Our success story continues: We are maintaining our course in difficult conditions. This is due, to a very great extent, to the commitment of our staff and management team in all business segments. Thanks to their professionalism and experience, the Lufthansa crane stands for top performance in all areas – in quality and service as well as in profitability. In the face of the turbulence ahead, we still remain true to our ambition of sustainable value creation.

Our strengths in detail!
Lufthansa held its own very well in 2008. Although the second half-year, in particular, was defined by market uncertainty, the consequences of the strike activities in the summer and the worsening financial and economic crisis, we are nevertheless able to present a top-class result for the full financial year. An operating profit of EUR 1.35bn is only just below the record figure of the previous year and is the second-best result in the history of your Company. This result has a very special quality in view of the worldwide economic turmoil. We have achieved or even exceeded important targets despite adverse conditions, and are much better placed than our main competitors. Lufthansa is well prepared – strategically, financially and operationally.

- Our financial basis is solid: we run our business with prudence and foresight – profitability has priority over size.
- Our strategic orientation is paying off: we focus on developing our core business, the airlines, and in the current environment benefit from the Group’s business segments at the same time.
- The number of passengers broke new records, reaching 70.5 million for the Group. Lufthansa enjoys outstanding customer loyalty and in 2008 again received best marks for customer satisfaction.
- The Lufthansa brand is stronger than ever. It stands for trust and reliability, for quality and safety, for technical competence and willingness to serve – in all business segments.

The Lufthansa crane is valued and appreciated, too, as a business partner and an employer. Before the crisis unfolded we were able to recruit 4,000 new staff in the first half-year – people who want to assume responsibility and make a contribution to mobility.

In addition to flexible clauses in wage agreements, a far-sighted fleet policy and strictly market-oriented capacity and revenue management, we are also continuing to work on currently about 120 projects to safeguard and increase profitability lastingly as part of the “Upgrade to Industry Leadership” initiative launched in 2007.

Altogether, we are very pleased with the Company’s performance in 2008, but we are working on the assumption that 2009 will be one of the most economically difficult years for the whole industry – with major challenges for Lufthansa as well. Given the tense economic situation worldwide and the uncertainties on the financial markets, but also appropriately for the very good result, the Supervisory Board and Executive Board are proposing a dividend of 70 cents for your consideration.
Letter to the shareholders

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

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

Stephan Gemkow
Member of the Executive Board, Chief Financial Officer, born 1960, Degree in Business Administration, Board Member since 2006, appointed until 31 May 2014, with Lufthansa since 1990.
It is gratifying that all the business segments in the Lufthansa Group have positioned themselves well and held their own in the market.

The Passenger Transportation business segment has put in a stable performance and delivered good results. SWISS plays a special role in this respect, having become a central pillar of our airline group and having made a key contribution to the good operating result for the whole segment.

At the end of the financial year we deliberately reduced thrust on our growth track in order to respond flexibly to market changes. But this does not mean that we are casting our strategic orientation overboard. We remain convinced that air traffic will continue to grow over the medium and long term. We therefore review carefully the additional growth opportunities which arise, through partnerships for instance, and also through acquisitions, where they make sense.

Lufthansa made a number of key decisions concerning the consolidation process in 2008. The agreement on the phased acquisition of Brussels Airlines and the planned takeover of Austrian Airlines were important milestones. These acquisitions are still pending, as a number of conditions have not yet been met. When all obstacles have been successfully cleared, both airlines will provide us with the chance to connect the Belgian and Austrian markets better with the Lufthansa network. With its strong presence in Africa, Brussels Airlines is a valuable partner for us, and with Austrian Airlines we would gain another mainstay in Eastern Europe.

Lufthansa is also making a commitment to the Italian market. With Lufthansa Italia and a considerably broader range of direct flights to European destinations, we are making ourselves more attractive to our customers. The first flights started in February 2009.

The Group’s other business segments also have good news to report. They have all contributed to our remarkable overall result.

Lufthansa Cargo has stayed very firm in an increasingly difficult market environment. Our Logistics business segment was able to improve again on the previous year’s good operating result. Cargo’s profitability has developed positively and our freight company has set itself up well for the future by building on its strategic partnerships. We are countering the persistent weakness in demand for global airfreight, which began to bite in the final quarter of 2008, by reducing freighter capacities and by introducing short-time work.

Lufthansa Technik performed well despite difficult conditions, such as the depreciation of the US dollar, and was able to improve its operating result compared with the previous year. It is world market leader in its segment and well prepared for the future thanks to its modern product portfolio, low-cost locations and numerous programmes to cut costs and increase efficiency.

Lufthansa Systems substantially improved its result, which was impaired by write-downs in the previous year. Our IT business segment consolidated its strong market position, made progress on product developments and was increasingly able to market its expertise in other sectors with comparable requirements, such as health care or media. In the medium term the proportion of external clients is to increase to 60 per cent.
The world market leader in catering, LSG Sky Chefs, continued successfully to implement its strategy in 2008. Unprofitable activities were cut back and our caterers underwent moderate expansion in growth markets. After many years of sometimes heady growth the global airline catering market has been in retreat since the end of 2008. In view of the difficult overall conditions LSG Sky Chefs achieved a good operating result, but one that was lower than in the previous year.

Despite all these positive developments, our Company's market value declined in 2008, as did that of all other publicly listed companies. The share price fell by nearly 39 per cent. This is a bitter reality, expressing as it does the fact that macroeconomic conditions count for much more than our own performance in this difficult environment. The share price reflects neither the sound foundations of the entire Group and its stable earnings development, nor our potential for the future. Even so, we have still managed to increase the distance between ourselves and our competitors on the stock market in 2008.

In the future, we will continue to act prudently, adjust capacities to requirements and keep costs in line with income, which cannot be taken for granted in our industry given the heavy dependence on fixed costs. But we will manage that, too, and continue on our strategic course.

We want to justify your trust as shareholders and that of our customers in the future as well, by our thorough and judicious work. The year 2009 will make great demands of us all. No one can predict how long the global economic crisis will last and what profound hardship it will yet cause. We are realists. We are adaptable. And we remain confident, because we can count on a practised, dependable and highly motivated team of staff and managers. We want to continue to impress with our quality and performance. We want to make the successful Lufthansa brand even stronger worldwide. We feel an obligation to our locations and will, therefore, continue to be active in the political arena, for example in Brussels and Berlin, in the interests of fair competition.

Crises are always also times of momentous decisions. We intend to make the right decisions so that you, our shareholders, and our clients and staff can all benefit equally. Please accompany us as we move forward. Stay with us!

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

Q1/2008

- Lufthansa acquires a stake in the American airline JetBlue Airways, thereby closing the transaction announced in December 2007. The two partners start to define their further collaboration.

- Lufthansa Technik sets milestones for its future maintenance capacities. It opens the first construction section of the new A380 maintenance hangar in Frankfurt. Two Airbus A380s or three Boeing 747s can be serviced simultaneously there on its floor area of 25,000 square metres. The foundations are laid in Hamburg for a new engine overhaul hangar, which is due to expand capacities from spring 2009.

- SWISS was once more given the title of Best Airline for Europe at the Business Traveller Awards. It therefore repeats its successes at this award ceremony of previous years.

- The frequent flyer programme Miles & More celebrates its 15th anniversary. Lufthansa launched its customer loyalty programme in 1993 in Germany with seven partners from the hotel and car hire industries. Today, Miles & More is the largest frequent flyer programme in Europe, with 16 million members worldwide and more than 200 partners from numerous industries.

Q2/2008

- Lufthansa Cargo and Krasnoyarsk Airport sign an agreement on strategic collaboration. This will enable Lufthansa Cargo to use the Siberian airport of Krasnoyarsk for stopovers on its flights to and from Asia from mid-2009.

- The mobile Internet portal mobile.lufthansa.com is given the “made for mobile” award at the Media Forum NRW. Mobile telephone users can not only book tickets and seats quickly and easily via the portal but can also access up-to-date arrival and departure times.

- Lufthansa Cargo strengthens its presence at its home airport Frankfurt/Main by commencing construction work in CargoCity Süd. A new building will mainly be used for handling airfreight deliveries from medium-sized freight forwarders and partner airlines from autumn 2009.

- Lufthansa sets itself ambitious goals with its Strategic Environment Programme. Fifteen principles define how Lufthansa is to achieve further significant progress in its environmental efficiency by 2020. They include cutting CO₂ emissions per kilometre flown by 25 per cent compared with 2006.
Q3/2008

- Lufthansa is voted best European airline out of 59 candidates at the World Airline Awards 2008. More than 15 million passengers took part in the survey carried out by the specialist agency Skytrax. SWISS also did well, taking fourth place in the Europe category.

- Lufthansa Cargo AG secures long-term growth at its second German freighter hub in Leipzig. Lufthansa Cargo’s freight handling will be transferred to the World Cargo Center when the new freight airline AeroLogic is launched in 2009.

- Lufthansa is again confirmed as a member of the Dow Jones Sustainability Index (DJSI) and the FTSE4Good index. Both sustainability indices attest to Lufthansa’s responsible attitude towards the environment, its staff and society.

- Lufthansa signs an agreement to acquire a strategic interest of initially 45 per cent in SN Airholding SA/NV, the parent company of Brussels Airlines. The airline was not previously a member of any alliance and serves destinations in Europe and Africa from its hub in Brussels. Brussels Airlines will join Star Alliance over the course of the next year. Full integration is possible after the air traffic rights have been secured.

Q4/2008

- Lufthansa adjusts its growth path in several stages to economic forecasts. For 2009 growth in passenger traffic is reduced to 0.8 per cent (1.2 per cent including SWISS). Lufthansa Cargo is cutting its freighter capacities by around 10 per cent in 2009.

- Sir Michael Bishop, the majority shareholder of British Midland plc (bmi), exercises a put option enabling Lufthansa to acquire 50 per cent of bmi plus one share in early 2009. Future possible structures and options for bmi are being jointly reviewed.

- Lufthansa presents the new brand “Lufthansa Italia” in Milan. It will be offering a new, substantially broader range of direct flights to major European cities from here starting in February 2009. Lufthansa Italia combines classical Lufthansa values with Italian flair.

- Lufthansa signs an agreement to acquire Austrian Airlines (AUA). Following the purchase of the shares held by the Austrian industrial holding company ÖIAG, Lufthansa will make a purchase offer to all AUA shareholders. The transaction is subject to competition and regulatory approval. The aim is to integrate AUA into the Lufthansa airline group.
Flexible flying
The carriage is the part of an aircraft wing which ensures that the flaps can be optimally set to the respective flight position for take-off and landing. Extending and retracting the flaps alters the wing’s profile and gives the aircraft the necessary lift for take-off and landing. Even in poor weather conditions and on challenging runways (e.g., at altitude) this ensures that the flaps are in the best possible position and therefore improves the aerodynamics of the aircraft.
Turbulence is part and parcel of flying. It is also a permanent feature of the airline industry. Despite these recurrent short-term fluctuations, however, aviation remains a growth industry. We would like to gain an above-average share of this growth. We have learnt from past turbulences and substantially increased our flexibility. In order to emerge from these dynamic sector and market developments as a winner, and to ensure profitability and the long-term success of the Company, it is crucial to be able to respond as effectively as possible to lower, but also to higher, demand. This applies equally to capacity growth and to the cost base.

Our aircrafts are at the centre of our flexible capacity planning. Thanks to our largely unencumbered aircraft fleet we have earned ourselves an extremely high degree of flexibility beyond usual capacity management. About 70 per cent of the Group’s fleet is owned and is not subject to costs or conditions from leasing contracts or collateral agreements. Given our conservative depreciation policy, a large proportion has already been written down. This fleet gives us the greatest possible flexibility to adapt capacity growth to predominant market conditions at short notice by adjusting roll-over times. This means that aircraft deliveries increase cost efficiency in difficult times, but not automatically the capacities. Capacity can therefore be reduced at very short notice by advancing routine inspections or phasing out an aircraft earlier than planned. We are also able to increase growth again at equally short notice by postponing the decommissioning of aircraft. This flexibility is the foundation for Lufthansa’s demand-driven capacity strategy.

The Group’s cost base requires similar flexibility. In recent years, we have significantly reduced the proportion of fixed costs in all business segments. Today, all five segments are much better able to adjust their external and staff costs to demand. Innovative flexitime models, for instance, include callable services above a fixed volume of hours, or long-term working-hours accounts with which working hours can be adapted to cover peak workloads or times of lower capacity without causing additional or redundant expenses. In addition, all business segments have crisis clauses in their wage agreements, which provide the opportunity to react at short notice according to predefined criteria and therefore reduce the risk of more drastic measures.

More information can be found in the comments on the business segments.
Acting with foresight
The weather radar in the nose of an Airbus A340-300 has a diameter of 72 centimetres. This enables the pilots to continuously observe the weather situation within a radius of up to 320 nautical miles around the aircraft. The required focussing of the radar beam in the aircraft is achieved by interconnecting many small antennas. In comparison with a parabolic antenna, this type of radar saves space and requires less maintenance.
Creating value with foresight

Just like an aircraft at an altitude of 10,000 metres, the aviation industry is permanently exposed to a variety of changing external influences. In order to (re)act appropriately in this environment it is vital for the Group management to be aware of developments in the Company’s nearer and wider sphere. Acting with foresight therefore plays a crucial role in all Company developments and decisions. Only then are we able to maintain our chosen course even in poor visibility, to identify risks in time and to take either preventive measures or predetermined evasion manoeuvres as necessary. It also enables us to recognise opportunities at an early stage and, after an appropriate analysis of their risk-return profile, to make use of them.

The significance of this far-sightedness for strategic decisions can be illustrated by several examples from the past. Twelve years ago for instance Lufthansa was the driving force behind and co-founder of the first global airline alliance, in early recognition of the necessity of being able to offer passengers a worldwide network. Today, the Star Alliance is the largest network by far and a vital reason for our success. That is because these cooperations enable us to gain swift market access, while limiting capital expenditure and the risks of market entry at the same time.

We are also ready to invest in a deeper partnership wherever it appears to make strategic and economic sense. The takeover and successful integration of SWISS was an example of this foresight. Today, the transaction is seen as exemplary for takeovers in the aviation sector, as both companies complement each other excellently and wide-ranging synergies are being realised. Our planned investments in Brussels Airlines and Austrian Airlines follow the same risk-return principles. By contrast, in Italy we decided to develop our own strong brand.

Foresight also plays a key role for us in managing the wide range of financial risks. Systematically hedging currency and fuel price risks, for instance, makes these factors less volatile and more predictable as a result and our minimum liquidity is always available to use when needed. It thereby allows us to maintain our chosen course longer and gives us more time to react appropriately to changes in external circumstances.

In future, too, we will make our corporate decisions with the necessary prudence and foresight and retain our focus on sustainable value creation.

More information can be found in the chapters “Group strategy” and “Risk report”.
Quality for decades
The pressure bulkhead delimits the inner lining of an aircraft. It provides a seal between the cabin and the ambient pressure outside the aircraft. It is subject to high and continually varying strains due to the cabin pressure, causing it to expand and contract. The pressure bulkhead is nevertheless one of the few parts of an aircraft which is not replaced during the plane’s entire life cycle. Its longevity and quality are outstanding, whether it is made of carbon fibre or sheet metal.
For us, high quality constitutes a decisive success factor. All Group companies offer their customers tailored, innovative and high-quality products. Quality has many dimensions for us. A vital one is network quality. Already today, our customers can fly to almost 1,000 destinations worldwide with Lufthansa and its partner airlines. Our well-positioned premium product is also part of our aspiration towards high quality. That is the reason why in recent years we have been able to increase the share of premium customers continuously. This segment now represents 52 per cent of intercontinental traffic revenue. Despite increasing economic weakness, premium demand grew again in 2008 significantly. This in turn had a highly positive effect on our traffic revenue.

We continue to refine our services on board and on the ground, ranging from a new SWISS First Class and Business Class (2009) and the new Lufthansa First Class (2010) to investments in our lounges around the world, which are to be refurbished for more than EUR 150m in the period up to 2013. The fact that our frequent flyer programme Miles & More was recently able to greet its 16-millionth member speaks for the attractiveness and the quality of our products, as do constant increases in customer satisfaction across all product segments. At the same time, these are reasons for the relative stability of our revenue.

However, high quality is not limited to the transportation of our passengers; it is also a hallmark of Lufthansa Technik and each aircraft it services. At Lufthansa Cargo, punctual and safe delivery is at the centre point of the customer promise. A series of awards in 2008 demonstrate that these activities are successful, too. Lufthansa Cargo was voted “Best cargo airline worldwide” by the trade journal Air Cargo World. Lufthansa Technik received the “Best European Airline MRO Operation Award 2008” from the US trade magazine Aviation Week.

More information can be found in the comments on the business segments.

Proven dimensions of quality
Leading by innovation
Trim panel speakers are a development which Lufthansa Technik has adapted and refined for aviation. They are primarily used in private jets and provide an even distribution of sound throughout the whole cabin, so that customers often compare them with a surround sound system. In technical terms, the panel speaker system works by attaching several transducers (shakers) of around five centimetres in diameter to the back of the aircraft's inner panelling. These make the interior panelling vibrate like giant speaker membranes. This turns the whole aircraft cabin into a sounding box, producing an even tone without distortions. In addition to its ease of installation, the particular advantages of this system are that it can be integrated into the cabin interior almost invisibly.
Innovation has a long tradition at Lufthansa – whether pioneering feats of aviation, such as the spectacular East Asia Flying Expedition, which Lufthansa completed in ten stages to Beijing in 1926, the initiative to develop the Boeing 737 in the 1960s or the foundation of the first worldwide aviation alliance in 1997. Today, it still plays a vital role and forms the basis for our continued success. Investing in innovation is therefore a key performance driver for all Lufthansa business segments and pays its way – for the customers and for the Company.

Our clients’ requirements are the touchstone for our developments. Our First Class Terminal in Frankfurt, and the recently opened First Class Lounges, are perfectly tailored to the needs of frequent flyers. Of course, refining modern technologies has great potential as well. For example, we have been offering our passengers the opportunity of “paperless flying” since 2008, which makes travel even more flexible, simpler and more comfortable. The specially developed mobile Internet portal “mobile.lufthansa.com” sets standards in terms of design, functionality and user-friendliness, and was presented with the renowned “made for mobile” award. In addition, the service simplifies and accelerates the check-in process, which increases the efficiency of our processes.

Another impressive example for innovation at different levels can be seen at Lufthansa Technik AG. Its recently opened engine overhaul centre in Hamburg enables engines to be serviced with the latest processes and expertise in an area of 15,000 square metres. In conjunction with optimised logistics, this has significantly shortened servicing times for the engines. This effects production efficiency, but also results in greater utility for the client as the engines can recommence operations sooner.

These are just some examples of how, for us, increasing customer utility through innovative products, services and processes goes hand-in-hand with cost improvements and efficiency gains.

Innovations from Lufthansa are set to continue in 2009. At the beginning of the year Lufthansa Cargo AG and its subsidiary Jettainer GmbH are starting a series of trials with lightweight containers aimed at cutting the weight of conventional containers by 15 per cent. This would not only have a considerable effect on the environmental performance of airfreight traffic, but would also give Lufthansa Cargo a decisive cost advantage in an airfreight market subject to severe pricing pressure.

More information can be found in the comments on the business segments.
Full performance via reliability
The engine of a Boeing 747-400 has up to 30 evenly distributed individual fuel injection valves which feed the fuel into a ring-shaped combustion chamber. Aircraft engines like these have a combustion chamber which holds around 20 litres and burn up to 12,000 litres of kerosene per hour. This achieves much higher energy density and therefore greater performance than in other types of construction. In order to attain its full effect, the whole system has to function smoothly. This means that every component must work reliably. Only when every injection valve delivers its full performance does the engine develop maximum thrust and the ability to simultaneously operate at a high level of fuel economy.
For Lufthansa, reliability is of crucial importance. We are convinced that we can only deliver full performance together with all our stakeholders. Therefore, it is important for us that all of them, from customers, staff, suppliers and partner airlines through to the shareholders in the Company, can trust the crane and consider us a reliable partner. Reliability is not only part of our brand values – it is also a key success factor and a competitive advantage.

Our customers can rely on the services of our business segments at all times. The promise of mobility made by the Group’s flying companies and product quality are no more subject to debate in economically difficult times than technical maintenance work or the reliability of IT and catering services.

Our employees’ qualifications, commitment, appetite for competition and performance, innovation and sense of responsibility are the keys to our Company’s success. A supportive working environment, with prospects in periods of growth and solidarity and flexibility in economically challenging times, is therefore at the core of a high-performance team. It is the foundation for staff satisfaction and a highly developed service culture.

It is also a sense of responsibility which brings us into an intense and active dialogue with our investors and shareholders. We are aware of the volatility in the industry and the resulting increased need for information. Contact and frank discussions as part of our investor and creditor relations activities, at conferences, investor days and in many individual meetings, create a high level of transparency and trust, thereby ensuring a common understanding of the prospects for the crane.

More information can be found in the chapters “Share” and “Staff”, as well as in the comments on the business segments.
Looking back at the past financial year we can see that 2008 was a successful year, but one which brought with it many challenges and important strategic decisions. We continued our close and trusting working relationship with the Executive Board in 2008. Throughout the year we carried out our duties in accordance with statutes, the Company’s Articles of Association and its internal regulations. These are to monitor and advise on the work of the Executive Board.

As Chairman of the Supervisory Board I read the minutes of the Executive Board meetings and held discussions, primarily on Lufthansa’s strategy and current course of business, with the Chief Executive Board meetings and held discussions, primarily on the competitive environment, all significant strategic decisions and planned Company policy, as well as on projected capital expenditure and equity investments and the planned Group financing activities.

This time, the focus of the Supervisory Board meetings was primarily on the strategic options in the consolidation process underway in the European aviation industry, in addition to the economic development of Deutsche Lufthansa AG and its consolidated and affiliated companies. We supported the Executive Board’s strategy of strengthening Lufthansa’s competitive position by creating a European airline group of largely autonomous airlines. In this respect, the Supervisory Board gave its approval to the phased full takeover and integration of SN Airholding, the parent company of Brussels Airlines, and Austrian Airlines AG into the Lufthansa Group.

Other important decisions related to the investment in a new Business Class for the A340-300 fleet at SWISS and the purchase of reserve engines for the Embraer fleet. Furthermore, the Executive Board informed us in turn of changes in the shareholder structure, transactions with derivative instruments and of allocations to, and returns from, the Lufthansa pension fund. The statements made in the management reports by the Executive Board in accordance with Sections 289 (4) and 315 (4) German Commercial Code require no further explanation.

In 2008, the Supervisory Board held five ordinary meetings – on 10 March, 28 and 29 April, 24 September and 3 December – and one extraordinary meeting – on 17 May. No member of the Supervisory Board was present at fewer than half the meetings.

The five-year term of office of all the members of the Supervisory Board ended with the completion of the Annual General Meeting on 29 April 2008. On behalf of the Supervisory Board I would like to thank the departing members Patricia Windaus and Sabine Wolbold, Dr Clemens Börsig, Manfred Calsow, Michael Diekmann, Robert Haller, Steffen Kühnert, Dr Otto Graf Lambsdorff, Willi Rösig, Werner Schmidt, Thomas von Sturm, Dr Hans-Dietrich Winkhaus and Dr Klaus Zumwinkel for taking on this responsibility and for their commitment and ever constructive work.

The Nomination Committee, which consists unchanged of Messrs Hartmann, Dr Schlede and myself, met twice in spring to prepare the election of new Supervisory Board members. New shareholder representatives were then elected for five years at the Annual General Meeting 2008. This brought Dr Nicola Leibinger-Kammüller, John Allan, Dr Werner Brandt, Dr Jürgen Hambrecht, Dr Herbert Walter and Matthias Wissmann onto the Supervisory Board for the first time. The employees in the Lufthansa Group had previously elected Dominique Hiekel, Bernd Buresch, Jörg Cebulla, Eckhard Lieb, Wolf Liebetrau, Simon Reimann and Stefan Ziegler as new members of the Supervisory Board in spring 2008.

Mr Liebetrau retired with effect from 31 December 2008 and is therefore no longer a member of the Supervisory Board. He was replaced as of 1 January 2009 by the substitute member Marlies Rose, who was elected by the staff of the Lufthansa Group. The Supervisory Board thanks Mr Liebetrau for his responsible contribution to its work.

The election for the Chairman and Deputy Chairman of the Supervisory Board, held in the constitutive meeting of the newly elected Supervisory Board on 29 April 2008, was repeated in an extraordinary meeting held on 17 May due to an error of procedure. As a result, I was re-elected as Chairman of the Supervisory Board and Mr Bsirseke was re-elected as Deputy Chairman of the Supervisory Board.

In addition to the Chairman and Deputy Chairman of the Supervisory Board, Mr Buresch and Dr Hambrecht were elected as members of the Steering Committee. The Steering Committee of the Supervisory Board held three meetings. In accordance with the latest recommendation of the German Corporate Governance Code the Steering Committee now only gives the Supervisory Board recommendations on the contents, form and signing of service contracts with the members of the Executive Board. However, the Steering Committee remains solely responsible for other staff matters regarding Executive Board members and senior managers. At the recommendation of the Steering Committee the Supervisory Board reappointed Mr Stephan Gemkow as Chief Financial Officer of Deutsche Lufthansa AG until 31 May 2014.

The obligatory Arbitration Committee required by Section 27 (3) of the German Codetermination Act, which is made up of the
Supervisory Board Chairman, the Deputy Chairman, Ms Hiekel and Dr Hambrecht, did not need to be convened in the reporting period.

A resolution was passed at the constitutive meeting of the Supervisory Board to increase the number of Audit Committee members from four to six, as the Committee’s duties have become more and more extensive. Dr Schlede was elected as Chairman and Dr Brandt, Messrs Erwert, Hartmann, Lieb and Dr Wollstadt as members. The Committee met twice in the presence of the auditors.

Information on the committees’ work was provided at the beginning of the Supervisory Board meetings. In September, the Supervisory Board reached a consensus on forgoing the use of free flights as provided for in the Articles of Association with immediate effect. In December, we reviewed the efficiency of our working practices and together with the Executive Board made an updated and unqualified declaration of compliance with the German Corporate Governance Code. There were no notifiable conflicts of interest in 2008.

We appointed PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Dusseldorf, who were elected as auditors for the parent company and the Group at the Annual General Meeting 2008, to audit the financial statements and consolidated financial statements, the management reports and the risk management system. 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 occurred during the course of the audit.

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS). The auditors audited the annual financial statements and consolidated financial statements of Deutsche Lufthansa AG and the corresponding management reports as of 31 December 2008 in accordance with the legal requirements, and had no reservations to make. They further confirmed that the risk management system set up by the Executive Board is suitable for the early identification of developments which could endanger the Company’s continued existence. An updated risk report was presented to the Audit Committee in October. During their audit the auditor did not come across any facts in contradiction with the declaration of compliance.

In early March 2009, the Audit Committee discussed draft copies of the audit reports in detail. The auditors, the Chief Financial Officer and I were also present at the meeting. The auditors sent their reports to all members of the Supervisory Board in good time before the accounts meeting. The auditors who signed the annual financial statements took part in the accounts meeting. They reported on the findings of their audit and answered questions.

In the course of this meeting we examined the financial statements and the consolidated financial statements of Deutsche Lufthansa AG, the respective management reports and the proposal for profit distribution in detail and had no objections to make. The financial statements and the consolidated financial statements were approved. The 2008 annual financial statements of Deutsche Lufthansa AG as prepared by the Executive Board have thereby been adopted. We agree with the proposal for profit distribution.

We would especially like to thank the members of the Executive Board, and the employees of the whole Group and its associated companies for their personal contributions to the Company’s impressive success in 2008.

Cologne, 10 March 2009

Jürgen Weber, Chairman
Corporate governance

In its regular meeting on 6 June 2008 the Government Commission of the German Corporate Governance Code adopted an updated version of the Code. It was published on 8 August 2008 in the Federal Gazette, thereby taking effect. As in previous years, Lufthansa complies with all the recommendations of the Code and has issued an unqualified declaration of compliance.

Declaration of Compliance with the German Corporate Governance Code

At their meeting on 3 December 2008, the Executive Board and Supervisory Board issued the following declaration of compliance with the German Corporate Governance Code: “In accordance with Section 161 of the German Stock Corporation Act, the Executive Board and Supervisory Board of Deutsche Lufthansa AG declare that the recommendations of the Government Commission on the German Corporate Governance Code, as published by the Federal Ministry of Justice in the official section of the electronic Federal Gazette, have been complied with in full and will continue to be complied with in full”. These recommendations and the Code’s further suggestions, fulfilled voluntarily, are available for reference on our website www.lufthansa.com/investor-relations.

Shareholders and Annual General Meeting

Lufthansa shares are registered shares with transfer restrictions which all have the same voting rights. This means that shareholders take part in all fundamental Company decisions at the Annual General Meeting. 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 LuftNaSiG must also be met. Only shareholders registered in the share register can exercise their voting rights at the Annual General Meeting. As a service for our shareholders we arrange for them to be able to complete the registration process required by law via the Internet and give voting instructions until shortly before the Annual General Meeting. All the information can be found in the chapter “Share”, on page 28.

Executive Board and Supervisory Board

Both the Executive Board and the Supervisory Board of Deutsche Lufthansa AG have internal regulations governing the work within these boards and the cooperation between them. The three members of the Executive Board are jointly responsible for the management of the entire Company and inform each other of all significant activities and transactions. The Chief Executive Officer reports regularly to the Supervisory Board, which is made up of equal numbers of shareholder and employee representatives. He notifies the Chairman of 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 particularly include: commencing new businesses, signing or cancelling control agreements and strategically important cooperation
agreements, long-term leasing of aircraft, establishing new companies above a certain value threshold, issuing bonds and long-term borrowing as well as investment in non-current assets. Four times a year the Executive Board informs the Supervisory Board on the course of the Group’s business and that of its associated companies. Once a year it provides information on operational Group planning and financing.

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 content, 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 and compliance. It also discusses the quarterly interim reports with the Executive Board before they are published. The three-member Nomination Committee has the task of suggesting suitable candidates to the Supervisory Board for its proposals to the Annual General Meeting. The obligatory Arbitration Committee, required under Section 27 (3) of the Codetermination 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 proposal to the Supervisory Board.

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. A D&O (directors’ and officers’) liability insurance policy has been arranged for both boards with an appropriate excess.

The names of Executive Board and Supervisory Board members and their responsibilities, as well as the members and duties of committees set up by the Supervisory Board, are listed on page 201 et seq.

Transparent accounting and financial communications

Lufthansa prepares the consolidated financial statements and the interim reports according to the International Financial Reporting Standards (IFRS). The recommendations of the International Financial Reporting Interpretations Committee (IFRIC) are also taken into account. The individual financial statements for Deutsche Lufthansa AG, which are required by law and are definitive for the dividend payment, are prepared according to the German Commercial Code (HGB). PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft in Dusseldorf has been appointed to audit the financial statements for 2008. The auditors’ fees for the 2008 financial year are summarised in the notes to the consolidated financial statements, Note 53, page 199.

Lufthansa informs shareholders, analysts and the general public in a timely and equitable manner. More information on these activities can be found in the chapter “The Lufthansa share” and on the Internet at www.lufthansa.com/investor-relations.

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

Executive Board and Supervisory Board remuneration

The Executive Board’s remuneration consists of three components: fixed annual salary, a variable annual bonus and remuneration based on long-term incentives. The latter two each have an element of risk. In addition to their fixed salary the Supervisory Board members also receive remuneration based on the dividend payment. Detailed notes on the structure of Executive Board and Supervisory Board remuneration and on the amounts paid to the individual members are published in the notes to the consolidated financial statements starting on page 195, Note 51.

Compliance

Compliance describes all measures taken to ensure the correct conduct of companies, their management and staff with respect to statutory obligations and prohibitions. The Lufthansa Compliance Programme is intended to prevent our staff from coming into conflict with the law and help them to apply statutory regulations correctly.

The Lufthansa Compliance Programme is made up of the following elements: Competition, Capital Markets, Integrity and Corporate Compliance. An ombudsman system gives the staff the opportunity to report any suspicion of criminal activity or breaches of the compliance regulations. The central Compliance Office and the Compliance Officers in the Group companies ensure that the Compliance Programme is enforced throughout the Group. The Audit Committee is informed regularly by means of a Compliance Report.