

2018 Annual Report

Results under pressure in a complicated environment

LuxairGroup closed 2018 on a positive result, despite experiencing an enormous amount of pressure on all of its activities

LuxairGroup closed 2018 with an operating profit of 0.8 Million Euros and a net result of 12.5 Million Euros. Operating profit from sales is indeed down by 1.2 Million Euros compared with 2018, however the net result which includes financial results is up by 3 Million Euros.

This result reflects the pressure that all of LuxairGroup's activities are currently undergoing. LuxairServices, which handles airport services, and LuxairTours, its tour operator activity, can both congratulate themselves for an upswing compared with 2018. However, LuxairGroup's Airline entity, its core activity, and LuxairCARGO, its airfreight handling entity, both experienced a downturn despite an increase in production. Luxair Luxembourg Airlines is suffering from increased competition, especially from low-cost airlines at Luxembourg airport, and from a constant increase in production costs caused by volatile kerosene prices amongst other things. The sharp drop in LuxairCARGO's growth may be explained by the global economy slowing down.

"We managed to increase all our activities in 2018 – whether it was in terms of passenger numbers, or tonnage handled – but operating growth and profitability no longer go hand in hand, due to a sharp rise in costs and pressure on profit margins," Adrien Ney, President and CEO, noted. "But we know how to overcome these difficulties, and despite a sharp decrease forecasted for 2019, I am confident about the future, because LuxairGroup is a strong and dynamic company with a healthy and sound balance sheet situation."

Paul Helminger, Chairman of the Executive Board, highlights LuxairGroup's ability to move forwards in a difficult environment. *"LuxairGroup's growth over the past decade is extraordinary: +79% passengers for Luxair/LuxairTours, +158% passengers served at the airport, +42% tonnes for LuxairCARGO. These performances don't just come out of the blue, especially in today's increasingly pressing and competitive environment. This proves that LuxairGroup has a clear corporate strategy and knows how to make the right decisions at the right time – and we will continue to do just that."*

LuxairGroup also launched a vast digital transformation project, which should improve the productivity of its activities, whilst providing better customer service. *"We must not forget that our customers must be our 'reason for being,' they are our driving force. It is therefore essential and normal that all our activities provide the best service possible," Adrien Ney sums up, whilst adding that "digital transformation causes lasting changes. It puts a lot of strain on our teams, but it is the only way to move forwards and ensure the company's sustainability"*

Indeed, a downturn in 2019 has clearly been forecasted compared with 2018. At the start of the year, Luxair Luxembourg Airlines and LuxairCARGO experienced a sharp decline, whilst LuxairTours stagnated. This trend for the first quarter may continue throughout the year and have repercussions on the profits of all of LuxairGroup's entities, due to increasing competition in the home market, volatile kerosene prices and the unpredictable future of the global economy.

Luxair Luxembourg Airlines

2018

In 2018, Luxair Luxembourg Airlines once again saw competition grow at Luxembourg Airport. Competitor airlines offered five new destinations, including three already operated by Luxair. Luxair's market share has therefore been almost halved since 2011, despite a 78% increase in the number of passengers over the same period. In 2018, Luxair was in direct competition on 11 of its routes compared with just 4 in 2011.

Luxair provided 12% more seats in 2018 compared with 2017. This additional capacity was absorbed by the market, with an 11% increase in the number of passengers and a stable seat load factor of 64%.

However, the airline's operating profit remains negative. Additional revenue from the increase in passengers could not counteract rising costs, mainly from a decrease in unit revenue, an increase in wages, a sharp increase in kerosene prices, as well as CO₂ emission certificates, the price of which has increased by 257% over 2.5 years.

Prospects

2019 is already set to be a very difficult year for Luxair Luxembourg Airlines. Passenger numbers are down by 2% compared with the first quarter of 2018. Competition is gaining momentum. 7 new destinations will be operated by competitor airlines from Luxembourg this year, including 4 in direct competition with Luxair.

LuxairTours

2018

LuxairTours celebrated its 50th anniversary in 2018 and had a good year. The 8.5% increase in the number of passengers had a positive impact on LuxairTours results, this increase mainly came from package holidays (+11%), as 'flight-only' tickets only increased by 5%. This increase is largely due to customers' regained confidence in African destinations - Tunisia, Egypt and Morocco. LuxairTours also successfully launched its first destination in the Middle East in 2018. Ras Al Khaimah got off to a good start and showed real development potential for the future.

Prospects

This year is also set to be more complicated for LuxairTours than last year. Bookings and travel during the first quarter of 2019 are at the same level as in 2018. 3 new destinations, Split, Minorca and Marsa Alam, will be added to the LuxairTours range of holidays during the 2019 summer season.

LuxairServices

2018

LuxairServices, in charge of airport services, has accompanied the rapid growth of Luxembourg Airport over the past decade. Passenger numbers have more than doubled in 8 years, going from 1,792,000 passengers in 2011 to 4,040,000 in 2018. In 2018, 15 airlines in total operated regular flights from Findel Airport and transported 12% more passengers than in 2017, with a 9% increase in aircraft movements.

This growth has had an impact on the airport's results which have increased by 20%, thus allowing necessary investments in logistics and digital solutions to optimise and make passenger and luggage flows smoother, as well as security, safety and aircraft rotations during stopovers.

LuxairGroup's catering entity produced 6% more meals than in 2017, but despite almost 2.3 million meals loaded onto aircraft, its profit is slightly down.

Prospects

A 6.5% increase in passengers at Luxembourg Airport has been estimated for 2019. LuxairServices is investing in logistics and digital solutions in close collaboration with the airport to keep pace with growth and guarantee continued improvement in service quality. Business Lounge refurbishment work started in 2019. 150,000 passengers frequented the facility in 2018.

LuxairCARGO

2018

After several record years in terms of tonnes handled and growth, LuxairCARGO's activity slowed down in 2018, with only 2% growth compared with 2017. This downturn is due to a slow-down in the global economy, which then has a knock-on effect on world trade and thereby the transportation of goods and commodities. LuxairCARGO has nevertheless managed to develop its niche activities. Pharmaceutical goods handling rose by more than 20%. Live animal transportation also rose sharply, with a 58% increase in the transportation of horses.

2018 was also marked by heavy investment in the implementation of a new logistics management tool, which will increase productivity and improve quality by facilitating work processes. Furthermore, two new positions for jumbo-jet aircraft have been created, which brings the total number of planes that can be loaded or unloaded simultaneously up to 12.

The slow-down in 2018 resulted in a 23.5% decrease in LuxairCARGO's activity.

Prospects

The beginning of 2019 was marked by an 8% drop in tonnage handled from January to April. Currently there are no signs of improvement. LuxairCARGO is dependent on world economic fluctuations and therefore can only follow the evolution of international trade. The current trend forecasts a stagnation at best. This is preoccupying when you bear in mind, based on past experience, that variations in the air-freight sector generally predict future turbulence in the world economy.