

ANNUAL REVIEW 2016

**" WE ARE PREPARED
TO FIND THE RIGHT
ANSWERS IN AN
UNPREDICTABLE
ENVIRONMENT."**

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yours
sincerely,



From left to right:
JOCHEN MÜLLER,
DR. KRISTIN NEUMANN,
ERDMANN RAUER

Letter from the Executive Board

Dear Reader,

As a global company with more than 300 airline customers, we are very much benefitting from the current growth in passenger numbers. And thanks to our wide network and highly valuable partnerships, we have a keen understanding of what is going on in each individual market.

However, the tendency among our airline customers to switch to on-board retail has grown to include legacy carriers in almost every region. The impact of this development on us as an inflight-service provider is considerable. While we need to continue offering premium airlines our culinary expertise and seamless logistics, we also need to evolve into a retailer that can help low-cost and charter airlines generate ancillary revenues.

Today, we are increasingly meeting those different customer requirements under the umbrella of the LSG Group. We market our traditional catering services with the well-known LSG Sky Chefs brand and have positioned ourselves successfully in the growing on-board-retail segment with our Retail inMotion brand. An impressive number of new contracts in the latter area over the past 12 months are evidence that we have effectively kept up with the constant market changes.

We have also been growing in areas bordering airline catering, such as on-board equipment and lounges, which are extending their reach globally. Additionally, we have strengthened our commitment to the global convenience-retail and European train-services markets, which we now consider core activities.

In 2016, we also celebrated our 50th anniversary in all our facilities around the globe, sequencing them in line with the expansion path of our company. This was a great opportunity to thank our more than 35,000 employees for their continuous commitment and hard work in times of rapid change.

Looking ahead, we will keep focusing on developing new products and services in close proximity to our customers and the markets while strengthening the LSG Group's position as the leading provider of end-to-end on-board products and services. At the same time, we will also continue to further explore mutually beneficial opportunities with our valued partners all around the globe. We are prepared to find the right answers in an unpredictable environment. That is what has brought us this far and will continue to be key to our success in the future.

Thank you for your trust in us and the many dedicated employees who make up the LSG Group. Together, let's embark on the next phase of our journey in 2017 and beyond.


Erdmann Rauer
CHIEF EXECUTIVE OFFICER


Dr. Kristin Neumann
CHIEF FINANCIAL OFFICER


Jochen Müller
CHIEF OPERATING OFFICER

LSGgroup



Our integrated approach

The LSG Group brand stands for the combined power of the activities under its umbrella. It represents the company's integrated approach and elevates the contribution of all group brands. The main brands belonging to the LSG Group are:

LSG Sky Chefs is best known as one of the world's largest airline-catering companies, but actually it does a lot more than that. We support customers, such as airlines, railway operators and retailers, with a wide range of services. These include retail capabilities, lounge management and a substantial assortment of food solutions, from traditional catering to frozen meals and packaged snacks. www.lsgskychefs.com

Retail inMotion focuses on the increasingly important on-board-retail business. Its expertise encompasses the procurement and distribution of buy-on-board products, complete management of buy-on-board programs, end-to-end IT support of those programs through proprietary software and inflight retailment systems. www.retailinmotion.com

Oakfield Farms Solutions specializes in developing, designing and manufacturing pre-packaged boxed meals from central locations and distributing them to end users within the travel-retail market. Meal boxes are designed to not only hold pre-packaged food, but also fresh choices like fruit cups or sandwiches. www.oakfieldfarms.com

The **SPIRIANT** brand was launched in 2013 to give a fresh face to our equipment division. The product range features an array of creatively designed and intelligently engineered meal-service products, commodities, comfort items and galley inserts. www.spiriant.com

SCIS Air Security is the leader in airline-catering security in the U.S. Its portfolio also includes airport operations area, aircraft and cargo security, personnel screening, inflight entertainment and point-of-sales solutions, duty-free and cash-management services. www.scisairsecurity.com

The **Ringeltaube** shops can be found at major German airports, offering a huge variety of beverages, perfumes, cosmetics, travel accessories and gourmet food exclusively to airport and airline employees. www.ringeltaube.de

SkylogistiX, our joint venture with international logistics provider Kuehne + Nagel, designs strategies to streamline logistics and supply-chain management. With a dedicated online platform that integrates seamlessly with a company's own IT system, an airline can easily monitor its entire inflight supply chain. www.skylogistix.com

The LSG Group's rich portfolio includes catering, on-board retail, inflight equipment and logistics, consulting and lounge services for airlines. The Group's dedication to culinary excellence and expertise in logistics has enabled it to successfully enter adjacent markets like train services and convenience retail.

MARKET ENVIRONMENT

Overall growth in demand and rapidly changing requirements remain the key drivers in the industry

The LSG Group's market environment is characterized by continued growth in all areas of its business thanks to the increase in the number of airline and train passengers, as well as consumers. Worldwide, airline-passenger traffic, for example, grew by 6.3 percent while 700 new routes were added to the global flight network.

With more than 300 international airline customers and a rising number of train operators and convenience-store clients, the company is clearly benefitting from this boom. Through its wide network, comprising about 200 locations, it also has close access to a myriad of markets and their particular regional trends and requirements.

Today, roughly 90 percent of the LSG Group's revenue comes from its business with airlines. However, the market conditions of that business and the individual carrier demands are different from region to region. That is especially true when we compare the LSG Group's two largest markets: the U.S. and Europe. In North America, domestic carriers report strong passenger numbers and high profits, leading them in many cases to invest in areas like their on-board service. In contrast, in Europe they are still going through the consolidation process. Legacy carriers are also facing stiff competition from basic low-cost carriers on short and mid-haul routes and from fast-growing Middle Eastern and Chinese airlines on long-haul routes. As a consequence, airlines apply a variety of business models, ranging from low-cost regional and long-haul carriers to hybrid airlines offering a choice between flight packages

or components to pick from, charter airlines and traditional network carriers. This is in an effort to serve consumers with choices that fit their specific needs.

The LSG Group has developed new business models in order to fulfill those different requirements. While the company retains its culinary, food production and logistics expertise, it is confidently adding retail to its list of capabilities.

Point-to-point carriers, predominantly Middle Eastern and Asian customers, strive for differentiation by providing a unique culinary experience during their flights. This is why it remains important to further invest in promoting culinary excellence and enriching the expertise of the company's chefs in creating authentic dishes in their kitchens around the world. The LSG Group enjoys a huge competitive advantage through its global network and the diversity of its chefs who daily bring their proven skills to the table.

At the same time, traditional airlines have started to recalibrate their on-board classes. While First Class is shrinking, they are investing more in Business Class. Many have also introduced



Premium Economy. Since on-board service is a major component of this new segmentation, the LSG Group is deeply involved in helping develop these new concepts.

The offering for low-cost carriers is focused on products and services that support their ancillary revenue generation, which is an important aspect of their business model. Airlines' ancillary revenues have tripled since 2010 and already make up almost 10 percent of their total global revenues. The offering goes beyond food and beverage to include boutique items, virtual products and inflight entertainment options.

Additionally, airlines are looking for equipment solutions that support their brand values. And, in an effort to lower costs, they want intelligent logistics solutions that can help them manage their on-board equipment.

The weakening demand for classic catering has led to overcapacities in many parts of the world, especially in Europe's non-hub locations. This is not only due to the more recent shift to buy-on-board; it started about 10 years ago when airlines chose to switch to return/back catering, meaning that they load enough catering on their planes for several trips only at their larger or hub destinations. Reducing those overcapacities must, therefore, be a priority for every market player.

As a result of all these developments, surplus catering capacities – especially in the mature European markets – and competition between airlines are generating considerable price and competitive pressure. Consolidation in the airline-catering industry is stronger than ever and is expected to continue on a global scale.

STRATEGIC TRANSFORMATION

The LSG Group is proactively transforming its business model

In response to the paradigm shift in its industry, the LSG Group has redefined its strategy. Thanks to the growth it enjoys in the markets it operates, the LSG Group continues to strive for sustainable profitability.

Meanwhile, its scope of core activities has been broadened beyond airline catering to include on-board retail, equipment and logistics, convenience retail on a global scale and train services in Europe only. Except for the case of the Europe-based train business, the company is building expert teams in those areas in every region it is present.

While the LSG Group will grow in the areas just mentioned, its mix of revenues, however, will change due to the over-proportional growth of the non-airline-catering activities. It is expected that over the next five years the revenue ratio will

be altered from the current 80 percent airline catering and 20 percent other activities to 70 and 30, respectively. Nevertheless, there will be substantial growth opportunities in airline catering through organic growth and selected mergers and acquisitions.

At the same time, the LSG Group will strengthen its market position as the leading provider of end-to-end on-board products and services by sharply focusing on quality, culinary excellence and innovation.

Considering the current changes in the type of service demand (from traditional catering and demand at all airports to on-board retail and demand focused on hub locations, especially in Europe), a new operating model is necessary. As an initial step, the company has begun setting up a pilot central production unit designed to deliver to an even larger number of airports than it currently serves. Depending on the outcome of that pilot, the centralized-production concept will be applied on a larger scale.

The goal is to establish an “asset-light” presence at airports or work with local partners. Within the framework of this concept, however, attaining a high level of culinary excellence is still crucial in order to meet the requirements of the legacy carriers that consider on-board service a means to differentiate and strengthen their brand.

In addition to adjusting its infrastructure, the LSG Group is also actively enhancing its capabilities. One major milestone in this area was the complete acquisition of Retail inMotion,

the leader in the growing on-board-retail market, in February 2016. The company offers proprietary products, solutions and services in on-board-retail IT technology, crew training, product distribution, inflight entertainment and fully-outsourced on-board-retail services.

From an internal perspective, the LSG Group is transforming its operating model by becoming a more process-oriented company with harmonized and consistent processes that will result in more efficiency, consistency and speed to market.



COURSE OF BUSINESS

*The year was characterized by marked regional differences
and important growth beyond airline catering*

**At year end of 2016, the LSG Group comprised 156 companies. Its parent company
is LSG Lufthansa Service Holding AG based in Neu-Isenburg, Germany.**

The LSG Group is managed by a three-member Executive Board that includes Erdmann Rauer as Chief Executive Officer (CEO since October 2014 and with the company since 2006), Dr. Kristin Neumann as Chief Financial Officer (CFO and with the company since July 2014) and Jochen Müller as Chief Operating Officer (COO and Executive Board member since March 2004 and with the company since 2003). The composition of the Executive Board represents a strong mix of corporate insight, experience from other industries and diverse personal backgrounds and skills.

The airline-catering activities are directed by five regional management teams with responsibility for North America, Latin America, Europe, Asia-Pacific and the Emerging Markets. This structure ensures that highly diverse customer requirements based on market maturity or growth, expansion opportunities and cultural differences are adequately met. Due to their increasing importance, and in order to follow a harmonized strategy, the equipment, on-board-retail and convenience-retail activities were established as global business units reporting directly to the Executive Board. A dedicated train-services customer segment was formed in the Europe region in order to further bundle and strengthen the activities in this market.

In the year under review, and in addition to the milestones mentioned earlier, the LSG Group was able to retain the vast majority of its airline-catering customer contracts. Major sales

successes were achieved in on-board retail, winning contracts with 14 new customers over the past 12 months through Retail inMotion's product portfolio – primarily its proprietary products and Vector IT solution. By the end of 2016, Vector was present on nearly 10 percent of the daily global flights and had processed around one billion U.S. dollars in sales. In addition to its business wins, Retail inMotion launched its pre-ordering IT solution, which is scalable and can be integrated into any airline's booking system to provide order information in real time.

The company's network continued to change during the year under review in response to the changes in demand and customer requirements.

In the mature Europe region, the LSG Group withdrew from the Madrid, Spain, market due to lower demand for traditional services at this location.

The U.S. airline-catering facilities are presently experiencing a capacity bottleneck and benefitting from the increased demand from domestic carriers, as well as the growing number of international airlines flying to and from the United States. The new facility in Chicago started production early in 2016 and is now serving more than 500 flights per day. Meanwhile, the convenience-retail business also continued to expand across the country with the acquisition of new customers and growth with existing ones.

A new unit opened in Santiago de Chile serving both airlines and convenience-retail customers. Overall, the company also saw a shift to on-board retail in Latin America in terms of demand. By winning a contract with LATAM for five countries in the region, the LSG Group, via its Retail inMotion subsidiary, has clearly positioned itself as the leading on-board-service provider in this growing market.

The Asia-Pacific region benefitted from strong passenger numbers, too. The company's joint-venture agreements at Hangzhou and Chengdu airports, both in China, were successfully extended. After basing a dedicated equipment-expert team in Hong Kong, the LSG Group, through its SPIRIANT subsidiary, was able to secure new contracts with Singapore Airlines, Eva Air and Thai Airways. Additionally, it is successfully growing its convenience-retail business in China.

The Emerging Markets region (Russia, Turkey, India, the Middle East and Africa) suffered from political and economic turmoil in many of its key markets, which led to a significant decrease in demand. The facility under construction in Lagos, Nigeria, is expected to open in 2017.

Customers and independent associations alike once again recognized the LSG Group with important awards. The Munich, Germany, facility received the QSAI (Quality and Safety Alliance In-flight Catering Program) Gold Medal as the best caterer in

Europe, the Middle East and Africa (EMEA). Additionally, it was awarded the Platinum Medal for holding the number-one position worldwide. Munich received a QSAI Award for the fourth consecutive year and has been named "Best Worldwide Catering Facility" for the second year in a row. The Buenos Aires, Argentina, facility, was recognized with the Silver Medal for the Americas, which is their sixth QSAI recognition!

SPIRIANT was honored with an award for the best male first-class amenity kit by TravelPlus Airline Amenity Bag Awards (travelplusawards.com). The first-class kit is the fourth for which SPIRIANT has won a TravelPlus award. SPIRIANT also received the Gold TravelPlus Amenity Bag Award for the "Best Children's Goody Bag Under 6" for the third time in a row.

At the 2016 World Travel Catering & On-board Services Expo (WTCE) in Hamburg, the LSG Group successfully presented its consumer-focused portfolio. Under the overarching slogan "WHEN partners MEET passenger needs," it continued to build on its consumer-insight theme and took guests on different "journeys" representing specific travel segments. The products and services offered for each of those segments matched the requirements of three contemporary lifestyles – classic, inspirational and natural and local.

VALUABLE PARTNERSHIPS

Mutually beneficial collaborations strengthen the LSG Group's market position and reach

In addition to its partnerships in the areas of logistics and food solutions, which are described in the **Products and Services** section, the LSG Group has always been a pioneer in entering into partnerships that expand its global reach. This goes back to the late 1980s when it invested in Russia and China at a time during which the political environment was still difficult and economic barriers were hard to overcome. Still today, the LSG Group possesses a strong spirit of entrepreneurship that allows it to enter markets with potential at an early stage – for the benefit of generations to come.

Major partnerships including more than one location span the globe:

Canada

CLS Catering, a joint venture with Cathay Pacific Catering Services, dates back to 1994. Today, the LSG Group holds 70 percent of the partnership, which is present in Toronto, Vancouver and Calgary (since 2016) and caters to both airlines, as well as convenience-retail customers.

China

The LSG Group's vast presence is built on 13 joint ventures with major Chinese airlines, authorities and local partners at 19 airports. Established between 1990 and 2014, they include units in the country's major airports located in Beijing, Chengdu, Dunhuang, Guangzhou, Hangzhou, Hefei, Hong Kong, Kunming, Lanzhou, Lijiang, Nanchang, Nanjing, Sanya, Shanghai-Hongqiao, Shanghai-Pudong, Shangri-La, Urumqi, Wenzhou and Xian.

Japan

In 2014, the LSG Group entered into a partnership with Cosmo Enterprise Co., Ltd. by acquiring 20 percent of the shares from Japan Airport Terminal Co., Ltd. The joint venture is present at Tokyo Narita and Haneda airports.

Latin America/the Caribbean:

The partnership with Goddard Enterprises was founded in 1995 with a shareholding of 49 percent. It spans across 17 countries in Latin America and the Caribbean, including 21 locations in Antigua, Barbados, Bermuda, Cayman Islands, Colombia, Ecuador, El Salvador, Grenada, Guatemala, Honduras, Jamaica, Netherlands Antilles, Paraguay, St. Lucia, Trinidad and Tobago, Uruguay, Venezuela and the U.S. Virgin Islands. In 2015, the agreement was extended by another 20 years, until 2035. Additionally, the LSG Group has wholly owned locations in Argentina, Brazil, Chile, Panama and Venezuela.

Mexico

Aerococina de Mexico was established in 1997 and has a current shareholding of 51 percent with presence in Bajío, Cancun, Guadalajara, Mexicali, Mexico City, Monterrey, Puerto Vallarta, San Jose del Cabo and Tijuana.

Russia

Aeromar, a 51/49 joint venture with Russian carrier Aeroflot, was established in 1989 at Moscow-Sheremetyevo Airport. Today it comprises six locations in Sheremetyevo, Rostov on Don, Sinferopol, Sochi, St. Petersburg and Vladivostok and is the number-one caterer in Russia. In 2012, the LSG Group entered into a partnership with Novaport, a Russian airport operator with locations in Novosibirsk and Chelyabinsk. These locations complement the LSG Group's wholly owned facilities to make it the leading airline-catering network in Russia.

South Korea

The joint venture with Asiana Airlines was established in 2003 with a shareholding of 80 percent. Initially limited to the fast-growing Seoul-Incheon airport, today it is also present at the other two major airports in South Korea: Seoul-Gimpo and Busan.

United Kingdom

Alpha LSG Limited – In 2012, the LSG Group and Alpha Flight Group joined forces in the highly competitive UK market. Today, they are present at 17 airports: London Heathrow, London Gatwick, London Stansted, Birmingham, Manchester, Glasgow, Edinburgh, East Midlands, Newcastle, Bristol, Cardiff, Doncaster, Luton, Prestwick, Leeds-Bradford, Aberdeen and Belfast. Additionally, the company serves a number of local airports within its logistics network.

These and many other local partnerships are mutually beneficial. While the LSG Group benefits from the local know-how and market access of its partners, these companies gain access to a rich source of expertise in important areas, such as operations, quality and technology, as well as research and development.

Currently, the Group's partnerships comprise more than 100 global locations. In 2016, non-consolidated revenues from partnerships amounted to 1.3 billion EUR.

PRODUCT PORTFOLIO

THE LSG GROUP

is the world's leading provider
of end-to-end on-board
products and services

The LSG Group's commitment to live up to its claim ("Catering to all Senses") is a reflection of its dedication to significantly contribute to the well-being of guests – be it in the air, on the ground or on the railways. It aims at delivering an all-encompassing experience that appeals to almost every sense – vision, touch, smell and taste.

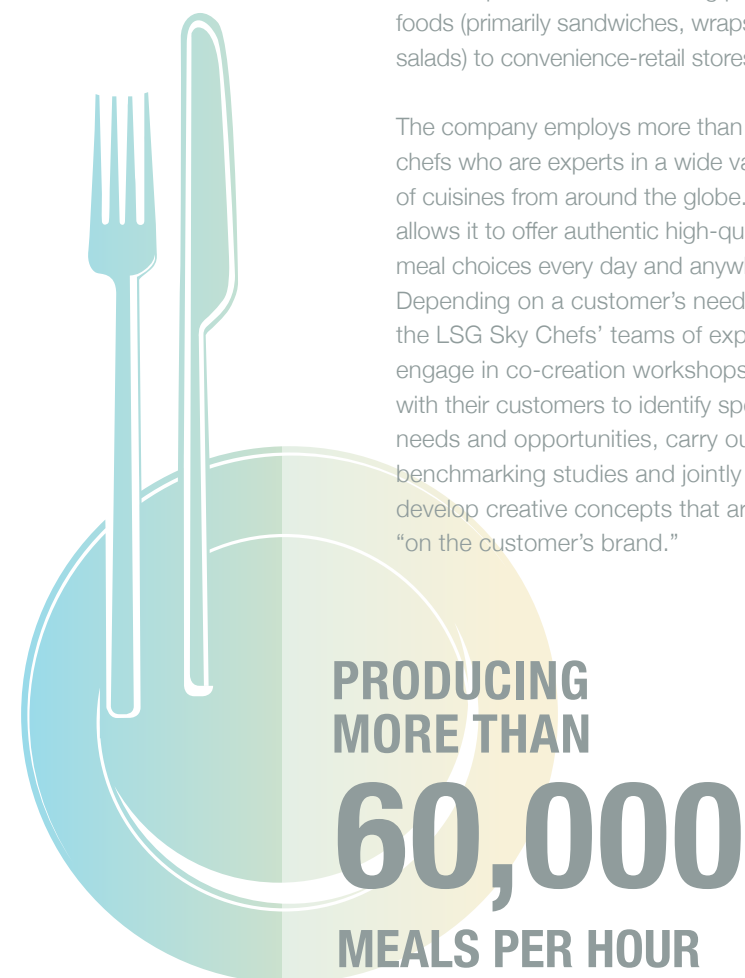
The company constantly works on optimizing and expanding its range of products and services in order to create a seamless portfolio covering all potential needs of travelers and consumers alike. To accomplish that, the LSG Group keeps close tabs on the market in order to understand its customers' (airlines, train operators and convenience-retail chains) changing requirements. At the same time, it invests in enriching its knowledge about the end consumer and the trends that influence their behavior.

The LSG Group's portfolio includes: Catering Services, On-Board Retail, Food Solutions, Equipment Sourcing and Design/Development, Equipment Logistics, Lounge Services, Security Services and Retail Shops.

CATERING SERVICES

The core of the LSG Group's broad range of activities is its proven expertise in airline catering, which spans 75 years of history and is marketed under the well-established "LSG Sky Chefs" brand name. The company's high level of culinary excellence and vast experience in day-to-day logistics are the two major pillars of this business and have enabled it to enter new markets, such as catering to train operators and delivering prepared foods (primarily sandwiches, wraps and salads) to convenience-retail stores.

The company employs more than 700 chefs who are experts in a wide variety of cuisines from around the globe. This allows it to offer authentic high-quality meal choices every day and anywhere. Depending on a customer's needs, the LSG Sky Chefs' teams of experts engage in co-creation workshops with their customers to identify specific needs and opportunities, carry out benchmarking studies and jointly develop creative concepts that are "on the customer's brand."



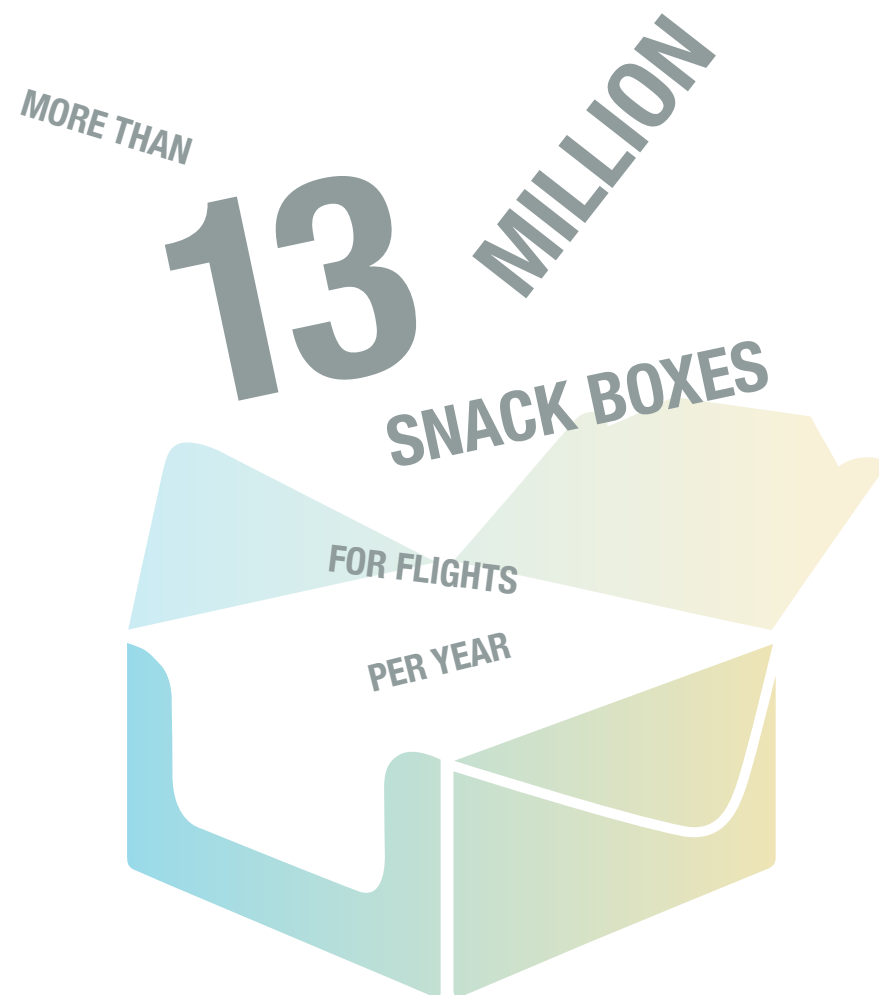
1 IN 10
FLIGHTS
WORLDWIDE HAS



ON-BOARD RETAIL

Today's airline-catering requirements also include hybrid concepts and all-encompassing on-board-retail programs paired with inflight entertainment options. A successful on-board-retail offering is one that provides passengers with the right product mix, resulting in increased customer satisfaction and improved brand perception.

Through the capabilities of the **Retail inMotion** team, the LSG Group is focusing on the increasingly important on-board-retail business, which drives airlines' ancillary revenues and reduces their inflight costs. Retail inMotion's expertise includes the procurement and distribution of buy-on-board products, complete management of buy-on-board programs and end-to-end IT support of those programs through proprietary software. Increasingly, the company is also offering hardware and software solutions for Inflight Retailment Systems, which offer much more variety and choice than traditional Inflight Entertainment Systems. These systems also integrate on-board shopping capabilities, thus providing an additional sales channel to passengers, as well as broadening the range of products and services offered for sale on board.



FOOD SOLUTIONS

The LSG Group has developed a wide and highly diverse line of products that can complement or replace traditional catering solutions, as well as on-board-retail programs:

- **Frozen meals:** The company operates **frozen-food** production units in China, Germany and the U.S. The offering includes more than 900 different dishes representing 100 ethnic varieties. Customers benefit from increased flexibility in terms of availability, high consistency and efficiencies through high-volume production.

- The LSG Group has also created a wide choice of **meal-box solutions** through a combination of ownership and shareholding in **Oakfield Farms Solutions** in the U.S. and Europe. The packaging design and assortment of nutritional snacks and meal components can be individually tailored to the customer's needs and brand values. Meal boxes are primarily marketed to airlines and train operators.

OVER **230**
EMPLOYEES
FROM
28
NATIONS
SPEAKING **25**
LANGUAGES.

28
NATIONS

25
LANGUAGES.

PRESENT ACROSS

18

LOCATIONS IN

15

COUNTRIES.

EQUIPMENT SOURCING AND DESIGN/DEVELOPMENT

The LSG Group's equipment brand, **SPIRIANT**, is a leading global provider of innovative and durable on-board equipment that meets the specific operational needs of airlines and train operators while contributing to building unique brand stories. This proves that equipment is a crucial component in turning food into an experience. SPIRIANT's claim, "Where inspiration meets performance," reflects this fact.

SPIRIANT has the insight and knowledge necessary to source, design and deliver a variety of product concepts that can meet both inspirational and functional requirements, such as weight, environmental compliance and ergonomics. That includes meal-service equipment (trays, cutlery and tableware), comfort items (linens and amenities) and galley equipment (trolleys/carts and drawers). Green thinking and quality aspects are decisive factors throughout the entire process of creating and delivering tailor-made concepts and products. SPIRIANT products have consistently earned prestigious awards in international design competitions.

EQUIPMENT LOGISTICS

SkylogistiX is a joint venture between SPIRIANT and Kuehne + Nagel, one of the world's leading logistics providers. The combination of Kuehne + Nagel's logistics excellence and the LSG Group's expertise in equipment management provides customers a comprehensive operational experience. It addresses an area of airline operations that has often been and still is overlooked: creating transparency in materials management.

SkylogistiX offers outsourcing and logistics expertise for the supply chain management of inflight catering equipment, supported by state-of-the-art, custom-designed IT systems. The aim is to integrate and optimize all elements of the supply chain to minimize total cost without compromising service levels. Services include forecasting (demand and order management), transport management by using worldwide logistics networks and warehousing (stock management, inbound quality checks, re-stocking and re-packing of returned deliveries).

LOUNGE SERVICES

LSG Sky Chefs has historically been active in the lounge catering and services business because of the many characteristics it shares with on-board services. Lounge services are the extension of a passenger's travel experience, pre- and post-flight, and represent an additional guest touch point.

The lounge portfolio features various modules ranging from food and beverage to service, uniforms and equipment. As a one-stop-shop, it delivers a seamless brand experience for passengers and a more efficiently handled area for the airline or train operator.

SECURITY SERVICES

SCIS Air Security is recognized in the U.S. as the leader in airline-catering security. As customer requirements have evolved, the company has expanded its range of products and services to include airport operations area, aircraft and cargo security, personnel screening, in-flight entertainment and point-of-sales solutions, duty-free and cash-management services.

RETAIL SHOPS

The **Ringeltaube** shops can be found at major German airports, offering a huge variety of beverages, perfumes, cosmetics, apparel, travel accessories and gourmet food exclusively to airport and airline employees.

MANAGING **48** LOUNGES WORLDWIDE



MILLION VISITORS PER YEAR



21 RETAIL OUTLETS OFFERING

8,000

LIFESTYLE AND AVIATION **PRODUCTS**



58 COUNTRIES.
6 CONTINENTS
55 COUNTRIES
156 COMPANIES

ONE GROUP.
ONE GROUP.

WORLD
PRESENCE
WORLD
WIDE

THE LSG
GROUP'S
WORLD
WIDE
PRESENCE

PRESENCE ◀



CATERING TO ALL SENSES

As a market leader, we provide and continuously improve a global portfolio of innovative and comprehensive products and offers – from premium meals to budget snacks and relevant services – customized to meet our customers’ requirements and their consumers’ needs.

It is the knowledge of our teams, dedication to quality and attention to detail that make us stand out.

We challenge ourselves and go the extra mile for our customers by fostering innovations relevant to them. We strive to support them by thoughtfully designing consistent, enhanced and captivating customer experiences – both for our customers and their consumers.

Backed by the know-how of our truly international network, we understand and are able to cater to the tastes of specific segments and global target groups alike.

We work as a team together with our partners and stand by our customers as advisors. We add a little extra twist to what we do by always creating solutions that are smart and efficient and can support them in excelling in their business today and transforming them for tomorrow – catering to their challenges.



PROVEN EXCELLENCE

The LSG Group - Awards

Our global network delivers consistent service quality and culinary excellence worldwide. Our customers acknowledge our commitment to excellence through their loyalty and the awards they bestow upon us, such as:

AWARDS 2016

2016 QSAI Award of Excellence for Europe, Middle East & Africa "Silver Medal" Munich, Germany
2016 QSAI Award of Excellence for the Americas "Gold Medal" Bogota, Columbia
2016 QSAI Award of Excellence for the Americas "Silver Medal" Antigua & Barbuda
Delta - "Hub of the Year" Minneapolis, USA
Incheon Airport Safety Award for "Performance & Dedication to Safe Airport Operating Procedures" Seoul Incheon, South Korea
Qatar Airways Caterer Performance Award "Best Network Caterer 2016" Narita, Japan
Singapore Airlines Excellence Award 2015/2016 Narita, Japan
United Airlines Safety Excellence Program 2016 Buenos Aires, Argentina
Virgin America "Caterer of the Year" Washington, USA
Virgin Atlantic Best Performance Award Economy Class, 1st service LSG-Sky Food, Germany
Virgin Atlantic Best Performance Award Economy Class, 2nd service Oakfield Farms Solutions Europe
Incheon Airport "Best Performance Company in Energy Saving" Award Seoul-Incheon, South Korea
Azul Best Performance in Catering Award, 1st place Salvador, Brazil
Azul Best Performance in Catering Award, 3rd place Sao Paulo, Brazil

LSGgroup

AWARDS 2015

2015 QSAI Platinum Award for Best Worldwide Airline-Catering Facility Munich, Germany
2015 QSAI Award of Excellence for Europe, Middle East & Africa "Gold Medal" Munich, Germany
2015 QSAI Award of Excellence for the Americas "Silver Medal" Buenos Aires, Argentina
Air China Best Catering Award Frankfurt, Germany
ANA Overseas Caterer Award – Gold Prize for Best Long-Haul Caterer Dusseldorf, Germany
Alitalia Best Cuisine At Global Traveler Awards 2015, Magnifica Class Rome, Italy
Cathay Pacific Airways Caterers' Performance Recognition Programme (CPRP) Best Caterer 2015 – Diamond Award Haneda, Japan
Cathay Pacific Airways Caterers' Performance Recognition Programme (CPRP) Best Caterer 2015 – Silver Award Narita, Japan
Cathay Pacific Airways Caterers' Performance Recognition for Service Excellence Johannesburg, South Africa
Dragonair Caterer Performance Management Program (CPMP) Best Caterer 2015 – Silver Award Haneda, Japan
Eva Air Excellent Catering Service Award "Silver" Vancouver, Canada
Hainan Airlines Outstanding Catering Company 2015 Berlin, Germany
LH Group Innovator Award in "Dare to Try" Category for "Fully Automatic Sandwich Production" Cologne, Germany
Oman Air Certificate of Appreciation Kathmandu, Nepal
Philippine Airlines Mabuhay Award for Best Airline Caterer in USA, Canada, Australia, and Europe Toronto, Canada
Philippine Airlines Best Airline Caterer Award 2015 – Transpacific, Australia Europe Vancouver, Canada
Philippine Airlines Best Airline Caterer Award 2015 – Japan & Korea Narita, Japan
Qatar Airways Catering Performance Award 2015 "Best Catering Group 2015" LSG Sky Chefs
Qatar Airways Catering Performance Award 2015 "Best Indian sub-continent Caterer" Hyderabad, India
Red Dot Award 2015 for Lufthansa Premium Economy Class tableware SPIRIANT
Seoul Aviation Authority Ramp Safety/Security Award Seoul, South Korea
TravelPlus Award 2016 for First-Class Amenity Kit (Male). (Bogner Kit for Lufthansa) SPIRIANT
Virgin America "Caterer of the Year" Dallas, USA

QUALITY AND OPERATIONAL COMPLIANCE POLICY

All-encompassing policy underscores industry-leading standards



QUALITY



FOOD SAFETY



HALAL



SECURITY



EMPLOYEE SAFETY
& RAMP SAFETY



ENVIRONMENTAL
MANAGEMENT

One of the major pillars of the LSG Group's unique selling proposition is its promise to provide customers with products and services that meet and exceed their expectations.

In 2016, the company unveiled a new Quality and Operational Compliance Policy, which lays out its steadfast commitment to produce the highest quality in its operations and adhere to the strictest standards in its industry.

Including areas like quality, food safety, halal, security, employee safety, ramp safety and environmental management, the policy represents a truly holistic approach.

For the LSG Group, quality and operational compliance are absolutely non-negotiable. They are of utmost importance for its employees around the world in performing their daily tasks and are clear differentiating factors from its competitors. The Quality and Operational Compliance Policy reiterates this commitment and challenges the organization to uphold the highest standards possible, as well as fully comply with legal regulations every day in all of its 200 locations across the globe.

The foundation of the policy is the company's Global Quality System, which ensures optimal performance and consistency in four critical areas:

- Customer satisfaction
- On-time and safety performance
- Product and process quality
- Food safety and aviation security

The system is constantly being improved to maintain standards along the entire supply chain. It adheres to the strictest safety and performance criteria while incorporating quality assessment and feedback into the production processes.

Quality Managers and dedicated experts conduct regular inspections using the Global Quality System at all worldwide locations. To further safeguard the integrity of the company's

processes, its locations are also tested and assessed through a series of audits, some of which are conducted unannounced by external institutions, state and local authorities, customers and third-party vendors.

The company's catering quality and food safety have earned numerous commendations from its customers and other parties, including the Medina Quality Awards for Munich as the best catering facility worldwide.

ENVIRONMENTAL CARE

A structured global approach that is strengthened through extensive knowledge sharing

For more than two decades, the LSG Group has had the industry's most structured and expansive approach to Environmental Care.

A systematic approach for continuous improvement

This approach permeates everything the company does to ensure wide-scale environmental awareness and continuous improvement throughout its worldwide organization. It is designed to meet the heightened expectations of customers, consumers and shareholders regarding environmental care.

Best-Practice Examples

The company's vast geographical reach gives it an advantage when it comes to finding different ways of protecting natural resources and the environment as a whole. Its widely-spread best practices are shared to foster the exchange of knowledge between the regions and promote constant improvement throughout the LSG Group.



Paperless Production

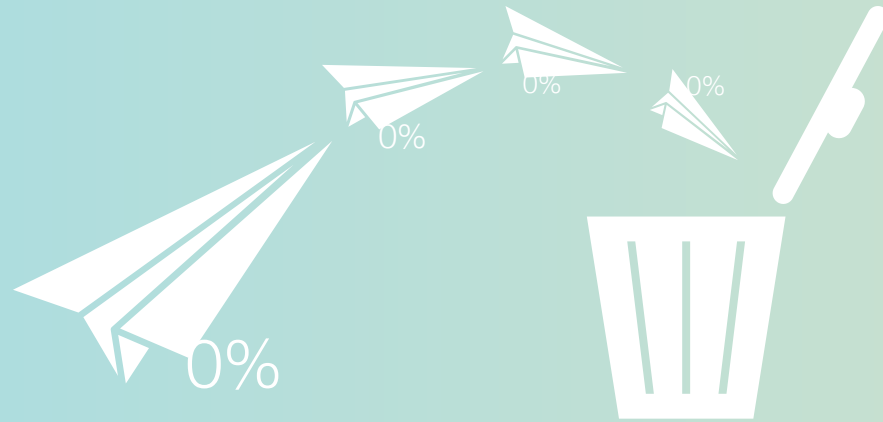
The company's IT experts have developed ways to make production processes smarter. One of the ways they are doing this is by replacing the typically huge amount of paper used in production with proprietary apps that can digitize individual steps in operations. The Items List App is an example of one of these. It enables users to download the ever-changing product specifications to a tablet rather than printing them. Besides eliminating the paper, the biggest advantage of the app is the timeliness of the data. The latest versions of product specifications are always available, even if a customer needs to make a last-minute change.

Solar Energy

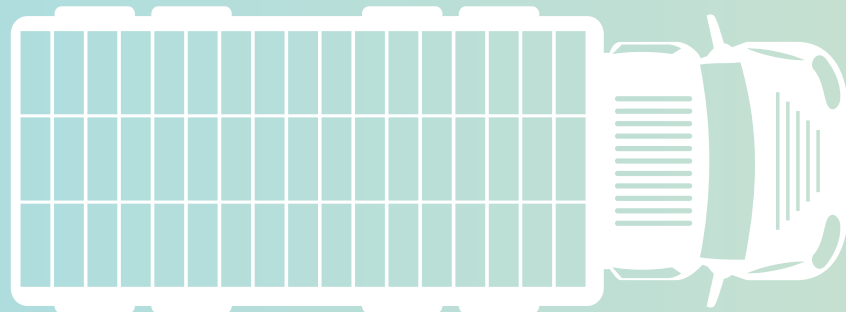
Regenerative energy sources can save money, time and the environment. Solar panels attached to the top of a catering truck can provide enough continuous energy for the truck's deep freezer to stay at -20°C. With this invention, meals can be stored overnight in the truck and simultaneously reduce waste, save labor and decrease the use of dry ice. Excess energy produced by the solar panels is saved in an external battery on the truck. With the energy saved in this battery, the power supply is guaranteed around the clock, even when the sun is not shining.

Additionally, the interior lighting operates from the collected energy, and the external battery can be used as a charging station for electric vehicles.

PROPRIETARY APPS LEAD TO **0% PAPER CONSUMPTION**



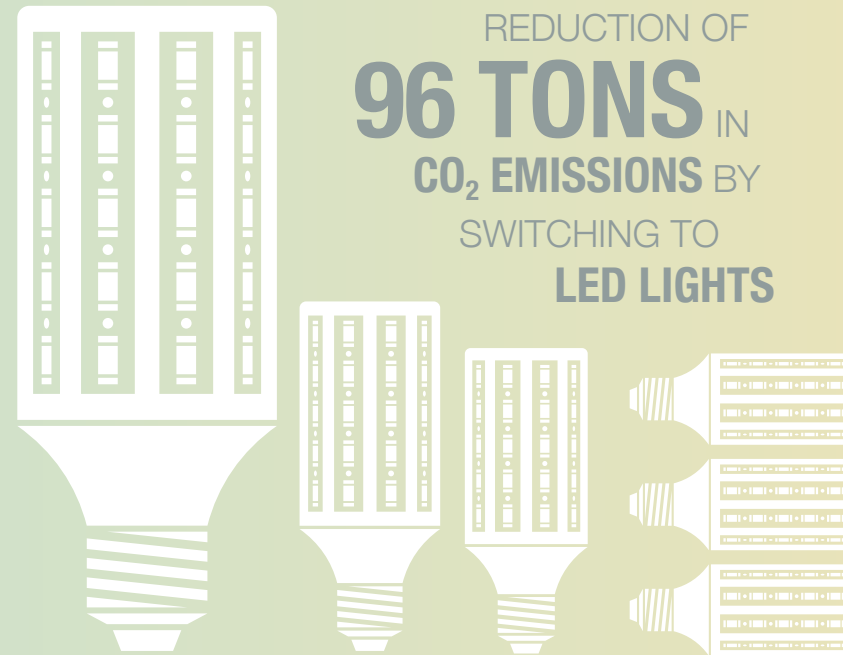
SOLAR ROOFTOP TRUCKS
PROVIDE
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LSG SKY CHEFS FACILITY
HAS BEEN CERTIFIED
AS A MODEL
OF **GREEN CONSTRUCTION**



REDUCTION OF
96 TONS IN
CO₂ EMISSIONS BY
SWITCHING TO
LED LIGHTS



Environmentally friendly construction

The new, almost 14,000 square-meter LSG Sky Chefs facility in Chicago has been certified as a model of green construction due to its unique features. The building, which started operations in 2016, promptly received the LEED ("Leadership in Energy and Environmental Design") seal of quality for green construction. LSG Sky Chefs is the first catering company in the world to earn this internationally renowned certificate – thanks to our intelligent energy and water management. The facility is an example of how the future could look like.

Reducing Carbon Dioxide

The LSG Sky Chefs operation in Sao Paulo, Brazil, demonstrated its special commitment to fighting climate change by adding their signature to a climate protocol issued during the 2015 global UN climate conference in Paris. It is linked to an energy-saving program that should help reduce CO₂ emissions and other greenhouse gases. LSG Sky Chefs is one of the 28 companies operating in Brazil that are taking part in this project voluntarily. Measures already implemented include switching conventional lightbulbs to LED lights and replacing walls with special heat-insulating panels. These measures have already resulted in a reduction of 96 tons in CO₂ emissions. The team in Sao Paulo is planning to expand the climate protocol to the Rio de Janeiro unit in the future.

2017 ANNUAL REVIEW LSG GROUP OUTLOOK

The market and competitive environment in which the LSG Group currently operates is marked by consolidation among its customers and competitors and strong growth on the part of Asian and Middle Eastern carriers. The general increase in passenger volumes is reflected only partially in a growing demand for on-board services. This is due to the overproportional growth of low-cost carriers on the one hand and legacy carriers switching their service to on-board retail on the other.

In addition, airlines are increasingly sourcing individual components of their service, such as production, assembly and delivery, from different suppliers. This new development significantly reduces market entrance barriers for some potential providers (food producers and logistics providers, for example) and increases competitiveness. As a result of this situation, the existing airline-catering overcapacities in the mature European markets and strong competition among airlines are creating a severe price pressure.

For 2017, the LSG Group expects a slight increase in revenues and a significantly lower Adjusted EBIT compared to 2016. The expected decrease in earnings is mainly due to the transformation of the business model, particularly in Europe. As a result of that, the company will test a new production and logistics concept by launching a pilot project in the Czech Republic in the spring of 2017 in order to evaluate opportunities and requirements based on bundling production.

In addition to its transformation, the LSG Group will continue to moderately invest in acquisitions in selected markets. For 2017, it plans to open a new facility in Lagos, Nigeria. At the same time, the company will benefit from the growth of Middle Eastern and Asian carriers as they extend their networks. It will also support its major convenience-retail customers in entering new markets by offering its local expertise and network. In order to strengthen its qualitative market leadership, the LSG Group has launched a comprehensive quality initiative.

BUSINESS PERFORMANCE AND KEY FIGURES

KEY FIGURES

Key Figures	2016	2015	2014	2013	2012
Revenues (EUR m)	3,194	3,022	2,633	2,514	2,503
EBIT	60	85	75	107	-
Employees as of Dec. 31	35,530	34,310	32,843	32,307	30,088

Company Data 2016

Meals produced	628 million
Customer Service Centers	203
Airports served	209
Countries	55
Companies comprised	156
Customers	more than 300
Corporate Headquarters	Neu-Isenburg (Frankfurt), Germany
Executive Board	Erdmann Rauer, Chief Executive Officer Dr. Kristin Neumann, Chief Financial Officer Jochen Müller, Chief Operating Officer
Supervisory Board	Dr. Bettina Volkens (Chairman), Karl Ulrich Garnadt, Prof. Dr. Ingrid Göpfert, Dr. Reinhold Huber, Dirk Reich, Ulrik Svensson, Gerold Schaub ¹⁾ (Deputy), Frauke Bendokat ¹⁾ , Mathias Kilzer ¹⁾ , Paul Laslop ¹⁾ , Michael Rüschenbaum ¹⁾ , Christina Weber ¹⁾
Core-business activities	Catering and On-board Retail Inflight-Equipment Sourcing, Design and Logistics Convenience Retail Train Services

¹⁾ Employee Representative

BUSINESS PERFORMANCE

The company continues its profitable growth despite a challenging market environment

The lasting growth in passenger numbers and increasing demand for convenience-retail products has once again supported the LSG Group's strategy of achieving profitable growth despite severe competition and cost pressure.

The company managed to improve its operational performance significantly and was able to once again increase its consolidated revenues. Compared to the previous year, they rose by 5.7 percent (adjusted for currency-related factors: + 7.4 percent) to EUR 3,194 million in the 2016 financial year. Changes in the group of consolidated businesses contributed towards a growth in sales of EUR 42 million.

The cost of materials and services rose by EUR 84 million to EUR 1,383 million. This development was mainly driven by higher volumes and the changes in the group of consolidated businesses. The cost of materials ratio slightly went up to 43.3 percent compared to 43.0 percent in the previous year.

THE LSG GROUP
WAS ABLE TO
IMPROVE
ITS ADJUSTED



The average number of employees increased to 35,571, representing 6.0 percent more than the year before. In total, staff costs climbed by 6.4 percent to EUR 1,184 million. This can be attributed to the increased business volume, as well as to re-structuring expenses in Europe and higher labor costs in North America based on a new union agreement and the opening of the Chicago facility.

The amortization and depreciation ratio went up to 3.3 percent, compared to the 2015 figure (2.6 percent). The nominal amount rose by EUR 26 million to EUR 106 million, which is primarily due to extraordinary depreciation in Europe. Other operating expenses increased by 1.7 percent to EUR 549

million on a year-to-year basis as an effect of the increased business volume.

The LSG Group was able to improve its Adjusted EBIT (Earnings Before Interest and Taxes) in 2016 by EUR 5 million to EUR 104 million in spite of the significantly higher transformation cost. The EBIT, which is additionally burdened by significant extraordinary depreciation, amounts to EUR 60 million (2015: EUR 85 million).

Excluding the high transformation cost and the extraordinary cost of depreciation, the LSG Group achieved a historically good result.

CONSOLIDATED INCOME STATEMENT

For the financial year 2016

	2016 k €	2016 k €	2015 k €
Revenue		3,193,541	3,022,006
Other operating income (including changes in inventories)	66,858		73,158
Total operating income		3,260,399	3,095,164
Cost of materials and services	-1,383,373		-1,298,715
Staff costs	-1,183,546		-1,112,851
Depreciation and amortization	-106,034		-80,081
Other operating expenses	-548,766		-539,917
Total operating expenses		-3,221,719	-3,031,564
Profit/loss from operating activities		38,680	63,600
Investment Result		21,746	21,802
EBIT		60,426	85,402
Adjusted EBIT		104,253	98,925

EXECUTIVE BOARD RESPONSIBILITIES

	Erdmann Rauer Chief Executive Officer	Dr. Kristin Neumann Chief Financial Officer/Labor Director	Jochen Müller Chief Operating Officer
Corporate Functions	Sales and Marketing	Product and Service Development	Operations Value Chain
	Strategy and Corporate Development	Finance and Treasury	Information Technology
	Communications	Quality and Process Management	Infrastructure Management
	Legal, Corporate Affairs and Compliance	Human Resources and Business Capabilities	
	Internal Audit		
Regions, Divisions	On-board Retail	SPIRIANT	Asia-Pacific
	Convenience Retail	Ringeltaube	Eastern Europe/Middle East/Africa
		Lounges	Europe
		SCIS	Latin America
			North America

CATERING

TO ALL

SENSES

