SCOPE | Ratings

Deutsche Lufthansa AG

Federal Republic of Germany, Airlines

Rating composition

Business risk profile		
Industry risk profile	B	BBB-
Competitive position	BBB	
Financial risk profile		
Credit metrics	BBB	BBB
Liquidity	+/-0 notches	
Standalone credit assessment		**BBB-**
Supplementary rating drivers		
Financial policy	+/-0 notches	+/-0 notches
Governance & structure	+/-0 notches	
Parent/government support	+/-0 notches	
Peer context	+/-0 notches	
Issuer rating		**BBB-**

Key metrics

			Scope estimates	
Scope credit ratios*	**2023**	**2024**	**2025E**	**2026E**
Scope-adjusted EBITDA interest cover	11.1x	10.8x	10.7x	11.5x
Scope-adjusted debt/EBITDA	1.5x	1.8x	1.6x	1.6x
Scope-adjusted funds from operations/debt	65%	47%	53%	54%
Scope-adjusted free operating cash flow/debt	18%	4%	-1%	-7%
Liquidity	>200%	>200%	>200%	>200%

Rating sensitivities

The upside scenarios for the ratings and Outlook are (collectively):

- Debt/EBITDA significantly below 2x on a sustained basis
- Free operating cash flow/debt above 10% on a sustained basis

The downside scenario for the ratings and Outlook is:

- Debt/EBITDA above 3x on a sustained basis

**All credit metrics refer to Scope-adjusted figures.*

Issuer
BBB-

Outlook
Stable

Short-term debt
S-2

Senior unsecured debt
BBB-

Subordinated hybrid debt
BB

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Related methodology

General Corporate Rating Methodology, February 2025

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1. Key rating drivers

Positive rating drivers	Negative rating drivers
• Globally diversified operations with strong market positions, mitigating cyclicality risks in passenger and cargo traffic • Scale of operations, including diversified worldwide route network and geographical reach, with strong positions at hubs in Frankfurt, Munich, Zurich, Brussels and Vienna • Broad fleet of aircraft fleet renewal programme with next-generation aircraft to support improving cost structures • Co-founder of global aviation alliance Star Alliance, supporting increased flight frequencies	• Exposure to cyclical changes in discretionary travel (business and leisure) and event risks such as natural disasters, contagious diseases and labour strikes, which negatively affect passenger volumes • Multi-hub strategy with low flexibility to adjust capacity without affecting the whole system • Fierce competition, including yield pressure from low-cost and network airlines • Relatively weak profitability must be navigated amid persistent inflation and macroeconomic headwinds • Fleet renewal plan pressuring free operating cash flow

2. Rating Outlook

The Stable Outlook reflects our expectation that Lufthansa will maintain solid credit metrics, underpinned by continued prudent financial policy and resilient operating performance, despite persistent cost pressures and a normalisation of earnings. While the debt/EBITDA is expected to remain below 2x, free operating cash flow/debt is projected to stay structurally weak at below 5%. This reflects the substantial funding needs tied to the group's ambitious fleet renewal programme, which, although strategically important for long-term competitiveness and environmental compliance, will weigh on near-term financial flexibility.

3. Corporate profile

Lufthansa operates across various passenger and aviation service segments

Deutsche Lufthansa AG (Lufthansa or Lufthansa Group) is a global aviation group organized into the following business segments: Passenger Airlines, Aviation Services, and Group Functions. The Passenger Airlines segment includes Lufthansa German Airlines, Swiss, Brussels Airlines, Austrian Airlines, Eurowings, as well as Air Dolomiti, Lufthansa City Airlines, and Discover Airlines. Aviation Services comprises the segments Logistics (Lufthansa Cargo), Maintenance, Repair, and Overhaul (MRO), and Additional Businesses, which includes Lufthansa Aviation Training and IT services.

Lufthansa Group holds a 41% stake in ITA Airways, and a minority equity investment in Air Baltic. Additionally, Lufthansa is a key member of the Star Alliance network, enhancing its global connectivity and collaboration with other leading airlines. All of Lufthansa's segments occupy a leading position in their respective markets, strengthening its competitive position within the global aviation industry.

4. Rating history

Date	Rating action/monitoring review	Issuer rating & Outlook
28 Apr 2025	Outlook change	BBB-/Stable
23 May 2024	Affirmation	BBB-/Positive
24 May 2023	Outlook change	BBB-/Positive

5. Financial overview (financial data in EUR m)

				Scope estimates		
Scope credit ratios	**2022**	**2023**	**2024**	**2025E**	**2026E**	**2027E**
EBITDA interest cover	8.1x	11.1x	10.8x	10.7x	11.5x	11.1x
Debt/EBITDA	2.1x	1.5x	1.8x	1.6x	1.6x	1.6x
Funds from operations/debt	43%	65%	47%	53%	54%	54%
Free operating cash flow/debt	29%	18%	4%	-1%	-7%	-10%
Liquidity	>200%	>200%	>200%	>200%	>200%	>200%
EBITDA						
Reported EBITDA	3,710	4,698	3,920	4,103	4,528	4,931
add: operating lease payments	-	-	-	-	-	-
add: recurring dividends from associates	70	107	114	150	150	150
less: capitalised expenses	-	-	-	-	-	-
Other items (incl. one-offs)	(351)	(360)	(296)	-	-	-
EBITDA	**3,429**	**4,445**	**3,738**	**4,253**	**4,678**	**5,081**
Funds from operations (FFO)						
EBITDA	3,429	4,445	3,738	4,253	4,678	5,081
less: interest	(425)	(399)	(347)	(396)	(408)	(459)
less: cash tax paid	(288)	(92)	(181)	(174)	(209)	(234)
Other non-operating charges before FFO	402	299	(49)	-	-	-
Funds from operations	**3,118**	**4,253**	**3,161**	**3,683**	**4,061**	**4,388**
Free operating cash flow (FOCF)						
Funds from operations	3,118	4,253	3,161	3,683	4,061	4,388
Change in working capital	1,694	278	525	138	(53)	(44)
Non-operating cash flow	-	-	-	-	-	-
less: capital expenditures (net)	(2,354)	(3,021)	(3,038)	(3,500)	(4,000)	(4,500)
less: lease amortisation	(381)	(319)	(354)	(400)	(550)	(650)
Other items	-	-	-	-	-	-
Free operating cash flow	**2,077**	**1,191**	**294**	**(79)**	**(542)**	**(806)**
Interest						
Net cash interest per cash flow statement	342	299	242	291	301	352
add: interest component, operating leases	-	-	-	-	-	-
add: 50% of interest paid on hybrid debt	-	22	11	11	13	13
add: other items	83	78	94	94	94	94
Interest	**425**	**399**	**347**	**396**	**408**	**459**
Debt						
Reported financial (senior) debt	14,657	13,449	13,729	12,930	13,245	13,771
add: subordinated (hybrid) debt (net of equity credit)	247	247	247	497	250	250
add: shareholder loans (net of equity credit)	-	-	-	-	-	-
less: cash and cash equivalents	(8,301)	(8,265)	(8,488)	(7,714)	(7,154)	(7,082)
add: non-accessible cash	100	275	675	650	650	650
add: pension adjustment	415	674	586	586	586	586
add: operating lease obligations	-	-	-	-	-	-
add: asset retirement obligations	-	-	-	-	-	-
add: other debt-like items	84	181	45	-	-	-
Debt	**7,202**	**6,561**	**6,794**	**6,949**	**7,577**	**8,175**

6. Environmental, social and governance (ESG) profile[1]

Environment	Social	Governance
Resource management (e.g. raw materials consumption, carbon emissions, fuel efficiency)	Labour management	Management and supervision (supervisory boards and key person risk)
Efficiencies (e.g. in production)	Health and safety (e.g. staff and customers)	Clarity and transparency (clarity, quality and timeliness of financial disclosures, ability to communicate)
Product innovation (e.g. transition costs, substitution of products and services, green buildings, clean technology, renewables)	Clients and supply chain (geographical/product diversification)	Corporate structure (complexity)
Physical risks (e.g. business/asset vulnerability, diversification)	Regulatory and reputational risks	Stakeholder management (shareholder payouts and respect for creditor interests)

ESG factors: credit-positive credit-negative credit-neutral

Three ESG factors affecting the airlines industry

We identify labour management, CO2 emissions, and indirect sustainability challenges as the primary environmental, social, and governance (ESG) risks impacting the airline industry. Labour management challenges, such as prolonged union disputes, rising labour costs, and workforce shortages, can negatively impact operational efficiency and profitability, leading to heightened financial strain. Similarly, regulatory pressures to reduce CO2 emissions require substantial investments in fuel-efficient aircraft, alternative fuels, and carbon offset programmes. These capital-intensive transitions may burden airlines with higher debt levels or erode cash flows, impacting their ability to meet financial obligations. Additionally, indirect sustainability challenges, including evolving environmental regulations and climate-related disruptions, introduce long-term uncertainty into revenue projections and cost structures.

[1] These evaluations are not mutually exclusive or exhaustive as ESG factors may overlap and evolve over time. We only consider ESG factors that are credit-relevant, i.e. those that have a discernible, material impact on the rated entity's cash flow and, by extension, its credit quality.

7. Business risk profile: BBB-

Industry risk profile: B

We classify cyclicality for the airline industry as high due to its susceptibility to adverse economic changes and event risks. Market entry barriers are low, with many market players despite complex regulatory and legal standards. Substitution risk is low as technological progress is unlikely to change air travel.

Global leader in different segments

Lufthansa is among the largest network carriers worldwide as measured by revenue passenger kilometres. The group has several companies that are global leaders in their respective sectors. In order to secure and build on its successful positioning, Lufthansa has been adapting its business models to the changing markets and competitive environments.

Leading position at major hubs

The group's leading position in its home markets (Germany, Austria, Switzerland, and Belgium), with a market share of above 20%, has allowed passenger airline revenues to gradually recover from the pandemic in line with rising demand in both leisure and business travel.

Lufthansa continues to play an active role in market consolidation, also through opportunistic transactions. Any capacity reduction from faster market consolidation would enable Lufthansa to expand market share and increase yields. In this context, the investment in ITA Airways, which started with 41%, will strengthen the group's position in Italy, its second most important foreign market after the United States.

Continued ramp-up

Lufthansa's restructuring and modernisation has allowed it to adapt to increasing demand and take advantage of growth opportunities. However, the pace of a recovery in aviation still depends on alleviating capacity constraints in the value chain as well as the recovery of the Asian and premium markets. The post-pandemic recovery is still being led by intra-European and transatlantic traffic. The Star Alliance joint venture and network on transatlantic routes also continues to provide a vast network and product range. At the end of 2024, 91% of the pre-crisis capacity was reached on average. For 2025, Lufthansa projects a +4% year-on-year increase in capacity. Key enablers of the group's ongoing capacity expansion are its broad fleet of aircraft, expected deliveries of new, more efficient aircraft, and a strong presence in multi hubs. These factors support the continued ramp-up towards – and eventually beyond – pre-pandemic capacity levels.

Cargo continues to be a positive contributor beyond the pandemic

Lufthansa Cargo is among the top cargo airlines worldwide as measured by revenue tonne kilometres. The division continues to benefit from strong demand for airfreighting and is increasingly participating in the growth of international eCommerce shipments within Europe and Asia. As such, it is expanding its freighter fleet to open new growth potential. The global market for airfreight returned to normal in the 2023 financial year, compared with the record levels reported during the coronavirus pandemic, but remained at a high level in historical terms.

Lufthansa Technik: a leading independent MRO provider for civil commercial aircraft

In a fragmented global market, Lufthansa Technik is one of the largest MRO providers for aircraft, engines and aircraft components. The division's market strength is reflected in the large number of aircraft served under exclusive contracts. It has more than 800 customers worldwide, including OEMs, aircraft leasing companies, operators of VIP jets, governments and armed forces, as well as airlines. Around one third of its business comes from entities in the Lufthansa group and two thirds from clients outside the Lufthansa group. We expect the MRO industry to continue to grow, supported by increases in commercial aircraft deliveries and air traffic. Lufthansa Technik is targeting over EUR 10bn in revenue and margin improvement under the Ambition 2030 plan.

Diversification into Cargo and MRO helps offset weakness in passenger airlines

Group revenues are naturally more skewed toward Europe, given the major hubs in the region (see Figure 1), but business outside Europe, particularly the strong transatlantic operations and important positions in Asia, adds meaningful geographic diversification. The nature of Lufthansa's business, with significant contributions from cargo and MRO (Maintenance, Repair, and Overhaul) services, provides a degree of resilience. Cargo played a critical role during the crisis, achieving record results in 2021 and expected to remain strong post-pandemic, while the growing MRO segment offers a buffer against economic fluctuations. In 2021 and 2022, the strong performance of Lufthansa Cargo and Lufthansa Technik counteracted weaker results in Passenger Airlines. However, the Group remains primarily driven by Passenger Airlines, which account for over 70% of total revenues (see Figure 2). Lufthansa is also pursuing internationalisation through the partial acquisition of ITA Airways, with the option for full ownership in the future. This supports the expansion of its long-haul network.

Flexibility is key to capturing growth

The aviation sector is expected to continue its recovery in 2025, supported by sustained demand and a capacity ramp-up. However, long-term growth will likely be influenced by evolving travel patterns in the aftermath of the pandemic, geopolitical developments, infrastructure constraints, climate-related pressures, and ongoing digitalisation. It will be essential for Lufthansa to adapt to these structural shifts in order to align its business model with changing market dynamics and passenger expectations.

Controlling cost is key to profitability

Lufthansa's group adjusted EBIT margin (as per Lufthansa calculation) of 4.4% in 2024 (down from 7.6% in 2023) reflects persistent cost pressures, particularly rising personnel expenses, and heightened competitive challenges in the European market. The negative adjusted EBIT at Lufthansa Airlines underscores the strain on its core operations. However, the strong profitability of Swiss (12.4%), Lufthansa Technik (8.5%), Lufthansa Cargo (7.7%), and point-to-point operator Eurowings (7.1%) demonstrates the resilience provided by the group's diversified structure, offsetting weaknesses at the mainline airline. Despite the strong contribution from the cargo and MRO divisions, passenger airlines remain the driving force behind the business, generating over 70% of revenues.

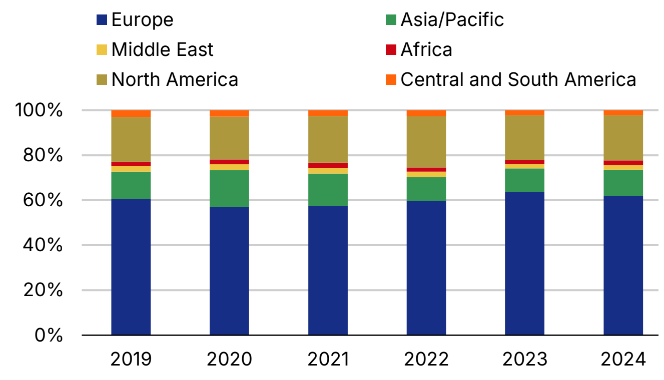
Controlling cost is key to profitability

With profitability under pressure, Lufthansa must maintain high load factor (83% in 2024, in line with industry average), tighten cost discipline, and push for efficiency across the supply chain to defend margins against external headwinds such as supply chain constraints, infrastructure limitations, regulatory burdens, and rising taxation. In such a thin-margin industry, internal efficiencies are critical to protecting earnings and achieving medium-term profitability targets (at least 8% of group adjusted EBIT margin).

Profitability continues to be a challenge for the industry

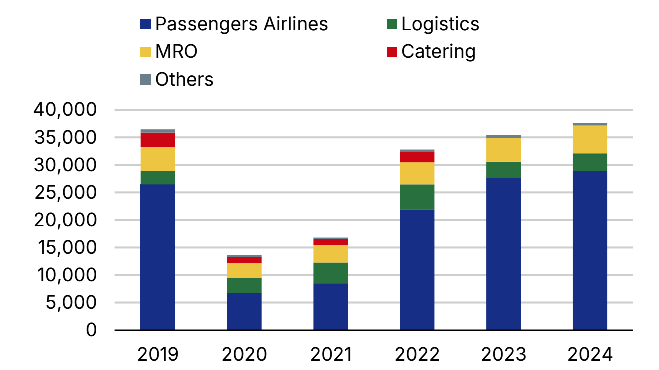
Despite its resilient market share and status as one of the most diversified groups, Lufthansa's business risk profile is constrained by the cyclical nature of discretionary travel, which can be affected by event-driven risks (such as pandemics), intense competition, and ongoing weak profitability. This challenge is not unique to Lufthansa, as many airlines are grappling with similar issues. However, Lufthansa remains committed to improving its margins, with restructuring plans in place aimed at driving profitability improvements over the medium to long term.

Figure 1: Lufthansa geographical split of revenues



Source: Lufthansa, Scope

Figure 2: Lufthansa division split of revenues



Source: Lufthansa, Scope

8. Financial risk profile: BBB

Credit metrics fully recovered from impact of Covid-19 in 2023

Lufthansa's credit metrics have gradually recovered from the severe disruption caused by the Covid-19 pandemic. The revenue collapse in 2020 and elevated debt levels required to cover losses led to a significant deterioration in financial performance. Since 2022, however, the group has recovered steadily, supported by increased bookings, improved cash generation, and disciplined capacity management. Early repayment of state-guaranteed loans and a successful capital increase further contributed to balance sheet repair. By 2023, revenues had nearly reached pre-pandemic levels, and EBITDA exceeded EUR 4.5bn. As a result, key credit metrics normalised ahead of expectations, with Scope-adjusted debt/EBITDA falling below 2.0x and funds from operations (FFO)/debt improving to over 60%.

Leverage remaining below 2x

In 2024, Lufthansa's credit metrics remained resilient overall, although they reflect the contrasting effects of declining operating results – mainly due to persistent cost pressure at Lufthansa Airlines – and rising capital expenditure. Scope-adjusted debt/EBITDA and FFO/debt deteriorated slightly to 1.8x and 47%, respectively. We expect leverage to remain between 1.5–2x over the medium term, with FFO/debt stabilising between 45%–60% thanks to continuing deleveraging efforts.

Good debt protection

Debt protection remains robust, with Scope-adjusted EBITDA interest cover remaining around 10x. This is underpinned by Lufthansa's use of cost-effective financing, such as JOLCO structures, instead of public bonds. Additionally, the rising interest rate environment has reduced the pension deficit by lifting the discount rate, while the group's liability-driven investment strategy mitigates risks from future rate declines.

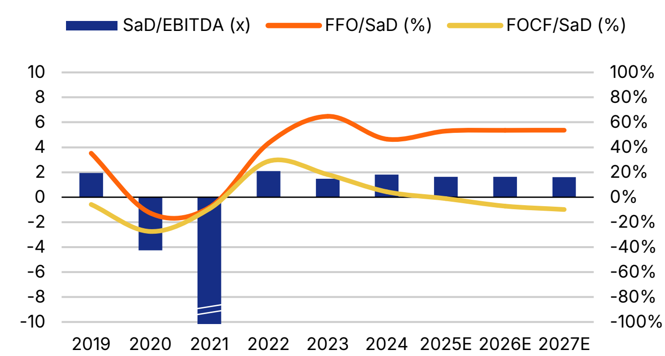
Cash flow cover the weakest link

However, cash flow coverage remains a key vulnerability. Although 2023 benefited from record EBITDA, free operating cash flow/debt dropped sharply to 4% in 2024 from 18% in 2023, due to a combination of lower EBITDA and higher capital expenditure. It is expected to remain below 5% over the medium term.

Although sale-and-leaseback transactions provide some relief, Lufthansa's substantial investments in fleet renewal and capacity expansion increase its reliance on external funding. This introduces structural risk, particularly in the event of macroeconomic or industry-specific shocks. Nevertheless, the fleet transition is essential for improving cost efficiency, reducing exposure to fuel price volatility, and ensuring compliance with stricter environmental standards.

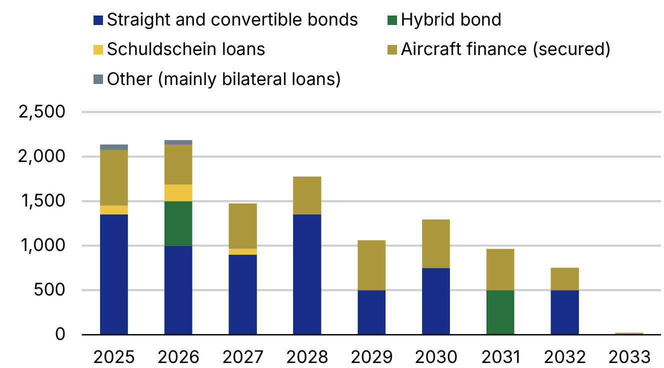
To support internal cash flow, the group is aiming to enhance working capital management, focusing on tighter control of receivables and the optimisation of supplier payment terms.

Figure 3: Key credit metrics



Source: Lufthansa, Scope

Figure 4: Debt maturity schedule as of Dec 2024 in EUR m



Source: Lufthansa, Scope

Adequate liquidity

Lufthansa's liquidity is adequate. Lufthansa will maintain a significant level of cash on its balance sheet each year (unrestricted cash at EUR 7.8bn by YE 2024), compensating for weaker free operating cash flow. Coupled with access to EUR 2.5bn in undrawn revolving credit, this will result in internal and external liquidity coverage ratios adequate to sufficiently cover borrowings maturing in 2025 (EUR 2.3bn) and 2026 (EUR 1.7bn). The group's long-term liquidity target is around EUR 8bn-10bn to better protect itself against future crises.

Table 1. Liquidity sources and uses (in EUR m)

	2024	2025E	2026E
Unrestricted cash (t-1)	7,990	7,813	7,064
Open committed credit lines (t-1)	2,549	2,500	2,500
FOCF (t)	294	(79)	(542)
Short-term debt (t-1)	2,469	2,299	1,685
Liquidity	**>200%**	**>200%**	**>200%**

Source: Scope

9. Supplementary rating drivers: +/- 0 notches

No impact from supplementary rating drivers

We have made no rating adjustments related to financial policy, peer group considerations, parent support, or governance and structure.

Commitment to deleveraging and investment grade

Financial policy continues to be neutral for the rating. Although the fleet renewal plan could be viewed as ambitious, it is a necessary step to support long-term profitability. Management continues to demonstrate a strong commitment to deleveraging and maintaining an investment-grade credit profile.

10. Debt ratings

Senior unsecured debt rating: BBB-

Senior unsecured debt has been rated BBB-, which is in line with the issuer rating.

Subordinated unsecured (hybrid) debt rating: BB

Outstanding subordinated (hybrid) debt remains two notches below the issuer credit rating, at BB. This is due to the features of the hybrid debt placed by the rated entity: i) optional coupon deferral, allowing the issuer to defer interest payments in whole or in part at its discretion on any payment date; ii) perpetual tenor, with no fixed maturity or obligation for repayment; iii) the commitment to replacement, demonstrated by the issuance of a new EUR 500m hybrid bond with a 5.25% coupon in January 2025, which enables the early refinancing of the existing hybrid bond due for repayment at its next call date on February 2026; and iv) deep contractual subordination, with the hybrid ranking ahead only of ordinary share capital.

Short-term debt rating: S-2

The affirmation of the S-2 short-term rating is based on the BBB-/Stable issuer rating and backed by strong liquidity cover and conservative liquidity management. The rating is further supported by Lufthansa's well-established bank relationships and good standing in the capital markets, evidenced by the revolving credit line.

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