



**Lufthansa CityLine**

Annual Report 1999

## At a glance

<b>Lufthansa CityLine GmbH</b>		<b>1999</b>	1998	Change in %	1999 <i>Euro m</i>
Total operating income	DM million	<b>1,850</b>	1,678	10.25	945.9
Revenue	DM million	<b>1,725</b>	1,600	7.8	881.0
Capital expenditure*	DM million	<b>119.3</b>	124.2	- 4.0	61.0
Financial cash flow*	DM million	<b>136.4</b>	146.5	- 6.9	69.7
Annual average no. of employees		<b>1,770</b>	1,607	10.1	
Personnel expenses	DM million	<b>183</b>	157	16.6	93.7
Equity	DM million	<b>50</b>	50	0	25.6
Balance sheet total	DM million	<b>765.6</b>	728.7	5.1	391.5
Profit* on ordinary activities before net changes in special items	DM million	<b>50.6</b>	123.0	- 58.9	25.9
Profit* on ordinary activities before taxation	DM million	<b>50.6</b>	123.0	- 58.9	25.9

\* according to the German Commercial Code (HGB)

# Lufthansa CityLine GmbH

## Annual Report 1999

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# To our Customers and Business Partners

The 1999 financial year was a very successful one for Lufthansa CityLine. As in previous years, our Company grew in line with market developments and further expanded its leading position within the European air travel industry. With a total of 142,000 scheduled flights – an increase of 7.1 per cent over the year before – Lufthansa CityLine accounted for 30.5 per cent of Lufthansa's European traffic. We thus made a key contribution to the networking of Europe's regions and increased the frequencies available to our customers in this segment.

In 1999 nearly five million passengers flew Lufthansa CityLine, most of them (just under 80 per cent) on cross-border routes. Our strongest European market remained Italy, contributing 15 per cent to CityLine's total passenger volume. France came second with 14 per cent, followed by Switzerland and Austria, each with nine per cent, and in close succession Great Britain and the eastern European countries, with eight per cent respectively.

The high quality of our product, which is tailored to the requirements of today's discerning business travellers, again met with a very positive response from our customers. Last year passengers were especially satisfied with the friendliness and individual dedication of our flight attendants. Not only our crews, but all our staff demonstrated great personal commitment and a strong sense of identity towards our Company, enabling Lufthansa CityLine to consolidate its leading position in a fiercely competitive market. Our special thanks go to them.

In 1999 Lufthansa CityLine generated DM 1.7 billion in revenues, an increase of 7.8 per cent over the previous year. However, this positive development was not reflected in our results. As in 1998, revenue per passenger was below the prior-year level. Due to the additional rise in operating expenses, total earnings failed to keep pace with sales. For that reason we were unable to match the excellent year-earlier results.

A global economy needs a globe-spanning network of connections which extend deep into the regions. The stronger the growth in world air traffic, the more important its regional segment becomes: above-average market growth of five per cent a year is forecast for Europe. Over the next few years European traffic will thus remain the driving force behind developments in Lufthansa's passenger traffic. To satisfy the rising demand for non-stop regional city connections within

Europe and to meet the long-term requirements for more feeder flights to and from the hubs operated by Lufthansa and its partners, Lufthansa CityLine will continue to expand and make further inroads into the market.

Our Company recognises its responsibility to ensure that its strategy for growth is as environmentally compatible as possible. That is the only way we can ensure our long-term opportunities for development in the European air traffic industry. Our commitment to environmental care bore its first fruits in 1999, when Lufthansa CityLine became the first European airline and – after Lufthansa Technik – the second company in the Lufthansa Group to be certificated under the European Eco-Management and Audit Scheme (EMAS). In the run-up to certification we set up an environment management system in our Company which now enables us systematically to examine and exploit the potential for further improvements to our environmental programme. Our Environmental

Report, which we published for the first time last year, provides a full record of our targets in this area and our efforts to protect the environment and resources.

With the purchase of 60 of the new Fairchild Dornier 728 aircraft Lufthansa CityLine is setting new standards in regional air traffic. The jets will not only greatly enhance passenger comfort but also be significantly quieter and more environmentally compatible.

Last year we launched the Challenge 2000<sup>+</sup> programme in order to secure the growth and competitiveness of our Company in the face of cost pressure and the continuing decline in average yields. As part of this initiative 70 projects are now up and running right across the company, and steps have already been taken to improve our cost position.

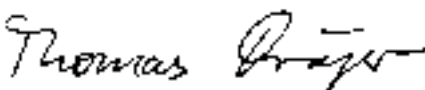
The year 2000 will present further challenges. Higher fuel costs, rising airport charges as well as Europe's fragmented air traffic control system are worsening the conditions in the European air travel industry. Costs incurred as a result of delays hit us particularly hard, as we are a relatively small airline. Furthermore, if we consider that fuel consumption could be lowered by at least seven per cent if air traffic control systems were modernised, we must also call for the swift reorganisation of European airspace for the sake of our environment. It remains the urgent duty of politicians to find a permanent solution to this problem.

After years of rapid growth and a period of consolidation, in which we have taken a new direction and prepared the way for the next stage in our Company's growth, we are now on the threshold of a new phase of expansion. Over the next two years we will add over 70 aircraft to our fleet – a major increase, which implies enormous challenges. We will require more qualified staff for flight operations and our technical services. But the other areas of our Company must also adjust to the new demands and make every effort to scale the hurdles that lie ahead. However, we are confident that Lufthansa CityLine is well equipped to face these challenges.

Board of Directors



Karl-Heinz Köpfler



Dr. Thomas Dräger

# Report of the Board of Directors Management Report 1999

## In 1999 Lufthansa CityLine further expanded its position within the European network. Positive market trends resulted in a steep rise in capacity, which was almost fully accommodated in the market.

### Lufthansa CityLine GmbH

	1999	1998	Change in per cent
<b>Passengers</b> in millions	<b>4.9</b>	4.4	11.3
<b>Available seat-kilometres</b> in millions	<b>5,291</b>	4,788	10.5
<b>Revenue passenger-kilometres</b> in millions	<b>3,043</b>	2,771	9.8
<b>Passenger load factor</b> in per cent	<b>57.5</b>	57.9	- 0.4 P
<b>Revenue</b> in DM million	<b>1,725</b>	1,600	7.8
<b>Profit</b> from ordinary activities before net changes in special items* in DM million	<b>50.6</b>	123.0	- 58.9
<b>Capital expenditure*</b> on tangible and intangible assets in DM million	<b>119.3</b>	124.2	- 4.0
<b>Financial cash flow*</b> in DM million	<b>136.4</b>	146.5	- 6.9
<b>Internal financing ratio</b> in per cent	<b>107.6</b>	104.8	2.8 P
<b>Equity ratio</b> in per cent	<b>14.3</b>	15.2	- 0.9 P
<b>Employees</b> Average annual figure	<b>1,770</b>	1,607	10.1

\* according to the German Commercial Code (HGB)

### Key developments

Lufthansa CityLine again strengthened its position in European air traffic in the 1999 business year. Amid positive market trends the Company increased its capacity disproportionately in the year under review and succeeded in selling most of it in the market-place.

In order to ensure the long-term expansion of regional city connections within Europe and boost feeder services for intercontinental traffic, notably from Munich, Lufthansa CityLine placed orders for sixty Fairchild Dornier aircraft in April 1999, and also secured options on a further sixty of the 50 - 70-seater aircraft. The orders take account of developments forecast in this growth market. The bankruptcy of Debonair, from which Lufthansa CityLine had chartered aircraft, additionally depressed the year's results. In 1999, the Company was consequently unable to match the excellent results of the previous year.

In January 2000 Lufthansa CityLine became the first European airline to be certificated under the European Eco-Management and Audit Scheme (EMAS) at all three of its bases.

### Increased capacity lifts passenger count

In 1999 Lufthansa CityLine carried 4.9 million passengers, 11.3 per cent more than in the previous year. The Company increased its services by 7.1 per cent to about 142,000 scheduled flights. As a result, capacity, in terms of available seat-kilometres (SKO), climbed by 10.5 per cent over the prior-year level, more or less in line with market trends. The sales volume increased by 9.8 per cent, resulting in a seat load factor of 57.5 per cent, which was only marginally lower than in the previous year. In 1999 Lufthansa CityLine carried 78.9 per cent of its passengers on cross-border routes, a slight decrease of 2.2 percentage points over the previous year. The Company's growth therefore continues to be commensurate with market trends.

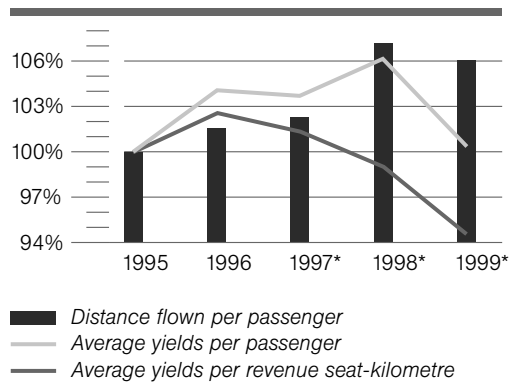
### Revenues boosted by sales of additional capacity

Revenues rose year-on-year by 7.8 per cent to DM 1,725 million. Italy remained Lufthansa CityLine's strongest European market, contributing a 13.9 per cent share to company revenues, followed by France with 12.3 per cent and Switzerland with 10.2 per cent. Earnings from intra-German traffic rose to 13.3 per cent, 1.8 percentage points higher than the year-earlier level. Average yields in relation to revenue passenger-kilometres declined again year-on-year by 4.4 per cent.

### Trend in average yields

#### Lufthansa CityLine

1995 Index = 100

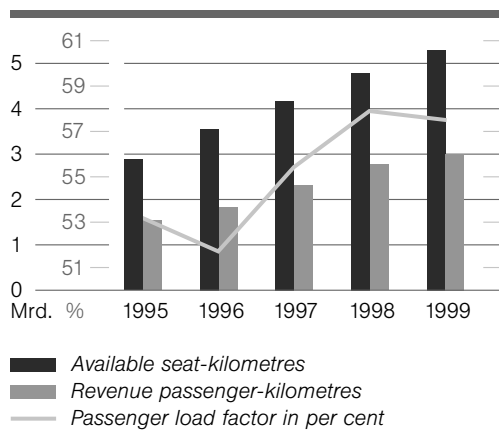


\* Traffic revenues in 1997 – 1999 were prepared in accordance with International Accounting Standards (IAS). Figures are therefore not directly comparable with previous years' results.

### Supply, demand and passenger load factor

#### Lufthansa CityLine

in billions of passenger-kilometres and per cent



### Extra expenses depress results

In 1999 Lufthansa CityLine generated total operating revenue of DM 1,850 million (1998: DM 1,678 million) against total operating expenses of DM 1,787.4 million (1998: DM 1,543 million) and a negative financial result of DM 12 million (1998: DM 12 million). This resulted in a pre-tax profit on ordinary activities of DM 50.6 million (1998: DM 123 million). After deducting taxes of DM 21.9 million (1998: DM 49.4 million) Lufthansa CityLine transferred a net profit of DM 28.7 million (1998: DM 73.6 million) to its parent company Deutsche Lufthansa AG.

In addition to exchange-rate fluctuations, the main items on the expenses side were fuel costs and the costs for additional chartering of third-party capacity, as well as increased costs arising from staff additions and the longer-term rise in personnel expenses resulting from wage agreements. The immediate impact of Debonair's bankruptcy is included in this calculation. Long-term provisions for future engine overhauls depressed the 1999 results by a further DM 30 million.

### CityLine creates new jobs

On an annual average Lufthansa CityLine employed 1,770 staff; this was 10.1 per cent more than in the previous year. The number of ground staff, particularly in the productive technical areas, rose by 13.3 per cent, while cabin personnel increased by 8.6 per cent.

### Strong fleet expansion

In 1999 two more Canadair Regional Jets (CRJ 100s) went into service. One Canadair Regional Jet (CRJ 100) leased from Lauda Air was returned to the lessor in March 1999. At year-end the CityLine fleet thus comprised 33 Canadair Regional Jets (CRJ 100s) and 18 Avro RJ85s. In addition, at year-end eleven Fokker 50s were chartered from Contact Air, four Canadair Regional Jets (CRJ 100s) from Air Littoral and two Dash 8s from Augsburg Airways. From October the shortage in aircraft capacity of five BAe 146s caused by the demise of Debonair was largely offset by short-term leasing from partner airlines and the use of the Company's own reserve aircraft. In the current year the gap is being filled by five BAe 146s leased from British Midland.

### Subsidiaries improve their results

**DLT Extra Executive Travel Reiseflug GmbH**, Cologne, a wholly owned subsidiary of Lufthansa CityLine, posted a pre-tax loss of DM 8,000. The company is the sole owner of DLT of USA, Inc., City of Dover, Delaware.

Lufthansa CityLine has a 50 per cent stake in **CityLine Canadair Simulator und Training GmbH Berlin** (Berlin), which generated a net profit of DM 3,504,000 in 1999 (1998: DM 966,000). The company operates two Canadair Regional Jet simulators (CRJ 100 and 200) for training its flight-deck crews. A third simulator to train crews for the stretched version of the Canadair Regional Jet (CRJ 700) is on order.

Lufthansa CityLine likewise has a 50 per cent participating involvement in the equity capital of **CityLine Avros Simulator and Training GmbH Berlin** (Berlin), which operates an Avro RJ85 simulator. In 1999 the company posted a net loss of DM 36,000 (1998: – DM 149,000). Capacity utilisation of the simulator improved significantly over the previous year.

### **Transparency and controls minimise risks**

Lufthansa CityLine operates its services in a highly cyclical and extremely capital-intensive market, which is also fiercely competitive. In order to maintain its competitive edge in the long term, the Company must not only exploit opportunities; it must also recognise potential risks at an early stage and minimise or totally avert them. The necessary tools are being continually refined and adapted to the changing business environment. The risk management and internal monitoring system required by the Law on Control and Transparency (KonTraG) in the corporate sector is implemented according to the procedure in place at our parent company, Deutsche Lufthansa AG. In-house and Group-wide events are held to continually heighten staff awareness of risks, and at the same time ensure a constant exchange of views and experience.

Lufthansa conducts market analyses in order to assess and minimise risks posed by the competition, and makes the necessary capacity, route and product adjustments.

Ongoing staff training measures, quality assurance systems, audits (also of Team Lufthansa partners and other suppliers), precise process rules as well as insurance policies limit the risks involved in flight operations and technical services.

Suitable measures are in place to safeguard against financial risks resulting from interest-rate and currency risks.

The personnel recruitment risk, particularly as regards the market for pilots, is limited through intensive recruitment drives and incentives, and as far as possible also by means of Group-internal controlling geared to operational requirements.

Lufthansa CityLine minimises the risks involved in commissioning new aircraft types by accompanying their technical and flight-operation development as well as by making constant representations to the manufacturer.

### **An expanding and environment-friendly fleet**

At the beginning of the year 2000 Lufthansa CityLine was the first company in the Lufthansa Group to successfully complete the transition to the new in-house euro currency. The addition of seven new Canadair Regional Jets (CRJ 200s) has significantly strengthened the fleet – a trend which will persist over the next few years as aircraft on order are delivered. The necessary preliminary measures began to take effect in 1999 and will continue to do so. In the second half of 2000 the Company will decide whether to take up ten options on the Canadair Regional Jet (CRJ 700).

In January 2000 Lufthansa CityLine became the first European airline to be certificated according to the European Eco-Management and Audit Scheme (EMAS). Certification applies to all three of the Company's bases. In order to extend its contribution towards environmental care beyond pure company confines and help maintain the ecological balance, Lufthansa CityLine is also supporting a nature conservation project to protect and propagate the indigenous black poplar tree.

The Canadair Jets and the Avro RJ85s in the CityLine fleet are already among the quietest and most environment-friendly aircraft in the world. With the introduction of highly fuel-efficient and low-emission aircraft such as the Fairchild Dornier 728 Lufthansa CityLine will in future be able to fly its passengers to their destinations secure in the knowledge that it is helping to reduce the burden on the environment.

**Outlook**

As a result of a leasing agreement for new aircraft Lufthansa CityLine is anticipating higher earnings in 2000 than in the previous year. Average yields in the first two calendar months surpassed the prior-year level for the first time and substantiate these expectations.

## Route Network\*\*

Lufthansa CityLine operates over 420 flights a day to 64 cities in 21 European countries.

### From Berlin/Tegel to

Hamburg  
Milan/Malpensa  
Naples\*  
Nice  
Stuttgart  
Vienna  
Zurich

### From Bremen to

Munich  
Naples\*  
Stuttgart

### From Cologne/Bonn to

Barcelona  
Dresden  
Hamburg  
Madrid  
Milan/Malpensa  
Munich  
Naples\*  
Nice  
Paris/Charles-de-Gaulle  
Rome  
Shannon\*  
Stuttgart  
Venice  
Warsaw  
Vienna  
Zurich

### From Dresden to

Cologne/Bonn  
Dusseldorf  
Naples\*  
Stuttgart

### From Dusseldorf to

Barcelona  
Bologna  
Budapest  
Dresden  
Geneva  
Gothenburg  
Guernsey/Jersey  
Hamburg  
Helsinki  
Katowice  
Knock\*  
Leipzig  
Lyon  
Milan/Malpensa  
Naples\*  
Oslo  
Paris/Charles-de-Gaulle  
Prague  
Santiago de Compostela\*

Stuttgart  
Turin  
Venice  
Vienna  
Warsaw  
Zurich

### From Frankfurt to

Basle  
Bologna  
Brussels  
Florence  
Friedrichshafen  
Geneva  
Kiruna\*  
Knock\*  
London/City  
Munich  
Münster/Osnabrück  
Östersund\*  
Toulouse  
Turin

### From Friedrichshafen to

Frankfurt

### From Hamburg to

Berlin/Tegel  
Brussels  
Budapest  
Cologne/Bonn  
Dublin  
Dusseldorf  
Geneva  
Helsinki  
London/Stansted  
Milan/Malpensa  
Manchester  
Nice  
Oslo  
Paris/Charles-de-Gaulle  
Rome  
Stockholm  
Stuttgart  
Venice  
Vienna  
Warsaw  
Zurich

### From Hanover to

Barcelona  
Geneva  
Milan/Malpensa  
Munich  
Naples\*  
Paris/Charles-de-Gaulle  
Shannon\*  
Stuttgart

Venice  
Vienna  
Zurich

### From Leipzig to

Dusseldorf  
Munich  
Naples\*  
Stuttgart

### From Munich to

Amsterdam  
Barcelona  
Birmingham  
Bologna  
Bremen  
Brussels  
Budapest  
Cologne/Bonn  
Copenhagen  
Florence  
Frankfurt  
Geneva  
Gothenburg  
Hanover  
Kavala\*  
Kefalonia\*  
Kos\*  
Leipzig  
Milan/Malpensa  
Manchester  
Marseille  
Münster/Osnabrück  
Nice  
Rome  
Sarajevo  
Skopje  
Stuttgart  
Toulouse  
Turin  
Vienna  
Warsaw  
Zagreb

### From Münster/Osnabrück to

Frankfurt  
Munich  
Naples\*

### From Nuremberg to

Kavala\*

### From Paderborn to

Naples\*

### From Stuttgart to

Barcelona  
Berlin/Tegel  
Bremen  
Budapest  
Cologne/Bonn

Dresden  
Dusseldorf  
Hamburg  
Hanover  
Kos\*  
Leipzig  
Madrid  
Milan/Malpensa  
Manchester  
Munich  
Nice  
Palermo\*  
Paris/Charles-de-Gaulle  
Prague  
Stockholm  
Turin  
Warsaw  
Zakinthos\*

### From Zweibrücken to

Naples\*



\* Charter

\*\* Summer timetable 2000



# Financial statements of Lufthansa CityLine GmbH 1999

# Balance Sheet as of December 31, 1999

Assets	Notes	DM Dec. 31, 1999	DM Dec. 31, 1999	DM (000) Dec. 31, 1998	Euro (000) Dec. 31, 1999
<b>A. Total fixed assets</b>					
1)					
I. Intangible assets					
1. Software		3,323,564.00		1,638	1,699
2. Advance payments		692,890.36		727	354
			<b>4,016,454.36</b>	<b>2,365</b>	<b>2,054</b>
II. Tangible assets					
1. Installations in third-party buildings		867,271.00		779	443
2. Aircraft		503,281,793.00		511,206	257,324
3. Rotatable parts		53,619,418.37		59,492	27,415
4. Technical plant		1,116,921.00		1,346	571
5. Office and other equipment		5,545,776.00		5,858	2,836
6. Advance payments		99,731,356.80		51,370	50,992
			<b>664,162,536.17</b>	<b>630,051</b>	<b>339,581</b>
III. Investments	2)				
1. Shares and affiliated companies		50,000.00		50	26
2. Loans to affiliated companies		4,950,000.00		4,950	2,531
3. Other equity investments		647,500.00		648	331
4. Loans to companies held as other equity investments		10,900,000.00		8,650	5,573
5. Other loans		15,666,299.20		19,056	8,010
			<b>32,213,799.20</b>	<b>33,354</b>	<b>16,471</b>
			<b>700,392,789.73</b>	<b>665,770</b>	<b>358,105</b>
<b>B. Current assets</b>					
3)					
I. Inventories and supplies			<b>16,988,572.86</b>	<b>16,922</b>	<b>8,686</b>
II. Receivables and other assets					
1. Accounts receivable		17,428,814.60		10,078	8,911
2. Receivables from affiliated companies		1,855,262.90		587	949
3. Receivables from companies held as other equity investments		0.00		178	0
4. Other assets		5,696,287.94		12,121	2,912
			<b>24,980,365.44</b>	<b>22,964</b>	<b>12,772</b>
III. Securities classified as current assets					
Other securities			<b>21,074,956.96</b>	<b>19,828</b>	<b>10,775</b>
IV. Cash-in-hand, bank balances			<b>202,141.78</b>	<b>195</b>	<b>103</b>
			<b>63,246,037.04</b>	<b>59,909</b>	<b>32,337</b>
<b>C. Prepaid expenses</b>			<b>1,995,717.76</b>	<b>3,021</b>	<b>1,020</b>
<b>Balance sheet total</b>			<b><u>765,634,544.53</u></b>	<b><u>728,700</u></b>	<b><u>391,463</u></b>

Shareholders' Equity and Liabilities	Notes	DM	DM	DM (000)	Euro (000)
		Dec. 31, 1999	Dec. 31, 1999	Dec. 31, 1998	Dec. 31, 1999
<b>A. Shareholders' equity</b>	4)				
Capital stock		<b>50,000,000.00</b>		<b>50,000</b>	<b>25,565</b>
<b>B. Special items with an equity portion</b>	5)	<b>119,596,272.09</b>		<b>121,911</b>	<b>61,149</b>
<b>C. Provisions</b>	6)				
1. Provisions for pensions		28,664,788.00		19,842	14,656
2. Other provisions		124,187,637.35		111,809	63,496
		<b>152,852,425.35</b>		<b>131,651</b>	<b>78,152</b>
<b>D. Liabilities</b>	7)				
1. Accounts payable		47,470,846.53		26,405	24,271
2. Payables to affiliated companies		140,221,193.48		134,448	71,694
3. Payables to companies held as other equity investments		511,313.91		1,200	26
4. Other liabilities		203,522,378.45		202,667	104,059
of which for taxes: DM 2,707,741.11 (1998: DM 1,860,000)					
of which relating to social security: DM 3,502,677.60 (1998: DM 3,030,000)					
		<b>391,725,732.37</b>		<b>364,720</b>	<b>200,286</b>
<b>E. Deferred income</b>		<b>51,460,114.72</b>		<b>60,418</b>	<b>26,311</b>
<b>Balance sheet total</b>		<b><u>765,634,544.53</u></b>		<b><u>728,700</u></b>	<b><u>391,463</u></b>

# Profit and Loss Account for the 1999 Fiscal Year

	Notes	DM Dec. 31, 1999	DM Dec. 31, 1999	DM (000) Dec. 31, 1998	Euro (000) Dec. 31, 1999
1. Turnover	8)	1,725,004,866.97		1,600,118	881,981
2. Other operating income	9)	125,050,378.89		77,943	63,937
			<b>1,850,055,245.86</b>	<b>1,678,061</b>	<b>945,918</b>
3. Cost of materials	10)	1,037,301,842.05		869,261	530,364
4. Personnel expenses	11)	183,236,475.58		157,150	93,687
5. Depreciation of tangible and intangible fixed assets		87,893,470.95		73,722	44,939
6. Other operating expenses	12)	479,027,532.04		442,969	244,923
			<b>1,787,459,320.62</b>	<b>1,543,102</b>	<b>913,913</b>
			<b>62,595,925.24</b>	<b>134,959</b>	<b>32,005</b>
7. Financial result	13)		<b>- 12,037,929.24</b>	<b>- 11,954</b>	<b>- 6,155</b>
8. Profit on ordinary activities before taxation			<b>50,557,996.00</b>	<b>123,005</b>	<b>25,850</b>
9. Taxes	14)		<b>- 21,903,667.00</b>	<b>- 49,414</b>	<b>- 11,199</b>
10. Profit transferred by virtue of a profit transfer agreement	15)		<b>28,654,329.00</b>	<b>73,591</b>	<b>14,651</b>

# Statement of Fixed Assets

Amounts in DM (000)	Acquisition of production costs as of Jan. 1, 1999	Addition	Disposals	Transfers	Accumulated depreciation	Residual book value Dec. 31, 1999	Residual book value Dec. 31, 1998	Depreciation in fiscal year 1999
<b>Fixed assets</b>								
<b>I. Intangible assets</b>								
1. Software	6,924	2,407	0	438	6,445	3,324	1,637	1,159
2. Advance payments	727	418	15	- 438	0	693	727	0
	<b>7,651</b>	<b>2,825</b>	<b>15</b>	<b>0</b>	<b>6,445</b>	<b>4,016</b>	<b>2,365</b>	<b>1,159</b>
<b>II. Tangible assets</b>								
1. Installation in third-party buildings	792	150	0	0	74	867	779	62
2. Aircraft	646,969	48,856	0	15,655	208,200	503,282	511,206	72,437
3. Rotatable parts	95,367	6,363	2,496	0	45,615	53,619	59,492	10,519
4. Technical plant	1,584	249	0	0	716	1,117	1,346	479
5. Office and other equipment	19,421	3,071	3,270	73	13,750	5,546	5,858	3,239
6. Advance payments	51,370	64,090	0	- 15,728	0	99,731	51,370	0
	<b>815,503</b>	<b>122,780</b>	<b>5,765</b>	<b>0</b>	<b>268,355</b>	<b>664,163</b>	<b>630,051</b>	<b>86,735</b>
<b>III. Investments</b>								
1. Shares in affiliated companies	50	0	0	0	0	50	50	0
2. Loans to affiliated companies	4,950	0	0	0	0	4,950	4,950	0
3. Other equity investments	648	0	0	0	0	648	648	0
4. Loans to companies held as other equity investments	8,650	1,000	250	1,500	0	10,900	8,650	0
5. Other loans	19,056	170	2,045	- 1,500	15	15,666	19,056	15
	<b>33,353</b>	<b>1,170</b>	<b>2,295</b>	<b>0</b>	<b>15</b>	<b>32,214</b>	<b>33,353</b>	<b>15</b>
<b>Total fixed assets</b>	<b>856,508</b>	<b>126,774</b>	<b>8,075</b>	<b>0</b>	<b>274,815</b>	<b>700,393</b>	<b>665,770</b>	<b>87,908</b>

Amounts in Euro (000)	Acquisition of production costs as of Jan. 1, 1999	Addition	Disposals	Transfers	Accumulated depreciation	Residual book value Dec. 31, 1999	Residual book value Dec. 31, 1998	Depreciation in fiscal year 1999
<b>Fixed assets</b>								
<b>I. Intangible assets</b>								
1. Software	3,540	1,231	0	224	3,295	1,699	837	592
2. Advance payments	372	214	7	- 224	0	354	372	0
	<b>3,912</b>	<b>1,444</b>	<b>7</b>	<b>0</b>	<b>3,295</b>	<b>2,054</b>	<b>1,209</b>	<b>592</b>
<b>II. Tangible assets</b>								
1. Installation in third-party buildings	405	77	0	0	38	443	398	32
2. Aircraft	330,790	24,980	0	8,005	106,451	257,324	261,376	37,036
3. Rotatable parts	48,760	3,254	1,276	0	23,323	27,415	30,418	5,378
4. Technical plant	810	127	0	0	366	571	688	245
5. Office and other equipment	9,930	1,570	1,672	37	7,030	2,836	2,995	1,656
6. Advance payments	26,265	32,769	0	- 8,042	0	50,992	26,265	0
	<b>416,960</b>	<b>62,776</b>	<b>2,948</b>	<b>0</b>	<b>137,208</b>	<b>339,581</b>	<b>322,140</b>	<b>44,347</b>
<b>III. Investments</b>								
1. Shares in affiliated companies	26	0	0	0	0	26	26	0
2. Loans to affiliated companies	2,531	0	0	0	0	2,531	2,531	0
3. Other equity investments	331	0	0	0	0	331	331	0
4. Loans to companies held as other equity investments	4,423	511	128	767	0	5,573	4,423	0
5. Other loans	9,743	87	1,046	- 767	8	8,010	9,743	7
	<b>17,053</b>	<b>598</b>	<b>1,173</b>	<b>0</b>	<b>8</b>	<b>16,471</b>	<b>17,053</b>	<b>7</b>
<b>Total fixed assets</b>	<b>437,925</b>	<b>64,819</b>	<b>4,129</b>	<b>0</b>	<b>140,511</b>	<b>358,105</b>	<b>340,403</b>	<b>44,947</b>

# Notes to the Financial Statements of Lufthansa CityLine GmbH 1999

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## Legal basis

The financial statements of Lufthansa CityLine GmbH (CLH) have been drawn up in accordance with the stipulations of the German Financial Code and the Limited Liability Companies Act. In the interests of clearer presentation, certain items have been aggregated in the balance sheet and the profit and loss account, but are shown separately in the notes.

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## Consolidated financial statements

The Company is included in the consolidated financial statements of Deutsche Lufthansa AG (DLH). The consolidated financial statements of DLH for the 1999 fiscal year are published in the Federal Gazette and deposited at the Commercial Register of the District Court in Cologne.

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## Accounting and valuation methods, currency translation

### Intangible assets

Intangible assets are stated at their purchase cost less scheduled depreciation. The scheduled depreciation period ranges from three to five years.

### Tangible assets

Tangible assets are valued at their acquisition cost less scheduled depreciation. The depreciation rates correspond to the provisions of tax law.

As of 1998, new aircraft and new spare engines are written down over twelve years to a residual book value of 15 per cent using the declining-balance method. Previously aircraft were written down according to the straight-line depreciation method but otherwise on the same basis, while spare engines were written off over ten years by the straight-line method without any residual value.

Aircraft and spare engines acquired second-hand are written off over eight years by the declining-balance method with no residual value. Use is made of the simplified tax rule.

### Technical plant, office and other equipment

Technical plant, office and other equipment are written off over a period of between five and ten years. Since 1997 additions to such assets have been written down by the declining-balance method using the simplified tax rule.

Rotatable parts are depreciated over ten years using the straight-line method and resorting to the simplified tax rule in the year of acquisition. Low-value assets are written off in full in the year of acquisition.

### Investments

Within the item investments, shares in affiliated companies and other equity investments are stated at their purchase price. Loans are capitalised at their nominal value.

**Stocks**

Stocks are recorded at their acquisition cost based on weighted average prices or at their current value on the balance sheet date, whichever is lower.

In the 1999 fiscal year deductions of DM 1.9 million were made for the first time for non-saleability.

**Receivables and other assets**

Receivables and other assets are valued with due account taken of market price losses and known individual risks. In the case of accounts receivable, allowance is made for general counterparty risk by means of a percentage value adjustment.

**Securities**

Securities classified as current assets are stated at their purchase cost in accordance with the lower of cost or market principle.

**Provisions**

Provisions for pensions are shown at their going-concern value, calculated according to actuarial principles on the basis of an imputed interest rate of six per cent.

The valuation of other provisions takes into account all known risks and contingent liabilities judged on the basis of sound business practice.

**Valuation, currency translation**

Liabilities are stated at their repayment values. Where necessary, adjustments are made to longer-term foreign currency liabilities for exchange rate movements.

Business transactions which give rise to receivables and payables in foreign currency are valued at Group-wide conversion rates applying during the transaction month. Short-term accounts receivable or payable are valued at the rate applying on the balance sheet date.

# Notes to the Balance Sheet and Profit and Loss Account

## 1) Total fixed assets

The breakdown of the asset items aggregated in the balance sheet and their changes in 1999 are shown in the statement of fixed asset movements on page 14.

## 2) Investments

The principal affiliated companies and other equity investments are as follows:

	Equity stake in per cent	Capital 31.12.1999 DM (000)	Annual result 1999 DM (000)
DLT Extra Executive Travel Reiseflug GmbH Cologne/Bonn Airport	100	63	- 8
CityLine Avro Simulator und Training GmbH Berlin, Berlin (CAST)	50	289	- 36
CityLine Canadair Simulator und Training GmbH Berlin, Berlin (CCST)	50	2,118	3,504

## 3) Current assets

Receivables and other assets are due within one year.  
The other securities are units in investment funds.

## 4) Shareholders' equity

At the balance sheet date the fully paid-in share capital was held wholly by Deutsche Lufthansa AG (DLH). A subordination and profit/loss transfer agreement exists between DLH and the Company.

## 5) Special items with an equity portion

The changes in special items with an equity portion boosted the 1999 earnings result before inter-Group tax transfers by DM 2,315,000. This amount includes a tax charge of about 41 per cent. The release of special items with an equity portion is distributed over periods of up to eleven years.

## 6) Provisions

Other provisions mainly relate to bills outstanding, inter alia in respect of landing and ground handling fees, air traffic control charges, repair and overhaul charges, personnel expenses and leasing agreements.  
In addition, provision for operating expenses totalling DM 30 million was made for engine overhauls.

## 7) Liabilities

Of the accounts payable, the sum of DM 600,000 is secured by guarantees.

## 8) Revenue

Revenue is broken down as follows:

### a) Traffic revenue

By business area	1999 DM (000)	1998 DM (000)
Scheduled services	1,685,172	1,555,139
Tourism and other charter services	31,098	37,982
Cargo	3,742	4,445
<b>Total</b>	<b>1,720,012</b>	<b>1,597,566</b>

By geographical market*	1999 DM (000)	1998 DM (000)
Domestic	991,167	882,680
Europe	654,152	637,610
North America	35,945	37,050
South America	5,487	5,975
Africa	3,806	5,374
Middle East	2,770	2,347
Asia/Pacific	26,685	26,530
<b>Total</b>	<b>1,720,012</b>	<b>1,597,566</b>

\* Based on point of sale

### b) Other revenue

	1999 DM (000)	1998 DM (000)
Miscellaneous other revenue	4,993	2,552

Miscellaneous other revenue relates to items such as revenue generated from aero-engineering services.

## 9) Other operating income

	1999 DM (000)	1998 DM (000)
Income from the release of special items in accordance with section 82 f of the German Income Tax Ordinance	2,315	2,315
Write-back of provisions	36,643	1,874
Other miscellaneous operating income	86,092	73,754
<b>Total</b>	<b>125,050</b>	<b>77,943</b>

Other miscellaneous operating income comprises diverse individual amounts earned from such things as exchange rate gains, proceeds from the subleasing of Fokker 50s and Canadair Jets as well as proceeds from the collapse of Fokker, from catering revenues and cost refunds in respect of past years.

## 10) Cost of materials

The cost of materials subdivides into the following items:

	1999 DM (000)	1998 DM (000)
Expenses for raw materials, supplies and merchandise	120,581	108,661
Expenses for services purchased	916,721	760,600
<b>Total</b>	<b>1,037,302</b>	<b>869,261</b>

## 11) Personnel expenses

Personnel expenses subdivides into the following items:

	1999 DM (000)	1998 DM (000)
Wages and salaries	147,803	132,510
Social security contributions and other pension costs	35,433	24,640
– of which for retirement pensions	(9,600)	(1,480)
<b>Total</b>	<b>183,236</b>	<b>157,150</b>

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**12) Other operating expenses**

Other operating expenses amount to DM 479,028,000 (1998: DM 442,969,000) and include such items as sales costs, aircraft leasing expenses, rents, staff training costs, travel expenses, exchange rate costs and sundry, other expenditure on employees and costs for services performed by third parties.

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**13) Financial result**

The financial result is made up of the following individual components:

	1999 DM (000)	1998 DM (000)
	<b>- 12,038</b>	<b>- 11,954</b>
<b>Of which:</b>		
<b>Net interest result</b>		
Income from long-term financial investments	1,431	1,454
– of which affiliated companies	0	0
Other interest and similar income	1,042	5,728
– of which affiliated companies	(554)	(3,578)
Interest and similar expenses	14,496	18,964
– of which affiliated companies	(7,428)	(6,485)
<b>Of which:</b>		
<b>Value adjustment of securities portfolio</b>		
Write-downs of financial assets	0	172
Write-downs of financial assets	15	0

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**14) Taxes**

Taxes comprise the following sub-items:

	1999 DM (000)	1998 DM (000)
<b>Taxes on income</b>		
Trade earnings tax (charged by Group)	7,063	16,319
Corporation tax (charged by Group)	12,766	31,235
Solidarity surcharge	702	1,718
<b>Other Taxes</b>		
Tax arrears for previous years (charged by Group)	1,363 (1,363)	130 (0)
Miscellaneous other taxes	10	12
<b>Total</b>	<b>21,904</b>	<b>49,414</b>

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**15) Profit transfer**

By virtue of the subordination and profit/loss transfer agreement with DLH, the sum of DM 28.7 million was transferred to the parent company.

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**16) Other financial obligations**

In 2000 CLH will incur costs totalling DM 1,124.7 million in connection with existing rental and leasing agreements. Of that sum DM 370.6 million relates to leasing instalments for aircraft, DM 14.5 million to rents and leasing instalments for cars, buildings and computer installations, and DM 739.5 million to other obligations for charter instalments.

In the year under review aircraft orders were placed for a total value of DM 3,232 million and further order options for a value of DM 3,637 million. By the balance sheet date, advance payments of DM 7.3 million had been made.

In addition to compiling its annual financial statements in accordance with the German Commercial Code, Lufthansa CityLine has also drawn up a balance sheet and a profit and loss account according to International Accounting Standards (IAS), which form part of the consolidated financial statements of Deutsche Lufthansa AG.

# Audit Opinion

We have examined the financial statements of Lufthansa CityLine GmbH, Cologne, including the accounts and management report for the fiscal year from January 1 to December 31, 1999. These accounts as well as the financial statements and management report, presented in accordance with the German Commercial Code, are the responsibility of the Board of Directors of the Company. Our responsibility is to express an opinion on the financial statements and the management report based on our audit.

We conducted our audit in accordance with § 317 of the German Commercial Code and the generally accepted auditing standards of the Institut der Wirtschaftsprüfer (IDW). These standards require that we plan and perform the audit so as to obtain reasonable assurance that any inaccuracies or irregularities which could substantially affect a true and fair view of the net worth, financial position and results of the Company as presented in the financial statements drawn up in accordance with generally accepted accounting standards and the management report are recognised. In defining auditing procedures, knowledge of the Company's business activities, its economic and legal environment and expectations of potential errors are taken into consideration. An audit includes examining, mainly on a test basis, the effectiveness of the Company's internal auditing system and evidence supporting disclosures in the accounts, financial statements and management report.

An audit also includes assessing the accounting principles used and significant estimates made by management as well evaluating the overall presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion set out below.

Our audit gave rise to no objections. In compliance with generally accepted accounting principles, the annual financial statements present a true and fair view of the net worth, financial position and results of the Company. In total the management report gives a true and fair view of the Company's position and accurately presents the risks involved in future developments.

Düsseldorf, March 24, 2000

PwC Deutsche Revision  
Aktiengesellschaft  
Wirtschaftsprüfungsgesellschaft

Dr. Vogelpoth  
Wirtschaftsprüfer

ppa. Kroll  
Wirtschaftsprüfer

# Report of the Supervisory Board

Throughout the year under review the Supervisory Board performed the duties required of it by the statutory regulations and the Company's articles of association, kept itself regularly informed of the course of business at meetings and in discussions with the Directors, and monitored the work of the Board of Directors. The members of the Supervisory Board were able to satisfy themselves that the Directors are making strenuous efforts to further improve the Company's earnings performance. The Directors periodically submitted written reports to the Supervisory Board.

Three meetings of the Supervisory Board took place during the 1999 fiscal year: on April 24, September 2 and November 25, 1999.

At its meeting on April 22, 1999, the Supervisory Board approved the procurement of 60 Fairchild Dornier FD 728 aircraft for delivery from 2003 - 2006 as well as purchase options on a further 60 aircraft.

PwC Deutsche Revision AG, the auditing company appointed by the Supervisory Board on September 2, 1999 to audit the annual financial statements, examined the financial statements as at December 31, 1999 as well as the management report and the accounting records in accordance with the statutory requirements and gave its unqualified audit endorsement. The Supervisory Board noted and approved the audit results at its meeting on April 19, 2000. The auditors who signed the audit report on the annual financial statements also attended that meeting for the relevant agenda items and reported on their audit of the Company's annual financial statements.

The Supervisory Board has examined the financial statements and the management report and has no objections to record. It approves the 1999 annual financial statements drawn up by the Board of Directors, which are thereby adopted.

The Supervisory Board expresses its appreciation to the employees, managers and Directors for their great dedication and efforts throughout 1999.

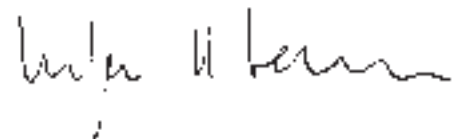
On March 8, 1999 Mr. Christoph Müller stepped down from the Supervisory Board. He was succeeded by Mr. Ralf Teckentrup.

Mr. Jürgen Finger relinquished his seat on the Supervisory Board on April 30, 1999. Mr. Klaus Furck was appointed as his successor.

At its meeting on November 25, 1999 the Supervisory Board resolved to nominate Mr. Dr. Thomas Dräger to take over from Mr. Georg Steinbacher as Co-Managing Director of Lufthansa CityLine with effect from January 1, 2000.

Cologne, April 19, 2000

The Supervisory Board



Stefan Lauer  
Chairman

# The Supervisory Board and the Board of Directors

## **Supervisory Board**

Stefan Lauer, Idstein  
(Chairman since January 4, 1999)

Dr. Wilhelm Bender, Frankfurt  
(Deputy Chairman)

Ralf Teckentrup, Wiesbaden  
(since May 3, 1999)

Klaus Furck, Cologne  
(since May 3, 1999)

Jürgen Finger, Cologne  
(until April 30, 1999)

Christoph Müller, Königstein  
(until March 8, 1999)

Günter Eulberg, Oberbolheim

Bernhard H. Walentin, Niedernhausen

## **Board of Directors**

Karl-Heinz Köpfle, Idstein

Georg Steinbacher, Steinbach  
(until November 30, 1999)

Dr. Thomas Dräger, Hofheim  
(since January 1, 2000)

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