Logistics business segment

Lufthansa Cargo is one of Europe's leading freight airlines. | Service improvements and global partnerships strengthen market position. | Customers benefit from increasing digitalisation. | Difficult market environment burdens revenue and earnings.

2.5
€bn **Revenue**

1
€m **Adjusted EBIT**

T043   KEY FIGURES LOGISTICS

		2019	2018	Change in %
Revenue	€m	2,478	2,713	– 9
of which traffic revenue	€m	2,318	2,550	– 9
Adjusted EBITDA	€m	161	372	– 57
Adjusted EBIT	€m	1	268	– 100
EBIT	€m	– 33	263	
Adjusted EBIT margin	%	0.0	9.9	– 9.9 pts
Adjusted ROCE	%	0.0	14.6	– 14.6 pts
EACC	€m	– 102	139	
Segment capital expenditure	€m	286	374	– 24
Employees as of 31 Dec	number	4,539	4,505	1
Average number of employees	number	4,543	4,422	3

Business activities

Lufthansa Cargo is one of Europe's leading freight airlines
In addition to Lufthansa Cargo AG, the Lufthansa Group's logistics specialists, the Logistics segment includes the airfreight container management specialist Jettainer group, the time:matters subsidiary, which specialises in particularly urgent consignments, and the equity investments in the cargo airline AeroLogic and in the newly established Heyworld subsidiary, which offers tailored solutions for the e-commerce industry from a single source. Lufthansa Cargo also has equity investments in various handling companies and smaller companies involved in aspects of digitalising the sector.

The focus of Lufthansa Cargo's operations lies in the airport-to-airport airfreight business. Its product portfolio encompasses standard and express freight as well as highly specialised products. These include the transport of living animals, valuable cargo, post and dangerous goods, as well as meeting growing market demand for the carriage of temperature-sensitive goods. The company has specialised infrastructure at Frankfurt Airport to handle these sensitive goods, including the Animal Lounge and the Lufthansa Cargo Cool Center.

The Lufthansa Cargo freighter fleet consisted of seven Boeing 777F and eight Boeing MD-11F aircraft as of the end of 2019. Around half its freight volumes are also carried in the belly capacities of passenger aircraft operated by Lufthansa German Airlines, Brussels Airlines, Austrian Airlines, Eurowings long-haul and SunExpress. Altogether, Lufthansa Cargo offers connections to more than 300 destinations in around 100 countries.

AeroLogic is a joint venture based in Leipzig and operates its 14 B777 freighters to 28 destinations around the world on behalf of its two shareholders, Lufthansa Cargo and DHL Express. Lufthansa Cargo is responsible for marketing the capacities of four of these freighters.

Lufthansa Cargo also has successful international partnerships with All Nippon Airways, Cathay Pacific and United Airlines. The partnership was extended to routes between Europe and Hong Kong in 2019.

Course of business and operating performance

Course of business marked by difficult market situation
The airfreight industry is traditionally very volatile and saw declines across the market in 2019. The political situation, especially the trade disputes and uncertainties related to the Brexit, had a significant impact on demand in the sector. Despite reacting early to the challenging market situation and rapidly reducing its MD-11F fleet, Lufthansa Cargo was still unable to match its earnings in the previous two years.

Leading position to be extended, structural costs to be reduced

Additional digital services and global partnerships should help Lufthansa Cargo to build on its leading position in the airfreight industry. Lufthansa Cargo also aims to further simplify and automate airfreight processes and to sustainably reduce unit costs.

The ProFlex programme was launched in December 2019 to deliver further cost reductions. The programme aims to develop and implement measures to reduce costs sustainably (operating and staff costs across the company) by EUR 50m per year.

Fleet is being modernised and standardised

In the reporting year, two more B777F aircraft joined the Lufthansa Cargo fleet and four MD-11F freighters were retired from service. The fleet modernisation is scheduled for completion by the end of 2020. From 2021 Lufthansa Cargo will then operate a uniform fleet of nine highly efficient B777F cargo aircraft.

Lufthansa Cargo also brought another two leased B777F freighters into service at AeroLogic.

Digitalisation brings many advantages for customers

In addition to renewing and strengthening the core business, gaining new customers and expanding partnerships, digitalisation is an important pillar of the strategic Cargo Evolution programme. In addition to automating standard processes and updating the IT infrastructure environment, this also includes networking customers and partners. Lufthansa Cargo is thus able to respond faster to customer requests. One example is the implementation of digital interfaces, enabling the real-time exchange of data. This speeds up information flows and makes them much simpler for everyone. The result is not only a new quality of work but also a much improved customer experience.

Over 80% of all bills of lading are now produced electronically. Digitalisation means customers benefit from greater transparency, higher speeds, better quality and more flexibility as well as greater efficiency.

The e-commerce segment continues to grow and is changing customer demands, to which Lufthansa Cargo is responding with new, specially tailored offerings. Heyworld, the company that was established in 2019, is dedicated to fulfilling the requirements of the e-commerce sector.

Further modernisation of ground infrastructure

The freight centre in Frankfurt is being continually modernised. The overhaul of the warehouse pallet stacker was completed in 2019. As well as replacing old instruments and wiring, the work focused on bringing the IT systems up to the latest standards. This overhaul is the first stage of a concept for the modular modernisation of the logistic centre.

Cargo load factor down as capacity rises

Capacity at Lufthansa Cargo increased by 7% in 2019. Belly capacities grew faster than freighter capacities, partly due to the takeover of the belly capacities at Brussels Airlines from 1 September 2018. This meant the capacity was included for the full year for the first time in 2019. Whereas sales on belly services rose slightly, the higher freighter capacity could not be sold in full. Sales therefore remained the same as the previous year. The cargo load factor fell accordingly by 4.6 percentage points to 61.3% (previous year: 65.9%). Yields fell by 8.8%. After adjustment for exchange rates, they were 10.5% lower than the previous year. Traffic revenue fell by 9% to EUR 2,318m for pricing reasons (previous year: EUR 2,550m).

T044   TRAFFIC FIGURES AND OPERATING FIGURES LOGISTICS

		2019	2018	Change in %
Available cargo tonne-kilometres	millions	14,507	13,555	7
Revenue cargo tonne-kilometres	millions	8,899	8,934	0
Cargo load factor	%	61.3	65.9	– 4.6 pts
Yields[1]	€ cent	26.0	28.5	– 8.8 [1]

[1] Exchange rate-adjusted change: –10.5%.

Asia-Pacific and the Americas remain Lufthansa Cargo's main traffic regions. The two regions account for nearly 90% of capacity and sales. Capacity was expanded in all traffic regions, with sales rising in the Europe and Middle East/Africa traffic regions. The cargo load factor only improved in the Middle East/Africa traffic region, primarily thanks to good use of the belly capacities of Brussels Airlines. Yields fell in all the traffic regions. Traffic revenue declined in all traffic regions with the exception of Middle East/Africa.

T045   TRENDS IN TRAFFIC REGIONS
Lufthansa Cargo

	Net traffic revenue external revenue		Available cargo-tonne-kilometres		Revenue cargo-tonne-kilometres		Cargo load factor	
	2019 in €m	Change in %	**2019** in Mio.	Change in %	**2019** in Mio.	Change in %	**2019** in %	Change in pts
Europe	189	− 5	809	13	325	3	40.2	− 3.9
America	964	− 10	6,760	8	3,924	0	58.0	− 4.4
Asia/Pacific	949	− 14	5,635	2	3,942	− 5	69.9	− 5.6
Middle East/Africa	216	22	1,303	22	708	31	54.4	3.7
Total	**2,318**	**− 9**	**14,507**	**7**	**8,899**	**0**	**61.3**	**− 4.6**

Revenue and earnings development

Revenue down year-on-year
Revenue at Lufthansa Cargo fell by 9% to EUR 2,478m in 2019 (previous year: EUR 2,713m). The decline was mainly due to the difficult conditions in the airfreight industry, as described, and the steep fall in yields as a result. Other operating income went up due to exchange rates. Operating income fell by 7% to EUR 2,581m (previous year: EUR 2,770m).

Expenses up on last year
Operating expenses went up by 3% to EUR 2,621m (previous year: EUR 2,538m).

The cost of materials rose year-on-year by 1% to EUR 1,778m (previous year: EUR 1,753m). Fuel costs fell by 11% due to pricing and volumes, partly because of the fleet modernisation. Charter expenses were up due to additional AeroLogic aircraft and higher belly expenses paid to Group companies, including the takeover of the belly capacities of Brussels Airlines.

T046   OPERATING EXPENSES LOGISTICS

	2019 in €m	2018 in €m	Change in %
Cost of materials and services	1,778	1,753	1
of which fuel	337	379	− 11
of which fees	297	292	2
of which charter expenses	897	839	7
of which MRO services	119	120	− 1
Staff costs [1]	406	420	− 3
Depreciation and amortisation [2]	160	104	54
Other operating expenses [3]	277	261	6
Total operating expenses	**2,621**	**2,538**	**3**

[1] Without past service costs/settlement.
[2] Without impairment losses.
[3] Without book losses.

Staff costs at Lufthansa Cargo fell by 3% to EUR 406m in 2019 (previous year: EUR 420m).
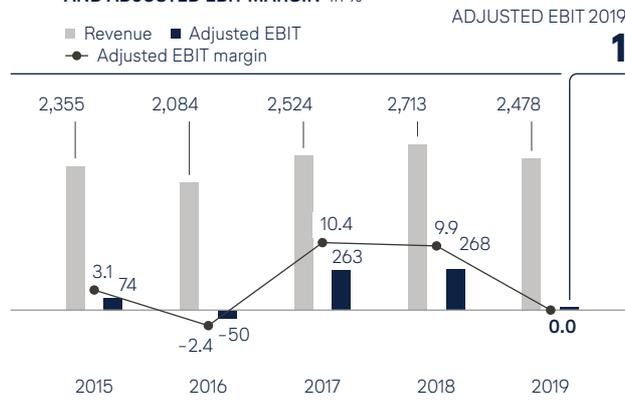
Depreciation and amortisation went up by 54% to EUR 160m year-on-year (previous year: EUR 104m), mainly due to the effects of IFRS 16.

Other operating expenses rose by 6%, principally due to exchange rate effects.

Adjusted EBIT down by EUR 267m
Adjusted EBIT fell as a result by EUR 267m to EUR 1m (previous year: EUR 268m).

C21   LOGISTICS: DEVELOPMENT OF REVENUE, ADJUSTED EBIT in €m
AND ADJUSTED EBIT MARGIN in %

ADJUSTED EBIT 2019

1

Revenue ■ Adjusted EBIT
Adjusted EBIT margin

2015	2016	2017	2018	2019
2,355	2,084	2,524	2,713	2,478
74	−50	263	268	0.0
3.1	−2.4	10.4	9.9	0.0

Segment capital expenditure down on the year
Investment declined in the reporting period by 24% to EUR 286m, mainly due to lower advance payments for aircraft (previous year: EUR 374m).