

Logistics business segment

Lufthansa Cargo is Europe's leading freight airline. | Quality improvements and global partnerships strengthen market position. | More efficient processes lead to lower costs and greater flexibility. | Customers benefit from increasing digitalisation. | Revenue and earnings up year-on-year.

2.7

€bn **Revenue**

268

€m **Adjusted EBIT**

T046 KEY FIGURES LOGISTICS

		2018	2017	Change in %
Revenue	€m	2,713	2,524	7
of which with companies of the Lufthansa Group	€m	32	27	19
Adjusted EBITDA	€m	372	363	2
Adjusted EBIT	€m	268	263	2
EBIT	€m	263	262	0
Adjusted EBIT margin	%	9.9	10.4	-0.5 pts
Adjusted ROCE	%	14.6	16.2	-1.6 pts
EACC	€m	139	142	-2
Segment capital expenditure	€m	374	79	373
Employees as of 31.12.	number	4,505	4,511	0
Average number of employees	number	4,422	4,504	-2

Business activities

Lufthansa Cargo is Europe's leading freight airline

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 investment in the cargo airline AeroLogic. 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 the growing sector of temperature-sensitive goods. The company has specialised infrastructure at Frankfurt Airport to handle these sensitive goods, including the Frankfurt Animal Lounge and the Lufthansa Cargo Cool Centre.

The Lufthansa Cargo freighter fleet consisted of five Boeing 777F and twelve Boeing MD-11F aircraft as of the end of the financial year. Lufthansa Cargo markets capacities on its own freighters and chartered cargo aircraft, along with belly capacities on passenger aircraft operated by Lufthansa German Airlines, Austrian Airlines, SunExpress and on Eurowings long-haul flights. Since 1 September 2018, Lufthansa Cargo has also been marketing the freight capacities of Brussels Airlines. Freighters and passenger aircraft each carried about half of the total cargo. Altogether, Lufthansa Cargo offers connections to more than 300 destinations in around 100 countries. AeroLogic is based in Leipzig and operates its ten B777 freighters to 28 destinations around the world on behalf of its two shareholders, Lufthansa Cargo and DHL Express.

International partnerships to be expanded

Lufthansa Cargo continues to develop its partnerships. A new partnership with United Airlines began in May 2018. Most of the stations in Europe and the USA have already been incorporated. Other European countries and the US feeder service will be integrated in the first half of 2019. In addition, the partnership with Cathay Pacific Cargo on flights from Europe to Hong Kong will be expanded in early 2019.

Course of business and operating performance

Leading position to be further extended

Continuous quality enhancements 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 strategic programme of cost-cutting measures adopted in 2016 was brought to a successful close in October 2018. The company is more streamlined as a result and can react faster within its volatile industry.

Strict cost controls will remain in place in 2019, both in terms of processes and the efficient use of production resources.

Fleet is being modernised and expanded

Two more Boeing 777Fs will be integrated into the fleet in February and March 2019. They will replace the MD-11F freighters in the medium term, thereby expediting the fleet's modernisation. Lufthansa Cargo also leased another Boeing 777F freighter in January 2019, which is in service at AeroLogic. A fourth is to follow in autumn 2019.

Digitalisation brings many advantages for customers

Digitalisation is a key pillar of the strategic Cargo Evolution programme. Issues concerning digitalisation were given even higher priority both in the organisation of Lufthansa Cargo and in its project portfolio. Current focal points include the renewal of the IT infrastructure and the ongoing digitalisation of customer interfaces, with the aim of networking the company digitally with all the participants in the transport chain, from booking through to delivery.

Almost three quarters 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.

Further modernisation of ground infrastructure

The freight centre in Frankfurt is being continually modernised. This involved expanding capacities and further improving the entire infrastructure of the cool centre for temperature-sensitive airfreight consignments in 2018. The individual steps form part of an integrated, modular modernisation concept for the logistics centre in Frankfurt, which is being implemented in stages.

Positive trend in capacity and sales

Capacity at Lufthansa Cargo increased by 5% in 2018. Belly capacities grew faster than freighter capacities. Sales were up by 1% as a result of higher capacities in the freighters. Higher belly capacities could not be sold in full, because they were concentrated on routes that are less relevant for the cargo business. The cargo load factor therefore fell overall by 3.2 percentage points to 65.9% (previous year: 69.1%). Lufthansa Cargo was nevertheless able to expand yields again significantly compared with the previous year. After adjustment for exchange rates, they were 8.6% higher than the previous year.

T047 TRAFFIC FIGURES AND OPERATING FIGURES LOGISTICS

		2018	2017	Change in %
Available cargo tonne-kilometres	millions	13,555	12,867	5
Revenue cargo tonne-kilometres	millions	8,934	8,886	1
Cargo load factor	%	65.9	69.1	-3.2 pts
Yields ¹⁾	€ cent	28.5	26.7	6.7 ²⁾

¹⁾ On a like-for-like basis, also previous year including IFRS 15 effects.

²⁾ Exchange rate-adjusted change: 8.6%.

The main traffic regions for Lufthansa Cargo remain Asia/Pacific and America, and this is where capacity, sales and traffic revenue were expanded the most. Yields increased most strongly in the Asia/Pacific region and in the Middle East/Africa.

T048 TRENDS IN TRAFFIC REGIONS

Lufthansa Cargo

	Net traffic revenue external revenue		Available cargo-tonne-kilometres		Revenue cargo-tonne-kilometres		Cargo load factor	
	2018 in €m	Change in %	2018 in millions	Change in %	2018 in millions	Change in %	2018 in %	Change in %
Europe	198	0	716	4	316	-7	44.1	-5.2
America	1,068	6	6,256	6	3,909	2	62.5	-2.4
Asia/Pacific	1,107	12	5,512	8	4,166	1	75.6	-4.9
Middle East/Africa	177	0	1,071	-7	543	-9	50.7	-1.1
Total	2,550	7	13,555	5	8,934	1	65.9	-3.2

Revenue and earnings development

Revenue up on previous year

Revenue in the Logistics segment rose by 7% to EUR 2,713m in 2018 (previous year: EUR 2,524m). This was particularly due to the strong rise in yields. Total revenue increased by 7% to EUR 2,770m (previous year: EUR 2,597m).

Expenses up for operating reasons

Operating expenses went up by 8% to EUR 2,538m (previous year: EUR 2,357m). Fuel expenses rose by 16% to EUR 379m due to pricing (previous year: EUR 326m). Charter expenses were up by 23% at EUR 839m, primarily driven by taking on the marketing of belly capacities for Brussels Airlines at the end of the third quarter 2018 (previous year: EUR 683m). Staff costs fell by 3% to EUR 420m due to redundancies at Lufthansa Cargo as part of the successful implementation of the strategic cost-cutting programme (previous year: EUR 435m).

T049 OPERATING EXPENSES LOGISTICS

	2018 in €m	2017 in €m	Change in %
Cost of materials and services	1,753	1,575	11
of which fuel	379	326	16
of which fees	292	302	-3
of which charter expenses	839	683	23
of which MRO services	120	123	-2
Staff costs ¹⁾	420	435	-3
Depreciation and amortisation ²⁾	104	100	4
Other operating expenses ³⁾	261	247	6
Total operating expenses	2,538	2,357	8

¹⁾ Without past service costs/settlement.

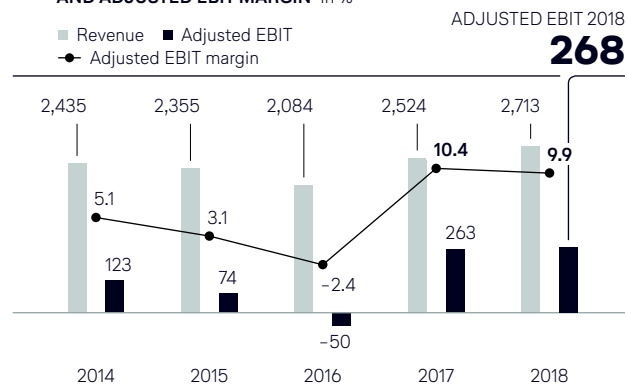
²⁾ Without impairment losses.

³⁾ Without book losses.

Adjusted EBIT improves

Adjusted EBIT rose by 2% to EUR 268m (previous year: EUR 263m). With the accounting changes for engine overhaul events, which particularly affected expenses in 2017, Adjusted EBIT would have gone up by 10% to EUR 265m (previous year: EUR 242m).

C19 LOGISTICS: DEVELOPMENT OF REVENUE, ADJUSTED EBIT in €m AND ADJUSTED EBIT MARGIN in %



Segment capital expenditure increases

Capital expenditure went up significantly to EUR 374m in the reporting period mainly due to the down payment for two new B777 freighters (previous year: EUR 79m).