



Key Data at a Glance

(based on IAS)

Lufthansa CityLine GmbH				
		2002	2001	Change in %
Total Revenues	in € million	1 233.9	1 141.4	8.1
Operating Revenue	in € million	1 167.9	1 070.1	9.1
Capital expenditure	in € million	225.1	249.9	-9.9
EBITDAplus	in € million	224.4	119.1	88.4
Equity ratio	in %	12.9	9.6	34.5
Employees (annual average)		2 285	2 063	10.8
Passengers	in millions	6.2	6.0	3.8
Available seat kilometers	in millions	6 151	6 309	-2.5
Revenue passenger kilometers	in millions	3 703	3 694	0.2
Seat load factor	in %	60.2	58.5	1.7 pts.
Operating profit	in € million	58.0	23.1	151.2
Loss/profit from ordinary activities	in € million	76.0	-15.5	

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* IAS = International Accounting Standards

**HGB = Handelsgesetzbuch (German Commercial Code)

To our customers and business partners



The managing directors of Lufthansa CityLine GmbH: Karl-Heinz Köpfle (left) and Dr. Thomas Dräger

Dear Readers,

In 2002, Lufthansa CityLine again proved its mettle, under very difficult market conditions. While the aviation industry recovered step by step from the effects of September 11, 2001, the long-expected economic upswing failed to materialize – in Germany as in other countries. The ensuing lull in economic activities, within a business climate marked by caution and restraint, dampened the public's inclination to travel and led to the introduction of cost savings measures at many companies. Together, these factors had a clearly perceptible effect, particularly on business travel.

Despite such tough obstacles, Lufthansa CityLine was able to close the Financial Year 2002 with a positive result. Several factors contributed to this success. Firstly, by carefully adapting our route network and flexibly deploying our 50-to-80-seater jets, we were able to increase the utilization of the CityLine fleet – despite the fact that it grew by five aircraft compared with 2001. Secondly, our efforts to optimize the company's processes, a goal we pursued rigorously in 2002 in the context of our *be excellent* project, paid off significantly.

Last year, we received concrete confirmation of having come quite close to our corporate goal of "excellence" – and to the European quality award we strive for: In the

competition for the Ludwig Erhard Award, Germany's highest recognition for top-flight management performance, first-time contender Lufthansa CityLine ranked among the finalists. The jury of experts also honored us with the "Recognition for Excellence" award. This success – like our positive business result for 2002 – would not have been possible without the commitment and dedication of our employees. Therefore, we would like to thank all CityLiners for their unflagging support.

In 2002, Lufthansa CityLine achieved its economic targets across the board – and in some cases even surpassed them. We were able to market all our service offerings, which had been reduced by 2.5 percent compared with 2001, and even recorded a slight increase in demand at 0.2 percent. The seat load factor for CityLine flights reached 60.2 percent on average, an increase of 1.7 percentage points above the value for 2001. With total revenue increased by 9.1 percent, we achieved a profit on ordinary activities of 76.0 million euros (before tax, according to IAS).

We clearly asserted our leading position in European air transport, even though the market entry of more "no-frills" carriers shifted market dynamics further and intensified competition. In 2002, 6.2 million passengers – 3.8 percent more than the year before – flew with Lufthansa CityLine to destinations all across Europe. Germany remained our most important market, with a share of 18.0 percent, despite a decline in passenger numbers by 2.4 percentage points. This country was followed by Italy (15.5 percent), France (15.3 percent) and Switzerland (11.3 percent), three markets in which we achieved slight increases.

For us, the most important yardstick for CityLine's success – beyond key economic data – is the degree of acceptance our company finds in the broader context of society. We continue to view the minimization of environmental impact from flight operations as one of our primary tasks. Here, the most important means at our disposal is the deployment of the quietest, most fuel-efficient and lowest-emission aircraft available, such as the Canadair Jet CRJ 700. Five jets of this type joined our fleet last year; nine more will be added in 2003. Moreover, we will anchor the guiding principle of sustainability even more systematically into our company, by practicing quality management according to the EFQM model in addition to comprehensive environmental management.

All indicators point to 2003 as yet another year of increased challenges. Economies around the world remain weak, which affects European regional air transport as well. The capacity reductions implemented by Lufthansa also mean that three Canadair Jets operated by Lufthansa CityLine will remain grounded – probably

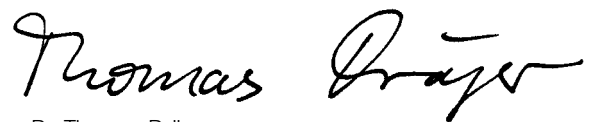
until the middle of 2003. And we must prepare ourselves for the possibility of further difficult developments. In addition to existing pressures on average yields, a significant shift of passengers to "no-frills" carriers could occur, forcing us to respond by either changing routes or canceling services. However, the single most important element of risk remains the threat of war in the Middle East. Drops in demand and further increases in costs, such as for jet fuel and insurance, are just a few of the effects we would have to deal with in this case.

A critical scenario, no doubt. Still, we have a number of good reasons to be confident, even guardedly optimistic. Repeatedly, our company has demonstrated that it has the vital resources it needs to master such challenges, even in the most difficult of times. Flexibility, cost efficiency and high quality standards have always been and continue to be the foundations of our success. This provides a stable base, one that allows us to fly through possible turbulence with unswerving success.

Yours sincerely,



Karl-Heinz Köpfler



Dr. Thomas Dräger

High quality is our trademark

A market characterized by pronounced fluctuation, such as the market for civil aviation, demands that its players develop an exceptional degree of flexibility and practice a farsighted cost discipline. To prepare optimally for these challenges, Lufthansa CityLine has systematically scrutinized its own work flows over the past two years. This thorough self-assessment has resulted in measures to make our processes more efficient and flexible, lower costs and conserve resources in all corporate areas.

Our company-wide project *be excellent* is of special importance in this context. Additionally, it is CityLine's contribution to the Lufthansa Group's "D-Check," a Group-wide initiative to boost efficiency and lower costs. The project's title – *be excellent* – defines its very objectives: At Lufthansa CityLine, achieving excellence means being "besser, beweglicher und beliebter," which translates as "better, more flexible, more popular." These efforts aim at the highest level of quality – in all processes and across the entire output chain. Here, CityLine has adopted the model of the European Foundation for Quality Management (EFQM), a model based on the established principles of Total Quality Management (TQM).

Safety and efficiency

This philosophy of quality has also shaped the restructurings CityLine has undertaken in the course of its expansion. As early as summer 2001, Ground Operations was separated from Flight Operations to become an independent corporate area, a move that reflects its increased importance. Currently, the new organization we have developed over the past months to accommodate the size of this – the company's fastest expanding – area is being phased into routine operations. Implementing this organizational structure involves systematically developing new definitions of altered work processes and responsibilities. As regulatory directives must be followed here, this process requires a particularly high degree of care and is thus monitored by our Quality Assurance Department via regular audits.

An integral goal of these restructurings is to make processes more efficient and flexible. Last year, in order to anchor the two-fold task of quality assurance and process optimization into CityLine's organizational structure, we appointed quality managers in the areas Technical Operations, Ground Operations and Flight Operations. On the one hand, they coordinate internal audits and support swift implementation of legal requirements. On the other, they are fully integrated into the *be excellent* project and ensure that quality initiatives are implemented in their areas.

Improved channels of communications

Following extensive preparations, the Integrated Operational Center (IOC) assumed its duties in Ground Operations in September 2002. The IOC allows improved coordination of operational deployment control within a 72-hour window before flights are operated. In the past, three different departments were responsible for this time-critical coordination of maintenance, flight crew and aircraft deployment. In our new facilities, all employees work in the same room. This provides direct channels of communication, a prerequisite for making decisions quickly and handling closely-connected tasks optimally.

Reducing the number of interfaces

The introduction of SAP in early summer 2003 will considerably reduce the number of interfaces, while increasing transparency of work flows in the areas of Technical Operations, Materials Management, and Finances and Administration. The standard software's configuration has been in preparation since October 2001, following intensive exchanges with the departments involved. So far, these departments have either used different, mutually incompatible software systems or had to make do entirely without IT support. Now, SAP offers an integrated, comprehensive solution in line with Lufthansa Group standards. For example, the new system enables direct accounting entries for materials purchased and issued by Technical Operations. Aircraft maintenance requirements can also be depicted online and coordinated with technician capacity planning at the stations involved. This makes maintenance planning much more flexible and allows more rapid responses.

Ratios indicate business success

Lufthansa CityLine expects that introducing a process-oriented management system will result in the seamless integration and improved performance-based management of all its business processes. In 2002, as part of the *be excellent* project, all work processes were documented in detail and their goals and prerequisites defined.

On this basis, Lufthansa CityLine has expanded its existing system of performance indicators. Meanwhile, the company has developed ratios for all processes, which – in connection with target values – allow continuous control of company performance and need-related control of work processes. A pyramid of ratios is used for prioritization. At the top of this pyramid are indicators concerning the airline's key processes – chiefly those describing the punctuality and regularity of our flights and concerning customer satisfaction. Beyond that, the pyramid serves to integrate and monitor other data on a continuous basis. This includes the ratios on environmental protection – a very important topic for Lufthansa CityLine.

In 1999, in preparation for initial certification according to the European eco-audit regulation EMAS and the international environmental standard ISO 14001, the airline introduced a comprehensive environmental management system with target ratios for all areas. The related measures and their results are checked regularly via internal audits. In the context of the recertification in April 2003, external auditors helped to evaluate and assess the company's corporate environmental protection activities from a neutral point of view.

Our process-oriented management system was phased into routine operations in spring 2003. At that point, CityLine systematically introduced an easy-to-use method of analysis for all ratios, akin to the one it has used for some time to analyze the results of in-flight surveys (Customer Service Index). This method shows at a glance which areas require immediate action and where target values have been reached or even surpassed. Data on customer satisfaction is communicated once a month to all operative areas, thereby boosting the degree of transparency in the daily work of our employees. Increasingly, software-based systems such as SAP serve to simplify the analysis of ratios in this and other areas.

In 2002, the company also introduced a 360 degree feedback analysis for cabin staff. This provides complementary data on service quality and serves to align customer feedback. Furthermore, starting in spring 2003, CityLine began measuring the satisfaction of its cockpit and cabin staff with their duty roster via a ratio.

Lufthansa CityLine aims at continuously improving its management systems on the basis of business performance. In the spirit of the EFQM model, additional indicators, such as on human resources aspects or acceptance for our business activities within society, are to be used increasingly to gauge the company's success and its sustainability.

Focus on our employees

Knowing the needs of our employees and enabling them to participate in changes are key prerequisites for high quality in our business processes. Accordingly, our company-wide *be excellent* project strongly emphasizes the participation of our people. For this reason, it is accompanied by "Excellence Workshops" in all departments. In this forum, employees jointly analyze strengths and improvement potentials in their individual work areas and develop specific measures for improvement. Our Excellence Workshops are set to take place regularly under the guidance of the CityLine TQM Department.

Our completely redesigned corporate suggestion program, relaunched in July 2002 under the name "Ideenwerkstatt," counts on the creativity and competence of all Lufthansa CityLine employees. Its more attractive premiums are already showing an effect. More than three times as many ideas were received in the second half of 2002 than in the first six months of the year. These ideas translated into savings worth more than half a million euros.

At the end of 2002, Lufthansa CityLine conducted its third comprehensive employee survey since 1996. The company can be proud of both the high participation rate of over 50 percent and the survey's results. In many areas, such as satisfaction with one's own job and the company in general, CityLine not only achieved improved results compared with the preceding years but also ranks far above the benchmark among other European service companies. Despite the numerous organizational changes over the last few years, CityLiners also rank the cooperation with their colleagues as above averagely positive. At the same time, we still have room for improvement in the area of information and communication. In the context of a *be excellent* project for recipient-oriented information, CityLine is currently addressing the challenge of how to better reach our highly mobile flying personnel.

Award-deserving performance

An excellent confirmation of the course Lufthansa CityLine has chosen is the fact that our airline was one of the three finalists in the competition for the 2002 Ludwig Erhard Award. This prize, which is bestowed by the German Society for Quality and the central organizations of German industry, takes into account a company's business performance, employee and customer satisfaction, and readiness to assume social responsibility. Following the surprising success of this – our very first – contest, CityLiners now want to know where they stand. Consequently, we have entered the competition for the European Quality Award and are now preparing a new entry for the 2003 Ludwig Erhard Award.

Chronicle 2002

For Lufthansa CityLine, 2002 was a year characterized by numerous challenges. Management and employees focused, above all, on getting in shape for the intensified competitive situation throughout the aviation industry. The success of these efforts is visible in all areas of our company. In fact, CityLine ended the year not only with a new passenger record – but also with the distinction of becoming a finalist in the competition for the Ludwig Erhard Award, the “German Quality Award.”

January – February

“Besser, beweglicher, beliebter,” which translate as “better, more flexible, more popular,” becomes the newly formulated motto at Lufthansa CityLine. It is presented to employees on February 6, together with four quality management projects aiming at opening up improvement potentials in key areas, such as communications and customer feedback.

On February 15, CityLiners welcome the seventh Canadair Jet CRJ 700 to Cologne. “Papa-Golf” is the both the regional airline’s 68th aircraft and its 50th Canadair Jet.

March – April

The airline’s flight operations handbooks, weighing several kilos each, can now be retired: Starting in March, CityLine pilots only need a laptop computer when they begin duty in the cockpit. The “CityLine Workpads” receive regular online updates of current information relevant for flight operations. They also enable even more accurate calculations of take-off data. This results in optimal take-off thrust, which also means more fuel-efficiency and less aircraft noise.

The Group-wide communications platform eBase goes online on March 26. Lufthansa CityLine participates in this innovation right from the start. The new electronic network gives its users direct access to information from all Group companies. Current company news, highlights of training programs and legal guidelines concerning jobs round off the offerings in eBase.

On April 15, new uniforms are distributed to the first of the 1,500 flying CityLiners. The elegant navy-blue basic collection is the same as the one worn by their colleagues at Lufthansa Passenger Airline. But when it comes to the accessories, CityLine sets its own accents: The ladies’ scarves and the gentlemen’s ties feature a



blue-and-yellow diamond pattern instead of Lufthansa’s double stripe.

On April 22, Lufthansa CityLine gains a new patron city, Schkeuditz in Saxony. A Canadair Jet CRJ 200 now bears the name of this small city near Leipzig, home to one of Germany’s oldest civil airports.

May – June

On May 1, the eighth Canadair Jet CRJ 700 arrives in Cologne.

As its summer timetable goes into effect, Lufthansa CityLine flies to five new charter destinations: the Croatian island of Split in the Mediterranean Sea, Fagerness and Tromsø in Norway, Keflavik in Iceland and Sarmellek on the banks of Hungary’s Lake Balaton.

In May, Lufthansa CityLine publishes its annual report. It demonstrates that the company was able to take full advantage of its strengths in 2001, a year characterized by crisis. A high degree of flexibility and enhanced reactions made it possible to significantly reduce the impact of expected drops in revenues.

On June 15, CityLiners welcome the ninth Canadair Jet CRJ 700 to Cologne.

July – August

The CityLiners’ spirit of innovation gets new impetus: On July 1, a fully renovated corporate suggestion program, the “Ideenwerkstatt,” is launched. A transparent and efficient process now ensures swift assessments of employee proposals, and creative thinkers receive improved bonuses for their bright ideas.

SAP goes on the starting blocks for CityLine: In July, the project team start the system’s configuration in Aircraft Maintenance, Materials Management and Finances and Administration. In the preceding so-called “blueprint” phase, the new processes and work flows were redefined in the context of the new standard software and adapted to the company’s specific requirements.

On July 15, an anniversary aircraft arrives in Cologne – the tenth Canadair Jet CRJ 700.

During the summer months July and August, a large-scale logistical project is pulled off at Cologne/Bonn Airport: 140 employees from Ground Operations, Personnel and Social Services, Travel Office and General Administration move into new offices in the freshly renovated former ITS Building. The move into the new Integrated Operational Center (IOC) is especially sensitive. As it is part of Ground Operations, the IOC is in contact around the clock with CityLine jets all across Europe. For this reason, disruptions in operations must be avoided at all cost. Meticulous planning and shifting the move to the nighttime hours guarantee that everything runs smoothly.

Double christening at the Lufthansa Base in Frankfurt: On August 5, CityLine gains two new partner cities – Deidesheim in the Palatinate and Kronach in Upper Franconia. Two Canadair Jet CRJ 200s will carry the two cities' names all over Europe.

September – October

Lufthansa CityLine sets a new one-day record: On September 27, the airline carries a total of 24,146 passengers. At 22,821 passengers, the previous year's record was significantly lower.



In October, the grape harvest kicks off under sunny autumnal skies at the CityLine vineyard in the Palatinate village of Deidesheim.

Lufthansa CityLine's buildings at Cologne/Bonn Airport are given new names, as suggested by the airline's employees. On October 28, at the official opening of the former ITS Building, Managing Director Karl-Heinz Köpfle



christens the building complex "Star City." This includes the newly constructed building, now "Blue Star," the hangar, now "Yellow Star," the former ITS Building, now "Silver Star," and the building in Porz-Lind, "White Star." The roundabout in front of the airline's main building is renamed "CityLine-Platz."

As the winter timetable goes into effect, Mediterranean dishes are served on Lufthansa's European flights. "Taste Europe," developed on the basis of CityLine's Business Class product, becomes the new menu offering on both Lufthansa Passenger Airline and the regional airline. Economy Class passengers traveling within Europe on CityLine and Lufthansa Passenger Airline are also offered a homogeneous product.

November – December

On November 3, CityLiners welcome this year's last reinforcement for their fleet – the 11th Canadair Jet CRJ 700 arrives in Cologne.



On November 11, BDI Vice President Hans-Olaf Henkel presents CityLine's Managing Director Karl-Heinz Köpfle with a certificate at a ceremony in Frankfurt's St. Paul's Church: In its first participation in the contest for the Ludwig Erhard Award, Germany's highest distinction for top-flight performances in management, Lufthansa CityLine ends up as one of the three finalists. In addition, the airline receives the European honor "Recognition for Excellence," awarded by the European Foundation for Quality Management (EFQM).

On December 16, Lufthansa CityLine welcomes its 6-millionth passenger for the year 2002 at Cologne/Bonn Airport. The year-end is marked by yet another record: The regional airline has carried 6.2 million passengers over the last 12 months, an increase of 3.8 percent over the preceding year.

Report on the economic situation

Despite the weak global economic scenario, which continued to affect Lufthansa CityLine's traffic performance last year, the airline was able to increase the utilization of its aircraft by means of network optimizations, thus achieving a positive result for the financial year.

Quality management earns award

In November 2002, first-time contender Lufthansa CityLine placed among the three finalists in the competition for the Ludwig Erhard Award, Germany's highest honor for outstanding performances in management (the "German quality award"). Special recognition was given for CityLine's *be excellent* project, which aims at optimizing processes company-wide. According to experts, this is an unusual distinction for a first-time entrant. For Lufthansa CityLine, it is also an important step on the path toward its next goal, the European quality award.

IT projects support process optimization

The planning phase of CityLine's *jonas* project was concluded successfully. This project paves the way for the comprehensive introduction of SAP R/3 at Lufthansa CityLine and – complementing the *be excellent* project – aims to optimize the processes in aircraft maintenance and the commercial functions, including all interfaces.

More flights, better load factor

In 2002, the number of flights operated by Lufthansa CityLine (scheduled and charter) increased by 2.8 percent over the preceding year, rising to 170,250. Production capacity, measured in seat kilometers offered (SKO), declined by 2.5 percent in comparison with 2001. However, measured in revenue passenger kilometers (PKT), the company achieved an increase of 0.2 percent. Accordingly, utilization of flights (seat-load factor, SLF) rose to 60.2 percent, an increase of 1.7 percent over the previous year. The number of passengers grew to 6.2 million, a plus of 3.8 percent compared with 2001. The share of passengers traveling on international flights rose to 81.6 percent, 2.1 percent more than in 2001.

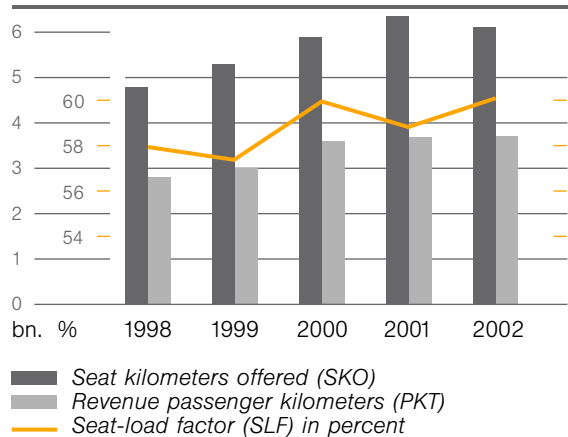
Sales proceeds increased

Sales proceeds improved by 9.1 percent compared with 2001, reaching 1,167.9 million euros. The most important market in Europe – measured in passenger numbers – was Germany with a share of 18.0 percent (previous year: 20.4 percent). This country was followed by Italy with 15.5 percent (previous year: 13.7 percent), France with 15.3 percent (previous year: 13.9 percent) and Switzerland with 11.3 percent (previous year: 10.0 percent).

Profits improved significantly

With total earnings according to IAS of 1,233.9 million euros (previous year: 1,141.4 million euros) and expenses according to IAS of 1,175.9 million euros (previous year:

Offerings, demand and utilization of capacities Lufthansa CityLine in billion seat kilometers and percent



1,118.3 million euros), Lufthansa CityLine achieved an operating result of 58.0 million euros in 2002 (previous year: 23.1 million euros). After accounting for the financial result of 17.9 million euros (previous year: –38.6 million euros), the profit on ordinary activities before taxes reached 76.0 million euros (previous year: –15.5 million euros). After considering tax expenditures of 25.0 million euros (previous year: tax gain 9.9 million euros), net income for the year before profit transfer according to HGB reached 50.9 million euros (previous year: net loss for the year 5.6 million euros).

More employees in maintenance and flight operations

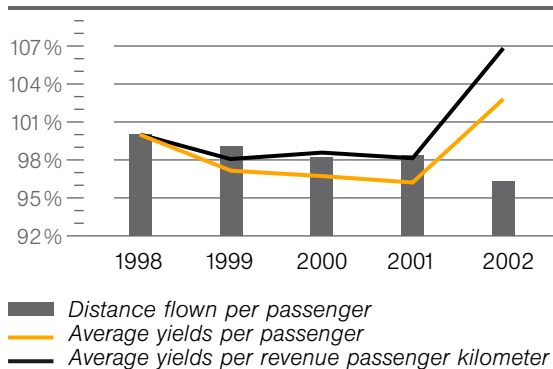
On average, Lufthansa CityLine counted 2,285 employees (including 22 employees serving apprenticeships) in 2002. Compared with the previous year, the average number of employees increased by 10.8 percent. Employee numbers rose above all in the productive maintenance areas, so that the number of ground personnel increased by 13.0 percent to 839 employees. The corps of flying personnel grew to 1,446 employees, an increase of 9.5 percent in comparison with 2001.

Fleet expanded by five 70-seaters

Five Canadair Regional Jet CRJ 700s started revenue service in 2002. At year-end, the CityLine fleet comprised 54 Canadair Regional Jets (33 CRJ 100s, 10 CRJ 200s and 11 CRJ 700s), 18 Avro RJ85s and nine Fokker 50s, the latter operated by Contact Air for Lufthansa CityLine under a sublease. (Two Fokker 50s were returned to the lessor in the course of Financial Year 2002.) In addition, the following aircraft were on charter at year-end: two CRJ 200s operated by Cimber Air, four Dash 4s and eight Dash 3s operated by Augsburg Airways and two CRJ 200s operated by Air Dolomiti (one partial capacity).

Development of average yields Lufthansa CityLine

Index 1998 = 100



Associated companies predominately return positive results

DLT Extra Executive Travel Reiseflug GmbH, Cologne, a fully-owned subsidiary of Lufthansa CityLine GmbH, recorded a profit after taxes of 4,045 thousand euros in 2002 (previous year: loss 1,000 euros). The company is the sole shareholder of DLT of USA Inc., in Dover, Delaware.

Lufthansa CityLine GmbH holds 50 percent of the share capital of **CityLine Canadair Simulator und Training GmbH Berlin**, Berlin. The company, which operates three Canadair Regional Jet simulators (CRJ 100, 200 and 700), reported a loss after taxes of 351 thousand euros (previous year: profit of 208 thousand euros) for Financial Year 2002.

Additionally, Lufthansa CityLine GmbH holds 50 percent of the share capital of **CityLine Avro Simulator und Training GmbH Berlin**, Berlin, which operates one Avro RJ85 simulator. For Financial Year 2002, the company stated a profit after taxes of 286 thousand euros (previous year: 873 thousand euros).

Outlook: A good chance of success, despite difficult conditions

In 2003, the Lufthansa CityLine fleet will be expanded by a further nine Canadair Regional Jets (CRJ 700s) and is consequently set to grow more than in 2002. Attaining the total number of 81 jets, our fleet expansion will thus be concluded for the time being. We are unable to introduce the planned Fairchild-Dornier fleet (FD 728s) due to that manufacturer's insolvency.

Our entire shareholdings in DLT Extra Executive Travel Reiseflug GmbH, Cologne, including DLT of USA, are to be sold to Lufthansa Technik AG in 2003.

The introduction of SAP R/3 in the commercial and technical areas is slated for the second quarter. This step will result in profound changes and optimization of processes.

The worldwide economic weakness and the resulting negative effect on economic performance affect both international air transport and European regional air transport. In response, the Lufthansa Executive Board has decided on a further reduction of capacities for the summer timetable 2003. These reductions also affect Lufthansa CityLine. During the first half of 2003, three Canadair Jets and two of the chartered Dash 8s operated by Augsburg Airways are expected to remain grounded.

A number of factors could result in risks to the development of the company's performance. These include the continued economic slump, the possible introduction of a tax on kerosene, the introduction of value-added tax for cross-border traffic, an intensified shift of passengers to the "no-frills" carriers, declining average yields, an unfavorable development in foreign exchange rates and bottlenecks in personnel recruiting, especially for specialists and mechanics. Yet the greatest risks of all are a military conflict in the Middle East, which would directly affect the air transport industry, and any terrorist actions that might result from such a conflict. One key problem in this context would be insurance coverage for third-party liability insurance – again offered on the market at drastically increased premiums – following the expiration of the German government's guarantee.

Despite these important risks, Lufthansa CityLine is optimistic about being able to achieve a positive result for 2003 as well.

Financial Statements of Lufthansa CityLine GmbH 2002



Canadair Jet



Balance Sheet (based on IAS) as at December 31, 2002

Assets	Notes*	Dec. 31, 2002 in €	Dec. 31, 2001 € (000)
A. Total fixed assets	1)		
I. Intangible assets			
1. Software		6 064 302.23	2 442
2. Advance payments		1 028 915.57	332
Total intangible assets		7 093 217.80	2 774
II. Tangible assets			
1. Installations in third-party buildings		580 818.00	586
2. Aircraft		775 833 927.06	882 468
3. Technical plant		199 588.00	285
4. Office and other equipment		2 729 408.04	2 620
5. Advance payments		11 807.00	353
Total tangible assets		779 355 548.10	886 312
III. Investments	2)		
1. Shares in affiliated companies		378 387.55	304
2. Loans to affiliated companies		64 633 571.61	2 531
3. Shares in joint ventures and associates		359 372.06	352
4. Loans to joint ventures and associates		23 391 391.51	4 755
5. Other loans		1 584 860.37	1 635
Total investments		90 347 583.10	9 577
Total assets		876 796 349.00	898 663
B. Repairable spare parts	3)	46 026 697.42	34 661
C. Current assets	4)		
I. Supplies			
Inventories and supplies		15 095 004.55	13 787
II. Receivables and other assets			
1. Trade accounts receivable		3 246 100.52	10 132
2. Receivables from affiliated companies		77 092 914.74	11 197
3. Receivables from companies held as other equity investments		173.05	53
4. Other assets		8 613 130.72	13 538
Total receivables and other assets		88 952 319.03	34 920
III. Securities classified as current assets			
Other securities		0.00	0
IV. Cash-in-hand, bank balances		18 582.52	33
Total current assets		104 065 906.10	48 740
D. Prepaid expenses	5)	47 850.46	4 136
Balance sheet total		1 026 936 802.98	986 200

* see pages 16-18

Shareholders' Equity and Liabilities	Notes	Dec. 31, 2002 in €	Dec. 31, 2001 € (000)
A. Shareholders' equity	6)		
Issued capital		25 600 000.00	25 600
B. Retained earnings		107 027 096.28	68 728
C. Provisions			
Provisions for pensions and similar obligations		26 356 138.59	21 600
Provisions for income taxes		517 633.95	518
Deferred tax provisions		55 990 372.48	38 478
Other provisions		143 833 180.67	98 290
Total provisions		226 697 325.69	158 886
D. Liabilities			
1. Liabilities to banks		1 956 208.72	1
2. Trade payables		10 677 835.06	9 907
3. Liabilities to affiliated companies		318 892 003.29	340 458
4. Liabilities to joint ventures and associates		0.00	80
5. Other liabilities		333 280 210.75	378 545
(of which from taxes)		(0.00)	(0)
(of which relating to social security)		(6 319 791.86)	(4 287)
Total liabilities		664 806 257.82	728 991
E. Deferred income		2 806 123.19	3 995
Balance sheet total		1 026 936 802.98	986 200

Profit and Loss Account 2002 (based on IAS)

	Notes	Dec. 31, 2002 in €	Dec. 31, 2001 € (000)
1. Revenue	7)	1 167 943 535.95	1 070 076
2. Other operating income	8)	65 920 148.83	71 326
		1 233 863 684.78	1 141 402
3. Cost of materials			
a) Cost of raw materials and supplies and purchased merchandise		-100 750 308.97	-111 055
b) Cost of purchased services		-569 410 152.80	-539 886
		-670 160 461.77	-650 941
4. Staff costs			
a) Wages and salaries		-119 606 352.71	-110 312
b) Social security, pension costs and other employee benefits (of which for pensions)		-23 130 551.98 (-3 124 664.00)	-18 775 (-2 622)
		-142 736 904.69	-129 087
5. Depreciation of tangible and intangible fixed assets		-91 873 663.03	-83 157
6. Other operating expenses	9)	-271 063 157.47	-255 159
Profit from operating activities		58 029 497.82	23 058
7. Financial result	10)	17 930 035.67	-38 586
Loss/profit from ordinary activities		75 959 533.49	-15 528
8. Other taxes		-6 851.67	-6
9. Deferred taxes		-20 544 154.61	-15 404
Profit before income taxes		55 408 527.21	-30 938
10. Tax on income and earnings		-4 460 200.00	25 380
Net profit/loss for the year (before profit/loss transfer in accordance with the German Commercial Code (HGB))		50 948 327.21	-5 558

Statement of Fixed Asset Movements (based on IAS)

Amounts in € (000)	Acquisition or production costs as of Jan 1, 2002	Additions	Disposals	Transfers	Accumulated depreciation	Residual book value Dec.31, 02	Residual book value Dec.31, 01	Depreciation during fiscal year 2002
Fixed assets								
I. Intangible assets								
1. Software	7 138	3 318	911	1 278	4 697	6 064	2 442	962
2. Advance payments	332	1 975	0	-1 278	0	1 029	332	0
	7 471	5 293	911	0	4 697	7 093	2 774	962
II. Tangible assets								
1. Installations in third-party buildings	754	70	0	0	168	581	586	76
2. Aircraft	1 336 099	124 200	150 002	0	453 632	775 834	882 468	88 279
3. Technical plant	948	0	0	0	663	200	285	86
4. Office and other equipment	11 739	1 815	483	809 256	9 119	2 729	2 620	2 472
5. Advance payments	353	468	0	-809 256	0	12	353	0
	1 349 894	126 554	150 485	0	463 581	779 356	886 312	90 912
III. Investments								
1. Shares in affiliated companies	303	75	0	0	0	378	303	0
2. Loans to affiliated companies	2 531	71 100	8 997	0	0	64 634	2 531	0
3. Shares in joint ventures and associates	352	7	0	0	0	359	352	0
4. Loans to joint ventures and associates	4 755	22 051	3 414	0	0	23 391	4 755	0
5. Other loans	1 635	14	64	0	0	1 585	1 635	0
	9 576	93 247	12 476	0	0	90 348	9 576	0
Total fixed assets	1 366 940	225 094	163 872	0	468 278	876 796	898 662	91 874

Notes to the Financial Statements (based on IAS)

Application of International Accounting Standards (IAS)

In addition to compiling its annual financial statements in accordance with the German Commercial Code (HGB), Lufthansa CityLine GmbH has drawn up the transitional financial statements presented here in compliance with IAS. These form part of the consolidated financial statements of the parent company, Deutsche Lufthansa AG.

The application of IAS permits greater comparability of annual financial statements in an international context. In order to increase their informative value, an additional item, "Repairable aircraft spare parts", was included in the balance sheet.

The financial statements drawn up according to IAS contain the following accounting and valuation methods

which deviate from German law: translation of foreign currency receivables and liabilities as at the closing date, accounting for internally generated intangible assets in the balance sheet, revenue recognition by reference to the stage of completion of long-term customer orders, valuation of long-term provisions and accruals and of high or low interest-bearing liabilities at present value, no recognition of other provisions if the probability of outflow of resources is below 50 per cent, recognition of deferred tax assets and liabilities in accordance with the balance sheet liability method, recognition of assets and of corresponding liabilities resulting from finance leasing agreements according to IAS 17, valuation of retirement benefit obligations according to the projected unit credit method.

Consolidated financial statements

The Company is included in the consolidated financial statements prepared by Deutsche Lufthansa AG (DLH), Cologne. The consolidated financial statements of DLH

for the 2002 fiscal year are published in the Federal Gazette and deposited at the Commercial Register of the District Court in Cologne.

1 Total fixed assets

The breakdown of the asset items aggregated in the balance sheet and their changes in 2002 are shown in the Statement of Fixed Asset Movements.

2 Investments

The principal affiliated companies and other equity investments are:

	Equity stake in %	Shareholders' equity Dec. 31, 2002 in € (000)	Annual result 2002 in € (000)
DLT Extra Executive Travel Reiseflug GmbH, Köln	100	4 076	4 045
CityLine Avro Simulator und Training GmbH Berlin, Berlin (CAST)	50	1 359	286
CityLine Canadair Simulator und Training GmbH Berlin, Berlin (CCST)	50	1 475	-351

3 Repairable aircraft spare parts

Repairable spare parts for specific aircraft types are recorded at continually adjusted prices based on average acquisition cost. For valuation purposes, spare

parts are assigned to individual aircraft types and generally depreciated in accordance with the depreciation rate for aircraft.

4 Current assets

Receivables and other assets are payable within one year.

5 Prepaid expenses

Prepaid expenses includes prepaid leasing rates in the amount of €426.1 thousand. In addition €1 234.5

thousand was allocated for insurance premiums, €1 612.8 thousand for deferred taxes.

6 Shareholders' equity

The shareholders' equity of Lufthansa CityLine is composed of share capital, capital reserve and retained earnings. The difference between the profit/loss transfer to the parent company according to the German Commercial Code (HGB) and the assessment of profits

according to IAS is disclosed under shareholders' equity. At the balance sheet date the fully paid-up share capital was held wholly by Deutsche Lufthansa AG (DLH). A subordination and profit transfer agreement exists between DLH and Lufthansa CityLine.

7 Revenue

Revenue is broken down as follows:

	2002	2001
	in € (000)	in € (000)
a) Traffic revenue		
By geographical market*		
Domestic	615 160	603 201
Europe	485 127	414 709
North America	30 318	24 067
South America	3 417	3 274
Africa	2 541	2 295
Middle East	2 721	2 418
Asia/Pacific	25 202	16 817
Total traffic revenue	1 164 486	1 066 781
*Based on point of sale		

	2002	2001
	in € (000)	in € (000)
According to business areas		
Scheduled traffic	1 152 593	1 051 882
Leisure travel and other charters	11 001	13 817
Cargo	892	1 082
Total traffic revenue	1 164 486	1 066 781
b) Other operating revenue		
Miscellaneous other revenue*	3 458	3 295
* Miscellaneous other revenue relates to items such as revenue generated from aero-engineering services.		

8 Other operating income

	2002 in € (000)	2001 in € (000)
Release of provisions	18 767	14 593
Other operating income	47 153	56 733
	65 920	71 326

Other miscellaneous operating income comprises diverse individual amounts derived from such items as exchange rate gains, proceeds from the subleasing of Fokker 50s as well as from compensation payments and income from training courses.

9 Other operating expenses

Other operating expenses amount to €271 063 thousand (2001: €255 159 thousand) and include such items as sales costs, aircraft leasing costs, rents, staff training

costs, travel expenses, exchange rate costs and sundry, other expenditure on employees and costs for services performed by third parties.

10 Financial result

The financial result consists of the following individual components:

	2002 in € (000)	2001 in € (000)
Income from other securities and loans (of which associates)	0 (0)	6 805 (6 315)
Income from commercial operations	55 851	0
Other interest and similar income (of which associates)	17 391 (17 391)	481 (346)
Interest and similar expenses (of which associates)	-51 550 (-27 496)	-45 872 (-24 305)
Expenses for commercial operations	-3 762	0
Total	17 930	-38 586

Note: On January 28, 2003 the independent auditing firm PwC Deutsche Revision Aktiengesellschaft Wirtschaftsprüfungsgesellschaft gave the Annual Financial Statements of Lufthansa CityLine GmbH their unqualified audit endorsement. Entries which were

adjusted in the consolidated financial statements drawn up in accordance with IAS were likewise endorsed.

The annual financial statements are presented here in an abridged form.

Balance Sheet (based on the HGB*) as at December 31, 2002

Assets	Dec. 31, 2002 in €	Dec. 31, 2001 in € (000)
A. Fixed assets		
I. Intangible assets	7 093 217.80	2 774
II. Tangible assets	314 743 306.87	361 769
III. Financial assets	281 151 413.95	243 461
B. Current assets		
I. Inventories (incl. repairable aircraft spare parts)	55 530 803.75	46 527
II. Other receivables and other assets	120 863 623.75	33 216
III. Securities held as current assets and other securities	0.00	0
IV. Cash and cash equivalents	18 582.52	33
C. Deferred income	1 660 663.20	2 715
Balance sheet total	781 061 611.84	690 495

Shareholders' equity and liabilities	Dec. 31, 2002 in €	Dec. 31, 2001 in € (000)
A. Shareholders' equity	25 600 000.00	25 600
B. Special items with an equity portion	41 894 684.17	50 457
C. Provisions	247 813 974.92	159 171
D. Liabilities	452 310 355.25	437 376
E. Deferred income	13 442 597.50	17 891
Balance sheet total	781 061 611.84	690 495

Profit and Loss Account 2002 (based on the HGB*)

	Dec. 31, 2002 in €	Dec. 31, 2001 in € (000)
1. Revenue	1 167 943 535.95	1 070 076
2. Other operating income	130 829 705.56	74 173
	1 298 773 241.51	1 144 249
3. Cost of materials	-692 694 524.36	-674 525
4. Staff costs	-150 000 816.26	-129 687
5. Depreciation of tangible and intangible fixed assets	-54 848 817.89	-56 402
6. Other operating expenses	-374 834 061.42	-327 662
	-1 272 378 219.93	-1 188 276
Profit/loss from operating activities	26 395 021.58	-44 027
7. Financial result	-9 275 222.14	-15 513
Profit/loss from ordinary activities	17 119 799.44	-59 540
8. Taxes	-4 467 051.67	25 374
Profit/loss transfer to the parent company based on a profit transfer agreement	12 652 747.77	-34 166

*HGB = Handelsgesetzbuch (German Commercial Code)

Report of the Supervisory Board



Wolfgang Mayrhuber
Deputy Chairman of the Executive Board
Deutsche Lufthansa AG and
President and Chief Executive Officer
Lufthansa German Airlines,
Chairman of the Supervisory Board
Lufthansa CityLine GmbH

Throughout the financial year, the Supervisory Board discharged its duties under legal regulations and the Company's articles of association. Furthermore, in regular board meetings and discussions with the Managing Directors, the Supervisory Board kept itself informed of business developments and important business events and supervised management activities.

The composition of the Supervisory Board remained unchanged from the preceding year.

In the course of the Financial Year 2002, the Supervisory Board met on April 11, September 12 and November 28. During these meetings, the Managing Directors informed the Supervisory Board in detail about the economic situation, the overall development of business, important entrepreneurial measures and the intended line of corporate policy. The Managing Directors provided written reports for the Supervisory Board on a quarterly basis.

At the meeting of the Supervisory Board on April 11, the reappointment of Dr. Thomas Dräger as Managing Director, effective from January 1, 2003 to December 31, 2007, was approved. During the same meeting, Dr. Dräger was also named Employee Relations Director for the same period.

At the shareholders' meeting on April 25, 2002, PwC Deutsche Revision Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Düsseldorf, were appointed as auditors. They have audited the annual financial statements as at December 31, 2002, the situation report and the accounting records in accordance with legal regulations and issued their unqualified audit endorsement. At its meeting on March 20, 2003, the Supervisory Board deliberated the auditors' report. The auditors who

signed the audit report attended this meeting, reported on the results of their audit and answered questions from the Supervisory Board.

The Supervisory Board has carefully examined the financial statements and the situation report and, following the conclusion of its examination, has no objections to make. It approved the 2002 annual financial statements as compiled by the Managing Directors, which are therefore formally approved.

While business conditions were again adverse, a positive result could be achieved in the Financial Year 2002 thanks to a company-wide effort. The Supervisory Board expresses its thanks to the employees, managers and Managing Directors for the commitment they demonstrated and the work they achieved.

Cologne, March 20, 2003

The Supervisory Board

Wolfgang Mayrhuber
Chairman

Supervisory Board and Board of Directors

Supervisory Board

Wolfgang Mayrhuber
Deputy Chairman of the Executive Board
Deutsche Lufthansa AG and
President and Chief Executive Officer
Lufthansa German Airlines,
Chairman of the Supervisory Board
Lufthansa CityLine GmbH

Günther Eulberg
Deputy Chairman of the Supervisory Board
Member of the Works Council, Lufthansa CityLine GmbH

Dr. Wilhelm Bender
Chairman of the Executive Board
Fraport AG

Klaus Furck
Senior Vice President Accounting, Financial Reporting &
Corporate Taxes
Deutsche Lufthansa AG

Claus Larras
Deputy Chairman of the Executive Board
Pro Sieben/SAT 1 Media AG

Rainer Lindau
Vice President Technical Operations
Lufthansa CityLine GmbH

Ilona Ritter
Section Head, Federal Professional Group 'Aviation'
ver.di (amalgamated service employees union)

Dr. Christoph Franz
Member of the Executive Board
Deutsche Bahn AG

Michael Tarp
Member of the Executive
Vereinigung Cockpit e. V. (pilots' union)

Ralf Teckentrup
Executive Vice President
Network Management and Marketing
Lufthansa German Airlines

Peter Volberg
Captain
Lufthansa CityLine GmbH

Bernd H. Walentin
Captain
Lufthansa CityLine GmbH

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