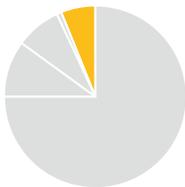


## Catering business segment

↗ LSG Sky Chefs successfully combines airline catering with other services. ↗ Its global presence is being extended by means of joint ventures. ↗ The segment increased its revenue and profit again in 2011. ↗ Upgrade<sup>plus</sup> has met its targets. ↗ LSG Sky Chefs continues its profitable growth.

Share of Group revenue 6.0%



↗ Global market leader  
in airline catering

### Key figures Catering

		2011	2010	Change in %
Revenue	€m	2,299	2,249	2.2
of which with companies of the Lufthansa Group	€m	561	533	5.3
Operating result	€m	85	76	11.8
Adjusted operating margin	%	3.7	3.4	0.3 pts
Segment result	€m	97	87	11.5
EBITDA	€m	147	174	-15.5
CVA	€m	-25	-28	10.7
Segment capital expenditure	€m	74	38	94.7
Employees as of 31.12.	number	29,586	28,499	3.8
Average number of employees	number	29,226	28,369	3.0



**2.3**  
**€bn**

Revenue



**85**  
**€m**

Operating result



## Business and strategy

### Leading role in airline catering and other services

The LSG Sky Chefs group is the global market leader in airline catering and related upstream and downstream in-flight service processes. In airline catering, which accounts for 85 per cent of the group's total revenue, the company has a global market share of around 26 per cent. Its strong presence is reflected at a regional level above all in the highly developed markets Germany and the USA. It nevertheless continues to expand its network in the growth regions Latin America, Africa, Asia and Eastern Europe. The LSG Sky Chefs group consists of 148 companies with operations at 198 airport sites in 50 countries. The parent company for the group, LSG Lufthansa Service Holding AG, is based in Neu-Isenburg.

LSG Sky Chefs has more than 70 years of experience in airline catering, to which it continues to add every year. The marketing agreement signed in 1993 and the successive purchase of shares in Sky Chefs led to the complete takeover of the American caterer in summer 2001. In the last two decades LSG Sky Chefs has also been able to establish a solid presence in important Asian, South American, Eastern European and African markets, primarily via partnerships with local players. More recently, further corporate development has also concentrated on adding innovative equipment solutions and logistics services to the product range for airline customers and on entering neighbouring markets in which the competences acquired in its core business generate benefits for customers.

At the beginning of 2011 the previously three-member Executive Board was expanded to four members with the appointment of Erdmann Rauer as Chief Sales Officer. The company's airline catering activities are carried out by six regional management teams, whose responsibilities are aligned with the maturity of the individual markets, their potential for business development and the need for standardisation. The regional units are supported by centralised centres of excellence for upstream and downstream products and services. Operations in adjoining markets are run by specialised teams with knowledge of their respective markets.

LSG Sky Chefs still adheres to its basic strategic orientation, defined just a few years ago, of continuing to develop its market position in all segments by means of profitable growth. In terms of cost management the focus is on permanent improvements by means of restructuring and standardising production and administrative processes, as well as by reducing staff and material costs. Growth targets are to be met by expanding the core business as well as by penetrating specific neighbouring markets.

### Locations Catering



To extend the portfolio for airline customers LSG Sky Chefs plans to establish partnerships with providers of supplementary products and services and with local partners in new locations.

## Markets and competition

### Expanding global presence through joint ventures

Despite rising passenger numbers overall, the global market volume of the airline catering market has not grown significantly over the last decade. There are two main reasons for this. One is that the network carriers in North America and Europe have cut their spending on in-flight service sharply in the face of increased competition and cost pressure. The other is that passenger numbers increased disproportionately at the low-cost carriers. The decline in mature markets has only partially been offset by the increase in passenger volumes in Asia, the Middle East and Latin America, where for cultural reasons in-flight service is still considered to be highly important. On long-haul routes too, the price pressure on catering services continues to increase.

Under these circumstances LSG Sky Chefs benefits from being present in nearly all sales markets. Gate Gourmet is its only global competitor with a presence on all continents. In addition, there is a modest number of providers with sites in one or two regions. The industry remains characterised by consolidation and expansion. In America and Europe, market share for LSG Sky Chefs is between 35 and 40 per cent, according to the company's own calculations. The national airlines in Asia, the Middle East and Africa are increasingly interested in selling or finding partners for the catering divisions that have hitherto been wholly owned. In these markets LSG Sky Chefs is successfully developing its presence via joint venture agreements and management contracts.

## Sales and customers

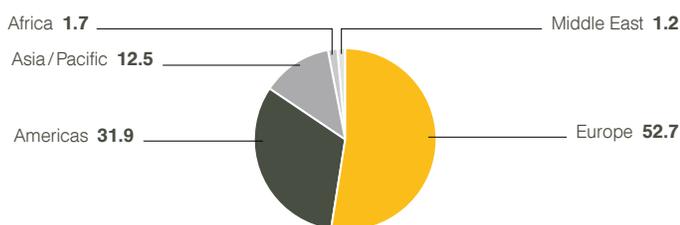
### LSG Sky Chefs has a broadly diversified customer base

Nearly all international airlines and numerous national and regional ones – network carriers, charter companies and low-cost carriers – belong to the global customer base of LSG Sky Chefs. The customer portfolio includes some 300 key accounts, whose contracts differ widely in scope and duration. LSG Sky Chefs supplies its largest customers at several sites within one or more regions with catering and additional services such as the development, procurement and logistics of in-flight items. For other airlines, which still have their own catering at their hub, products and services are provided at specific sites. The duration of contracts ranges from just a few months up to several years.

The regional sales teams are made up of key account managers, who according to the scope of the contracts advise one or more customers in all strategic and contractual matters and who are based as near as possible to the headquarters of their respective airlines. Pan-regional tenders and contracts for services that go beyond catering are dealt with by a central sales team. The centres of excellence for equipment development and procurement, logistics, in-flight sales programmes and frozen food are involved in exploiting this potential. The central sales team has overall responsibility for elaborating and executing the global sales strategy in close consultation with the regions.

Day-to-day business with customers in the local stations is carried out by customer service managers.

#### Catering revenue by region in %



## Course of business

### LSG Sky Chefs increases sales

Demand for LSG Sky Chefs catering services was up on the previous year in the full year 2011, despite the political turbulence in North Africa and the Middle East and the earthquakes in New Zealand and Japan. In parallel with the general economy, growth slowed in the second half of the year, however. This also affected demand in the premium segment. Nonetheless, for the full year 2011, LSG Sky Chefs' revenue in local currency was still higher than the previous year's in all regions.

In the reporting period the great majority of airline catering contracts were renewed and the company won some important new customers. New contracts got off to a successful start with British Midland in the UK and Onur Air in Turkey. Furthermore, LSG Sky Chefs successfully renewed and extended business relationships with existing customers. These include United Airlines at 24 sites worldwide, Air France-KLM, TAM in South America, Air Baltics in Riga, All Nippon Airways in China, North America and Germany, and Germanwings and Thai Airways in Germany. Qatar Airways, Transaero and Gulf Air are being supplied with equipment solutions for the first time.

In Zurich LSG Sky Chefs has merged its operations in a joint venture with First Catering Production AG, a globally active airline catering company. The joint venture commenced operations in May. In addition, the company signed a letter of intent with Alpha Flight Group to establish a joint venture dedicated solely to the British market. The effective date and further timetable for the joint venture depend on the approval of the relevant competition authorities, which was still outstanding at the end of the year.

At the third largest airport in the world, in Chicago, LSG Sky Chefs has been represented with its own facilities again since May 2011. The joint venture in Nanjing in existence since 1998 was renewed before schedule until 2026. The start of construction work for a catering facility in Luanda due to open in summer 2012 was an important milestone in the company's strategic expansion in Africa.

### Realignment results in greater flexibility

In mid-year the airline catering activities in Germany were realigned and the former LSG Sky Chefs Deutschland GmbH was split into an administration company and twelve operating companies. Setting up individual German GmbH companies enabled the individual sites to adjust faster and more flexibly to their specific market conditions and thereby to improve competitiveness and generate growth.

In adjoining markets – catering for trains, schools and clinics and deliveries to retailers – LSG Sky Chefs was also able to meet its targets and expand its operations in all regions. A new contract was acquired in train services, which began in December with supplies for the daily Veolia-Trenitalia night train between Paris and Venice. Catering for schools in Hong Kong, which has been a success for many years, was ramped up to over 35,000 meals a day for 82 schools. Initial pilot projects in school catering are underway in India and Sweden as well. In the area of clinic catering, supplies to the Schön-Klinik in Hamburg began as part of the partnership with the service specialist Ahr Service. To reinforce its retail operations in the USA, LSG Sky Chefs acquired the retail supplier Constance Food Group, dba Norris Food Services, New York, in autumn.

The service quality of LSG Sky Chefs was again acknowledged and rewarded by customers and industry associations. LSG Sky Chefs continues to differentiate itself by means of innovation and environmental awareness. The new lightweight trolley Quantum, which offers a weight saving of up to 40 per cent compared with conventional galley carts and won an award in 2010 as the most innovative cabin product, is increasingly being used by major customers.

The company-wide initiatives launched in prior years to standardise processes and increase performance in purchasing, production and sales were continued successfully. In purchasing, the effects of severe price inflation in the areas of food and energy could be limited. The new LSG Sky Chefs production system was implemented in the 25 largest plants: it ensures very high service quality, efficient processes and dependable deliveries. Process standardisation in sales has now been rolled out throughout the company: it creates global transparency, comparability and added value for customers.

### Upgrade<sup>plus</sup> has met its targets

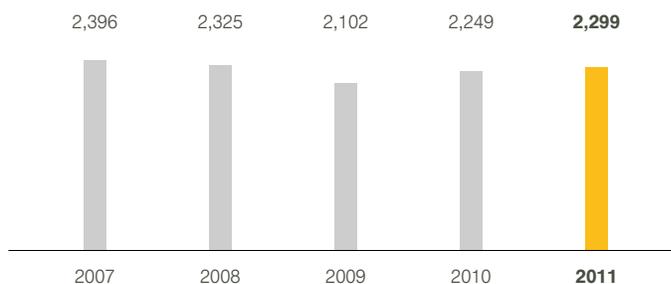
The company-wide programme Upgrade<sup>plus</sup> that was launched in 2009 has met its target for year-end 2011 of cutting costs by EUR 200m compared with 2008. The project management systems introduced as part of the programme have been incorporated into everyday routines in all regions. This enabled LSG Sky Chefs to improve its competitiveness sustainably as well.

## Revenue and earnings development

### Revenue climbs by 2.2 per cent

Revenue in the Catering segment rose by 2.2 per cent in the financial year (adjusted for exchange rates: +4.9 per cent) to EUR 2.3bn. This is largely a reflection of higher passenger numbers. External revenue rose by 1.3 per cent to EUR 1.7bn and internal revenue by 5.3 per cent to EUR 561m. Changes in the group of consolidated companies delivered an additional revenue contribution of EUR 14m compared with the previous year.

Revenue Catering in €m



Other operating income fell by EUR 9m to EUR 58m compared with the same period a year ago. This was largely the result of lower exchange rate gains. Overall, total operating revenue improved by 1.8 per cent to EUR 2.4bn.

### Operating expenses up by 1.4 per cent

At EUR 2.3bn, total operating expenses were 1.4 per cent higher than in the previous year and so rose by a smaller fraction than revenue.

The cost of materials and services increased by 3.3 per cent to EUR 1.0bn. The cost ratio for materials and services was 44.8 per cent (previous year: 44.3 per cent). Inflation in food prices was behind the higher cost.

**Operating expenses Catering**

	2011 in €m	2010 in €m	Change in %
Cost of materials and services	1,030	997	3.3
Staff costs	799	811	-1.5
Depreciation and amortisation	58	59	-1.7
Other operating expenses	385	373	3.2
<b>Total operating expenses</b>	<b>2,272</b>	<b>2,240</b>	<b>1.4</b>

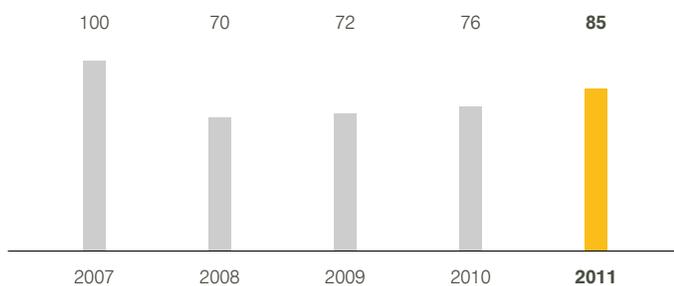
In the financial year 2011, LSG Sky Chefs had an average of 29,226 employees, 3.0 per cent more than in the previous year. Recruitment was concentrated in the USA, Switzerland, Brazil and China. Despite the larger workforce, staff costs fell overall by 1.5 per cent to EUR 799m due to exchange rate movements. The staff cost ratio sank as a result by 1.3 percentage points to 34.7 per cent.

Depreciation and amortisation of EUR 58m was roughly on par with the previous year (EUR 59m).

Other operating expenses came to EUR 385m and were thus slightly up on the year (+3.2 per cent).

**Operating result 11.8 per cent higher**

For the financial year 2011 LSG Sky Chefs reported an operating profit of EUR 85m, an improvement of EUR 9m on the previous year.

**Operating result Catering in €m**

At EUR -2m, the balance of other segment income and expenses was slightly higher than the previous year's figure of EUR -3m. The result of the equity valuation was stable year on year at EUR 14m.

Altogether the segment result for LSG Sky Chefs came to EUR 97m (previous year: EUR 87m).

**Positive performance reflected in long-term overview**

In the financial year 2011 LSG Sky Chefs improved its operating result sharply and continued the positive trend of recent years. This demonstrates the effectiveness of the programmes implemented throughout the company to manage costs, standardise processes and improve performance. The progress made internally was backed up in the financial year 2011 by higher passenger volumes and therefore higher capacity utilisation.

**Segment capital expenditure increased further**

Segment capital expenditure of EUR 74m was EUR 36m higher than in 2010. Capital expenditure the previous year had been restricted to the amount necessary for maintenance and securing operations as part of the activities to safeguard earnings.

**Forecast****Further increase in revenue and profits expected**

In view of the unstable economic situation, LSG Sky Chefs is only assuming moderate growth in the core business segment of airline catering for the financial year 2012. In adjacent markets it intends to develop its position proactively by means of focused initiatives in defined countries. In airline catering the company will continue to rely on innovating and leveraging its existing and new customer relationships and partnerships to strengthen its position. LSG Sky Chefs will again differentiate itself from the market by its claim to quality leadership. The entry into adjacent markets will be pursued by concentrating on specific regions in order to generate growth and increase the benefits to customers.

A further focus will be on consistently standardising processes across all functions to achieve greater transparency and competitiveness. The company's intensive endeavours to reshape wage structures in Germany are being continued.

Altogether, LSG Sky Chefs is expecting to increase both its revenue and its operating profit further in the years 2012 and 2013 too.