As part of the so-called "Cabin Agenda", the Lufthansa Group was able to agree with the UFO flight attendants' union on the form, timeframe and procedure for negotiating the outstanding topics affecting cabin staff. This also applies to further negotiations on restructuring retirement benefit systems for cabin staff. The exact shape of the new pension scheme is subject to further negotiations and will continue in the current year. It is already clear that the negotiations will be very demanding. Intensive talks held as part of the 'road map' outlined here have produced an agreement on staffing a sub-fleet of A340 aircraft with Lufthansa Passenger Airlines flight numbers and savings in staff costs of more than 20 per cent, and on various frameworks for making annual working hours more seasonal and more flexible. The "Cabin Agenda" includes deadlines for reaching agreements on the nature and timing of individual items. Negotiations are still underway.

Payscale increases for ground staff

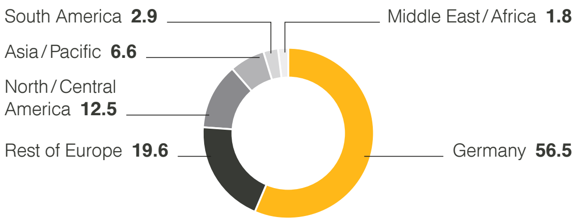
The payscales were raised by 1.5 per cent for around 33,000 ground staff in Germany covered by collective agreements with effect from summer 2014. A payscale increase of 0.8 per cent was agreed for staff in the MRO, Logistics and IT Services segments at the same time. This is the second payscale increase agreed in the wage settlement dating from May 2013, which for the first time provides for different wage increases in the individual operating segments. They enable the Lufthansa Group to reflect the economic operating conditions for the individual segments.

Increases in the payscales defined in wage agreements were also negotiated for the other companies in the Lufthansa Group in 2014. Factoring in the economic situation, the level of competition and macroeconomic indicators also resulted in agreements here that fairly balance the interests of the respective companies and their staff.

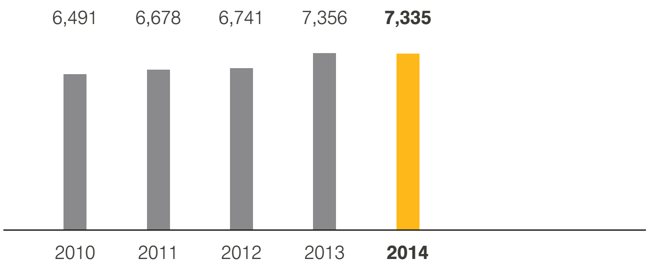
Wage settlements reached for foreign airlines

Work continued on joint collective bargaining solutions for the foreign airlines in the Lufthansa Group. SWISS for example agreed on new collective arrangements with the cabin union kapers and the pilots' unions IPG and AEROPERS. However, the two agreements were rejected in subsequent ballots by a large majority of the trade unions' voting members. Following the rejection, a new collective wage agreement was signed with the pilots' union IPG, bringing considerable productivity gains and cost advantages and opening up attractive career perspectives for the pilots in IPG.
In spring 2014, SWISS reached a new collective agreement with ground staff unions, improving productivity and costs overall. The agreement has been in effect since July 2014. In early December 2014, SWISS and the board of the AEROPERS pilots' union also defined the principles for a new collective agreement for the Airbus pilots. Should it be adopted, the agreement will be valid from 1 April 2015 and will replace the existing overall wage agreement.

Employees by region in %



Staff costs Lufthansa Group in €m



A new collective agreement was signed at Austrian Airlines in the reporting period which adjusts wage and performance structures as well as making service plans more flexible and increasing the productivity of flight staff. After it became apparent that litigation on the continued validity of the former Austrian Airlines wage agreement would end in defeat for the company, the collective bargaining partners agreed on a sustainable settlement that includes one-off compensation for employees' lost benefits, but also creates much more cost-effective staff structures for the future. Under these circumstances, it was decided to transfer flight operations back from Tyrolean Airways to Austrian Airlines. The agreed solution makes it possible to conclude the restructuring programme and provides a legally tenable resolution of the transfer of flight operations in 2012 and the related litigation.

Personnel management supports concrete steps in the Lufthansa Group's change process

HR management continues to accompany the necessary job cuts in the Lufthansa Group, for example in some of the initiatives being carried out as part of the SCORE programme. Implementation of the relevant activities is progressing throughout the Group. At Lufthansa Passenger Airlines, nearly half of all HR projects defined in the context of process orientation were completed with the desired effect on staff structures in 2014.

Despite the job cuts that have already been made, it will not be possible to reduce staff numbers to the level envisaged by SCORE for the foreseeable future. The main reason for this is that the Company has resolved to reduce the size of the workforce in a socially responsible manner, primarily by means of voluntary measures. This is expressed in the settlement of interests and the severance payments for the Lufthansa Group, which have been supplemented for the project period by adapting the rules accordingly. Special severance packages have also been negotiated for sites due to be closed. The focus here is also on socially responsible job cuts, preferably by means of voluntary departures with severance payments and phased early retirement models.

In the reporting period, the pooled human resources processes were outsourced to a global shared service centre in Krakow. Lufthansa Global Business Services GmbH (LGBS) was established back in 2013 with the aim of pooling and outsourcing operations and processes in the areas of finance, purchasing, human resources and revenue services. It aims to generate significant synergies. Essential personnel processes from almost 50 companies in the Lufthansa Group were transferred to LGBS in the reporting year. In the reporting period, a total of 289 jobs were also pooled in Germany and 440 jobs transferred abroad.

In addition to the restructuring activities for the Group as a whole, human resources management also works on projects for the individual business segments. An important severance package and balancing of interests was achieved as part of the planned sale of IT infrastructure activities at Lufthansa Systems AG.

In-house handling by Lufthansa Passenger Airlines was terminated at the decentralised stations and transferred to up to eight separate GmbH companies (starting with Hamburg, Dusseldorf, Stuttgart and Berlin). Negotiations on the balancing of interests and a severance package should be concluded by the end of 2015.

Operating margin* for the Group and the business segments in %

	2014	2013	Change in pts
Passenger Airline Group	2.4	2.2	0.2
Lufthansa Passenger Airlines	1.5	1.6	−0.1
Logistics	4.1	3.2	0.9
MRO	9.0	9.7	−0.7
Catering	3.8	4.2	−0.4
IT Services	5.7	5.6	0.1
Group	3.2	2.3	0.9

* Operating result / revenue.

The Lufthansa Group assumes its responsibility for helping its employees affected by these changes and last year again supported staff and managers to find new career opportunities – both within the Lufthansa Group and externally. To this end, the Lufthansa Group is continuing the COMPASS programme with renowned international HR consultancies. In this programme, the Company offers its staff confidential, sponsored advisory services by the HR consultancies on choosing a job location and making applications. Change management events also help employees to deal with transformation processes, while ‘resilience seminars’ strengthen their mental ability to cope with periods of difficult change and stress.

Culture and leadership remain core elements of human resources management

In the reporting year, fast-moving markets and the structural shifts in the airline industry again demanded bold, swift decisions and an understanding of how to deal with ever-increasing complexity. Since 2012, the Lufthansa Group has launched targeted initiatives to change the corporate and leadership culture throughout the Group in order to successfully exploit the opportunities resulting from these changes. The need to keep evolving was reflected in the implementation of the latest leadership tools in the reporting year.

The leadership principles still serve as a model for managers and various steps were taken to embed them more deeply in the organisation in the reporting year. A new performance-potential tool was introduced, establishing the transformation of leadership culture in everyday operations and making it quantifiable. Looking to the talents in the Lufthansa Group and in view of demographic changes, a new talent management and resource-oriented talent philosophy entitled “Everyone has talent” were devised in the reporting year.

Promotion of diversity continues

The leadership culture and understanding of the importance of a diverse workforce are supported by diversity criteria, which as of the reporting year are applied in the selection process for middle-management positions. They take the gender and origins of applicants into account, whether they come from inside or outside the Group and whether they have experience of different divisions and functions. 250 positions, attracting more than 1,700 candidates, have already been filled using the new process.

The global proportion of female managers above the level of line management fell very slightly by 0.3 per cent. The figure is now 16.0 per cent in Germany and 14.2 per cent internationally. In the reporting period, the Lufthansa Group offered various programmes to support women. They were very popular and have contributed substantially to networking and promoting female staff across the Group. Among others, the GoAhead programme aims to support women at management level who are ambitious for further promotion. It advises participants on strategies that will help them to advance their careers. The Lufthansa Group is not satisfied with the progress made to date, however, and intends to increase its efforts to promote current and future female managers. The Company still aspires to achieve the growth rate target set in 2012.

At the same time, the Lufthansa Group gives fathers in the Group the opportunity to attend networking programmes run by Väternetzwerk GmbH, which include presentations, workshops for fathers and father-child weekends. The number of fathers taking parental leave has risen in the past three years and is an important part of encouraging equal opportunities for men and women.

To make it easier to combine work and family life, the Lufthansa Group has also opened a “Parent-Child Office” in Frankfurt. It provides day-care services for children during the parents’ working hours. “Die Luftikusse”, a programme of holiday care for schoolchildren introduced in 2013, was expanded and offered again in the reporting year. Strong demand shows how important the programme is and forms the basis for plans to offer holiday care again in 2015.

The HR department also began to introduce the Lufthansa New Workspace concept in response to changes in the world of work and requests from employees. An autonomous working culture based on trust is supportive of flexible, multi-location working practices. The latest information and communications technology is used to offer an attractive, flexible workspace in accordance with demand.

Attractive vocational and professional training and entry-level positions at the Lufthansa Group are in high demand

The Lufthansa Group affirms its role as a socially responsible employer. In the reporting year, a total of 61 different recruitment options were on offer at the Lufthansa Group for school-leavers and students, including sponsored degree courses and trainee programmes. In 2014, the Lufthansa Group had over 370 apprentices, who could choose from some 40 different occupations worldwide. Lufthansa Passenger Airlines trained 690 new cabin crew members in 2014. Germanwings also largely completed the recruitment of employees to staff the recently transferred aircraft in 2014 – its workforce went up by almost 1,000 within two years.

The trainee programme ProTeam was reorganised and advertised in the reporting year. It reflects the Lufthansa Group's response to new job requirements and the changing world of work. The new trainees are due to start work in April 2015. The study and intensive practice programme (known as st.i.p.) again gives participants the chance to combine their studies with structured work placements at the Lufthansa Group. This year, st.i.p. Aviation in cooperation with IUBH Bad Honnef celebrated its tenth anniversary.

In 2014, the Lufthansa Group received 8,600 applications for its various training programmes. In total, more than 130,000 applications were sent to the Lufthansa Group in response to its advertisements. This underlines the undiminished interest in the Lufthansa Group as an employer.

A one-year international programme for talented young professionals in the Lufthansa Group known as 'explorers', took place until November 2014 under the title of "Change the Perspective". Nearly 150 international 'explorers' took part in the programme. They came from 18 companies in the Lufthansa Group, as well as nine external partner companies. Over the course of a year, participants were involved in Group projects and had the opportunity to expand their horizons, gain project experience and develop their networks beyond the boundaries of the Group.

Greater coordination between flight and ground operations was the aim of the GAIN programme launched in the reporting year. In periods of lower seasonal demand, it enables pilots and flight attendants to be deployed in Lufthansa Group projects in addition to their airborne work. This boosts staff development, the exchange of information, knowledge of the Company and an understanding of its different areas of operations.

The Lufthansa School of Business, the main professional training organisation in the Lufthansa Group, was also reorganised to meet the requests of staff and managers for focused, individual training courses. Innovative formats such as Bar Camp and Think Tank gave employees and managers an opportunity to experience the change in the company culture themselves and to become actively involved. Participative formats that encourage the active involvement of employees are to play an even greater role in future.

Strong brand makes the Group an even more attractive employer

Despite the competitive challenges and the internal change processes, the Lufthansa Group remains one of the most attractive employers in Germany. In 2014, it moved up the relevant employer rankings compared with the previous year. In the trendence Graduate Barometer, the Lufthansa Group was voted the fourth most attractive employer in a survey of business studies students. At the European level, the Lufthansa Group was also among the top 20 business employers in the trendence European Graduate Barometer. At a regional level, SWISS was ranked among the ten most attractive employers in Switzerland in the Universum study 2014.

"trendence Student Survey 2014"
published in ManagerMagazin

Degree course	Ranking 2014	Ranking 2013
Business studies	4th	9th
Engineering	9th	11th
Law	13th	17th

„Universum Student Survey 2014"
published in Wirtschaftswoche

Degree course	Ranking 2014	Ranking 2013
Business studies	7th	6th
Engineering	7th	7th
Natural science	17th	14th

In the reporting period, the Lufthansa Group also finished in the top 3 in the Employer Branding Award (trendence) in the categories "Best Career Advert", "Best Career Website" and "Best Presentation at Career Fairs".

The main platform for employer branding, i www.Be-Lufthansa.com also caters to the needs of young employees. It is evident in the variety of media the Lufthansa Group uses for its personnel marketing: there is a blog that receives 300 visits a day and job-specific videos that have been watched 70,000 times on i www.Be-Lufthansa.com and more than 90,000 times at i www.youtube.com/user/BeLufthansa.

Corporate responsibility

✈ Lufthansa Group assumes full corporate social responsibility. / Sustainable business is firmly integrated in Group management. / Variable remuneration of Executive Board members and managers also depends on sustainability parameters. / A clear corporate compliance policy reflects corporate social responsibility. / New fleet improves long-term environmental impact. / Awards received for commitment to sustainability.

Sustainable business is the basis for the success of the Lufthansa Group

The Lufthansa Group aims to act sustainably and responsibly in all areas of its business and so to ensure the future viability of the Company. In practice this means that the Lufthansa Group's business activities and its sustainability agenda are decisively influenced by developments in society and mega-trends.

Current and future challenges include global population growth, increasing mobility and demographic changes. The trend towards a service society and the expansion of the internet are also continuing around the world. At the same time, people's desire for security and environmental protection are becoming increasingly important in the face of climate change and scarcer resources.

In order to address these challenges adequately, the Lufthansa Group has a sustainability agenda that comprises five dimensions:

– Economic sustainability,

– Corporate governance and compliance,

– Climate and environmental responsibility,

– Social responsibility and

– Corporate citizenship.

Principles of sustainable business are firmly integrated in Group management

The Lufthansa Group applies a system of value-based management. This approach is an integral part of all planning, management and controlling processes. The demands made of the Company by shareholders in terms of an appropriate return on capital and sustainable value growth are firmly embedded in the whole system of corporate management. The objective is to create sustainable value across economic cycles.

Value-based management of the Company is a guarantee for sustainable value creation. Further information on this topic can be found in "Management system and supervision" from p. 29. With its focus on structural improvements in profitability, the SCORE programme makes a key contribution to sustainable value creation in the Lufthansa Group. More information on SCORE can be found in the "Group strategy" chapter on p. 27 and in the section "SCORE programme" from p. 42.

To safeguard its economic success, the Lufthansa Group also identifies the main risks and opportunities for the Company at regular intervals and takes these into account when managing its business. The Company is thus prepared for positive and negative factors and can respond to them flexibly. Detailed information about the management of risks and opportunities of Lufthansa Group can be found in the "Risk and Opportunities Report" starting on p. 100.

Structured programmes are in place for corporate governance and compliance

Since 2002, the Lufthansa Group has been committed to the principles of the UN Global Compact, the largest global initiative for responsible corporate governance. Also since 2002, the Company has complied with the recommendations of the German Corporate Governance Code, with one reasonably justified exception. The declaration of compliance was updated at the Supervisory Board meeting held on 3 December 2014. Further information can be found in the section "Corporate governance" from p. 130.

The Lufthansa Group has also integrated aspects of corporate social responsibility into its Group purchasing guidelines. Suppliers must comply with obligations concerning responsibility for social responsibility, the climate and the environment as part of standard contracts. Compliance with the ten principles of the UN Global Compact and the four core labour standards of the International Labour Organisation (ILO) is also required. Furthermore, suppliers must follow the Lufthansa Group's environmental guidelines and agree to scheduled and unscheduled audits. Finally, suppliers have to grant the Lufthansa Group the right to terminate contracts if these agreements are breached.

The Lufthansa Group's clear corporate compliance policy is also an expression of corporate social responsibility. The management and supervisory culture of the Group is based on German legislation on stock corporations, co-determination and capital markets, as well as on the Articles of Association of Deutsche Lufthansa AG and the German Corporate Governance Code as applied by the Lufthansa Group. Regular training is also provided on compliance in the areas of competition, capital markets, integrity, corporate affairs and trade embargoes.

Improving its environmental scorecard is a key concern for the Lufthansa Group

The Lufthansa Group has set itself ambitious targets for climate and environmental responsibility. In 2008, it set up a strategic environmental programme, which provides for reductions in specific emissions, research into and promotion of alternative fuels and other topics. The programme is intended to help the Lufthansa Group make further progress towards protecting the climate and environment by 2020. Its key areas of actions are to reduce fuel consumption and emissions, active noise abatement, energy and resource management and investment in research.

The environmental experts at the Lufthansa Group work constantly to improve the Company's ecological impact. In doing so, they draw on an environmental database which makes it possible to calculate the relevant environmental performance indicators for the Lufthansa Group. These are essentially figures for energy and kerosene consumption as well as data on noise emissions. These performance indicators are analysed regularly and used to formulate specific recommendations for action.

The International Civil Aviation Organisation (ICAO) is striving for emission-neutral growth by 2020. Using market-based mechanisms to offset emissions plays a role in this context. By 2016, the ICAO wants to draw up a concept for a global system of offsets.

Corporate responsibility at the Lufthansa Group

The Lufthansa Group airlines are setting global standards in responsible mobility. They include a commitment to active noise abatement, based on five main points: investment in the latest aircraft, retrofitting the existing fleet to reduce noise, noise research generally, developing take-off and approach procedures to reduce noise with system partners and dialogue with residents near airports and other interest groups.

The Lufthansa Group orders new aircraft with the latest low-noise engines and is fitting new and existing A320 aircraft in the fleet with vortex generators to reduce noise, which were developed after many years of research in association with the German Aerospace Center. Further research work is going on to identify sources of noise in aircraft fleets and develop measures to reduce them wherever possible. More information on this topic can be found in the sustainability report "Balance" at i www.lufthansagroup.com/responsibility.

A modern and well structured fleet is important for a good climate and environmental scorecard, but also forms the basis for the Lufthansa Group's economic success at the same time. It ensures the Group can hold its own in a highly competitive market. And with an order book of 263 modern, efficient aircraft for delivery by 2025 at a list price of EUR 37bn, the Lufthansa Group is ensuring it remains competitive in future; see chapter "Fleet" on p. 57.

Fuel economy in flight operations is a key success factor for the Lufthansa Group, both in an economic and an ecological sense. The four-pillar strategy recognised in the industry forms the basis for climate protection. It consists of the four elements: technical progress, improved infrastructure, operating measures and economic instruments.

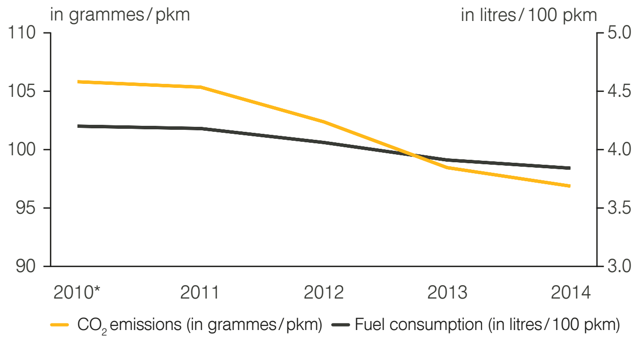
Technical progress includes advances in aviation and engine technologies, see the "Fleet" chapter on p. 57 and the use of alternative fuels. Here the Lufthansa Group passed another milestone in its pioneering work to test alternative fuels in September 2014: a Lufthansa Passenger Airlines flight from Frankfurt to Berlin-Tegel was completed on fuel with a 10 per cent new biokerosene component known as Farnesan. It was the first scheduled flight in Europe to take place with this fuel.

From spring 2015, the Lufthansa Group will also be filling its aircraft at Oslo airport with a biokerosene blend from the Norwegian oil company Statoil Aviation. The Company is thus continuing along the path of researching, testing and using alternative fuels that it took more than four years ago.

Infrastructure improvements include the better use of airspace, by means of the Single European Sky initiative for instance, and airport infrastructure that is adapted to requirements. Operational measures mean using efficiently sized aircraft, optimised flight routes and speeds and optimised ground processes. Finally, economic instruments include a well-designed, market-based, global system for reducing emissions. The Lufthansa Group campaigns for all these topics with the relevant stakeholders.

Specific CO_2 emissions and specific fuel consumption are the key performance indicators for measuring an airline's environmental efficiency. In 2014, the Lufthansa Group's entire CO_2 emissions rose slightly to 27.8 million tonnes (+0.7 percent). Larger and more efficient aircraft in the fleet and higher load factors per flight made it possible to cut specific CO_2 emissions per passenger-kilometre (pkm) to 96.9 g/pkm (–1.6 per cent), however. Specific fuel consumption, measured in litres per 100 pkm, reached a record low of 3.84 l/100pkm (previous year: 3.91 l/100 pkm).

Development of specific CO_2 emissions and specific fuel consumption



* Including bmi.

For more than twenty years, the Lufthansa Group has been involved in climate research and supported research projects to observe the earth's atmosphere. This involvement has enabled more accurate weather and climate forecasts and provided more precise information on the composition of the atmosphere. Important projects currently include CARIBIC and IAGOS, in which Lufthansa and its partners measure and analyse greenhouse gases, trace elements and aerosols in the atmosphere. This enables valuable information to be gathered for climate research. The AMDAR project collects weather data during flights and so increases the accuracy of weather forecasts.

Energy and resource management helps to save costs and relieve pressure on the environment at the same time. This is an area in which the Lufthansa Group aims to realise further savings potential. One important element of this is electro-mobility, above all the Group's involvement in the E-PORT AN initiative, where e-mobility projects at Frankfurt Airport are gathered. Electrically powered vehicles are intended to reduce emissions from aircraft handling. The Lufthansa Group's eTaxi, eSchlepper and TaxiBot projects all deal with various cutting-edge electric-power concepts for manoeuvring aircraft on the apron at Frankfurt Airport. The TaxiBot, a diesel-electric aircraft tractor, has been in use in flight operations since late November 2014. This hybrid vehicle enables pilots to taxi their aircraft to the runway themselves without using their engines. Another project at LSG Sky Chefs, known as eLift, aims to develop the electrically powered catering high-loader of the future. More information can be found in the "Risk and Opportunities report" on p. 113 and at i www.lufthansagroup.com/en/themen/e-port.html.

For more than ten years the Lufthansa Group has been a pioneer of intermodal transport in Germany and is continuing to expand its network. The Frankfurt-Cologne route is operated entirely with the AIRail service in cooperation with Deutsche Bahn; other short-haul flights have been and will be substituted in future. Work is currently underway to connect Frankfurt Airport to a network of long-distance coaches.

Employee relations are defined by fairness
Committed and qualified staff are indispensable in a service industry. So for the Lufthansa Group it is vital to boost the commitment of its employees, to have a modern human resources strategy and to take steps to make it even more attractive as an employer. For the Lufthansa Group, corporate responsibility also means taking a socially responsible approach to streamlining the workforce, as was and is required in the course of the SCORE programme. Detailed information on this subject can be found in the "Employees" chapter from p. 91.

The Lufthansa Group and its employees assume their social responsibility
The Lufthansa Group and its employees assume their role in society willingly and with due earnest. They are involved in humanitarian aid, environmental, cultural and sports sponsorship. In addition, many employees of the Lufthansa Group do charity work in their spare time.

The best-known examples of this are the Group's aid organisations HelpAlliance e.V. and Cargo Human Care e.V. The Lufthansa Group supports both these initiatives with funding, logistics and communications. HelpAlliance runs projects around the world to improve the situation of disadvantaged people, especially children. Cargo Human Care is a humanitarian and medical aid project operated by the staff of Lufthansa Cargo in cooperation with doctors. It provides fast, uncomplicated logistical help for sick and needy people. For many years, Lufthansa Cargo has also sponsored Werkstätten für Behinderte Rhein-Main e.V., a workshop programme for 400 people with physical and mental disabilities, by purchasing airfreight tension belts made in the workshop. For many years SWISS has sponsored its own children's foundation and the international aid organisation SOS-Kinderdorf in association with Miles & More. Austrian Airlines also works with aid organisations and sponsors the Life Ball, an annual charity event.

The Lufthansa Group has a long tradition of operating relief flights quickly and professionally to regions affected by humanitarian crises. In late October and early November Lufthansa Cargo carried 70 tonnes of emergency equipment on special terms to Freetown in Sierra Leone, for distribution to areas affected by the Ebola virus.

The Lufthansa Group is also involved in "Joblinge", a charitable project to give disadvantaged young people in Germany a chance to get vocational training. Staff and managers act as mentors for six months to young people looking for a suitable apprenticeship.

Cultural sponsorship at the Lufthansa Group involves support for selected orchestras and concerts, as well as for the Lufthansa Orchestra set up by its own staff. In terms of sports sponsorship, the focus is on the partnership with the Deutsche Sporthilfe foundation and the National Paralympic Committee Germany, while protection of cranes still has priority in the environmental area. Further information on this topic can be found in our "Balance" sustainability report as well as at i www.lufthansagroup.com/responsibility. In order to focus its efforts and make them more sustainable the Lufthansa Group is currently working on a realignment and consolidation of its CSR activities. The emphasis will be on getting managers and staff more involved and heightening the impact of social and humanitarian projects.

Awards for sustainability activities
External experts and rating agencies again commended the Lufthansa Group for its commitment to sustainability in 2014. Once again the Company was included in the sustainability indices FTSE4Good and Ethibel Excellence Investment Register. As part of the Carbon Disclosure Project (CDP), the Lufthansa Group was again able to improve its result in comparison with the previous year. In the corporate rating from the agency oekom the Lufthansa Group achieved what is known as "Prime Status", a distinction reserved for particularly sustainable companies.

The Lufthansa Group and its partners also received the acclaimed GreenTec Award in the Aviation category for the E-PORT AN project at Frankfurt Airport. In a study entitled "With a Clean Conscience" commissioned by the magazine Focus Money, Lufthansa was awarded a Gold Seal for its ecological, economic and social responsibility.

Supplementary report

Strike at Germanwings disrupts flight operations
Due to a strike at Germanwings called for by the pilots' union Vereinigung Cockpit, there were delays and cancellations in the Germanwings flight timetable throughout the whole of 12 and 13 February 2015. A total of 377 flights were cancelled and some 30,000 passengers were affected by the industrial action.

Lufthansa Group offers creditors possibility of exercising conversion rights in JetBlue convertible bond ahead of time
In the 2012 financial year, the Lufthansa Group issued a convertible bond for common shares in JetBlue Airways Corporation. The bond has a nominal value totalling EUR 234m and matures in 2017. On 18 February 2015, a voluntary offer was made to the creditors to exercise their conversion rights ahead of time. A premature conversion of all the bonds would be tied to the withdrawal of the Lufthansa Group from the equity investment in JetBlue. The Lufthansa Group intends to use this offer to optimise its debt profile and strengthen its balance sheet.

Risk and opportunities report

Risks and opportunities are identified early. / Management of risks and opportunities is integrated into all business processes. / Risks are managed and monitored proactively. / Opportunities result from various internal and external factors. / The Lufthansa Group exploits specific opportunities. / This increases efficiency, productivity and competitiveness. / The continued existence of the Lufthansa Group is not in danger.

As an international aviation company, the Lufthansa Group is exposed to macroeconomic, sector-specific, financial and company-specific risks and opportunities. Risks and opportunities are ever-present elements of doing business; they are managed deliberately and proactively. To underline the close connection between risks and opportunities, the Lufthansa Group always defines them as the negative or positive deviation from a forecast figure or a defined objective for possible future developments or events. The management of risks and opportunities is integrated into existing business processes.

Risk management system

Objectives and strategy of the risk management system
Risk management in the Lufthansa Group always takes place as a logical system of rules that cover all Company activities. Systematic procedures are defined in the risk management process on the basis of a fixed objective and the strategy derived from it. The Lufthansa Group's risk management aims to ensure that commercial benefits are realised for decision-making processes throughout the Group and that all regulatory requirements for risk management systems are met in full.

The Lufthansa Group's risk strategy is manifested in the principles of risk management. They ensure that risks are fully identified, presented transparently to enable comparison, and measured. They oblige the risk managers to proactively manage and monitor risks and define how risk-relevant information is to be incorporated into planning, management and control processes. The principles of risk management are governed by the risk management guidelines adopted by the Executive Board, which also provide a binding definition of all methodological and organisational standards for dealing with risks.

Structure of the risk management system
The group of companies consolidated in the Lufthansa Group's risk management system comprises the Passenger Airline Group and the parent companies of the respective business segments, as well as Lufthansa Flight Training GmbH, Lufthansa AirPlus Servicekarten GmbH, Delvag Luftfahrtversicherungs-AG and Lufthansa Global Business Services GmbH.

The functional units are shown in the following chart. Their special responsibilities and expertise within the Lufthansa Group's risk management system are explained below.

The Executive Board of the Lufthansa Group reports regularly to the Audit Committee, which is the relevant Supervisory Board Committee for the monitoring of risk management, on the performance of the risk management system, the risk situation of the Lufthansa Group and on significant individual risks and their management. The Audit Committee monitors the existence and the effectiveness of the Lufthansa Group's risk management.

The Risk Management Committee ensures on behalf of the Executive Board that business risks are always identified at an early stage and evaluated across all functions and processes. It is also responsible for ensuring that the risk management system is always up to date and for making continuous improvements to its effectiveness and efficiency. The committee is made up of the directors of Risk Management, Corporate Controlling, Legal Affairs, Corporate Finance, Corporate Accounting, Corporate IT, Controlling Lufthansa Passenger Airlines as well as the management of the Delvag Group. The Head of Corporate Audit is a permanent member without voting rights.

The "Risk Management, Internal Control System and Data Protection" staff unit has functional responsibility for ensuring that the risk management system is standardised across the Group. This staff unit reports directly to the Chief Financial Officer and is responsible for implementing Group-wide standards for the coordination and ongoing development of the risk management process.

The management boards of all the companies covered by the risk management system also appoint risk managers. They are responsible for implementing the Group guidelines within their respective companies and are in close, regular contact with the Lufthansa Group's risk management function. In addition, they ensure that risk-relevant information is agreed with the planning and forecasting processes in their company (risk controlling).

The risk owners are senior managers in the sub-divisions for which they are responsible, whose role includes implementing risk management at a segment level. The identification, evaluation, management and monitoring of risks are therefore inherent tasks of a management role.

The Internal Audit department carries out internal, independent system audits focusing on the effectiveness, appropriateness and cost-effectiveness of the risk management system practised in the Lufthansa Group.

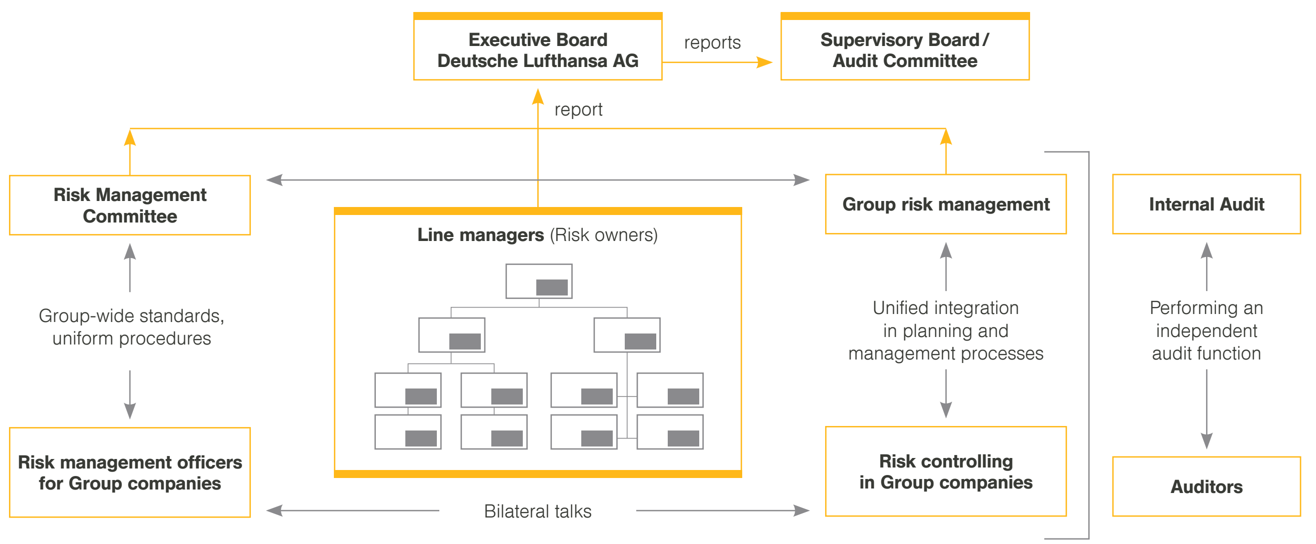
During its annual audit of the financial statements, Pricewater-houseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft (PwC) examines the system for the early identification of risks in place at Deutsche Lufthansa AG with regard to statutory require-ments. In 2014, it again satisfied all the statutory requirements made of such a system.

Steps in the risk management process
The Lufthansa Group's risk management process consists of the phases of risk identification, evaluation, management, monitoring and reporting. These phases form a closed, continuous and IT-supported control system.

The risk management process begins with the identification of risks, i.e. the compilation of current and future existing and potential risks from all internal and external areas. All the risks identified are checked for plausibility and gathered together in the Group's risk portfolio. The risk portfolio documents the systematic entirety of all individual risks and constitutes the quality-assured result of the identification phase. As the risk landscape is dynamic and changes constantly, the identification of risks is a continuous task for the risk owners.

Risk identification is followed by risk evaluation, which is under-stood as a targeted qualitative and/or quantitative evaluation of all the individual risks identified after risk limitation activities have been carried out (net basis). The defined evaluation principles, see the "Evaluation methodology in the risk management process" section starting on p. 102 are applied uniformly throughout the Lufthansa Group. Wherever possible, objective criteria or figures derived from past experience are used for the evaluation. Risk evaluation forms the basis for risk consolidation, in which individual risks of the same type are combined to form one total risk, which is then evaluated as a whole.

Risk management at Lufthansa Group



Suitable instruments for handling the identified and evaluated risks are defined and deployed in the course of risk management. The aim of risk management is to limit risk positions proactively. Continuous risk monitoring within the process identifies changes in individual risks and any necessary adjustments to risk management at an early stage. Steps are designed and implemented as necessary to create and roll out the instruments required for risk management and monitoring. Steps in this sense mean clearly defined activities with a fixed duration, responsibility and time frame, which serve to develop control instruments. The progress made on these steps is also monitored continuously. The costs of an instrument or a measure are always weighed against the benefit in order to judge the cost-effectiveness.

The effectiveness of the management and monitoring instruments used for the main risks is reviewed systematically as part of the Lufthansa Group's internal control system (ICS). One of the primary tasks of the organisational unit responsible for the internal control system is to ensure that all operating segments use a uniform methodology and standardised reporting within the internal control system. Every year, the unit defines which Group companies and which selected topics are to be included in the reporting for the purposes of documenting and evaluating the internal control system.

The relevance of the Group companies is decided on the basis of statutory requirements and qualitative criteria. They include the German companies that come within the scope of the German Accounting Law Modernisation Act (BilMoG) as well as foreign companies that pass a certain materiality threshold. Topics are selected every year on the basis of risk, taking qualitative and quantitative criteria for the items in the balance sheet and the income statement into account; see also "Description of the accounting-related internal control and risk management system in accordance with Section 289 Paragraph 5 and Section 315 Paragraph 2 No. 5 HGB" starting on p. 118, and the results of the risk management process.

Centralised target requirements (management controls) are formulated for the companies' internal control systems for all identified topics. The existing management and monitoring instruments to cover the target requirements in the selected companies are then documented and must be updated every year. The structure, functionality and therefore the effectiveness of the instruments is also assessed annually. This is carried out on a regular basis by the Internal Audit department or by means of self-assessment by the process owner.

Each company reports regularly to its supervisory board on the effectiveness of its internal control system where one has been established. The Audit Committee of Deutsche Lufthansa AG's Supervisory Board also looks regularly at the effectiveness of the internal control system for reporting at the overarching level.

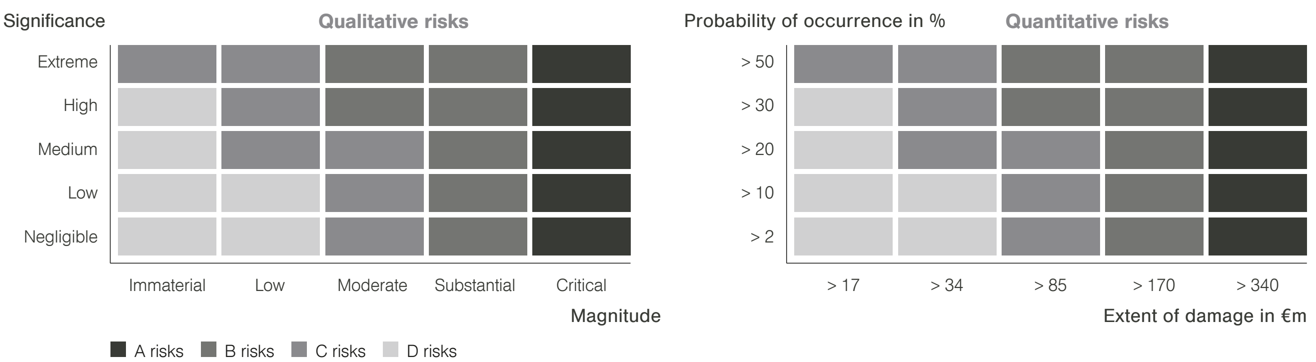
The Executive Board of Deutsche Lufthansa AG is informed about the current risk situation of the Lufthansa Group and of the operating segments every quarter as part of regular risk reporting. The business segments also evaluate the extent to which circumstances involving risk have already been included in the forecast results and to what extent there are additional risks or opportunities of achieving a better or worse result than the one forecast. In the event of significant changes to previously or recently identified top risks, mandatory ad hoc reporting processes have been defined in addition to these standard reports.

Evaluation methodology in the risk management process

The methodological evaluation of risks at the Lufthansa Group distinguishes between qualitative and quantitative risks. Risks are evaluated on a net basis, i.e. taking management and monitoring instruments into account.

Qualitative risks are long-term developments and challenges with potentially adverse consequences for the Lufthansa Group and its Group companies. As concrete information is often not available, these risks can generally not be quantified precisely or indeed at all. In the context of qualitative risks, risk management amounts to a strategic approach to uncertainty. Qualitative risks are often identified in the form of so-called "weak signals".

Lufthansa risk evaluation



In order to evaluate qualitative risks as systematically as possible in spite of this, estimates are made about their magnitude and their significance. The estimate of magnitude has to assess how pronounced or intense the (weak) signals are that indicate a potential risk to the Lufthansa Group and/or to the specific company in the Lufthansa Group. Significance describes the potential impact of the individual risk or development under consideration of the reputation, the business model or the earnings of the Lufthansa Group and/or the specific company in the Lufthansa Group. The chart on the opposite page shows the different categories used.

Quantitative risks are those whose potential monetary impact on the Lufthansa Group and/or its Group companies can be estimated. The probability of their occurrence, divided into various classes, is used to evaluate quantitative risks; see illustration on p. 102.

The extent of damage is generally given as the potential monetary impact on the planned operating result. Depending on the type of risk being evaluated, this may relate either to relatively infrequent event risks (such as an airspace closure) or to risks from deviations from planned business developments (such as fuel price volatility). Quantitative risks therefore form the basis for the overarching verification of potential deviations from plans and forecasts. The thresholds for classifying the monetary earnings effect are defined centrally for the Lufthansa Group and the Group companies according to a standardised logic.

After evaluation, the individual qualitative and quantitative risks are divided into classes A, B, C and D to assess their materiality. A and B risks as shown in the adjacent chart are deemed to be material for the Lufthansa Group. The relevant qualitative and quantitative risks for the Lufthansa Group that meet this materiality criterion are described below. In some cases, the risks are shown here in a more aggregated form than that used for internal management purposes. Unless stated otherwise, all the business segments in the Lufthansa Group are exposed to a greater or lesser degree to the risks described.

Opportunity management process

Opportunities are defined as possible future developments or events which may lead to a positive deviation from plans, forecasts or targets, and which therefore represent effective value creation or which generate potential competitive advantages. For the highly dynamic global airline industry, such opportunities can arise from new customer wishes, products, market structures or regulatory frameworks. Innovations, quality improvements and competitive differentiation can also give rise to opportunities for internal improvements in all areas. The positive outcome of a risk is also still considered to be an opportunity.

The systematic identification of opportunities by staff and management in the Lufthansa Group takes place as part of everyday processes and market observations. Scenario analyses and accurate return calculations are used to evaluate opportunities and the associated risks. Opportunities that, in an overall assessment, are considered advantageous for the development of the Lufthansa Group, and so for the interests of shareholders, are pursued and implemented by means of defined steps. They are managed by the established planning and forecasting processes as well as by short-term projects if the time frame or the nature of the opportunities so requires.

Risks and opportunities at an individual level

Macroeconomic risks and opportunities

Political crises, wars or natural disasters

The Lufthansa Group is aware of the fundamental risks of political crises, wars, natural disasters and similar events and developments and has put structures in place in various areas to identify them at an early stage and respond accordingly. In terms of their possible magnitude, these risks are so varied that a systematic presentation would make no sense. Responses to such events and developments are made on a case-by-case basis.

Concrete risks also result from the latent structural crisis in the euro area. Although there have been improvements in terms of budgetary sustainability and international competitiveness, the persistent structural problems make further consolidation necessary, especially in the southern member states. It is still a possibility that further consolidation may lead to resistance in parts of the euro area, however, which would halt or delay implementation of the measures required. This would have implications for economic growth and global trade, which in turn would affect the potential sales and financial profile of the Lufthansa Group.

The Lufthansa Group's forecast for 2015 is based on the expectation that future macroeconomic conditions and sector developments will correspond to the description given in the "Forecast" chapter starting on p. 120. If the global economy performs better than forecast, this will have a positive effect on the Lufthansa Group's business.

Future revenue and earnings for the Lufthansa Group may, in this case, exceed the current forecast. As a global company, the Lufthansa Group can also benefit from positive developments outside its own core market.

Risks with potential effects on global economic growth, and thereby for the Lufthansa Group's sales, also exist from developments outside the EU. China is currently going through a phase of wide-reaching political and economic reforms, for instance. Steps taken to date to deflate the Chinese property bubble have affected both general lending and construction activity and so may have an adverse effect on China's future economic growth. The sanctions adopted as a result of the Ukraine crisis are currently exacerbating the problems of the Russian economy and are also impacting countries and companies with close economic ties to the country.

In addition to this uncertainty, there are also risks from political developments and armed conflicts, especially in the Middle East. Events in this region may have an effect on the oil price in particular and therefore influence the Lufthansa Group's fuel costs.

Political crises, wars or natural disasters may also severely jeopardise the safety of flight operations, customers and employees. In order to analyse, track and manage these risks, the Lufthansa Group carries out comprehensive monitoring of the global security situation and current events that may affect the Lufthansa Group. This takes place in the Group's own security centre, which operates around the clock and acts as the first point of contact. It is intended partly to ensure immediate readiness if such events should materialise and also to anticipate potential threats and take effective protective action in advance. The Lufthansa Group therefore prepares comprehensive security analyses on an ongoing basis in order to assess developments in particular regions of the world in advance and so to draw up preventive scenarios in the event of any disruptions. The necessary security measures depend on the probability and consequences of the event. In preparing its comprehensive security analyses for the Company, including all foreign flight operations and partners in the airline group, the Lufthansa Group can draw on a wide-ranging network of national and international security services and consultancies specialised in security.

The shooting down of a civilian aircraft over eastern Ukraine on 17 July 2014 and threats to civil aviation from complex anti-aircraft systems, especially in the hands of non-state forces, make it necessary to reassess the risks to flights over areas of conflict. For its own risk analysis and to obtain a complete picture of the situation, the Lufthansa Group is intensifying the exchange of information with national and international security agencies, which play a vital role in the evaluation of these risks.

The demands made of security organisations within international companies have continued to rise in recent years. Cyber-threats and white-collar crime also require comprehensive emergency and risk management. Civil aviation is still subject to great risks as the potential target of terrorist attacks, which have to be evaluated in the context of the wider regional environment.

For this reason, the Lufthansa Group has implemented a comprehensive quality management system, which helps with the continuous evaluation of local security procedures, both in existing operations and with new destinations. It focuses on markets and stations at risk, mainly in Africa and the Middle East, which from a security perspective are under-regulated or not regulated at all. In order to ensure compliance with national, European and international aviation security legislation and Lufthansa Group's own security standards, these sites are inspected regularly in the course of risk audits for aviation security and country risks (probability of terrorism, crime, corruption and stability of governmental structures). Wherever necessary, deficits in local security infrastructure are mitigated by additional measures, which can apply to all relevant functional areas (passengers, baggage, freight). Also included is an evaluation of Germany's risk profile and perception in certain regions of the world, which, in view of changes in the foreign policy of the Federal Republic of Germany (overseas deployments by the German army, for instance), may have an impact on the Lufthansa Group. Evaluations are carried out by an interdisciplinary team made up of lawyers, political scientists and former police officers.

In addition to the continuous evaluation of risks to the Company, a high priority is given to the safety of employees abroad. Regular security inspections are therefore carried out at Lufthansa Group offices abroad, as well as at employees' apartments and crew hotels. Staff posted abroad receive regular information on the current security situation before they travel and during their stay.

Environment and health

Environmental risks can materialise suddenly and without warning, as in 2010 and 2011 when sections of European airspace were closed because of the threat of volcanic ash in the atmosphere. The recent volcanic activity of Bardarbunga in Iceland illustrates the ongoing nature of environmental risk. The need to improve cooperation between governments, public authorities and the aviation sector became particularly clear in 2010. Steps have been taken to enable a better, more flexible response if necessary. A European crisis coordination point has been created, the ICAO Volcanic Ash Contingency Plan for Europe has been updated and better coordination processes have been initiated among the EU member states. The ICAO Volcanic Ash Task Force is busy refining global standards for the applicable procedures and defining limits.

Following the experience of SARS and the swine flu pandemic in recent years, the spreading Ebola epidemic in West Africa in 2014 again highlighted the vulnerability of international air traffic to infectious diseases in an era of rising mobility and globalisation. According to experts, it must now be assumed that people all over the world can be infected by pathogens within a few weeks. Travel restrictions by public health authorities, uncertainty on the part of travellers and aircraft crews, and employee unavailability can mean that flights to certain destinations may no longer be possible or that flight operations have to be suspended altogether. As in previous years, if risks from epidemics or pandemics should arise, the Lufthansa Group has professional medical services and emergency plans at the ready, which are updated taking business continuity considerations into account, in order to take early and appropriate action as needed. Other key areas include the protection of passengers, customers and staff and responsibility for supplying helpers on the ground, for example by delivering material and carrying out evacuation flights. In this context, on behalf of the federal German government and in association with the Robert-Koch-Institute, Lufthansa Technik converted a wide-bodied Airbus A340-300 into an evacuation plane with a special isolation unit for helpers infected by the Ebola virus. An interdisciplinary team of experts from the Lufthansa Group is also currently updating various aspects of the emergency precautions for averting the dangers from infectious diseases, based on experience of past crises, scenario analyses and new findings.

Sector-specific risks and opportunities

Market developments and competition

Changes in available capacity have a decisive influence on the risk-return profile of the airline industry. Given the orders for new aircraft throughout the entire market and the forecast growth prospects for the airline industry, the risk of sustained overcapacities has increased. Pressure on average yields therefore remains high and outweighs the generally positive developments in demand and load factors. Complex forecasting methods to gauge unpredictable changes in demand, sales management activities and capacity management are used to counter the effects of overcapacities. To a certain extent, the airlines in the Lufthansa Group are able to adjust their capacities to demand flexibly and at short notice. In view of structural shifts in demand, there is the possibility in the short and medium term of responding by deploying two or three-class aircraft and flexible compartment sizes in Business and Economy Class.

In the MRO market, the introduction of new aircraft types (Boeing 787, B777X and Airbus A350) has made it even more evident that the trend is towards an ever smaller number of original equipment manufacturers (OEMs) for each aircraft type. This strengthens the market position of the OEMs, which puts up barriers to entry for providers of aircraft-related maintenance, repair and overhaul (MRO) services and makes it more difficult to gain access to licences and intellectual property. For the MRO segment, the challenge is to maintain its market position despite this trend. In response to this challenge, it is working on different solutions for each product segment and OEM. Licensing and partnership agreements have been reached with various OEMs over the last twelve months, for instance, which strengthen the MRO segment's business model and enable it to achieve further profitable growth.

Market consolidation

The airline industry is still highly fragmented, especially in Europe. In domestic European traffic, the five largest airline groups have a combined market share of less than 50 per cent. In the much more profitable US market, the figure is now at around 90 per cent. This applies to a lesser extent to the MRO, Logistics and IT Services segments as well. In the past, the consolidation of the airline industry required from an economic perspective was often delayed by offers of financial assistance from governments.

Increasing competition regulation by the European Commission and an increasing reluctance to subsidise companies that are incapable of survival as independent entities will create opportunities for the Lufthansa Group to realise further economies of scale and to expand its business models. Further consolidation may take place in the form of potential mergers and acquisitions as well as with the departure of unprofitable competitors.

The Lufthansa Group has set up a continuous evaluation process for this purpose. Opportunities that arise to make strategic acquisitions or capture traffic volumes vacated when a competitor leaves the market are reviewed continuously to determine their ability to strengthen the Group's competitive position and add value. This not only applies to passenger transport, but also concerns our service companies, such as the Catering segment, which has acquired various plants in growth regions.

Global growth of the airline industry

Driven by increasing globalisation and the ensuing need for mobility, as well as by growth in less developed markets, the air traffic sector will remain a long-term growth industry. The Lufthansa Group, with its Passenger Airline Group, Logistics and the MRO and Catering service segments, is more broadly positioned than its competitors in order to profit in a balanced way from global growth in the aviation industry.

Its strong position in its European airlines' home markets offers the potential for participating disproportionately from rising demand in its core markets if the crisis-hit countries in Europe make a rapid recovery. By actively managing capacities, the Passenger Airline Group is, to a certain extent, able to benefit flexibly from positive demand and pricing developments. Outstanding fleet orders and future deliveries in the course of roll-over planning create room for manoeuvre in which it is possible to take substantial advantage of such market developments. This not only applies to the Passenger Airline Group but, as a result of its close links with the service companies, ultimately to the Lufthansa Group's entire product and service portfolio.

Development of new customer requirements and additional income

Developments in customer requirements can be seen in new wishes for the organisation of the travel experience. In concrete terms, this may include increasing demand for innovative in-flight entertainment services and the passengers' wish for constant access to digital data networks, also during the flight. For the airlines in the Lufthansa Group, this creates new potential for additional income. For the system and service providers like Lufthansa Systems and Lufthansa Technik, there are additional growth opportunities both in completions and in retrofitting, maintenance and service.

In addition to creating new customer needs, there is potential for additional income, also for full-service carriers, from the convergence of the full-service carrier, low-cost carrier and charter carrier airline business models. An international tendency can be observed towards the separate pricing of previously inclusive services, such as check-in baggage and seats with more leg-room. Internationally there is also a trend towards more buy-on-board products, which, in addition to the direct income potential from in-flight sales, can also boost revenue for the Catering segment by providing the corresponding logistics services.

Occupying new customer segments

Regional growth expectations and new customer requirements can be boosted by the emergence of new customer segments with above-average growth. Particularly important for the Lufthansa Group is the rapid growth of the private travel segment, due for instance to the increasing global mobility of workers and the growing segment of "visiting friends and relatives". The increasing prosperity of a broader middle class in developing countries and emerging markets also gives rise to higher demand for holidays and educational trips in these regions, and represents additional potential for the Lufthansa Group. Demographic trends, including an ageing society with a growing number of wealthy retired people, sometimes dubbed "third-agers", is producing further potential demand for holiday, educational and healthcare tourism, especially in developed Western markets, for which the brands in the Passenger Airline Group, with their focus on quality, are particularly well positioned.

To gain a greater share of growth in the price-sensitive private travel segment, Lufthansa Passenger Airlines will be developing capacities in a sub-fleet of long-haul aircraft with a greater focus on Economy seating in 2015. This will be supplemented by the launch of a low-cost long-haul airline within the Lufthansa Group. The intention is primarily to capture price-sensitive traffic from the German market. There is a risk that it may not be possible to sell the new capacity on the market at a profit. It does hold out the opportunity of improving the Company's strategic manoeuvrability, however.

The established airline brands in the Lufthansa Group will be strengthened by the new addition of Eurowings, a growth-oriented airline in the low-cost segment, which secures economies of scale and strengthens the positioning of the entire Lufthansa Group for the market consolidation expected to take place in Europe. Further differentiating capacities and thereby generating competitive advantages opens up opportunities for the Lufthansa Group to gain an above-average share of the growing private travel segments.

In addition to implementing new airline models, the strategic programme "7to1 – Our Way Forward" aims to identify new growth potential within the service companies and exploit the opportunities it creates. Lufthansa Technik is concentrating on seizing development opportunities in the growth markets of Asia and America and on expanding partnerships with OEMs. LSG Sky Chefs is pursuing growth opportunities in emerging markets, but also in building new business models in established markets, in catering for train travellers, hospitals and cruise ships, for instance. The customer loyalty programme Miles & More was carved out into an independent company in 2014. The aim is to keep expanding it and make it more attractive on an everyday basis with the help of its many strong partners.

Market introduction of new aircraft technology

The market introduction of new aircraft technologies represents an opportunity for even more efficient and sustainable airline operations. Following the market launch of milestone models like the Airbus A380 and the Boeing 787, and thanks to its large-scale orders, the Lufthansa Group will increase its competitiveness in future both in European and intercontinental traffic.

In European traffic, the A320neo and the Bombardier CSeries will improve the profitability of the existing Lufthansa Group route network and enable potential new destinations. In intercontinental traffic, the new A350 and the new B777X will improve the Lufthansa Group's global competitiveness in the same way. Once they have been introduced into the Lufthansa Group's fleet, all the new aircraft technologies will make a major contribution to fuel efficiency and noise abatement, which in turn promotes the sustainability and associated opportunities for differentiation described above.

Cooperation, partnerships and joint ventures

The success of a network carrier with global operations depends largely on its worldwide, extensive route network. Together with the Star Alliance partners and those in the airline group, the Lufthansa Group gives its customers access to the largest route network in the world. Systematic network and alliance management enables risks to be identified at an early stage.

Risks can ensue primarily from changes in the different alliances. In the case of joint ventures, there is always the risk that the arrangement comes to an end as well as the risk of lost income if the regulatory conditions no longer apply. Instruments for limiting risk include full compliance with the relevant reporting obligations, managing joint ventures in the interest of all partners for lasting success, and demonstrating the benefits for customers, such as greater capacity as a result of joint ventures.

While the Lufthansa Group is continuously enhancing its existing partnerships in the form of joint ventures – for example in the passenger business with the North Atlantic joint venture A++ with United Airlines and Air Canada and the Japanese joint venture J+ with ANA – it also makes use of changing market and competitive conditions to evaluate opportunities from establishing new partnerships and cooperation with a regional focus wherever these serve the strategic development of the Lufthansa Group and support a course of sustainable, profitable growth. The most recent example of the potential for great strategic value are the proposed joint venture structures with Air China.

Within the existing alliances, the dynamics of global competition make it necessary to review the current alliance membership of certain airlines. It may be possible to gain advantages by switching the alliances of individual airlines and joining new ones. This would generate new growth opportunities for the Lufthansa Group and its airline group within the Star Alliance by expanding the network, especially in the growth regions mentioned. They stem from a greater range of destinations within the Star Alliance and from a wider selection of alternative connections for passengers.

The dynamic market and competitive environment create room for new airline and service partnerships, particularly in the growth regions of Asia-Pacific, Latin America and Africa. This cooperation may be analogous to the existing alliances and joint ventures, but may also take alternative and innovative forms to reflect changes in the global and regional competitive environment.

Additional partnerships with other carriers, such as railway and long-distance coach operators, offer further market opportunities within Europe. This kind of partnership creates an opportunity to create passenger loyalty to the airlines of the Lufthansa Group by offering them a seamless travel experience. At the same time, it ensures that feeder traffic reaches the hubs and destinations of the airline network in an economically efficient way. In addition to the potential for new customers, this can also deliver differentiation potential by increasing the benefit to customers.

Opportunities from new cooperation structures and partnerships in passenger transportation may be accompanied by additional market opportunities in the MRO and Logistics segments resulting from increased cooperation and joint ventures. At Lufthansa Technik, partnerships with aircraft, engine and component manufacturers in particular can enable new maintenance and overhaul contracts to be signed. They can also secure long-term access to patents, licenses and other intellectual property rights. As partnerships in passenger transportation give customers access to a wider route network, so can new partnerships in the Logistics segment at Lufthansa Cargo and Swiss World Cargo open up new markets or increase the efficiency of the existing product and service portfolio.

Regulatory environment

Political decisions at national and European level continue to have a strong influence on the international airline business. This is particularly the case when such intervention affects competition in one part of one market, for example by regional or national taxes, fees and charges, restrictions or subsidies.

Climate policy – in particular the emissions trading system

An emissions trading system exists in the European Union that discriminates against European network airlines and puts them at a disadvantage compared with their non-European competitors. Details can be found in the section "EU emissions trading and national air traffic tax – competitive discrimination remains" on p. 33. There is a chance that this emissions trading system will be suspended or adapted to the benefit of European airlines. The Lufthansa Group accompanies these developments closely at the political level.

Air traffic tax

The air traffic tax payable in Germany is divided into three categories depending on the length of the flight, and does not include international transfers and cargo flights. Although this makes at least some allowance for Germany's air traffic structures in international competition, the current tax puts local airlines at a competitive disadvantage. Altogether, the German federal government levies around EUR 1bn a year from the airline industry with the tax, of which over 50 per cent comes from German companies. Similar national taxes exist in the UK, France and Austria. Overall, these taxes cost Lufthansa Passenger Airlines around EUR 300m per year. The introduction of even more detrimental rules for the Lufthansa Group cannot be ruled out. However, there is a chance that these regional taxes will be suspended or adapted to the benefit of individual airlines. The Lufthansa Group accompanies these developments closely at a political level.

Noise legislation
In addition to climate, fiscal and tax policy, a section of the public is putting pressure on the airline industry concerning large-scale infrastructure projects and traffic noise. This creates regulatory risks. In the past, this tendency has affected the Lufthansa Group in the form of additional expenses at Frankfurt Airport, and in particular with the introduction of the night-flight ban applied for by the airport operator Fraport in connection with the opening of the north-west runway. From 2018 onwards there is a risk for aircraft operations and the use of airports that existing noise regulations will be tightened. This may result in additional costs for the Lufthansa Group via higher fees and charges. By investing in modern aircraft, the Lufthansa Group is actively reducing the noise footprint by about 30 per cent compared with their immediate predecessors. Steps are also being taken to reduce the noise produced by existing aircraft. The revision of the EU directive on noise-related operating restrictions, which includes a clearer definition of the international "balanced approach", is an important element for working hand-in-hand with planning and traffic authorities in relation to house-building and traffic infrastructure projects. Alignment with the directive on noise-related operating restrictions is also important for the upcoming revision of the EU directive on environmental noise.

The German federal government's coalition agreement provides for balanced measures to reduce traffic noise. In the area of air transport, this means, in particular, weighing all concerns appropriately, reducing noise at the source, tightening noise limits for new aircraft approvals, adapting flight operations to reduce noise, making the best use of land at airports and revising noise limits, as is already planned for 2017 in the amended Aircraft Noise Act. The proposals seem even-handed and follow the "balanced approach" recommended by the ICAO. General night-flight bans are rejected. The state government coalition in Hesse, which is particularly relevant for the Lufthansa Group with its main hub in Frankfurt, emphasised the major economic significance of Frankfurt as an aviation hub, and intends to campaign for the airport's competitiveness. This is especially necessary in view of the quiet periods of seven hours during the night desired in some areas. In specifying an upper limit for noise levels, noise emissions should be restricted on the basis of the movements approved in the planning approval document. Any other limits represent a risk to the business performance of the Lufthansa Group. The Lufthansa Group therefore campaigns actively in relation to changes of this nature.

Market liberalisation and regulation
Air transport is becoming more important in view of the dynamic interactions between international economies and industries in the course of globalisation. This creates new sources of dependency and influence, which are being used by some resource-rich states with no significant population numbers of their own. In particular this is taking place with specially formed, state-owned and highly subsidised companies in the Persian Gulf. They have very different objectives and no longer focus primarily on a multilateral infrastructure function for the mutual benefit of the countries involved, but rather on a strategic economic role. They are investing worldwide in an increasingly dominant position in air traffic. By means of massive aircraft orders and investments in other companies they are increasingly exerting a unilateral influence on global air traffic, which was previously governed by multilateral consent, and which bears no relation to the size of their own economies.

There is a risk that the fundamental international principles of competition in air traffic that have applied to date as well as European regulations on competition and state aid are being undermined by this damaging behaviour. It is detrimental to the efficiency and the ecological and economic sustainability of air traffic. Solutions should be sought first at a bilateral level, but more than ever multilaterally too, in order to re-establish a balance between European and other interests. The Lufthansa Group accompanies these developments closely at a political level.

Financial market regulation
Different attempts at regulating financial markets are being pursued at national, European and international levels. To the extent that the proposed regulation also affects the real economy, there is a danger that the Lufthansa Group will be exposed to ever higher costs and less availability when carrying out and settling hedging transactions for foreign currencies, interest rates and fuel prices. The introduction of a financial transaction tax would also lead to considerably higher costs for using derivatives, investing liquidity and for the pension fund. The Lufthansa Group accompanies these developments closely at a political level.

Consumer protection
As an international company, the Lufthansa Group is bound by a large number of national, European and international consumer protection regulations. These regulations are increasingly being tightened to the detriment of companies, not least by means of court rulings. They include the rulings of the European Court of Justice (ECJ) on the compensation payable by airlines, not only in the case of delayed departure, but also for delayed arrivals. Where these rulings do not apply internationally, they amount to a one-sided discrimination of European airlines in competition with non-European carriers.

The revision of the European Flight Delay Compensation Regulation (EC) 261/2004 has not yet been completed. It is already apparent from the ongoing legislative process that this one-sided consumer protection at the expense of the airlines is to be extended. The ECJ's rulings on compensation for delayed flights are to be codified in statute and customers' rights to compensation are to be extended. At present, the overall commercial effects of the revised regulations on the Lufthansa Group cannot be quantified. The costs of compensation, support and care services are expected to increase, however.

Both at European level and in certain member states, there is an increase in legislative activities concerning the regulation of payment systems. There is a threat that a fair division of payment costs (credit card payment charges for example) may either be forbidden in future or made so complex by new legislation that it no longer makes commercial sense.

Equally relevant is a lawsuit brought against the Lufthansa Group by the consumer protection association Verbraucherzentrale Nordrhein-Westfalen e.V. to overturn the requirement to pay for tickets in advance. It is now being heard by the Federal Court of Justice. If the Lufthansa Group loses, airlines would no longer be able to collect the ticket price after the booking, but only at a later date, in a worst case scenario only after the flight has taken place.

The Lufthansa Group accompanies these developments closely at a political and judicial level.

Air safety requirements

National and international aviation security regulations also oblige the Lufthansa Group to draw up an air carrier security programme defining protective measures for security areas and aircraft as well as security checks for airfreight and in-flight supplies. New rules are added all the time and, generally speaking, can have an impact on passengers, employees, efficient flight operations and costs. The Lufthansa Group works directly and via industry associations with public safety authorities in order to implement improvements within the existing system of regulations and to develop innovative joint approaches for the future that will guarantee passenger-friendly and efficient air transport.

Financial risks and opportunities

Financial risk management system

As an international aviation company, the Lufthansa Group is faced with financial risks in the form of changes in fuel prices, exchange rates and interest rates. The principally conservative approach towards financial and commodity risks is reflected in systematic financial management. Derivative financial instruments are used exclusively for hedging underlying transactions. The main aim of fuel price and currency hedging is to reduce earnings volatility. This is achieved by forming averaging prices by means of layered hedging. Interest rate hedging aims to reduce interest expenses. As a rule, 85 per cent of financial liabilities are either at floating rates from the outset or are swapped into floating rates using derivatives. This enables the Lufthansa Group to minimise average long-term interest expense. Foreign currency risks from financing are always hedged to 100 per cent.

For this type of transaction, the Lufthansa Group only works with counterparties that have at least an investment grade rating equal to Standard and Poor's "BBB" rating or a similar long-term rating. All hedged items and hedging transactions are tracked in treasury systems so that they can be valued at any time.

Appropriate management and control systems are used to manage financial and commodity risks, which measure, manage and monitor risks, but do not eliminate them altogether. The functions of trading, settlement and controlling of financial risk are strictly separated at an organisational level, which the Lufthansa Group achieves through the use of internal guidelines that are continuously developed. The Group Financial Risk Controlling and Corporate Audit departments monitor compliance with these guidelines. Furthermore, the current hedging policies are also discussed regularly in management board meetings across the business areas. The Supervisory Board is regularly informed of the amounts of risk. Detailed information on currency, interest rate and fuel hedges can be found in the Notes to the consolidated financial statements, "Note 41" from p. 203. The main financial risks are described below.

Fuel price movements

In the reporting year, the Lufthansa Group consumed around 9 million tonnes of kerosene. It is a major item of expense, making up over 21 per cent of operating expenses for the Lufthansa Group. Severe fluctuations in fuel prices can therefore have a considerable effect on the operating result. A change in the fuel price of +10 per cent (–10 per cent) in 2015 would increase (reduce) fuel costs for the Lufthansa Group by EUR 372m (EUR –326m) after hedging. The Lufthansa Group therefore hedges fuel prices with a time horizon of up to 24 months. This is aimed at reducing fluctuations in fuel prices. Limited protection against higher prices is accepted in exchange for maximising the benefits derived from any fall in prices.

The hedging level and hedging horizon depend on the risk profile, which is derived from the business model of the Group company concerned. The hedging policy and structure shown in the chart on p. 110 are applied to Lufthansa Passenger Airlines, SWISS and the scheduled operations of Austrian Airlines.

Other Group companies are hedged to a lesser extent, and therefore have greater exposure to price increases, but also benefit to a greater extent from lower prices. Charter business is hedged in full using forward transactions as soon as the contract has been signed. This largely eliminates the risk of fuel price increases. On the other hand, this also eliminates the chance of benefiting from a fall in prices.

The Lufthansa Group uses standard market instruments for fuel hedging and hedges fuel price risks with a lead time of up to 24 months, mostly by means of combined options. Hedges are mainly in crude oil for reasons of market liquidity. The hedging transactions are based on fixed rules and map the average of crude oil prices over time. Depending on the company in the Group, the amounts hedged each month result in a hedging level of up to 85 per cent. For Lufthansa Passenger Airlines for instance, the six months following a given date are hedged to 85 per cent.

At the beginning of February 2015, there were crude oil and kerosene hedges for 78.8 per cent of the forecast fuel requirement for 2015, in the form of futures and options. For 2016, around 43.3 per cent of the forecast fuel requirement was hedged at that time.

What are known as "international surcharges" have become established in the market as a way of reducing cost risks – they are charged to customers in addition to the fare depending on fuel prices and other fees. The extent to which it will continue to be possible to levy such surcharges is nevertheless uncertain. Even tighter legal restrictions can also not be ruled out in future. In the example shown above of a 10 per cent fall in the fuel price, the saving of EUR –326m would possibly be offset by lower fuel surcharges. As fuel is priced in US dollars, fluctuations in the euro/US dollar exchange rate can have a positive or a negative effect on reported fuel prices. US dollar exposure from planned fuel requirements is included in foreign exchange exposure.

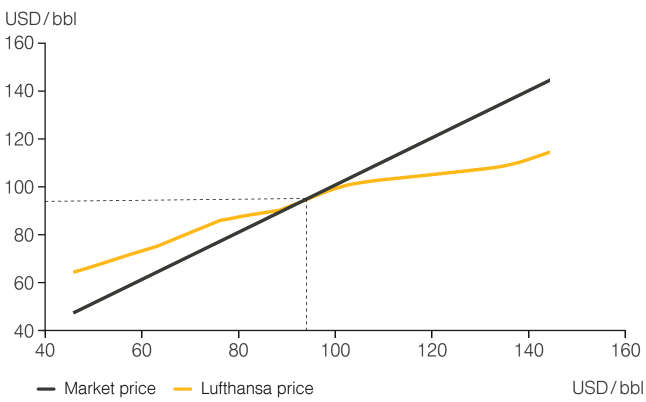
In the context of fuel supplies, there are opportunities in the development of new techniques for extracting crude oil and other sources of energy, which may have the direct or indirect effect of reducing prices and volatility for the Lufthansa Group's kerosene expenses. One opportunity in this context is the expansion of oil production in North America and the reactions of the oil cartel OPEC to these developments. This reduces dependence on oil production in regions of the world which have experienced particular political instability in recent years.

In the fourth quarter of 2014, the oil price began to fall significantly. This continued at the beginning of 2015. The Lufthansa Group is therefore expecting significant cost savings from this development. At the same time, there are tendencies that may lead to much lower average yields as a result of lower surcharges and prices and of growing capacities in the market. These risks and opportunities for the new financial year will therefore also be discussed specifically in the "Forecast" chapter from p. 120.

Exchange rate movements

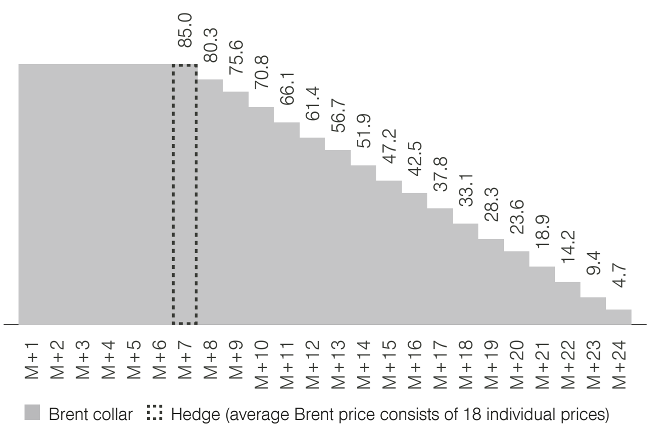
International ticket sales and the purchase of fuel, aircraft and spare parts give rise to foreign currency risks for the Lufthansa Group. All subsidiaries report their planned currency exposure in around 65 foreign currencies to the central financial planning department over a time frame of at least 24 months. At Group level, a net position is aggregated for each currency in order that "natural hedging" can be taken advantage of. Twenty of the planned currencies are hedged because their exposure is particularly relevant to the Lufthansa Group. The main currencies are the US dollar, Japanese yen, Swiss franc, Chinese renminbi and pound sterling. Currencies highly correlated with the US dollar are also 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 the Notes to the consolidated financial statements, "Note 41" from p. 203.

Oil price scenario for the Lufthansa Group 2015*



* As of 2.2.2015.

Lufthansa's hedging policy Medium-term crude oil hedging in %



In addition to the risks described, these financial and economic developments also entail potential opportunities for the Lufthansa Group. Volatility in fuel prices, exchange rates and interest rates can result in lower costs for the Lufthansa Group if the direction taken is better than the assumptions used for planning and forecasting.

At the start of 2015, the removal of the Swiss franc's peg to the euro caused a sharp movement in the exchange rate for the two currencies. These risks and opportunities for the new financial year will therefore also be discussed specifically in the "Forecast" chapter starting on p. 120.

Market changes for capital investments

Capital investments at the Lufthansa Group are managed from the point of view of operating and strategic liquidity. Investments are also made by the Lufthansa Pension Trust and other pension funds in the Lufthansa Group. The risks mainly consist of potential price changes for shares, fixed-income securities and interest rates, as well as credit risks.

Capital investments to ensure the Lufthansa Group's operating liquidity are generally made in accordance with the Group's financial guidelines. The investment period for the Lufthansa Group's operating liquidity is limited to a maximum of 24 months, whereby at least EUR 300m should be in investments that can be liquidated on a daily basis. For its operating liquidity, the Lufthansa Group mainly uses money market funds which can be liquidated daily, overnight deposits, fixed-term deposits and short-term securities, especially commercial papers, from creditworthy issuers. Investments should be with counterparties which have a rating of at least "BBB-". Only 30 per cent of investments for operating liquidity should be invested with counterparties with less than an A rating. Investment in money market funds should not exceed 10 per cent of the fund's total assets.

The investment structure of the strategic minimum liquidity for the Lufthansa Group has been determined using a stochastic allocation study. It was based on the Lufthansa Group's liquidity requirements and conservative investment principles. The majority of these investments are in products related to the money market. The strategic minimum liquidity is divided into various components with different investment horizons. They are managed by several external asset managers with separate mandates. One of the requirements is that the investments must be able to be liquidated within a maximum of four weeks. Each asset manager follows their own investment guidelines derived from the general Lufthansa Group investment principles. The asset allocation is reviewed regularly and adjusted as necessary. The experience of the financial crisis in 2009 in particular has led to an even greater focus on liquidity and counterparty risks. Risk management with a defined stop-loss has also been implemented across all asset classes. The Lufthansa Group monitors performance by means of daily and monthly performance and risk reports.

Investments by the Lufthansa Group's pension funds are made on the basis of regularly updated allocation studies. Specific investment guidelines for the individual asset managers follow the Lufthansa Group's conservative investment principles. The Lufthansa Group follows the principle of diversifying risk by dividing the investments across a broad range of assets classes and managers. A risk management system is also in place for the Lufthansa Pension Trust, which enables daily controlling on the basis of a strict risk budget. Scheduled contributions to the pension fund were continued in 2014, see "Financing" chapter on p. 58.

Credit risks

The transactions completed in the course of financial management give rise to default risks. These are managed using a system of counterparty limits with which the Lufthansa Group constantly assesses the risk of counterparty default. A maximum acceptable risk is determined for each counterparty. This is primarily derived from the rating given by recognised rating agencies. For oil companies without a rating, the maximum credit limit is generally EUR 20m. The Lufthansa Group calculates and monitors daily the extent to which counterparty limits are taken up by existing financial market transactions. If limits are exceeded, a documented escalation procedure comes into play, requiring decisions to be taken on the action needed.

In times of broad economic swings, the default risk for trade receivables increases. Here, too, the performance of receivables is tracked constantly at the level of the Group and the individual business segments. Preventive measures are also taken. Passenger and freight documents are largely sold via agents whose credit rating is reviewed and partly secured by guarantees or similar instruments. Counterparty risks in connection with credit card companies and interline partners are also monitored closely in line with the volumes at risk and partly on the basis of leading indicators; payments are verified daily and/or at adequate intervals. Additional information and the credit risk positions existing at year-end 2014 can be found in "Note 38" of the Notes to the consolidated financial statements on p. 200.

Rating

The credit ratings given to the Lufthansa Group by the rating agencies are particularly important. A good rating ensures access to new financing and hedging instruments. The Lufthansa Group is rated by Standard & Poor's as investment grade and by Moody's as non-investment grade. If, in future, a rating agency were to downgrade the credit rating, in particular if Standard & Poor's were also to downgrade the credit rating to non-investment grade, this could lead to a distinct deterioration in funding terms and financial risk management and restrict access to new funding and hedging instruments. For this reason, achievement of the targets set by the rating agencies for an investment grade rating is monitored continuously.

The Lufthansa Group's investment grade rating came under pressure towards the end of the year, especially due to higher pension provisions. Much lower discount rates prompted a revaluation of pension liabilities, which went up considerably in consequence. It is currently not clear how the rating agencies will deal with increasingly volatile interest rates in future and what consequences this will have for the Lufthansa Group's rating.

Company-specific risks and opportunities

Efficiency gains and differentiation – SCORE / "7to1 – Our Way Forward"

The purpose of the SCORE programme launched in 2012 is to maintain and improve the competitiveness of the Lufthansa Group. Last year the Company continued to generate ideas for new activities. Over 2,000 new SCORE activities were developed between January and September 2014 alone, all of which aim to make an earnings contribution in the years ahead. The volume of gross earnings improvements planned for 2015 came to almost EUR 1.0bn at year-end 2014.

In order to maintain and use the adaptability engendered by SCORE, even after the official end of the programme in 2015, "continuous efficiency gains" were defined as one of seven core action areas in the strategic programme of work entitled "7to1 – Our Way Forward". It aims to create the necessary procedural and organisational conditions for strict, continuous efficiency management in the post-SCORE period. The implementation of "Continuous Improvement" will move SCORE into line management in 2015 and establish efficiency gains as a permanent task within the Company.

The continuous development of new activities provides an opportunity to identify and implement new potential for improving the operating result on a regular basis that is not yet part of the planning process. Specifically, even closer collaboration between individual Group companies offers the chance to realise potential synergies, for instance in the further pooling of administrative processes across the Group. In contrast to the Lufthansa Group, these are opportunities that competitors in the airline industry do not have.

Additional potential for generating sustainable competitive advantages and efficiency gains compared with direct competitors stems from a large number of projects to increase the profitability of the Group and all the operating segments.

There is an initial implementation risk with every single project. The volume of activities may be reduced, particularly with projects that are still at an early stage, if a project cannot be developed past the level of an idea and it has no impact on earnings as a result. Altogether the challenge remains to develop enough ideas and activities to have a sufficient quantity of projects and thus to make up for opposing tendencies such as permanent cost inflation and declining average yields, especially within the airlines.

Product improvements to achieve further differentiation from the competition

Extensive capital expenditure on the Lufthansa Group's airline products enables further opportunities for differentiation and for gaining market share.

Lufthansa Passenger Airlines will have equipped all aircraft with the latest generation of products by mid-2015. This means that by then all long-haul aircraft will be fitted with the new First Class, Business Class and Economy Class and with FlyNet. By the autumn, all intercontinental aircraft will also be fitted with the new Premium Economy Class. Work on service improvements is also continuously ongoing.

At the level of the Lufthansa Group, the check-in facilities at many destinations are being harmonised and further optimised for passengers. Another example of product improvement is the harmonisation of the online booking systems in the Lufthansa Group's airline group (airline.com), which will give customers great flexibility for making and altering bookings and for checking in, even for combined flights with the airlines in the Passenger Airline Group. In future, these improvements will not only enable the Lufthansa Group to offer its passengers an optimised service for greater customer satisfaction and so differentiate itself even better from the competition, but will also open up additional potential for cost savings and at least mitigate the erosion of average yields.

Innovation throughout the Group

A Group-wide unit – the "Innovation Hub" – was set up in 2014 to encourage and keep developing the innovative culture and capacity for innovation at the Lufthansa Group and to make use of the opportunities they create. Structural changes within the organisation make it possible to promote synergies between segments even more efficiently and to keep strengthening the subsidiaries' ability to innovate.

Cooperation between the different subsidiaries generates permanent opportunities for further growth by opening up new markets. For instance, Lufthansa Systems has worked with Lufthansa Technik and Lufthansa Passenger Airlines to develop the cutting-edge in-flight entertainment system BoardConnect. Now that the first customers have decided to use this innovative technology, considerable potential is seen for its further development and sales.

Another example of an innovative development is the TaxiBot developed by Lufthansa LEOS, a subsidiary of Lufthansa Technik, in association with an external partner, to reduce an aircraft's fuel consumption en route to the runway. This novel aircraft tractor can be controlled remotely from the cockpit and so enables the pilot to drive the aircraft to the runway without using its own engines and so without kerosene. The resulting kerosene savings not only have a positive environmental impact but also cut operating costs.

One important step towards better structural conditions for promoting innovation is the establishment of Lufthansa Innovation Hub GmbH in Berlin. Its proximity to the digital technology and start-up scene will bring an additional external impetus into the Lufthansa Group and so advance the digitalisation of customer processes and additional services.

Capital expenditure

The Lufthansa Group will keep investing in modernising its fleet, its in-flight and ground products, and its infrastructure in order to hold its ground against the competition in general and against the still rapidly growing airlines from the Middle East in particular. Total capital expenditure of some EUR 7.5 to 9.0bn is planned by 2017, of which aircraft account for about EUR 6bn. The decisions on the fleet taken in 2014 further represent an investment in new technologies, efficiency and passenger comfort. The new aircraft will largely replace older models in the period up to 2025. Risks arise from the volatile operating environment generally as well as from potential delays in the delivery of the aircraft on order. With the current large number of owned, unencumbered aircraft, it is possible to address the delivery risks by flexibly scheduling the times at which they are replaced by new ones.

In addition to the capital expenditure on the fleet, investments are also being made in renewing existing processes and expanding infrastructure. With long-running, complex infrastructure projects, there are always risks of cost-overruns and delays. These risks are identified at an early stage of the detailed planning process and monitored continuously.

Human Resources

For the Lufthansa Group, human resources risks and opportunities can arise from the interplay between general social and economic megatrends, the new strategic and economic objectives of the Group's sustainable development and its organisational and cultural characteristics.

Social trends are essentially determined by demographic developments, as well as the different expectations that the next generation of employees ("Generation Y") places upon its working environment. The demographic trend towards an older workforce is becoming more and more apparent. Developing a strategic human resources planning function for the entire Lufthansa Group makes it possible to identify the risks for each operating segment and job family and to elaborate and implement corresponding areas of action. Particular attention will be now paid to the possible health risks of an ageing workforce and of all staff. Health management at the Lufthansa Group has been undergoing a strategic reorganisation since autumn 2014. It will supplement the activities in the individual segments with initiatives covering the entire Lufthansa Group.

Focusing the human resources strategy on strategic action areas enables consistent support for the Company strategy. The corresponding system of key human resources indicators ensures the function is managed in line with Company strategy and serves as an early warning system.

In terms of the expectations and wishes of "Generation Y", it is becoming clear that Lufthansa also has to follow the trend towards modern, virtual and flexible working structures. Teams, project groups and Company departments have increasingly little direct personal contact with one another and work less in fixed organisational structures and more as virtual entities. To remain an attractive employer in the future, working conditions will be adapted to the increased mobility of employees, extensive digital and social networks and individual diversification. The Lufthansa Group addresses the risks arising from an increasing virtualisation of the workplace by expanding the opportunities it offers for individual and digital learning. Following a successful pilot phase, a new, open and flexible workplace model known as "New Work Space" is also being introduced.

Demographic developments are accompanied by a shift from an employer's to an employee's market: future employees will increasingly be faced with a surfeit of potential jobs. Potentially inadequate working conditions entail the risk of insufficient recruitment opportunities and the danger of losing qualified staff at all levels. The Lufthansa Group counters these risks in particular by adapting its remuneration structures, ancillary benefits and benefits-in-kind to different groups of employees.

The strategic reorganisation of health management will strengthen the responsibility of managers and employees and make the Group a more attractive employer. The employees in the Lufthansa Group are characterised by their high level of professional qualification, their productivity, motivation and adaptability. This creates opportunities for making greater use of this talent pool at all levels. The diversity of the roles in the Lufthansa Group and the rotation of employees that this encourages offer the chance of increasing the Group's attractiveness as an employer and the employability of the staff.

Realigning the Lufthansa Group towards greater digitalisation, innovation and new growth concepts also poses questions concerning the future expertise and skills of its employees. It will only be possible to achieve the strategic and ultimately the economic objectives of the Lufthansa Group if the staff have the relevant skills and abilities required for these areas. The gap between the qualitative skills required of employees in the future and the existing employees has to be managed. Here too, the development of a strategic human resources planning function for the entire Group is exposed to the potential risk that the personnel structures may not be adequately forward-looking.

The aim is to make findings about quantitative, structural and qualitative changes in the workforce transparent for strategic corporate planning and to help derive concrete steps from these findings. These focus both on areas of acute need for action, such as recruiting, and on strategic areas such as skills management systems and staff development programmes.

Extending talent and performance processes has a lasting positive effect on the performance and innovation of management. With the Lufthansa Group leadership principles introduced in late 2013, the Group has set itself the goal of emphasising leadership competence as a key skill and guarantee for the future. There is considerable scope for enhancing the performance focus and feedback culture in the Lufthansa Group.

With the COMPASS programme, the Lufthansa Group supports its employees in their search for development opportunities outside the Company too and so helps them to maintain a broad spectrum of marketable skills. This enables a higher degree of internal and external rotation, which increases the qualifications and experience of the workforce.

Finally, the cultural set-up, with a stable basis of trust between all groups of employees and all labour union partners, remains very important. This applies particularly to a service company, which relies on the commitment and productivity of its employees. Maintaining a basis of trust between managers, employees and their representatives therefore constitutes an issue of strategic importance for the Lufthansa Group. A stable culture of trust with the employees and a trusting working relationship with the co-determination bodies are prerequisite to the implementation and success of structural changes, particularly those aimed at restructuring the Group; otherwise delays and incessant conflicts are likely.

To manage the risk that the necessary changes to processes and behaviour are not implemented, the Lufthansa Group has created a series of new instruments, established a new platform architecture for dialogue and networking and connected all those responsible for cultural change in the Lufthansa Group with one another to exchange best practices. The new strategic focus of the Lufthansa Group on "Culture and Leadership" will enhance this approach with further targeted activities. A permanent, formal dialogue also takes place with the co-determination bodies, and regular discussions are held with individual representatives of these bodies. Support for managers follows the new leadership principles introduced in 2013 and established in 2014 and also makes use of the corresponding potential assessment and performance tools. Offers of professional change management skills and processes provide additional support for the new strategic direction. They make it possible to provide constructive assistance for the structural changes.

The reorganisation of the Group's human resources function reduces inefficiencies and makes it possible to pursue strategic human resources goals more effectively.

The process of transferring operational human resources activities to Lufthansa Global Business Services (LGBS) began in 2013. Further processes were migrated successively in 2014. The IT required to this end is still being refined with a clear cost focus. This opens up opportunities for reducing the staff costs of the Lufthansa Group sustainably.

Further classical human resources risks exist in the area of collective bargaining and co-determination. Wage agreements and increasingly also retirement benefit commitments are a central concern, with the aim of adjusting costs and structures to the competitive environment. The risks inherent in the negotiations that need to be held with the ground, cockpit and cabin staff are all the greater the more it becomes necessary to differentiate between the companies' competitive environments. In an intensive dialogue with trade unions and works councils, the Lufthansa Group tries to ensure predictability and security as well as an appropriate share of economic gains for the Lufthansa Group and its employees by means of long-term agreements with company-specific and performance-related components. To safeguard attractive and economically viable long-term retirement benefits, for instance, talks and negotiations will be held with the collective bargaining partners of all employee groups in Germany about new company pension schemes based on current market standards. The scope and diversity of the upcoming rounds of collective bargaining entail a greater risk of strikes than has been the case in the past.

Operating business

The airlines in the Lufthansa Group are exposed to potential flight and technical operating risks. One of these is the risk of not being able to carry out regular flight operations for technical or external reasons. If flights do not take off or land on time, due to weather conditions for instance, this may have a negative influence on customer satisfaction and future purchase decisions. Airlines' liability for delays has also been broadened considerably, see "Consumer protection" on p. 108.

Another flight and technical risk is the risk of an accident happening, with the possibility of damage to people and property. Threats affecting the risk of accidents are divided into four groups: environmental factors (for example weather or bird strike), technical factors (for example engine failure), organisational factors (such as errors in selecting staff, contradictory instructions), and the human factor.

The airlines in the Lufthansa Group and Lufthansa Technik search for these dangers systematically in order to manage the resulting risk by means of suitable countermeasures and to increase the level of flight safety further. For example, every single Lufthansa Passenger Airlines flight is routinely analysed using the parameters recorded in the flight recorder (black box) in order to identify any peculiarities at an early stage. Other sources of information, e.g. accidents and hazardous situations which come to light around the world are also analysed and the results integrated into prevention measures, such as training courses, if relevant. The safety management systems of the Lufthansa Group airlines take a proactive approach and can thereby reduce operational risk, for instance by taking specific steps as part of pilot training or using technical modifications such as retrofitting new types of warning system. This enables the safety management systems to be improved and refined continuously.

Networking and the ongoing exchange of information between the different airlines in the Lufthansa Group offer the opportunity of consolidating the experience gained in each operating environment and pursuing a Group-wide, evidence-based approach to optimising the existing safety management systems. The aim is an overarching analysis based on a standardised set of data and uniform evaluation criteria.

In addition, Lufthansa is involved in research and development projects with various university departments aimed at examining the possibilities of quantitative risk measurement and the corresponding mitigation measures.

In the Catering segment, it is vital that food is produced to the highest quality and in accordance with all hygiene and food safety standards. Certified quality management systems are used to ensure that potential quality defects are identified at an early stage. These systems monitor and manage quality assurance and safeguard product standards. By continuously investing in its production plants and equipment and using the latest technology, LSG Sky Chefs is taking further steps to optimise its quality processes. The modernisation process is supported by intensive training courses as well as learning and problem-solving workshops in the individual companies.

Pooling purchasing activities for Europe, including Germany, is generating many opportunities for LSG Sky Chefs. These include greater consistency and quality of materials, pooled volumes, fewer stock shortfalls and substitute products, and also new innovation processes with suppliers for the development of application-specific products.

Information technology

The business processes in the Lufthansa Group are supported by IT components in virtually all areas. The use of IT inevitably entails risks for the stability of business processes and for the availability, confidentiality and integrity of information and data, and such risks ultimately cannot be fully eliminated. It is therefore necessary to deal appropriately with these IT risks. The IT risk management process serves to identify and evaluate IT risks and to initiate appropriate measures to reduce them.

The level of protection required for the IT systems is reviewed regularly. Audits consider the extent to which the process owners categorise their business processes to be mission-critical. Regular reviews deliver findings that are used for the continuous improvement of security methods. This approach is consummated by regular campaigns to raise staff awareness of how to deal with information and data.

Binding data protection policies exist for the Lufthansa Group as a higher-level instrument to ensure the appropriate information security. They are supplemented by a procedural and organisational framework as well as various detailed policies. An IT security unit puts these security rules into practice; it is made up of a Corporate Information Security Officer at Group level and Information Security Officers in the individual operating segments. The organisational unit is responsible for implementing the IT security and risk management standards in the Group companies.

Despite extensive protection against cyberattacks, disruptions to the availability of applications, the IT infrastructure and information security, including the protection of personal data, can never be ruled out completely. The failure of existing security measures can cause reputational damage to the Lufthansa Group that is difficult to measure and give rise to risks in the form of payment obligations resulting from contractual and statutory claims by customers, business partners and authorities.

To this end the Lufthansa Group has set up a Computer Emergency Response Team (CERT) and a dedicated process to manage security incidents. The Lufthansa Group's data protection policy also reflects the growing cyber-threat. Risk evaluation projects have been initiated and procedural and organisational cyber-defence measures are being implemented. New patterns of online attacks are identified in the course of permanent monitoring to implement the latest defence strategies.

IT risk and IT security processes are organised across operating segments. The results are compiled annually, consolidated at Group level and discussed by the Risk Management Committee for the Lufthansa Group. The risk and security management systems and selected other measures are also reviewed regularly by the internal audit department.

Corporate Data Protection works hand in hand with IT Risk Management and Security Management to ensure that the Lufthansa Group complies with the provisions of the Federal Data Protection Act by informing staff of the relevant rules and carrying out data protection audits. Furthermore, data protection experts from the divisions collaborate to introduce new systems and to design or adapt processes so that data protection and economic concerns are coordinated at an early stage and the privacy of customers, shareholders, suppliers and employees is respected when their personal data is being processed. Data protection risks do exist, however, due to demands for passenger data from various countries without the necessary legal basis, which may result in high fines, the withdrawal of landing rights or breaches of data protection rules.

Reputation

The Lufthansa Group interacts with various interest groups. In addition to customers, employees and investors, these also include suppliers, governments, legislatures and authorities, as well as neighbours and the general public. Interactions with these interest groups entail opportunities and risks for the Company's reputation. They are determined by the conduct and the perception of the Lufthansa Group in a large number of areas. These include product and service quality, financial results, corporate governance and conduct relating to the environment and social responsibility.

Corporate Communications and Capital Market Communications give the right information to the appropriate addressees in a timely manner. An Ad Hoc Committee, made up of the General Counsel and the heads of Investor Relations and Corporate Communications, also reviews potentially relevant events to determine their relevance for ad hoc publication in accordance with the Securities Trading Act. A decision on whether to publish an ad hoc statement or not always requires the approval of the Chief Financial Officer of Deutsche Lufthansa AG.

Breaches of compliance requirements

Compliance refers to the observance of legally binding requirements, and is intended to ensure that the Company, its executive bodies and its employees act in accordance with the law. The effectiveness of the Lufthansa Compliance Programme is therefore of vital importance to the Group and is explained in the "Corporate Governance" chapter on p. 131.

The Lufthansa Group is a global company, active in many countries and is therefore subject to various legal norms and jurisdictions with different, and sometimes hard to interpret, legal frameworks, including for commercial criminal law. The complexity of the subject is increased by the fact that all activities not only have to be judged against local criminal law, the laws applicable in the sales area and the local cultural customs and social conventions, but also need to take extraterritorial regulations like the US Foreign Corrupt Practices Act (FCPA) or the UK Bribery Act into consideration. Any infringements are investigated rigorously; they would result in criminal prosecution for the individuals involved and could expose the Company to fines running into millions of euros. There would also be reputational damage that is difficult to measure and the Company would be put at a distinct disadvantage in public tenders. The Lufthansa Group has put processes in place that are intended to identify specific compliance risks and, in particular, to prevent white-collar crime and corruption.

The Lufthansa Group is also exposed to risks arising from competition and antitrust law. They stem, in particular, from the fact that the Lufthansa Group operates in highly oligopolistic markets, cooperates with competitors in alliances, may have to deal with changes in the legal parameters for certain flight routes and that in some of its segments, suppliers, competitors and clients are the same legal person. The Competition Compliance function addresses the risks of collusive behaviour and provides the staff with extensive training.

Various segments of the Lufthansa Group are involved in international business. Embargo compliance is therefore another challenging area. Controlling passenger, cargo, data and other traffic requires complex procedures given that US legislation on exports and sanctions is applied on an extraterritorial basis, for example, and may differ in its content and scope from UN resolutions as well as EU sanctions and national export legislation. Further information can be found in the section "Embargo policy entails strict conditions" on p. 35.

Individual infringements, particularly of integrity, competition and embargo compliance, cannot be ruled out completely, despite the control mechanisms in place and the steps taken to mitigate risks.

Litigation, administrative proceedings and arbitration
The Lufthansa Group is exposed to risks from legal, administrative and arbitration proceedings in which it is currently involved or which may take place in future. It cannot be ruled out that the outcome of these proceedings may cause considerable damage to the business of the Lufthansa Group or to its net assets, financial and earnings position. Even if the Lufthansa Group should prevail in all the details of the case at dispute, it may, in the course of defending itself against accusations, incur significant lawyer's fees and other legal defence costs. Appropriate provisions have been made for any financial losses that may be incurred as a result of legal disputes. More information on provisions for litigation risks and contingent liabilities can be found in the Notes to the consolidated financial statements, "Note 33" starting on p. 195 and "Note 39" starting on p. 201.

Furthermore, the Lufthansa Group has taken out liability insurance for an amount that the management considers appropriate and reasonable for the industry in order to defend itself against unjustified private third-party claims and to settle such claims it considers justified. This insurance cover does not protect the Lufthansa Group against any damage to its reputation, however. Such legal disputes and proceedings may also give rise to losses in excess of the insured amount, losses not covered by the insurance, or those which exceed any provisions for losses due to legal disputes. Finally – and depending on the type and extent of future losses – it cannot be guaranteed that the Lufthansa Group will continue to obtain adequate insurance cover on commercially acceptable terms in future.

Accounting
Numerous national and European regulations and statutory provisions apply to the preparation of the Lufthansa Group's financial statements, as for all publicly listed companies in Germany. Risks could arise from the inadequate application of accounting regulations. The organisation of the Lufthansa Group's bookkeeping methods ensures that in accounting and the preparation of the financial statements the national and European regulations and statutory provisions are applied. Further information can be found in the following chapter "Description of the accounting-related internal control and risk management system in accordance with Section 289 Paragraph 5 and Section 315 Paragraph 2 No. 5 HGB" starting on p. 118 as well as in the "Corporate Governance" chapter starting on p. 127 and in the Notes to the consolidated financial statements from p. 154.

Overall assessment of opportunities and risks by the management

The opportunities and risks for the Lufthansa Group are defined very largely by macroeconomic factors and their subsequent effects on global air traffic markets and competition. In this environment the Lufthansa Group is relying on its ability to adjust its capacities and resources flexibly to changing market conditions. To compete successfully over the long term, the Lufthansa Group is focusing on a solid financial position and an efficient cost structure.

The implementation of "Continuous Improvement" will move SCORE into line management when it ends in 2015 and establish efficiency gains as a permanent task within the Company. In order to realise opportunities of making lasting structural improvements in efficiency, productivity and competitiveness, the strategic programme "7to1 – Our Way Forward" will be working on a number of vital action areas in the years ahead, in addition to continuous efficiency gains. The aim is to safeguard the Company's future viability by means of profitable growth, innovation and digitalisation, as well as a focus on quality and customer orientation.

The implementation risks for projects aimed at increasing efficiency and factors countervailing this, among them rising costs for fuel or fees and charges and declining average yields at the airlines, are mitigated by means of systematic risk management.

Although the estimate of individual risks changed in 2014 due to different internal and external conditions and as a result of the own countermeasures, there were no significant shifts in the overall risk landscape for the Lufthansa Group compared with the previous year.

Taking all known circumstances into account, no risks have currently been identified which either individually or as a whole could jeopardise the continued existence of the Lufthansa Group. The Lufthansa Group's management is convinced that the opportunities and risk management system is effective.

Description of the accounting-related internal control and risk management system in accordance with Section 289 Paragraph 5 and Section 315 Paragraph 2 No. 5 HGB

Principles of the accounting-related internal control and risk management system

The Lufthansa Group's internal control system covers all the principles, procedures and steps intended to ensure effective, economical and accurate accounting and compliance with the relevant legal regulations. It is based on the COSO model (Committee of the Sponsoring Organizations of the Treadway Commission). There have been no significant changes since the reporting date.

Overall responsibility for the internal control system required to manage risk lies with the Executive Board of Deutsche Lufthansa AG, which defines the scope and the format of the systems in place based on the specific requirements of the Lufthansa Group. The internal monitoring system consists of monitoring procedures both integrated into and independent of business processes. In addition to manual process controls – such as the need for dual signatures – automatic IT process controls form a vital part of the integrated monitoring procedures.

The Supervisory Board, particularly the Audit Committee and the Corporate Audit department of Deutsche Lufthansa AG as well as the decentralised internal audit departments at Group companies are embedded in the internal monitoring system for the Lufthansa Group and act independently of business processes.

The Audit Committee of Deutsche Lufthansa AG monitors the effectiveness of the internal control and risk management system on the basis of Section 107 Paragraph 3 German Stock Corporation Act (AktG). The auditors of the consolidated financial statements and other instances, such as the Internal Audit department, exercise a wider control function, independently of business processes, for the Lufthansa Group. In particular, the audit of the consolidated financial statements and the review of the accounts presented by the Group companies, which serves this purpose, constitute the main independent monitoring steps in relation to consolidated accounting procedures.

The internal control system is a component of the risk management system and in terms of financial reporting is directed at the risk of misstatements in the consolidated accounting and in external reporting. The objective of the internal control system for accounting processes is by making checks to provide a reasonable degree of certainty that the consolidated financial statements conform to regulations, despite the risks identified. Further comments on the Lufthansa Group's risk management system can be found in the "Risk management system" section of the "Risk and opportunities report" starting on p. 100.

Principal structures, processes and controls

The Lufthansa Group's accounting guidelines define uniform accounting standards for the domestic and foreign companies included in the Lufthansa consolidated financial statements in accordance with International Financial Reporting Standards (IFRS). In addition to general accounting principles and methods this relates above all to rules for the balance sheet, income statement, notes, cash flow statement and segment reporting in accordance with the legal situation in the EU. For the domestic German companies in the Group, a guideline defines rules for drawing up individual financial statements in line with the German Commercial Code (HGB).

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

The controlling activities to ensure the accuracy and reliability of the accounting include analytical reviews using specific performance indicators as well as the execution and control of important and complex transactions by different people. The separation of administrative, executive, accounting and authorisation functions and their performance by different individuals (dual signatures) reduce the risk of fraud.

Internal guidelines also govern specific formal requirements made of the consolidated financial statements. Establishing the group of consolidated companies is defined in detail, as are the components of the reports to be drawn up by the Group companies and their transmission to the central consolidation system. The formal requirements relate to the mandatory use of a standardised and complete set of reporting forms and a uniform account framework for the Group. The internal guidelines also include concrete instructions on presenting and carrying out netting procedures within the Group and confirming the resulting account balances. Confirmation of account balances for the entire Group takes place via an internet-based platform.

At Group level the specific control activities to ensure the accuracy and reliability of consolidated financial reporting include the analysis and if necessary restatement of separate financial statements prepared by Group companies, taking into account the auditors' reports and meetings held to discuss them. The accuracy and completeness of the reporting packages presented by the individual companies in the Group are confirmed by the respective auditors in their report. Individual financial statements that contain errors are selected and restated as necessary at Group level on the basis of control mechanisms already defined in the consolidation software SAP SEM-BCS system and/or by systematic plausibility checks. The consolidation system dictates the different deadlines for various elements of the reporting packages and verifies centrally that they are adhered to during the preparation process. Changes to sections of the accounts that have already been closed can then only be made following authorisation in the system by the department responsible for the consolidated financial statements. The centralised controlling of impairment tests for the specific cash-generating units from the Group perspective ensures that uniform, standardised measurement criteria are applied.

The scope of regulations at Group level extends to the centralised definition of the parameters to be used for measuring pension provisions. Expert opinions for determining the amount of pension provisions are prepared by external consultants. Furthermore, the data used to prepare external information in the Notes to the financial statements and the management report are prepared and aggregated centrally. The accounting-based internal control system also aims to ensure that the financial statements for Deutsche Lufthansa AG are prepared in accordance with the provisions of commercial law laid down in the German Commercial Code (HGB). The accounting-related processes are examined independently and regularly by the Corporate Audit department and by the internal auditing departments of the Group companies.

Use of IT systems

Bookkeeping for the individual financial statements of subsidiaries of Deutsche Lufthansa AG generally takes place in local bookkeeping systems from SAP, either locally or using the Group's own Shared Services centres. To prepare the consolidated financial statements of Deutsche Lufthansa AG, the Group companies supplement their individual financial statements with further information to form standardised reporting packages. These are then entered into the consolidation software SAP SEM-BCS by the Group companies, either automatically via transfer interfaces or by means of a data input module. SAP SEM-BCS was put through a special system test by the Group auditors when it was introduced. Any adjustments made to the system are subject to regular reviews by the auditors.

The SAP SEM-BCS system generates and documents all the steps taken to prepare the consolidated financial statements for Deutsche Lufthansa AG, such as capital consolidation, consolidation of liabilities, the elimination of intra-Group expenses and profits, and the equity valuation. Consolidation takes place simultaneously. All elements of the consolidated financial statements for Deutsche Lufthansa AG, including the disclosures in the Notes, are compiled from the SAP SEM-BCS consolidation system. The IT systems used for accounting are protected against unauthorised access by special security precautions.

Qualifying remarks

By means of the organisational, control and monitoring structures defined for the Lufthansa Group, the internal control and risk management system as it relates to accounting enables all matters affecting the Company to be captured, processed and evaluated and to be presented adequately in the Group's financial reporting. The effectiveness and reliability of the control and risk management systems deployed can be restricted by the use of individual discretion, faulty checks, criminal acts by related persons and other factors, so that even the application of these systems throughout the Group cannot guarantee complete certainty regarding the accuracy, completeness and timeliness with which matters are recognised in consolidated financial reporting. These statements only relate to Deutsche Lufthansa AG and the significant subsidiaries included in the consolidated financial statements of Deutsche Lufthansa AG.

Forecast

The global economy is expected to grow slightly faster in 2015. / Industry profits to increase significantly as a result of lower oil prices. / Volatile environment will strongly influence the course of the financial year. / Collective bargaining disputes will continue to impact on earnings. / Restructuring of Lufthansa Passenger Airlines to continue. / Significantly negative yields are expected to reduce revenue slightly on the previous year. / Adjusted EBIT to benefit from lower fuel costs and should be more than EUR 1.5bn in financial year 2015.

Macroeconomic outlook

GDP development
Forecast 2014 to 2018 compared with previous year

in %	2014*	2015*	2016*	2017*	2018*
World	2.7	3.0	3.4	3.5	3.6
Europe	1.4	1.8	2.1	2.1	2.0
Germany	1.5	1.6	1.9	1.8	1.6
North America	2.4	3.0	2.6	2.7	2.4
South America	0.9	1.3	2.8	3.5	3.9
Asia/Pacific	4.7	4.8	5.1	5.2	5.4
China	7.3	6.5	6.7	6.9	7.1
Middle East	3.1	3.2	4.0	4.6	5.0
Africa	3.5	4.6	5.2	5.3	5.3

Source: Global Insight World Overview as of 15.1.2015.
* Forecast.

Moderate economic growth expected globally
Global economic growth is expected to pick up further in 2015 to a rate of 3.0 per cent, after three years with growth rates of 2.5, 2.6 and 2.7 per cent respectively. The debt crisis, geopolitical events and the very slow return of confidence on the part of consumers and investors were responsible for the comparatively subdued economic growth in recent years. In view of the continuously positive economic performance in the USA, the Federal Reserve announced that it would taper its expansionist monetary policy if the trend continued. A gradual improvement in the economic climate in the euro zone and expansionist monetary policy, especially in Japan, Europe and China, also set the stage for economic growth closer to the long-term trend of over 3 per cent in the new financial year. This positive outlook is supported by the steep fall in the oil price in the second half of 2014 and the beginning of 2015.

It results in a transfer of wealth from oil-exporting to oil-importing countries, which is predicted to have a positive net effect on global economic growth. It is expected that the decrease in the oil price will add 0.2 to 0.4 percentage points to the global growth rate. A prerequisite for this positive development, however, is that geopolitical tensions do not worsen.

Stable growth in the USA is mainly driven by strong domestic demand. Positive labour market developments, further stabilisation on the property market and lower energy prices have caused a return in consumer confidence and a corresponding increase in demand for consumer goods. Low interest rates support the trend. Altogether, economic growth of 3.1 per cent is expected for the USA (previous year: 2.4 per cent).

The economic forecasts for Latin America are mixed. A number of smaller countries are projected to outpace the global economy, but Brazil is only expected to grow by 0.4 per cent, while growth for Venezuela and Argentina is even forecast to be negative. Economic expansion for Latin America as a whole is forecast to be 1.3 per cent (2014: 0.9 per cent).

In China, the slower pace of economic development is primarily due to weak domestic demand, which in turn stems from problems in the property market. The Chinese government regularly reacts to downturns with programmes to stimulate the economy. This time, however, high levels of private and municipal debt, industrial overcapacities and large stocks of unsold apartments are causing the Chinese government to choose its stimulus measures carefully. At the same time, a restructuring programme is underway, aimed at developing the Chinese industry away from its traditional reliance on labour and energy towards more innovative companies with a greater share of the value chain. It is currently expected that the Chinese economy will grow by 6.5 per cent in 2015, compared with a rate of 7.3 per cent in 2014.

In Japan, a further increase in the sales tax has been postponed from October 2015 to April 2017 after the first stage of the increase in April 2014 had an unexpectedly negative impact on the economy. This postponement is being supported by further stimulus measures, so growth of 1.0 per cent is forecast for Japan in 2015, while the Japanese economy had grown by only 0.2 per cent in 2014. Altogether, the economy of the Asia/Pacific area is expected to grow by 4.8 per cent in 2015.

For the Near East, the forecast growth rate of 3.2 per cent for 2015 is slightly higher than the global average. African countries are predicted to grow faster, by 4.6 per cent. Most of the fast-growing countries in Africa lie south of the Sahara.

The European economy returned to growth in 2014, expanding by 1.4 per cent. A weaker euro, the waning sovereign debt crisis, further stabilisation in labour markets and supportive monetary policy will support this growth track in 2015. Europe is also one of the regions to benefit from the significant fall in the oil price. Overall, growth of 1.8 per cent is forecast for Europe in 2015 (previous year: 1.4 per cent). The German economy is expected to expand by 1.6 per cent in 2015 (previous year: 1.5 per cent). This positive trend is projected to continue in subsequent years.

Interest and exchange rates remain subject to uncertainty
The economic situation in the euro area, USA, China and Japan at the start of 2015 leaves plenty of room for speculation and volatile sideways movements in exchange rates. Central bank policies are again expected to strongly influence foreign exchange markets in 2015.

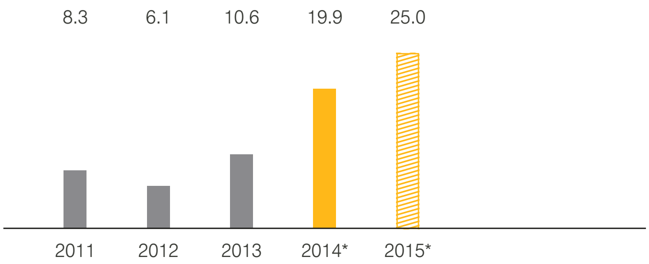
The market consensus is that short-term rates will remain stable at a very low level. Long-term interest rates are forecast to rise slightly, driven by interest rate policy expectations for the USA and the euro area, although this process may be tempered by the European Central Bank's programme of purchasing government debt.

Oil prices to rise in the medium term
Market players expect oil prices to go up again slightly mid-term on the back of economic forecasts. Although prices at one point fell to below USD 60.00 per barrel, as of 2 January 2015 forward contracts for delivery in December 2015 were trading at USD 65.58/barrel and for December 2016 at USD 71.01/barrel.

Sector outlook

Sector performance expected to be uneven across the regions
Taking the forecasts for global economic growth into account, IATA is predicting growth of 7.0 per cent in global revenue passenger-kilometres for 2015 (previous year: 5.7 per cent). Growth is expected to vary between regions. IATA forecasts the highest growth rate of 13.9 per cent for global passenger traffic in the Middle East. High rates of 7.7 per cent and 6.0 per cent respectively are also forecast for the Asia/Pacific and Latin America regions. International passenger traffic is expected to grow more slowly in Europe (+5.5 per cent), Africa (+5.1 per cent) and North America (+3.1 per cent).

Development of sector net result in USD billion



Source: IATA Financial Forecast (12/2014).

* Forecast.

Airfreight traffic to return to stable growth rates
After returning to a growth path in 2014 with a sales increase of 4.3 per cent, global airfreight traffic should see similar growth in sold tonne-kilometres in 2015 (+4.5 per cent), according to IATA. Growth will come from all regions, with airfreight traffic rising fastest in the Middle East and Africa.

Earnings for the airline industry to go up significantly as a result of low oil prices
The global airline industry reported profits of USD 19.9bn in 2014, which IATA expects to go up to USD 25.0bn in 2015. This significant increase is expected to come mainly from lower oil prices, which should relieve the airlines' cost base substantially. Earnings are forecast to rise in all regions of the world, albeit at different rates. Airlines in North America are predicted again to take the largest share of the profit increase, with forecast earnings of USD 13.2bn for 2015.

Profits of USD 4.0bn are forecast for European carriers and of USD 5.0bn for airlines in the Asia/Pacific region. Carriers from the Middle East and South America will increase their earnings to USD 1.6bn and USD 1.0bn respectively. African airlines are projected to generate profits of only USD 0.2bn in 2015.

Changes in business and organisation

The Lufthansa Group regularly reviews its organisational structure and adapts it as necessary to changes in the business environment.

In view of the persistent cost pressure in the IT Infrastructure segment, the Lufthansa Group and Lufthansa Systems AG took a joint decision to alter the strategic direction of Lufthansa Systems and split the company into three entities. The IT Infrastructure segment will then be acquired by IBM in 2015 as part of a long-term outsourcing agreement. The segments Airline Solutions and Industry Solutions will remain in the Lufthansa Group as independently operating companies. The break-up of Lufthansa Systems AG and the sale of its IT Infrastructure segment lead to the dissolution of IT Services as a self-contained strategic operating segment. Accordingly there will be no further separate reporting on this segment from 2015. More information can be found in the chapter "IT Services" on p. 85–88.

The Lufthansa Group intends to pool its strengths in the area of flight training. It plans to merge Lufthansa Flight Training GmbH (LFT) and Swiss Aviation Training AG (SAT) as partners by July 2015. In an initial organisational step, LFT was assigned to Lufthansa Passenger Airlines in the Passenger Airline Group segment as of 1 July 2014.

The transfer of European non-hub traffic from Lufthansa Passenger Airlines to Germanwings continued in 2014 and was completed successfully on 7 January 2015.

On 29 April 2014, the Annual General Meeting of Deutsche Lufthansa AG approved the carve-out of the Miles & More bonus programme into a separate legal entity. The carve-out transaction was completed in September 2014.

Outlook for the Lufthansa Group

On the basis of the generally positive development expected for the relevant regions and economies, the Lufthansa Group is adopting a generally positive expectation for the development in demand in 2015, which will nonetheless have to be validated continuously over the course of the year.

Volatile environment will strongly influence the course of the financial year
Intense competition, declining yields and the adverse impact of numerous strikes dominated the financial year 2014. The environment for the financial year 2015 is expected to be similar.

Increasing penetration of the Passenger Airline Group's core markets by low-cost carriers, continued growth by the state-owned airlines from the Gulf region and the decline in the oil price are all expected to depress yields in this segment significantly. A change of just 1 per cent in yields affects earnings by more than EUR 200m, which makes it particularly difficult to estimate the Adjusted EBIT for the Lufthansa Group used in this forecast for the first time in 2015. For this reason, the figures are subject to considerable uncertainty.

Four factors will have a strong influence on the profitability of the Lufthansa Group in the new financial year.

- The development of the oil price
- The development of the euro exchange rate, particularly against the US dollar and the Swiss franc
- The development of yields at the Passenger Airline Group
- The course of negotiations with unions at Lufthansa Passenger Airlines

Fuel costs represent more than 20 per cent of the Lufthansa Group's total expenses. Consequently, significant changes in the cost of kerosene have a decisive impact on the Company's profitability. The beginning of the year saw a sharp fall in oil prices, the key driver of the kerosene price, which initially remained at a low level – contrary to the expectations of many experts.

At the same time, the US dollar strengthened substantially against the euro, which offset part of the expected savings. In addition to the US dollar, the Swiss franc affects both costs and revenue at the Lufthansa Group, especially at SWISS. Nonetheless, the steep fall in the oil price is initially expected to have an overall positive effect on earnings.

However, these overall positive effects on the cost side will largely be offset by the prospect of significant falls in average yields. As the hub airlines in the Passenger Airline Group operate in a tough market with substantial overcapacities, the Lufthansa Group expects yields to be significantly lower, because costs will also be lower for competitors, creating room for more aggressive pricing. Moreover, competition is forecast to increase, in Europe due to the growing presence of low-cost airlines in Germany in particular, and worldwide due to the continuously growing Gulf carriers on long-haul routes.

On top of the challenges posed by the operating business, there is still an agreement to be reached with the collective bargaining partners. In 2014, the strikes by the pilots' union Vereinigung Cockpit led to considerable operational difficulties and financial expenses. Customers' booking patterns have noticeably changed for the worse. As no settlement in the collective bargaining dispute likely at short notice and the flight attendants' union UFO has now also signalled its willingness to strike, for some time industrial action must be expected to depress earnings again in 2015.

Restructuring of Lufthansa Passenger Airlines moves forward
Under these circumstances, the Lufthansa Group will continue with its chosen strategy for developing the Passenger Airline Group, while growth will come mainly from the service companies.

The focus is on reworking staff retirement benefits as well as pilots' and flight attendants' transitional benefits and wage agreements.

The transfer of flights outside the hubs in Frankfurt and Munich to Germanwings in 2014 marked an important milestone for Lufthansa Passenger Airlines. In the current financial year, the aim for Germanwings is to break-even for the first time and so reap the rewards of the reorganisation. In parallel, the new Eurowings will be turned into a platform for future point-to-point traffic within Europe and for low-cost long-haul flights, with a stand-alone business model, which is separate from that of the airline group. The first long-haul flights under this brand will start at the end of the year. Eurowings' existing regional fleet will increasingly be transfered to more efficient aircraft of the A320 family.

Structural profitability has to be improved in order to compensate for fluctuations in the operating environment
As described above, the Lufthansa Group is particularly exposed to highly volatile market conditions in its core business segment, and the Company is only partially able to influence these conditions. They include fluctuations in the oil price and exchange rates as well as political and economic developments. The Lufthansa Group is also subject to further developments beyond its control, such as the increasing tendency of small collective bargaining groups to go on strike, as happened with the strikes by ground and security staff at Frankfurt Airport last year.

Fair competition with competitors inside and outside Europe is also of great importance for the future viability of the Passenger Airline Group. The Lufthansa Group will therefore continue to lobby intensively to achieve a level playing field for all market participants. This includes new rules for the European Emissions Trading Scheme, comparable taxes for passengers and airlines in all markets and for all market players and, in particular, a reasonable progression in the fees charged by air traffic control and airports.

This year, the SCORE programme is due to be moved into routine management in order to achieve further improvements in the structural profitability of the Lufthansa Group. Additonally, structural change will also become increasingly important for the Lufthansa Group. One key element of the Group's future set-up is the revision of its management and governance structures, which is planned to take place in 2015. The degree to which the airlines are integrated with one another and the management of the Company portfolio are part of this revision of the set-up.

At a time of change, it is particularly important that financial stability is ensured at all times. Following the steep increase in pension provisions in the reporting year and the reduction of the earnings target for 2015, the Group's capital structure will play an even greater role in commercial decisions in the future.

First forecast on the basis of new performance indicators
Starting with the first interim report in 2015, the Lufthansa Group will switch over all of its financial reporting to the new performance indicators EBIT, Adjusted EBIT and EACC. For the earnings forecast, the leading indicator is the Adjusted EBIT. It is derived from EBIT, and is adjusted for book gains and losses, impairment losses and non-recurring pension effects. These adjustments are intended to reduce the volatility of the external earnings figure. According to past experience, EBIT tends to be structurally higher than the operating result used to date. Details of the new performance indicators can be found in the chapter "Management system and supervision" on p. 29.

Adjusted EBIT for the Lufthansa Group in 2015 to be more than EUR 1.5bn

The Lufthansa Group is expecting a significant reduction in fuel expenses for 2015. If the oil price stayed at the same low level as at the beginning of the year and the US dollar did not appreciate any further, fuel costs may be lower than the previous year by at least a high three-digit million amount. However, these substantial savings will probably be offset to a large degree by a significant fall in yields at the airlines. Slightly lower unit costs and the absence of non-recurring costs from the previous year, together with higher earnings contributions from the service companies, will help to boost Adjusted EBIT for the Lufthansa Group, however.

Based on these assumptions and from a current perspective, the Lufthansa Group estimates that revenue for 2015 will be slightly lower than last year and that Adjusted EBIT will be more than EUR 1.5bn.

The main influences on earnings will be the factors mentioned above: the oil price and changes in the jet fuel crack, the euro exchange rate, especially against the US dollar and the Swiss franc, the yields at the Passenger Airline Group and the course of the negotiations with unions at Lufthansa Passenger Airlines. Overall risks from underlying macroeconomic developments remain.

This earnings forecast does not include the negative effects of any future strikes – including the currently unforeseeable long-term consequences for customers' booking patterns of the many strikes by the pilots' union Vereinigung Cockpit last year.

Any costs for the restructuring of individual operating segments that may be required over the course of the year cannot be budgeted for at present and are accordingly not included in this forecast. Costs of this kind may be communicated over the course of the year, however, along with a description of the measures planned.

As in previous years, the Lufthansa Group's operating segments are still expecting a considerable degree of general cost inflation.

Earnings improvements to come largely from the Passenger Airline Group

Lufthansa Passenger Airlines expects its earnings to go up significantly in the current financial year. The main drivers of this performance will be lower fuel costs, the ongoing structural change and the positive development of Germanwings. It is expected that a decline in yields will burden earnings. Revenue is therefore predicted to be slightly lower than last year. In the ongoing negotiations with the pilots' and flight attendants' unions sustainable solutions for collective agreements on wages, transitional benefits and retirement benefits shall be explored. There is a high risk that further strikes will have a negative impact on earnings at Lufthansa Passenger Airlines in 2015.

As a quality airline, SWISS is well positioned for competition between hubs. In 2015, SWISS will continue the transformation process dictated by its company strategy. The depreciation of the euro, the US dollar and other currencies against the Swiss franc will have an adverse effect on revenue at SWISS, since income is largely generated in foreign currencies. The exchange rate will also impact the competitiveness with European peers and the operating business of the Swiss airline. Under these circumstances SWISS is assuming that its Adjusted EBIT for the full year 2015 will be on par with the previous year.

Austrian Airlines is expecting its successful ongoing restructuring programme to boost earnings in 2015. The current adjustments to its capacity and marketing activities will contribute to increasing its income. Austrian Airlines expects a significant improvement in Adjusted EBIT for 2015.

Overall, the Passenger Airline Group segment projects a significant rise in Adjusted EBIT year-on-year. Revenue forecasts for this operating segment remain difficult in view of the uncertainty surrounding pricing and exchange rate movements. The expectation is nonetheless that the fall in yields will have a greater effect on traffic revenue than capacity growth and higher load factors. In other words a slight fall in revenue is to be expected.

Forecast performance indicators Passenger Airline Group

	Values 2014	Forecast for 2015
Fleet (Number of aircraft)	−2.6%	further reduction
Capacity (ASK)	+2.1%	approx. +3%
Sales (RPK)	+2.4%	up more than capacity
Passenger load factor (SLF)	+0.3%	slight increase
Pricing (Average yields)	−3.1%	significantly negative*
Unit revenue (RASK)	−2.8%	significantly negative*
Unit costs (CASK, excluding fuel)	−3.0%	slightly reduced*

* At constant currency.

The strategy to increase capacity while keeping the fleet size stable and reducing the number of flights remains valid. The deployment of larger aircraft, productivity gains and an optimised distribution of travel classes on board is to increase capacity at the Passenger Airline Group, measured in available seat-kilometres (ASK), by around 3 per cent. As in previous years, the Passenger Airline Group expects this market strategy to improve the load factor of its aircraft. Unit costs are expected to be slightly reduced overall. The development of yields and unit revenues are expected to be significantly negative.

The forecast earnings improvement will therefore be determined very largely by the difference between savings from lower fuel costs and declining yields.

All Group airlines are able to adjust their capacities to lasting changes in demand. The main factors affecting this forecast – a volatile oil price, exchange rate risks, market capacity and pricing, and strike risks – have been described in detail above.

Earnings progression is slightly positive overall

Lufthansa Cargo will continue to consistently implement its programme "Lufthansa Cargo 2020". The Logistics segment is expecting solid growth in the airfreight market in 2015, which should help to increase Adjusted EBIT slightly.

Revenue is forecast to be slightly down on the previous year as a result of lower fuel surcharges. Lufthansa Cargo will continue to manage its capacities according to market developments and adjust them to meet demand in order to maximise its load factors and generate adequate yields.

Lufthansa Technik is expecting earnings to be slightly lower than last year in 2015, despite higher revenue. The main reasons are non-recurring effects last year, increasing price pressure and lower margins in the MRO business, a much greater volume of innovation and technology projects, and expenses for expanding its group structure. The Company will focus on growing the business and implementing further projects as part of the SCORE programme.

LSG Sky Chefs is expecting revenue to increase year on year in 2015 and earnings to go up significantly. It will consistently implement the ongoing programmes to increase efficiency, and exploit opportunities for profitable growth in its core business and adjacent markets. This will be achieved by increasing its service focus, becoming closer to its customers and continuing to expand its commercial expertise in the development and implementation of innovative in-flight service concepts.

Lufthansa Group and operating segments earnings forecast 2015

	Revenue		Adjusted EBIT	
	Revenue 2014 in €m	**Forecast for 2015**	Adjusted EBIT 2014 in €m	**Forecast for 2015**
Lufthansa Passenger Airlines	17,098		399	significantly above previous year
SWISS	4,241		278	on par with the previous year
Austrian Airlines	2,069		9	significantly above previous year
Reconciliation	−88		15	
Passenger Airline Group	23,320	slightly below previous year	701	significantly above previous year
Logistics	2,435	slightly below previous year	123	slightly above previous year
MRO	4,337	slightly above previous year	380	slightly below previous year
Catering	2,633	significantly above previous year	88	significantly above previous year
IT Services	646	dissolution of business segment	44	dissolution of business segment
Other	0		−161	significant improvement
Internal revenue / Reconciliation	−3,360		−4	
Lufthansa Group	**30,011**	**slightly below previous year**	**1,171**	**more than € 1.5bn**

From the 2015 financial year, there will be no separate forecasts for the IT Services segment. This operating segment was dissolved at the end of the 2014 financial year after the successful conclusion of an agreement to sell one of its main divisions. The remaining activities have been assigned to the Other segment. Details can be found in the chapter "IT Services business segment" on p. 85.

Higher net profit forecast
The Lufthansa Group is expecting a substantial increase in net profit for 2015, reflecting a higher Adjusted EBIT, the absence of expenses related to the sale of the Lufthansa Systems Infrastructure segment and the market valuation of the JetBlue convertible bond.

Financial stability to remain in focus
For 2015, the Lufthansa Group is planning gross capital expenditure of around EUR 2.9bn, and of EUR 2.5bn for the following years. A balanced free cash flow is expected for the 2015 financial year.

The Lufthansa Group's financial profile will remain stable. After dropping in the last year, mostly as a result of changes in discount rates, the equity ratio should go up again. The debt repayment ratio is currently below the minimum of 35 per cent and should improve again. The current investment grade rating is expected to be maintained. Due to the negative HGB result, no dividend will be paid for the 2014 financial year, in order not to endanger the financial substance of the Company. The Executive Board and Supervisory Board are thereby adhering to the Lufthansa Group's long-term dividend policy. Dividend payments will be resumed once the requirements for this are met.

Experience shows that it is difficult to give a forecast for future value creation. The current macroeconomic outlook means that achieving a positive EACC in 2015 is unlikely, however.

Lufthansa Group forecast financial profile

	Values 2014	Target	**Forecast for 2015**
Equity ratio	13.2%	25% medium-term	slight increase
Debt repayment ratio	20.6%	45% (minimum 35%)	slight increase
Liquidity	€ 2.7bn	minimum liquidity € 2.3bn	€ 3.0bn

Overall statement on the expected development of the Lufthansa Group

Lufthansa – First choice
In spite of the challenging market and the highly volatile operating environment, the Executive Board of Deutsche Lufthansa AG remains optimistic regarding the development of the Lufthansa Group and its companies.

The Executive Board believes that the broad diversification of the Lufthansa Group puts it in a good position to meet the present and future demands of the market. Diversification of the group in network airlines, point-to-point airlines and service companies is just as important in this context as the solid financial profile of the Lufthansa Group. These two features enable the airlines and the service companies to initiate, finance and implement the ongoing processes of structural change from a position of strength.

The structural increase in the Group's earnings remains vitally important. This is the fundamental condition for the Lufthansa Group's sustainable development, not least due to persisting cost pressure and shifting competitive structures. The pillars of the Company's strategy remain the pillars for this development: increasing company value, profitabe growth and an active role in sharping the aviation industry and continuously increase customers satisfaction.

The development of the financial year 2014 shows that the Company is not short of challenges. The programme "7to1 – Our Way Forward" has set the right course, which the Lufthansa Group will now follow: towards becoming a uniquely integrated global aviation group, which generates vital synergies by means of its broad footprint and hence creates value for customers, employees and shareholders.

From this perspective, the Executive Board is confident that good progress can be made this year towards achieving these ambitious goals. An intensive phase of far-reaching changes still lies ahead of the Company, a phase in which the necessary steps will be put into practice and the corporate culture will be further developed. The Executive Board is confident that staff and managers together will take and implement the right decisions to ensure that Lufthansa remains the first choice for customers, employees and shareholders.

Corporate Governance

Executive Board and Supervisory Board work together closely to sustainably increase Company value. / Compliance with the recommendations of the German Corporate Governance Code with one exception. / Executive Board remuneration is linked to sustainable Company success. / Comprehensive compliance programme.

Supervisory Board and Executive Board

Supervisory Board

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

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

Voting members

Wolfgang Mayrhuber
Former Chairman of the Executive Board
Deutsche Lufthansa AG
Chairman of the Supervisory Board

Christine Behle
Member of the National
Executive Board of ver.di
Employee representative
Deputy Chairwoman

Jacques Aigrain
Chairman LCH.Clearnet
Group Limited, UK

Dr Werner Brandt
Former Member of the
Executive Board SAP SE

Herbert Hainer
Chairman of the Executive
Board adidas AG

Dr Jürgen Hambrecht
Former Chairman of the
Supervisory Board BASF SE
(until 29 April 2014)

Uwe Hien
Purser and advisor of the trade
union UFO in tariff matters
Employee representative

Dr h.c. Robert Kimmitt
Senior International Counsel
WilmerHale, USA

Dr Karl-Ludwig Kley
Chairman of the Executive Board
Merck KGaA

Martin Koehler
Independent management consultant and
former head of the Aviation Competence
Center at The Boston Consulting Group

Doris Krüger
Head Lufthansa Group Innovation Unit
Employee representative

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

Eckhard Lieb
Engine maintenance mechanic
Employee representative

Jan-Willem Marquardt
Flight captain and member
of the Cockpit pilots' union
Employee representative
(since 1 January 2015)

Ralf Müller
State certified technician
Employee representative

Monika Ribar
Former President and CEO of
PANALPINA WELTTRANSPORT AG,
Switzerland
(since 29 April 2014)

Ilona Ritter
Chairwoman Bargaining Policy
of the Cockpit pilots' union
Employee representative
(until 31 December 2014)

Andreas Strache
Flight manager
Employee representative

Christina Weber
Administrative staff member
Employee representative

Birgit Weinreich
Flight attendant
Employee representative

Matthias Wissmann
President of the German Automotive
Industry Federation (VDA)

Stefan Ziegler
Flight captain
Employee representative

Executive Board

Dr Christoph Franz
Chairman of the Executive Board
(until 30 April 2014)

Carsten Spohr
Member of the Executive Board
Chief Officer Lufthansa German Airlines
(until 30 April 2014)
Chairman of the Executive Board
(since 1 May 2014)

Karl Ulrich Garnadt
Member of the Executive Board
Chief Officer Lufthansa German Airlines
(since 1 May 2014)

Harry Hohmeister
Member of the Executive Board
Chief Officer Group Airlines,
Logistics and IT

Simone Menne
Member of the Executive Board
Chief Officer Finances and Aviation Services

Dr Bettina Volkens
Member of the Executive Board
Chief Officer Corporate Human
Resources and Legal Affairs

Supervisory Board Committees

Steering Committee

Wolfgang Mayrhuber (Chairman)

Christine Behle (Deputy Chairwoman)

Dr Jürgen Hambrecht (until 29 April 2014)

Dr Karl-Ludwig Kley (since 29 April 2014)

Stefan Ziegler

Five meetings in 2014

The Supervisory Board has elected a Steering Committee from among its members made up of equal numbers of shareholder and employee representatives. It consists of the Chairman of the Supervisory Board, his deputy and two other members. The Steering Committee gives recommendations to the Supervisory Board on the contents, form and signing of employment contracts with Executive Board members and is responsible for other HR matters involving board members and authorised Company representatives (e.g. lending in accordance with Section 89 Stock Corporation Act (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 internal regulations for the Executive Board. In the event of equal voting, the Chairman of the Supervisory Board has the casting vote.

Audit Committee

Dr Werner Brandt (Chairman since 29 April 2014)

Dr Karl-Ludwig Kley (Chairman) (until 29 April 2014)

Uwe Hien

Martin Koehler

Eckhard Lieb

Monika Ribar (since 29 April 2014)

Ilona Ritter (until 31 December 2014)

Jan-Willem Marquardt (since 11 March 2015)

Five meetings in 2014

The Supervisory Board has elected an Audit Committee from among its members made up of equal numbers of shareholder and employee representatives, which has six members. The chair is held by 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. Of the members of the Supervisory Board, two members of the Audit Committee, Dr Werner Brandt as the former CFO of SAP AG and Monika Ribar as the former CEO and Group President of PANALPINA WELTTRANSPORT AG, are among those who qualify as independent financial experts. The task of the Audit Committee is to discuss, in accordance with instructions from the Chairman of the Supervisory Board, the monitoring of the accounting process, the examination of the effectiveness of the internal control system, the risk management system and the internal auditing system as well as matters of compliance, the necessary independence of the auditors, the appointment of auditors, the focus of audits and the fee agreement, and to make recommendations in this respect to the Supervisory Board, particularly on the auditors to put forward for election at the Annual General Meeting and on approval of the individual and consolidated financial statements and the combined management report. The Audit Committee also discusses the quarterly interim reports with the Executive Board before they are published. The Audit Committee is authorised to lay down the internal organisation of its work in its own internal regulations, which it submits to the Supervisory Board for its information.

Nomination Committee

Dr Werner Brandt

Dr Jürgen Hambrecht (until 29 April 2014)

Dr Karl-Ludwig Kley (since 29 April 2014)

Wolfgang Mayrhuber

No meetings in 2014

The Supervisory Board has elected a Nomination Committee from among its shareholder representatives, consisting of three equal members. The Committee's task is to propose to the Supervisory Board suitable candidates to recommend for election at the Annual General Meeting. The Supervisory Board should be composed in such a way that, in aggregate, its members have the necessary knowledge, skills and professional experience required for the proper performance of their duties. At least five shareholder representatives should be independent members of the Supervisory Board. At least two shareholder representatives should be women. Taking the preceding conditions into account, a reasonable number of members should also have several years of professional experience gained outside Germany.

Arbitration Committee in accordance with Section 27 Paragraph 3 Co-determination Act (MitbestG)

Wolfgang Mayrhuber (Chairman)

Christine Behle (Deputy Chairwoman)

Dr Jürgen Hambrecht (until 29 April 2014)

Dr Karl-Ludwig Kley (since 29 April 2014)

Stefan Ziegler

No meetings in 2014

The task of this committee, appointed in accordance with Section 9 Paragraph 2 of the Company's Articles of Association, is to exercise the rights mentioned in Section 31 Paragraph 3 Sentence 1 of the Co-determination Act when members are appointed to the Executive Board, and when their appointment is revoked.

Mandates

Other mandates of the Supervisory Board members of Deutsche Lufthansa AG

(As of 31.12.2014; if a Supervisory Board member steps down during the financial year, the information relates to the date of departure)

Wolfgang Mayrhuber
a) BMW AG
Infineon Technologies AG (Chairman)
Münchener Rückversicherungs-Gesellschaft AG
b) HEICO Corp.

Christine Behle
a) Bremer Lagerhaus-Gesellschaft-Aktiengesellschaft von 1877 (Deputy Chairwoman)
Bochum-Gelsenkirchener Straßenbahnen AG
b) ACE Auto Club Europa e.V./ACE Wirtschaftsdienst GmbH

Jacques Aigrain
b) LCH.Clearnet SA
London Stock Exchange Group PLC
LyondellBassell NV
QFCA Qatar Financial Center Authority
Swiss International Air Lines AG
WPP PLC

Dr Werner Brandt
a) RWE AG
ProSiebenSat.1 Media AG (Chairman)
Osram Licht AG
b) QIAGEN N.V. (Chairman)

Herbert Hainer
a) Allianz Deutschland AG
FC Bayern München AG (Deputy Chairman)

Dr Jürgen Hambrecht
(until 29.4.2014)
a) Daimler AG
Fuchs Petrolub SE (Chairman)
TRUMPF GmbH + Co. KG (Chairman)

Dr Karl-Ludwig Kley
a) Bertelsmann Management SE
Bertelsmann SE & Co. KGaA
BMW AG (Deputy Chairman)

Martin Koehler
a) Delton AG
b) Enfold Inc.

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

Eckhard Lieb
b) Albatros Versicherungsdienste GmbH

Ralf Müller
a) Lufthansa Cargo AG

Monika Ribar
b) Chain IQ Group AG
Logitech International SA
Rexel SA
Schweizerische Bundesbahnen SBB
Sika AG
Swiss International Air Lines AG

Christina Weber
a) LSG Lufthansa Service Holding AG

Matthias Wissmann
a) Seeburger AG (Deputy Chairman)

Mandates of the Executive Board members of Deutsche Lufthansa AG

(As of 31.12.2014; if an Executive Board member steps down during the financial year, the information relates to the date of departure)

Dr Christoph Franz
(until 30.4.2014)
a) Lufthansa Technik AG* (Chairman until 30.4.2014)
b) Roche Holding AG
Stadler Rail AG
Swiss International Air Lines AG (Deputy Chairman)

Karl Ulrich Garnadt
a) Germanwings GmbH* (Chairman)
b) Aircraft Maintenance and Engineering Cooperation (AMECO)
Austrian Airlines AG
ÖLH Österreichische Luftverkehrs-Holding GmbH (Deputy Chairman)

Harry Hohmeister
a) Lufthansa Cargo AG* (Chairman)
b) Austrian Airlines AG (Chairman)
Edelweiss Air AG (Chairman)
Günes Ekspres Havacilik A.S. (SunExpress)
SN Airholding SA/NV

Simone Menne
a) Delvag Luftfahrtversicherungs-AG* (Chairwoman)
Deutsche Post AG
LSG Lufthansa Service Holding AG* (Chairwoman)
Lufthansa Cargo AG*
Lufthansa Systems AG* (Chairwoman)
Lufthansa Technik AG*
b) Börsenrat der FWB Frankfurter Wertpapierbörse
Miles & More GmbH (Chairwoman)

Carsten Spohr
a) Lufthansa Technik AG* (Chairman)
ThyssenKrupp AG
b) Dr August Oetker KG

Dr Bettina Volkens
a) LSG Lufthansa Service Holding AG*
b) Austrian Airlines AG (Deputy Chairwoman)

a) Membership of supervisory boards required by law.
b) Membership of comparable supervisory bodies at companies in Germany and abroad.
* Group mandate in accordance with Section 100 Paragraph 2 Sentence 2 AktG

Corporate governance report

The Executive Board and Supervisory Board have a close and trusting working relationship

The common aim of the Executive Board and the Supervisory Board is to achieve sustainable increases in the value of the Company. They therefore have a close and trusting working relationship in the interests of the Company.

The Supervisory Board has adopted internal regulations governing the work of the Executive Board and the Supervisory Board as well as the cooperation between them. The five members of the Executive Board are jointly responsible for the management of the entire Company and inform each other of all significant activities and transactions. The Executive Board reports regularly to the Supervisory Board, which is made up of equal numbers of shareholder and employee representatives. At the Supervisory Board meetings, the Executive Board informs the Supervisory Board four times a year on business developments at the Group and its affiliated companies, as well as once a year on operational planning and financial planning for the Group. The Executive Board presents the Company's quarterly reports to the Supervisory Board. Furthermore, the Chairman of the Executive Board informs the Chairman of the Supervisory Board and the Supervisory Board of important matters.

The Executive Board takes decisions by simple majority of votes cast. There are a number of transactions for which the Executive Board requires the prior approval of the Supervisory Board. These include, for example, borrowing, capital expenditure, especially for aircraft and other non-current assets above a certain value threshold, long-term leasing of aircraft, establishing companies, acquisitions or disposals of shares, entering new businesses or discontinuing any existing businesses within the scope of the Articles of Association, as well as signing control agreements and signing or suspending strategically important cooperation agreements.

The Supervisory Board elects a Steering Committee made up of four members with equal shareholder and employee representation, which makes recommendations to the Supervisory Board on the contents, form and signing of service contracts with the Executive Board members. The Steering Committee is also responsible for other staff matters regarding Executive Board members and senior managers.

A six-member Audit Committee with equal shareholder and employee representation is also elected, which is essentially responsible for matters relating to accounting principles, risk management, the internal control system and compliance. It also discusses the quarterly reports with the Executive Board before they are published. Other important aspects are the necessary independence of the auditors, their appointment, defining the focus of audits and the fee arrangements. The Committee also makes a recommendation to the Supervisory Board on the auditors, to be put forward for review and confirmation at the Annual General Meeting, and on adopting the individual and consolidated financial statements.

The Nomination Committee consists of three members elected from among the shareholder representatives. It proposes suitable candidates to the Supervisory Board, which can in turn put them forward for the election of new Supervisory Board members at the Annual General Meeting.

The obligatory Arbitration Committee required under Section 27 Paragraph 3 of the Co-determination Act is only convened when the necessary two thirds majority for appointing or revoking the appointment of a member of the Executive Board has not been reached. The Committee then has one month to make a corresponding proposal to the Supervisory Board.

The Supervisory Board member Dr Robert Kimmitt is Senior International Counsel at the law firm WilmerHale. The Supervisory Board member Matthias Wissmann is a partner at the law firm WilmerHale. In the past, the Lufthansa Group has had advisory contracts with WilmerHale and will probably continue to do so in the future. Neither Dr Kimmitt nor Mr Wissmann advise the Lufthansa Group as part of these contracts. Furthermore, WilmerHale has confirmed in writing that it has taken organisational steps to ensure that fees from advisory work for the Lufthansa Group are not taken into account either directly or indirectly in determining the remuneration that the aforementioned gentlemen receive from the law firm. The aforementioned Supervisory Board members therefore have no potential conflict of interests and there is no question of their independence, and the Supervisory Board's approval of these advisory contracts is not required.

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

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 p. 127 – 129.

Compliance with the German Corporate Governance Code with one exception

At their meeting on 3 December 2014, the Executive Board and Supervisory Board issued the following declaration of compliance with the German Corporate Governance Code:

"In accordance with Section 161 AktG, the Executive Board and Supervisory Board of Deutsche Lufthansa AG declare that since the last declaration of compliance, the recommendations of the German Corporate Governance Code (Code) as amended have, with the following exception, been complied with and with the following exception will continue to be complied with in future:

In accordance with Clause 4.2.3 Paragraph 2 of the Code, the total remuneration of the Executive Board members and the variable bonus components are to be capped. The service contracts with Board members cap all the main elements of remuneration, including the fixed salary, the variable bonus and the retirement benefit commitment. Ancillary benefits at Deutsche Lufthansa AG are not subject to an overall cap. In particular, private flights in line with IATA regulations and with restricted booking status due to full-paying passengers should not be capped for members of the Executive Board of Deutsche Lufthansa AG. Since the booking status is restricted, the related ancillary benefit is small. The members of the Executive Board should be able to use the Company's main product and the opportunity to meet employees and passengers on board as widely as possible in line with international practice, including for private travel."

Shareholders and Annual General Meeting have wide-ranging rights

Lufthansa shares are registered shares with transfer restrictions. Every share has identical voting rights. Registration in the shareholders' register takes place by means of shareholder data provided electronically via banks and the clearing system. A peculiarity at Lufthansa is that in addition to the German Stock Corporation Act, the registration requirements of the German Aviation Compliance Documentation Act (LuftNaSiG) must also be met. This relates in particular to the disclosure of nationality for people and of domicile for companies and for entities with disclosure obligations under the German Securities Trading Act (WpHG) of any majority stake or controlling interest held by a non-German owner.

All shareholders listed in the shareholders' register can exercise their voting rights at the Annual General Meeting. The electronic service for the registration process required under stock corporation law includes the option of appointing proxies, banks and shareholder associations to exercise these voting rights via internet and by postal vote. Shareholders can also follow the speeches made at the Annual General Meeting by the Chairmen of the Supervisory and Executive Boards online. More information can be found on the website i www.lufthansa.com/investor-relations.

Transparent accounting and financial communications conform to international standards

The Lufthansa Group prepares its consolidated financial statements and interim reports in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), taking account of interpretations by the IFRS Interpretations Committee as applicable in the European Union (EU).

The individual financial statements for Deutsche Lufthansa AG, which are required by law and are relevant 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 2014. The auditors' fees for the 2014 financial year are summarised in "Note 46" to the consolidated financial statements on p. 220.

Trading in Lufthansa shares or in financial instruments based on them, in particular options or derivatives, by members of the Executive Board, Supervisory Board and members of the Lufthansa German Airlines Board – known as directors' dealings – are announced immediately as soon as a threshold of EUR 5,000 is exceeded in the calendar year. This also applies to people and companies closely related to the group mentioned above. As of 31 December 2014, the value of all shares, options or derivatives held by members of the Executive and Supervisory Boards did not exceed that of 1 per cent of all shares issued by the Company.

The Lufthansa Group informs shareholders, analysts and the general public in a timely and equitable manner. More information on these activities can be found in the chapter "Lufthansa share" on p. 17 and on the website i www.lufthansa.com/investor-relations.

Comprehensive programme helps to ensure compliance

Compliance describes all measures taken to ensure the correct conduct of companies, their management and staff with respect to statutory and the Company's own obligations and prohibitions. The Lufthansa Group Compliance Programme is intended to prevent staff and the Company from coming into conflict with the law and at the same time to help them to apply statutory regulations correctly. The Lufthansa Compliance Programme is made up of the following elements: Competition, Capital Markets, Integrity, Embargo and Corporate Compliance. An ombudsman system gives staff the opportunity to report any suspicion of criminal activity or breaches of the compliance regulations. The central Compliance Office, which reports to the Board member responsible for Human Resources and Legal, the various central and local compliance committees in the Lufthansa Group and the Compliance Officers in Group companies, among others, ensure that the Lufthansa Compliance Programme is enforced throughout all companies in the Lufthansa Group by means of regular online training courses and information published on the intranet. The Audit Committee of the Supervisory Board is notified semi-annually of incidents and progress concerning compliance in a Compliance Report. Additional information incorporating the latest amendments is available from i http://investor-relations.lufthansagroup.com/en/corporate-governance.html.

Remuneration report

The following report provides information about the principles of the remuneration system for the Executive Board and Supervisory Board of Deutsche Lufthansa AG, and about the structure and amount of benefits. The complexity of the presentation of this remuneration report for 2014 is required to comply with all statutory requirements and the recommendations of the German Corporate Governance Code, with the exception presented in the declaration of compliance. It forms part of the combined management report.

Structure of Executive Board remuneration
In the reporting year, there were no changes to the structure of Executive Board remuneration introduced in 2011.

At the Annual General Meeting held on 3 May 2011, the current system of Executive Board remuneration was approved by 98.41 per cent of votes validly cast. If any substantial changes are to be made to the system, the modified system of remuneration will again be put forward for approval at the Annual General Meeting.

Executive Board remuneration consists of a basic salary, variable remuneration components, other benefits and a retirement pension. There is a roughly equal balance between the two components "fixed annual salary" and "variable annual bonus and remuneration with a long-term incentive effect and risk characteristics". Defining a significant minimum performance or outperformance of the Lufthansa share price as a condition ensures that the majority of variable remuneration components are based on performance over several years. These components are described in detail below.

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

- **Fixed annual salary.** Basic remuneration, paid monthly as a salary.

- **Variable annual remuneration.** The variable remuneration is based on the operating margin for the Lufthansa Group. 75 per cent of the remuneration is multiplied by an individual performance factor, which varies from 0.8 to 1.2. It is paid the following year and so on an annual basis. The remaining 25 per cent is carried forward for another two years. At the end of the assessment period, which runs for three years in total, the amount carried forward is to be multiplied by a factor of between 0 and 2 (bonus/malus factor). How high the factor is depends to 70 per cent on the CVA achieved over the three-year period and to 30 per cent on sustainability parameters such as environmental protection, customer satisfaction and staff commitment. The variable remuneration is capped at 1.5 times the annual salary.

- **Share-based remuneration.** Executive Board members are also required to participate in the option programmes for managers (with their own parameters which are structured differently from those of the general managers' programme). The duration of these programmes was extended from three to four years in 2011, see comments in "Note 36" to the consolidated financial statements from p. 198. The Act on Appropriate Executive Board Remuneration (VorstAG) defines a vesting period of at least four years for stock option programmes; this period is also given as a general orientation and recommendation for long-term incentive models. The duration of the LH-Performance programme begun in 2011 has therefore been increased from three to four years, even though it is not a stock option programme within the meaning of the Act. Extending the duration to four years initially meant that there was no longer any opportunity of receiving a payment under an option package in 2014, as the LH-Performance programme for 2010 ends in 2013 and the programme for 2011 does not end until 2015. To close this gap, the Supervisory Board voted to introduce an additional one-off option that can be exercised after three years as part of the LH-Performance programme for 2011.

- **Bonus.** In years with poor operating results due to extraordinary exogenous factors, the Supervisory Board may award Executive Board members an appropriate individual bonus.

- **Other benefits.** Other benefits include, in particular, the non-cash benefit of using company cars, the discount granted in connection with option programme issues ("Note 36" to the consolidated financial statements from p. 198), 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.

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

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

  If employment ends before an Executive Board member reaches retirement age, he or she retains the pension entitlement from the pension account, which is continued without further contributions. On reaching retirement age (65 or early retirement between 60 and 65) or in the event of disability, the account holder will acquire a pension credit equivalent to the balance of the pension account at that time. Deutsche Lufthansa AG guarantees the amounts paid in retirement benefits.

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

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

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

Under his contract as a pilot, which is currently not active, Carsten Spohr is entitled to a transitional pension in accordance with the wage agreement "Transitional pensions for cockpit staff". If Carsten Spohr leaves the Executive Board before he becomes 60 and resumes his employment as a pilot, he is entitled to draw a "Transitional pension for cockpit staff at Lufthansa" once he becomes 60 or on request once he becomes 55, in accordance with the provisions of the wage agreement. This additional benefit is paid if certain conditions of eligibility are met and provides for a monthly pension of up to 60 per cent of the last modified salary until the beneficiary reaches the age of 63.

- **Cap on severance pay.** If a contract is terminated early for reasons other than good cause or a change of control, the Company will not remunerate more than the value of outstanding entitlements for the remainder of the contract, as recommended by the German Corporate Governance Code, whereby these payments including ancillary benefits may not exceed annual remuneration for two years (maximum compensation). Maximum compensation is calculated by reference to total remuneration for the last full financial year before departure from the Executive Board, as shown in the remuneration report, and including expected total remuneration for the current financial year.

- **Change of control.** If the contract between an Executive Board member and Deutsche Lufthansa AG is terminated in connection with a change of control at the Company, the Executive Board member is entitled to compensation for remuneration outstanding for the remainder of the contract. In accordance with the relevant recommendation of the German Corporate Governance Code, compensation may not exceed 150 per cent of the maximum compensation agreed in the contract and described above.

Amount of Executive Board remuneration

Executive Board remuneration in the financial year. Total remuneration paid to the active members of the Executive Board for their work in 2014 came to EUR 7,994,000 (previous year: EUR 7,939,000). EUR 4,532,000 (previous year: EUR 4,506,000) of the total was paid as fixed salary and EUR 3,462,000 (previous year: EUR 3,433,000) as performance-related remuneration. The current service costs for pension commitments came to EUR 1,724,000 (previous year: EUR 1,377,000).

The following remuneration was paid to the individual active members of the Executive Board in 2014:

Total remuneration of the Executive Board (HGB) in 2014

in € thousands	Basic remuneration	Other[1]	One-year variable remuneration	Long-term variable remuneration	Option programme[2]	**Total remuneration**
Carsten Spohr	1,038	116	267	99	550	2,070
Karl Ulrich Garnadt (Executive Board member since 1.5.2014)	546	87	139	0	367	1,139
Harry Hohmeister[3]	410	80	209	0	367	1,066
Simone Menne	819	91	209	49	367	1,535
Dr Bettina Volkens	819	86	209	0	367	1,481
Christoph Franz (Executive Board member until 30.4.2014)	383	57	123	140	0	703
Total (HGB)	**4,015**	**517**	**1,156**	**288**	**2,018**	**7,994**

[1] Other remuneration includes in particular the non-cash benefit of using company cars, the discount granted in connection with option programme issues (see "Note 36" to the consolidated financial statements), 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.
[2] Fair value of the option programme 2014 at the time the options are granted.
[3] For his work as Chairman of the Executive Board and CEO of Swiss International Air Lines AG, Harry Hohmeister also received a basic salary paid in CHF equal to EUR 410,000, which was paid directly by Swiss International Air Lines AG.

The following remuneration was paid to the individual active members of the Executive Board in 2013:

Total remuneration of the Executive Board (HGB) in 2013

in € thousands	Basic remuneration	Other[1]	One-year variable remuneration	Long-term variable remuneration	Option programme[2]	**Total remuneration**
Carsten Spohr	841	87	240	168	402	1,738
Harry Hohmeister[3] (Executive Board member since 1.7.2013)	205	60	120	0	402	787
Simone Menne	841	84	240	0	402	1,567
Dr. Bettina Volkens (Executive Board member since 1.7.2013)	410	67	120	0	402	999
Christoph Franz	1,177	155	341	239	0	1,912
Stefan Lauer (Executive Board member until 30.6.2013)	431	148	211	146	0	936
Total (HGB)	**3,905**	**601**	**1,272**	**553**	**1,608**	**7,939**

[1] Other remuneration includes in particular the non-cash benefit of using company cars, the discount granted in connection with option programme issues (see "Note 36" to the consolidated financial statements), 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.
[2] Fair value of the option programme 2013 at the time the options are granted.
[3] For his work as Chairman of the Executive Board and CEO of Swiss International Air Lines AG, Harry Hohmeister also received a basic salary paid in CHF equal to EUR 205,000, which was paid directly by Swiss International Air Lines AG.

As of 31 December 2014 (2013), the members of the Executive Board held the following shares and option packages from current option programmes:

	2011 programme		2012 programme		2013 programme		**2014 programme**	
Number of shares	Number of shares purchased from own funds	Number of option packages	Number of shares purchased from own funds	Number of option packages	Number of shares purchased from own funds	Number of option packages	**Number of shares purchased from own funds**	**Number of option packages**
Karl Ulrich Garnadt (Executive Board member since 1.5.2014)	– (–)	– (–)	– (–)	– (–)	– (–)	– (–)	10,170 (–)	30 (–)
Harry Hohmeister (Executive Board member since 1.7.2013)	– (–)	– (–)	– (–)	– (–)	8,370 (8,370)	30 (30)	10,170 (–)	30 (–)
Simone Menne (Executive Board member since 1.7.2012)	– (–)	– (–)	9,870 (9,870)	30 (30)	8,370 (8,370)	30 (30)	10,170 (–)	30 (–)
Carsten Spohr (Executive Board member since 1.1.2011)	11,520 (11,520)	30 (30)	9,870 (9,870)	30 (30)	8,370 (8,370)	30 (30)	15,255 (–)	45 (–)
Dr Bettina Volkens (Executive Board member since 1.7.2013)	– (–)	– (–)	– (–)	– (–)	8,370 (8,370)	30 (30)	10,170 (–)	30 (–)

The current option programmes performed as follows in the financial year:

in €	Financial year 2014 Payments from maturing option programmes	Change in fair value of ongoing option programmes	Total	Financial year 2013 Payments from maturing option programmes	Change in fair value of ongoing option programmes	Total
Christoph Franz (Executive Board member until 30.4.2014)	–	–	–	–	–800,737	–800,737
Carsten Spohr	–300,000	94,598	–205,402	–	416,091	416,091
Karl Ulrich Garnadt (Executive Board member since 1.5.2014)	–	15,275	15,275	–	–	–
Harry Hohmeister (Executive Board member since 1.7.2013)	–	73,564	73,564	–	16,760	16,760
Stefan Lauer (Executive Board member until 30.6.2013)	–	–	–	–	–593,475	–593,475
Simone Menne	–	108,170	108,170	–	109,198	109,198
Dr Bettina Volkens (Executive Board member since 1.7.2013)	–	73,564	73,564	–	16,760	16,760
	–300,000	**365,171**	**65,171**	**–**	**–835,403**	**–835,403**

See "Note 36" to the consolidated financial statements starting on p. 198 for payment caps.

The total amount of pension entitlements earned by Executive Board members in 2014 was EUR 1.7m (previous year: EUR 1.4m) according to HGB and EUR 1.8m (previous year: EUR 1.3m) according to IFRS and was recognised in staff costs (current service cost). The individual current service cost and present values of pension entitlements are as follows:

Pension entitlements according to HGB and IFRS

	HGB Current service costs		HGB Settlement amount of pension obligations		IFRS Current service costs		IFRS Present value of pension obligations	
in € thousands	**2014**	2013	**31.12.2014**	31.12.2013	**2014**	2013	**31.12.2014**	31.12.2013
Carsten Spohr	452	295	2,594	2,026	399	299	2,353	1,868
Karl Ulrich Garnadt	223	–	223	–	195	–	195	–
Harry Hohmeister	329	215	635	290	318	144	445	144
Simone Menne	297	298	1,654	1,285	316	300	1,559	1,193
Dr Bettina Volkens	315	198	520	198	314	144	445	144
Christoph Franz (until 30.4.2014)	108	371	–	2,172	213	427	–	2,007
	1,724	**1,377**	**5,626**	**5,971**	**1,755**	**1,314**	**4,997**	**5,356**

Other agreements. Mr Christoph Franz was Chairman of the Executive Board and CEO until 31 May 2014. In September 2013, Mr Franz said that he was not available to renew his contract and that he wanted to leave the Company of his own accord at the end of May 2014. In a resolution passed on 7 February 2014, the Supervisory Board revoked Mr Franz's appointment to the Executive Board as of 30 April 2014, i.e. one month before it was to come to an end, with the proviso that his remuneration for the month of May 2014 would still be paid. Mr Franz receives his variable remuneration for the financial year 2014 pro rata temporis for the period from 1 January 2014 to 31 May 2014. If members of the Executive Board receive a discretionary bonus for the financial year 2014, Mr Franz will be paid his pro rata temporis for the period from 1 January 2014 to 31 May 2014.

For the period from 1 June 2014 to 31 May 2016, Mr Franz has undertaken not to work for a company or a group that is an important competitor of the Company or of any of its affiliated companies in the individual operating segments. The same applies to other institutions, such as trade associations, whose objectives or activities run contrary to the interests of the Company. In compensation, the Company paid Mr Franz for the same period 65 per cent of his previous basic annual salary of EUR 1,207,500 gross of tax, i.e. a total of EUR 1,569,750 gross of tax on 10 May 2014.

If he should breach the non-competition agreement, the Company would be entitled to reclaim the (pro rata) compensation payment and to demand payment of a contractual penalty of 1/12 of the total payment in each individual case (EUR 130,812.50). If several penalties are owed, the total amount of penalties to be paid is capped at one quarter of the compensation mentioned above (EUR 392,437.50).

The agreement also provides for the expiry of all claims to outperformance payments from LH-Performance programmes on Mr Franz's departure from the Company.

Benefits paid to former Executive Board members. Current payments and other benefits for former members of the Executive Board and their surviving dependants came to EUR 4.9m (previous year: EUR 4.3m). This includes payments by subsidiaries as well as benefits in kind and concessionary travel. Pension obligations toward former Executive Board members and their surviving dependants amount to EUR 71.9m (previous year: EUR 65.5m).

New recommendations in the German Corporate Governance Code. The following tables show the individual payments, allocations and retirement benefit commitments granted to each individual member of the Executive Board in line with the recommendations of 4.2.5 paragraph 3 of the German Corporate Governance Code.

The figures for benefits granted and allocated are divided into fixed and variable components and supplemented by the figures for retirement benefit commitments. This corresponds to the current service cost as defined in IAS 19 for pensions and other retirement benefit commitments. The fixed remuneration components include the fixed salary and ancillary benefits that are not performance-related. The variable remuneration components are divided into short-term variable remuneration and the two long-term components, variable remuneration and option programmes.

The figure shown for "Benefits granted" is the value of the variable remuneration at the time it was granted (for a performance against targets of 100 per cent). For share-based remuneration, the figure shown is the value of the shares when they are granted. Individual caps and floors for these remuneration elements are also shown.

The figure shown for "Allocations" in the reporting year comprises the fixed remuneration components actually paid in the reporting year, plus the amounts of the one-year and long-term variable remuneration that have been determined at the time the remuneration report is prepared and which are to be paid out in the following year. The figures for the option programmes relate to programmes ending in the reporting period; these correspond to the amount paid. Total remuneration also includes the annual current service cost of pension commitments, although it is not strictly speaking an allocation.

In 2014, the members of the Executive Board received no benefits or promises of benefits from third parties relating to their work on the Executive Board.

Benefits granted

	Carsten Spohr, Chairman of the Executive Board, Chairman since 1.5.2014, Executive Board member since 1.1.2011				Karl Ulrich Garnadt, Chief Officer Lufthansa German Airlines, Executive Board member since 1.5.2014			
in € thousand	**2014**	2013	**2014** (min)	**2014** (max)	**2014**	2013	**2014** (min)	**2014** (max)
Fixed salary	1,038	841	1,038	1,038	546	–	546	546
Ancillary benefits	117	87	117	117	87	–	87	87
Total	**1,155**	**928**	**1,155**	**1,155**	**633**	**–**	**633**	**633**
One-year variable remuneration	477	373	0	1,229	248	–	0	647
Long-term variable remuneration								
Three-year variable remuneration	159	124	0	410	83	–	0	216
Option programme (4 years)	550	402	0	1,800	367	–	0	1,200
Total	**1,186**	**899**	**0**	**3,439**	**698**	**–**	**0**	**2,063**
Service cost	399	299	399	399	195	–	195	195
Total remuneration	**2,740**	**2,126**	**1,554**	**4,993**	**1,526**	**–**	**828**	**2,891**

Benefits granted

in € thousand	Harry Hohmeister, Chief Officer Group Airlines, Logistics and IT, Executive Board member since 1.7.2013				Simone Menne, Chief Officer Finances and Aviation Services, Executive Board member since 1.7.2012			
	2014*	2013*	**2014** (min)	**2014** (max)	**2014**	2013	**2014** (min)	**2014** (max)
Fixed salary	410	205	410	410	819	841	819	819
Ancillary benefits	80	60	80	80	91	84	91	91
Total	**490**	**265**	**490**	**490**	**910**	**925**	**910**	**910**
One-year variable remuneration	373	186	0	970	373	373	0	970
Long-term variable remuneration								
Three-year variable remuneration	124	62	0	323	124	124	0	323
Option programme (4 years)	367	402	0	1,200	367	402	0	1,200
Total	**864**	**650**	**0**	**2,493**	**864**	**899**	**0**	**2,493**
Service cost	318	144	318	318	316	300	316	316
Total remuneration	**1,672**	**1,059**	**808**	**3,301**	**2,090**	**2,124**	**1,226**	**3,719**

* For his work as Chairman of the Executive Board and CEO of Swiss International Air Lines AG, Harry Hohmeister also received a basic salary paid in CHF equal to EUR 410,000 (previous year: EUR 205,000), which was paid directly by Swiss International Air Lines AG.

Benefits granted

in € thousand	Dr Bettina Volkens, Chief Officer Human Resources and Legal Affairs, Executive Board member since 1.7.2013				Christoph Franz, Chairman of the Executive Board, Executive Board member until 30.4.2014				Stefan Lauer, Chief Officer Group Airlines and Corporate Human Resources, Executive Board member until 30.6.2013			
	2014	2013	**2014** (min)	**2014** (max)	**2014**	2013	**2014** (min)	**2014** (max)	**2014**	2013	**2014** (min)	**2014** (max)
Fixed salary	819	410	819	819	382	1,177	382	382	–	431	–	–
Ancillary benefits	86	67	86	86	57	155	57	57	–	148	–	–
Total	**905**	**477**	**905**	**905**	**439**	**1,332**	**439**	**439**	**–**	**579**	**–**	**–**
One-year variable remuneration	373	186	0	970	220	529	0	566	–	186	–	–
Long-term variable remuneration												
Three-year variable remuneration	124	62	0	323	74	176	0	189	–	62	–	–
Option programme (4 years)	367	402	0	1,200	0	0	0	0	–	0	–	–
Total	**864**	**650**	**0**	**2,493**	**294**	**705**	**0**	**755**	**–**	**248**	**–**	**–**
Service cost	314	144	314	314	213	427	213	213	–	150	–	–
Total remuneration	**2,083**	**1,271**	**1,219**	**3,712**	**946**	**2,464**	**652**	**1,407**	**–**	**977**	**–**	**–**

Allocations

in € thousand	Carsten Spohr, Chairman of the Executive Board, Chairman since 1.5.2014, Executive Board member since 1.1.2011		Karl Ulrich Garnadt, Chief Officer Lufthansa German Airlines, Executive Board member since 1.5.2014		Harry Hohmeister, Chief Officer Group Airlines, Logistics and IT, Executive Board member since 1.7.2013		Simone Menne, Chief Officer Finances and Aviation Services, Executive Board member since 1.7.2012	
	2014	2013	**2014**	2013	**2014***	2013*	**2014**	2013
Fixed salary	1,038	841	546	–	410	205	819	841
Ancillary benefits	117	87	87	–	80	60	91	84
Total	**1,155**	**928**	**633**	**–**	**490**	**265**	**910**	**925**
One-year variable remuneration	267	240	139	–	209	120	209	240
Long-term variable remuneration								
Three-year variable remuneration	99	168	0	–	0	0	49	0
Option programme (3 and 4 years)	300	0	0	–	0	0	0	0
Total	**666**	**408**	**139**	**–**	**209**	**120**	**258**	**240**
Service cost	399	299	195	–	318	144	316	300
Total remuneration	**2,220**	**1,635**	**967**	**–**	**1,017**	**529**	**1,484**	**1,465**

* For his work as Chairman of the Executive Board and CEO of Swiss International Air Lines AG, Harry Hohmeister also received a basic salary paid in CHF equal to EUR 410,000 (previous year: EUR 205.000), which was paid directly by Swiss International Air Lines AG.

Allocations

in € thousand	Dr Bettina Volkens, Chief Officer Human Resources and Legal Affairs, Executive Board member since 1.7.2013		Christoph Franz, Chairman of the Executive Board, Executive Board member until 30.4.2014		Stefan Lauer, Chief Officer Group Airlines and Corporate Human Resources, Executive Board member until 30.6.2013	
	2014	2013	**2014**	2013	**2014**	2013
Fixed salary	819	410	382	1,177	–	431
Ancillary benefits	86	67	57	155	–	148
Total	**905**	**477**	**439**	**1,332**	**–**	**579**
One-year variable remuneration	209	120	123	340	–	211
Long-term variable remuneration						
Three-year variable remuneration	0	0	140	239	–	146
Option programme (3 and 4 years)	0	0	0	0	–	0
Total	**209**	**120**	**263**	**579**	**–**	**357**
Service cost	314	144	213	427	–	150
Total remuneration	**1,428**	**741**	**915**	**2,338**	**–**	**1,086**

Structure of Supervisory Board remuneration

In accordance with the resolution taken at the Annual General Meeting on 8 May 2012, the members of the Supervisory Board have received only fixed remuneration since the financial year 2013.

Ordinary Supervisory Board members receive remuneration of EUR 80,000 for each financial year in accordance with Section 13 paragraph 1 of the Articles of Association. The Chairman receives EUR 240,000 and the Deputy Chairman EUR 120,000. The Chairman of the Audit Committee receives an additional EUR 60,000; other members of the Audit Committee receive an additional EUR 30,000. Chairs of other committees receive an additional EUR 40,000 and other members of other committees receive an additional EUR 20,000. Remuneration for committee work is subject to the proviso that the committee must have met at least once in the financial year.

If Supervisory Board members leave the Supervisory Board or a post in one of its committees for which additional remuneration is paid during the course of a financial year, they receive their remuneration pro rata temporis. Pro rata temporis remuneration for committee work is subject to the proviso that the committee must have met at least once before their departure.

Amount of Supervisory Board remuneration

Expenses for fixed remuneration and remuneration for committee work for the Supervisory Board amounted to EUR 2,110,000 in 2014 (previous year: EUR 2,156,000).

The figures for the individual Supervisory Board members are shown in the following table.

	2014			2013		
in € thousands	**Fixed remuneration**	**Remuneration for committee work**	**Total Supervisory Board remuneration**	Fixed remuneration	Remuneration for committee work	Total Supervisory Board remuneration
Dipl.-Ing. Dr.-Ing. E.h. Jürgen Weber (until 7.5.2013)	–	–	–	83	14	97
Wolfgang Mayrhuber (since 7.5.2013)	240	40	280	157	39	196
Frank Bsirske (until 7.5.2013)	–	–	–	42	7	49
Christine Behle (since 7.5.2013)	120	20	140	78	13	91
Jacques Aigrain	80	–	80	80	–	80
Dr Werner Brandt	80	50	130	80	43	123
Bernd Buresch (until 7.5.2013)	–	–	–	28	7	35
Jörg Cebulla (until 7.5.2013)	–	–	–	28	–	28
Dipl.-Vwt. Jürgen Erwert (until 7.5.2013)	–	–	–	28	10	38
Herbert Hainer	80	–	80	80	–	80
Dr Jürgen Hambrecht (until 29.4.14)	26	7	33	80	40	120
Uwe Hien (since 7.5.2013)	80	30	110	52	20	72
Dominique Hiekel (until 7.5.2013)	–	–	–	28	–	28
Dr h.c. Robert Kimmitt	80	–	80	80	–	80
Dr Karl-Ludwig Kley (since 7.5.2013)	80	33	113	52	39	91
Martin Koehler	80	30	110	80	30	110
Doris Krüger (since 7.5.2013)	80	–	80	52	–	52
Dr Nicola Leibinger-Kammüller	80	–	80	80	–	80
Eckhard Lieb	80	30	110	80	30	110
Ralf Müller (since 7.5.2013)	80	–	80	52	–	52
Simon Reimann (until 7.5.2013)	–	–	–	28	–	28
Monika Ribar (since 29.4.14)	54	20	74	–	–	–
Ilona Ritter (7.5.2013 to 31.12.2014)	80	30	110	52	20	72
Marlies Rose (until 7.5.2013)	–	–	–	28	–	28
Dr Klaus G. Schlede (until 7.5.2013)	–	–	–	28	21	49
Andreas Strache (since 7.5.2013)	80	–	80	52	–	52
Christina Weber (since 7.5.2013)	80	–	80	52	–	52
Birgit Weinreich (since 7.5.2013)	80	–	80	52	–	52
Matthias Wissmann	80	–	80	80	–	80
Dr Michael Wollstadt (until 7.5.2013)	–	–	–	28	10	38
Stefan Ziegler	80	20	100	80	13	93
Total	**1,800**	**310**	**2,110**	**1,800**	**356**	**2,156**

Other remuneration, mainly attendance fees, amounted to EUR 88,000 (previous year: EUR 86,000). The Deutsche Lufthansa AG Supervisory Board members were also paid EUR 63,000 (previous year: EUR 62,000) for work on supervisory boards of Group companies.

Disclosures in accordance with Section 289 Paragraph 4 HGB and Section 315 Paragraph 4 HGB

Composition of subscribed capital, types of shares, rights and duties
Deutsche Lufthansa AG's issued capital amounts to EUR 1,184,697,000.96 and is divided into 462,772,266 registered shares. Each share corresponds to EUR 2.56 of the issued capital. The transfer of shares requires the Company's authorisation (restriction of transferability). The Company may only withhold authorisation if 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 various international destinations, the proportion of non-European or foreign shareholders may not exceed 50 per cent of the Company's issued capital. If the proportion of foreign shareholders reaches 40 per cent, Deutsche Lufthansa AG is empowered under Section 4 Paragraph 1 German Aviation Compliance Documentation Act (LuftNaSiG) together with Section 71 Paragraph 1 No. 1 German Stock Corporation Act (AktG), to buy back its own shares to prevent imminent excessive foreign control. If the proportion of foreign shareholders in the share register reaches 45 per cent, the Company is authorised, subject to Supervisory Board approval, to increase issued capital by up to 10 per cent by issuing new shares for payment in cash without subscription rights for existing shareholders (Section 4 Paragraph 2 and 3 LuftNaSiG together with Section 4 Paragraph 6 of the Articles of Association). If the proportion of foreign shareholders approaches the 50 per cent threshold, the Company is entitled to withhold authorisation to register new foreign shareholders in the share register (Section 5 Paragraph 1 of the Articles of Association). Should the proportion of foreign investors exceed 50 per cent despite these precautions, Deutsche Lufthansa AG is authorised, subject to the approval of the Supervisory Board, to require the most recently registered shareholders to sell their shares. From the fourth day after this requirement has been published, the shareholders concerned can no longer exercise the rights conferred by the shares concerned. If they do not comply with the 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 2014, foreign shareholders held 34.5 per cent of the shares in the shareholders' register of Deutsche Lufthansa AG. Detailed information on the German Aviation Compliance Documentation Act (LuftNaSiG) and the quarterly update on our shareholder structure can be found on the website i www.lufthansagroup.com/investor-relations.

Employee programmes contain time-based restrictions on trading in shares, in particular lock-up periods of three and four years.

Direct or indirect shareholdings with more than 10 per cent of voting rights
As of 31 December 2014, Deutsche Lufthansa AG had received no notification of direct or indirect shareholdings with more than 10 per cent of voting rights.

Holders of shares with special controlling rights
Deutsche Lufthansa AG has no shares that confer special controlling rights.

Control of voting rights for employee shares when control rights are exercised indirectly
Where Deutsche Lufthansa AG issues shares to its staff as part of its employee programmes, these shares are transferred to the employees directly. The staff beneficiaries can exercise the controlling rights accruing to them from the employee shares directly in the same way as other shareholders, in accordance with statutory regulations and the provisions of the Articles of Association.

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. The Supervisory Board is authorised to adopt changes to the Articles of Association that only relate to wording (Article 11 Paragraph 5 of the Articles of Association). Furthermore, the Supervisory Board is entitled to amend the Articles of Association in accordance with Section 4 of the Articles of Association if Authorised Capital B is exercised or expires.

Rights of the Executive Board to issue or repurchase shares
As of 31 December 2014, Deutsche Lufthansa AG has authorised capital of EUR 585,815,091.04:

A resolution passed at the Annual General Meeting on 29 April 2010 authorised the Executive Board until 28 April 2015, subject to approval by the Supervisory Board, to increase the Company's issued capital on one or more occasions by up to EUR 561,160,092 by issuing new registered shares on one or more occasions for payment in cash or in kind (Authorised Capital A). Existing shareholders are to be granted subscription rights.

A resolution passed by the Annual General Meeting on 29 April 2014 authorised the Executive Board until 28 April 2019, subject to approval by the Supervisory Board, to increase the Company's issued capital on one or more occasions by up to EUR 29,000,000 by issuing new registered shares to employees (Authorised Capital B) for payment in cash. Existing shareholders' subscription rights are excluded. In 2014, the Company used EUR 4,345,000.96 of this authorised amount to issue 1,697,266 new shares to employees. Authorised Capital B still available under the authorisation therefore now amounts to EUR 24,654,999.04.

The share capital is conditionally increased by up to EUR 234,464,035.80 through the issue of up to 91,587,514 new registered shares. The conditonal capital increase will only be carried out to the extent that the holders or creditors of conversion rights or options attached to convertible bonds and/or warrants or profit-sharing rights of any kind (or any combination of these instruments) issued by the Company or its affiliated companies for cash pursuant to the authorisation given at the Annual General Meeting for the period 3 May 2011 to 2 May 2016 exercise their conversion or option rights or that the holders or creditors of convertible bonds issued by the Company or its affiliated companies pursuant to the authorisation given at the Annual General Meeting for the period 3 May 2011 to 2 May 2016 (or of profit-sharing rights or other forms of mezzanine capital with obligatory conversion) meet their conversion obligations and to the extent that the debt is not settled using treasury shares or other rights. The new shares are entitled to share in profits from the beginning of the financial year in which they are issued by the exercise of conversion or option rights or by meeting a conversion obligation. The Executive Board is authorised to determine the further details of the way in which the conditional capital increase is to be carried out.

Deutsche Lufthansa AG is entitled to repurchase shares and to sell repurchased shares in those cases defined in Section 71 AktG. In addition, the Company is authorised by resolution of the Annual General Meeting on 29 April 2010 to buy back its own shares until 28 April 2015. The resolution can be used to expand the financing alternatives in the event that another company or an equity stake in a company is acquired.

The proportion of shares acquired on the basis of 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, conditional capital and share buy-backs is given in the Notes to the consolidated financial statements, "Note 30" from p. 187.

Important company agreements subject to a change-of-control clause in the event of a takeover offer

The EMTN programme operated by Deutsche Lufthansa AG to issue bonds includes a change-of-control clause. It provides for holders of bonds issued under the EMTN programme to demand redemption of the bond in the event of a change of control. The change of control is tied to the concepts of control, which is defined in detail in the EMTN programme, and of a rating downgrade resulting from the change of control within a change-of-control period. Two bonds are currently outstanding under this programme: firstly a bond for EUR 750m maturing on 7 July 2016 and secondly a bond for EUR 500m maturing on 12 September 2019.

Compensation agreements with Executive Board members or employees in the event of a takeover offer

In the event of a change of control at Deutsche Lufthansa AG defined more precisely in the employment contract, the Executive Board members and the Company are entitled to terminate the contract within twelve months of this change of control.

If the contract ends because the special termination right is exercised or the contract is revoked amicably within twelve months of and in connection with the change of control, the Executive Board member is entitled to compensation for remuneration outstanding for the remainder of the contract.

In accordance with the relevant recommendation of the German Corporate Governance Code, compensation may not exceed 150 per cent of the maximum compensation of two annual salaries agreed in the contract; see the Notes to the consolidated financial statements, "Remuneration report" from p. 132.

Notes to the individual financial statements for Deutsche Lufthansa AG (HGB)

Revenue of Deutsche Lufthansa AG falls slightly to EUR 14.9bn. / The net profit for the year was EUR –732m. / Cash flow from operating activities is negative. / Total assets are almost on par with the previous year.

The financial statements for Deutsche Lufthansa AG have been prepared in accordance with the German Commercial Code (HGB) and the supplementary provisions of the German Stock Corporation Act (AktG) as well as the transitional provisions of the German Accounting Law Modernisation Act (BilMoG) that are still in force, and have been audited by PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Dusseldorf. They are published in the electronic Federal Gazette. The financial statements are permanently available online at i http://investor-relations.lufthansagroup.com/en/finanzberichte.html.

In this annual report the management report for Deutsche Lufthansa AG has been combined with the Group management report for the Lufthansa Group. Deutsche Lufthansa AG and its results also include the Group headquarters with the central functions for Corporate Development, Finance and Controlling, Communications, Public Affairs, Human Resources, Legal and Compliance, Data Security, Safety and Procurement. The economic environment for Deutsche Lufthansa AG is essentially the same as for the Group and is described in detail in “Macroeconomic situation” starting on p. 36, “Sector developments” from p. 38 and “Course of business” from p. 40.

Earnings position of Deutsche Lufthansa AG

60 million passengers transported
The number of passengers increased slightly by 1.7 per cent in the financial year 2014 to 60 million. Additional capacity of 2.2 per cent was met by an increase of 2.2 per cent in demand and so was sold in full. The load factor was stable year on year at 79.4 per cent as a result.

Average yields down on previous year
In 2014, average yields fell by 3.8 per cent compared with the previous year’s figure. With sales up by 2.2 per cent, the Company reported traffic revenue of EUR 14.6bn, or 1.7 per cent less than in the previous year. Other revenue fell to EUR 335m. Overall revenue totalled EUR 14.9bn, a decline of 2.3 per cent year on year.

Trends in traffic regions of Deutsche Lufthansa AG

	Traffic revenue in €m		Number of passengers in thousand		Available seat-kilometres in millions		Revenue seat-kilometres in millions		Passenger load factor in %	
	2014	Change in %	**2014**	Change in %	**2014**	Change in %	**2014**	Change in %	**2014**	Change in pts
Europe	5,654	–0.9	45,265	1.9	47,127	0.6	35,054	1.6	74.4	0.8
America	4,902	0.3	7,713	3.6	69,692	5.8	58,322	4.0	83.7	–1.4
Asia/Pacific	2,828	–4.1	4,542	–0.6	44,826	1.5	36,232	1.6	80.8	0.0
Middle East/Africa	1,185	–7.0	2,848	–2.4	16,163	–6.0	12,057	–3.0	74.6	2.3
Total	**14,569**	**–1.7**	**60,368**	**1.7**	**177,808**	**2.2**	**141,665**	**2.2**	**79.7**	**0.0**

Income statement for Deutsche Lufthansa AG in accordance with HGB

in €m	2014	2013
Traffic revenue	14,569	14,818
Other revenue	335	432
Total revenue	**14,904**	**15,250**
Other operating income	1,810	1,939
Cost of materials and services	–11,741	–11,321
Staff costs	–2,573	–2,703
Depreciation, amortisation and impairment	–383	–380
Other operating expenses	–3,029	–2,761
Result from operating activities	**–1,012**	**24**
Result of other equity investments	951	1,231
Net interest	–503	–418
Impairment on investments and current securities	–69	–211
Financial result	**379**	**602**
Result from ordinary activities	**–633**	**626**
Taxes	–99	–219
Net profit / loss for the year	**–732**	**407**
Transfers from the capital reserve	732	–
Transfers to retained earnings	–	–200
Distributable earnings	**0**	**207**

Revenue and earnings development

Earnings development in 2014 was dominated by two main factors. One is that the savings from lower fuel costs could not make up for the additions to provisions for impending losses relating to fuel hedging. The other is that because of low interest rates, the return on pension plan assets did not cover the high interest expenses accrued on pension obligations. So whereas operating income fell by 2.8 per cent, operating expenses rose year on year by 3.3 per cent. That is why the profit from operating activities shown in the income statement decreased significantly year on year by EUR 1bn to EUR –1bn (previous year: EUR 24m). This stems largely from the substantial addition to provisions for impending losses from fuel hedging and from the impact of interest rates on the valuation of pension provisions. Adjusted for the various effects that vary sharply from year to year – in particular the provision for impending losses from fuel hedging and the amortisation of fuel surcharges, expenses for SCORE charged by Group companies, write-downs of current assets, especially bank balances in Venezuela, write-backs of provisions and other non-recurring factors – the result would have been much better (EUR –298m).

Revenue declined by 2.3 per cent to EUR 14.9bn. The reason for the decline was lower traffic revenue in all traffic regions except America. This figure fell by a total of 1.7 per cent to EUR 14.6bn. Other operating income also fell to EUR 1.8bn (previous year: EUR 1.9bn). The fall is largely due to lower income from leasing capacities and providing services to Germanwings, as well as to further declines in realised and unrealised exchange rate gains as of the reporting date. Higher write-backs of provisions and the higher carrying amount for Lufthansa Systems AG partly offset the decline.

Operating expenses totalled EUR 17.7bn and were 3.3 per cent up on the year. This stemmed mainly from the recognition of a provision for the purchase price obligation from the sale of the IT infrastructure of Lufthansa Systems AG and the higher realised and unrealised exchange rate losses as of the reporting date. Retirement benefit expenses were lower, by contrast, as were the restructuring expenses charged by Group companies for the SCORE programme and commission expenses.

The **cost of materials** and services reached EUR 11.7bn and now accounts for 66.2 per cent of total operating expenses (previous year: 66.0 per cent). The increase in the cost of materials and services by EUR 420m stemmed mainly from fuel expenses, which climbed by 11.3 per cent to EUR 4.8bn. Adjusted for the provision for impending losses from fuel hedging and the amortisation of surcharges, which totalled EUR 645m, fuel expenses would have declined by 4.4 per cent. Of the adjusted decline, 5.1 per cent is due to lower prices. It was offset by the 0.5 per cent increase in volumes and the average effect over the year of the USD exchange rate (+0.2 per cent). Fuel expenses would have been even lower without the realised loss of EUR 99m from fuel hedging (without provisions for impending losses and amortisation of surcharges).

In the reporting period, **the costs of services purchased** fell slightly year on year (–0.8 per cent) to EUR 6.8bn. Fees and charges, at EUR 2.9bn, still constitute the largest expense item under services purchased. They rose slightly year on year by 1.3 per cent. Air traffic control charges increased by 0.8 per cent, landing fees by 3.7 per cent, passenger fees by 4.2 per cent and fees for airport infrastructure by 3.0 per cent. Handling charges fell year on year by 5.3 per cent, however. Costs of MRO services purchased rose by 7.9 per cent on the year to EUR 1.5bn. Charter expenses, largely payable to the regional partners as part of the Lufthansa Regional concept, fell sharply year on year by 37.7 per cent to EUR 566m. This is largely because fewer capacities were chartered following the transfer of more direct traffic to Germanwings. By contrast, expenses for operating leases again went up sharply, by 14.3 per cent to EUR 722m. This was due to further aircraft financed by means of various sale-and-lease-back models in the financial year.

In financial year 2014, Deutsche Lufthansa AG's **staff costs** totalled EUR 2.6bn, which was 4.8 per cent down on the year. With average annual staff numbers down by 1.3 per cent, wage and salary costs fell by 2.5 per cent. This includes restructuring costs of EUR 32m from activities defined in the SCORE programme. Social security contributions of EUR 284m were roughly the same as in the previous year (–0.3 per cent year on year). Expenses for retirement benefits fell again by 37.3 per cent to EUR 126m. Lower expenses for retirement benefits result mainly from the change in the salary trend, which has a particularly pronounced effect on transitional benefits.

Depreciation and amortisation was roughly on a par with the previous year at EUR 383m. In the financial year 2014, depreciation and amortisation again fell slightly by 3.2 per cent to EUR 367m. This was offset by impairment losses of EUR 15m on down payments.

Other operating expenses totalled EUR 3.0bn and were 9.7 per cent, or EUR 268m, up on the year. This is mainly due to the increase in realised and unrealised exchange rate losses and a provision for the obligation to make a payment for the sale of part of Lufthansa Systems AG. This item also includes restructuring expenses assumed from Group companies for the SCORE programme of EUR 48m (previous year: EUR 71m).

The **financial result** of EUR 379m was well below the previous year's figure of EUR 602m. In 2014, it was made up of the result from equity investments of EUR 951m (previous year: EUR 1.2bn), negative net interest of EUR 503m (previous year: EUR –418m) and other financial items of EUR –69m (previous year: EUR –211m).

The **result from equity investments** includes profit and loss transfers of EUR 370m and income from equity investments of EUR 581m. Most of the companies with a profit and loss transfer agreement generated positive earnings in the reporting year. Year-on-year improvements were reported by Lufthansa Systems AG (EUR 57m), Lufthansa Cityline GmbH (EUR 52m), Lufthansa Flight Training GmbH (EUR 19m), Delvag Luftversicherungs-AG (EUR 17m), LSG Lufthansa Service Holding AG (EUR 7m) and Eurowings GmbH, which reached break-even, whereas Lufthansa Technik AG (EUR 188m) and Lufthansa Cargo AG (EUR 42m) contributed less than the previous year. Miles & More GmbH transferred its earnings of EUR 87m for the first time. Lufthansa Commercial Holding GmbH reported a steeper loss than the previous year (EUR –99m), which depressed the result from equity investments accordingly. The largest share of income from equity investments (EUR 331m) stemmed from dividends from the 22 Austrian leasing companies (previous year: EUR 263m). The remaining income came from Air Trust AG (EUR 176m) and the Lufthansa SICAV-FIS fund (EUR 69m).

Balance sheet for Deutsche Lufthansa AG in accordance with HGB

in €m	31.12.2014	31.12.2013
Assets		
Intangible assets	371	157
Aircraft	4,999	4,895
Property, plant and other equipment	98	102
Financial investments	12,096	11,101
Non-current assets	**17,564**	**16,255**
Inventories	95	65
Trade receivables	605	488
Other receivables	1,508	2,101
Securities	–	1,077
Liquid funds	377	950
Current assets	**2,585**	**4,681**
Prepaid expenses	**36**	**35**
Excess of plan assets over provisions for pensions	**536**	**293**
Total assets	**20,721**	**21,264**
Shareholders' equity and liabilities		
Issued capital	1,185	1,180
Capital reserve	169	886
Retained earnings	2,129	2,129
Distributable earnings	0	207
Shareholders' equity	**3,483**	**4,402**
Provisions	**7,252**	**7,361**
Bonds	1,250	1,600
Liabilities to banks	1,014	1,068
Payables to affiliated companies	3,821	2,897
Other liabilities	3,894	3,923
Liabilities	**9,979**	**9,488**
Deferred income	**7**	**13**
Total shareholders' equity and liabilities	**20,721**	**21,264**

Net interest in the financial year came to EUR –503m (previous year: EUR –418m). The repeated decline is largely due to much higher interest accrued on pension provisions (EUR 741m) compared with the previous year's figure of EUR 498m). The higher market valuation of the pension plan assets (EUR 324m; previous year: EUR 217m) only covered around half the increase in the pension provisions.

Impairment losses on investments and current securities were EUR 141m lower than in the previous year. Impairment charges on investments of EUR 211m in the previous year were followed in 2014 by further impairment losses on investments of EUR 69m. The carrying amounts were written down for the Lufthansa SICAV-FIS fund (EUR –64m) and Lufthansa Aircraft Leasing Projekt Nr. 7 GmbH (EUR –5m).

The financial result and operating result combine to make up a **pre-tax loss** of EUR –633m (previous year: EUR 626m).

Distributable result zero
Deducting taxes of EUR 99m resulted in a net loss for the year of EUR –732m in 2014 (previous year: net profit of EUR 407m). The net loss was equalised by transferring EUR 732m from capital reserves to achieve a distributable result of zero.

Asset and financial position of Deutsche Lufthansa AG

Cash flow from operating activities At EUR –232m, cash flow from operating activities was negative in the financial year and thereby deteriorated significantly compared with the previous year's figure (EUR 449m). In the reporting year, Deutsche Lufthansa AG invested EUR 1.3bn (previous year: EUR 1.0bn) in aircraft and down payments for aircraft. Of the total, EUR 392m was for advance payments. To finance future payment obligations arising from staff pension entitlements, Lufthansa again transferred a total of EUR 416m to the Lufthansa Pension Trust on a long-term basis for investment in various fixed income and share funds. There was an overall cash outflow of EUR 440m from net cash used for capital expenditure and cash management activities. Cash flow for financing activities came to EUR 891m in the financial year.

Total assets almost on par with previous year
Total assets declined by 2.6 per cent or EUR 543m to EUR 20.7bn. Non-current assets were up by nearly EUR 1.3bn, whereas current assets fell by EUR 2.1bn.

The increase in non-current assets is largely due to higher financial assets of EUR 1.0bn, which in turn stems mainly from transferring 25 aircraft to Austrian leasing companies as contributions in kind (EUR 697m). The increase in intangible assets is primarily the result of an equalisation claim of EUR 230m from the carve-out of Miles & More GmbH. Loans were also increased or made to Lufthansa Cargo AG, Lufthansa Technik AG, LSG Lufthansa Service Holding AG, Lufthansa AirPlus Servicekarten GmbH, Österreichische Luftverkehrs-Beteiligungs GmbH and Lufthansa Flight Training GmbH. In addition, the carrying amount for Lufthansa Systems AG was written up by EUR 103m. Write-downs on the carrying amounts of Lufthansa Aircraft Leasing Projekt Nr. 7 GmbH (EUR 5m) and the Lufthansa SICAV-FIS fund (EUR 64m) had the opposite effect.

The drop in other receivables and other assets to EUR 1.5bn (previous year: EUR 2.1bn) is mainly due to lower receivables from affiliated companies, in particular to lower profits at subsidiaries subject to profit and loss transfer agreements.

Cash and securities went down by EUR 1.7bn compared with the year before. All securities were sold in the financial year. Cash balances amounted to EUR 377m (previous year: EUR 950m).

As a result, the balance sheet structure showed a clear shift towards non-current assets, which now make up 84.8 per cent of total assets (previous year: 76.4 per cent).

Shareholders' equity fell by EUR 919m, particularly as a result of transferring capital reserves to offset the net loss, and came to EUR 3,483m as of the reporting date. As a result the equity ratio, as a proportion of slightly lower total assets, fell to 16.8 per cent (previous year: 20.7 per cent). Non-current borrowing rose by EUR 496m in the period under review. The opposing effects of a fall in equity and higher non-current provisions and liabilities meant that non-current assets only accounted for a slightly lower percentage of total assets, falling by 0.7 percentage points to 50.3 per cent (previous year: 51.0 per cent). Non-current funds cover 59.3 per cent (previous year: 66.7 per cent) of non-current assets.

Net debt more than doubled year on year to EUR 2.9bn (previous year: EUR 1.3bn).

Declaration on corporate governance in accordance with Section 289a HGB

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

Risk report

Business at Deutsche Lufthansa AG is subject to essentially the same risks and opportunities as business at the Passenger Airline Group segment as presented in the consolidated financial statements. Deutsche Lufthansa AG is exposed to the risks of its equity investments and subsidiaries in proportion to its respective equity stakes. For further information, we refer to the chapter on the "Business segment Passenger Airline Group" on p. 60–71.

Supplementary report

The main events taking place after the reporting date are those described in the consolidated financial statements pertaining to the Passenger Airline Group segment.

Forecast

Future business performance at Deutsche Lufthansa AG is subject to essentially the same factors as Lufthansa Passenger Airlines as presented in the consolidated financial statements.

Further information on anticipated macroeconomic developments and the performance of the business segments, as well as the assumptions on which the Group forecast is based, can be found in the "Forecast" section of the Group management report on p. 120–126.

Consolidated financial statements

Consolidated income statement
for the financial year 2014

in €m	Notes	**2014**	2013[1]
Traffic revenue	3	24,388	24,568
Other revenue	4	5,623	5,459
Total revenue		**30,011**	**30,027**
Changes in inventories and work performed by entity and capitalised	5	212	,158
Other operating income	6	1,953	2,043
Cost of materials and services	7	–17,283	–17,498
Staff costs	8	–7,335	–7,356
Depreciation, amortisation and impairment	9	–1,512	–1,767
Other operating expenses	10	–5,279	–4,756
Profit/loss from operating activities		**767**	**851**
Result of equity investments accounted for using the equity method	11	77	91
Result of other equity investments	11	44	33
Interest income	12	135	162
Interest expenses	12	–414	– 508
Other financial items	13	–429	–83
Financial result		**–587**	**–305**
Profit/loss before income taxes		**180**	**546**
Income taxes	14	–105	–220
Profit/loss after income taxes		**75**	**326**
Profit/loss attributable to minority interests		–20	–13
Net profit/loss attributable to shareholders of Deutsche Lufthansa AG		**55**	**313**
Basic/diluted earnings per share in €	15	**0.12**	**0.68**

[1] Previous year’s figures have been adjusted due to IFRS 11.

Statement of comprehensive income
for the financial year 2014

in €m	2014	2013
Profit / loss after income taxes	**75**	**326**
Other comprehensive income		
Other comprehensive income with subsequent reclassification to the income statement		
Differences from currency translation	94	−48
Subsequent measurement of available-for-sale financial assets	312	116
Subsequent measurement of cash flow hedges	−278	60
Other comprehensive income from investments accounted for using the equity method	−16	−5
Other expenses and income recognised directly in equity	7	−3
Income taxes on items in other comprehensive income	41	−13
Other comprehensive income without subsequent reclassification to the income statement		
Revaluation of defined-benefit pension plans	−2,831	1,061
Income taxes on items in other comprehensive income	719	−222
Other comprehensive income after income taxes	**−1,952**	**946**
Total comprehensive income	**−1,877**	**1,272**
Comprehensive income attributable to minority interests	−25	−9
Comprehensive income attributable to shareholders of Deutsche Lufthansa AG	**−1,902**	**1,263**

Consolidated balance sheet
as of 31 December 2014

Assets

in €m	Notes	31.12.2014	31.12.2013[1]	1.1.2013[1]
Intangible assets with an indefinite useful life[2]	16	1,197	1,188	1,193
Other intangible assets	17	390	381	375
Aircraft and reserve engines	18 20	13,572	12,359	11,843
Repairable spare parts for aircraft		1,083	959	899
Property, plant and other equipment	19 20	2,109	2,059	2,082
Investments accounted for using the equity method	21	445	441	382
Other equity investments	22 41	776	500	413
Non-current securities	22 41	10	20	19
Loans and receivables	23 41	515	500	472
Derivative financial instruments	41	599	335	268
Deferred charges and prepaid expenses	26	11	16	25
Effective income tax receivables		31	39	52
Deferred tax assets	14	1,489	622	755
Non-current assets		**22,227**	**19,419**	**18,778**
Inventories	24	700	641	639
Trade receivables and other receivables	25 41	3,995	3,600	3,616
Derivative financial instruments	41	456	460	215
Deferred charges and prepaid expenses	26	147	147	152
Effective income tax receivables		122	72	101
Securities	27 41	1,785	3,146	3,530
Cash and cash equivalents	28 41	953	1,552	1,438
Assets held for sale	29	89	71	110
Current assets		**8,247**	**9,689**	**9,801**
Total assets		**30,474**	**29, 108**	**28,579**

[1] Previous year's figures have been adjusted due to IFRS 11.
[2] Including Goodwill.

Shareholders' equity and liabilities

in €m	Notes	31.12.2014	31.12.2013 1)	1.1.2013 1)
Issued capital	30	1,185	1,180	1,177
Capital reserve 2)	31	170	886	873
Retained earnings 2)	31	1,237	2,511	446
Other neutral reserves	31	1,321	1,166	1,055
Net profit / loss		55	313	1,228
Equity attributable to shareholders of Deutsche Lufthansa AG		**3,968**	**6,056**	**4,779**
Minority interests		63	52	60
Shareholders' equity		**4,031**	**6,108**	**4,839**
Pension provisions	32	7,231	4,718	5,844
Other provisions	33	601	596	590
Borrowings	34 41	5,364	4,823	5,947
Other financial liabilities	35	136	148	198
Advance payments received, deferred income and other non-financial liabilities	36	1,179	1,187	1,163
Derivative financial instruments	41	719	426	150
Deferred tax liabilities	14	239	146	94
Non-current provisions and liabilities		**15,469**	**12,044**	**13,986**
Other provisions	33	953	868	898
Borrowings	34 41	594	1,514	963
Trade payables and other financial liabilities	37 41	4,635	4,545	4,237
Liabilities from unused flight documents		2,848	2,635	2,612
Advance payments received, deferred income and other non-financial liabilities	38	924	964	935
Derivative financial instruments	41	766	183	2
Effective income tax obligations		228	247	107
Liabilities related to assets held for sale		26	–	–
Current provisions and liabilities		**10,974**	**10,956**	**9,754**
Total shareholders' equity an d liabilities		**30,474**	**29,108**	**28,579**

1) Previous year's figures have been adjusted due to IFRS 11.
2) Previous year's figures have been adjusted.

Consolidated statement of changes in shareholders’ equity
as of 31 December 2014

in €m	Issued capital	Capital reserve[1]	Fair value measurement of financial instruments	Currency differences	Revaluation reserve (due to business combinations)	Other neutral reserves	**Total other neutral reserves**	Retained earnings[1]	Net profit/loss	**Equity attributable to shareholders of Deutsche Lufthansa AG**	Minority interests	**Total shareholders’ equity**
As of 31.12.2012	**1,177**	**873**	**169**	**318**	**236**	**332**	**1,055**	**446**	**1,228**	**4,779**	**60**	**4,839**
Change in accounting policies	–	–	–	–	–	–	–	0*	–	0*	–	0*
Adjusted as of 31.12.2012	**1,177**	**873**	**169**	**318**	**236**	**332**	**1,055**	**446**	**1,228**	**4,779**	**60**	**4,839**
Capital increases/reductions	3	13	–	–	–	–	–	–	–	16	–	16
Reclassifications	–	–	–	–	–	–	–	1,232	−1,228	4	−4	–
Dividends to Lufthansa shareholders/minority interests	–	–	–	–	–	–	–	–	–	–	−14	−14
Transactions with minority interests	–	–	–	–	–	–	–	−6	–	−6	1	−5
Consolidated net profit/loss attributable to Lufthansa shareholders/minority interests	–	–	–	–	–	–	–	–	313	313	13	326
Other expenses and income recognised directly in equity	–	–	163	−48	–	−4	111	839	–	950	−4	946
As of 31.12.2013	**1,180**	**886**	**332**	**270**	**236**	**328**	**1,166**	**2,511**	**313**	**6,056**	**52**	**6,108**
Change in accounting policies	–	–	–	–	–	–	–	0*	–	0*	–	–
Adjusted as of 31.12.2013	**1,180**	**886**	**332**	**270**	**236**	**328**	**1,166**	**2,511**	**313**	**6,056**	**52**	**6,108**
Capital increases/reductions	5	16	–	–	–	–	–	–	–	21	–	21
Reclassifications	–	−732	–	–	–	–	–	838	−106	–	–	–
Dividends to Lufthansa shareholders/minority interests	–	–	–	–	–	–	–	–	−207	−207	−15	−222
Transactions with minority interests	–	–	–	–	–	–	–	–	–	–	1	1
Consolidated net profit/loss attributable to Lufthansa shareholders/minority interests	–	–	–	–	–	–	–	–	55	55	20	75
Other expenses and income recognised directly in equity	–	–	75	94	–	−14	155	−2,112	–	−1,957	5	−1,952
As of 31.12.2014	**1,185**	**170**	**407**	**364**	**236**	**314**	**1,321**	**1,237**	**55**	**3,968**	**63**	**4,031**

* Rounded below EUR 1m.
[1] Previous year’s figures have been adjusted.

Consolidated cash flow statement
for the financial year 2014

in €m	Notes	2014	2013[3]
Cash and cash equivalents 1.1.		**1,407**	**1,438**
Net profit/loss before income taxes		180	546
Depreciation, amortisation and impairment losses on non-current assets (net of reversals)	9 13	1,516	1,764
Depreciation, amortisation and impairment losses on current assets (net of reversals)		–8	–25
Net proceeds on disposal of non-current assets	6	140	–11
Result of equity investments	11	–121	–124
Net interest	12	279	346
Income tax payments/reimbursements		–220	–93
Measurement of financial derivatives through profit or loss		413	80
Change in working capital[1]		–202	807
Cash flow from operating activities		**1,977**	**3,290**
Capital expenditure for property, plant and equipment and intangible assets	17 – 20	–2,699	–2,444
Capital expenditure for financial investments	22 23	–60	–26
Additions/loss to repairable spare parts for aircraft		–100	–39
Proceeds from disposal of non-consolidated equity investments		49	13
Proceeds from disposal of consolidated equity investments		0	–8
Cash outflows for acquisitions of non-consolidated equity investments	21 22 41	–14	–29
Cash outflows for acquisitions of consolidated equity investments	1	–4	0
Proceeds from disposal of intangible assets, property, plant and equipment and other financial investments		161	233
Interest income		256	228
Dividends received		137	89
Net cash from/used in investing activities		**–2,274**	**–1,983**
Purchase of securities/fund investments[4]		–974	–1,699
Disposal of securities/fund investments		1,758	1,278
Net cash from/used in investing and cash management activities		**–1,490**	**–2,404**
Capital increase	30 31	–	–
Transactions with minority interests		–	–9
Non-current borrowing		1,102	536
Repayment of non-current borrowing		–1,572	–993
Dividends paid		–222	–14
Interest paid		–380	–424
Net cash from/used in financing activities		**–1,072**	**–904**
Net increase/decrease in cash and cash equivalents		**–585**	**–18**
Changes due to currency translation differences		6	–13
Cash and cash equivalents 31.12.	28	**828**	**1,407**
Securities	27	1,785	3,146
Liquidity[2]		**2,613**	**4,553**
Net increase/decrease in liquidity		–1,940	–413

[1] Working capital consists of inventories, receivables, liabilities and provisions.
[2] Excluding fixed-term deposits with terms of three to twelve months (2014: EUR 125m, 2013: EUR 145m).
[3] Previous year's figures have been adjusted due to IFRS 11.
[4] Including transfer in plan assets of EUR 736m (2013: EUR 712m).

The cash flow statement shows how cash and cash equivalents at the Lufthansa Group have changed over the reporting period. In accordance with IAS 7, cash flows are divided into cash flows from operating activities, from investing activities and from financing activities. The cash and cash equivalents shown in the cash flow statement comprise the balance sheet items bank balances and cash-in-hand excluding fixed-term deposits with terms of three to twelve months. 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 2014

General remarks

The consolidated financial statements of Deutsche Lufthansa AG, Cologne, 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 IFRS Interpretations Committee as applicable in the European Union (EU).

The commercial law provisions of Section 315a Paragraph 1 of the German Commercial Code (HGB) have also been applied. All IFRSs issued by the IASB and in effect at the time that these financial statements were prepared and applied by Deutsche Lufthansa AG have been adopted by the European Commission for application in the EU. The consolidated financial statements of Deutsche Lufthansa AG, denominated in EUR millions, therefore comply with the IFRSs as applicable in the EU and with the further commercial law provisions of Section 315a Paragraph 1 HGB.

With the exception of the changes required by new or amended standards, the accounting policies applied in the previous year have been retained.

These consolidated financial statements for 2014 are to be examined and approved by the Supervisory Board of Deutsche Lufthansa AG in its meeting on 11 March 2015 and are then authorised for publication.

Mandatory International Financial Reporting Standards (IFRS) and Interpretations (IFRIC)
Application of the following standards was mandatory for the first time as of 1 January 2014:

IFRS pronouncement	Adopted	EU endorsement	Published in the Official Journal of the EU	Effective date in EU
IFRS 10, Consolidated Financial Statements	12.5.2011	11.12.2012	29.12.2012	1.1.2014
IFRS 11, Joint Arrangements	12.5.2011	11.12.2012	29.12.2012	1.1.2014
IFRS 12, Disclosures of Interests in Other Entities	12.5.2011	11.12.2012	29.12.2012	1.1.2014
Revised IAS 27, Separate Financial Statements	12.5.2011	11.12.2012	29.12.2012	1.1.2014
Revised IAS 28, Investments in Associates and Joint Ventures	12.5.2011	11.12.2012	29.12.2012	1.1.2014
Amendment to IAS 32, Offsetting Financial Assets and Financial Liabilities	16.12.2011	13.12.2012	29.12.2012	1.1.2014
Amendments to the transitional provisions of IFRS 10, Consolidated Financial Statements, IFRS 11, Joint Agreements and IFRS 12, Disclosure of Interests in Other Entities	28.6.2012	4.4.2013	5.4.2013	1.1.2014
Investment Entities – Amendments to IFRS 10, IFRS 12 and IAS 27	31.10.2012	20.11.2013	21.11.2013	1.1.2014
Amendments to IAS 36, Recoverable Amount Disclosures for Non-Financial Assets	29.5.2013	19.12.2013	20.12.2013	1.1.2014
Amendments to IAS 39, Novation of Derivatives and Continuation of Hedge Accounting	27.6.2013	19.12.2013	20.12.2013	1.1.2014

IFRS 10, Consolidated Financial Statements, replaces the guidelines on control and consolidation included in IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation: Special Purpose Entities. In future, IAS 27 will only contain rules on IFRS individual financial statements. IFRS 10 and its comprehensive application guidelines specify a uniform concept of control for all types of company, which forms the basis for defining the group of consolidated companies. IFRS 10 stipulates that an investor controls an investee when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The changes had no effect on the consolidated financial statements.

IFRS 11, Joint Arrangements, governs the classification of and accounting for joint operations and joint ventures, and replaces the previous IAS 31, Interests in Joint Ventures, and SIC-13, Jointly Controlled Entities – Non-Monetary contributions by Venturers. A joint arrangement is defined as an agreement by which two or more parties exercise joint control. Joint control means that decisions on activities that have a significant effect on the returns from an agreement require the unanimous approval of the parties sharing control. If a joint agreement has been identified, the further classification as a joint operation or a joint venture depends on the rights and obligations of the partners. IFRS 11 has eliminated the previously permitted pro rata consolidation of joint ventures, which must now be accounted for using the equity method only.

When IFRS 11 was applied for the first time, the equity investment in AeroLogic GmbH was no longer accounted for using the equity method. Instead, the expenses and income, assets and liabilities of this company were recognised in the consolidated financial statements on a pro rata basis. The figures for the previous year have been adjusted accordingly. This change had no material effect in 2014 or the previous year.

To comply with **IFRS 12, Disclosure of Interests in Other Entities,** companies must disclose information that enables users of financial statements to assess the nature, risks and financial effects associated with their investment in subsidiaries, associated companies, joint arrangements and unconsolidated structured entities. First-time application requires further disclosures in the Notes to the consolidated financial statements.

The **amendments to the transitional provisions of IFRS 10, IFRS 11 and IFRS 12** clarify that the effective date of these standards corresponds to the beginning of the financial year in which they are first applied. No retrospective adjustments in line with IFRS 10 are to be made for subsidiaries sold during the comparable period. Disclosure of the effects, in accordance with IAS 8, is restricted to the immediately preceding comparative period. IFRS 11 and IFRS 12 contain similar clarifications and exemptions; IFRS 12 also removes the need to present comparable figures for non-consolidated structured entities. Although the IASB provided for an effective date of 1 January 2013, endorsement by the European Union meant that the amendments were only effective as of 1 January 2014.

As a result of the amendments to **IFRS 10, IFRS 12 and IAS 27:** Many **investment companies** will in future be relieved of their obligation to consolidate most of their investee companies. Instead, they are to carry them at fair value. These amendments are not relevant to the Lufthansa Group.

The revised **IAS 27, Separate Financial Statements,** now only governs accounting for shares in subsidiaries, associated companies and joint arrangements, as well as the corresponding disclosures in the Notes to the financial statements of the owner. The previous rules on consolidation are now found in the new IFRS 10. As Deutsche Lufthansa AG does not prepare separate IFRS financial statements in accordance with Section 325 Paragraph 2a HGB, the changes have no effect.

The revised version of **IAS 28, Investments in Associates and Joint Ventures,** stipulates that the equity method is to be used to account for investments in associated companies and joint ventures. Previous practice in the Lufthansa Group conforms to this standard. It also makes clear that in the case of partial disposals, it is only possible to present that part of an investment as held for sale that is actually to be sold. The equity method is to be applied to the remaining interest until the significant influence or the joint control over the investment are lost. These changes had no effect on the consolidated financial statements.

The amendment to **IAS 32, Financial Instruments: Presentation,** clarifies the conditions for offsetting financial assets and financial liabilities in the balance sheet. It states that an entitlement to offset assets and liabilities must exist for all parties involved as of the reporting date and must be legally enforceable both in the normal course of business and in the event of a default, insolvency proceedings or inability to pay. Furthermore, it defines which gross offsetting mechanisms can also be considered as net settlement within the meaning of the standard if no credit or liquidity risks remain and the receivables and liabilities are netted in a dedicated accounting process.

In May 2013, the IASB amended **IAS 36 in relation to disclosures on the recoverable amount for non-financial assets.** For cash-generating units that include a significant amount of goodwill or significant intangible assets with an indefinite useful life, the recoverable amount only has to be disclosed if an impairment loss has been recognised or reversed in the reporting period. In the event of an impairment or an impairment reversal, it introduces additional disclosure requirements for those non-financial assets whose recoverable amount was measured on the basis of fair value less costs to sell. The amendments to IAS 36 are mandatory for the first time in financial years beginning on or after 1 January 2014. The Lufthansa Group applied this standard early as of 31 December 2013.

The amendment to **IAS 39, Novation of Derivatives and Continuation of Hedge Accounting,** published in June 2013 releases entities preparing financial statements from the obligation to discontinue hedge accounting if the hedging instruments are "novated", i.e. transferred to a central counterparty as a consequence of laws or regulations or the introduction of laws or regulations. The amendments cover both novations to central counterparties and to intermediate parties such as direct members of a central clearing house or their clients. The amendments had no effect on the net assets, financial and earnings position of the Lufthansa Group.

Published International Financial Reporting Standards (IFRS) and Interpretations (IFRIC), not yet applied/ applicable

The following standards and amendments have already been endorsed by the European Union. Mandatory application is planned for a later date, however.

IFRS pronouncement	Adopted	EU endorsement	Published in the Official Journal of the EU	Effective date in EU
Application in the 2015 financial year or later				
IFRIC 21, Levies	20.5.2013	13.6.2014	14.6.2014	17.6.2014
Improvements to International Financial Reporting Standards (2011 – 2013)	12.12.2013	18.12.2014	19.12.2014	1.7.2014
Amendments to IAS 19, Defined Benefit Plans: Employee Contributions	21.11.2013	17.12.2014	9.1.2015	1.2.2015
Improvements to International Financial Reporting Standards (2010 – 2012)	12.12.2013	17.12.2014	9.1.2015	1.2.2015

The interpretation **IFRIC 21, Levies,** stipulates how and when to account for obligations to pay public levies that are not income taxes as defined in IAS 12. It clarifies that an obligation to pay a levy must be recognised as soon as the obligating event that triggers the levy occurs. This interpretation will not have a significant effect on the net assets, financial and earnings position of the Lufthansa Group.

In December 2013, the **Improvements to International Financial Reporting Standards (2011 to 2013 Cycle)** were published, containing amendments to IFRS 3, IFRS 13 and IAS 40. No significant effects are expected from their first-time application.

On 21 November 2013, the IASB published an amendment to **IAS 19 entitled Defined Benefit Plans: Employee Contributions (Amendments to IAS 19)** that was narrow in its scope. With this amendment, the IASB provides companies with simplified rules for recognising contributions to a pension plan by employees or third parties. On the basis of this amendment, companies are now permitted to recognise contributions from employees or third parties as a reduction of current service cost in the period of service if the contributions are independent of the number of years of service. Contributions are deemed to be independent if the amount is a fixed percentage of the employee's salary. The question of whether to make use of this option is under review.

In December 2013, the **Improvements to International Financial Reporting Standards (2010–2012 Cycle)** were published, containing amendments to IFRS 2, IFRS 3 and IFRS 8 and to IAS 16, IAS 24 and IAS 38. No significant effects are expected from their first-time application.

The IASB and the IFRS Interpretations Committee have adopted other standards and interpretations whose application is not mandatory for the financial year 2014. The application of these IFRS and IFRIC is subject to their endorsement by the EU, which is still pending.

IFRS pronouncement	Adopted	EU endorsement	Published in the Official Journal of the EU	Effective date in EU
Application expected in the 2016 financial year or later				
IFRS 9, Financial Instruments	24.7.2014	Pending	Pending	Expected: 1.1.2018
IFRS 14, Regulatory Deferral Accounts	30.1.2014	Pending	Pending	Expected: 1.1.2016
IFRS 15, Revenue from Contracts with Customers	28.5.2014	Pending	Pending	Expected: 1.1.2017
Amendments to IFRS 10, IFRS 12 and IAS 28, Investment Entities: Application of exceptions to consolidation	18.12.2014	Pending	Pending	Expected: 1.1.2016
Amendment to IAS 1, Presentation of Financial Statements	18.12.2014	Pending	Pending	Expected: 1.1.2016
Improvements to International Financial Reporting Standards (2012 – 2014)	25.9.2014	Pending	Pending	Expected: 1.1.2016
Amendments to IFRS 10 and IAS 28, Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	11.9.2014	Pending	Pending	Expected: 1.1.2016
Amendment to IAS 27, Equity Method in Separate Financial Statements	12.8.2014	Pending	Pending	Expected: 1.1.2016
Amendments to IFRS 16 and IAS 41, Agriculture: Bearer Plants	30.6.2014	Pending	Pending	Expected: 1.1.2016
Amendments to IFRS 16 and IAS 38, Clarification of Acceptable Methods of Depreciation and Amortisation	12.5.2014	Pending	Pending	Expected: 1.1.2016
Amendments to IFRS 11, Accounting for Acquisitions of Interests in Joint Operations	6.5.2014	Pending	Pending	Expected: 1.1.2016

IFRS 9, Financial Instruments includes guidelines for recognition and measurement, derecognition and hedge accounting. The IASB published the final version of the standard on 24 July 2014 when the various phases of its extensive project on financial instruments were completed. All accounting for financial instruments can now take place in accordance with IFRS 9, which replaces IAS 39, Financial Instruments: Recognition and Measurement. The published version of IFRS 9 supersedes all previous versions. Application is planned to be mandatory for financial years beginning on or after 1 January 2018. Early application is allowed. Its effects on the consolidated financial statements are under review.

The IASB published the final standard **IFRS 15, Revenue from Contracts with Customers,** on 28 May 2014. The core principle of IFRS 15 for the recognition of revenue consists of recognising the delivery of goods and services to customers at an amount that corresponds to the consideration the company can expect to receive in exchange for these goods or services. IFRS 15 replaces IAS 11, Construction Contracts, IAS 18, Revenue, IFRIC 13, Customer Loyalty Programmes, IFRIC 15, Agreements for the Construction of Real Estate, IFRIC 18, Transfers of Assets from Customers and SIC-31, Revenue – Barter Transactions Involving Advertising Services. The new standard is applicable from 1 January 2017. The future effects on the Group's net assets, financial and earnings position are under review.

On 18 December 2014, the IASB published **Amendments to IAS 1, Presentation of Financial Statements,** as part of its disclosure initiative. The amendments relate particularly to clarifications on assessing the materiality of information in the financial statements, the presentation of additional line items in the balance sheet and the statement of comprehensive income, the presentation of other comprehensive income attributable to associated companies and joint ventures accounted for using the equity method, the structure of disclosures in the notes, and the presentation of significant accounting policies. The amendments apply to annual reporting periods beginning on or after 1 January 2016. Early application is possible. Its effects on the consolidated financial statements are under review.

At the present time, the other new or amended IFRS pronouncements listed in the table are not considered to be of great relevance to the Lufthansa Group.

The Group has not voluntarily applied any of the new or amended regulations mentioned above before their binding date of application. If the effective dates of the standards and interpretations mentioned above fall within the year, they are applied as of 1 January of the following financial year. This is subject to the endorsement of the standards by the EU.

1 Group of consolidated companies

The consolidated financial statements of Deutsche Lufthansa AG include all significant subsidiaries, joint arrangements and associated companies.

Subsidiaries are entities over which Deutsche Lufthansa AG is currently able to exercise power by virtue of existing rights. Power means the ability to direct the activities that significantly influence a company's profitability. Deutsche Lufthansa AG therefore only has control over a company when it is exposed to variable returns from the company and its power over the company's relevant activities enables it to influence these returns. This definition of control also applies to structured entities which are identified as such in the list of significant Group companies. In general, the ability to control subsidiaries arises when Deutsche Lufthansa AG holds a direct or indirect ownership of a majority of the voting rights.

Joint arrangements are classified either as joint ventures or as joint operations. A joint arrangement exists if the Lufthansa Group through a contractual agreement jointly controls activities with a third party. Joint control exists only when decisions on activities that have a significant effect on the returns from an agreement require the unanimous approval of the parties sharing control.

Significant interests in companies that are managed jointly with one or more partners (joint ventures) are accounted for using the equity method. Joint operations are defined by the fact that the parties exercising joint control over the arrangement have rights to the assets attributed to the arrangement and are liable for its debts. Assets and liabilities, revenue and expenses from the significant joint operations are recognised in the consolidated financial statements of the Lufthansa Group in proportion to these rights and obligations.

Associated companies are companies in which Deutsche Lufthansa AG has the power to exercise significant influence over financial and operating policy generally based on an ownership interest between 20 and 50 per cent. Significant associated companies are accounted for in the consolidated financial statements using the equity method.

A list of significant subsidiaries, joint arrangements and associated companies can be found on p. 223 – 229. The list of shareholdings is attached at the end of these notes.

In addition to Deutsche Lufthansa AG as the parent company, the group of consolidated companies includes 70 domestic and 237 foreign companies, including structured entities (previous year: 60 domestic and 228 foreign companies). One German cargo airline is also included in the consolidated financial statements on a pro rata basis in accordance with IFRS 11, which was applicable for the first time from 1 January 2014. The figures for the previous year have been adjusted accordingly.

Changes in the group of consolidated companies during the 2014 financial year are shown in the following table:

Changes in the group of consolidated companies

Name, registered office	Additions	Disposals	Reasons
Passenger Airline Group segment			
Lufthansa Leasing Austria GmbH & Co. OG Nr. 28, Salzburg, Austria	15.2.2014		Established
FL Falcon Leasing Co., Ltd., Tokyo, Japan	25.4.2014		Established
FL Uranus Leasing Co., Ltd., Tokyo, Japan	25.4.2014		Established
FG Honest Leasing Co., Ltd., Tokyo, Japan	15.7.2014		Established
Common Ground BRE GmbH, Frankfurt am Main, Germany	10.9.2014		Established
Common Ground CGN GmbH, Frankfurt am Main, Germany	10.9.2014		Established
Common Ground DUS GmbH, Frankfurt am Main, Germany	10.9.2014		Established
Common Ground HAM GmbH, Frankfurt am Main, Germany	11.9.2014		Established
Common Ground BER GmbH, Frankfurt am Main, Germany	15.9.2014		Established
Common Ground HAJ GmbH, Frankfurt am Main, Germany	15.9.2014		Established
Common Ground NUE GmbH, Frankfurt am Main, Germany	15.9.2014		Established
Common Ground STR GmbH, Frankfurt am Main, Germany	15.9.2014		Established
Lufthansa Leasing Austria GmbH & Co. OG Nr. 27, Salzburg, Austria	7.10.2014		Established
Muller Leasing Co., Ltd., Tokyo, Japan	19.12.2014		Established
SMFL Y Lease, Tokyo, Japan	19.12.2014		Established
Lahm Leasing Co., Ltd., Tokyo, Japan	19.12.2014		Established
Hummels Leasing Co. Ltd., Tokyo, Japan	19.12.2014		Established
Lufthansa Leasing Austria GmbH & Co. OG Nr. 5, Salzburg, Austria		17.4.2014	Merger
Lufthansa WorldShop GmbH, Frankfurt am Main, Germany		26.6.2014	Merger
Lufthansa Leasing Austria GmbH & Co. OG Nr. 3, Salzburg, Austria		18.7.2014	Merger
Lufthansa Leasing Austria GmbH & Co. OG Nr. 11, Salzburg, Austria		11.12.2014	Merger
AUA 2006 MSN 263 Ltd., George Town, Grand Cayman, Cayman Island		15.12.2014	Liquidation
Logistics segment			
Lufthansa Leasing Austria GmbH & Co. OG Nr. 50, Salzburg, Austria	15.2.2014		Established
Jettainer Americas, Inc., Wilmington, USA	1.10.2014		Consolidated for the first time
Lufthansa Cargo Charter Agency GmbH, Frankfurt am Main, Germany		13.6.2014	Merger
MRO business segment			
Lufthansa Technik Sofia OOD, Sofia, Bulgaria	1.1.2014		Consolidated for the first time
Catering segment			
Starfood Finland Oy, Vantaa, Finland	28.2.2014		Acquisition
Supply Chain S.à.r.l., Sennigerberg, Luxembourg	1.4.2014		Consolidated for the first time
LSG Sky Chefs Kenya Limited, Nairobi, Kenya	1.11.2014		Consolidated for the first time
LSG Linearis S.A.S., Paris, France	15.10.2014		Established
Other			
LSY GmbH, Kelsterbach, Germany	18.11.2014		Established
Lufthansa Industry Solutions GmbH & Co. KG, Kelsterbach, Germany	16.12.2014		Established
INF Services GmbH & Co. KG, Kelsterbach, Germany	16.12.2014		Established
Lufthansa Systems GmbH & Co. KG i. Gr., Kelsterbach, Germany	17.12.2014		Established

100 per cent of the shares in Starfood Finland Oy were purchased for a price of EUR 3.5m by contract dated and effective 28 February 2014 between LSG Lufthansa Service Europa/Afrika GmbH and Finnair Travel Retail Oy. Calculating the fair value of the company's assets and liabilities on the acquisition date resulted in goodwill of EUR 2.8m.

The following table shows the purchased company's main assets and liabilities immediately before and after the acquisition date:

in €m	Before acquisition	After acquisition
Non-current assets	1	5
Current assets	0*	0*
thereof cash and cash equivalents	3	2
thereof other current assets	3	2
Total assets	**4**	**7**
Shareholders' equity	1	4
Non-current liabilities	–	–
Current liabilities	3	3
Total equity and liabilities	**4**	**7**

* Rounded below EUR 1m.

The following fully consolidated German Group companies made use of the exemption provisions in Section 264 Paragraph III and Section 264b German Commercial Code (HGB) in 2014.

Company name	Registered office
Germanwings GmbH	Cologne
Eurowings GmbH	Dusseldorf
Hamburger Gesellschaft für Flughafenanlagen mbH	Hamburg
LSG Sky Chefs Europe GmbH	Neu-Isenburg
LSG Asia GmbH	Neu-Isenburg
LSG-Food & Nonfood Handel GmbH	Frankfurt am Main
LSG Lufthansa Service Catering- und Dienstleistungsgesellschaft mbH	Neu-Isenburg
LSG Lufthansa Service Europa/Afrika GmbH	Neu-Isenburg
LSG Lufthansa Service Holding AG	Neu-Isenburg
Spiriant GmbH	Neu-Isenburg
LSG Sky Chefs Düsseldorf GmbH	Neu-Isenburg
LSG Sky Chefs Frankfurt International GmbH	Neu-Isenburg
LSG Sky Chefs Frankfurt ZD GmbH	Neu-Isenburg
LSG Sky Chefs München GmbH	Neu-Isenburg
LSG Sky Chefs Verwaltungsgesellschaft mbH	Neu-Isenburg
LSG Sky Chefs Lounge GmbH	Neu-Isenburg
LSG-Sky Food GmbH	Alzey
LSG South America GmbH	Neu-Isenburg
Lufthansa Technik AERO Alzey GmbH	Alzey

Company name	Registered office
Lufthansa Cargo AG	Kelsterbach
Jettainer GmbH	Raunheim
Lufthansa CityLine GmbH	Cologne
Lufthansa Commercial Holding GmbH	Cologne
Lufthansa Flight Training Berlin GmbH	Berlin
Lufthansa Flight Training GmbH	Frankfurt am Main
Lufthansa Leasing GmbH & Co. Echo-Zulu oHG	Grünwald
Lufthansa Systems AG	Kelsterbach
Lufthansa Systems AS GmbH	Norderstedt
Lufthansa Systems Business Solutions GmbH	Raunheim
Lufthansa Process Management GmbH	Neu-Isenburg
Lufthansa Technik AG	Hamburg
Lufthansa Technik Immobilien- und Verwaltungsgesellschaft mbH	Hamburg
Lufthansa Technik Logistik GmbH	Hamburg
Lufthansa Technik Maintenance International GmbH	Frankfurt am Main
Lufthansa Technik Objekt- und Verwaltungsgesellschaft mbH	Hamburg
Lufthansa Training & Conference Center GmbH	Seeheim-Jugenheim
Lufthansa Global Business Services GmbH	Frankfurt am Main
Miles & More International GmbH	Neu-Isenburg
Lufthansa Asset Management GmbH	Frankfurt am Main
Lufthansa Technik Logistik Services	Hamburg

The consolidated financial statements include investments in 39 joint ventures and 36 associated companies (previous year: 41 joint ventures and 37 associated companies), of which nine joint ventures (previous year: nine) and 18 associated companies (previous year: 16) 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.

Investments in companies accounted for using the equity method

The following tables contain summarised data from the income statements and balance sheet data for the individual material joint ventures accounted for using the equity method.

Balance sheet data Günes Ekspres Havacilik Anonim Sirketi (SunExpress), Antalya, Turkey

in €m	2014	2013
Current assets	191	166
Non-current assets	351	227
Cash and cash equivalents	50	84
Current liabilities	256	168
Non-current liabilities	157	143
Current financial liabilities (except trade and other payables and provisions)	19	17
Non-current financial liabilities (except trade and other payables and provisions)	89	95
Shareholders' equity	**129**	**82**
Share of equity	64	41
Other	21	21
Carrying amount	**85**	**62**

Income statement data Günes Ekspres Havacilik Anonim Sirketi (SunExpress), Antalya, Turkey

in €m	2014	2013
Revenue	1,021	890
Depreciation and amortisation	15	14
Interest income	3	3
Interest expenses	2	4
Income tax expense or income	13	16
Profit or loss from continuing operations	**46**	**28**
Profit or loss after tax from discontinued operations	0	0
Other comprehensive income	1	–3
Total comprehensive income	**47**	**25**
Share of profit or loss from continuing operations	23	14
Share of comprehensive income	24	13

Balance sheet data Terminal 2 Gesellschaft mbH & Co. oHG, Freising, Germany

in €m	2014	2013
Current assets	182	98
Non-current assets	1,326	1,195
Cash and cash equivalents	0	0
Current liabilities	339	159
Non-current liabilities	1,196	1,123
Current financial liabilities (except trade and other payables and provisions)	199	10
Non-current financial liabilities (except trade and other payables and provisions)	1,145	1,085
Shareholders' equity	**–27**	**11**
Share of equity	–11	4
Other	11	0
Carrying amount	**0**	**4**

Income statement data Terminal 2 Gesellschaft mbH & Co. oHG, Freising, Germany

in €m	2014	2013
Revenue	259	258
Depreciation and amortisation	53	55
Interest income	0	0
Interest expenses	34	32
Income tax expense or income	8	9
Profit or loss from continuing operations	**67**	**85**
Profit or loss after tax from discontinued operations	0	0
Other comprehensive income	–38	17
Total comprehensive income	**29**	**102**
Share of profit or loss from continuing operations	27	34
Share of comprehensive income	12	41
Dividends received	27	29

The following table contains summarised data from the income statement and balance sheet data for the individual material associated companies accounted for using the equity method.

Balance sheet data SN Airholding SA/NV, Brussels, Belgium

in €m	**2014**	2013
Current assets	379	300
Non-current assets	108	118
Cash and cash equivalents	157	139
Current liabilities	346	284
Non-current liabilities	202	172
Current financial liabilities (except trade and other payables and provisions)	0	2
Non-current financial liabilities (except trade and other payables and provisions)	116	96
Shareholders' equity	**–61**	**–38**
Share of equity	–27	–17
Other	27	17
Carrying amount	**0**	**0**

Income statement data SN Airholding SA/NV, Brussels, Belgium

in €m	**2014**	2013
Revenue	768	755
Depreciation and amortisation	16	13
Interest income	2	2
Interest expenses	4	3
Income tax expense or income	0	0
Profit or loss from continuing operations	**–23**	**–28**
Profit or loss after tax from discontinued operations	0	0
Other comprehensive income	0	0
Total comprehensive income	**–23**	**–28**
Share of profit or loss from continuing operations	–10	–13
Share of comprehensive income	–10	–13

The item "Other" in the reconciliation with the carrying amount for SunExpress includes the difference from the first-time consolidation of the company. For SN Airholding and Terminal 2 Gesellschaft, the difference is shown between the negative pro-rata equity and the carrying amount, which has been not reduced below zero. At SN Airholding, the negative earnings have been offset against non-current loans to the company, reducing the carrying amount. At Terminal 2 Gesellschaft, the dividend payment is higher than the carrying amount, so the excess can no longer be offset against the carrying amount, but rather is recognised in profit or loss.

The following table contains summarised aggregated data from the income statement and carrying amounts for the non-material joint ventures accounted for using the equity method.

Income statements data and carrying amounts of joint ventures accounted for using the equity method

in €m	**2014**	2013
Profit or loss from continuing operations	15	24
Profit or loss after tax from discontinued operations	0	0
Other comprehensive income	0	0
Total comprehensive income	**15**	**24**
Carrying amount	**206**	**194**

The following table contains summarised aggregated data from the income statement and carrying amounts for the individual non-material associated companies accounted for using the equity method.

Income statements data and carrying amounts of associated companies accounted for using the equity method

in €m	**2014**	2013
Profit or loss from continuing operations	20	31
Profit or loss after tax from discontinued operations	0	0
Other comprehensive income	0	0
Total comprehensive income	**20**	**31**
Carrying amount	**154**	**180**

2 Summary of significant accounting policies and valuation methods and estimates used as a basis for measurement

The application of the accounting policies 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 policies applied to material balance sheet items.

The fundamental valuation method applied in the consolidated financial statements is historical cost. Where IFRSs 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 is recognised when the service has been provided or when the risk has passed to the customer. Traffic revenue from the Passenger Airline Group 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 2014 came to EUR 58m (previous year: EUR 75m).

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 recognised. 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 3, 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. Incidental acquisition costs are recognised as expenses.

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 purchase price paid by the acquiring company, the difference is recognised immediately in profit or loss.

Differences from minority interests acquired after control has been gained are 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 the individual premises on which impairment tests were based in the financial year 2014, see „Note 16“ starting on p. 174.

Additional impairment tests are also 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 rates 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 acquired after 2005 is held in the functional currency of the purchased entity and translated at the middle rates on the reporting date.

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.

Translation differences for non-monetary items for which changes in fair value are recognised in equity (e.g. available-for-sale equity instruments) are not reflected in profit or loss.

The most important exchange rates used in the consolidated financial statements have developed in relation to the euro as follows:

	2014		2013	
	Balance sheet exchange rate	**Income statement average rate**	Balance sheet exchange rate	Income statement average rate
USD	0.82254	0.74878	0.73327	0.75386
JPY	0.00688	0.00715	0.00702	0.00776
GBP	1.27972	1.24017	1.19907	1.17319
CAD	0.70885	0.67950	0.68744	0.72980
HKD	0.10603	0.09655	0.09456	0.09718
THB	0.02501	0.02309	0.02249	0.02456
SEK	0.10620	0.10992	0.11120	0.11573
NOK	0.11056	0.12021	0.11911	0.12795
DKK	0.13429	0.13413	0.13406	0.13409
CHF	0.83159	0.82296	0.81555	0.81202
KRW	0.00075	0.00072	0.00069	0.00069

The effects of intra-Group transactions are completely eliminated in the course of consolidation. Receivables and liabilities between consolidated companies are netted and intra-Group profits and losses in non-current assets and inventories are eliminated. 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, while 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, including borrowing costs as required under IAS 23, as well as appropriate portions of production-related overhead.

Intangible assets with an indefinite useful life are not amortised but, like goodwill, are subjected to a regular annual impairment test.

Property, plant and equipment
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 in close connection with the financing of the purchase or production of a qualifying asset are also capitalised. In the reporting year, borrowing costs of EUR 27m (previous year: EUR 19m) were capitalised. The financing rate used was 3.4 per cent (previous year: 3.6 per cent). The useful lives applied to tangible assets correspond to their estimated/expected useful lives in the Group.

Since 2013, new commercial aircraft and reserve engines have been depreciated over a period of 20 years to a residual value of 5 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. Operating and office equipment is depreciated over three to ten years in normal circumstances.

Assets acquired second-hand are depreciated over their expected remaining useful life.

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 start of the leasing contract at the lower of the present value of the leasing instalments and the asset's fair value, plus any incidental expenses borne by the lessee. Depreciation methods and useful economic lives correspond to those applied to comparable purchased assets.

Impairment losses on intangible assets and property, plant and equipment
In addition to amortisation and depreciation 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 or the present value of the estimated net future cash flows from continued use of the asset (value in use).

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 spare parts for aircraft
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 on a straight-line basis depending on the life phase of the fleet models for which they can be used.

Equity investments accounted for using the equity method
Equity investments 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 principles 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 is only carried out in subsequent periods if there are indications of a potential impairment in the entire investment valuation. Inter-Group 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 instruments

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 and loss" includes financial assets held for trading purposes, e.g. derivatives which do not qualify as hedging transactions as part of a hedging relationship.

The category "loans and receivables" consists of financial assets with fixed payment schedules which are not traded 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 which are not attributable to one of the other 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 instruments are recognised on the settlement date, i. e. on the date that they are created or transferred. Financial assets are capitalised at fair value plus transaction costs. Unrealised gains and losses are recognised directly in equity, taking deferred taxes into account. Long-term low or non-interest-bearing loans are recognised at net present value using the effective interest method.

Trade receivables from production or service contracts not completed at the balance sheet date are recognised at production costs, including borrowing costs in accordance with IAS 23, 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.

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.

By contrast, subsequent measurement is at cost for **equity investments for which no quoted price exists on an active market and for which fair value cannot be reliably measured.** 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 the hedging policy defined by the Executive Board and monitored by a committee. In some cases, the counterparties for interest and exchange rate hedges are also 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. To a limited extent, hedging is also undertaken for other products, such as gas oil.

Hedging transactions are used to secure either fair values (fair value hedge) or future cash flows (cash flow hedge).

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, the fluctuations in market value will not affect the result for the period during the term of the derivative. They are recognised without effect on profit and loss in the corresponding reserve. According to IAS 39, Financial Instruments: Recognition and Measurement, it is not possible to recognise the change in total market value of an option used as a hedge (full fair value method) in equity as part of hedge accounting, but only the change in the "intrinsic value" of the option. The change in the time value of the option is recognised in the financial result.

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, the changes in the market value of the hedged asset, or the hedged debt and those of the financial instrument, will balance out in the income statement.

Derivatives which do not or no longer meet the documentation or effectiveness requirements for hedge accounting or for which the hedged item no longer exists are shown in the category "at fair value through profit or loss". Changes in fair value are then recognised directly in profit or loss.

Embedded derivatives – to the extent that they should, but cannot, be separated from the financial host contract – are also considered with these as trading transactions for measurement purposes. Changes in market value are also recognised directly as profit or loss in the income statement. Both types must be classified as financial assets stated at fair value through profit or loss.

The Group's hedging policy, see „Note 41" starting on p. 203, is to use only 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 generally do not satisfy the strict criteria for effectiveness as defined in IAS 39, however. Changes in the fair value of these transactions are therefore recognised directly in profit or loss.

Financial guarantees given to third parties are recognised for the first time at fair value. If a claim becomes likely, subsequent measurement is made at the higher of initial measurement and best estimate of the expenditure required to settle the obligation on the balance sheet date.

Inventories

This item includes non-repairable spare parts, raw materials, consumables and supplies, and purchased merchandise. They are measured at cost, determined on the basis of average prices, or at production costs. The cost of production includes all costs directly attributable to the production process, including borrowing costs as required under IAS 23, as well as appropriate portions of production-related overheads. Average capacity utilisation of 99 per cent is assumed in determining the costs of production. Measurement on the balance sheet date is at the lower of cost and net realisable value. Net realisable value is defined as the estimated selling price less the estimated cost of completion and the estimated costs necessary to make the sale.

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. Fair value less costs to sell is derived from recent market transactions, if available.

Pension provisions
Pension provisions relate to defined-benefit and defined-contribution plans. The pension provisions for defined-benefit plans correspond to the present value of the defined-benefit obligation (DBO) on the reporting date less the fair value of plan assets, if necessary taking the rules on the maximum surplus of plan assets over the obligation (asset ceiling) into account.

The DBO is calculated annually by independent actuaries using the projected unit credit method prescribed in IAS 19 for defined-benefit pension plans. The measurement of pension provisions within the balance sheet is based on a number of actuarial assumptions.

They include, in particular, assumptions about long-term salary and pension trends and average life expectancy. The assumptions about salary and pension trends are based on developments 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 to discount the individual future payment obligations is based on the return from investment grade corporate bonds in the same currency and with a similar term to maturity. The criteria for selecting data to determine the discount rate and the extrapolation of this data were refined as of 31 December 2014 for the euro currency area. The discount rate is determined by reference to high-quality corporate bonds with an issue volume of at least EUR 100m and an AA rating from at least one of the rating agencies Moody's Investor Service, Fitch Ratings or Standard & Poor's Rating Services. At the same time, the rounding methodology used to determine the discount rate was altered from steps of 25 basis points to 10 basis points to reflect more refined materiality criteria.

Actuarial gains and losses arising from the regular adjustment of actuarial assumptions are recognised directly in equity in the period in which they arise, taking deferred taxes into account. Also presented without effect on profit and loss are differences between the interest income at the start of the period calculated on plan assets based on the interest rate used to discount the pension obligations and the earnings from plan assets actually recorded at the end of the period. The actuarial gains and losses and any difference between the forecast result and the the actual result from plan assets form part of the remeasurement.

Past service costs are recognised immediately in profit or loss.

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. Contributions are recognised in staff costs as they fall due.

Other provisions and provisions for taxes
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 the provision is determined by the best estimate of the amount required to settle the present obligation.

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, taking foreseeable price rises into account.

The assigned value of provisions is reviewed on each balance sheet date. Provisions in foreign currencies are translated at reporting date rates.

Liabilities
Liabilities arising from finance leases are recognised at the present value of the leasing instalments at the time the lease begins. Other financial liabilities are recognised at 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.

Liabilities in foreign currencies are measured at the exchange 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 36“ starting on p. 198.

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.

Obligations under bonus mile programmes

Calculation of the obligations arising from bonus miles programmes is based on several estimates and assumptions.

In accordance with IFRIC 13, Customer Loyalty Programmes, accumulated but as yet unused bonus miles are deferred using the deferred revenue method to the extent that they are likely to be used on flights by airlines in the Lufthansa Group. Bonus entitlements are measured at fair value. The fair value of the air miles is determined as the value for which the miles could be sold separately, i. e. the average revenue, taking booking class and traffic region into account.

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.

The fair value of miles accumulated on the Group's own flights is recognised under deferred revenue and the points collected from third parties are shown under other non-financial liabilities.

A total of 209 billion miles (previous year: 209 billion miles) were to be measured as of 31 December 2014. EUR 675m (previous year: EUR 648m) of the resulting obligations were recognised in other non-financial liabilities and EUR 1,010m (previous year: EUR 1,063m) in deferred income. See „Note 36“ starting on p. 198 and „Note 38“ on p. 200.

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 2014 was EUR 587m (previous year: EUR 530m).

Deferred foreign tax rates in the 2014 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.

Effective income taxes

The Lufthansa Group is liable for income taxes in various countries. Assumptions are necessary to calculate the income tax liabilities. For certain transactions and calculations, the final taxation cannot be assessed definitively in the course of normal business. The amount of the liability for future tax inspections is based on estimates of whether additional income taxes will be owed, and if so, in what amount. Estimates will be corrected as necessary in the period in which taxation is definitively assessed.

Notes to the consolidated income statement

3 Traffic revenue

Traffic revenue by sector

in €m	2014	2013
Passenger	21,566	21,743
Freight and mail	2,822	2,825
	24,388	**24,568**

EUR 2,362m of total freight and mail revenue (previous year: EUR 2,378m) was generated in the Logistics segment. Freight and mail revenue of EUR 460m at SWISS from marketing belly capacities on passenger flights (previous year: EUR 447m) is included in the segment reporting in other revenue for the Passenger Airline Group segment.

4 Other revenue

Revenue by sector

in €m	2014	2013
MRO services	2,461	2,391
Catering services	1,813	1,712
Travel services (commissions)	175	193
IT services	296	287
Ground services	102	103
Other services	776	773
	5,623	**5,459**

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. Spiriant GmbH and LSG Sky Chefs Lounge GmbH 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 548m (previous year: EUR 438m) from work in progress 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 previous years, amounted to EUR 519m (previous year: EUR 430m). Profits of EUR 58m were set off against them (previous year: EUR 75m). Advance payments by customers amounted to EUR 436m (previous year: EUR 446m). Unfinished contracts with a net credit balance – less any write-downs – are disclosed in trade receivables (see „Notes 25“ on p. 185). Unfinished contracts for which advance payments by customers exceed the costs plus any offset pro rata profit are recognised as advance payments (see „Note 38“ on p. 200). No monies were withheld by customers.

5 Changes in inventories and work performed by entity and capitalised

Changes in inventories and work performed by entity and capitalised

in €m	2014	2013
Increase/decrease in finished goods and work in progress	6	5
Other internally produced and capitalised assets	206	153
	212	**158**

6 Other operating income

Other operating income

in €m	2014	2013
Income from the disposal of non-current assets	26	27
Income from the disposal of non-current available-for-sale financial assets	11	7
Income from the reversal of impairment losses on fixed assets	38	10
Foreign exchange gains	757	801
Income from the reversal of provisions and accruals	168	191
Commission income	264	248
Reversal of write-downs on receivables	46	43
Income from staff secondment	30	36
Compensation received for damages	29	30
Rental income	32	30
Income from sub-leasing aircraft	10	21
Income from the disposal of current available-for-sale financial assets	34	19
Miscellaneous other operating income	508	580
	1,953	**2,043**

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“ on p. 171).

Income from the reversal of provisions relate to a number of provisions recognised in previous years which have not been fully used. In contrast, expenses from insufficient provisions recognised in previous years are recognised together with the primary expense item to which they relate.

Miscellaneous other operating income includes items not attributable to any of the aforementioned categories, such as income from training and other services provided by the Group.

7 Cost of materials and services

Cost of materials and services

in €m	2014	2013
Aircraft fuel and lubricants	6,751	7,115
Other raw materials, consumables and supplies	2,252	2,212
Purchased goods	476	440
Total cost of raw materials, consumables and supplies and of purchased goods	**9,479**	**9,767**
Fees and charges	5,265	5,167
Charter expenses	215	321
External MRO services	1,133	1,050
In-flight services	317	317
Operating lease payments	52	94
External IT services	174	166
Other services	648	616
Total cost of purchased services	**7,804**	**7,731**
	17,283	**17,498**

8 Staff costs

Staff costs

in €m	2014	2013
Wages and salaries	5,904	5,878
Social security contributions	810	801
Expenses for pension plans and other employee benefits	621	677
	7,335	**7,356**

Expenses for retirement benefits principally consist of additions to the pension provisions (see „Note 32“ starting on p. 189).

Employees

	Average for the year 2014	Average for the year 2013	As of 31.12.2014	As of 31.12.2013
Ground staff	82,708	81,544	82,724	82,265
Flight staff	35,181	34,516	35,000	34,617
Trainees	1,084	1,354	1,057	1,403
	118,973	**117,414**	**118,781**	**118,285**

The annual average is calculated pro rata temporis from the time companies are consolidated or deconsolidated.

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 came to EUR 1,512m (previous year: EUR 1,767m). The reason for the lower depreciation and amortisation was the change in the useful life of civilian aircraft and reserve engines from 12 to 20 years, accompanied by a reduction in their residual value from 15 to 5 per cent. The change in the amortisation and depreciation policy produced a greater saving in the reporting year of EUR 351m (previous year: EUR 63m) because the previous year's figure included the effect of reducing the residual value from 15 to 5 per cent.

Impairment losses of EUR 100m were also recognised in 2014.

On 21 October 2014, the Executive Board of Deutsche Lufthansa AG decided to enter into final negotiations with the IBM Group on the sale of the IT Infrastructure segment of Lufthansa Systems AG, and concurrently to sign an IT service contract for the Lufthansa Group. The assets and liabilities in the IT Services segment allocated to this disposal group were measured on the basis of the expected purchase price in accordance with IFRS 5. On the assumption that the purchase price would be negative, the relevant intangible assets and items of property, plant and equipment held at EUR 50m were written off in full.

Other impairment losses of EUR 22m related to two Boeing B747-400s, five Boeing B737-500s and five Canadair Regional Jet 700s. Impairment losses were also recognised on goodwill (EUR 7m), other intangible assets (EUR 15m) and other items of property, plant and equipment (EUR 6m). Goodwill impairment related to LSG Sky Chefs Havacilik Hizmetleri A.S. (EUR 5m) and AVIAPIT SOCHI OOO (EUR 2m), resulting mainly from the decline in business volumes at these companies.

No losses were revealed by impairment testing the previous year. More detailed information on impairment testing can be found in „Note 16“ starting on p. 174.

Impairment losses of EUR 2m were also incurred on spare parts for aircraft and items of property, plant and equipment shown in the balance sheet as assets held for sale. These impairment charges are recognised in other operating expenses.

Impairment losses of EUR 137m were recognised the previous year. EUR 124m of the total was recognised for a total of 44 aircraft either available for sale or to be decommissioned successively in line with current corporate plans and which were written down to fair value less costs to sell. Other operating expenses included additional write-downs of EUR 8m on aircraft and repairable spare parts for aircraft, which were shown in the balance sheet as of 31 December 2013 under assets held for sale. These impairment charges were recognised in other operating expenses.

10 Other operating expenses

Other operating expenses

in €m	2014	2013
Sales commission paid to agencies	322	366
Rental and maintenance expenses	826	791
Staff-related expenses	955	897
Expenses for computerised distribution systems	339	347
Advertising and sales promotions	333	328
Foreign exchange losses	965	633
Auditing, consulting and legal expenses	169	150
Other services	134	128
Insurance premiums for flight operations	42	54
Write-downs on receivables	165	169
Communications costs	46	47
Other taxes	72	77
Losses on disposal of non-current assets	176	28
Losses on current available-for-sale financial assets	11	5
Consultancy fees in connection with financial transactions	5	4
Miscellaneous other operating expenses	719	732
	5,279	**4,756**

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“ starting on p. 169).

Staff-related expenses also include travel and training costs for Group employees and the costs of outside staff.

Losses of EUR 160m on the disposal of assets relate to the sale of the IT Infrastructure segment of Lufthansa Systems AG decided in the reporting year.

11 Result from equity investments

Result from equity investments

in €m	2014	2013
Result of joint ventures accounted for using the equity method	66	74
Result of associated companies accounted for using the equity method	11	17
Result of equity investments accounted for using the equity method	**77**	**91**
Dividends from other joint ventures	5	1
Dividends from other associated companies	8	6
Income from profit transfer agreements	27	24
Expenses from loss transfer agreements	–19	–8
Dividends from other equity investments	23	10
Result of other equity investments	**44**	**33**
	121	**124**

Income and expenses from profit and loss transfer agreements are shown including tax contributions.

12 Net interest

Net interest

in €m	2014	2013
Income from other securities and non-current financial loans	7	6
Other interest and similar income	128	156
Interest income	**135**	**162**
Interest expenses on pensions obligations	–165	–188
Interest expenses on other provisions	–7	–9
Interest and other similar expenses	–242	–311
Interest expenses	**–414**	**–508**
	–279	**–346**

Net interest from financial instruments – calculated using the effective interest method – came to EUR –108m (previous year: EUR –149m) and stems exclusively from financial instruments not classified as at fair value through profit or loss.

13 Other financial items

Other financial items

in €m	2014	2013
Write-downs on held-for-sale financial assets	−6	−3
Write-downs on loans	−10	–
Gains/losses on fair value changes of hedged items	−20	48
Gains/losses on fair value changes of derivatives used as fair value hedges	20	−48
Result of derivatives held for trading classified as at fair value through profit or loss	−201	−60
Ineffective portion of derivatives used as cash flow hedges	−212	−20
	−429	**−83**

Write-downs of EUR 8m on loans relate to the planned sale of the IT Infrastructure segment of Lufthansa Systems AG.

14 Income taxes

Income taxes

in €m	2014	2013
Current income taxes	156	265
Deferred income taxes	−51	−45
	105	**220**

Effective income taxes for 2014 include corporation tax, solidarity surcharges, trade tax and other income taxes paid outside Germany totalling EUR 104m (previous year: EUR 157m). Tax expenses of EUR 52m (previous year: EUR 108m) were also incurred for prior years.

The following table reconciles expected and effective tax expenses. Expected tax expense is calculated by multiplying pre-tax profit by a tax rate of 25 per cent for the parent company (previous year: 25 per cent). This is made up of 15 per cent for corporation tax (previous year: 15 per cent) and 10 per cent for trade tax and solidarity surcharge together (previous year: 10 per cent).

	2014		2013	
in €m	**Basis of assessment**	**Tax expenses**	Basis of assessment	Tax expenses
Expected income tax expenses/refund	180	45	545	136
Tax-free income, other allowances and permanent differences	–	−7	–	−34
Non-taxable income from equity investments	–	−21	–	−25
Difference between local taxes and the deferred tax rates of the parent company*	–	33	–	116
Unrecognised tax loss carry-forwards and deferred tax assets on losses	–	55	–	24
Other	–	0	–	3
Recognised income tax expenses		**105**		**220**

* Including taxes from other periods recognised in effective tax expenses.

Deferred tax liabilities of EUR 1m (previous year: EUR 4m) were not recognised on temporary differences in connection with shares in subsidiaries, as the temporary differences are not expected to reverse in the foreseeable future.

Deferred tax assets and liabilities in 2014 and 2013 are attributable to the following categories:

	31.12.2014		31.12.2013	
in €m	**Assets**	**Liabilities**	Assets	Liabilities
Tax loss carry-forwards and tax credits	236	–	125	–
Pension provisions	1,701	–	954	–
Intangible assets, property, plant and equipment	–	725	–	659
Non-current financial assets	1	–	–	7
Fair value measurement of financial instruments	103	–	52	–
Provisions for contingent losses	78	–	37	–
Receivables/liabilities/other provisions	–	166	–	159
Other	22		133	
Offset amounts	−652	−652	−679	−679
	1,489	**239**	**622**	**146**

The deferred tax assets and liabilities in the category receivables/liabilities/other provisions are expected to reverse within twelve months of the reporting date.

A deferred tax receivable of EUR 228m (previous year: EUR 105m) was recognised for companies incurring a net loss in the reporting year or in the previous year, because tax and earnings planning indicated that there is a high probability that the tax receivable will be realised.

In addition to recognised deferred tax assets from tax loss carry-forwards, non-deductible interest carry-forwards and tax credits, further tax loss carry-forwards and temporary differences totalling EUR 2,602m (previous year: EUR 2,313m) exist for which no deferred tax assets could be recognised.

Of the unrecognised tax loss carry-forwards, EUR 30m can only be used until 2015, EUR 3m until 2019, EUR 4m until 2021, EUR 5m until 2022, EUR 5m until 2023 and EUR 2,253m can also be used after 2023. Deferred tax assets totalling EUR 587m (previous year: EUR 530m) were not recognised.

15 Earnings per share

Basic/diluted 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.

		2014	2013
Basic/diluted earnings per share	€	**0.12**	**0.68**
Consolidated net profit/loss	€m	55	313
Weighted average number of shares		461,391,177	460,154,670

As the parent company of the Group, Deutsche Lufthansa AG reported a net loss according to HGB of EUR 732m for the 2014 financial year. In accordance with the resolution taken by the Executive Board on 2 March 2015 and approved by the Supervisory Board on 11 March 2015, the net loss is to be equalised by means of a transfer from the capital reserve.

In 2014, EUR 0.45 per share was distributed as a dividend to shareholders from the net profit for 2013.

Notes to the consolidated balance sheet

Assets

16 Goodwill and intangible assets with an indefinite useful life

in €m	Goodwill from consolidation	Intangible assets with an indefinite useful life	Total
Cost as of 1.1.2013	916	580	1,496
Accumulated impairment losses	–301	–2	–303
Carrying amount 1.1.2013	**615**	**578**	**1,193**
Currency translation differences	–3	–5	–8
Additions due to changes in consolidation	4	1	5
Additions	0*	–	0*
Reclassifications	–	–1	–1
Disposals due to changes in consolidation	–	–	–
Disposals	–	–1	–1
Reclassifications to assets held for sale	–	–	–
Impairment losses	–	–	–
Reversal of impairment losses	–	–	–
Carrying amount 31.12.2013	**616**	**572**	**1,188**
Cost as of 1.1.2014	916	574	1,490
Accumulated impairment losses	–300	–2	–302
Carrying amount 1.1.2014	**616**	**572**	**1,188**
Currency translation differences	4	7	11
Additions due to changes in consolidation	3	–	3
Additions	1	3	4
Reclassifications	–	0*	0*
Disposals due to changes in consolidation	–	–	–
Disposals	–2	–	–2
Reclassifications to assets held for sale	–	–	–
Impairment losses	–7	–	–7
Reversal of impairment losses	–	–	–
Carrying amount 31.12.2014	**615**	**582**	**1,197**
Cost as of 31.12.2014	922	584	1,506
Accumulated impairment losses	–307	–2	–309

* Rounded below EUR 1m.

All goodwill and intangible assets with an indefinite useful life were subjected to an impairment test in 2014 as required by IAS 36, with the exception of the goodwill arising from the purchase of a business by LSG Sky Chefs New Zealand in the same year.

Acquired brands and slots have an indefinite useful life due to their lasting legal and economic significance. The tests were performed at the level of the smallest cash-generating unit (CGU) on the basis of fair value less costs to sell or value in use. Goodwill originating from the acquisition of Air Dolomiti S.p.A. and the Eurowings group was tested at the level of Deutsche 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 regarding the smallest possible cash-generating unit (CGU) in each case.

Name of the CGU	**Deutsche Lufthansa AG and regional partners**	**SWISS Aviation Training Ltd.**	**LSG Sky Chefs USA Group**	**LSG Sky Chefs Korea**	**LSG Sky Chefs Havacilik Hizmetleri A.S.**	**ZAO AeroMEAL**	**Constance Food Group**	**Various LSG companies**[1]
Segment	Passenger Airline Group	Passenger Airline Group	Catering	Catering	Catering	Catering	Catering	Catering
Carrying amount of Goodwill	€ 249m	€ 3m	€ 277m	€ 58m	€ 0m	€ 4m	€ 10m	€ 15m
Impairment losses	–	–	–	–	€ 5m	–	–	€ 2m
Revenue growth p. a. over planning period	3,0% to 6,2%	−4,5% to 12,5%	1,3% to 9,6%	0,6% to 4,1%	−8,0% to 7,0%	−7,9% to 1,2%	3,0% to 3,8%	−41,9% to 11,5%
EBITDA margin over planning period	8,0% to 8,3%	24,5% to 28,1%	5,2% to 7,1%	28,5% to 29,2%	0,6% to 2,3%	13,5% to 14,8%	7,2% to 7,5%	5,6% to 31,7%
Investment ratio over planning period	6,5% to 8,3%	6,4% to 54,7%	4,0% to 9,7%	1,7% to 1,8%	1,8% to 2,9%	1,0% to 1,6%	0,3%	1,0% to 130,9%
Duration of planning period	3 years	3 years	3 years	3 years	3 years	3 years	3 years	3 years
Revenue growth p. a. after end of planning period	2,2%	1,0%	2,0%	3,0%	3,5%	3,0%	3,0%	1,0% to 4,0%
EBITDA margin after end of planning period	7,8%	26,2%	7,1%	29,2%	2,3%	13,8%	7,2%	8,3% to 31,7%
Investment ratio after end of planning period	6,5%	12,4%	3,1%	1,6%	2,0%	0,9%	1,5%	1,7% to 5,7%
Discount rate	6,1%[3]	6,2%[3]	6,2%[2]	6,0%[2]	5,7%[2]	6,0%[2]	6,0%[2]	5,7% to 6,5%[2]

[1] Goodwill of less than EUR 5m in any individual instance.
[2] Pre-tax rate.
[3] After-tax rate.

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 2.2 per cent at the end of the planning period by Deutsche Lufthansa AG and its regional partners as described in the table, the recoverable amount would exceed the carrying amount by a considerable figure. If the assumption for sustained revenue growth is reduced to 0.4 per cent, the discount rate increased to 7.8 per cent, the annual revenue growth rate in the detailed planning period reduced by 2.5 percentage points or the EBITDA margin reduced by 0.5 percentage points, the recoverable amount would match the carrying amount.

Assuming sustained revenue growth of 2.0 per cent at the end of the planning period by the LSG Sky Chefs USA Group as described in the table, the recoverable amount would exceed the carrying amount by a considerable sum. Even if the assumptions for sustained revenue growth, the discount rate, revenue growth in the detailed planning period and the EBITDA margin were to be reduced substantially, which is not likely, the recoverable amount would still exceed the carrying amount.

The EBITDA margins used are based on past experience or were developed on the basis of cost-cutting 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 sensitivity analysis examines changes in one assumption at a time, whereby the other assumptions remain unchanged from the original calculation.

The intangible assets with indefinite useful lives consist of slots purchased as part of company acquisitions and brand names acquired.

The following table shows the assumptions used for the previous year's impairment tests.

Name of the CGU Segment	Deutsche Lufthansa AG and regional partners Passenger Airline Group	SWISS Aviation Training Ltd. Passage Airline Group	LSG Sky Chefs USA Group Catering	LSG Sky Chefs Korea Catering	LSG Sky Chefs Havacilik Hizmetleri A.S. Catering	ZAO AeroMEAL Catering	Constance Food Group Catering	Various LSG companies[1)] Catering
Carrying amount of Goodwill	€ 249m	€ 3m	€ 277m	€ 53m	€ 5m	€ 6m	€ 9m	€ 14m
Impairment losses	–	–	–	–	–	–	–	–
Revenue growth p.a. over planning period	1.3% to 6.4%	0.8% to 11.7%	2.0% to 5.5%	5.0% to 6.8%	2.8% to 7.0%	3.0% to 5.2%	2.6% to 3.2%	0.0% to 7.9%
EBITDA margin over planning period	8.3% to 10.3%	24.9% to 31.1%	7.1% to 9.2%	27.9% to 28.9%	5.7% to 7.6%	20.0% to 21.6%	8.9% to 9.5%	9.4% to 26.3%
Investment ratio over planning period	6.1% to 9.8%	7.0% to 47.0%	2.4% to 5.7%	2.1% to 7.1%	1.1% to 1.7%	0.0% to 5.2%	0.6% to 1.0%	0.7% to 76.8%
Duration of planning period	3 years	3 years	3 years	3 years	3 years	3 years	3 years	3 years
Revenue growth p.a. after end of planning period	3.2%	1.0%	2.0%	3.0%	5.0%	3.0%	3.0%	3.0% to 4.0%
EBITDA margin after end of planning period	10.3%	31.5%	9.2%	28.1%	7.2%	19.6%	9.2%	8.7% to 25.0%
Investment ratio after end of planning period	8.6%	10.1%	3.7%	1.6%	2.6%	0.5%	1.9%	2.0% to 4.2%
Discount rate	6.8%[3)]	6.9%[3)]	6.6%[2)]	6.4%[2)]	6.0%[2)]	6.4%[2)]	6.4%[2)]	6.2% to 6.4%[2)]

[1)] Goodwill of less than EUR 5m in any individual instance.
[2)] Pre-tax rate.
[3)] After-tax rate.

The following table shows the assumptions made for regular impairment testing of the smallest cash-generating unit (CGU) in each case.

Name of the CGU Segment	SWISS Passenger Airline Group	Austrian Airlines Passenger Airline Group
Carrying amount for slots	EUR 120m	EUR 23m
Impairment losses	–	–
Revenue growth p.a. in planning period	3.3% to 4.3%	3.5% to 10.6%
EBITDA margin over planning period	9.2% to 9.5%	6.6% to 7.0%
Investment ratio over planning period	10.3% to 15.2%	0.9% to 2.2%
Duration of planning period	3 years	3 years
Revenue growth p.a. after end of planning period	2.5%	3.2%
EBITDA margin after end of planning period	9.5%	6.6%
Investment ratio after end of planning period	5.1%	4.2%
Discount rate	6.2%*	6.2%*

* After-tax rate.

Assuming sustained revenue growth by SWISS of 2.5 per cent at the end of the planning period as described in the table, the recoverable amount would be well in excess of the carrying amount. Even if the assumptions for sustained revenue growth, the discount rate, revenue growth in the detailed planning period and the EBITDA margin were to be reduced considerably, which is not likely, the recoverable amount would still exceed the carrying amount.

Assuming sustained revenue growth by Austrian Airlines of 3.2 per cent at the end of the planning period as described in the table, the recoverable amount would exceed the carrying amount by a considerable sum. Even if the assumptions for sustained revenue growth, the discount rate, revenue growth in the detailed planning period and the EBITDA margin were to be reduced considerably, which is not likely, the recoverable amount would still exceed the carrying amount.

The sensitivity analysis takes into account changes in one assumption at a time, whereby the other assumptions remain unchanged from the original calculation.

The following table shows the assumptions used for the previous year's impairment tests.

Name of the CGU	**SWISS**	**Austrian Airlines**
Segment	Passenger Airline Group	Passenger Airline Group
Carrying amount for slots	EUR 117m	EUR 23m
Impairment losses	–	–
Revenue growth p. a. in planning period	0.2% to 3.0%	5.1% to 8.8%
EBITDA margin over planning period	13.1% to 15.1%	7.6% to 8.8%
Investment ratio over planning period	8.5% to 20.1%	2.4% to 3.6%
Duration of planning period	3 years	3 years
Revenue growth p. a. after end of planning period	2.0%	3.2%
EBITDA margin after end of planning period	15.1%	8.8%
Investment ratio after end of planning period	8.1%	6.5%
Discount rate	6.9%*	6.8%*

* After-tax rate.

The regular impairment test for the brands acquired was carried out on the basis of the revenue generated from each brand.

The following assumptions were used in the impairment test for the acquired brands:

Group company	SWISS	Austrian Airlines	Edelweiss
Carrying amount for brand	EUR 215m	EUR 107m	EUR 3m
Impairment losses	–	–	–
Revenue growth for brand p. a. in planning period	3.0% to 6.0%	4.1% to 10.7%	6.2% to 31.8%
Duration of planning period	3 years	3 years	3 years
Revenue growth p. a. after end of planning period	2.5%	3.2%	2.5%
Savings in hypothetical leasing payments before taxes (royalty rate)	0.63%	0.35%	0.23%
Discount rate	6.2%*	6.2%*	6.2%*

* After-tax rate.

Assuming sustained revenue growth associated with the brand after the end of the planning period of 2.5 per cent, the recoverable amount for the SWISS brand substantially exceeds the carrying amount. Even if the assumptions for sustained brand-related revenue growth were to be reduced substantially, which is not likely, the recoverable amount would exceed the carrying amount.

Assuming sustained revenue growth associated with the brand after the end of the planning period of 3.2 per cent, the recoverable amount for the Austrian Airlines brands substantially exceeds the carrying amount. If the assumption for sustained revenue growth is reduced to –1.1 per cent or the discount rate is increased to 9.6 per cent, the recoverable amount would match the carrying amount.

The sensitivity analysis takes into account changes in one assumption at a time, whereby the other assumptions remain unchanged from the original calculation.

17 Other intangible assets

in €m	Concessions, industrial property rights and similar rights and licences to such rights and assets	Internally developed software	Advance payments	**Total**
Cost as of 1.1.2013	923	119	40	1,082
Accumulated amortisation	−607	−100	0*	−707
Carrying amount 1.1.2013	**316**	**19**	**40**	**375**
Currency translation differences	−3	–	0*	−3
Additions due to changes in consolidation	1	–	0*	1
Additions	45	1	48	94
Reclassifications	12	5	−15	2
Disposals due to changes in consolidation	–	–	–	–
Disposals	−3	−1	0*	−4
Reclassifications to assets held for sale	–	–	–	–
Amortisation	−75	−9	–	−84
Reversal of impairment losses	–	–	–	–
Carrying amount 31.12.2013	**293**	**15**	**73**	**381**
Cost as of 1.1.2014	953	124	73	1,150
Accumulated amortisation	−660	−109	0*	−769
Carrying amount 1.1.2014	**293**	**15**	**73**	**381**
Currency translation differences	6	–	0*	6
Additions due to changes in consolidation	1	–	0*	1
Additions	26	2	74	102
Reclassifications	16	–	−17	−1
Disposals due to changes in consolidation	–	–	–	–
Disposals	0*	0*	0*	0*
Reclassifications to assets held for sale	−1	–	0*	−1
Amortisation	−75	−8	−15	−98
Reversal of impairment losses	–	–	–	–
Carrying amoun 31.12.2014	**266**	**9**	**115**	**390**
Cost as of 31.12.2014	939	113	130	1,182
Accumulated amortisation	−673	−104	−15	−792

* Rounded below EUR 1m.

Non-capitalised research and development expenses for intangible assets of EUR 10m (previous year: EUR 10m) were incurred in the period. Firm orders have been placed for intangible assets worth EUR 13m (previous year: EUR 18m), but they are not yet at the Group's power of disposal.

18 Aircraft and reserve engines

in €m	Aircraft and reserve engines	Advance payments for aircraft and reserve engines	**Total**
Cost as of 1.1.2013	23,299	1,167	24,466
Accumulated depreciation	–12,623	–	–12,623
Carrying amount 1.1.2013	**10,676**	**1,167**	**11,843**
Currency translation differences	–6	–10	–16
Additions due to changes in consolidation	–	–	–
Additions	1,248	853	2,101
Reclassifications	637	–637	–
Disposals due to changes in consolidation	–	–	–
Disposals	–48	–	–48
Reclassifications to assets held for sale	–80	–	–80
Depreciation	–1,441	–	–1,441
Reversal of impairment losses	–	–	–
Carrying amount 31.12.2013	**10,986**	**1,373**	**12,359**
Cost as of 1.1.2014	23,188	1,373	24,561
Accumulated depreciation	–12,202	–	–12,202
Carrying amount 1.1.2014	**10,986**	**1,373**	**12,359**
Currency translation differences	86	6	92
Additions due to changes in consolidation	–	–	–
Additions	1,431	858	2,289
Reclassifications	747	–744	3
Disposals due to changes in consolidation	–	–	–
Disposals	–8	–10	–18
Reclassifications to assets held for sale	–30	–	–30
Depreciation	–1,123	–	–1,123
Reversal of impairment losses	–	–	–
Carrying amount 31.12.2014	**12,089**	**1,483**	**13,572**
Cost as of 31.12.2014	24,881	1,483	26,364
Accumulated depreciation	–12,792	–	–12,792

The item “Aircraft” includes seven aircraft (five Boeing MD-11Fs and two Boeing B747-400s) at a carrying amount of EUR 90m (previous year: EUR 146m) which are 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 to 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 treated not 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 utilised 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 2014, EUR 5m (previous year: EUR 6m) was recognised in other operating income.

The item also includes 79 aircraft carried at EUR 2,519m (previous year: 79 aircraft carried at EUR 2,702m), which have been sold and leased back to Japanese, French and Irish leasing companies, to leasing companies in the Bermudas and the Cayman Islands, and to a Swedish bank with the aim of obtaining favourable financing terms. The leasing companies were fully consolidated as structured entities. The Group is entitled to buy the aircraft back at a fixed price at a given point in time. Operating constraints apply to the aircraft financed via leasing companies in the Bermudas. They may not be primarily operated in American airspace.

Order commitments for aircraft and reserve engines amount to EUR 16.4bn (previous year: EUR 15.9bn).

Within this item, aircraft held at EUR 2,682m (previous year: EUR 2,896m) serve as collateral for current financing arrangements and aircraft held at EUR 360m (previous year: EUR 337m) were also acquired under finance leases (see „Note 20“ starting on p. 181).

19 Property, plant and other equipment

in €m	Land and buildings	Technical equipment and machinery	Other equipment, operating and office equipment	Advance payments and plant under construction	Total
Cost as of 1.1.2013	2,396	1,076	1,258	59	4,789
Accumulated depreciation	−1,044	−783	−879	−1	−2,707
Carrying amount 1.1.2013	**1,352**	**293**	**379**	**58**	**2,082**
Currency translation differences	−7	−2	−2	−1	−12
Additions due to changes in consolidation	2	–	1	0*	3
Additions	18	28	99	104	249
Reclassifications	12	17	9	−39	−1
Disposals due to changes in consolidation	–	−1	–	–	−1
Disposals	−9	−2	−10	–	−21
Reclassifications to assets held for sale	0*	0*	0*	–	0*
Depreciation	−86	−50	−104	–	−240
Reversal of impairment losses	–	–	–	–	–
Carrying amount 31.12.2013	**1,282**	**283**	**372**	**122**	**2,059**
Cost as of 1.1.2014	2,378	1,097	1,270	122	4,867
Accumulated depreciation	−1,096	−814	−898	–	−2,808
Carrying amount 1.1.2014	**1,282**	**283**	**372**	**122**	**2,059**
Currency translation differences	13	8	3	4	28
Additions due to changes in consolidation	16	3	5	0*	24
Additions	68	44	111	80	303
Reclassifications	44	16	15	−76	−1
Disposals due to changes in consolidation	–	–	–	–	–
Disposals	−9	−4	−1	−4	−18
Reclassifications to assets held for sale	−7	–	−1	0*	−8
Depreciation	−88	−46	−145	–	−279
Reversal of impairment losses	1	–	–	–	1
Carrying amount 31.12.2014	**1,320**	**304**	**359**	**126**	**2,109**
Cost as of 31.12.2014	2,497	1,123	1,227	126	4,973
Accumulated depreciation	−1,177	−819	−868	–	−2,864

* Rounded below EUR 1m.

As in the previous year, charges of EUR 4m exist over land and property. As in the previous year, pre-emption rights are registered for land held at EUR 232m (previous year: EUR 238m). Other property, plant and equipment carried at EUR 34m (previous year: EUR 34m) serves as collateral for existing financing arrangements. Other equipment carried at EUR 137m (previous year: EUR 142m) was acquired by means of finance leases (see „Note 20“ starting on p. 181).

The following items of property, plant and equipment have been ordered, but are not yet at the Group's economic disposal:

in €m	31.12.2014	31.12.2013
Land and buildings	18	36
Technical equipment and vehicles	39	29
Operating and office equipment	39	32
	96	**97**

20 Assets for which the Group is lessor or lessee

Property, plant and equipment 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	Lessor of aircraft and reserve engines	Lessee of aircraft and reserve engines	Lessee and sublessor of aircraft and reserve engines	Lessee of buildings	Lessor of buildings and land	Lessee of intangible assets and technical equipment	Lessee of other equipment, operating and office equipment
Cost as of 1.1.2013	150	531	6	258	–	7	2
Accumulated depreciation	−66	−270	−2	−104	–	−7	−1
Carrying amount 1.1.2013	**84**	**261**	**4**	**154**	**–**	**0***	**1**
Currency translation differences	–	−3	–	−1	–	0*	0*
Additions due to changes in consolidation	–	–	–	–	–	0*	–
Additions	–	158	–	0*	–	–	1
Reclassifications	−65	−1	−3	0*	–	–	
Disposals due to changes in consolidation	–	–	–	–	–	–	–
Disposals	−13	−8	−1	0*	–	–	−1
Reclassifications to assets held for sale	–	–	–	–	–	–	–
Depreciation	−6	−70	–	−12	–	0*	0*
Reversal of impairment losses	–	–	–	–	–	–	–
Carrying amount 31.12.2013	**–**	**337**	**–**	**141**	**–**	**0***	**1**
Cost as of 1.1.2014	–	629	–	256	–	6	3
Accumulated depreciation	–	−292	–	−115	–	−6	−2
Carrying amount 1.1.2014	**–**	**337**	**–**	**141**	**–**	**0***	**1**
Currency translation differences	–	2	–	2	–	0*	–
Additions due to changes in consolidation	–	–	–	–	–	–	–
Additions	–	100	–	9	–	–	0*
Reclassifications	–	−6	–	2	–	–	0*
Disposals due to changes in consolidation	–	–	–	–	–	–	–
Disposals	–	–	–	−6	–	–	0*
Reclassifications to assets held for sale	–	–	–	–	–	–	–
Depreciation	–	−73	–	−12	–	0*	0*
Reversal of impairment losses	–	–	–	–	–	–	–
Carrying amount 31.12.2014	**–**	**360**	**–**	**136**	**–**	**0***	**1**
Cost as of 31.12.2014	–	726	–	263	–	1	3
Accumulated depreciation	–	−366	–	−127	–	−1	−2

* Rounded below EUR 1m.

Finance leases

The carrying amount of leased assets attributed to the Group's economic ownership under IAS 17 is EUR 497m (previous year: EUR 479m), of which EUR 360m (previous year: EUR 337m) relates to aircraft (three Airbus A340s, one Airbus A330, two Airbus A321s, 19 Airbus A320s, ten Airbus A319s, one Boeing B777 and two Boeing B767s).

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 sales 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 Euribor or Libor rate.

In addition, the Group has a variety of finance leases for buildings, fixtures and for operating and office equipment. For buildings and fixtures the leases run for 15 to 30 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 cannot be terminated. Options for extending the contracts generally rest with the lessee, if at all.

For technical equipment and operating and office equipment the lease terms are generally from four to five years. The leases normally have fixed lease payments and occasionally also have purchase options at the end of the lease term. The contracts cannot normally be extended by the lessee and cannot be cancelled.

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	2015	2016–2019	from 2020
Lease payments	93	291	163
Discounted amounts	5	47	56
Present values	88	244	107

In the previous year, the following figures were given for finance leases:

in €m	2014	2015–2018	from 2019
Lease payments	86	263	169
Discounted amounts	5	44	65
Present values	81	219	104

Operating leases

In addition to the finance leases, a large number of leases are qualified as operating leases (on the basis of their economic parameters), i. e. the leased asset is deemed to belong to the lessor. As well as 25 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 one 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	2015	2016–2019	from 2020
Aircraft	44	99	7 p.a.
Various buildings	272	974	227 p.a.
Other leases	81	278	61 p.a.
	397	**1,351**	**295 p.a.**
Payments from sub-leasing (Sublease)	4	18	4 p.a.

In the previous year the following figures were given for operating leases:

in €m	2014	2015–2018	from 2019
Aircraft	55	127	32 p.a.
Various buildings	274	1,000	226 p.a.
Other leases	73	250	53 p.a.
	402	**1,377**	**311 p.a.**
Payments from sub-leasing (Sublease)	5	17	5 p.a.

Reserve engines and other non-current assets, legally and economically the property of the Group at the end of 2014, have been leased to third parties under non-terminable operating leases. These leases, which run for up to ten years, give rise to the following payments:

in €m	2015	2016–2019	from 2020
Payments received from operating leases	3	6	1 p.a.

Two aircraft as well as reserve engines and other non-current assets, legally and economically the property of the Group at the end of 2013, were leased to third parties under non-terminable operating leases. These leases gave rise to the following payments:

in €m	2014	2015–2018	from 2019
Payments received from operating leases	4	8	2 p.a.

21 Investments accounted for using the equity method

in €m	Investments in joint ventures	Investments in associated companies	**Total**
Cost as of 1.1.2013	226	167	393
Accumulated impairment losses	–	–11	–11
Carrying amount 1.1.2013	**226**	**156**	**382**
Currency translation differences	–1	–5	–6
Additions due to changes in consolidation	–	–	–
Additions	12	11	23
Changes with and without an effect on profit and loss	65	30	95
Reclassifications	3	–3	0*
Disposals due to changes in consolidation	–	–	–
Disposals	–	–	–
Dividends paid	–44	–9	–53
Reclassifications to assets held for sale	–	–	–
Impairment losses	–	–	–
Reversal of impairment losses	–	–	–
Carrying amount 31.12.2013	**261**	**180**	**441**
Cost as of 1.1.2014	261	191	452
Accumulated impairment losses	–	–11	–11
Carrying amount 1.1.2014	**261**	**180**	**441**
Currency translation differences	14	12	26
Additions due to changes in consolidation	–	–	–
Additions	1	6	7
Changes with and without an effect on profit and loss	50	20	70
Reclassifications	–	–	–
Disposals due to changes in consolidation	–	–	–
Disposals	–	–6	–6
Dividends paid	–35	–58	–93
Reclassifications to assets held for sale	–	–	–
Impairment losses	–	–	–
Reversal of impairment losses	–	–	–
Carrying amount 31.12.2014	**291**	**154**	**445**
Cost as of 31.12.2014	291	159	450
Accumulated impairment losses	–	–5	–5

* Rounded below EUR 1m.

22 Other equity investments and non-current securities

The following table shows changes in other equity investments and non-current securities in the years 2014 and 2013:

in €m	Investments in affiliated companies	Equity investments	Non-current securities	**Total**
Cost as of 1.1.2013	262	340	19	621
Accumulated impairment losses	−74	−115	0*	−189
Carrying amount 1.1.2013	**188**	**225**	**19**	**432**
Currency translation differences	−1	0*	0*	−1
Additions due to changes in consolidation	–	–	–	–
Additions	6	91	1	98
Reclassifications	4	–	–	4
Disposals due to changes in consolidation	–	–	–	–
Disposals	−8	–	–	−8
Reclassifications to assets held for sale	–	0*	–	0*
Impairment losses	−3	−2	–	−5
Reversal of impairment losses	–	–	–	–
Carrying amount 31.12.2013	**186**	**314**	**20**	**520**
Cost as of 1.1.2014	263	431	20	714
Accumulated impairment losses	−77	−117	0*	−194
Carrying amount 1.1.2014	**186**	**314**	**20**	**520**
Currency translation differences	0*	0*	0*	0*
Additions due to changes in consolidation	–	–	–	–
Additions	3	322	0*	325
Reclassifications	−5	4	–	−1
Disposals due to changes in consolidation	−4	–	–	−4
Disposals	−38	0*	−10	−48
Reclassifications to assets held for sale	–	–	–	–
Impairment losses	−6	0*	–	−6
Reversal of impairment losses	–	–	–	–
Carrying amount 31.12.2014	**136**	**640**	**10**	**786**
Cost as of 31.12.2014	191	755	10	956
Accumulated impairment losses	−55	−115	0*	−170

* Rounded below EUR 1m.

Shares in related parties are held at amortised cost.

Equity investments and securities are recognised at fair value if there is an active market for them with publicly available prices. For equity investments carried at EUR 29m (previous year: EUR 21m) and non-current securities carried at EUR 7m (previous year: 7m) there is no active market with publicly available prices.

In the reporting year, other equity investments and securities held at EUR 1m (previous year: EUR 5m) were sold; these had previously not been held at fair value as there was no active market for them. This resulted in a loss of EUR 1m (previous year: profit of EUR 7m). Non-current securities not held at fair value were also sold in 2014 for their carrying amount of EUR 10m.

23 Non-current loans and receivables

Loans and receivables

in €m	31.12.2014	31.12.2013
Loans to and receivables from affiliated companies	125	119
Loans to and receivables from other equity investments	0*	0*
Other loans and receivables	340	291
Pre-financed rental property	–	1
Emissions certificates	50	89
	515	**500**

* 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.

For the impairment test for emissions certificates, we refer to the disclosures on the cash-generating units (CGU) Deutsche Lufthansa AG (including regional partners), SWISS and Austrian Airlines in the Notes to the consolidated financial statements, „Note 16" starting on p. 174.

Other receivables include expected reimbursements for obligations for which provisions have been made amounting to EUR 2m (previous year: EUR 1m).

Non-current receivables of EUR 38m (previous year: EUR 42m) serve as collateral for liabilities.

24 Inventories

Inventories

in €m	31.12.2014	31.12.2013
Raw materials, consumables and supplies	563	517
Finished goods and work in progress	136	122
Advance payments	1	2
	700	**641**

Inventories valued at EUR 4m (previous year: EUR 5m) have been pledged as collateral for loans.

The gross value of written-down inventories as of 31 December 2014 was EUR 670m (previous year: EUR 717m). Of these, inventories at a carrying amount of EUR 484m (previous year: EUR 505m) were recognised at net realisable value. Write-downs of EUR 222m (previous year: EUR 182m) had been made to net realisable value at the beginning of the financial year. Further write-downs of EUR 14m (previous year: EUR 44m) were made in the reporting year. Write-downs of EUR 49m made in the previous year (previous year: EUR 13m) were reversed.

25 Trade receivables and other receivables

in €m	31.12.2014	31.12.2013
Trade receivables		
Trade receivables from affiliated companies	89	88
Trade receivables from other equity investments	2	2
Trade receivables from third parties	3,113	2,760
	3,204	**2,850**
of which: from unfinished orders less advance payments received	(177)	(125)
Other receivables		
Receivables from affiliated companies	71	84
Receivables from other equity investments	0*	1
Other receivables	662	665
Emissions certificates	58	–
	791	**750**
Total	**3,995**	**3,600**

* Rounded below EUR 1m.

The carrying amount of these receivables corresponds to their fair value.

For the impairment test for emissions certificates carried out in the previous year, we refer to the disclosures on the cash-generating units (CGU) Deutsche Lufthansa AG (including regional partners), SWISS and Austrian Airlines in the Notes to the consolidated financial statements, „Note 16" starting on p. 174.

Collateral received for trade receivables has a fair value of EUR 2m (previous year: EUR 1m).

Other receivables include expected reimbursements for obligations for which provisions have been made amounting to EUR 1m (previous year: EUR 1m).

26 Deferred charges and prepaid expenses

Deferred charges and prepaid expenses consist mainly of rents and insurance premiums paid in advance for subsequent periods.

27 Current securities

Current securities are almost exclusively fixed income securities, participation certificates and investments in money market funds.

28 Cash and cash equivalents

The bank balances denominated in euros with various banks mostly earned interest at a rate of 0.09 to 0.18 per cent (previous year: 0.13 to 0.5 per cent). US dollar balances were invested at an average interest rate of 0.14 per cent (previous year: 0.14 per cent) and balances in Swiss francs at an average rate of 0.36 per cent (previous year: 0.17 per cent). This item includes EUR 125m (previous year: 145 Mio. EUR) in fixed-term deposits with terms of three to twelve months.

EUR 5m of the bank balances (previous year: EUR 5m) was pledged as collateral for liabilities.

Bank balances in foreign currencies are translated at the exchange rate on the balance sheet date.

29 Assets held for sale

Impairment losses of EUR 100m were recognised on assets held for sale, for which write-downs of EUR 2m were also recognised in other operating expenses, see „Note 9" starting on p. 170.

All assets and liabilities allocated to the IT Infrastructure segment of Lufthansa Systems AG have been classified as a disposal group within the meaning of IFRS 5 as a result of the agreement on the sale of this segment signed by Deutsche Lufthansa and the IBM Group on 21 October 2014. They are held at fair value less costs to sell. Impairment losses of EUR 58m were recognised on these assets. Under the sales contract, Deutsche Lufthansa AG has also incurred payment obligations. They are estimated at EUR 160m and have been recognised in other operating expenses (see „Note 9" starting on p. 170 and „Note 10" on p. 171).

The assets of the IT Infrastructure segment of Lufthansa Systems AG held for sale are made up as follows:

in €m	31.12.2014
Deferred claims for income tax rebates	12
Other assets	8
	20

Other assets consist in particular of deferred charges and prepaid expenses and loans to employees.

The following liabilities form part of the same disposal group and are also shown separately in the balance sheet:

in €m	31.12.2014
Pension provisions	4
Other provisions	18
Other liabilities	2
	24

Other assets held for sale include two Boeing B747-400s, four Boeing B737-500s, eleven Canadair Regional Jet 700s and two Avro RJs with a total carrying amount of EUR 55m and two buildings carried at EUR 9m.

In the previous year, this item included three Boeing B747-400s, four Airbus A340-300s, one Boeing B737-500, five Boeing B737-300s, twelve Canadair Regional Jet 700s, five ATRs and three Fokker F70s with a total carrying amount of EUR 62m. Impairment losses of EUR 137m were recognised in the previous year on these assets, as well as on other aircraft and other assets. Write-downs of EUR 8m were also recognised in other operating expenses (see „Note 9" starting on p. 170).

SHAREHOLDERS' EQUITY AND LIABILITIES

30 Issued capital

Deutsche Lufthansa AG's issued capital totals EUR 1,184.7m. Issued capital is divided into 462,772,226 registered shares, with each share representing EUR 2.56 of issued capital.

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

A resolution passed at the Annual General Meeting on 29 April 2014 authorised the Executive Board until 28 April 2019, subject to approval by the Supervisory Board, to increase the issued capital by up to EUR 29m, by issuing new registered shares to employees (Authorised Capital B) for payment in cash. Existing shareholders' subscription rights are excluded. In order to issue new shares to employees of Deutsche Lufthansa AG and its affiliated companies, the Executive Board of Deutsche Lufthansa AG decided on 20 August 2014 and 7 October 2014, with the approval of the Supervisory Board being given on 17 September 2014, to make use of the authorisation voted at the Annual General Meeting on 29 April 2014 (Authorised Capital B) and increase the Company's issued capital by EUR 4,345,000.96, excluding shareholders' subscription rights, by issuing 1,697,266 new registered shares with transfer restrictions and profit entitlement from 1 January 2014 for payment in cash. The capital increase was entered in the Commercial Register of Cologne District Court (HRB 2168) on 14 October 2014. As of 31 December 2014, Authorised Capital B amounted to EUR 24,654,999.04.

A resolution passed at the Annual General Meeting on 3 May 2011 authorised the Executive Board until 2 May 2016, subject to approval by the Supervisory Board, to issue bearer or registered convertible bonds, bond/warrant packages, profit sharing rights or participating bonds (or combinations of these instruments), on one or more occasions, for a total nominal value of up to EUR 1.5bn, with or without restrictions on maturity. To do so, contingent capital (Contingent Capital II) was created for a contingent capital increase of up to EUR 234,464,035.80, by issuing up to 91,587,514 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.

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

In 2014, Deutsche Lufthansa AG bought back 335,993 of its own shares at an average price of EUR 12.12. This is equivalent to 0.07 per cent of issued capital.

The shares purchased or created by means of the capital increase were used as follows:

- 1,070,677 shares were transferred to the staff of Deutsche Lufthansa AG and 37 other affiliated companies and equity investments as part of the profit-sharing scheme for 2013 at a share price of EUR 12.17.
- 922,294 shares were transferred as part of performance-related variable remuneration in 2014 to managers and non-payscale staff of Deutsche Lufthansa AG and to 33 further affiliated companies and equity investments at a price of EUR 11.79.
- 34,809 shares were transferred to Executive Board members as part of the option programme for 2014 at a price of EUR 11.79.
- 558 shares were transferred to managers and non-payscale staff as part of performance-related remuneration for 2013 at a price of EUR 14.31.

4,921 shares were resold at a price of EUR 13.95.

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

Additional information on changes in equity

The Lufthansa Group continues to aim 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 2014 and 2013, equity and total assets were as follows:

in €m	31.12.2014	31.12.2013
Shareholders' equity	4,031	6,108
in % of total assets	13.2	21.0
Liabilities	26,443	23,000
in % of total assets	86.8	79.0
Total capital	**30,474**	**29,108**

In the financial year 2014, the equity ratio fell again year on year by 7.8 percentage points to 13.2 per cent. This significant decline is mainly due to higher pension provisions as a result of the change in the interest rate.

Lufthansa's Articles of Association do not stipulate any capital requirements.

31 Reserves

Capital reserves only include the share premium paid on capital increases and a convertible bond that was redeemed in full the previous year. The legal reserve contained in retained earnings is unchanged at EUR 26m; other reserves consist of other retained earnings.

The following table shows changes in other neutral reserves in 2014:

Notes on other comprehensive income

in €m	2014	2013
Other comprehensive income after income taxes		
Currency translation differences		
Profit/loss for the period	94	–47
Reclassification adjustments recognized in profit or loss	–	–1
Subsequent measurement of available-for-sale financial assets		
Profit/loss for the period	338	132
Reclassification adjustments recognized in profit or loss	–26	–16
Subsequent measurement of cash flow hedges		
Profit/loss for the period	–242	272
Reclassification adjustments recognized in profit or loss	–63	–176
Transfer to cost of hedged items	27	–36
Other comprehensive income from investments accounted for using the equity method		
Profit/loss for the period	–16	–5
Reclassification adjustments recognized in profit or loss	–	–
Revaluation of defined-benefit pension plans	–2,831	1,061
Other expenses and income recognized directly in equity	7	–3
Income taxes on items in other comprehensive income	760	–235
Other comprehensive income after income taxes	**–1,952**	**946**

Note on income taxes recognised for other comprehensive income

	2014			2013		
in €m	**Amount before income taxes**	**Tax expenses/income**	**Amount after income taxes**	Amount before income taxes	Tax expenses/income	Amount after income taxes
Currency translation differences	95	–	95	−48	–	−48
Subsequent measurement of available-for-sale financial assets	312	−3	309	116	−1	115
Subsequent measurement of cash flow hedges	−278	44	−234	60	−12	48
Other comprehensive income from investments accounted for using the equity method	−16	–	−16	−5	–	−5
Revaluation of defined-benefit pension plans	−2,831	719	−2,112	1,061	−222	839
Other expenses and income recognised directly in equity	6	–	6	−3	–	−3
Other comprehensive income	**−2,712**	**760**	**−1,952**	**1,181**	**−235**	**946**

The overall change in equity is shown in the consolidated statement of changes in Lufthansa shareholders’ equity.

32 Pension provisions

The Group’s pension obligations comprise both defined-benefit and defined-contribution plans and include both obligations to make current payments and entitlements to future pension payments.

Obligations under defined-benefit pension plans for Group employees related mostly to pension obligations in Germany, Switzerland, Austria and the USA. Various commitments have been made to different groups of employees.

For most of the employees in Germany and for staff posted abroad by German companies who joined the Group before 1995, the supplementary pension scheme for state employees (VBL) was initially retained as the Company’s pension scheme. As part of the wage agreements signed in 2003 and 2004 to replace the VBL scheme and harmonise retirement benefits, the pension scheme for ground, cockpit and flight staff was converted to an average salary plan. Since then, the Company retirement benefit commitment has been equal to that for staff recruited after 1994. One pension component is earned every year based on an employee’s pay and age; retirement benefit is defined as the sum of accumulated pension components. The same applies accordingly to commitments for company invalidity and dependant persons’ pensions. Under IAS 19R, these pension obligations are regarded as defined-benefit commitments and are therefore taken into account for the amount of obligations and as expenses.

The relevant pension agreements were terminated by the Group companies as of 31 December 2013 in order to reach a new agreement on Company retirement benefits with the trade unions. As collective bargaining is still taking place, no reliable information is currently available on whether and to what extent the existing rules on Company pensions will be altered by a negotiated agreement with the labour unions.

Flight staff are additionally entitled to a transitional pension arrangement covering the period from the end of their active in-flight service until the beginning of their statutory/Company pension plans. Benefits depend on the number of years of service and the final salary before retirement (final salary plans).

The collective agreements on transitional benefits for flight staff were also terminated by the Group companies as of 31 December 2013. As with the retirement benefits, no reliable information is currently available on any new arrangements and their effects on the balance sheet obligations.

Defined-benefit company pension schemes and transitional pension arrangements for Germany are funded by plan assets and the additional amounts by pension provisions.

There are no minimum funding requirements in Germany.

In the course of acquiring Swiss International AirLines AG, pension obligations, mainly statutory obligations, were taken on in Switzerland. The retirement benefits are funded via pension funds known as collective foundations. In addition to retirement benefits, the plans cover invalidity and dependant persons' benefits. Beneficiaries can choose between an annuity and a lump-sum payment. The retirement age for the plans lies between 58 and 63 years. Contributions to the pension funds are made by employers and employees, whereby the Company contributions must be at least equal to the employee contributions defined in the terms of the plan. Contributions are deducted from the qualifying salary according to a sliding scale. If there is a deficit of plan assets, employer and employee contributions can be increased, a lower return can be determined or other steps permissible by law can be taken. The decision is taken by the trustees of the pension fund concerned. The trustees' strategies for making good a deficit are based on the report by a pension fund expert and must be presented to the regulatory authority. The approval of the authority is not required, however.

The pension obligations for employees of Austrian Airlines AG are mostly on a defined-contribution basis and have been outsourced to a pension fund. They consist of retirement, invalidity and dependant persons' benefits.

As a result of the transfer of operations as of 30 June 2012, the groups of pilots and flight attendants at Austrian Airlines AG have been moved to Tyrolean Airways Tiroler Luftfahrt GmbH. As Tyrolean Airways Tiroler Luftfahrt GmbH only has defined-contribution plans, the previous defined-benefit pension schemes for these groups of employees were switched to a defined-contribution basis from this time onwards. The entitlements of these groups at the previous pension fund have been frozen and no further contributions have since been made to the previous pension fund for the active members. Since 1 July 2012, the pension contributions for all flight staff have been made to the pension fund previously used by Tyrolean Airways Tiroler Luftfahrt GmbH. A new collective agreement for flight staff came into effect on 1 December 2014, providing for a transfer from Tyrolean Airways Tiroler Luftfahrt GmbH back to Austrian Airlines AG. Thus, once they have signed a covenant not to sue, the pilots and flight attendants at Austrian Airlines AG will receive an individually calculated one-off payment on a gross basis for which some of the existing provisions will be used.

A new works agreement for the commercial and technical employees of Austrian Airlines AG came into effect on 1 January 2014 on the basis of a contractual amendment. Once they accepted an individual settlement, individual employees received a one-off, individually calculated payment in 2014 which settled all their past and future entitlements. Employees' entitlements to current and future contributions by the employer to the pension fund therefore came to an end as of 31 December 2013. All employees close to pensionable age accepted the individually calculated one-off payment in 2014. They have therefore switched to the defined-contribution system, without the need to make any further contributions. Consequently, this group of individuals has been removed from the provisions as of 31 December 2014.

The defined-benefit pension plans at LSG Sky Chefs in the USA are largely closed to new entrants and no further benefits are being granted to beneficiaries still in service. Benefit payments are based on average salary and the years of service acquired before the plan was closed or frozen. The retirement age is 65. Pension payments are funded externally. Retirement benefits have been switched to defined-contribution plans.

Other staff abroad are also entitled to minor 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.

Contributions for defined-contribution retirement benefit commitments came to EUR 390m in 2014 (previous year: EUR 380m).

In the 2004 financial year, work began on building up plan assets to fund and safeguard future pension payments. The aim was to fund the pension obligations in Germany in full within 10 to 15 years. Contractual trust arrangements (CTAs) were set up for this purpose.

The main trustee is Lufthansa Pension Trust e.V., a separate legal entity subject to German regulations. Deutsche Lufthansa AG and the other partners agree on an annual contribution, and if such a contribution is determined, make a payment to Lufthansa Pension Trust e.V. Deutsche Lufthansa AG, its subsidiaries Lufthansa Technik AG, Lufthansa Systems AG, Lufthansa Cargo AG, and four LSG companies are parties to the contractual trust arrangement. The trust assets have largely been held by a Maltese corporate vehicle since 2007. The Investment Board of Lufthansa Malta Pension Holding decides on the fund's asset allocation. The asset management itself is delegated to fund management companies, who invest the assets in accordance with the general investment principles defined by the Investment Board.

A further EUR 596m was contributed to plan assets for employees in Germany in 2014. Contributions of around EUR 600m a year have been made on a voluntary basis since 2004 and are reviewed annually.

Amounts shown in the balance sheet for defined-benefit commitments are made up as follows:

Defined-benefit commitments

in €m	31.12.2014				31.12.2013			
	Defined-benefit obligations (DBO)	**Fair value of plan assets**	**Effect of asset ceiling**	**Net carrying amount for defined-benefit obligations**	Defined-benefit obligations (DBO)	Fair value of plan assets	Effect of asset ceiling	Net carrying amount for defined-benefit obligations
Retirement benefits Germany	11,579	−8,010	–	3,569	8,740	−7,057	–	1,683
Transitional benefits Germany	3,172	−369	–	2,803	2,765	−344	–	2,421
Switzerland	2,726	−2,344	1	383	2,246	−2,111	1	136
Austria	526	−206	–	320	550	−218	–	332
USA	418	−308	–	110	322	−258	–	64
Other countries	290	−247	–	43	376	−295	–	81
Carrying amounts	**18,711**	**−11,484**	**1**	**7,228**	**14,999**	**−10,283**	**1**	**4,717**
of which pension provisions	–	–	–	7,231	–	–	–	4,718
of which other assets	–	–	–	3	–	–	–	1

Reconciliation between the funding status and the amounts shown in the consolidated balance sheet is as follows:

in €m	**2014**	2013
Present value of funded pension obligations	18,100	14,634
Plan assets	−11,484	−10,283
Funding status (net)	**6,616**	**4,351**
Present value of unfunded pension obligations	**611**	**365**
Adjustment for asset ceiling	1	1
Carrying amounts	**7,228**	**4,717**
of which pension provisions	7,231	4,718
of which other assets	3	1

During the reporting period, the present value of defined-benefit pension obligations changed as follows:

Change in present value of pension obligations

in €m	**2014**	2013
Balance on 1.1.	14,999	15,021
Current service costs	581	605
Interest expenses	523	487
Past service cost/effects of curtailments	−3	−12
Effects of settlements	−46	−2
Revaluations		
Actuarial gains/losses from changes in demographic assumptions	−92	2
Actuarial gains/losses from changes in financial assumptions	3,429	−694
Experience adjustments	−175	−157
Currency translation differences	108	−46
Changes in the group of consolidated companies	–	–
Plan contributions – employees	31	32
Pension payments	−445	−360
Settlement payments	−123	−16
Reclassifications according to IFRS 5	−86	–
Other*	10	139
Balance on 31.12.	**18,711**	**14,999**

* The amounts are partly for benefit obligations which were measured in accordance with IAS 19 for the first time.

Actuarial gains/losses from changes in financial assumptions include losses due to the sharp reduction in the discount rate compared with the previous year. These losses were offset by gains of EUR 1,128m from refining the extrapolation and selecting the data used to determine the discount rate for the euro currency area. As a result, it is expected that in the following year, savings of EUR 62m will be generated in current service costs for pension plans in Germany and that interest expense from pension provisions will fall by EUR 3m. Other actuarial gains of EUR 171m stemmed from adjusting the salary trend as required from 2.75 to 2.5 per cent.

The following table provides a detailed reconciliation of changes in the fair value of plan assets:

Change in the fair value of plan assets

in €m	2014	2013
Balance on 1.1.	10,283	9,177
Interest income	358	300
Revaluations		
Income from plan assets, without amounts included in interest	331	213
Currency translation differences	90	–38
Changes in the group of consolidated companies	–	–
Plan contributions – employers	736	712
Plan contributions – employees	31	32
Pension payments	–139	–111
Settlement payments	–123	–16
Administrative costs related to obligations	–3	–3
Reclassifications according to IFRS 5	–82	–
Other*	2	17
Balance on 31.12.	**11,484**	**10,283**

* The amounts are partly for benefit obligations which were measured in accordance with IAS 19 for the first time.

In financial years 2014 and 2013, pension provisions developed as follows:

Pension provisions

in €m	2014	2013
Carried forward	4,718	5,844
Currency translation differences carried forward	15	–8
Changes in the group of consolidated companies	–	–
Pensions payments	–307	–249
Additions	749	781
Effects of curtailments and settlements	–46	–2
Revaluations	2,831	–1,061
Plan contributions/staff changes	–724	–587
Reclassifications according to IFRS 5	–5	–
Year-end total	**7,231**	**4,718**

Expenses and income for defined-benefit plans are made up as follows:

in €m	2014	2013
Current service costs	581	605
Past service cost/effects of curtailments	–3	–12
Income from settlements	–46	–2
Accrued interest on projected pension obligations	523	487
Interest income on plan assets	–358	–300
Administrative costs related to obligations	3	3
Balance of expenses and income recognised in the income statement	**700**	**781**
Income from plan assets, without amounts included in interest	–331	–213
Actuarial gains and losses	3,162	–849
Net effect of adjustment for asset ceiling	0	1
Other comprehensive income	**2,831**	**–1,061**
	3,531	**–280**

Interest expenses on pension provisions and interest income on plan assets are shown in the financial result. Current service expense and past service expense are recognised in staff costs.

Total income on plan assets in 2014 came to EUR 689m (previous year: EUR 513m).

As in the previous year, there were no significant effects from the asset ceiling defined in IAS 19.64.

The settlement payments made in the reporting year mainly consist of payments in connection with changes to pension obligations at two foreign companies in the MRO segment and to the changes in pension obligations at Austrian Airlines AG.

The main actuarial assumptions used to calculate pension obligations and the corresponding plan assets are shown below:

Main actuarial assumptions for German companies

in %	**31.12.2014**	31.12.2013
Interest rate		
Retirement benefits	2.6	3.75
Transitional benefits	2.6	3.75
Salary increase		
Retirement benefits	2.5	2.75
Transitional benefits	2.5	2.75
Pension increase		
Retirement benefits	1.5	1.50
Transitional benefits	2.5	2.75

The criteria for selecting data to determine the discount rate for the euro currency area and the extrapolation of this data were refined as of 31 December 2014. The discount rate was determined by reference to high-quality corporate bonds with an issue volume of at least EUR 100m and an AA rating from at least one of the rating agencies Moody's Investor Services, Fitch Ratings or Standard & Poor's Services.

Salary developments in recent years meant that assumptions for future salary increases were reduced from 2.75 to 2.5 per cent.

The "Actuarial Tables 2005 G" compiled by Prof. Dr Klaus Heubeck were used in the biometric calculations for the German companies in the Group.

Main actuarial assumptions for foreign companies

in %	**31.12.2014**	31.12.2013
Interest rates		
Austria	2.6	3.75
Switzerland	1.2	2.25
USA	4.1	4.85
Salary increase		
Austria	1.9	2.25
Switzerland	1.5	1.50
USA	–	–
Pension increase		
Austria	1.8	2.25
Switzerland	0.25	0.25
USA	–	–

The BVG 2010 mortality tables are used for the biometric calculations for Switzerland. Country-specific mortality tables are used in the other countries.

The following table shows how the present value of defined-benefit obligations would have been affected by changes in the relevant actuarial assumptions for the main pension plans described above:

Change in actuarial assumptions

	Effect on the defined-benefit contribution as of 31.12.2014 in €m	Change in %
Present value of the obligation*	18,711	–
Interest rate		
Increase by 0.5 percentage points	17,004	−9.1
Decrease by 0.5 percentage points	20,694	+10.6
Salary trend		
Increase by 0.5 percentage points	19,085	+2.0
Decrease by 0.5 percentage points	18,358	−1.9
Pension trend		
Increase by 0.5 percentage points	19,654	+5.1
Decrease by 0.5 percentage points	17,823	−4.7

* Present value of the obligation using the assumptions shown in the "Actuarial assumptions" tables.

Change in actuarial assumptions

	Effect on the defined-benefit contribution as of 31.12.2013 in €m	Change in %
Present value of the obligation*	14,999	–
Interest rate		
Increase by 0.5 percentage points	13,748	−8.3
Decrease by 0.5 percentage points	16,434	+9.6
Salary trend		
Increase by 0.5 percentage points	15,310	+2.1
Decrease by 0.5 percentage points	14,700	−2.0
Pension trend		
Increase by 0.5 percentage points	15,677	+4.5
Decrease by 0.5 percentage points	14,376	−4.2

* Present value of the obligation using the assumptions shown in the "Actuarial assumptions" tables.

A reduction of 10 per cent in the mortality rates used to calculate the pension obligations increases the life expectancy of the beneficiaries by a different amount depending on their individual ages. It roughly corresponds to an increase of one year in the life expectancy of a male employee who is 55 years old today. A 10 per cent reduction in the mortality rate would therefore increase the present value of the main benefit obligations in Germany and Switzerland by EUR 323m as of 31 December 2014 (previous year: EUR 252m).

The sensitivity analysis examines changes in one assumption and leaves the other assumptions unchanged compared with the original calculation. The effects of any correlation between the individual assumptions are therefore not taken into account.

Plan assets for funded defined-benefit pension obligations consist mainly of fixed-income securities, cash and cash equivalents, and equities. They do not include financial instruments issued by companies in the Group or properties used by Group companies.

Plan assets serve solely to meet the defined-benefit obligations. Funding these benefit obligations with assets provides security for future payments. In some countries, this takes place on the basis of statutory regulations, in others (Germany, for example) it takes place on a voluntary basis.

Lufthansa aims to completely cover its German pension obligations by means of new capital injections and positive capital market returns in the medium term (2014 to 2019). Regular annual contributions to the Lufthansa Pension Trust are made for this purpose. Investment performance plays a crucial role in meeting this target.

Lufthansa manages and monitors the financial risks that arise from outsourcing the pension obligations. There was no change in the risk management and monitoring processes compared with the previous year. Derivative financial instruments are used, especially to manage foreign exchange risks.

The allocation of the funds to asset classes (e.g. equities) is carried out on the basis of asset-liability matching studies performed by Lufthansa. The Asset-Liability Matching (ALM) study is conducted every three years with an external adviser in order to review the funding strategy on a regular basis and to make adjustments as necessary. The next study will be carried out as of 31 December 2014. The results of the study should indicate what combination of investments (annuities, equities, etc.) can be used to cover the long-term pension obligations. Step one of this process is for the actuary to draft a long-term forecast charting how the pension obligations will develop.

In addition to this, target figures are needed for the relative return and relative risk as regards coverage of the obligations. Last but not least, a risk budget must also be defined.

A simulation is used to test all permissible investment allocations for their future compliance with these objectives. Those which do not fulfil the criteria are eliminated. Preference is given to allocations which are return-oriented yet conservative and which have a high probability of achieving the investment target.

The results of the ALM study show whether there will be strategic shifts in the existing allocation. Alternative investments (e.g. commodities, private equity) are currently being further developed, for example.

Plan assets are made up as follows:

Composition of plan assets

	31.12.2014				31.12.2013[1]			
	Listed price in an active market in €m	No listed price in an active market in €m	**Total in €m**	**in %**	Listed price in an active market in €m	No listed price in an active market in €m	**Total in €m**	**in %**
Equities	–	–	**3,062**	**26.7**	–	–	**3,293**	**32.0**
Europe	1,520	–	–	–	2,063	–	–	–
Other	1,542	–	–	–	1,230	–	–	–
Fixed-income securities	–	–	**4,573**	**39.8**	–	–	**4,386**	**42.7**
Government bonds	2,180	–	–	–	1,871	–	–	–
Corporate bonds	2,393	–	–	–	2,514	1	–	–
Share funds	74	–	**74**	**0.7**	63	–	**63**	**0.6**
Fixed-income funds	231	–	**231**	**2.0**	135	–	**135**	**1.3**
Mixed funds[2]	149	–	**149**	**1.3**	124	–	**124**	**1.2**
Money market investments	1,564	–	**1,564**	**13.6**	550	–	**550**	**5.3**
Property	–	–	**492**	**4.3**	–	–	**456**	**4.4**
Direct investments	308	167	**–**	**–**	151	305	**–**	**–**
Indirect investments	17	–	**–**	**–**	–	–	**–**	**–**
Insurance contracts	–	154	**154**	**1.3**	–	146	**146**	**1.4**
Bank balances	166	–	**166**	**1.4**	268	–	**268**	**2.6**
Other investments[3]	192	827	**1,019**	**8.9**	153	709	**862**	**8.4**
Total	**10,337**	**1,147**	**11,484**	**100.0**	**9,122**	**1,161**	**10,283**	**100.0**

[1] The figures for the previous year have been adjusted to reflect the introduction of additional plan asset classes.
[2] Includes equities and interest-bearing securities.
[3] Other investments include, in particular, alternative investments such as hedge funds, commodities and private equity funds.

In addition to various actuarial risks such as interest rate risk, life-expectancy risk and the risk of salary increases, the pension plans expose the Group primarily to financial risks in connection with plan assets.

The return on plan assets is assumed at the beginning of the period to be the discount rate, which is determined on the basis of investment grade corporate bonds. If the actual return on plan assets is less than the discount rates applied, the net obligation from the pension plan goes up.

The share price risk that arises from the proportion of plan assets invested in equities is considered to be reasonable. The risk of default by bond issuers is limited, because investments are only made in investment grade bonds.

The amount of the net obligation depends to a large extent on the rates of interest, whereby the currently low-interest environment results in a relatively high net obligation. If yields on corporate bonds continue to decline, this would lead to a further increase in defined-benefit obligations, which could probably only be partly offset by positive developments in the market value of the corporate bonds held in plan assets.

Based on current knowledge, an estimated EUR 1.1bn is expected to be transferred to pension plans in 2015. The transfers are made up of planned allocations and benefit payments which are not covered by equivalent reimbursements from plan assets.

The weighted duration of pension obligations was 20 years as of 31 December 2014.

Over the next ten years, the following pension payments are forecast for the defined-benefit commitments in existence as of the reporting date:

Forecast maturities of undiscounted pension payments

in €m	Forecast pension payments 31.12.2014
2015	520
2016	433
2017	459
2018	488
2019	524
2020–2024	3,366

33 Other provisions

Other provisions disclosed in the balance sheet as non-current and current provisions are made up as follows:

	31.12.2014			31.12.2013		
in €m	**Total**	Non-current	Current	**Total**	Non-current	Current
Obligations under partial retirement contracts	**14**	10	4	**16**	8	8
Other staff costs	**163**	117	46	**160**	112	48
Obligation to return emissions certificates	**59**	–	59	**35**	35	–
Onerous contracts	**264**	58	206	**127**	79	48
Environmental restoration	**28**	24	4	**29**	25	4
Legal proceedings	**119**	22	97	**109**	21	88
Restructuring / severance payments	**242**	123	119	**306**	147	159
Fixed-price customer maintenance contracts	**122**	22	100	**116**	19	97
Maintenance of operating lease aircraft	**294**	189	105	**301**	104	197
Warranties	**25**	–	25	**25**	–	25
Other provisions	**224**	36	188	**240**	46	194
Total	**1,554**	**601**	**953**	**1,464**	**596**	**868**

Provisions for staff costs mainly relate to staff anniversary bonuses, variable payment portions and other current obligations. Provisions for restructuring and severance pay include expenses from the measures planned as part of the SCORE programme.

Expected losses from onerous 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.

Provisions for legal proceedings are based on an assessment of the likely outcome of the proceedings.

Changes in groups of individual provisions in 2014 were as follows:

in €m	Obligations under partial retirement contracts	Other staff costs	Obligation to return emissions certificates	Onerous contracts	Environmental restoration	Legal proceedings
As of 1.1.2014	16	160	35	127	29	109
Changes in the group of consolidated companies	–	0*	–	–	–	–
Currency translation differences	–	0*	0*	1	0*	0*
Utilisation	–40	–43	–	–33	–2	–15
Increase/addition	53	47	24	177	1	38
Interest added back	–4	3	–	2	0*	0*
Reversal	0*	0*	–	–10	0*	–13
Transfers	–9	–3	–	–	–	0*
Reclassifications according IFRS 5	–2	–1	–	–	–	–
As of 31.12.2014	**14**	**163**	**59**	**264**	**28**	**119**

* Rounded below EUR 1m.

in €m	Restructuring/ severance payments	Fixed-price customer maintenance contracts	Maintenance of operating lease aircraft	Warranties	Other provisions	**Total**
As of 1.1.2014	306	116	301	25	240	**1,464**
Changes in the group of consolidated companies	–	–	–	0*	1	**1**
Currency translation differences	0*	0*	23	0*	2	**26**
Utilisation	–146	–63	–222	–11	–112	**–687**
Increase/addition	82	70	202	11	111	**816**
Interest added back	2	0*	1	–	3	**7**
Reversal	0*	–1	–1	0*	–16	**–41**
Transfers	0*	–	–10	0*	3	**–19**
Reclassifications according IFRS 5	–2	–	–	–	–8	**–13**
As of 31.12.2014	**242**	**122**	**294**	**25**	**224**	**1,554**

* Rounded below EUR 1m.

The funding status for provisions for obligations to staff under partial retirement agreements is as follows:

Funding status

in €m	**2014**	2013
Present value of funded obligations under partial retirement agreements	158	146
External plan assets	–172	–165
	–14	**–19**

In 2005, EUR 97m was transferred to an external trust fund as insolvency insurance for employer's performance arrears as part of phased 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 and 2009, a further EUR 39m and EUR 2m were transferred respectively. 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 interest rate assumptions:

Assumptions

in %	2014	2013	2012	2011	2010
Interest rate	0.46	1.46	1.26	2.53	2.23

The following cash outflows are estimated for the non-current portion of the other groups of provisions:

in €m	2016	2017	2018	2019 and thereafter
Onerous contracts	16	14	18	14
Environmental restoration	4	4	4	15
Restructuring/severance payments	67	45	12	1
Fixed-price customer maintenance contracts	21	2	–	–
Maintenance of aircraft on operating leases	80	43	17	50
Other provisions	21	11	6	41
Obligation to return emissions certificates	–	–	–	–

At the end of 2013, the corresponding cash outflows were estimated as follows:

in €m	2015	2016	2017	2018 and thereafter
Onerous contracts	27	19	27	9
Environmental restoration	4	4	4	15
Restructuring/severance payments	63	44	34	10
Fixed-price customer maintenance contracts	19	–	–	–
Maintenance of aircraft on operating leases	46	21	13	39
Other provisions	27	12	6	41
Obligation to return emissions certificates	35	–	–	–

34 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 31.12.2014

in €m	Total	Non-current	Current
Bonds	**1,468**	1,468	–
Liabilities to banks	**1,057**	937	120
Leasing liabilities and other loans	**3,433**	2,959	474
	5,958	**5,364**	**594**

Borrowings 31.12.2013

in €m	Total	Non-current	Current
Bonds	**1,812**	962	850
Liabilities to banks	**1,254**	950	304
Leasing liabilities and other loans	**3,271**	2,911	360
	6,337	**4,823**	**1,514**

Collateral was provided for EUR 268m of the liabilities to banks (previous year: EUR 385m).

There were no delays or defaults on payment obligations under these loan agreements in either 2014 or 2013.

Leasing liabilities and other loans relate exclusively to finance leases described in „Note 20“ starting on p. 181 and aircraft financing arrangements described in „Note 18“ on p. 179.

35 Other non-current financial liabilities

Other non-current financial liabilities

in €m	31.12.2014	31.12.2013
Liabilities due to affiliated companies	2	2
Liabilities due to other equity investments	–	–
Other financial liabilities	134	146
	136	**148**

The carrying amount for financial liabilities is equivalent to their fair value, as they pay interest at a floating or market standard rate.

36 Non-current advance payments received, deferred income and other non-financial liabilities

Non-current advance payments received, deferred income and other non-financial liabilities

in €m	31.12.2014	31.12.2013
Advance payments received	5	3
Deferred income	700	726
Other non-financial liabilities	474	458
	1,179	**1,187**

Deferred income includes EUR 690m (previous year: EUR 714m) of deferred income relating to obligations under bonus miles programmes. Other non-financial liabilities include EUR 461m (previous year: EUR 441m) in obligations under bonus mile programmes. In addition, deferred income includes EUR 8m (previous year: EUR 8m) for grants and subsidies received for capital expenditure, which are realised over the useful life of the assets.

Other non-financial liabilities include obligations to return material valued at EUR 4m (previous year: EUR 4m) and the EUR 8m (previous year: EUR 10m) 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 non-payscale staff. A further EUR 6m (previous year: EUR 11m) is included in current other non-financial liabilities.

As part of the share-based remuneration agreements, Lufthansa and other participating Group companies offer a 50 per cent discount on staff investment in Lufthansa shares to Executive Board members, managers and non-payscale staff. The option packages granted in 2011, 2012, 2013 and 2014 consist of an outperformance option and a performance option.

The outperformance option is linked to the performance of the Lufthansa share compared with a fictitious index composed of European competitors' shares, whereas the performance option is linked to the absolute performance of the Lufthansa share. With the outperformance option the holder receives a cash payment for each percentage point of outperformance on exercising the option. The cash payment is capped at an outperformance of 20 per cent.

The performance option for 2011 results in a cash payment if the share price goes up by more than 38 per cent. The bonus is capped for Executive Board members more than 58 per cent, for managers more than 56 per cent and for non-payscale staff more than 57 per cent. The performance option for 2012 results in a cash payment if the share price goes up by more than 35 per cent. This is capped at a share price increase of more than 53 per cent. The performance options for 2013 and 2014 result in a cash payment if the share price goes up by more than 33 per cent. This is capped at a share price increase of more than 50 per cent.

2011, 2012, 2013 und 2014 programmes outperformance option

	€ per percentage point from 1%	Maximum per tranche in €
Board member	1,000	20,000
Managers	400	8,000
Non-payscale staff (per 5 pts)	200	1,000

2011 programme (after four years) performance option

	€ per performance unit from 38% performance	Maximum per tranche in €
Board member	10,000 + 1,000 per performance unit	20,000
Managers	4,000 + 500 per performance unit	8,000
Non-payscale staff	500 + 100 per performance unit	1,000

2012 programme performance option

	€ per performance unit from 35% performance	Maximum per tranche in €
Board member	10,000 + 1,000 per performance unit	20,000
Managers	4,000 + 500 per performance unit	8,000
Non-payscale staff	500 + 100 per performance unit	1,000

2013 and 2014 programmes performance option

	€ per performance unit from 33% performance	Maximum per tranche in €
Board member	10,000 + 1,000 per performance unit	20,000
Managers	4,000 + 500 per performance unit	8,000
Non-payscale staff	500 + 100 per performance unit	1,000

The programmes are scheduled to run for four 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 invested in personally may not be sold until the option is exercised.

No payments were made to Executive Board members, managers and non-payscale staff under the outperformance option for 2011. Payments of EUR 9m were made under the three-year 2011 performance option, because the threshold was exceeded (29 per cent).

Results of LH-Performance as of 31.12.2014

in %	End of programme	Outperformance as of 31.12.2014	Performance as of 31.12.2014
LH-Performance 2014	2018	−3	5
LH-Performance 2013	2017	−18	−4
LH-Performance 2012	2016	−76	28
LH-Performance 2011	2015	−97	35

Over the financial years 2014 and 2013, the number of options changed as follows:

	2014		2013	
	Number of options/ option packages	**Cash settlement in € thousands**	Number of options/ option packages	Cash settlement in € thousands
Outstanding options on 1.1.	16,978	–	16,587	–
Options issued	4,345	–	4,391	–
Expired or unused options	424	–	4,000	–
Options exercised	4,157	9,000	–	–
Outstanding options on 31.12.	16,742	–	16,978	–

On 1 January 2014, members of the Executive Board, managers and non-payscale staff held 3,136,917 shares under the various programmes, and on 31 December 2014 they held 4,140,750 shares.

The fair values of the twelve options programmes still running were calculated using Monte Carlo simulations. This involves simulating the future returns of the shares in the index and of Deutsche Lufthansa AG and calculating the value of the option rights as the forecast amount of a dividend.

The following fair values were measured in total:

in € per option	Own investment	Fair value
Board member		
Options 2011 (after four years)	2,000	9,630
Options 2012	2,000	8,736
Options 2013	2,000	8,577
Options 2014	2,000	12,220
Managers		
Options 2011 (after four years)	2,000	3,882
Options 2012	2,000	3,620
Options 2013	2,000	3,428
Options 2014	2,000	4,885
Non-payscale staff		
Options 2011 (after four years)	1,000	480
Options 2012	1,000	418
Options 2013	1,000	431
Options 2014	1,000	614

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 50-day averages for the shares of Deutsche 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 maximum term of the programmes was used for measurement purposes.

The parameters used by the external service provider are shown in the following table:

Reference price

	Options 2011 (four years)	Options 2012
Lufthansa	10.28 EUR	10.61 EUR
Air France-KLM	5.78 EUR	5.00 EUR
IAG	160.00 GBP	154.41 GBP
Ryanair	3.15 EUR	4.40 EUR
easyJet	339.47 GBP	582.27 GBP
Air Berlin	2.65 EUR	1.64 EUR

Projected volatilities

in % for:	Options 2011 (four years)	Options 2012
Lufthansa	33.23 EUR	30.93 EUR
Air France-KLM	40.93 EUR	38.83 EUR
IAG	32.68 GBP	32.72 GBP
Ryanair	29.75 EUR	30.68 EUR
easyJet	31.63 GBP	31.90 GBP
Air Berlin	50.67 EUR	50.19 EUR
Risk-free interest rate	−0.03 to −0.02% for euro zone; 0.39 to 0.57% for UK	
Fluctuation	4.8%	

Reference price

	Options 2013	Options 2014
Lufthansa	14.09 EUR	12.59 EUR
Air France-KLM	7.00 EUR	7.45 EUR
IAG	329.78 GBP	363.46 GBP
Ryanair	6.32 EUR	7.25 EUR
easyJet	1 290.46 GBP	1 376.98 GBP
Air Berlin	1.79 EUR	1.31 EUR

Projected volatilities

in % for:	Options 2013	Options 2014
Lufthansa	30.50 EUR	32.16 EUR
Air France-KLM	43.04 EUR	44.25 EUR
IAG	32.91 GBP	34.82 GBP
Ryanair	28.63 EUR	28.79 EUR
easyJet	29.97 GBP	32.92 GBP
Air Berlin	45.49 EUR	44.49 EUR
Risk-free interest rate	−0.04 to 0.01% for euro zone; 0.83 to 1.07% for UK	
Fluctuation	4.8%	

Staff costs include total expenses of EUR 8m for options programmes (previous year: EUR 9m).

37 Trade payables and other current financial liabilities

in €m	31.12.2014	31.12.2013
Trade payables		
Trade payables to affiliated companies	43	42
Trade payables to other equity investments	1	3
Trade payables to third parties	2,899	2,981
	2,943	**3,026**
Other liabilities		
Liabilities to banks	198	56
Other liabilities to affiliated companies	249	244
Other liabilities to equity investments	0*	0*
Other financial liabilities	1,245	1,219
	1,692	**1,519**
Total	**4,635**	**4,545**

* Rounded below EUR 1m.

The carrying amount of these liabilities corresponds to their fair value.

38 Current advance payments received, deferred income and other non-financial liabilities

in €m	31.12.2014	31.12.2013
Advance payments received	57	56
Net debit balance of advance payments received and receivables from unfinished contracts	51	77
Deferred income	354	389
Other non-financial liabilities	462	442
	924	**964**

Obligations under bonus miles programmes (see also „Note 36“ starting on p. 198) are recognised in deferred income with EUR 320m (previous year: EUR 349m) and in other non-financial liabilities with EUR 214m (previous year: EUR 207m).

Other liabilities include deferrals of EUR 239m (previous year: EUR 222m) for outstanding holiday allowance and overtime, and EUR 6m (previous year: EUR 11m) for the current portion of fair value obligations under share-based remuneration agreements (see also „Notes 36“ starting on p. 198).

Other disclosures

39 Contingencies and events after the balance sheet date

Contingent liabilities

in €m	31.12.2014	31.12.2013
From guarantees, bills of exchange and cheque guarantees	889	854
From warranty contracts	1,046	929
From providing collateral for third-party liabilities	47	39
Legal risks	66	60
Other risks	55	107
	2,103	**1,989**

Warranty agreements included EUR 348m (previous year: EUR 300m) in contingent liabilities towards creditors of joint ventures. Liabilities under collateral agreements include contingent liabilities of EUR 13m (previous year: EUR 13m) towards creditors of joint ventures. A total of EUR 1,213m (previous year: EUR 1,140m) relates to joint and several guarantees and warranties. These are matched by compensatory claims against the other co-debtors amounting to EUR 1,106m (previous year: EUR 1,045m). Insofar as annual financial statements have yet to be published, these figures are preliminary.

Beyond the above, several provisions for other legal risks and for other contingent liabilities 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 66m (previous year: EUR 60m) and EUR 55m (previous year: EUR 107m) respectively for subsequent years.

Contracts signed at the end of the previous year for the sale of five ATRs resulted in profits for the financial year 2014 of EUR 6m and cash inflows of EUR 26m.

Contracts signed for the sale of eleven Canadair Regional Jet 700s are expected to generate cash inflows of EUR 48m in the financial year 2015.

Legal risks

The Group is exposed to a number of legal risks in the course of its normal business. Based on current knowledge, the assumption is that these will not have any major, lasting effects on net assets, financial and earnings position, beyond those for which provisions for litigation risks have been made (see „Note 33“ starting on p. 195).

Legal disputes and other claims made against the Group are always subject to uncertainty, however. Management estimates of these risks may also change over time. The actual outcome of these legal disputes may differ from earlier management estimates, which could have significant effects on the net assets, financial and earnings position and the reputation of our Company. We cannot give a reliable estimate of the maximum possible loss that would be incurred if the outcome of these proceedings were to be negative. The legal disputes include, among other things:

Risk of lawsuits against Miles & More programme rules

The validity of the General Terms and Conditions (programme rules) of the Miles & More programme (M&M programme) is being challenged in court proceedings. The allegation is that the General Terms and Conditions are not clear in several points and not understandable by members. In particular, one lawsuit claims that because the General Terms and Conditions are invalid, the limits to transferring bonus miles and tickets, the possibility of expiry for bonus miles and status privileges, and the opportunities and consequences of termination are all null and void. In the first instance, the lawsuit was dismissed on all points. On appeal, the court ruled that the non-transferability of bonus documents was unreasonable and that the corresponding provisions of the programme rules, including on the non-transferability of bonus miles, were invalid. The ruling was subjected to a further legal review in 2014. On 28 October 2014, the Federal Court of Justice ruled in favour of Deutsche Lufthansa AG in all points. The plaintiff has said that he intends to appeal against the judgement to the Constitutional Court by lodging a constitutional complaint. At present, the plaintiff's chances of success are deemed to be slight. Depending on the specific reasoning, affirmation of the original law suits could have significant effects for the Lufthansa Group, including the need to adjust provisions for air miles, loss of income and changes to the rules of the M&M programme.

A separate suit has been filed by the same plaintiff with the Cologne District Court, claiming damages of EUR 75m for alleged defamation and insulting value judgements. As the Federal Court of Justice has already dismissed the original claim as described above, the plaintiff's chances of success in this case are also deemed to be slight.

Lawsuit against Austrian Airlines AG challenging the transfer of flight operations to Tyrolean Airways Tiroler Luftfahrt GmbH

Various lawsuits have been filed in connection with the transfer of flight operations from Austrian Airlines AG to Tyrolean Airways Tiroler Luftfahrt GmbH (Tyrolean) effective 1 July 2012. One, to which the former works council for cabin crew of Austrian Airlines AG is also party, asserts that the entire transfer is invalid and alternatively that a right exists to compensation for the defined-benefit pensions at Austrian Airlines AG. In the first instance, the court in Vienna ruled that the employment contracts of the former Austrian Airlines cabin staff were not transferred to Tyrolean from Austrian Airlines AG along with flight operations. As far as the employees were concerned, the ruling stated that the transfer was an abuse of the law and therefore invalid. Austrian Airlines AG had appealed against the ruling.

In another related lawsuit, the Austrian Trade Union Federation had asked the Austrian Supreme Court (OGH) to rule that the collective agreements at Austrian Airlines AG continue to apply following the transfer of flight operations to Tyrolean. These proceedings also dealt with the question of whether the transfer of operations was permissible and lawful.

On 31 October 2014, a new collective agreement was signed for flight staff and came into force on 1 December 2014. The agreement provides for flight operations to be transferred from Tyrolean Airways Tiroler Luftfahrt GmbH (Tyrolean) back to Austrian Airlines AG. Employees have the opportunity of signing new employment contracts with Austrian Airlines AG if they sign a covenant not to sue. Severance payments will be made if they do. Based on an additional agreement with the works council for flight staff and the Austrian Trade Union Federation, all of the above lawsuits brought by the two parties have been withdrawn, and the transfer of operations was recognised as a result in 2012. The expenses resulting from the new collective agreement are reflected in these consolidated financial statements.

It cannot be ruled out, however, that individual employees may not accept the offer and may sue against the transfer of operations in 2012, claiming compensation based on the continued validity of the former collective agreement at Austrian Airlines AG. It is not possible to give a reliable estimate of the risk of such individual lawsuits at present, but if Austrian Airlines AG were to lose any such litigation, it would not have any significant effect on the Group's net assets, financial and earnings position.

Risk of successful claims for damages in ongoing anti-trust proceedings

Various cargo airlines, including Lufthansa Cargo AG and Swiss International Air Lines AG, were involved in a cargo cartel in the period between December 1999 and February 2006. Deutsche Lufthansa AG, Lufthansa Cargo AG and Swiss International Air Lines AG are at risk of civil claims for damages by customers in Germany, the United Kingdom, Norway, Israel, Korea and the Netherlands. The plaintiffs are mostly claiming for unspecified damages. In Germany, a subsidiary of Deutsche Bahn AG has filed a lawsuit for disclosure and damages of at least EUR 30m up to EUR 1bn against Lufthansa Cargo AG and Qantas Airways with the Cologne District Court. On 28 November 2014, the lawsuit was extended to ten additional airlines and the amount of the claim increased to approximately EUR 3bn.

At present, it is not possible to give a concrete assessment of the outcome of the proceedings and of the number and amount of any other claims that may be brought. When evaluating the risk, it should nonetheless be borne in mind that the European Commission's decision on the cargo cartel, which the plaintiffs in the civil lawsuits generally refer to, is still not definitive. Moreover, an expert economic opinion commissioned by Lufthansa Cargo AG and Swiss International Air Lines AG has come to the conclusion that the cartel did not inflict any actual damage on customers. Even if there were damages (i. e. allegedly higher cartel prices), the court will have to examine whether the plaintiffs did not pass them on to their own customers (in the case of the freight forwarders) or whether they were indeed passed on to them (in the case of the final customers).

Niki Luftfahrt GmbH proceedings against the subsidy ruling by the European Commission in favour of Austrian Airlines AG

Niki Luftfahrt GmbH has filed an action for annulment with the ECJ against the decision taken by the European Commission in 2009 to approve a subsidy of EUR 500m for Austrian Airlines AG. Austrian Airlines AG, Deutsche Lufthansa AG and Österreichische Industrieholding AG (the state-owned Austrian privatisation company) have intervened in the proceedings to support the European Commission. The action is based on alleged shortcomings in the privatisation process, the description of the planned restructuring measures, the amount of compensation and the formally inadequate reasoning behind the decision. Its chances of success are not considered to be high, because the Commission's decision was based not only on a provisional review, but also on a detailed investigation with conditions attached. If the action should be upheld, it would mean that the entire restructuring aid would have to be repaid with interest, however. A hearing took place before the ECJ on 25 June 2014. A ruling is expected in 2015.

Niki Luftfahrt GmbH proceedings against approval of the merger between Deutsche Lufthansa AG/ Austrian Airlines AG by the European Commission

In August 2009, the European Commission approved the acquisition of Austrian Airlines AG by Deutsche Lufthansa AG, subject to conditions, after conducting a full investigation (Phase II procedure). Niki Luftfahrt GmbH (NIKI) has filed an action with the ECJ against this decision by the European Commission. Deutsche Lufthansa AG and Österreichische Industrieholding AG (the state-owned Austrian privatisation company) have intervened in the proceedings to support the European Commission. NIKI is of the opinion that the conditions of competition law for approving the merger were not met, partly because the terms that Deutsche Lufthansa AG offered to alleviate the concerns under competition law did not go far enough. The plaintiff's chances of success are not considered to be high at present, because the Commission's decision was based on an extensive two-phase merger procedure with comparatively strict conditions. If the action were to be upheld, it would ultimately mean that Austrian Airlines AG would have to be divested from the Lufthansa Group. A hearing took place before the ECJ on 26 June 2014. A ruling is expected in 2015.

Advance payment for flight bookings

A lawsuit has been filed against Deutsche Lufthansa AG with the Cologne District Court by the North-Rhine Westphalian consumer protection association Verbraucherzentrale Nordrhein-Westfalen e.V. to obtain an injunction against the demand for advance payment. Nearly all German airlines are the subject of the action. Transport contracts with consumers include a clause stipulating that the price of the flight is payable immediately after the booking has been made. The lawsuit demands that only a down payment should be required for a flight booking or that the passenger should be able to decide when to pay the price up to a certain date before departure, irrespective of the booking date. Cologne District Court dismissed the lawsuit on 8 January 2014. The Cologne Higher Regional Court also followed the arguments of Deutsche Lufthansa AG in the appeal proceedings. Verbraucherzentrale Nordrhein-Westfalen e.V. has asked for the ruling to be reviewed by the Federal Court of Justice. The commercial consequences of a negative ruling cannot be quantified at present.

Price fixing in passenger transport

In a lawsuit filed with a court in Ontario, Canada, Deutsche Lufthansa AG and six other airlines are accused of colluding to fix prices and surcharges for passenger transport on transatlantic routes to and from Canada since 2000. As far as the company is aware, there are currently no indications whatsoever of such illegal price fixing.

Events after the balance sheet date

Strike at Germanwings disrupts flight operations

Due to a strike at Germanwings called for by the pilots' union Vereinigung Cockpit, there were delays and cancellations in the Germanwings flight timetable throughout the whole of 12 and 13 February 2015. A total of 377 flights were cancelled and some 30,000 passengers were affected by the industrial action.

Lufthansa Group offers creditors possibility of exercising conversion rights in JetBlue convertible bond ahead of time

In the 2012 financial year, the Lufthansa Group issued a convertible bond for common shares in JetBlue Airways Corporation. The bond has a nominal value totalling EUR 234m and matures in 2017. On 18 February 2015, a voluntary offer was made to the creditors to exercise their conversion rights ahead of time. A premature conversion of all the bonds would be tied to the withdrawal of the Lufthansa Group from the equity investment in JetBlue. The Lufthansa Group intends to use this offer to optimise its debt profile and strengthen its balance sheet.

40 Other financial obligations

As of 31 December 2014, there were purchase commitments for EUR 16.5bn (previous year: EUR 16.0bn) for capital expenditure on property, plant and equipment and for intangible assets. There were also capital and shareholder loan commitments of EUR 57m towards equity investments (previous year: EUR 82m).

41 Additional disclosures on financial instruments

Financial assets by measurement category

The financial assets can be divided into measurement categories with the following carrying amounts:

Financial assets in the balance sheet as of 31.12.2014

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	–	–	776	–
Non-current securities	–	–	10	–
Loans	190	–	–	–
Non-current receivables	275	–	–	–
Non-current derivative financial instruments	–	134	–	465
Trade receivables and other current receivables	3,937	–	–	–
Current derivative financial instruments	–	70	–	386
Current securities	–	–	1,785	–
Cash and cash equivalents	–	–	953	–
Total	**4,402**	**204**	**3,524**	**851**

Financial assets in the balance sheet as of 31.12.2013

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	–	–	500	–
Non-current securities	–	–	20	–
Loans	178	–	–	–
Non-current receivables	233	–	–	–
Non-current derivative financial instruments	–	170	–	165
Trade receivables and other current receivables	3,600	–	–	–
Current derivative financial instruments	–	132	–	328
Current securities	–	1	3,145	–
Cash and cash equivalents	–	–	1,552	–
Total	**4,011**	**303**	**5,217**	**493**

The financial assets in the category "at fair value through profit or loss" include assets held for trading and time values of options used for hedging of EUR 2m (previous year: EUR 152m) which are to be recognised in the financial result. Otherwise, no financial assets have been classified as "at fair value through profit or loss".

Financial liabilities by measurement category

The financial liabilities can be divided into measurement categories with the following carrying amounts:

Financial liabilities in the balance sheet as of 31.12.2014

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
Financial liabilities	–	–	5,958
Derivative financial instruments	517	968	–
Trade payables	–	–	2,943
Other financial liabilities	–	–	1,828
Total	**517**	**968**	**10,729**

Financial liabilities in the balance sheet as of 31.12.2013

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
Financial liabilities	–	–	6,337
Derivative financial instruments	278	331	–
Trade payables	–	–	3,026
Other financial liabilities	–	–	1,667
Total	**278**	**331**	**11,030**

The measurement of derivative financial instruments held at fair value was made on the basis of observable market data.

The following table shows the carrying amounts and market values for individual classes of financial liabilities. Market values of EUR 1,317m for bonds are equal to the listed prices, and market values of EUR 218m for bonds were derived from the listed prices. The market values for other types of borrowing have been calculated using the applicable interest rates for the remaining term to maturity and repayment structures at the balance sheet date based on available market information (Reuters).

Financial liabilities

	31.12.2014		31.12.2013	
in €m	Carrying amount	Market value	Carrying amount	Market value
Bonds	1,468	1,535	1,812	1,918
Liabilities to banks	1,057	1,061	1,254	1,276
Leasing liabilities and other loans	3,433	3,584	3,271	3,443
Total	**5,958**	**6,180**	**6,337**	**6,637**

The net result of the different categories of financial assets is made up as follows:

2014

in €m	Other operating income	Other operating expenses	Result from equity investments	Other financial items	**Net result**
Loans and receivables	46	–165	–	–10	**–129**
Financial assets at fair value through profit or loss	–	–	–	–201	**–201**
Ineffective portion of derivatives used as cash flow hedges	–	–	–	–212	**–212**
Available-for-sale financial assets	45	–11	–	–6	**28**

2013

in €m	Other operating income	Other operating expenses	Result from equity investments	Other financial items	**Net result**
Loans and receivables	43	–169	–	–	**–126**
Financial assets at fair value through profit or loss	–	–	–	–60	**–60**
Ineffective portion of derivatives used as cash flow hedges	–	–	–	–20	**–20**
Available-for-sale financial assets	26	–5	–	–3	**18**

Financial assets held at fair value by level of fair value hierarchy

The following table shows financial assets and liabilities held at fair value by level of fair value hierarchy. The levels are defined as follows:

Level 1:
- Financial instruments traded on active markets, the quoted prices for which are taken for measurement unchanged.

Level 2:
- Measurement is made by means of valuation methods with parameters derived directly or indirectly from observable market data.

Level 3:
- Measurement is made by means of valuation methods with parameters not based exclusively on observable market data.

In 2014 the criteria for the existence of an active market were reviewed again as of 31 December, which resulted in the reclassification of EUR 1,345m from Level 1 to Level 2 (previous year: EUR 1,201m). The figures for 2013 were adjusted accordingly.

Assets 31.12.2014

in €m	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit and loss				
Financial derivatives classified as held for trading	–	204	–	204
Current securities	–	–	–	–
Total financial assets through profit and loss	**–**	**204**	**–**	**204**
Derivative financial instruments which are an effective part of a hedging relationship	**–**	**851**	**–**	**851**
Available-for-sale financial assets				
Equity instruments	847	58	–	905
Debt instruments	–	1,494	–	1,494
	847	**1,552**	**–**	**2,399**
Total assets	**847**	**2,607**	**–**	**3,454**

Liabilities 31.12.2014

in €m	Level 1	Level 2	Level 3	Total
Derivative financial instruments at fair value through profit or loss	–	517	–	517
Derivative financial instruments which are an effective part of a hedging relationship	–	968	–	968
Total liabilities	**–**	**1,485**	**–**	**1,485**

In the financial year 2013, the fair value hierarchy for assets held at fair value was as follows:

Assets 31.12.2013

in €m	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit and loss				
Financial derivatives classified as held for trading	–	302	–	302
Current securities	–	0*	1	1
Total financial assets through profit and loss	**–**	**302**	**1**	**303**
Derivative financial instruments which are an effective part of a hedging relationship	**–**	**493**	**–**	**493**
Available-for-sale financial assets				
Equity instruments	583	72	–	655
Debt instruments	–	2,756	40	2,796
	583	**2,828**	**40**	**3,451**
Total assets	**583**	**3,623**	**41**	**4,247**

* Rounded below EUR 1m.

Liabilities 31.12.2013

in €m	Level 1	Level 2	Level 3	Total
Derivative financial instruments at fair value through profit or loss	–	278	–	278
Derivative financial instruments which are an effective part of a hedging relationship	–	331	–	331
Total liabilities	**–**	**609**	**–**	**609**

Additional disclosures on financial assets in Level 3

in €m	1.1.2014	Recognised in result for the period	Change in market value recognised in equity	Additions/ disposals	31.12.2014
Financial assets at fair value through profit or loss	1	–	–	–1	0
Available-for-sale financial assets	40	0*	0*	–40	0
Total	**41**	**0***	**0***	**–41**	**0**

* Rounded below EUR 1m.

Additional disclosures on financial assets in Level 3

in €m	1.1.2013	Recognised in result for the period	Change in market value recognised in equity	Additions/ disposals	31.12.2013
Financial assets at fair value through profit or loss	0*	1	–	–	1
Available-for-sale financial assets	61	0*	0*	–21	40
Total	**61**	**1**	**0***	**–21**	**41**

* Rounded below EUR 1m.

Netting of financial assets and liabilities

The following financial assets and liabilities are subject to global netting agreements and other agreements.

Assets 31.12.2014

in €m	Gross amount	Netted amounts	Reported net amount	Amounts not netted	Net amount
Trade receivables and other current receivables	4,003	–66	3,937	–	3,937
Derivative financial instruments – assets	1,055	–	1,055	–542	513
Cash and cash equivalents	977	–24	953	–	953
Total assets	**6,035**	**–90**	**5,945**	**–542**	**5,403**

Liabilities 31.12.2014

in €m	Gross amount	Netted amounts	Reported net amount	Amounts not netted	Net amount
Trade payables and other financial liabilities	4,861	–90	4,771	–10	4,761
Derivative financial instruments – liabilities	1,485	–	1,485	–532	953
Total liabilities	**6,346**	**–90**	**6,256**	**–542**	**5,714**

In the previous year, the net balances were as follows:

Assets 31.12.2013

in €m	Gross amount	Netted amounts	Reported net amount	Amounts not netted	Net amount
Trade receivables and other current receivables	3,758	–158	3,600	–	3,600
Derivative financial instruments – assets	795	–	795	–545	250
Cash and cash equivalents	1,582	–30	1,552	–	1,552
Total assets	**6,135**	**–188**	**5,947**	**–545**	**5,402**

Shareholders' equity and liabilities 31.12.2013

in €m	Gross amount	Netted amounts	Reported net amount	Amounts not netted	Net amount
Trade payables and other financial liabilities	4,881	–188	4,693	–144	4,549
Derivative financial instruments – liabilities	609	–	609	–401	208
Total liabilities	**5,490**	**–188**	**5,302**	**–545**	**4,757**

Principles of hedging policy

As an aviation group with worldwide operations, the Lufthansa Group 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.

Market risk

The major market and 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 crude oil and oil 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.

Foreign exchange risk

For US dollars, Lufthansa is mainly in a net payer position as regards currency risks from its operating business, as fuel payments are dollar-denominated. For other currencies there is always a net surplus. The main risks in this respect stem from the Chinese renminbi, the Swiss franc, the pound sterling, the Japanese yen, and the Indian rupee. Depending on market liquidity, currency risks from projected operational exposure are hedged gradually over a period of 24 months by means of futures contracts. The target hedging level is defined in the Group's internal guidelines.

At the end of 2014, exposure from operations for the next 24 months was as follows:

In millions	USD	CNY	JPY	GBP	INR
Exposure (currency)	–6,536	10,794	156,583	862	65,593
Exposure (EUR at spot rate)	–5,383	1,432	1,078	1,107	855
Hedges (currency)	2,749	–4,172	–71,607	–341	–13,027
Hedging level	42%	39%	46%	39%	20%

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

At year-end 2014, exposure for capital expenditure was as follows:

In millions	2015	2016	2017	2018
Exposure from net capital expenditure (USD)	−1,319	−1,134	−380	−952
Exposure from net capital expenditure (EUR at spot rate)	−1,085	−933	−313	−783
Hedges (USD)	1,172	777	258	433
Hedging level	89%	69%	68%	46%

In millions	2019	2020	2021	2022	2023−25
Exposure from net capital expenditure (USD)	−1,457	−1,863	−1,817	−1,804	−3,483
Exposure from net capital expenditure (EUR at spot rate)	−1,199	−1,533	−1,495	−1,484	−2,865
Hedges (USD)	703	1,142	1,031	1,552	2,736
Hedging level	48%	61%	57%	86%	79%

The following sensitivity analysis required by IFRS 7 shows how net profit and equity would change if the currencies identified as price risk variables had been different from tose at the balance sheet date.

in €m	Effects on net profit[1)]	Effects on equity[1)]
Currency – USD		
+10%	−34	+786
−10%	+39	−642
Currency – JPY		
+10%	0*	−41
−10%	0*	+34
Currency – CHF		
+10%	−30	−121
−10%	+26	+104
Currency – GBP		
+10%	+10	−36
−10%	−7	+29
Currency – CNY		
+10%	+3	−45
−10%	−2	+36
Currency – INR		
+10%	+1	−14
−10%	−1	+11

* Rounded below EUR 1m.
[1)] All amounts after deferred tax effects; +/– signs relate to net profit and/or equity.

Interest rate risk

Lufthansa aims to finance 85 per cent of its financial liabilities at floating rates of interest. This proportion recognises the need to both minimise long-term interest expense and reduce earnings volatility.

At the end of 2014, the ratio of floating to fixed interest rates for long-term borrowing was as follows:

Exposure

in €m	2015	2016	2017	2018	2019
Fixed	1,083	800	646	360	308
Floating	4,748	4,279	3,234	2,416	1,990
Floating/fixed ratio	81%	84%	83%	87%	87%

Exposure

in €m	2020	2021	2022	2023	2024	2025
Fixed	294	247	247	250	173	47
Floating	1,037	799	503	356	191	123
Floating/fixed ratio	78%	76%	67%	59%	52%	72%

In contrast, foreign currency risks from financial liabilities are always hedged to 100 per cent by means of cross currency swaps. These hedging transations are treated almost exclusively as trading in accordance with IAS 39.

The following sensitivity analysis required by IFRS 7 shows how net profit and equity would change if the interest rate identified as a price risk variable had been different from the perspective of the balance sheet date. The lower interest-rate scenario assumes that interest rates are unlikely to be negative over a long period. A floor was set for interest rates at 0 per cent.

in €m	Effects on net profit[1)]	Effects on equity[1)]
Interest		
+100 basis points	−3	−37
−100 basis points	0*	+17

* Rounded below EUR 1m.
[1)] All amounts after deferred tax effects; +/– signs relate to net profit and/or equity.

Fuel price risk

In 2014, fuel costs accounted for 21.5 per cent of the Lufthansa Group's operating expenses (previous year: 22.5 per cent). Significant changes in fuel prices can therefore have a considerable effect on the Group's result.

Fuel price risk is generally limited by the use of crude oil hedges. The hedging level and the time horizon depend on the risk profile, which is derived from the business model of a Group company. As a rule, up to 5 per cent of exposure is hedged monthly for up to 24 months by spread options and other combinations of hedges. This means that the maximum hedging level reached is 85 per cent.

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:

Fuel exposure

		2015	2016
Fuel requirement	in 1,000 tonnes	8,981	9,497
Hedges	in 1,000 tonnes	6,644	3,404
Hedging level	in %	74.0	35.8

The following sensitivity analysis required by IFRS 7 shows how net profit and equity would change if the fuel price identified as a price risk variable had been different from the perspective of the balance sheet date.

in €m	Effects on net profit*	Effects on equity*
Fuel price		
+10%	+51	+90
–10%	–4	–137

* All amounts after deferred tax effects; +/– signs relate to net profit and/or equity.

Market values of the derivative financial instruments used for hedging

Derivative financial instruments qualifying as effective hedging instruments within a hedging relationship have the following balances:

Derivative financial instruments

in €m	31.12.2014	31.12.2013
Positive market value – long-term	465	165
Positive market value – short-term	386	328
Negative market value – long-term	–266	–173
Negative market value – short-term	–702	–158
	–117	**162**

They relate to the following hedged items:

in €m	31.12.2014	31.12.2013
Fuel price hedges	–691	126
Exchange rate hedges	489	–60
Interest rate hedges	85	96

Derivative financial instruments measured at fair value through profit or loss are shown in the following table:

Trading part

in €m	31.12.2014	31.12.2013
Positive market value – long-term	134	170
Positive market value – short-term	70	132
Negative market value – long-term	–453	–253
Negative market value – short-term	–64	–25
	–313	**24**

The positive and negative market values shown are from derivatives that do not qualify under IAS 39 as effective hedging instruments within a hedging relationship as well as the time values of options used for hedging. Derivatives that do not qualify as effective hedging instruments within a hedging relationship include cross currency swaps. These instruments are used explicitly for hedging existing hedged items, in particular fixed-interest financial liabilities in foreign currencies. Solely on the basis of the criteria defined in IAS 39, however, these cross currency swaps cannot be presented as effective hedging instruments.

Fair values are all calculated on the basis of recognised financial and mathematical methods, using publicly available market information.

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 31.12.2014**	Market value 31.12.2013	**Market value 31.12.2014**	Market value 31.12.2013
Interest rate swaps	85	96	–	–
Spread options for fuel hedging	–	–	–	–
Hedging combinations for fuel hedging	–	–	–691	126
Futures contracts for currency hedging	–	–	489	–60
Spread options for fuel hedging	–	–	–	–
Total	**85**	**96**	**–202**	**66**

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 expected future cash flows. Discounting takes market standard interest rates and the residual term of the respective instruments into account.

Currency futures and swaps are individually discounted to the balance sheet date based on their respective futures 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 a 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	Result for the period in €m	First-time measurement of acquisition costs[1] in €m	**Total** in €m
2015	−377	61	−316
2016	−134	15	−119
2017	0*	18	18
2018	0*	16	16
2019	–	20	20
2020	–	32	32
2021	–	32	32
2022	–	49	49
2023	–	37	37
2024	–	23	23
2025	–	6	6
Total	**−511**	**309**	**−202**

* Rounded below EUR 1m.
[1] Minus signs mean increased acquisition costs.

In the 2014 financial year, EUR 4m was transferred for maturing interest rate swaps from equity to fuel expenses, reducing these expenses. For currency hedges, EUR 338m was transferred from equity to other operating income and EUR 279m to other operating expenses. A further EUR 27m was recognised by increasing acquisition costs for aircraft.

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 and in „Note 13“ on p. 172.

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 is drawn up with a planning horizon of 24 months. This planning method offers an up-to-date picture of anticipated liquidity developments as regards the Company and currencies.

In principle, Lufthansa holds a liquidity reserve of at least EUR 2.3bn that is available at short notice. In addition, the Lufthansa Group held confirmed unused lines of credit as of 31 December 2014 totalling EUR 0.8bn (previous year: EUR 0.8bn).

A maturity analysis for the financial liabilities and the derivative financial instruments based on undiscounted gross cash flows including the relevant interest payments shows the following projected cash inflows and outflows from the perspective of the balance sheet date 31 December 2014. As a result of the hedges used, there are generally direct connections between the cash inflows and outflows for the derivative financial instruments shown.

Derivative financial instruments

in €m	Inflows	Outflows	**Net**
1st quarter	3,304	−3,350	**−46**
Up to 1 year*	7,258	−7,491	**−233**
1 – 5 years	6,950	−6,765	**185**
Later	5,966	−5,016	**950**

* Without payments in first quarter.

Non-derivative financial instruments

in €m	**Outflows**
1st quarter	**−3,781**
Up to 1 year*	**−1,633**
1 – 5 years	**−4,525**
Later	**−1,804**

* Without payments in first quarter.

Credit risk

The sale of passenger travel and freight documents mostly takes place via agencies. These agencies are mostly connected to national clearing systems for billing passenger and freight sales. 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 weekly receivables and liability balances significantly reduces the default risk. Fidelity guarantee insurance also covers partial risks within a certain range. 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.

Counterparty risks in connection with credit card companies are monitored closely and incoming payments reviewed daily. To reduce risks even further, a permanent analysis process examines whether to tighten credit terms for some credit card issuers. In addition to the monitoring of receivables at company or segment level there is also counterparty monitoring at Group level, with individually assigned limits, in order to identify the accumulation of portfolio risks across the entire Group and take appropriate action if necessary.

If risks are identified, receivables are written down accordingly.

As of 31 December 2014, the maximum credit risk from the potential insolvency of debtors for loans and receivables was EUR 4,402m, made up as follows:

in €m	**31.12.2014**	31.12.2013
Loans	190	178
Non-current receivables	275	233
Trade receivables and other current receivables	3,937	3,600
	4,402	**4,011**

Impairments on loans and receivables developed as follows:

in €m	**1.1.2014**
Gross amount	259
Impairment charges	−240
Carrying amount 1.1.2014	**19**

in €m	**31.12.2014**
Gross amount	266
Impairment charges	−237
Carrying amount 31.12.2014	**29**

A further EUR 125m (previous year: EUR 141m) was overdue but not written down.

The term structure of overdue receivables is as follows:

in €m	
Up to 90 days	71
Between 90 and 180 days	23
Over 180 days	31

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	**31.12.2014**
Debt instruments	1,494
Equity instruments	301
Total securities	**1,795**

Securities representing debt are rated as follows (Standard & Poor's):

in €m	
AAA	227
AA+	81
AA	206
AA–	130
A+	251
A	315
A–	147
BBB+	69
BBB	63
Below BBB or unrated	5
Total	**1,494**

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 the market values are on balance positive.

As of 31 December 2014, the credit risk from derivative financial instruments, which are an effective part of a hedging relationship, was EUR 851m (previous year: EUR 493m). The counterparty default risk for financial market transactions is limited by defining a maximum risk, taking the credit score given by recognised rating agencies into account.

Positive market values on the balance sheet date exist for transactions with business partners rated as follows (Standard & Poor's):

in €m	
AA–	4
A+	82
A	397
A–	240
BBB+	30
BBB	66
Below BBB or unrated	32
Total	**851**

The credit risk arising from financial derivatives shown at fair value through profit and loss amounted to EUR 204m as of 31 December 2014, and consisted of the total amount of business with contractual partners that on balance showed a positive market value. This figure includes EUR 2m (previous year: EUR 152m) for the time values of options used for hedging, changes in which have been recognised in the financial result since 1 January 2010. The contractual partners have the following ratings (Standard & Poor's):

in €m	
A+	16
A	42
A–	105
BBB+	16
BBB	19
Below BBB or unrated	6
Total	**204**

42 Segment reporting

The Lufthansa Group operates in five major business segments: scheduled passenger air traffic (Passenger Airline Group) via Deutsche Lufthansa AG, Lufthansa CityLine GmbH, Swiss International Air Lines AG, Austrian Airlines AG, Air Dolomiti S.p.A., Eurowings Luftverkehrs AG and Germanwings GmbH; scheduled 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.

Income and expenses for Lufthansa Commercial Holding GmbH, Lufthansa AirPlus Servicekarten GmbH and other Group companies not assigned to a reporting segment are presented together with income and expenses for central Group functions in the "Other" column of the segment reporting.

Sales and revenue between business segments are based on arm's length prices. Administrative services are charged as cost allocations.

For information on external traffic revenue see „Note 3" on p. 169.

Segment information by operating segment for 2014

in €m	Passenger Airline Group[6]	Logistics	MRO	Catering	IT Services	Total reportable operating segments	Other[6]	Reconciliation: Not allocated	Reconciliation: Consolidation	Group
External revenue	22,636	2,410	2,673	2,022	270	30,011	–	–	–	30,011
of which traffic revenue	21,564	2,364	–	–	–	23,928	–	460	–	24,388
Inter-segment revenue	684	25	1,664	611	376	3,360	–	–	−3,360	–
Total revenue	**23,320**	**2,435**	**4,337**	**2,633**	**646**	**33,371**	**–**	**–**	**−3,360**	**30,011**
Other operating income	868	78	177	93	30	1,246	1,246	–	−606	1,886
Total operating income	**24,188**	**2,513**	**4,514**	**2,726**	**676**	**34,617**	**1,246**	**–**	**−3,966**	**31,897**
Operating expenses	23,635	2,413	4,122	2,626	639	33,435	1,457	–	−3,949	30,943
of which cost of materials and services	15,161	1,690	2,154	1,156	112	20,273	81	–	−3,071	17,283
of which staff costs	4,237	387	1,186	964	249	7,023	322	–	−7	7,338
of which depreciation and amortisation	1,140	64	93	65	31	1,393	21	–	−1	1,413
of which other operating expenses	3,097	272	689	441	247	4,746	1,033	–	−870	4,909
Operating result[1]	**553**	**100**	**392**	**100**	**37**	**1,182**	**−211**		**−17**	**954**
Other segment income	180	6	24	3	2	215	52	148	−136	279
Other segment expenses	46	2	1	16	51	116	11	487	−148	466
of which impairment losses	38	–	–	13	49	100	–	–	2	102
Result of investments accounted for using the equity method	39	16	14	8	–	77	–	–	–	77
Segment result[2]	**726**	**120**	**429**	**95**	**−12**	**1,358**	**−170**	**−339**	**−5**	**844**
Other financial result	–	–	–	–	–	–	–	–	–	−664
Profit/loss before income taxes	–	–	–	–	–	–	–	–	–	180
Segment assets[3]	16,275	1,343	3,685	1,465	183	22,951	1,314	15,493	−9,284	30,474
of which from investments accounted for using the equity method	85	50	182	122	–	439	6	–	–	445
Segment liabilities[4]	13,515	687	1,738	867	419	17,226	1,321	11,828	−3,932	26,443
Segment capital expenditure[5]	2,248	214	118	140	18	2,738	18	2,050	−2,029	2,777
of which from investments accounted for using the equity method	–	–	1	6	–	7	–	–	–	7
Employees on balance sheet date	54,960	4,663	20,079	32,843	2,721	115,266	3,515	–	–	118,781
Average number of employees	55,516	4,656	20,085	32,526	2,722	115,505	3,468	–	–	118,973

[1] See p. 51 of the management report for reconciliation between operating result and profit from operating activities.
[2] Profit from operating activities including result of investments measured at equity.
[3] Intangible assets, property, plant and equipment, investments accounted for using the equity method, inventories, trade receivables and other assets – total assets are presented under the heading "Group".
[4] All liabilities with the exception of financial debt, liabilities to Group companies, derivative financial instruments, other deferred income and tax obligations – total liabilities are presented under the heading "Group".
[5] Capital expenditure on intangible assets, property, plant and equipment, and investments accounted for using the equity method.
[6] Reclassification of the Lufthansa Flight Training companies from the Other segment to the Passenger Airline Group segment. The relevant figures for the segment from the current financial year as well as the figures from the previous year have been adjusted accordingly.

Segment information by operating segment for 2013

in €m	Passenger Airline Group[6]	Logistics	MRO	Catering	IT Services	Total reportable operating segments	Other[6]	Reconciliation Not allocated	Reconciliation Consoli-dation	Group
External revenue	22,838	2,419	2,596	1,909	265	30,027	–	–	–	30,027
of which traffic revenue	21,743	2,378	–	–	–	24,121	–	447	–	24,568
Inter-segment revenue	672	24	1,584	605	375	3,260	–	–	–3,260	–
Total revenue	**23,510**	**2,443**	**4,180**	**2,514**	**640**	**33,287**	**–**	**–**	**–3,260**	**30,027**
Other operating income	1,095	97	229	86	28	1,535	1,051	–	–667	1,919
Total operating income	**24,605**	**2,540**	**4,409**	**2,600**	**668**	**34,822**	**1,051**	**–**	**–3,927**	**31,946**
Operating expenses	24,092	2,461	4,005	2,495	632	33,685	1,446	–	–3 884	31,247
of which cost of materials and services	15,336	1,797	2,069	1,104	125	20,431	46	–	–2 979	17,498
of which staff costs	4,252	388	1,227	927	238	7,032	343	–	–8	7,367
of which depreciation and amortisation	1,453	27	99	62	35	1,676	19	–	2	1,697
of which other operating expenses	3,051	249	610	402	234	4,546	1,038	–	–899	4,685
Operating result[1]	**513**	**79**	**404**	**105**	**36**	**1,137**	**–395**	**–**	**–43**	**699**
Other segment income	155	10	54	3	1	223	89	460	–490	282
Other segment expenses	57	16	20	4	3	100	5	93	–68	130
of which impairment losses	49	15	9	3	1	77	–	–	–	77
Result of investments accounted for using the equity method	36	16	19	19	–	90	1	–	–	91
Segment result[2]	**647**	**89**	**457**	**123**	**34**	**1,350**	**–310**	**367**	**–465**	**942**
Other financial result	–	–	–	–	–	–	–	–	–	–396
Profit/loss before income taxes	–	–	–	–	–	–	–	–	–	546
Segment assets[3]	15,264	1,158	3,311	1,324	223	21,280	1,261	15,612	–9,045	29,108
of which from investments accounted for using the equity method	66	44	209	116	–	435	6	–	–	441
Segment liabilities[4]	11,429	502	1,521	714	186	14,352	1,468	11,055	–3,875	23,000
Segment capital expenditure[5]	1,841	318	136	110	20	2,425	9	856	–791	2,499
of which from investments accounted for using the equity method	–	–	12	11	–	23	–	–	–	23
Employees on balance sheet date	55,272	4,660	19,917	32,307	2,718	114,874	3,411	–	–	118,285
Average number of employees	55,360	4,625	19,927	31,375	2,724	114,011	3,403	–	–	117,414

[1] See p. 51 of the management report for reconciliation between operating result and profit from operating activities.
[2] Profit from operating activities including result of investments measured at equity.
[3] Intangible assets, property, plant and equipment, investments accounted for using the equity method, inventories, trade receivables and other assets – total assets are presented under the heading “Group”.
[4] All liabilities with the exception of financial debt, liabilities to Group companies, derivative financial instruments, other deferred income and tax obligations – total liabilities are presented under the heading “Group”.
[5] Capital expenditure on intangible assets, property, plant and equipment, and investments accounted for using the equity method.
[6] Reclassification of the Lufthansa Flight Training companies from the Other segment to the Passenger Airline Group segment. The relevant figures for the segment from the current financial year as well as the figures from the previous year have been adjusted accordingly.

The reconciliation column includes both the effects of consolidation activities and the 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 revenue.

For other operating income, inter-segment income has also been eliminated (reconciliation column for operating income). In the 2014 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 to 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 book 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, are added back in the reconciliation columns for other segment income and other segment expenses.

The result of the equity valuation for the segment's equity investments is part of its segment result, however from a Group perspective it is not attributed to the operating result but rather to the financial result.

Segment assets primarily include property, plant and equipment, intangible assets, 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 capital expenditure includes additions to property, plant and equipment and intangible assets, as well as capital expenditure on investments accounted for using the equity method.

Figures by region for 2014

in €m	Europe	North America	Central and South America	Asia / Pacific	Middle East	Africa	**Total**
Traffic revenue [1]	15,945	3,597	795	3,005	677	369	**24,388**
Other revenue	2,546	1,400	191	971	318	197	**5,623**
Non-current assets [2]	16,802	202	32	203	12	18	**17,269**
Capital expenditure on non-current assets	2,658	26	7	31	2	2	**2,726**

The figures for the main countries are as follows:

in €m	Germany	USA
Traffic revenue [1]	7,228	3,237
Other revenue	934	1,122
Non-current assets [2]	9,571	187
Capital expenditure on non-current assets	1,386	23

[1] Traffic revenue is allocated according to the original location of sale.
[2] Non-current assets include property, plant and equipment and intangible assets with the exception of repairable spare parts for aircraft.

Figures by region for 2013

in €m	Europe	North America	Central and South America	Asia/Pacific	Middle East	Africa	**Total**
Traffic revenue [1]	15,939	3,591	887	3,057	689	405	**24,568**
Other revenue	2,456	1,346	182	969	282	224	**5,459**
Non-current assets [2]	15,610	183	27	157	1	9	**15,987**
Capital expenditure on non-current assets	2,408	27	10	17	0*	1	**2,463**

The figures for the main countries are as follows:

in €m	Germany	USA
Traffic revenue [1]	7,037	3,207
Other revenue	955	1,057
Non-current assets [2]	9,524	174
Capital expenditure on non-current assets	1,399	26

* Rounded below EUR 1m.
[1] Traffic revenue is allocated according to the original location of sale.
[2] Non-current assets include property, plant and equipment and intangible assets with the exception of repairable spare parts for aircraft.

The allocation of traffic revenue to regions is based on the original location of sale, the allocation of other revenue is based on the geographical location of the customer.

The regions are defined on a geographical basis. As an exception to this rule, traffic revenue generated in Turkey is attributed to Europe.

Lufthansa controls its air traffic operations on the basis of network results and not on the basis of regional earnings contributions. The same applies to the Catering segment. Consequently, the presentation of regional segment results is of no informational value for the Lufthansa Group.

A presentation of traffic revenue generated in the Passenger Airline Group and Logistics segments by traffic region, rather than by original location of sale, is included in the information on the respective segments in the management report.

43 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 exists 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:

in €m	Volume of services rendered 2014	Volume of services rendered 2013	Volume of services received 2014	Volume of services received 2013
Non-consolidated subsidiaries				
Airline Training Center Arizona Inc., USA	0*	0*	3	12
Albatros Versicherungsdienste GmbH, Germany	4	8	46	56
AS InPro GmbH, Germany	0*	0*	5	5
Austrian Airlines Technik-Bratislava, s.r.o., Slovakia	1	2	7	6
Delvag Luftfahrtversicherungs-AG, Germany	7	7	4	6
DLH Fuel Company mbH, Germany	0*	5	722	555
Global Tele Sales (PTY) Ltd., South Africa	1	1	7	9
handling counts GmbH, Germany	1	1	16	15
LRS Lufthansa Revenue Services GmbH, Germany	11	8	35	65
Lufthansa Consulting GmbH, Germany	2	1	7	6
Lufthansa Engineering and Operational Services GmbH, Germany	5	2	27	28
Lufthansa Flight Training – CST GmbH, Germany	4	4	2	10
Lufthansa Global Business Services S.A. de C.V., Mexico	0*	0*	5	5
Lufthansa Global Business Services Sp. z o. o., Poland	1	0*	17	10
Lufthansa Global Tele Sales GmbH, Germany	9	2	50	49
Lufthansa Systems FlightNav AG, Switzerland	1	1	20	20
Lufthansa Systems Hungaria Kft, Hungary	2	1	33	31
Lufthansa Systems Infrastructure Services Inc., USA	1	0*	9	9
Lufthansa Systems Network Services GmbH, Germany	2	2	29	28
Lufthansa Systems Poland Sp. z o.o., Poland	1	0*	15	11
Lufthansa Technical Training GmbH, Germany	5	2	16	17
Lufthansa Technik Logistik of America LLC, USA	6	4	19	16
Lufthansa Technik Shenzhen Co., Ltd., China	11	8	9	6
Lufthansa Technik Turbine Shannon Limited, Ireland	3	2	13	13
LZ-Catering GmbH, Germany	9	9	16	17
Joint ventures				
Aircraft Maintenance and Engineering Corp., China	6	5	17	15
Airfoil Services Sdn. Bhd., Malaysia	0*	0*	5	5
EFM – Gesellschaft für Enteisen und Flugzeugschleppen am Flughafen München mbH, Germany	0*	0*	8	15
FraCareServices GmbH, Germany	9	11	1	1
Global Airline Services S.r.l., Italy	0*	0*	9	8
Günes Ekspres Havacilik Anonim Sirketi (SunExpress), Turkey	11	21	0*	0*
Idair GmbH, Germany	6	5	7	1
Lufthansa Bombardier Aviation Services GmbH, Germany	6	3	5	4
N3 Engine Overhaul Services GmbH & Co. KG, Germany	9	9	1	0*
Shanghai Pudong International Airport Cargo Terminal Co. Ltd., China	1	1	29	5
Spairliners GmbH, Germany	30	63	27	16
Terminal 2 Gesellschaft mbH & Co oHG, Germany	2	0*	11	11
Terminal One Group Association, L.P., USA	2	0*	7	7
Associated companies				
Airmail Center Frankfurt GmbH, Germany	0*	0*	7	7
AviationPower GmbH, Germany	0*	0*	33	39
HEICO Aerospace Holdings Corp., USA	0*	1	10	11
Other affiliated companies				
SunExpress Deutschland GmbH, Germany	22	17	0*	0*
Brussels Airlines NV/SA, Brussels, Belgium	83	74	28	28
Shanghai Pudong International Airport Public Cargo Terminal Co. Ltd. (West), China	0*	0*	78	72

* Rounded below EUR 1m.

The following tables show receivables owed by and liabilities to related parties:

Receivables from affiliated companies

in €m	2014	2013
Trade receivables from non-consolidated subsidiaries	47	37
Trade receivables from joint ventures	31	37
Trade receivables from associated companies	2	4
Trade receivables from other affiliated companies	9	10
Total trade receivables	**89**	**88**
Other receivables from non-consolidated subsidiaries	16	34
Other receivables from joint ventures	35	34
Other receivables from associated companies	20	16
Total other receivables	**71**	**84**
Loans to non-consolidated subsidiaries	46	54
Loans to joint ventures	32	27
Loans to associated companies	30	21
Loans to other affiliated companies	17	17
Total non-current receivables	**125**	**119**

Liabilities to affiliated companies

in €m	2014	2013
Trade payables to non-consolidated subsidiaries	21	10
Trade payables to joint ventures	13	22
Trade payables to associated companies	7	6
Trade payables to other affiliated companies	2	4
Total trade payables	**43**	**42**
Other liabilities to non-consolidated subsidiaries	247	243
Other liabilities to joint ventures	2	1
Other liabilities to associated companies	0*	0*
Total other liabilities	**249**	**244**

* Rounded below EUR 1m.

No individual shareholders of Deutsche Lufthansa AG exercise significant influence over the Group. For related party transactions with members of the Executive Board and the Supervisory Board please refer to „Note 44“ starting on p. 219.

44 Supervisory Board and Executive Board

The disclosure of remuneration for key managers required by IAS 24 includes the remuneration of the active members of the Executive Board and Supervisory Board.

The members of the Executive Board and the Supervisory Board as well as the other offices that they hold are named in the combined management report in the “Corporate governance” section.

The principles of the remuneration system and the amount of remuneration paid to Executive Board and Supervisory Board members are shown and explained in detail in the remuneration report. The remuneration report forms part of the combined management report.

Total Executive Board remuneration under IFRS was EUR 9.7m (previous year: EUR 9.1m), including current service costs for pensions of EUR 1.8m (previous year: EUR 1.3m).

The active members of the Executive Board in past reporting years were remunerated as follows:

Executive Board remuneration (IFRS)

in € thousands	2014	2013
Basic salary	4,015	3,905
Other	517	601
One-year variable remuneration	1,156	1,272
Total short-term remuneration	**5,688**	**5,778**
Long-term variable remuneration*	649	892
Share-based remuneration	65	–835
Current service cost for retirement benefits	1,755	1,314
Total long-term remuneration	**2,469**	**1,371**
Severance payments	1,570	2,000
Total	**9,727**	**9,149**

* Expenses recognised in the reporting year for long-term variable remuneration for the financial years 2012 to 2014.

Total remuneration (HGB) paid to the Executive Board of Deutsche Lufthansa AG in the financial year 2014 came to EUR 7,994,000 (previous year: EUR 7,939,000). This includes EUR 2,018,000 for the new option programme, in which the Executive Board acquired a total of 55,935 shares.

Current payments and other benefits for former members of the Executive Board and their surviving dependants came to EUR 4.9m (previous year: EUR 4.3m). This includes payments by subsidiaries as well as benefits in kind and concessionary travel.

Pension obligations toward former Executive Board members and their surviving dependants amount to EUR 71.9m (previous year: EUR 65.5m). These amounts are included in pension provisions; see „Note 32“ starting on p. 189.

Expenses for the fixed remuneration of Supervisory Board members for the financial year came to EUR 2,110,000 (previous year: EUR 2,156,000). Other remuneration, mainly attendance fees, amounted to EUR 88,000 (previous year: EUR 86,000). The Deutsche Lufthansa AG Supervisory Board members were also paid EUR 63,000 (previous year: EUR 62,000) for work on supervisory boards of Group companies.

In the reporting year, as in the previous year, no loans or advance payments were made to members of the Executive Board and Supervisory Board.

In addition to their Supervisory Board remuneration, employee representatives on the Supervisory Board received compensation for their work in the form of wages and salaries including pension entitlements amounting to EUR 1.0m in total for 2014 (previous year: EUR 1.0m).

45 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 at i www.lufthansagroup.com/declaration-of-compliance.

46 Auditors' fees

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

in €m	**2014**	2013
Annual audit	2.9	2.9
Other assurance services	0.7	0.8
Tax advisory services	0.4	0.3
Other services	2.8	2.2
Total	**6.8**	**6.2**

The following fees paid to the global PricewaterhouseCoopers network, especially abroad, were additionally recognised as expenses:

in €m	**2014**	2013
Annual audit	3.0	2.7
Other assurance services	0.2	0.2
Tax advisory services	0.4	0.5
Other services	0.8	0.2
Total	**4.4**	**3.6**

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, which has been combined with the management report for Deutsche Lufthansa AG, includes a fair view of the course of business, including the business result, and the situation of the Group, and suitably presents the principal opportunities and risks to its future development.

Cologne, 2 March 2015
Executive Board

Carsten Spohr
Chairman of the
Executive Board and CEO

Karl Ulrich Garnadt
Member of the Executive Board
Chief Officer
Lufthansa German Airlines

Harry Hohmeister
Member of the Executive Board
Chief Officer
Group Airlines, Logistics and IT

Simone Menne
Member of the Executive Board
Chief Officer
Finances and Aviation Services

Dr Bettina Volkens
Member of the Executive Board
Chief Officer
Corporate Human Resources
and Legal Affairs

Independent Auditors’ Report

To Deutsche Lufthansa AG, Köln

Report on the Consolidated Financial Statements
We have audited the accompanying consolidated financial statements of Deutsche Lufthansa AG and its subsidiaries, which comprise the consolidated statement of financial position, the consolidated income statement and the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows and the notes to the consolidated financial statements for the business year from January 1, 2014 to December 31, 2014.

Board of Managing Directors’ Responsibility for the Consolidated Financial Statements
The Board of Managing Directors of Deutsche Lufthansa AG is responsible for the preparation of these consolidated financial statements. This responsibility includes that these consolidated financial statements are prepared in accordance with International Financial Reporting Standards, as adopted by the EU, and the additional requirements of German commercial law pursuant to § (Article) 315a Abs. (paragraph) 1 HGB (“Handelsgesetzbuch”: German Commercial Code) and that these consolidated financial statements give a true and fair view of the net assets, financial position and results of operations of the group in accordance with these requirements. The Board of Managing Directors is also responsible for the internal controls as the Board of Managing Directors determines are necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors’ Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW) and additionally observed the International Standards on Auditing (ISA). Accordingly, we are required to comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing audit procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The selection of audit procedures depends on the auditor’s professional judgment. This includes the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In assessing those risks, the auditor considers the internal control system relevant to the entity’s preparation of consolidated financial statements that give a true and fair view. The aim of this is to plan and perform audit procedures that are appropriate in the given circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group’s internal control system. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Managing Directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Audit Opinion
According to § 322 Abs. 3 Satz (sentence) 1 HGB, we state that our audit of the consolidated financial statements has not led to any reservations.

In our opinion based on the findings of our audit, the consolidated financial statements comply, in all material respects, with IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB and give a true and fair view of the net assets and financial position of the Group as at December 31, 2014 as well as the results of operations for the business year then ended, in accordance with these requirements.

Report on the Group Management Report
We have audited the accompanying group management report of Deutsche Lufthansa AG for the business year from January 1, 2014 to December 31, 2014. The Board of Managing Director is of Deutsche Lufthansa AG is responsible for the preparation of the group management report in accordance with the requirements of German commercial law applicable pursuant to § 315a Abs. 1 HGB. We conducted our audit in accordance with § 317 Abs. 2 HGB and German generally accepted standards for the audit of the group management report promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Accordingly, we are required to plan and perform the audit of the group management report to obtain reasonable assurance about whether the group management report is consistent with the consolidated financial statements and the audit findings, as a whole provides a suitable view of the Group’s position and suitably presents the opportunities and risks of future development.

According to § 322 Abs. 3 Satz 1 HGB we state, that our audit of the group management report has not led to any reservations.

In our opinion based on the findings of our audit of the consolidated financial statements and group management report, the group management report is consistent with the consolidated financial statements, as a whole provides a suitable view of the Group’s position and suitably presents the opportunities and risks of future development.

Dusseldorf, March, 2, 2015
PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Andreas Menke	Dr. Bernd Roese
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

Major subsidiaries

Major subsidiaries as of 31.12.2014

Name, registered office	Equity stake in %	Voting share in %		Different reporting period
Passenger Airline Group segment				
A319 LDA-LDB-LDC Ltd., George Town, Grand Cayman, Cayman Islands	0.00	0.00	6)	
A319 LDD-LDE-LDF Ltd., George Town, Grand Cayman, Cayman Islands	0.00	0.00	6)	
Air Dolomiti S.p.A. Linee Aeree Regionali Europee, Dossobuono di Villafranca (Verona), Italy	100.00	100.00		
Air Sylph Ltd., Tokyo, Japan	0.00	0.00	6)	
AirNavigator Ltd., Tokyo, Japan	0.00	0.00	6)	
AirTrust AG, Zug, Switzerland	100.00	100.00		June
AirUtopia Ltd. Japan, Tokyo, Japan	0.00	0.00	6)	
ALIP No. 4 Co., Ltd, Tokyo, Japan	0.00	0.00	6)	
ALIP No. 6 Co., Ltd., Tokyo, Japan	0.00	0.00	6)	
AUA Beteiligungen Gesellschaft m.b.H., Vienna Airport, Austria	100.00	100.00		
AUA LNR/LNS/LNT/LNU Ltd., George Town, Grand Cayman, Cayman Islands	0.00	0.00	6)	
Austrian Airlines AG, Vienna Airport, Austria	100.00	100.00		
Austrian Airlines Lease and Finance Company Ltd., Guernsey, Channel Islands, UK	100.00	100.00		
Benjamin LH6 Kumiai Japan, Okayama, Japan	0.00	0.00	6)	
Canary Ltd., Tokyo, Japan	0.00	0.00	6)	
Common Ground BER GmbH, Frankfurt am Main	100.00	100.00		
Common Ground BRE GmbH, Frankfurt am Main	100.00	100.00		
Common Ground CGN GmbH, Frankfurt am Main	100.00	100.00		
Common Ground DUS GmbH, Frankfurt am Main	100.00	100.00		
Common Ground HAJ GmbH, Frankfurt am Main	100.00	100.00		
Common Ground HAM GmbH, Frankfurt am Main	100.00	100.00		
Common Ground NUE GmbH, Frankfurt am Main	100.00	100.00		
Common Ground STR GmbH, Frankfurt am Main	100.00	100.00		
Crossbow Finance Limited, Grand Cayman, Cayman Islands	0.00	0.00	6)	
Edelweiss Air AG, Kloten, Switzerland	100.00	100.00		
Ellen Finance 2010 S.N.C., Paris, France	0.00	0.00	6)	
Empyrée S.A.S., Paris, France	0.00	0.00	6)	
Eurowings GmbH, Dusseldorf	100.00	100.00		
FG Honest Leasing Co., Ltd., Tokyo, Japan	0.00	0.00	6)	
FG Unity Leasing Co., Ltd., Tokyo, Japan	0.00	0.00	6)	
FG Vision Leasing Co., Ltd., Tokyo, Japan	0.00	0.00	6)	
FI Beauty Leasing Ltd., Tokyo, Japan	0.00	0.00	6)	
First Valley Highway Kumiai, Tokyo, Japan	0.00	0.00	6)	
FL Falcon Leasing Co., Ltd., Tokyo, Japan	0.00	0.00	6)	
FL Uranus Leasing Co., Ltd., Tokyo, Japan	0.00	0.00	6)	
Fleur Leasing Co. Ltd. Japan, Tokyo, Japan	0.00	0.00	6)	
Gabriela Finance 2012 Limited, Dublin, Ireland	0.00	0.00	6)	
Germanwings GmbH, Cologne	100.00	100.00		
Gina Leasing Co. Ltd., Tokyo, Japan	0.00	0.00	6)	
Global Brand Management AG, Basel, Switzerland	100.00	100.00		
Heike LH8 Kumiai Ltd., Okayama, Japan	0.00	0.00	6)	
Hummels Leasing Co. Ltd., Tokyo, Japan	0.00	0.00	6)	
Ingrid Finance 2010 S.N.C., Paris, France	0.00	0.00	6)	
Jour Leasing Co., Ltd., Tokyo, Japan	0.00	0.00	6)	
Lahm Leasing Co., Ltd., Tokyo, Japan	0.00	0.00	6)	
LeaseAir GmbH & Co. Verkehrsflugzeuge V KG, Dortmund	100.00	100.00		
LHBD Holding Limited, London, UK	100.00	100.00		
LPC/LNP/LNQ Finance Ltd., George Town, Grand Cayman, Cayman Islands	0.00	0.00	6)	
Lufthansa CityLine GmbH, Munich Airport	100.00	100.00		
Lufthansa Flight Training Berlin GmbH, Berlin	100.00	100.00		

Major subsidiaries as of 31.12.2014 (continued)

Name, registered office	Equity stake in %	Voting share in %		Different reporting period
Lufthansa Flight Training GmbH, Frankfurt am Main	100.00	100.00		
Lufthansa Leasing Austria GmbH & Co. OG Nr. 1, Salzburg, Austria	100.00	100.00		
Lufthansa Leasing Austria GmbH & Co. OG Nr. 4, Salzburg, Austria	100.00	100.00		
Lufthansa Leasing Austria GmbH & Co. OG Nr. 6, Salzburg, Austria	100.00	100.00		
Lufthansa Leasing Austria GmbH & Co. OG Nr. 7, Salzburg, Austria	100.00	100.00		
Lufthansa Leasing Austria GmbH & Co. OG Nr. 8, Salzburg, Austria	100.00	100.00		
Lufthansa Leasing Austria GmbH & Co. OG Nr. 9, Salzburg, Austria	100.00	100.00		
Lufthansa Leasing Austria GmbH & Co. OG Nr. 10, Salzburg, Austria	100.00	100.00		
Lufthansa Leasing Austria GmbH & Co. OG Nr. 12, Salzburg, Austria	100.00	100.00		
Lufthansa Leasing Austria GmbH & Co. OG Nr. 14, Salzburg, Austria	100.00	100.00		
Lufthansa Leasing Austria GmbH & Co. OG Nr. 15, Salzburg, Austria	100.00	100.00		
Lufthansa Leasing Austria GmbH & Co. OG Nr. 16, Salzburg, Austria	100.00	100.00		
Lufthansa Leasing Austria GmbH & Co. OG Nr. 17, Salzburg, Austria	100.00	100.00		
Lufthansa Leasing Austria GmbH & Co. OG Nr. 18, Salzburg, Austria	100.00	100.00		
Lufthansa Leasing Austria GmbH & Co. OG Nr. 19, Salzburg, Austria	100.00	100.00		
Lufthansa Leasing Austria GmbH & Co. OG Nr. 20, Salzburg, Austria	100.00	100.00		
Lufthansa Leasing Austria GmbH & Co. OG Nr. 21, Salzburg, Austria	100.00	100.00		
Lufthansa Leasing Austria GmbH & Co. OG Nr. 22, Salzburg, Austria	100.00	100.00		
Lufthansa Leasing Austria GmbH & Co. OG Nr. 23, Salzburg, Austria	100.00	100.00		
Lufthansa Leasing Austria GmbH & Co. OG Nr. 24, Salzburg, Austria	100.00	100.00		
Lufthansa Leasing Austria GmbH & Co. OG Nr. 25, Salzburg, Austria	100.00	100.00		
Lufthansa Leasing Austria GmbH & Co. OG Nr. 26, Salzburg, Austria	100.00	100.00		
Lufthansa Leasing Austria GmbH & Co. OG Nr. 27, Salzburg, Austria	100.00	100.00		
Lufthansa Leasing Austria GmbH & Co. OG Nr. 28, Salzburg, Austria	100.00	100.00		
Lufthansa Leasing GmbH & Co. Fox-Golf oHG, Grünwald	100.00	66.67		
Lufthansa Malta Aircraft-Leasing Ltd., St. Julians, Malta	100.00	100.00		
Lufthansa Malta Holding Ltd., St. Julians, Malta	100.00	100.00		
Lufthansa Process Management GmbH, Neu-Isenburg	100.00	100.00		
Matterhorn Leasing Co. Ltd., Tokyo, Japan	0.00	0.00	6)	
Miles & More GmbH, Neu-Isenburg	100.00	100.00		
Mitsui & Co. Ltd. Tokyo (Dreamcatcher), Tokyo, Japan	0.00	0.00	6)	
Mitsui & Co. Ltd. Tokyo (Flying Carp.), Tokyo, Japan	0.00	0.00	6)	
Mitsui & Co. Ltd. Tokyo (Wishbone), Tokyo, Japan	0.00	0.00	6)	
Muller Leasing Co., Ltd., Tokyo, Japan	0.00	0.00	6)	
NBB Cologne Lease Co., Ltd., Tokyo, Japan	0.00	0.00	6)	
NBB Koblenz Lease Co., Ltd., Tokyo, Japan	0.00	0.00	6)	
NBB Rhine Valley Lease LLC, Tokyo, Japan	0.00	0.00	6)	
Nicolai LH7 Kumiai Japan, Okayama, Japan	0.00	0.00	6)	
ÖLB Österreichische Luftverkehrs-Beteiligungs GmbH, Vienna Airport, Austria	100.00	100.00		
ÖLH Österreichische Luftverkehrs-Holding GmbH, Vienna Airport, Austria	100.00	100.00	1)	
ÖLP Österreichische Luftverkehrs-Privatstiftung, Vienna Airport, Austria	0.00	0.00	2)	
Raffles Leasing Ltd. Bermuda, Hamilton, Bermuda	0.00	0.00	6)	
SBL Beta Co. Ltd., Tokyo, Japan	0.00	0.00	6)	
SBL Gamma Co. Ltd., Tokyo, Japan	0.00	0.00	6)	
Second Valley Highway Kumiai, Tokyo, Japan	0.00	0.00	6)	
SJ Frankfurt Co. Ltd., Tokyo, Japan	0.00	0.00	6)	
SL Aurora Ltd., Tokyo, Japan	0.00	0.00	6)	
SL Prairie Ltd., Tokyo, Japan	0.00	0.00	6)	
SL Victoria Ltd., Tokyo, Japan	0.00	0.00	6)	
SMFL Alphard Co. Ltd., Tokyo, Japan	0.00	0.00	6)	
SMFL Y Lease, Tokyo, Japan	0.00	0.00	6)	
SMLC Antlia Co. Ltd., Tokyo, Japan	0.00	0.00	6)	
SMLC Circinus Co. Ltd., Tokyo, Japan	0.00	0.00	6)	
SMLC Crater Co. Ltd., Tokyo, Japan	0.00	0.00	6)	

Major subsidiaries as of 31.12.2014 (continued)

Name, registered office	Equity stake in %	Voting share in %		Different reporting period
Soir Leasing Co., Ltd., Tokyo, Japan	0.00	0.00	6)	
Stork Ltd., Tokyo, Japan	0.00	0.00	6)	
Swiss Aviation Software AG, Basel, Switzerland	100.00	100.00		
Swiss AviationTraining AG, Kloten, Switzerland	100.00	100.00		
Swiss European Air Lines AG, Basel, Switzerland	100.00	100.00		
Swiss International Air Lines AG, Basel, Switzerland	100.00	100.00		
Syracuse Ltd. Bermuda, Hamilton, Bermuda	0.00	0.00	6)	
TAF Earth Lease Ltd. Tokyo, Tokyo, Japan	0.00	0.00	6)	
TAF Jupiter Lease Ltd. Tokyo, Tokyo, Japan	0.00	0.00	6)	
TAF Moon Lease Ltd. Tokyo, Tokyo, Japan	0.00	0.00	6)	
Third Valley Highway Kumiai, Tokyo, Japan	0.00	0.00	6)	
Tim LH5 Kumiai Japan, Okayama, Japan	0.00	0.00	6)	
TimBenNico Finance 2011 S.N.C., Paris, France	0.00	0.00	6)	
TLC Amaryllis Ltd., Tokyo, Japan	0.00	0.00	6)	
TLC Petunia Ltd., Tokyo, Japan	0.00	0.00	6)	
TLC Salvia Ltd., Tokyo, Japan	0.00	0.00	6)	
TraviAustria GmbH, Vienna, Austria	69.00	69.00		
Tyrolean Airways Tiroler Luftfahrt GmbH, Innsbruck, Austria	100.00	100.00		
ULH Altair Ltd. Tokyo, Tokyo, Japan	0.00	0.00	6)	
Yamasa Aircraft LH1 Kumiai (AIKG), Okayama, Japan	0.00	0.00	6)	
Yamasa Aircraft LH2 Kumiai (AIKH), Okayama, Japan	0.00	0.00	6)	
Yamasa Aircraft LH3 Kumiai (AIKK), Okayama, Japan	0.00	0.00	6)	
Yamasa Aircraft LH4 Kumiai (AIKM), Okayama, Japan	0.00	0.00	6)	
Yamasa Aircraft LH9 Kumiai Ltd., Okayama, Japan	0.00	0.00	6)	
Yamasa Aircraft LH10 Kumiai Ltd., Okayama, Japan	0.00	0.00	6)	
Yamasa Aircraft LH11 Kumiai Ltd., Okayama, Japan	0.00	0.00	6)	
Logistics segment				
Aerologic GmbH, Leipzig	50.00	50.00		
Jettainer Americas Inc., Wilmington, USA	100.00	100.00		
Jettainer GmbH, Raunheim	100.00	100.00		
Lufthansa Cargo AG, Frankfurt am Main	100.00	100.00		
Lufthansa Leasing Austria GmbH & Co. OG Nr. 50, Salzburg, Austria	100.00	100.00		
Lufthansa Leasing GmbH & Co. Echo-Zulu oHG, Grünwald	100.00	66.67		
MRO segment				
BizJet International Sales & Support Inc., Tulsa, USA	100.00	100.00		
Hamburger Gesellschaft für Flughafenanlagen mbH, Hamburg	100.00	100.00		
Hawker Pacific Aerospace, Sun Valley, USA	100.00	100.00		
JASEN Grundstücksgesellschaft mbH & Co. oHG, Grünwald	100.00	50.00	6)	
Lufthansa Technik AERO Alzey GmbH, Alzey	100.00	100.00		
Lufthansa Technik AG, Hamburg	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 Budapest Repülőgép Nagyjavító Kft., Budapest, Hungary	100.00	100.00		
Lufthansa Technik Component Services LLC, Tulsa, USA	100.00	100.00		
Lufthansa Technik Immobilien- und Verwaltungsgesellschaft mbH, Hamburg	100.00	100.00		
Lufthansa Technik Landing Gear Services UK Ltd., Kestrel Way, Hayes, UK	100.00	100.00		
Lufthansa Technik Logistik GmbH, Hamburg	100.00	100.00		
Lufthansa Technik Logistik Services GmbH, Hamburg	100.00	100.00		
Lufthansa Technik Maintenance International GmbH, Frankfurt am Main	100.00	100.00		
Lufthansa Technik Malta Limited, Luqa, Malta	92.00	92.00		
Lufthansa Technik North America Holding Corp., Tulsa, USA	100.00	100.00		
Lufthansa Technik Objekt- und Verwaltungsgesellschaft mbH, Hamburg	100.00	100.00		

Major subsidiaries as of 31.12.2014 (continued)

Name, registered office	Equity stake in %	Voting share in %	Different reporting period
Lufthansa Technik Philippines Inc., Manila, Philippines	51.00	51.00	
Lufthansa Technik Sofia OOD, Sofia, Bulgaria	75.10	75.10	
Shannon Aerospace Ltd., Co., Claire, Ireland	100.00	100.00	
IT Services segment			
Lufthansa Systems Aktiengesellschaft, Kelsterbach	100.00	100.00	
Lufthansa Systems Americas Inc., Dallas, USA	100.00	100.00	
Lufthansa Systems AS GmbH, Norderstedt	100.00	100.00	
Lufthansa Systems Business Solutions GmbH, Raunheim	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	100.00	100.00	
AIRO Catering Services Eesti OÜ, Tallinn, Estonia	100.00	100.00	
Airo Catering Services Latvija SIA, Marupe, Latvia	100.00	100.00	
AIRO Catering Services Sweden AB, Stockholm-Arlanda, Sweden	100.00	100.00	
AIRO Catering Services – Ukraine, Boryspil, 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	
AVIAPIT-SOCHI OOO, Sotchi, Russia	100.00	100.00	
Bahia Catering Ltda., São Cristovao (Salvador), Brazil	100.00	100.00	
Belém Serviços de Bordo Ltda., Belém, Brazil	70.00	70.00	
Capital Gain International (1986) Ltd., Hong Kong, China	100.00	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	
Charm Food Service Co. Ltd., Incheon, South Korea	80.00	100.00	
CLS Catering Services Ltd., Richmond, Canada	70.00	70.00	
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	
Constance Food Group, Inc., New York, USA	100.00	100.00	
Fortaleza Serviços de Bordo Ltda., Fortaleza, Brazil	70.00	70.00	
Inflight Catering (Pty) Ltd., Johannesburg, South Africa	100.00	100.00	
Inflight Catering Services Limited, Dar es Salaam, Tanzania	61.99	61.99	
International Food Services Ltd., Hong Kong, China	100.00	100.00	
Inversiones Turisticas Aeropuerto Panama, S.A., Panama City, Panama	100.00	100.00	
LSG Asia GmbH, Neu-Isenburg	100.00	100.00	
LSG Catering China Ltd., Hong Kong, China	100.00	100.00	
LSG Catering Guam, Inc., Guam, USA	100.00	100.00	
LSG Catering Hong Kong Ltd., Hong Kong, China	100.00	100.00	
LSG Catering Saipan, Inc., Saipan, Micronesia	100.00	100.00	
LSG Catering (Thailand) Ltd., Bangkok, Thailand	100.00	100.00	
LSG-Food & Nonfood Handel GmbH, Neu-Isenburg	100.00	100.00	
LSG France SAS, Paris, France	100.00	100.00	
LSG Holding Asia Ltd., Hong Kong, China	86.88	86.88	
LSG Linearis S.A.S., Paris, France	100.00	100.00	
LSG Lufthansa Service Asia Ltd., Hong Kong, China	100.00	100.00	
LSG Lufthansa Service Cape Town (Pty) Ltd., Capetown, 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, China	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	

Major subsidiaries as of 31.12.2014 (continued)

Name, registered office	Equity stake in %	Voting share in %		Different reporting period
LSG Lufthansa Service Hong Kong Ltd., Hong Kong, China	47.90	47.90	2)	
LSG Lufthansa Service Saipan, Inc., Saipan, Micronesia	100.00	100.00		
LSG Lufthansa Service – Sky Chefs do Brasil Catering, Refeições Ltda., São Paulo, Brazil	100.00	100.00		
LSG Sky Chefs Argentina S.A., Buenos Aires, Argentina	100.00	100.00		
LSG Sky Chefs Belgium N.V., Zaventem, Belgium	100.00	100.00		
LSG Sky Chefs Berlin GmbH, Neu-Isenburg	100.00	100.00		
LSG Sky Chefs Bremen GmbH, Neu-Isenburg	100.00	100.00		
LSG Sky Chefs Brussels International BVBA, Zaventem, Belgium	100.00	100.00		
LSG Sky Chefs Danmark A/S, Dragør, Denmark	100.00	100.00		
LSG Sky Chefs de Venezuela C.A., Caracas, Venezuela	99.99	99.93		
LSG Sky Chefs Düsseldorf GmbH, Neu-Isenburg	100.00	100.00		
LSG Sky Chefs Europe GmbH, Neu-Isenburg	100.00	100.00		
LSG Sky Chefs Europe Holdings Ltd., West Drayton, UK	100.00	100.00		
LSG Sky Chefs Finland Oy, Vantaa, Finland	0.00	0.00	3)	
LSG Sky Chefs – First Catering Schweiz AG, Bassersdorf, Switzerland	60.00	60.00		
LSG Sky Chefs Frankfurt International GmbH, Neu-Isenburg	100.00	100.00		
LSG Sky Chefs Frankfurt ZD GmbH, Neu-Isenburg	100.00	100.00		
LSG Sky Chefs Hamburg GmbH, Neu-Isenburg	100.00	100.00		
LSG Sky Chefs Havacilik Hizmetleri A.S., Sefaköy-Istanbul, Turkey	100.00	100.00		
LSG Sky Chefs Heathrow Limited, West Drayton, UK	100.00	100.00		
LSG Sky Chefs (India) Private Ltd., Mumbai, India	100.00	100.00		
LSG Sky Chefs Istanbul Catering Hizmetleri A.S., Istanbul, Turkey	100.00	100.00	4)	
LSG Sky Chefs Kenya Limited, Nairobi, Kenya	50.20	50.20		
LSG Sky Chefs Köln GmbH, Neu-Isenburg	100.00	100.00		
LSG Sky Chefs Korea Co Ltd., Incheon, South Korea	80.00	80.00		
LSG Sky Chefs Leipzig GmbH, Neu-Isenburg	100.00	100.00		
LSG Sky Chefs Lounge GmbH, Neu-Isenburg	100.00	100.00		
LSG Sky Chefs Malmö AB, Stockholm, Sweden	100.00	100.00		
LSG Sky Chefs München GmbH, Neu-Isenburg	100.00	100.00		
LSG Sky Chefs New Zealand Limited, Auckland, New Zealand	100.00	100.00		March
LSG Sky Chefs Norge AS, Oslo, Norway	100.00	100.00		
LSG Sky Chefs North America Solutions, Inc., Wilmington, USA	100.00	100.00		
LSG Sky Chefs Nürnberg GmbH, Neu-Isenburg	100.00	100.00		
LSG Sky Chefs Objekt- und Verwaltungsgesellschaft mbH, Neu-Isenburg	100.00	100.00		
LSG Sky Chefs (Qingdao) Co., Ltd., Laixi City, China	100.00	100.00		
LSG Sky Chefs Retail GmbH, Neu-Isenburg	100.00	100.00		
LSG Sky Chefs Rus, Moscow, Russia	100.00	100.00		
LSG Sky Chefs Schweiz AG, Bassersdorf, Switzerland	100.00	100.00		
LSG Sky Chefs Solutions Asia Limited, Hong Kong, China	100.00	100.00		
LSG Sky Chefs South Africa (Proprietary) Ltd., Johannesburg, South Africa	100.00	100.00		
LSG Sky Chefs S.p.A., Fiumicino, Italy	100.00	100.00		
LSG Sky Chefs Spain, S.A., Madrid, Spain	100.00	100.00		
LSG Sky Chefs Stuttgart GmbH, Neu-Isenburg	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 TAAG Angola S.A., Luanda, Angola	40.00	40.00	2)	
LSG Sky Chefs (Thailand) Ltd., Bangkok, Thailand	100.00	100.00		
LSG Sky Chefs UK Ltd., West Drayton, 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		
Material Marketing Solutions Limited, West Drayton, UK	100.00	100.00		
Myanmar LSG Lufthansa Service Ltd., Yangon, Myanmar	100.00	100.00		

Major subsidiaries as of 31.12.2014 (continued)

Name, registered office	Equity stake in %	Voting share in %	Different reporting period
Natal Catering Ltda., Natal, Brazil	70.00	70.00	
Oakfield Farms Solutions Europe Ltd., West Drayton, UK	51.00	51.00	
Oakfield Farms Solutions, L.L.C., Wilmington, Delaware, USA	100.00	100.00	
Retail in Motion (International) Limited, Dublin, Ireland	60.00	60.00	
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	
Silver Wings Bulgaria OOD, Sofia, Bulgaria	28.75	28.75 [5]	
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	
SkylogistiX GmbH, Neu-Isenburg	51.00	51.00	
Spiriant Asia Pacific Limited, Hong Kong, China	100.00	100.00	
Spiriant Bahrain Limited W.L.L., Manama, Bahrain	60.00	60.00	
Spiriant GmbH, Neu-Isenburg	100.00	100.00	
Starfood Finland Oy, Vantaa, Finland	100.00	100.00	
Starfood S.r.l., Fiumicino, Italy	51.00	51.00	
Supply Chain S.à.r.l., Senningerberg, Luxembourg	100.00	100.00	
UAB Airo Catering Services Lietuva, Wilna (Vilnius), Lithuania	100.00	100.00	
Western Aire Chef, Inc., Wilmington, USA	100.00	100.00	
ZAO AeroMEAL, Yemelyanovo, Russia	100.00	100.00	
Other			
AirPlus Air Travel Card Vertriebsgesellschaft mbH, Vienna, Austria	100.00	100.00	
AirPlus Holding GmbH, Vienna, Austria	100.00	100.00	
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., Bologna, Italy	100.00	100.00	
AirPlus Payment Management Co., Ltd., Shanghai, China	100.00	100.00	
INF Services GmbH & Co. KG, Kelsterbach	100.00	100.00	
LSY GmbH, Kelsterbach	100.00	100.00	
Lufthansa AirPlus Servicekarten GmbH, Neu-Isenburg	100.00	100.00	
Lufthansa Asset Management GmbH, Frankfurt am Main	100.00	100.00	
Lufthansa Commercial Holding GmbH, Cologne	100.00	100.00	
Lufthansa Global Business Services GmbH, Frankfurt am Main	100.00	100.00	
Lufthansa Industry Solutions GmbH & Co. KG, Kelsterbach	100.00	100.00	
Lufthansa Leasing Austria 1. Beteiligungs GmbH, Salzburg, Austria	100.00	100.00	
Lufthansa Malta Blues LP, St. Julians, Malta	99.99	99.99	
Lufthansa Malta Finance Ltd., St. Julians, Malta	100.00	100.00	
Lufthansa SICAV-FIS-Fonds, Saint-Josse-ten-Noode, Belgium	100.00	100.00	
Lufthansa Systems GmbH & Co. KG i.Gr., Kelsterbach	100.00	100.00	
Lufthansa Training & Conference Center GmbH, Seeheim-Jugenheim	100.00	100.00	
MARDU Grundstücks-Verwaltungsgesellschaft mbH & Co. oHG, Grünwald	100.00	50.00 [6]	
MUSA Grundstücks-Verwaltungsgesellschaft mbH & Co. oHG, Grünwald	100.00	50.00 [6]	
Quinto Grundstücksgesellschaft mbH & Co. oHG, Grünwald	100.00	49.75 [6]	
TGV DLH, Dusseldorf	100.00	100.00 [6]	

[1] 50.20 per cent of the equity stakes and voting rights are attributed via ÖLP.
[2] Management responsibility for the company lies with the Group.
[3] 100 per cent of the equity shares and voting rights are attributed via a call option.
[4] 33.34 per cent of the equity stakes and 50.01 per cent of the voting rights are attributed via a call option.
[5] 28.75 per cent of the equity stakes and voting rights are attributed via a call option.
[6] Fully consolidated structured entity in accordance with IFRS 10.

Major joint ventures as of 31.12.2014[1)]

Name, registered office	Equity stake in %	Voting share in %	Different reporting period
Passenger Airline Group segment			
Günes Ekspres Havacilik Anonim Sirketi (SunExpress), Antalya, Turkey	50.00	50.00	
Terminal 2 Gesellschaft mbH & Co. oHG, Freising	40.00	40.00	
Logistics segment			
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	
Lufthansa Bombardier Aviation Services GmbH, Schönefeld	51.00	51.00	
N3 Engine Overhaul Services GmbH & Co. KG, Arnstadt	50.00	50.00	
Spairliners GmbH, Hamburg	50.00	50.00	
Catering segment			
Alpha LSG Limited, Manchester, UK	50.00	50.00	
Other			
Diners Club Spain S.A., Madrid, Spain	25.00	25.00	

Joint operations as of 31.12.2014[2)]

Aerologic GmbH, Leipzig	50.00	50.00	

Major associated companies as of 31.12.2014[1)]

Passenger Airline Group segment			
SN Airholding SA/NV, Brussels, Belgium	45.00	45.00	
Logistics segment			
time:matters Holding GmbH, Dusseldorf	49.26	49.00	
MRO segment			
HEICO Aerospace Holdings Corp., Florida, USA	20.00	20.00	
Catering segment			
CateringPor – Catering de Portugal, S.A., Lisbon, Portugal	49.00	49.00	
Cosmo Enterprise Co., Ltd., Narita City, Japan	20.00	20.00	March
Gansu HNA LSG Sky Chefs Co., Ltd, Lanzhou, China	49.00	40.00	
Hongkong Beijing Air Catering Ltd., Hong Kong, China	45.00	45.00	
Hongkong Shanghai Air Catering Ltd., Hong Kong, China	45.00	45.00	
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
Nanjing Lukou International Airport LSG Catering Co. Ltd., Nanjing, China	40.00	40.00	
Retail in Motion Limited, Dublin, Ireland	40.00	40.00	
Starfood Antalya Gida Sanayi ve Ticaret A.S., Istanbul, Turkey	49.00	49.00	
Tolmachevo Catering OOO, Novosibirsk, Russia	26.00	26.00	
Wenzhou Longwan International Airport LSG Sky Chefs Co. Ltd, Wenzhou City, China	40.00	40.00	
Xian Eastern Air Catering Co. Ltd, Xian, China	30.00	28.57	
Yunnan Eastern Air Catering Co. Ltd., Kunming, China	24.90	28.57	
ZAO Aeromar, Moscow Region, Russia	49.00	49.00	

1) Accounted for using the equity method.
2) Included on a pro rata basis in accordance with IFRS 11.

Miscellaneous equity investments

Miscellaneous equity investments as of 31.12.2014

Name, registered office	Equity stake in %	Voting share in %
Subsidiaries, not consolidated		
ACS Aircontainer Services Gesellschaft m.b.H., Fischamend, Austria	76.00	76.00
Air Dolomiti Deutschland GmbH, Munich	100.00	100.00
Airline Marketing Services India Private Limited, Mumbai, India	100.00	100.00
Airline Training Center Arizona Inc., Goodyear, USA	100.00	100.00
Airport Services Dresden GmbH, Dresden	100.00	100.00
Airport Services Friedrichshafen GmbH, Friedrichshafen	100.00	100.00
Airport Services Leipzig GmbH, Schkeudiz	100.00	100.00
Albatros Service Center GmbH, Cologne	100.00	100.00
Albatros Versicherungsdienste GmbH, Cologne	100.00	100.00
AS InPro GmbH, Oldenburg	100.00	100.00
ATC – Austrian Technik Consulting, s.r.o., Trencin, Slovakia	100.00	100.00
Austrian Airlines Technik-Bratislava, s.r.o., Bratislava, Slovakia	100.00	100.00
Austrian Airlines Tele Sales & Service GmbH, Innsbruck, Austria	100.00	100.00
Aviation Quality Services GmbH, Frankfurt am Main	100.00	100.00
AVICON Aviation Consult Gesellschaft m.b.H., Vienna Airport, Austria	100.00	100.00
AVS Privatkunden Versicherungsservice GmbH, Vienna Airport, Austria	100.00	100.00
Cargo Future Communications (CFC) GmbH, Büchenbeuren	65.00	65.00
Castle Pensions No. 1 Limited, London, UK	100.00	100.00
Castle Pensions Top-up Limited, London, UK	100.00	100.00
Caterair Portugal – Assistencia A Bordo, Lda., Sacavém, Portugal	100.00	100.00
City Net Catering Holdings Ltd., West Drayton, UK	100.00	100.00
CrewAcademy GmbH, Frankfurt am Main	100.00	100.00
Crossair AG, Basel, Switzerland	100.00	100.00
Delvag Luftfahrtversicherungs-AG, Cologne	100.00	100.00
Delvag Rückversicherungs-AG, Cologne	100.00	100.00
Deutsche Lufthansa Unterstützungswerk GmbH, Cologne	100.00	100.00
DLH Fuel Company mbH, Hamburg	100.00	100.00
DLH Malta Pension Ltd., St. Julians, Malta	100.00	100.00
DLH Malta Transition Limited, St. Julians, Malta	100.00	100.00
Donington Pensions No. 2 Limited, Manchester, UK	100.00	100.00
Europe Continental Airways S.A. (i.L.), Saint Louis, France	100.00	100.00
EW Beteiligungs- und Verwaltungsgesellschaft mbH, Dortmund	100.00	100.00
GERANOS Grundstücksgesellschaft mbH & Co. IMMOBILIEN KG, Cologne	85.00	100.00
Germanwings Beratungs GmbH, Vienna Airport, Austria	100.00	100.00
GGG Service for Airlines GmbH, Frankfurt am Main	100.00	100.00
Global Tele Sales Brno s.r.o., Brno, Czech Republic	100.00	100.00
Global Tele Sales Ltd., Contaf, Dublin, Ireland	100.00	100.00
Global Telesales of Canada, Inc., Peterborough, Canada	100.00	100.00
Global Tele Sales Pty Limited, Melbourne, Australien	100.00	100.00
Global Tele Sales (PTY) Ltd., Capetown, South Africa	100.00	100.00
GOAL Verwaltungsgesellschaft mbH & Co. Projekt Nr. 5 KG i.L., Grünwald	100.00	83.33
handling counts GmbH, Frankfurt am Main	100.00	100.00
Hinduja Lufthansa Cargo Holding B.V., Amsterdam, Netherlands	100.00	100.00
IBYKUS-KG THG Grundbuchtreuhandgesellschaft mbH & Co., Cologne	85.00	88.14
IND Beteiligungs GmbH, Kelsterbach	100.00	100.00
INF Beteiligungs GmbH, Kelsterbach	100.00	100.00
In-Flight Management Solutions Latin America, S.A. de C.V., Mexico City, Mexico	100.00	100.00

Miscellaneous equity investments as of 31.12.2014

Name, registered office	Equity stake in %	Voting share in %
LCAG Malta Pension Ltd., St. Julians, Malta	100.00	100.00
LCAG Malta Transition Limited, St. Julians, Malta	100.00	100.00
LCH Grundstücksgesellschaft Berlin mbH, Cologne	100.00	100.00
LGSP Lufthansa Ground Service Portugal, Unipessoal Lda., Maia/Oporto, Portugal	100.00	100.00
LH Cargo Holding GmbH, Frankfurt am Main	100.00	100.00
LHT Malta Pension Ltd., St. Julians, Malta	100.00	100.00
LRS Lufthansa Revenue Services GmbH, Norderstedt	100.00	100.00
LSG Malta Pension Ltd., St. Julians, Malta	100.00	100.00
LSI Malta Pension Ltd., St. Julians, Malta	100.00	100.00
LTMES FZE, Dubai, United Arab Emirates	100.00	100.00
Lufthansa Blues Beteiligungs GmbH, Frankfurt am Main	100.00	100.00
Lufthansa Cagri Merkezi ve Müsteri Hizmetleri A.S., Istanbul, Turkey	100.00	100.00
Lufthansa Cargo India (Priv) Ltd., New Delhi, India	100.00	100.00
Lufthansa Cargo Servicios Logisticos de Mexico, S.A. de C.V., Mexico City, Mexico	100.00	100.00
Lufthansa City Center International GmbH, Frankfurt am Main	50.00	50.00
Lufthansa Consulting Brasil Ldta., Rio de Janeiro, Brazil	91.41	99.90
Lufthansa Consulting GmbH, Cologne	91.50	100.00
Lufthansa Consulting Managementbeteiligungs GmbH & Co. KG, Cologne	57.50	57.50
Lufthansa Engineering and Operational Services GmbH, Frankfurt am Main	100.00	100.00
Lufthansa Flight Training – CST GmbH, Berlin	100.00	100.00
Lufthansa Flight Training Vienna GmbH, Vienna Airport, Austria	100.00	100.00
Lufthansa Global Business Services Hamburg GmbH, Hamburg	100.00	100.00
Lufthansa Global Business Services Ltd., Bangkok, Thailand	100.00	100.00
Lufthansa Global Business Services S.A. de C.V., Mexico City, Mexico	100.00	100.00
Lufthansa Global Business Services Sp. z o. o., Krakow, Poland	100.00	100.00
Lufthansa Global Tele Sales GmbH, Berlin	100.00	100.00
Lufthansa International Finance (Netherlands) N.V., Amsterdam, Netherlands	100.00	100.00
Lufthansa Job Services Norderstedt GmbH, Norderstedt	100.00	100.00
Lufthansa Malta Blues General Partner GmbH & Co. KG, Frankfurt am Main	100.00	100.00
Lufthansa Malta Pension Holding Ltd., St. Julians, Malta	100.00	100.00
Lufthansa Pension Beteiligungs GmbH, Frankfurt am Main	100.00	100.00
Lufthansa Pension GmbH & Co. KG, Frankfurt am Main	100.00	100.00
Lufthansa Service-Center Kassel GmbH, Kassel	100.00	100.00
Lufthansa Services (Thailand) Ltd., Bangkok, Thailand	90.43	90.43
Lufthansa Super Star gemeinnützige Gesellschaft mit beschränkter Haftung, Berlin	100.00	100.00
Lufthansa Systems 25. GmbH, Raunheim	100.00	100.00
Lufthansa Systems Asia Pacific Pte. Ltd., Singapore, Singapore	100.00	100.00
Lufthansa Systems FlightNav AG, Opfikon, Switzerland	100.00	100.00
Lufthansa Systems Hungária Infrastruktur Kft., Budapest, Hungary	100.00	100.00
Lufthansa Systems Hungaria Kft, Budapest, Hungary	100.00	100.00
Lufthansa Systems Infrastructure Services Inc., Dallas, USA	100.00	100.00
Lufthansa Systems IS Consulting GmbH, Norderstedt	100.00	100.00
Lufthansa Systems Network GmbH, Norderstedt	100.00	100.00
Lufthansa Systems Network Services GmbH, Norderstedt	100.00	100.00
Lufthansa Systems Poland Sp. z o.o., Gdansk, Poland	100.00	100.00
Lufthansa Systems Verwaltungs GmbH, Kelsterbach	100.00	100.00
Lufthansa Technical Training GmbH, Hamburg	100.00	100.00

Miscellaneous equity investments as of 31.12.2014

Name, registered office	Equity stake in %	Voting share in %
Lufthansa Technik Brussels N.V., Steenokkerzeel-Melsbroek, Belgium	100.00	100.00
Lufthansa Technik Intercoat GmbH, Kaltenkirchen	51.00	51.00
Lufthansa Technik Logistik of America LLC, New York, USA	100.00	100.00
Lufthansa Technik Milan s.r.l., Somma Lombardo (VA), Italy	100.00	0.00
Lufthansa Technik Puerto Rico LLC, San Juan, Puerto Rico	100.00	100.00
Lufthansa Technik Services India Private Limited, New Delhi, India	100.00	100.00
Lufthansa Technik Shenzhen Co., Ltd., Shenzhen, China	80.00	80.00
Lufthansa Technik Turbine Shannon Limited, Shannon, Ireland	100.00	100.00
Lufthansa Technik Vostok OOO, Moscow, Russia	100.00	100.00
Lufthansa Technik Vostok Services OOO, Moscow, Russia	100.00	100.00
Lufthansa UK Pension Trustee Limited, West Drayton, Middlesex, UK	100.00	100.00
LZ-Catering GmbH, Hamburg	100.00	100.00
Malta Pension Investments, St. Julians, Malta	0.00	100.00
Maptext, Inc., Monmouth Junction, USA	100.00	100.00
Marriott Export Services, C.A., Caracas, Venezuela	99.99	100.00
Marriott International Trade Services, C.A., Caracas, Venezuela	99.99	100.00
Pilot Training Network GmbH, Frankfurt am Main	100.00	100.00
Quinto Grundstücks-Verwaltungsgesellschaft mbH, Grünwald	94.80	94.80
Reservation Data Maintenance India Private Ltd., New Delhi, India	51.00	51.00
Servicios Complementarios de Cabina, S.A. de C.V., Mexico City, Mexico	51.88	99.80
Shared Services International India Private Limited, New Delhi, India	100.00	100.00
Shared Services International, Singapore, Singapore	100.00	100.00
SLL, s.r.o., Bratislava, Slovakia	100.00	100.00
Star Risk Services Inc., Southlake, Texas, USA	100.00	100.00
Swiss Private Aviation AG, Kloten, Switzerland	100.00	100.00
Swiss WorldCargo (India) Private Limited, Mumbai, India	100.00	100.00
TATS – Travel Agency Technologies & Services GmbH, Frankfurt am Main	100.00	100.00
THG Grundbuchtreuhandgesellschaft mbH, Cologne	85.00	85.00
VPF Malta Pension Ltd., St. Julians, Malta	100.00	100.00
Wien Oberlaa Liegenschaftsentwicklungs GmbH, Vienna Airport, Austria	100.00	100.00
XP Reisen Vertriebs GmbH, Frankfurt am Main	100.00	100.00
Other equity investments		
Aeroxchange Ltd., Wilmington, USA	9.46	9.46
AFC Aviation Fuel Company oHG, Hamburg	50.00	50.00
Airfoil Services Sdn. Bhd., Kuala Lumpur, Malaysia	50.00	50.00
Airmail Center Frankfurt GmbH, Frankfurt am Main	40.00	40.00
ATLECON Fuel Corporation, Atlanta, USA	11.11	11.11
AviationPower GmbH, Hamburg	49.00	49.00
Beijing Lufthansa Center Co. Ltd., Beijing, China	11.23	12.50
Chelyabinsk Catering Service OOO, Chelyabinsk, Russia	26.00	26.00
CommuniGate Kommunikationsservice GmbH, Passau	50.00	50.00
Deutsche Akademie für Flug- und Reisemedizin gemeinnützige GmbH, Frankfurt am Main	90.00	90.00
EFM – Gesellschaft für Enteisen und Flugzeugschleppen am Flughafen München mbH, Freising	51.00	51.00
Egyptian Aviation Services Company (S.A.E.), Cairo, Egypt	5.83	5.83
Finairport Service S.r.l. i.L., Turin, Italy	36.00	36.00
Flight Training Alliance GmbH, Frankfurt am Main	50.00	50.00

Miscellaneous equity investments as of 31.12.2014

Name, registered office	Equity stake in %	Voting share in %
Flughafen München Baugesellschaft mbH, Munich Airport	40.00	40.00
FMO Passenger Services GmbH, Greven	33.33	33.33
FraCareServices GmbH, Frankfurt am Main	49.00	49.00
Global Airline Services S.r.l., Fiumicino, Italy	40.00	40.00
GOAL German Operating Aircraft Leasing GmbH & Co. KG, Grünwald	40.00	39.99
GOAL German Operating Aircraft Leasing GmbH, Munich	40.00	40.00
Guangzhou Baiyun International Airport LSG Sky Chefs Co. Ltd., Guangzhou, China	30.00	28.57
Gulf International Caterers, W.L.L., Bahrain, Bahrain	49.00	49.00
Hangzhou Xiaoshan Airport LSG Air Catering Co. Ltd., Hangzhou, China	25.00	28.57
Idair GmbH, Hamburg	50.00	50.00
INAIRVATION GmbH, Edlitz-Thomasberg, Austria	50.00	50.00
Jade Cargo International Company Limited i.L., Shenzhen, China	25.00	28.57
Jetblue Airways Corporation, Delaware, USA	15.85	15.85
LSG Gate Gourmet Paris S.A.S. i.L., Roissy, France	50.00	50.00
LSG Sky Chefs Catering Egypt S.A.E., Cairo, Egypt	15.00	15.00
Luftfahrzeugverwaltungsgesellschaft GOAL mbH, Grünwald	40.00	40.00
Lufthansa HNA Technical Training Co., Ltd., Meilan Airport, China	50.00	1.00
Lufthansa Leasing GmbH, Grünwald	49.00	49.00
Lumics GmbH & Co. KG, Hamburg	50.00	50.00
Lumics Verwaltungs GmbH, Hamburg	50.00	0.00
Luxair Société Luxembourgeoise de Navigation Aérienne S. A., Luxembourg, Luxembourg	14.44	14.44
N3 Engine Overhaul Services Verwaltungsgesellschaft mbH, Hamburg	50.00	50.00
Nigerian Aviation Handling Company PLC., Lagos, Nigeria	6.00	6.00
North Hub Cleaning Services SIA, Marupe, Latvia	49.00	49.00
Pro Flight GmbH, Bremen	50.00	50.00
SAEMS Special Airport Equipment and Maintenance Services GmbH & Co. KG, Hamburg	40.00	40.00
S.A.E.M.S. Verwaltungs-GmbH, Hamburg	40.00	40.00
Sanya LSG Air Catering Co. Ltd., Sanya, China	45.00	40.00
SCA Schedule Coordination Austria GmbH, Vienna Airport, Austria	25.00	25.00
Shenzhen Airport International Cargo Terminal Company Limited, Shenzhen, China	50.00	50.00
Sichuan Airlines LSG Air Catering Co. Ltd., Chengdu, China	49.00	40.00
Sky Bird Services Ltd., Hong Kong, China	10.00	10.00
Sky Chefs for Airlines Catering Company, Tripolis, Libya	44.50	44.50
Star Alliance Services GmbH, Frankfurt am Main	5.00	5.00
STARS Special Transport and Ramp Services GmbH & Co. KG, Hamburg	49.00	49.00
S.T.A.R.S. Verwaltungs-GmbH, Hamburg	49.00	49.00
Tanklager & Hydranten Betriebsgesellschaft mbH (THBG BBI), Schönefeld	30.00	30.00
Terminal One Group Association, L.P., New York, USA	24.75	0.00
Terminal One Management Inc., New York, USA	25.00	25.00
Universal Air Travel Plan, Inc., Washington, DC, USA	5.26	5.26
Vayant Travel Technologies, Inc., Delaware, USA	17.50	19.63
Xinjiang HNA LSG Sky Chefs Co. Ltd., Urumqi, China	49.00	40.00
Zentrum für Angewandte Luftfahrtforschung GmbH, Hamburg	20.00	20.00

Ten-year overview

		2014	2013 [9]	2012 [8]
Income statement Lufthansa Group				
Revenue	€m	30,011	30,027	30,135
Result				
Operating result	€m	954	699	839
Operating margin	%	3.2	2.3	2.8
Profit/loss from operating activities [1]	€m	767	851	1,622
Profit/loss before income taxes [1) 5)]	€m	180	546	1,296
Income taxes [5]	€m	–105	–220	–91
Net profit/loss attributable to shareholders of Deutsche Lufthansa AG	€m	55	313	1,228
Main cost items				
Staff costs	€m	7,335	7,356	6,741
Fees and charges	€m	5,265	5,167	5,167
Fuel for aircraft	€m	6,751	7,115	7,392
Depreciation, amortisation and impairment	€m	1,512	1,767	1,839
Net interest	€m	–279	–346	–372
Balance sheet Lufthansa Group				
Asset structure				
Non-current assets	€m	22,227	19,419	18,782
Current assets	€m	8,247	9,689	9,777
of which liquid assets	€m	2,738	4,698	4,966
Capital structure				
Shareholders' equity [2]	€m	4,031	6,108	4,839
of which issued capital	€m	1,185	1,180	1,177
of which reserves	€m	2,728	4,563	2,374
Liabilities	€m	26,443	23,000	23,720
of which pension provisions	€m	7,231	4,718	5,844
of which borrowing	€m	5,958	6,337	6,910
Total assets	€m	30,474	29,108	28,559
Other financial data Lufthansa Group				
Capital expenditure	€m	2,773	2,499	2,358
of which on tangible and intangible assets	€m	2,699	2,444	2,291
of which on financial investments	€m	74	55	67
Cash flow from operating activities	€m	1,977	3,290	2,842
Free cash flow	€m	–297	1,307	1,397
Indebtedness				
gross	€m	6,156	6,393	6,919
net [4]	€m	3,418	1,695	1,953
Deutsche Lufthansa AG				
Net profit/loss for the year	€m	–732	407	592
Transfer to/from reserves	€m	732	–200	–592
Dividends proposed/paid	€m	–	207	–
Dividend per share proposed/paid	€	–	0.45	–

2011	2010[7]	2009	2008	2007	2006	2005
28,734	26,459	22,283	24,842	22,420	19,849	18,065
820	1,020	130	1,280	1,378	845	577
2.9						
773	1,386	271	1,309	1,586	1,078	719
446	1,134	−134	730	2,125	1,129	875
−157	−161	−112	178	365	232	263
−13	1,131	−34	542	1,655	803	453
6,678	6,491	5,996	5,692	5,498	5,029	4,853
5,000	4,318	3,762	3,499	3,174	2,824	2,543
6,276	4,964	3,645	5,377	3,860	3,355	2,662
1,722	1,654	1,475	1,289	1,204	1,051	1,398
−288	−346	−325	−172	−194	−254	−248
18,627	18,963	17,696	14,975	14,076	12,969	12,318
9,454	10,357	8,696	7,433	8,244	6,492	6,954
3,998	5,380	4,439	3,278	3,607	2,538	3,598
8,044	8,340	6,202	6,594	6,900	4,903	4,522
1,172	1,172	1,172	1,172	1,172	1,172	1,172
6,790	5,939	4,956	4,817	4,018	2,648	2,707
20,037	20,980	20,190	15,814	15,420	14,558	14,750
2,165	2,571	2,710	2,400	2,461	3,814	4,022
6,424	7,184	6,802	3,581	3,345	2,956	3,563
28,081	29,320	26,392	22,408	22,320	19,461	19,272
2,560	2,271	2,304	2,152	1,737	1,929	1,829
2,445	2,222	2,177	1,798	1,621	1,380	1,221
115	49	127	354	116	549	608
2,356	2,992	1,991	2,473	2,862	2,105	1,956
713	1,542	251	612	2,688	584	815
6,440	7,207	6,860	3,639	3,369	2,971	3,605
2,328	1,596	2,195	−125	−768	−101	−143
−116	483	−148	276	1,123	523	455
230	−208	148	44	−551	−202	−226
114	275	–	320	572	321	229
0.25	0.6	–	0.7	1.25	0.70	0.50

Ten-year overview (continued)

		2014	2013[9]	2012[8]
Operational ratios Lufthansa Group				
Return on sales (Profit/loss before income taxes[1)5)]/revenue)	%	0.6	1.8	4.3
Return on capital employed (Profit/loss before income taxes[1)5)] plus interest on liabilities/total assets)	%	1.9	3.6	6.4
Return on equity (Profit/loss after income taxes/shareholders'equity[2)])	%	1.9	5.3	25.6
Return on equity (Profit/loss before income taxes[1)5)]/shareholders' equity[2)])	%	4.5	8.9	26.8
Equity ratio (Shareholders' equity[2)]/total assets)	%	13.2	21.0	16.9
Gearing (Net indebtedness plus pension provisions/shareholders' equity[2)])	%	264.2	105.0	161.1
Leverage (Net indebtedness/total assets)	%	11.2	5.8	6.8
Internal financing ratio (Cash flow/capital expenditure)	%	71.3	131.7	120.5
Debt repayment ratio (Net indebtedness/adjusted cash flow from operating activities)	%	20.6	37.0	34.4
Revenue efficiency (Cash flow/revenue)	%	6.6	11.0	9.7
Net working capital (Current assets less current liabilities)	€bn	−2.7	−1.3	0.0
Non-current asset ratio (Non-current assets/total assets)	%	72.9	66.7	65.8
Depreciation ratio for aircraft/reserve engines (Accumulated depreciation/accumulated acquisition costs)	%	−51.4	−52.6	54.2
Staff ratios				
Average number of employees	number	118,973	117,414	118,368
Revenue/employee	€	252,251	255,736	254,587
Staff costs/revenue	%	24.4	24.5	22.4
Traffic figures Lufthansa Group[3)6)]				
Total available tonne-kilometres	millions	41,548	41,218	40,925
Total revenue tonne-kilometres	millions	31,308	30,879	30,408
Cargo load factor	%	75.4	74.9	74.3
Available seat-kilometres	millions	268,105	262,682	260,169
Revenue seat-kilometres	millions	214,641	209,649	205,015
Passenger load factor	%	80.1	79.8	78.8
Passengers	millions	106,0	104,6	103,6
Revenue passenger tonne-kilometres	millions	21,060	20,594	20,169
Freight/mail	tonnes	1,923,529	1,965,330	1,984,157
Freight/mail tonne-kilometres	millions	10,249	10,285	10,240
Number of flights	number	1,001,975	1,028,260	1,067,362
Flight kilometres	millions	1,275	1,342	1,359
Aircraft utilisation (block hours)	number	2,124,597	2,255,848	2,311,071
Aircraft in service	number	615	622	627

Figures have been rounded to full EUR millions. This results in differences to prior annual reports.

1) From 2005 profit/loss from operating activities before income taxes (up to 2004 profit/loss before taxes) including other taxes; previous years adjusted.
2) From 2005 shareholders' equity including minority interests; previous years adjusted.
3) From 2006 including Eurowings.
4) From 2005 including borrower's note loans (payable at any time).
5) Until 2008 including the discontinued business segment Leisure Travel.
6) Lufthansa Passenger Airlines, SWISS, Austrian Airlines, Germanwings (from January 2010) and Lufthansa Cargo.
7) The income statement for the financial year 2010 has been adjusted in line with IFRS 5 Discontinued Operations because of the planned disposal of bmi.
8) The figures for the financial year 2012 were adjusted retrospectively due to the application of the revised IAS 19.
9) The figures for the financial year 2013 were adjusted retrospectively due to IFRS 11.

2011	2010 [7]	2009	2008	2007	2006	2005
1.6	4.3	–0.6	2.9	9.5	5.7	4.8
3.3	5.7	1.4	4.9	11.2	8.2	7.0
0.0	13.7	–0.4	8.4	25.5	18.3	13.5
5.5	13.6	–2.2	11.1	30.8	23.0	19.3
28.6	28.4	23.5	29.4	30.9	25.2	23.5
55.9	50.0	79.1	34.5	24.5	75.7	85.8
8.3	5.4	8.3	–0.6	–3.4	–0.5	–0.7
92.0	131.7	86.4	114.9	164.8	109.1	106.9
49.7	59.7	38.1	97.0	154.7	54.9	48.7
8.8	11.9	8.9	10.0	12.8	10.6	10.8
–0.3	0.5	–0.1	–0.6	0.0	–0.2	0.0
66.3	64.7	67.1	66.8	63.1	66.6	63.9
54.4	53.9	54.2	58.9	58.0	57.9	55.7
119,084	117,066	112,320	108,123	100,779	93,541	90,811
241,292	226,018	198,384	229,757	222,467	212,196	198,930
23.2	24.5	26.9	22.9	24.5	25.3	26.9
40,798	37,664	35,469	34,960	30,339	26,667	26,486
29,908	28,274	24,943	24,973	22,613	19,216	18,727
73.3	75.1	70.3	71.4	74.5	72.1	70.7
258,263	234,377	208,226	195,431	169,108	146,720	144,182
200,376	186,452	162,286	154,156	135,011	110,330	108,185
77.6	79.6	77.9	78.9	79.8	75.2	75.0
100,6	92,7	77,3	70,5	62,9	53,4	51,3
19 045	17 845	16 236	15 463	13 569	11 112	10 898
2,120,191	2,022,670	1,712,167	1,914,925	1,910,846	1,758,968	1,735,771
10,861	10,429	8,706	9,510	9,043	8,103	7,829
1,050,728	1,008,988	899,928	830,832	749,431	664,382	653,980
1,374	1,241	1,178	1,125	979	795	794
2,283,051	2,061,740	1,949,857	1,855,842	1,629,416	1,341,810	1,340,948
696	710	722	524	513	430	432

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 hours 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").

Code-share A code-share is a flight segment that is sold under the flight number of one airline, while being operated either partly or entirely by another airline. Both companies maintain their own independent profile on the market.

Hub In air traffic a hub refers to an airline's transfer airport, a central connecting point for different routes. Passengers and goods are transported from the original starting point to the airport's hub. From there they are carried to their destination by a second flight alongside passengers and goods from other departure points.

IATA International Air Transport Association – the international trade association for the airline industry.

Low-cost carrier Low-cost carrier are airlines which offer largely low ticket prices but with reduced service levels and sometimes additional charges on board and on the ground. Flights are mostly from secondary airports outside the major cities (e. g. Hahn in the Hunsrück area outside Frankfurt).

MRO Short for maintenance, repair and overhaul of aircraft.

Network carrier In contrast to low-cost carriers these airlines offer a wide-ranging, normally global route network via one or more hubs, with synchronised connecting flights.

Passenger-kilometre/tonne-kilometre Standard output units for air transport. An available seat-kilometre (ASK) denotes one seat offered flown for one kilometre; a revenue passenger-kilometre (RPK) denotes one paying passenger transported for one kilometre. An offered tonne-kilometre (TKO) denotes the offered capacity equivalent of one tonne of load (passengers and/or cargo) for one kilometre; a revenue tonne-kilometre (RTK) denotes one tonne of load (passengers and/or cargo) transported one kilometre.

Passenger load factor/cargo load factor Measure of capacity utilisation in per cent. The cargo load factor expresses the ratio of capacity sold to available capacity. The passenger load factor refers to passenger transportation and the cargo load factor to freight transport or total traffic.

Unit costs/unit revenues Key performance indicator for air transport. Unit costs (CASK) denote the operating expenses divided by offered seat kilometres. Unit revenue (RASK) denotes the traffic revenue divided by offered seat kilometres.

Financial terminology

Adjusted EBIT Main earnings metric for the Company's forecast. This relates to EBIT adjusted for asset valuations and disposals and for the measurement of pension provisions.

Call option The right to purchase a specific 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 "consolidated cash flow statement" on p. 153.

Cash value added – CVA Parameter for measuring performance of value creation. When the cash flow generated in a period (EBITDA^{plus}) is greater than the minimum cash flow required to cover the cost of capital, the CVA is positive and value is created, see "Management system and supervision" from p. 29.

Compliance Institutionalised arrangements for ensuring that a company's management and staff duly comply with all statutory provisions and prohibitions.

Deferred taxes A balance sheet item used to show taxable and deductible temporary differences. 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 supervisory, executive or divisional boards, or their family members, involving shares in "their" company. 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 shares. It is determined by dividing the dividend by the share price at the close of the reporting year and then multiplying it by 100.

Debt repayment ratio A financial indicator. It represents the ratio of adjusted cash flow from operating activities to net indebtedness and pensions, see p. 56. The rating agencies' comparable criteria for an investment grade rating are met if a target of at least 60 per cent is achieved sustainably.

Earnings After Cost of Capital – EACC Main indicator of value creation. This is calculated from EBIT plus interest income on liquidity less taxes of 25 per cent and costs of capital. A positive EACC means that the Company has created value in a given financial year; see "Management system and supervision" starting on p. 29.

EBIT Financial indicator denoting earnings before interest and taxes. From financial year 2015: main earnings indicator. This is calculated from total operating income less operating expenses plus the result from equity investments.

EBITDA Financial indicator denoting earnings before interest, taxes, depreciation and amortisation. Depreciation relates to items of property, plant and equipment and amortisation to intangible assets – both terms apply equally to non-current and current assets. The figure also includes impairment losses on equity investments accounted for under the equity method and on assets held for sale.

EBITDA^{plus} EBITDA^{plus} refers to the operating result adjusted for non-cash items. It includes all cash-relevant items over which management has an influence, see "Management system and supervision" from p. 29.

Equity method Accounting method for measuring income derived from a company's investments in associated companies and joint ventures. Under this method, investment income equals a share of net income proportional to the size of the equity investment.

Equity ratio Financial indicator expressing the ratio of shareholders' equity to total assets.

Financial covenants Covenants are obligations on the part of a borrower towards its banks that are defined in loan agreements. They can also be described as conditions relating to the company's capital structure. During the term of the loan they oblige the borrower to maintain certain financial ratios (relating to equity, debt or liquidity, for example). Deutsche Lufthansa AG's main financial liabilities do not include covenants.

Free cash flow Financial indicator expressing the cash flow from operating activities remaining in the reporting period after deducting net cash used for investing activities.

Group of consolidated companies Group of subsidiaries included in a company's consolidated financial statements.

Impairment Losses recognised on the carrying amount of assets. Impairment charges are recognised when an asset's "recoverable value" (the higher of fair value less costs to sell and value in use) is below its carrying amount. By contrast, 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.

Jet fuel crack Price difference between crude oil and kerosene.

Lufthansa Pension Trust A fund to which Lufthansa has been contributing since 2004 to finance future retirement benefits to staff in Germany and those seconded abroad. Annual contributions are planned to build up fund assets, with the objective of funding benefit obligations in full.

Net indebtedness/net liquidity Financial indicator denoting non-current borrowing less cash, cash equivalents and current securities.

Operating result An earnings measure. The operating result is calculated as the profit from operating activities, adjusted for book gains and losses, write-backs of provisions, impairment losses, results of financial investments and the measurement of financial liabilities at the end of the period, see p. 49.

Rating A standardised measure used on international financial markets to judge and categorise a company's creditworthiness. A rating can enable conclusions to be drawn about whether an issuer is capable of meeting in full its obligations under the terms of the issue.

Registered shares with transfer restrictions Registered shares that may only be transferred with the approval of the company.

Retention of earnings Transfer of a company's profit to equity. It strengthens the company's financial position.

Return on equity Financial indicator expressing the ratio of net profit to shareholders' equity.

Return On Capital Employed – ROCE Indicator of value creation. EBIT, to which interest income on liquidity has been added and taxes of 25 per cent subtracted, is divided by the average capital employed. The resulting value reflects the relative return on the capital employed.

Return on sales Financial indicator expressing the net profit before taxes in relation to sales revenue.

Total shareholder return Financial indicator expressing the overall return that an investor earns from the increase in the market capitalisation 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 solely from flight operations. It comprises revenue from transporting passengers and cargo as well as related ancillary services.

Weighted Average Cost of Capital – WACC The average return required on the capital employed at a company. The return on capital is calculated using the weighted average return required for both debt and equity.

Working capital Financial indicator for assessing a company's liquidity, measured as the difference between its current assets and its current liabilities.

Credits

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Editorial staff
Andreas Hagenbring (Editor)
Anne Katrin Brodowski
Christian Schmidt

Photos
Deutsche Lufthansa AG
Andreas Pohlmann, Munich, Germany
Gregor Schläger, Hamburg, Germany

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Contact

Andreas Hagenbring
+49 69 696–28001

Patricia Minogue
+49 69 696–28003

Deutsche Lufthansa AG
Investor Relations
LAC, Airportring
60546 Frankfurt am Main
Germany
Phone: +49 69 696–28001
Fax: +49 69 696–90990
E-mail: investor.relations@dlh.de

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Financial calendar 2015/2016

2015

12 March Press Conference and Analysts' Conference on 2014 results

29 April Annual General Meeting in Hamburg

5 May Release of Interim Report January – March 2015

30 July Release of Interim Report January – June 2015

29 Oct. Release of Interim Report January – September 2015

2016

18 March Press Conference and Analysts' Conference on 2015 results

28 April Annual General Meeting in Hamburg

3 May Release of Interim Report January – March 2016

2 Aug. Release of Interim Report January – June 2016

2 Nov. Release of Interim Report January – September 2016

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