



Key data at a glance

(based on IAS)

Lufthansa CityLine GmbH				
		2003	2002	Change in %
Total Revenues	in € million	1 290.4	1 233.9	4.6
Operating Revenue	in € million	1 121.4	1 167.9	-4.0
Capital expenditure	in € million	147.8	225.1	-34.3
EBITDA^{plus}	in € million	151.5	224.4	-32.5
Equity ratio	in %	15.9	12.9	22.8
Employees (annual average)		2 474	2 285	8.3
Passengers	in millions	6.8	6.2	8.9
Available seat kilometers	in millions	6 628	6 151	7.7
Revenue passenger kilometers	in millions	4 045	3 703	9.2
Seat load factor	in %	61.0	60.2	0.8 P
Operating profit	in € million	25.5	58.0	-56.0
Loss/profit from ordinary activities	in € million	-46.9	n. a.	n. a.

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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 Köpfler (left) and Dr. Thomas Dräger

Dear Readers,

For civil aviation, 2003 was a year rich in challenges. Terrorist attacks, the war in Iraq and the respiratory disease SARS induced high levels of insecurity worldwide. In addition, the much awaited economic upswing failed to materialize. Combined, these factors caused many companies to introduce cost-cutting measures, leading to a downturn in business travel.

Furthermore, Lufthansa CityLine had to cope with ever-tougher competition from the no-frills carriers. In decentralized European air transport, these airlines now serve some of the same routes as we do. The ensuing changes in fare structures have had a significant impact on the price awareness of our customers – with the result that we were no longer able to sell our product in the same way as before. The pressure on average yields was unavoidable. Consequently, our result for 2003 of –46.9 million euros (IAS) is unfortunately not a positive one.

However, we took some important steps forward in 2003. For example, we successfully concluded the *be excellent* project, our contribution to the Lufthansa Group's initiative to increase efficiency and decrease costs (D-Check).

One of the measures implemented in the scope of this project was the launch of a process-oriented management system, which gives us even greater control over our operational processes. In June 2003, we joined all central administrative and technical processes into a single system, using SAP as the standard software. This move has reduced the number of interfaces and increased overall transparency. In November 2003, we received official confirmation of the outstanding performance of our quality management system: In the competition for the Ludwig Erhard Award, German industry's highest recognition for quality, Lufthansa CityLine was honored with the silver medal. In 2002, we were among the finalists. This success would not have been possible without the commitment and dedication of our employees, particularly in light of last year's enormous challenges. Therefore, we would like to express our thanks to all CityLiners for their unflinching support.

The measures described above enabled us to achieve significant cost reductions and efficiency increases. Admittedly, these achievements were not enough to compensate for the drop in profits due to reduced revenues. But they confirm that we are headed in the right direction. And we look optimistically to the future for another strategic reason: the foundation of the integrated system Lufthansa Regional in October 2003. This system promises to yield decisive cost advantages and synergistic effects.

We were able to market all our service offerings last year, despite expanding our production capacity by 7.7 percent. Demand even rose by 9.2 percent. By strategically adapting our route network and flexibly deploying our fleet of 50- to 93-seater aircraft, we also managed to increase the seat load factor on our flights to 61.0 percent. This result is all the more satisfying as the size of our active fleet grew once again in the course of 2003: The last nine Canadair Jet 700s ordered in the scope of our long-term planning were delivered and immediately put into revenue service. On the other hand, we had to temporarily withdraw three Canadair Jet 100/200s from service in March 2003, due to declining demand. At the same time, we set a new record in passenger numbers: 6.8 million passengers flew with Lufthansa CityLine in 2003. In this way, we clearly confirmed our leading position in European regional air transport. With a share of 15.9 percent, Germany remained our key market last year. It was followed by France (15.3 percent), Italy (14.2 percent) and – with a slight gain – Great Britain (11.6 percent). Besides these, other markets, such as those in eastern Europe, are increasingly gaining in importance.

Alongside essential business performance data, we also consider indicators concerning social responsibility as touchstones for our company's success. Here we attach special importance to environmental care. In April 2003, Lufthansa CityLine successfully passed a comprehensive audit and thereby received renewed certification in accordance with the international environmental standard ISO 14001 and the European eco-audit regulations EMAS. In fact, we continue to be the only airline worldwide to hold both certificates. In future, we intend to anchor the guiding principle of sustainability even more systematically within our company as part of our Environmental and Quality Management according to the EFQM model.

The years ahead are likely to present Lufthansa CityLine with even more challenges. The market continues to be agitated, and we must be prepared for unrelenting pressure on pricing and increasingly tough competition. Our antidotes are cost discipline, flexibility and investments in our key strengths: quality and safety. In the context of the integrated system Lufthansa Regional, we are currently investigating additional opportunities for creating synergies and simplifying structures of cooperation. In this way, we plan to jointly realize cost-cutting potentials of about 100 million euros by 2005. We are confident: Flying in formation with our four partners, we will be better able to defy the strong headwinds currently blowing our way.

Yours sincerely,



Karl-Heinz Köpfler



Dr. Thomas Dräger

Winning partners, creating synergies

As a regional airline, Lufthansa CityLine is currently faced with a particular set of challenges: It is not only the global crises and the continuing economic weakness that dampen its revenues. In the course of the year, the intensifying competition from the no-frills airlines also became more and more apparent, as in part they now serve the same routes as Lufthansa CityLine.

These developments did not take our company by surprise. Over the past two years, Lufthansa CityLine has implemented measures to reduce costs, make business processes more efficient and flexible, and focus even more on individual customer preferences. This improvement campaign has been stepped up even further over the past months. Initial results of these measures are already in sight and will increasingly take effect. For example, in 2003 CityLine surpassed by a wide margin the targets set by "D-Check," the Group-wide program to raise efficiencies and reduce costs. In addition, winning the silver medal of the Ludwig Erhard Award shows that Lufthansa CityLine is right on track by implementing its company-wide quality management system.

But above all CityLine expects "Lufthansa Regional," the new formation in European regional air transport, to deliver added potentials for synergies and thus new options for opening up cost advantages. Created in October 2003, the integrated system includes Lufthansa CityLine, Air Dolomiti, Augsburg Airways, Contact Air and Eurowings. Lufthansa Regional gives these carriers the opportunity to learn from each other by exchanging best-practice applications and to share advantages from investments in quality and innovation. Our customers benefit from this approach: In addition to direct connections between regional airports in Germany and Europe, the five partners offer them convenient links via the Lufthansa hubs in Munich and Frankfurt to the worldwide network of the Star Alliance. The most stringent standards with regard to safety and quality are the hallmarks of Lufthansa Regional. Our passengers enjoy the same high-quality in-flight service on all flights. Services such as bookings via the Internet or the Lufthansa Call Centers, electronic tickets and the frequent flyer program Miles&More are also available for flights operated by our regional partners.

Using resources jointly

Each of the five regional partners contributes its unique strengths and competencies to joint operations. In this way, Lufthansa CityLine, the system's largest airline, can offer resources that give the other partners advantages.

For example, the company runs the state-of-the-art "Integrated Operational Center" (IOC) at Cologne/Bonn Airport, which controls not only CityLine's daily flight operations but also a large part of the regional partners' flights. Apart from avoiding parallel work flows, the IOC

offers the key advantage of increasing flexibility and the ability to react: Whenever there are unforeseen disruptions in flight operations, the IOC assumes the role of information clearing house between the regional partners in order to find optimum solutions for passengers as quickly as possible. When necessary, the airlines can stand in for each other and provide aircraft of different sizes. This is important, for instance, when at short notice more passengers than originally booked want to get on a particular flight. Meanwhile, Augsburg Airways and Contact Air have also started having the IOC in Cologne take care of its dispatch functions, such as the planning of flight routings and preparation of flights.

The regional partners also cooperate in the charter segment. Their joint charter offerings have been advertised since July 2003 under the slogan "Order your Airline." These services are marketed and sold by a central office in Dortmund. This sales office is operated by the two main partners, Lufthansa CityLine and – as project manager – Eurowings.

MRO: Cooperation is being expanded

In the area of technical maintenance, the regional partners are currently assessing opportunities for jointly using infrastructure resources at the stations. With this in mind, CityLine Technik has laid the groundwork for performing technical services for partner airlines in Munich by acquiring additional hangar surfaces. Conversely, Eurowings is set to take over routine maintenance tasks for Lufthansa CityLine at Dusseldorf Airport. In addition, the partners aim at negotiating joint conditions with maintenance providers at selected stations abroad.

The regional partners also benefit from the CRJ Parts Pool, a highly successful project jointly launched by Lufthansa CityLine, Lufthansa Technik and Lufthansa Technik Logistik. Currently, six airlines around the globe – including Air Dolomiti and Eurowings – use the worldwide spare parts delivery service for the Canadair Jet 100/200. Deliveries of spare parts from CityLine's comprehensive stock in Cologne are guaranteed within in 24 hours to any location worldwide. Lufthansa Technik Logistik takes care of the transport.

Quality control in all processes

One of CityLine's contributions to "D-Check," the Lufthansa Group's initiative to increase efficiencies and decrease costs, was to launch its company-wide *be excellent* project.

Among the project's key goals was the introduction of a process-oriented management system. Lufthansa CityLine has been working with this system since the beginning of 2003, to great success. It builds on the exact documentation of all work flows within the company, their objectives and their prerequisites. CityLine's

“process landscape” was then assigned ratios, which allow regularly scheduled performance checks for each individual process. This approach guarantees improved transparency and greater control of operational processes. Special attention is given to the airline’s key processes in the area of flight operations and the related performance indicators concerning punctuality, regularity and customer satisfaction. The process-oriented management system is particularly valuable should an operational interplay cease to function satisfactorily: In such cases, the system allows the airline to quickly identify which area needs fine-tuning to get back to optimum performance.

To analyze these performance indicators, CityLine makes increasing use of software systems such as SAP. After meticulous preparations, this standard software went online company-wide in June 2003. All of CityLine’s central technical and administrative processes have been controlled via SAP ever since. The introduction of SAP was also used to align work flows and change team structures. The new organizational structure – of which SAP is a key element – aims at avoiding redundant work flows, reducing the number of interfaces and ensuring smoother communications between maintenance, materials management, purchasing, accounting and controlling.

Continuous improvement as a daily task

Improving business processes continuously in the context of everyday operations is one of the fundamental principles of Business Excellence. Additionally, Lufthansa CityLine has set itself the goal of evolving and expanding its process-oriented management system on a continuous basis. In the spirit of the model formulated by the European Foundation for Quality Management (EFQM), more and more performance indicators related to human resource aspects and social acceptance of our business activities are to be integrated in future. This will enable us to measure a range of factors concerning our sustainable business success.

Today, the indicator “Employee Satisfaction” is already sampled on a regular basis. At the beginning of 2003, the results of our latest employee survey presented a highly positive picture overall: The vast majority of CityLiners are satisfied with their working environment and have a pronounced sense of identification with their company. Yet there is still room for improvement in certain areas, such as employee information and communications. Ultimately, these survey results formed the basis for an intensive analysis concluded in Fall 2003. In the context of this analysis, all CityLine managers worked with their teams and departments to develop and implement specific improvement measures for those areas

identified by criticism captured in the employee survey. Furthermore, CityLine has created a number of instruments that give all employees – from staff members to managers – the opportunity to get involved in these improvement processes and make their views heard. In this way, our *be excellent* project was accompanied by regular department and team workshops. Given their outstanding success, these workshops have become an established feature in the company. CityLiners also made lively use of the company’s suggestion program: The airline will be able to save more than 1 million euros by implementing the ideas its employees proposed in 2003.

Environmental care counts

Performance indicators concerning environmental care also have their place in CityLine’s process landscape. At regular intervals, the airline uses these ratios to monitor the degree to which the measures introduced to lighten the burden on resources and the environment have been successful. In April, CityLine’s environmental management system was recertified according to both the international environmental standard ISO 14001 and the European eco-audit regulations. In this context, external auditors scrutinized all operational processes for their environmental impact and assessed the company’s activities for improvements in terms of environmental care. In its Environmental Report, published in June 2003, Lufthansa CityLine explains in depth the goals and measures associated with its company-wide environmental management system.

Award-winning quality

In 2003, Lufthansa CityLine participated for the second time in the competition for the Ludwig Erhard Award, German industry’s highest honor for quality performance. After placing among the finalists the year before, this time the airline won the silver medal in the category “Large Companies.” The jury verified that Lufthansa CityLine applies a proven quality management that embraces all areas of the company. Moreover, the airline distinguishes itself by its employee-oriented corporate culture and well-developed sense of responsibility concerning the environment. For Lufthansa CityLine, this award is a further incentive to pursue its comprehensive quality orientation resolutely in the years ahead. Combined with strict cost awareness, this approach guarantees the greatest potential for a successful business strategy and continued competitiveness, even in an increasingly difficult market environment.

Chronicle 2003

For Lufthansa CityLine, 2003 was a year of internal renewal and consolidation. Business processes and operating structures were optimized, and the integrated formation "Lufthansa Regional" was created as a basis for optimum cooperation with our partner airlines. Here follows an overview of the year's most significant events:

January – February

With the delivery of five new Canadair Jet (CRJ) 700s in January and February, CityLine's fleet now counts 16 of these 70-seater aircraft.

The results of our comprehensive employee survey are published in February. For many sections of the questionnaire, our scores have not only improved in comparison with the year before but are also far above the benchmark of other European service companies. CityLiners are satisfied with their jobs at above-average levels and able to identify with their company particularly well.

March – April

In March, CityLine flight operations are given a radically changed organizational structure. By redefining the function of its traditional fleet managers, CityLine chooses a path that is unusual but innovative for the airline business. The goal of this new approach: to separate personnel management from technical management and thus strengthen the former.

At the beginning of March, Lufthansa CityLine, in consultation with Lufthansa Group management, temporarily withdraws three Canadair Jet 100/200s from service to counter the effects of declining passenger numbers. This unplanned downtime is used advantageously to make structural modifications to the aircraft's technical systems ahead of schedule.

In April, CityLine is successfully recertified according to both the European eco-audit EMAS and the international environmental standard ISO 14001. As part of this process, external auditors scrutinize all the company's operating locations and examine work flows with regard to their environmental impacts.

Double christening at the Lufthansa Base in Frankfurt: On March 26, Belzig in the German state of Brandenburg and Uhingen in Baden-Württemberg join the ranks of CityLine's partner cities. Two CRJ 700s now carry the cities' names all across Europe.

At the end of April, CityLine's 17th Canadair Jet 700 arrives in Cologne.



May – June

In early May, CityLiners welcome the fleet's 18th Canadair Jet 700 in Cologne.

After intense preparations within the scope of Project Jonas, the standard software SAP goes online all across the company on June 11. It now serves to control all central technical and administrative processes in an inter-departmental manner. By introducing this integrated software solution company-wide and in a single step, CityLine sets an example for the entire aviation industry.

Also on June 11, the German national soccer team flies on Lufthansa CityLine to the Faroe Islands to participate in a qualifying match for the European Championship. The Avro RJ85 is one of the very few commercial jets able to land at the remote archipelago's small airport.

In mid-June, Lufthansa CityLine publishes its Environmental Report, which explains the measures and achievements of its company-wide environmental management system. At the beginning of 2004, CityLine is honored with the "German Environmental Reporting Award" for the year's best reporting on environmental care.

On June 27, Europe's most modern airport terminal is opened in Munich. Lufthansa and its partners are the facility's exclusive users. With the inauguration of Terminal 2, CityLine strengthens its Munich presence in terms of both space and personnel.



July – August

On September 1, CityLine inaugurates its own cafeteria at its headquarters at Cologne/Bonn Airport. Up to 250 employees can be served here daily. Located on the top floor of the airline's newly occupied office building, the cafeteria offers panoramic views over the airport's runways.

September – October

be excellent, the company-wide "fitness program" by which CityLine contributes to the Lufthansa Group's "D-Check" initiative to increase efficiency and decrease costs, is concluded successfully in Fall 2003. In the scope of this program, CityLine introduces its process-oriented management system. The system's essential building blocks are performance indicators for all business process, which are measured at regular intervals. This creates more transparency, allows accurate diagnoses of problems and enables timely, targeted implementation of improvements.

In the course of September and October, CityLine's 19th and 20th Canadair Jet 700s arrive in Cologne.



On October 16, the new regional partner concept, "Lufthansa Regional," is presented to the public. CityLine and its four partners – Air Dolomiti, Augsburg Airways, Contact Air and Eurowings – aim to intensify their cooperation within this integrated system. The joint goal of the five airlines is to offer Lufthansa customers a comprehensive, high-quality product in European regional air transport.

**November – December**

On November 27, CityLine Managing Director Karl-Heinz Köpffe accepts a special honor at the House of German Industry in Berlin: In the competition for the Ludwig Erhard Award, German industry's top quality prize, Lufthansa CityLine wins the silver medal in the category "Large Companies." The jury acknowledges the airline's exacting quality management, which covers all company areas.



"Ideenwerkstatt," CityLine's corporate suggestion program, reports a positive result for 2003: Compared with the previous year, the number of suggestions made has increased by almost 90 percent. By implementing the bright ideas of 2003, the company can save over 1 million euros.

Lufthansa CityLine ends the year with a new passenger record: Nearly 6.8 million passengers flew with the regional carrier in 2003 – 8.9 percent more than in the previous year. Utilization increased as well: by 0.8 percentage points to 61 percent.

Report on the economic situation

The continuing weakness of the world economy, the SARS crisis, fear of terrorism and war, as well as significant competition from the no-frills airlines had a negative influence on CityLine's transport performance last year.

Our expanded offerings could only be placed in the market at lower prices on average. Against this background, the result from ordinary activities was not the positive one of a year earlier, but a negative one.

Outstanding quality management

Last year, after a project phase of 18 months, CityLine successfully concluded the integrated introduction of the SAP R/3 software in its administrative and technical areas. In this manner, the company has taken a decisive step towards optimizing its business processes.

In November 2003, Lufthansa CityLine received the silver medal in the competition for the Ludwig Erhard Award, German industry's most prestigious prize for quality performance.

Supply and demand

Improved utilization

In 2003, the number of flights operated (scheduled and charter) fell by 0.4 percent compared to the year before to a total of 169,508. Production capacity measured in seat kilometers offered (SKO) grew by 7.7 percent. Actual transport performance measured in passenger kilometers transported (PKT) could be increased by 9.2 percent over the year before. The seat load factor, which indicates the utilization of available passenger seats on flights, climbed by 0.8 percentage points to reach 61.0 percent. The number of passengers carried increased 8.9 percent over the year before to an all-time high of 6.8 million. The share of passengers carried on cross-border flights rose to 83.6 percent, up 2.0 percentage points compared to the year before.

Revenues

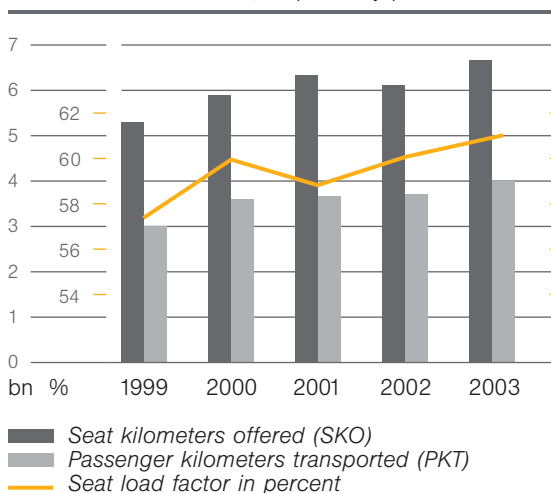
Total operating income declined by 4.0 percent compared to the year before to 1,121.4 million euros.

In terms of passenger numbers, Germany, with a share of 15.9 percent (year before: 18.0 percent), was the airline's most important market. It was followed by France with 15.3 percent (year before: 15.3 percent), Italy with 14.2 percent (year before: 15.5 percent) and Great Britain with 11.6 percent (year before: 11.0 percent).

Result based on the HGB

In 2003, the company recorded total revenues of 1,317.8 million euros (year before: 1,298.8 million euros), costs and expenses of 1,333.2 million euros (year before: 1,272.4 million euros) and a negative financial result of

**Supply, demand and utilization of capacities
Lufthansa CityLine**
in billion seat kilometers, respectively percent



-6.5 million euros (year before: -9.3 million euros). Thus, it obtained a result from ordinary activities before taxes of -21.9 million euros (year before: 17.1 million euros). After taking into account tax gains of 12.2 million euros (year before: -4.4 million euros), the loss taken over by Deutsche Lufthansa AG amounts to 9.7 million euros (year before: profit transfer of 12.7 million euros).

Employee capacities adapted

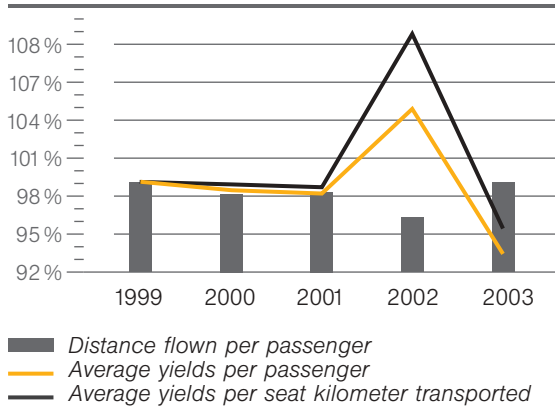
On average, the company counted 2,474 employees in 2003 (including 14 serving an apprenticeship), thereby increasing its average personnel numbers by 8.3 percent over the year before. Ground personnel grew by 7.3 percent (above all in the productive technical areas) to an annual average of 900 employees, while flying personnel increased by 8.9 percent to an annual average of 1,574 employees.

Fleet expansion by nine more CRJ 700s

In 2003, nine additional Canadair Regional Jet CRJ 700s were phased into service. In this manner, the CityLine fleet expanded to include 20 aircraft of this type and a total of 81 aircraft: At year-end, 63 Canadair Regional Jets (43 CRJ 100/200s and 20 CRJ 700s) and 18 Avro RJ85s were flying for CityLine. The fleet also comprised nine Fokker 50s, which are operated on a sublease by Contact Air for CityLine. In addition, five AT5s of Contact Air, five Dash 4s and five Dash 3s of Augsburg Airways, and one CRJ 200 of Air Dolomiti (partial capacity) were chartered in.

Development of average yields Lufthansa CityLine

Index 1998 = 100



Associated companies

In 2003, **DLT Extra Executive Travel Reiseflug GmbH**, Cologne, a fully-owned subsidiary of Lufthansa CityLine GmbH, recorded a (provisional) profit after taxes of 1,389 thousand euros (year earlier: profit of 4,045 thousand euros). The company is the sole shareholder of **DLT of USA Inc.**, City of Dover, Delaware.

Lufthansa CityLine GmbH holds 50 percent of the share capital of **CityLine Canadair Simulator und Training GmbH Berlin**, Berlin, which recorded a loss after taxes of 71 thousand euros (year earlier: loss of 351 thousand euros) in 2003. The company operates three Canadair Regional Jet simulators (CRJ 100, 200 and 700).

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. In 2003, the company stated a profit after taxes of 465 thousand euros (year earlier: 286 thousand euros).

Outlook: Despite risks, well prepared with new business model

At CityLine, 2004 is largely marked by the changeover to a new business model. As from January 1, 2004, CityLine charts its capacities to Lufthansa Regional under the so-called "wetlease plus" model. Lufthansa Regional now manages the entire regional transport activities within Deutsche Lufthansa AG. The wetlease rates are derived from the so-called ACMIO rate (**A**ircraft, **C**rew, **M**aintenance, **I**nsurance, **O**verhead). As a result, costs such as those for fuel, airport fees, handling fees, etc. are fully transferred to the parent company. Both cost and revenue volumes at CityLine are thus set to be roughly halved.

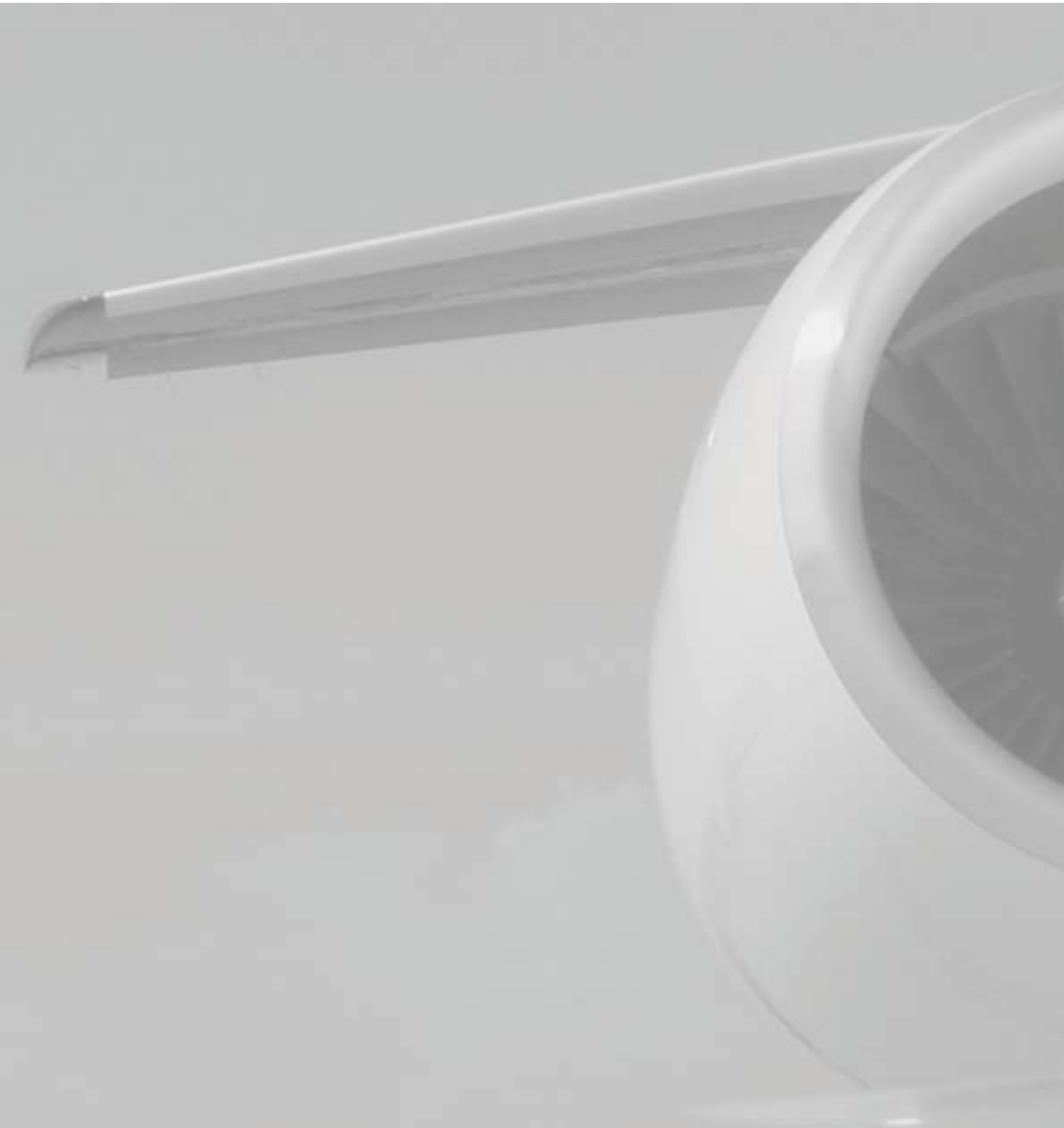
For 2004, no further expansion of the fleet is planned.

Short-term, it is planned to transfer DLT Extra, including DLT of USA, to another company within the Lufthansa Group or to put the companies into liquidation.

Under the new business model, risks for the development of revenues in 2004 may result from the incomplete utilization of capacities by Lufthansa, declining average yields from the wetlease business, rising costs, fluctuations in foreign exchange rates or bottlenecks in deliveries of spare parts.

Despite these risks, CityLine is optimistic about its ability to return to a positive result in 2004.

Financial Statements of Lufthansa CityLine GmbH 2003





Balance Sheet (based on IAS) as at December 31, 2003

Assets	Notes*	Dec. 31, 2003 in €	Dec. 31, 2002 € (000)
A. Total fixed assets	1)		
I. Intangible assets			
1. Software		10 596 133.00	6 064
2. Advance payments		53 160.00	1 029
Total intangible assets		10 649 293.00	7 093
II. Tangible assets			
1. Installations in third-party buildings		649 737.00	581
2. Aircraft		868 419 730.34	775 834
3. Technical plant		139 713.00	200
4. Office and other equipment		2 388 863.00	2 729
5. Advance payments		247 031.00	12
Total tangible assets		871 845 074.34	779 356
III. Investments	2)		
1. Shares in affiliated companies		25 564.59	378
2. Loans to affiliated companies		0.00	64 634
3. Shares in companies with a participatory relationship		303 536.61	359
4. Loans to companies with a participatory relationship		0.00	23 391
5. Other loans		84 193.51	1 585
Total investments		413 294.71	90 347
Total assets		882 907 662.05	876 796
B. Repairable spare parts	3)	51 422 203.72	46 027
C. Current assets	4)		
I. Supplies			
Inventories and supplies		18 230 079.24	15 095
II. Receivables and other assets			
1. Trade accounts receivable		6 087 456.41	3 246
2. Receivables from affiliated companies		60 352 527.30	77 093
3. Receivables from companies held as other equity investments		32 731.56	0
4. Other assets		10 546 233.17	8 613
Total receivables and other assets		77 018 948.44	88 952
III. Securities classified as current assets			
Other securities		0.00	0
IV. Cash in hand, bank balances		596 221.01	19
Total current assets		95 845 248.69	104 066
D. Prepaid expenses	5)	3 239 640.76	48
Balance sheet total		1 033 414 755.22	1 026 937

* see pages 18 and following

Shareholders' Equity and Liabilities	Notes	Dec. 31, 2003 in €	Dec. 31, 2002 € (000)
A. Shareholders' equity	6)		
Issued capital		25 625 000.00	25 600
B. Retained earnings		138 313 846.19	107 027
C. Provisions			
Provisions for pensions and similar obligations		33 996 869.15	26 356
Provisions for income taxes		1 965 055.50	518
Deferred tax provisions		105 002 685.05	55 991
Other provisions		114 313 245.45	143 833
Total provisions		255 277 855.15	226 698
D. Liabilities			
1. Liabilities to banks		0.00	1 956
2. Trade payables		9 897 052.32	10 678
3. Liabilities to affiliated companies		280 729 902.48	318 892
4. Liabilities to companies with a participatory relationship		49 158.39	0
5. Other liabilities		321 849 811.67	333 280
(of which from taxes)		(0)	(0)
(of which relating to social security)		(0)	(6 320)
Total liabilities		612 525 924.86	664 806
E. Deferred income		1 672 129.02	2 806
Balance sheet total		1 033 414 755.22	1 026 937

Profit and Loss Account 2003 (based on IAS)

	Notes	Dec. 31, 2003 in €	Dec. 31, 2002 € (000)
1. Revenue	7)	1 121 361 179.68	1 167 944
2. Other operating income	8)	169 087 314.60	65 920
		1 290 448 494.28	1 233 864
3. Cost of materials			
a) Cost of raw materials and supplies and purchased merchandise		- 107 275 931.84	- 100 750
b) Cost of purchased services		- 592 618 378.66	- 569 410
		- 699 894 310.50	- 670 160
4. Staff costs			
a) Wages and salaries		- 132 266 831.87	- 119 606
b) Social security, pension costs and other employee benefits (of which for pensions)		- 27 377 007.30 (- 5 584 562.52)	- 23 131 (- 3 125)
		- 159 643 839.17	- 142 737
5. Depreciation of tangible and intangible fixed assets		- 103 081 809.66	- 91 874
6. Other operating expenses	9)	- 302 314 224.67	- 271 063
Profit from operating activities		25 514 310.28	58 030
7. Financial result	10)	- 19 646 672.04	17 930
Loss/profit from ordinary activities		5 867 638.24	75 960
8. Other taxes		- 241 555.17	- 7
Profit before income taxes		5 626 083.07	75 953
9. Deferred taxes		- 3 080 576.72	- 20 544
10. Tax on income and earnings		9 836 441.04	- 4 461
Net profit/loss for the year (before profit/loss transfer in accordance with the German Commercial Code (HGB))		12 381 947.39	50 948

Operating Result (based on IAS)

	31. 12. 2003 in € (000)
Loss/profit from operating activities	25 514 310.28
Income from disposal of assets	- 39 150 910.00
Income from reversal of provisions	- 28 206 791.87
Past service cost	257 056.00
Losses from valuation of long-term liabilities and derivatives at the balance sheet date	- 5 690 634.62
Losses from disposal of assets	573 095.56
Balance of eliminations	- 72 218 184.93
Current other taxes	- 241 555.17
Operating result	- 46 945 429.82

Statement of Fixed Asset Movements (based on IAS)

Amounts in € (000)	Acquisition or production costs as of Jan 1, 2003		Additions	Disposals	Transfers	Accumulated depreciation	Residual book value Dec.31, 03	Residual book value Dec.31, 02	Depreciation during fiscal year 2003
Fixed assets									
I. Intangible assets									
1. Software	10 823	5 689	0	906	6 822	0	10 596	6 064	2063
2. Advance payments	1 029	40	110	-906		0	53	1 029	0
	11 852	5 729	110	0	6 822	0	10 649	7 093	2 063
II. Tangible assets									
1. Installations in third-party buildings	825	141	5	0	311	0	650	581	67
2. Aircraft	1 448 173	140 667	74 770	0	645 149	-501	868 420	902 607	99 583
3. Technical plant	948	0	0	0	808	0	140	200	60
4. Office and other equipment	13 881	1 038	82	12	12 460	0	2 389	2 729	1 309
5. Advance payments	12	247	0	-12	0	0	247	12	0
	1 463 839	142 093	74 857	0	658 728	-501	871 846	906 129	101 019
III. Investments									
1. Shares in affiliated companies	303	0	0	32	0	-309	26	303	0
2. Loans to affiliated companies	0	0	0	19 651	0	-19 651	0	0	0
3. Shares in joint ventures and associates	335	0	0	-32	0	0	303	335	0
4. Loans to joint ventures and associates	23 391	0	3 740	-19 651	0	0	0	23 391	0
5. Other loans	1 585	20	1 521	0	0	0	84	1 585	0
	25 614	20	5 261	0	0	-19 960	413	25 614	0
Total fixed assets	1 501 305	147 842	80 228	0	665 550	-20 461	882 908	938 836	103 082

Note: Last year's figures are only partly comparable, as this year CityLine drew up consolidated financial statements for the first time.

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 2003 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 2003 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, 2003 in € (000)	Annual result 2003* in € (000)
CityLine Avro Simulator and Training GmbH Berlin, Berlin (CAST)	50	1 824	465
CityLine Canadair Simulator and Training GmbH Berlin, Berlin (CCST)	50	1 404	-71

* preliminary values

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

The item "prepaid expenses" contains prepaid lease rentals amounting to 1,902 thousand euros. In addition,

1,218 thousand euros for prepaid insurance premiums were deferred.

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:

	2003	2002
	in € (000)	in € (000)
a) Traffic revenue		
By geographical market*		
Domestic	549 944	615 160
Europe	494 844	485 127
North America	33 939	30 318
South America	3 094	3 417
Africa	3 494	2 541
Middle East	3 808	2 721
Asia/Pacific	24 976	25 202
Total traffic revenue	1 114 099	1 164 486
*Based on point of sale		

	2003	2002
	in € (000)	in € (000)
According to business areas		
Scheduled traffic	1 108 252	1 152 593
Leisure travel and other charters	2 935	11 001
Cargo	2 912	892
Total traffic revenue	1 114 099	1 164 486
b) Other operating revenue		
Miscellaneous other revenue*	7 262	3 458
* Miscellaneous other revenue relates to items such as revenue generated from aero-engineering services.		

8 Other operating income

	2003	2002
	in € (000)	in € (000)
Release of provisions	28 207	18 767
Other operating income	140 880	47 153
	169 087	65 920

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:

	2003	2002
	in € (000)	in € (000)
Income from lending financial assets (of which associates)	0 (0)	0 (0)
Income from commercial operations	0	55 851
Income from investments (of which associates)	4 048 (4 048)	0 (0)
Other interest and similar income (of which associates)	7 534 (967)	17 391 (17 391)
Interest and similar expenses (of which associates)	-31 229 (-22 882)	-51.550 (-27 496)
Expenses for commercial operations	0	-3 762
Total	-19 647	17 930

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, 2003

Assets	Dec. 31, 2003 in €	Dec. 31, 2002 in € (000)
A. Fixed assets		
I. Intangible assets	10 649 293.00	7 093
II. Tangible assets	341 384 217.47	314 743
III. Financial assets	260 820 861.52	281 152
B. Current assets		
I. Inventories (incl. repairable aircraft spare parts)	62 026 937.23	55 531
II. Other receivables and other assets	118 378 818.41	120 863
III. Securities held as current assets and other securities	0.00	0
IV. Cash and cash equivalents	30 487.55	19
C. Deferred income	3 239 640.76	1 661
Balance sheet total	796 530 255.94	781 062

Shareholders' equity and liabilities	Dec. 31, 2003 in €	Dec. 31, 2002 in € (000)
A. Shareholders' equity	25 600 000.00	25 600
B. Special items with an equity portion	2,071 418.27	41 895
C. Provisions	212 250 587.10	247 814
D. Liabilities	546 117 492.95	452 310
E. Deferred income	10 490 757.62	13 443
Balance sheet total	796 530 255.94	781 062

Profit and Loss Account 2003 (based on the HGB*)

	Dec. 31, 2003 in €	Dec. 31, 2002 in € (000)
1. Revenue	1 121 361 179.68	1 167 943
2. Other operating income	196 431 264.04	130 830
	1 317 792 443.72	1 298 773
3. Cost of materials	-691 256 414.95	-692 694
4. Staff costs	-156 156 225.61	-150 001
5. Depreciation of tangible and intangible fixed assets	-90 712 797.80	-54 849
6. Other operating expenses	-395 066 591.64	-374 834
	-1 333 192 030.00	-1 272 378
Profit/loss from operating activities	-15 399 586.28	26 395
7. Financial result	-6 457 445.51	-9 275
Profit/loss from ordinary activities	-21 857 031.79	17 120
8. Taxes	12 142 835.78	-4 467
Profit/loss transfer to the parent company based on a profit transfer agreement	-9 714 196.01	12 653

*HGB = Handelsgesetzbuch (German Commercial Code)

Report of the Supervisory Board



Wolfgang Mayrhuber
Chairman of the
Executive Board
Deutsche Lufthansa AG,
Chairman of the
Supervisory Board
Lufthansa CityLine

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 2003, the Supervisory Board met on March 20, September 11 and November 20. 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 shareholders' meeting on March 28, 2003, PwC Deutsche Revision Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Dusseldorf, were appointed as auditors. They duly audited the annual financial statements as at December 31, 2003, the situation report and the accounting records in accordance with legal regulations and issued their unqualified audit endorsement. At its meeting on March 11, 2004, the Supervisory Board deliberated the auditors' report in detail. 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 objection to make.

It approves as compiled by the Managing Directors the 2003 annual financial statements, which are therewith formally adopted.

The Financial Year 2003 posed a number of challenges for the company once again, as business conditions continued to be adverse. 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 11, 2004

The Supervisory Board

Wolfgang Mayrhuber
Chairman

Supervisory Board and Board of Directors

Supervisory Board

Wolfgang Mayrhuber
Chairman of the Executive Board Deutsche Lufthansa AG
Chairman of the Supervisory Board Lufthansa CityLine

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)

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Vereinigung Cockpit e. V. (pilots' union)

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Network Management and Marketing
Lufthansa German Airlines

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Lufthansa CityLine GmbH

Bernd H. Walentin
Captain
Lufthansa CityLine GmbH

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