

40

ANNUAL REPORT 2010



**cargolux**

# 40

YEARS OF

CUSTOMER FOCUS

QUALITY LEADERSHIP

SERVICE EXCELLENCE

GLOBAL REACH

TECHNOLOGICAL ADVANCE

EXPERIENCE IN AIR CARGO

NETWORK FLEXIBILITY

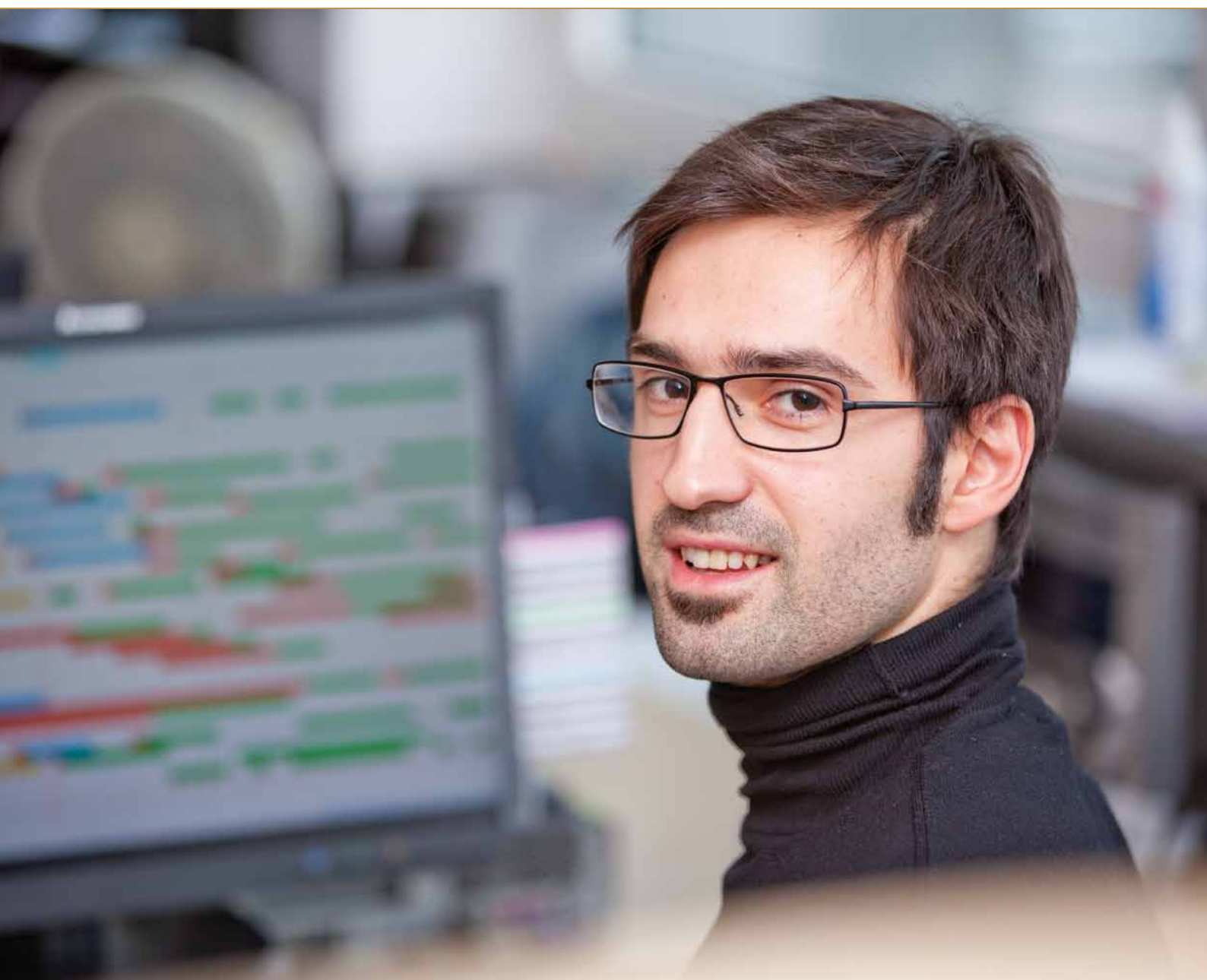
VALUE CREATION

TEAM WORK

# Company Milestones

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- 1970 Foundation by Loftleiðir, Salén Shipping Company and Luxair
- 1973 The Jet Age: delivery of first DC-8
- 1974 Cargolux takes over Loftleiðir Maintenance
- 1977 Cargolux goes Jumbo: order of first Boeing 747-200F; delivery in 1979
- 1979 Regular Boeing 747-200F service to the Middle East and Asia
- 1980 Regular Boeing 747-200F service to the United States
- 1983 Launch of CHAMP (Cargo Handling and Management Planning) Systems
- 1990 Cargolux becomes a scheduled cargo airline
- 1993 First to fly the Boeing 747-400F
- 2000 Operation of the world's first simulator for the Boeing 747-400F
- 2004 One-billion-dollar company
- 2005 Order of new generation Boeing 747-8F
- 2009 Inauguration of new state-of-the-art maintenance hangar
- 2010 Cargolux celebrates 40<sup>th</sup> anniversary



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# Vision, Mission and Values

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## Our Vision

- Our vision is to become the undisputed global leader in air cargo

## Our Mission

- To secure the profitability of our Company by providing freight forwarders with unrivalled competitive advantage in their operations worldwide
- To secure and strengthen the Company's position in a growing and changing air cargo market
- To add value for customers, shareholders and employees

## Our Values

- We stand for integrity, tolerance and teamwork
- We set ourselves the highest standards and we deliver on our promises
- We succeed through the quality of our relationships
- We value every contribution made by our employees to securing the profitability of our Company
- We abide by the laws and regulations governing our activities
- We respect the environment and communities within which we operate



**Marc Hoffmann**  
Chairman of the Board





# Chairman's Letter

As I read my letter in the 2009 Annual Report, I can only marvel at how fast and furious the recovery of the air cargo market came. We managed to climb out of the hole we found ourselves in and enjoyed a nice ride in 2010. Of course we hit some bumps also – after all, we operate in the airline industry which always reserves surprises, usually of the unpleasant kind. The 2010 vintage offered its share of chaos following the Icelandic volcanic ash cloud in April and severe weather conditions in December. But all this was chicken feed compared to what happened to us in 2009 when the market collapsed under us. In addition to healthy profitability on the back of excellent trading conditions we can also report significant progress in putting behind us the anti-trust cases which have plagued the Company for some years. It is in this context that our former CEO Ulrich OGIERMANN stepped aside from his position in November to fully focus on his personal defense. On behalf of the Board, I wish to thank him for his stewardship of the Company since he became CEO in April 2003.

I am pleased that Frank REIMEN, former First Government Advisor in charge of the general coordination of the Department of Transport, has now taken the reins as President and CEO. During his tenure as director of the Cargolux Board, the Company has benefited greatly from his extensive experience and in-depth industry knowledge, particularly during the 2009 crisis year. His vision and leadership skills will help the Company to further improve its competitiveness.

Being involved in anti-trust cases is nasty and costly business and we wanted to ensure that this would never happen again. To this effect, the Board of Directors undertook some decisive actions. First, the Executive Committee was strengthened with Henning ZUR HAUSEN joining the Company as Senior VP Legal and Compliance. Second, the Compliance and Internal Audit functions were reinforced with additional resources and intensive training. Third, with the help of outside consultants, the Company formulated a detailed compliance strategy and program which is being rolled out since the 3<sup>rd</sup> quarter last year. The Company is now striving to position itself as a champion in compliance and thereby gaining a competitive edge.

Looking ahead, 2011 will most likely have its own challenges, not the least of which coming from the steep rise in oil prices. The Company is impatiently awaiting delivery of its first B747-8 which Boeing promised for mid-year. These fuel-efficient aircraft will help the Company to better digest rising fuel prices but will not be necessarily helpful to weather an oil driven recession! However, the refueling of the Company with new, state-of-the-art technology is essential to safeguard its future. Equally important is the support of strong Shareholders taking a long term view. This point was forcefully made in 2009. The Shareholders believe that the Company would benefit from (a) strategic partner(s) with whom revenue and cost synergies can be derived. A process has been initiated to find such partner(s).

I wish to thank the Cargolux staff for the remarkable turnaround and express my profound gratitude to our customers and financiers.

Luxembourg, March 17, 2011



Marc Hoffmann  
Chairman of the Board

# CEO's Letter

It is no exaggeration to claim that the year 2010 gave us some reason for celebration. First, it marked the 40<sup>th</sup> anniversary of a company founded by visionary pioneers in 1970 and widely regarded as a leading all-cargo carrier in today's industry. Second, supported by the vigorous rebound in the air cargo market which saw volumes rise worldwide by 20.6%, Cargolux staged a strong recovery as it shifted out of the rescue mode adopted in late 2009.

The Company's stakeholders were able to breathe a deep sigh of relief as the Company turned a prior year loss of US\$ 153.3 million into a net profit of US\$ 59.8 million.

Overall, the Company saw a 10.1% increase in production, underpinned by strong growth in Asia, the Americas, Europe and the Middle East. Capacity improved by a more subdued 3.7% during the period under review, owing to a delay in the delivery of the higher payload Boeing 747-8F and the lack of capacity caused by a Boeing 747-400 aircraft leaving the fleet. The impact could not be entirely offset by dry- and wet-lease arrangements. The daily average utilization of the Cargolux fleet increased to 15:46 block hours, a 8.2% advance over 2009, while load factors strengthened by 4.3 percentage points to 73.3%. We carried 683,380 tonnes of cargo, 8.9% more than in the crisis year 2009.

In 2010, the Company achieved its number one goal: not merely surviving, but emerging stronger from the crisis that rocked the global economy in 2009. Still, we did not lose sight of our commitment in terms of corporate responsibility and managed to consolidate the pre-crisis course of action. Although we operate one of the most environmentally sound freighter fleets in the industry, the gradual introduction from the summer of this year of the new generation Boeing 747-8F will improve our ecological footprint substantially on three counts: fuel burn, CO<sub>2</sub> emissions and noise disturbances.

In the wake of the anti-trust proceedings engaged against the Company, the Board of Directors re-emphasized the critical importance of compliance and endorsed a comprehensive Compliance Strategy in May 2010. Kicked off last year, the program is gaining momentum with the launch in early 2011 of Compliance for Business (C4B), a comprehensive initiative supported by Company-wide training, awareness raising and communication efforts aimed at making compliance an integral part of the corporate culture of Cargolux while giving the Company a competitive edge.

Clearly, 2011 is set to be a more testing year. According to IATA, overall air cargo volume is expected to grow by 6.1%. However, yields are likely to remain under pressure from over-capacity building up in some parts of the world, most notably in China. The threat of a prolonged surge in oil prices – biting into the fragile profitability of our highly cyclical business – looms on the horizon and must be offset by higher productivity and enhanced competitiveness. Adequate network and fleet planning in 2011 remains a balancing act. Again, we will draw on our key strengths – flexibility, service excellence and innovation – to tackle these challenges successfully.

We are in the middle of taking stock of the Cargolux strategy in order to define a clear vision for sustainable and profitable growth going forward. We are conducting an in-depth review of the different components of our business model to refine our position on several fronts: network, fleet planning and size, target markets and potential alliances with strategic partners. This project will be submitted to the Board of Directors during the second quarter of 2011.

I will conclude by extending my warm gratitude to our shareholders, our Board of Directors and to the great team of Cargolux employees who fought hard for the Company's survival during the recent past. I am confident that the Cargolux spirit will prevail for a long time to come.

Luxembourg, March 17, 2011

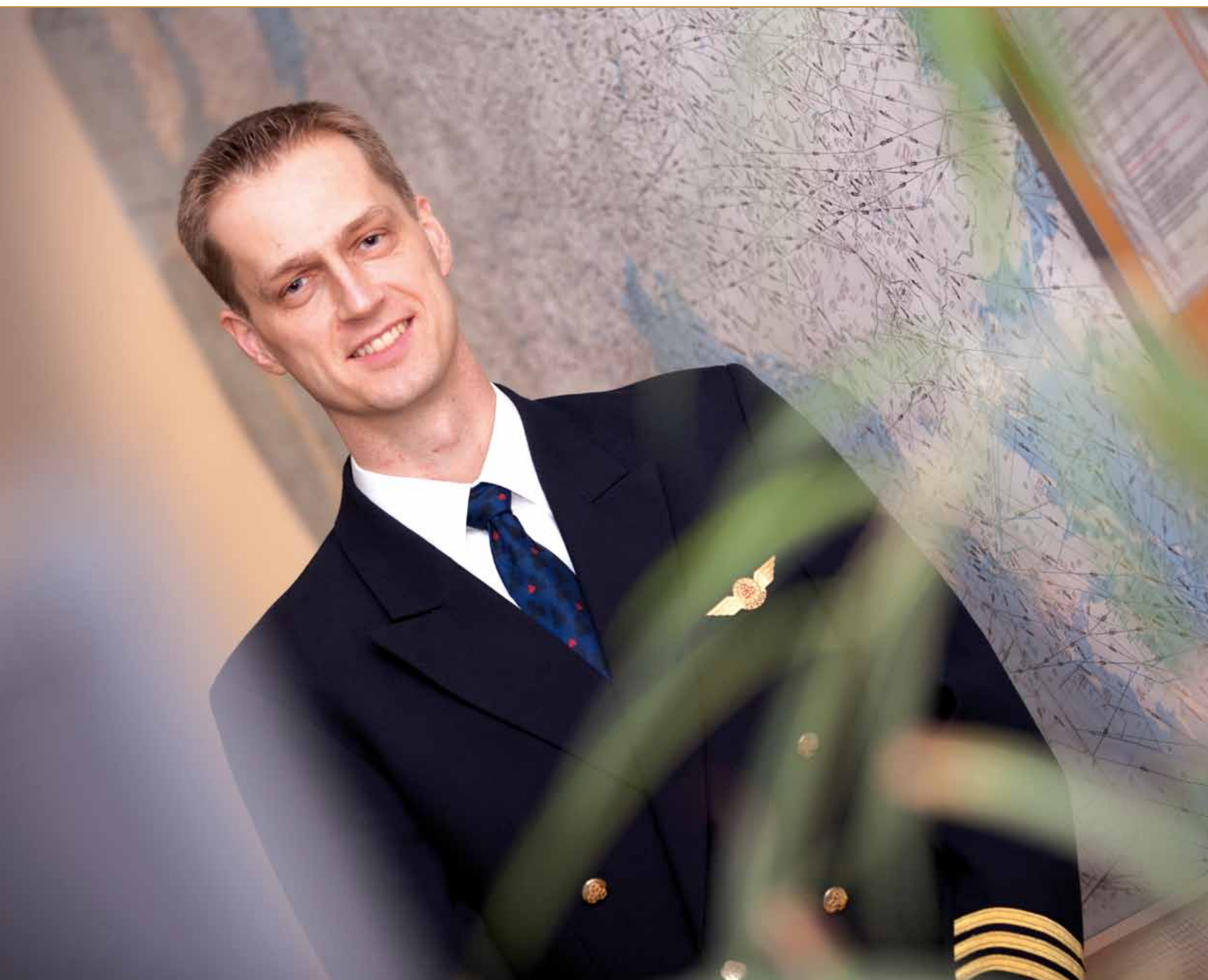


Frank Reimen  
President and Chief Executive Officer

## Frank Reimen

President and Chief Executive Officer





# Consolidated Figures - Highlights

As at December 31, 2010

	2010	2009	2008	2007
Total Income in US\$ '000	1,748,431	1,352,259	1,984,675	1,682,921
Profit/(Loss) for the year in US\$ '000	59,838	(153,301)	(61,043)	(47,099)
Shareholders' Equity in US\$ '000	504,901	469,508	454,240	616,019
Tonnes Carried	683,380	627,813	703,601	702,765
Tonne-kilometers Flown (millions)	5,284	4,800	5,411	5,537
Available tonne-kilometers (millions)	7,210	6,954	7,664	7,576
Number of employees worldwide	1,477	1,482	1,530	1,491
Headquarters	1,120	1,110	1,155	1,105
<b>Fleet</b>				
Boeing 747-400F	13	14	16	15
Boeing 747-400BCF	1	-	-	-
<b>Aircraft on order</b>				
Boeing 747-400F	-	-	-	1
Boeing 747-8F	13	13	13	13
<b>Aircraft subject to forward sale agreements</b>	<b>3</b>	<b>4</b>	<b>6</b>	<b>4</b>



# Corporate Governance

At December 31, 2010

## Executive Committee



**Ulrich Ogiermann**  
President and Chief Executive Officer\*



**Frank Reimen**  
President and Chief Executive Officer\*\*\*



**David Arendt**  
Executive Vice President and Chief Financial Officer  
Chief Executive Officer ad interim\*\*



**Robert van de Weg**  
Senior Vice President  
Sales, Marketing and Ground Services



**Peter van de Pas**  
Senior Vice President and Chief Operating Officer



**Henning zur Hausen**  
Senior Vice President Legal Affairs and Compliance\*\*\*

\* until November 10, 2010  
\*\* from November 11, 2010 until December 31, 2010  
\*\*\* since January 1, 2011

## Board of Directors at December 31, 2010

Marc Hoffmann  
Chairman of Luxair,  
Chairman of the Board of Cargolux

Jean-Claude Finck  
President & CEO of Banque et Caisse d'Epargne de l'Etat,  
Director

Alain Georges  
Chairman of BIP Investment Partners,  
Director

Pierre Gramegna  
Director General Chambre de Commerce,  
Director

Jean-Claude Knebel  
Secrétaire de Légation 1<sup>er</sup> en rang,  
Director

Adrien Ney  
President and CEO, Luxair S.A.,  
Director

Max Nilles  
Attaché de Gouvernement 1<sup>er</sup> en rang,  
Member of the Board of Luxair,  
Director

Frank Reimen\*  
Premier Conseiller de Gouvernement,  
Director

Société Nationale de Crédit et d'Investissement, represented by  
Gaston Reinesch, President,  
Director

Françoise Thoma  
Member of the Management Board of  
Banque et Caisse d'Epargne de l'Etat,  
Director

Pierre-Olivier Edouard  
First Officer Senior,  
Staff Representative

George Karambilas  
Captain,  
Staff Representative

Fred Lopes Da Silva  
Technician (Sr), Line & Hangar Maintenance,  
Staff Representative

David Massaro  
Supervisor (Sr) Material Repairs,  
Staff Representative

Astrid Mosel-Kneip  
Permanent Delegate, Staff Delegation,  
Staff Representative

Roger Sietzen  
Honorary Chairman of the Board

## Strategy Committee

Marc Hoffmann  
Chairman of the Committee  
Jean-Claude Finck  
Alain Georges  
Pierre Gramegna  
Frank Reimen\*  
Gaston Reinesch

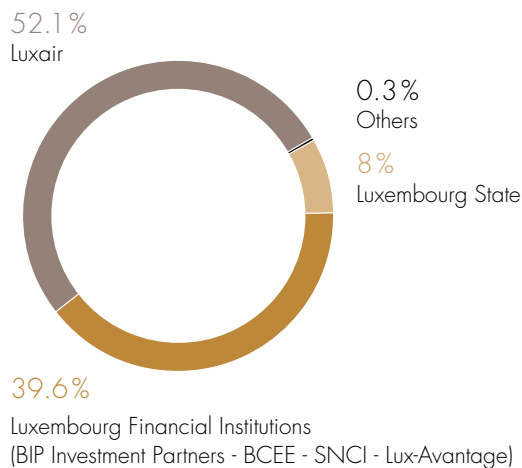
## Compensation Committee

Marc Hoffmann  
Chairman of the Committee  
Jean-Claude Finck  
Alain Georges  
Pierre Gramegna  
Max Nilles  
Frank Reimen\*  
Gaston Reinesch

## Audit Committee

Marc Hoffmann  
Chairman of the Committee  
Jean-Claude Finck  
Alain Georges  
Pierre Gramegna  
Max Nilles  
Frank Reimen\*  
Gaston Reinesch

## Shareholders at December 31, 2010



\* until December 31, 2010



# Management's Report of Activities





# Management's Report of Activities

Financial Review and Analysis as at December 31, 2010

## General

In 2009, the Company faced the abyss and had to be rescued by its shareholders and the Luxembourg Government. Their faith in the ability of the Company to turn around was well founded as the results of 2010 prove. The remarkable recovery of the air cargo market, which started in the fourth quarter of 2009, continued during the year 2010. While the recovery was initially volume driven, prices started to recover in March, which was also the first month of the year where the Company returned an operating profit. Overall, the air cargo market grew by 20.6%, after 2 years of decline. Load factors and yields are now back to pre-recession levels in most markets. The net profit for the year was US\$ 59.8 million.

## Key Performance Indicators

Capacity, as measured in ATKs, increased by 3.7%, driven by the strong rebound of demand. Due to the delayed delivery of the first Boeing 747-8F, the Cargolux fleet is currently in a transition period: the capacity of the two aircraft (LX-FCV and LX-ICV), which had been sold to UPS in September 2009, was partially compensated by a dry-leased Boeing 747-400BCF, LX-ZCV, which joined the fleet in April 2010 for a period of two years. LX-MCV, which was sold to Silkway in October, was temporarily replaced by a wet-leased Boeing 747-400BDSF from World Airways. The average daily utilization of the Company's fleet increased to 15:46 block hours, up 8.2% on 2009 levels.

The Company's production, as measured in FTKs, went up by 10.1% in 2010, reaching nearly pre-recession levels. Based on IATA statistics and measured in international scheduled FTKs, the Company's global market share decreased by 0.3 percentage points to 3.3%, reflecting the fact that the Company's production lagged the growth in global FTKs. Load factors improved by 4.3 percentage points to 73.3%.

Demand for air cargo uplift increased strongly across the Cargolux network, in particular ex Asia, where the chargeable tonnage grew by 27.7%. The increased demand also led to a significant improvement of average yields.

## Markets and Network

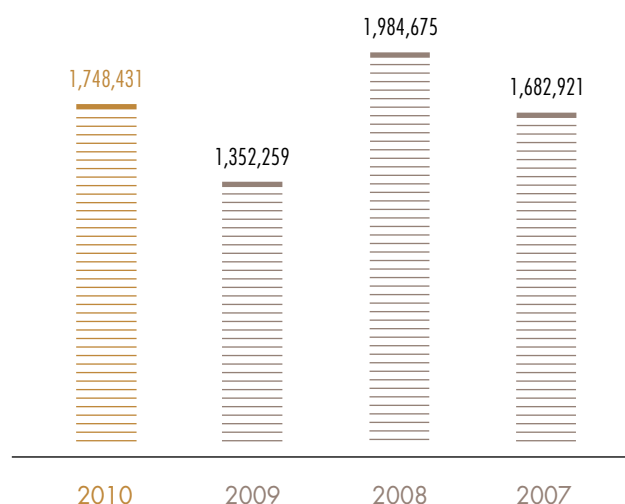
2010 was a very strong year for airfreight, in sharp contrast with 2009. Market volumes increased by approximately 20% (measured in FTKs) versus 2009. Since capacity on the market only grew by about 9%, there was a significant gap in the supply demand ratio during this period. This capacity gap had a positive impact on our load factors and yields. In the last quarter of the year, the market sentiment turned and supply/demand started to balance out.

While general trading conditions were good, we had to muster operational challenges including:

- ash-cloud closing European airspace in April;
- Boeing 747-8 delay, causing a reduction in fleet size by 1 unit in October 2010 (as we had to deliver an aircraft to Silkway under a forward sale agreement);
- severe winter conditions in December.

Network management was dynamic as markets did not recover universally at the same pace or time. We shifted capacity from Africa to Asia. We closed various stations (Panama, Santiago de Chile, Melbourne and Auckland) but opened Hanoi and Riyadh. We started transpacific operations connecting Hong Kong with Chicago/New York in June 2010 (currently at 4 flights per week) and later in the year, added a weekly flight from Hong Kong to Los Angeles.

Total income - Consolidated, in US\$ '000





In terms of tonnages sold, all areas (except Africa) recorded a significant increase vs. 2009:

- US and South America: +11.5%
- Europe, Middle East and Central Asia: +3.6%
- Asia: +27.7%
- Africa: -20.5%

Overall tonnes sold increased by 8.9% to 683,380 tons. We flew 4.1% more block hours in 2010 (including on wet-leased capacity).

## Consolidation

The consolidated accounts comprise Cargolux RE S.A., a captive reinsurance company, Cargolux Italia S.p.A., an Italian all-cargo airline and an Italian investment company, Italia Aerologistics S.R.L.. In addition, the Company equity accounts its participations in Champ Cargosystems S.A. (49%), Luxfuel S.A. (30%) and Freightner Leasing S.A. (33.3%).

## Profit & Loss Account

*Revenues* increased by 31.1% from US\$ 1,313.7 million to US\$ 1,722.6 million. The U.S. Dollar strengthened versus the Euro during the year. In June, the Euro reached a low point of 1.22. As the fuel surcharge is expressed in Euro, this negatively impacted revenues. A weaker Euro, however, was positive for Euro-denominated cost, such as payroll, trucking and handling charges.

*Other Operating Income* decreased to US\$ 25.9 million from US\$ 38.5 million in 2009 where the capital gains derived from the sale of 2 B747-400Fs were recorded. Also booked in *Other Operating Income* is a foreign exchange gain of US\$ 9.5 million.

*Aircraft Lease Expenses* went up by US\$ 17.2 million or 28.5%. The main reasons for the increase were higher wet lease cost, up US\$ 9.9 million to US\$ 15.7 million and higher dry lease cost, up 8.5% to US\$ 52.8 million from US\$ 48.7 million in 2009, triggered by leased-in capacity to compensate for exits from the fleet.

*Aircraft Maintenance Expenses* went up 13.3% to US\$ 108.9 million from US\$ 96.2 million. This increase is mainly due to non-recurring provision releases in 2009 (Rolls Royce contract), increased hangar activities and block hours in 2010. Other Aircraft Expenses mainly represent premiums paid to insure the Company's fleet and went up by 15.4% to US\$ 4.4 million.

*Depreciation* decreased by 3.8% to US\$ 59.3 million, mainly due to the sale of LX-FCV and LX-ICV in September 2009 and LX-MCV in October 2010.

*Fuel Cost* (including the result of fuel hedging) increased by 26.6% to US\$ 661.7 million and represents now 40.4% of total cost. Hedging losses of US\$ 15.4 million were mitigated by US\$ 7.6 million of unrealized hedging gains related to the positions taken before the balance sheet date to cover the Company's exposure to higher fuel prices in 2011 and 2012.

*Personnel Costs and Benefits* (including a provision for profit sharing payable in May 2011) went up by 4.7% to US\$ 219.3 million. The overall salary component went down by 4.6%, and in Euro terms the salary of all Luxembourg-based staff went up by 0.6% largely because of headcount decrease.

*Handling, Landing and Overflying costs* increased by 5.6% to US\$ 252.5 million in 2010. Handling charges went up by 5.6%; the impact of higher unit rates (+2.8%), higher freight tonnages carried (+5.7%) and cycles flown (+0.8%) was partially mitigated by a favorable foreign exchange impact of -2.5%. Landing charges increased by 5.3%, driven by a significant unit rate increase of 7% after the crisis year 2009 and a minor increase in cycles flown (+0.8%) which could be partially counter-balanced by a currency impact of -2.1%. Overflying costs increased by 5.9% due to a unit cost increase of 4.3% and an increase of block hours flown (+4.1%) mainly influenced by network changes.

*Trucking, Truck Handling and Interlining costs* increased by 10.5% to US\$ 102.8 million in 2010. *Trucking and Truck Handling costs* went up 13.5%. The increase of cost related to trucked tonnage (+13.8%) was partially mitigated by a favorable exchange rate impact (-3.9%). *Interlining costs* grew by 0.3% mainly driven by a unit cost increase.

*Other Operating Expenses*, including GSA commissions, IT services, travel & entertainment, office rental and equipment, legal, audit and consulting fees, telecommunication expenses, net worth tax, etc. increased by 19.9% to US\$ 150.4 million. This increase is due primarily to a US\$ 34.5 million payable related to the settlement of US Class actions (see below) and a US\$ 6.2 million increase of legal and consulting cost (US\$ 20.0 million v. US\$ 13.8 million in 2009) largely related to the anti-trust and subsequent internal activities. On the positive side, anti-trust provisions constituted in prior years saw a release of US\$ 6.1 million.

EBIT for the year stood at US\$ 111.6 million compared to US\$ (59.1) million in 2009. The EBIT margin was 6.5%. If the net impact of anti-trust provisions and payables included in *Other Operating Expenses* is disregarded, EBIT would have been US\$ 140.0 million and the related margin 8.1%.

*Financial Income* increased by 101.3% to US\$ 13.8 million. *Financial Expenses* decreased by 25.2% to US\$ 54.1 million. The movements in *Financial Income* and *Financial Expenses* are due to an improved valuation of our interest rate derivative portfolio relative to the values of year-end 2009. *Net Finance Costs* were US\$ 40.3 million (2009: US\$ 65.5 million).

*Profit Before Tax* was US\$ 76.0 million (2009: Loss Before Tax was US\$ 122.3 million), deriving a pre-tax margin of 4.4%. Consolidated net after tax profit was US\$ 59.8 million (2009: Loss of US\$ 153.3 million). The reasons for the negative tax adjustment are discussed below.

## Tax Adjustments

*Current Tax* for the year was negligible (2009: US\$ 0.4 million). As in 2009, the Company suffers a substantial adjustment of deferred taxes. The main reasons for the US\$ 16.2 million adjustments in 2010 are the consequence of the use of tax losses and taxes being assessed on the basis of a tax balance sheet which requires significant accounting changes from IFRS.

After these adjustments, the net after tax profit for 2010 equals US\$ 59.8 million (2009: Loss US\$ 153.3 million). The net margin is 3.5%.

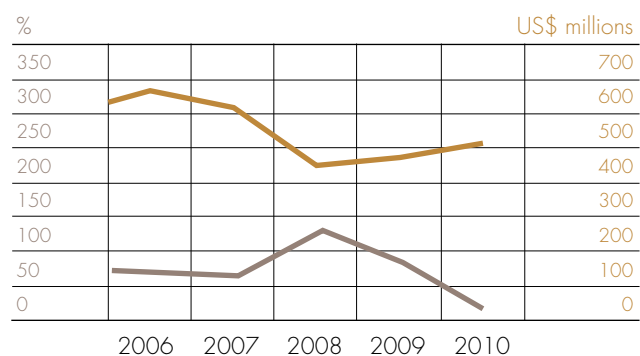
## Balance Sheet

*Total Assets* went down 6.4% to US\$ 1,563.9 million from US\$ 1,670.1 million mainly due to asset sales. *Shareholders' Equity* increased by 7.5% to US\$ 504.9 million from US\$ 469.5 million. Part of the year-end net profit was offset by the negative marked-to-market of our interest rate derivative portfolio (US\$ 22.0 million).

Interest bearing liabilities (including finance leases) decreased by 30.7% to US\$ 432.2 million from US\$ 623.3 million. *Cash and cash equivalents* and *Other Investments* increased by 17.0% from US\$ 274.0 million to US\$ 320.5 million. The financial condition of the Company improved significantly. Net financial gearing amounted to 22.1% (2009: 74.4%) and net adjusted gearing (to take into account the present value of future lease payments) was 57.4% (2009: 121.0%).

The shareholders decided not to declare any dividend for 2010.

## Financial Gearing



Gearing (%)

Shareholders' equity (US\$ millions)



## Fleet Development

The delivery of the first Boeing 747-8F was delayed again. New delivery dates for those aircraft are now mid-2011. On December 24, 2010, the Company and The Boeing Company signed an amendment to the 2005 Aircraft Purchase Agreement to deal with the consequences of this further delay.

In January 2010, the Company agreed with UPS to postpone the delivery dates of LX-GCV and LX-LCV to 2011.

LX-MCV was delivered in October 2010 to Silkway as foreseen in the Aircraft Sale and Purchase Agreement of July 7, 2008 among the 2 carriers.

## Anti-Trust Proceedings

In 2010, the Company made significant progress in closing or settling a number of the anti-trust cases pending against it. Settlements were reached with the anti-trust authorities of Canada, South Korea and New Zealand (subject to confirmation by the competent court). The aggregate of the settlement payments to authorities remained below the amounts provisioned in prior exercises, resulting in provision releases. The EU Commission imposed a fine of EUR 79.9 million against the Company in November 2010. While the fine was provisioned, the Company has lodged an appeal against the decision with the EU General Court in Luxembourg. In a settlement reached with plaintiffs in the US class actions, the Company agreed to pay US\$ 35.1 million. The US class settlement has been preliminarily approved by the court. The Company's remaining exposure with respect to anti-trust cases relates to proceedings in South Africa and Switzerland (where the Company is cooperating with the authorities), class actions in Canada (where the Company's business activity during the alleged cartel years was minimal) and possible damages claims brought in relation to business outside of the US, the extent of which cannot be reliably estimated at this stage. Considering the foregoing, the Company decided to limit provisions for its remaining anti-trust exposure to a possible fine which may be imposed by the Swiss anti-trust authorities.

## Branch Network

The Company operates worldwide through a network of branches established in 31 countries (2009:34).

## Outlook and Recent Developments

The Company remains cautiously optimistic for 2011. The Company will face significant cash outflows during the year related to the payment of anti-trust fines (US\$ 89.6 million) and capital expenditures resulting from the fleet renewal. The Company expects to meet its financial commitments from a combination of operational cash flow, the proceeds from the sale of 3 aircraft, a pre-delivery payment facility to partially fund deposits owing to Boeing and Exim bank supported aircraft acquisition loans. Additionally the Company can draw under committed credit lines amounting in the aggregate to US\$ 167.1 million (using a EUR/US\$ cross rate as at 31.12.2010), including the State Guaranteed Credit line granted to the Company on December 18, 2009 (but which was reduced on January 1, 2011 from EUR 100 million to EUR 70 million). The Company will face operational challenges linked to the fleet renewal in 2011. The repeated delays of the 747-8F program, coupled with contractually mandated fleet exits and deployment of less efficient replacement capacity (compared with either the 747-400F or the 747-8F) will render fleet management much more difficult and negatively impact results.

# Management's Report of Activities

## Overall Business Overview

The impact of the economic crisis of 2009 lasted well into 2010, nevertheless, at Cargolux, we characterize 2010 as the year of the comeback. The supply and demand ratio of airfreight was favorable and in marked contrast to 2009; in 2010, demand increased sharply but available capacity was slower to pick up.

IATA estimates that international air freight volumes in 2010 were some 20.6% higher than in 2009.

At Cargolux, we could benefit from this situation and increase yields, achieve higher aircraft utilization and reach record load factors. We increased our fleet size by adding one aircraft in April.

2010 can also be seen as the year of the operational crises, first, when the Icelandic ash cloud grounded part of our fleet for three to four days in April and, second, when severe winter weather in December resulted in delays and traffic disruptions.

During the ash cloud crisis, part of the European airspace remained closed for some time, but Cargolux was able to keep most of its fleet operational outside of Europe, such as on Trans-Pacific routes. We had a contingency plan in place and established a temporary base in Barcelona from where we could operate to existing network points and truck freight to other European points, including Luxembourg. This helped in keeping our European services operational. We experienced a very strong comeback of the market after the crisis because of freight backlogs across the entire global supply chain system.

Disruptions caused by the winter weather, that affected Europe and North America during most of December, were harder to solve because we could not truck our freight as easily as during the ash cloud crisis, since road traffic across Europe was as much affected as air traffic. However, during both crises, Cargolux could rely on its proven strengths: flexibility and the ability to come to quick decisions, coupled with a strong team spirit.

Due to the rise in demand in 2010, we saw an increase in block hours of 4.1% to 86,519 hours, including wet-leased capacity. The daily aircraft utilization of the Cargolux fleet improved from 14:34 hours in 2009 to 15:46 hours. Our load factor grew by 4.3 percentage points to 73.3%. Freight tonne kilometers went up 10.1%, from 4.8 billion in 2009 to roughly 5.3 billion in 2010, while available tonne kilometers reached 7.2 billion, a rise of 3.7%.

We carried 683,380 tonnes of cargo, 8.9% more than during the previous year.

## Network

We were able to quickly react to the diverse speed of the economic recovery among the various world regions and started new Trans-Pacific services on the routes Hong Kong – Chicago – New York and Hong Kong – Los Angeles. We also added flights to Japan and Taiwan while ending services to Panama, Santiago de Chile, Auckland and Melbourne. Hanoi and Riyadh became new on-line stations in 2010.

## Fleet

After the sale of two 747-400Fs to UPS in late 2009, we started the year operating 14 aircraft. A 15th, dry-leased B747-400BCF unit was added in April, while a 747-200SF was wet-leased to cover charter and high season demand. In October, another Cargolux 747-400F was delivered to Silkway Airlines in a sales deal that had previously been arranged. Because of the delivery delay of the 747-8F, we opted to wet-lease a 747-400SF to make up for the lost capacity. In conclusion, we ended the year utilizing 15 747-400Fs and 1 747-200SF.

## 747-8F

Continued delivery delays of our 747-8F have caused a number of problems, because we had to honor previously arranged sales contracts for part of our 747-400F fleet. We were able to soften the impact by stretching some deliveries and through wet-leasing as mentioned earlier.

We hope to receive our first 747-8Fs in the summer of 2011 and plan to deploy them on our Asian routes as soon as possible.

## Market Share

Based on IATA statistics and measured in international scheduled FTKs, our global market share decreased to 3.3%, reflecting the fact that Cargolux' production lagged the growth in global FTKs and that our capacity was constrained compared to pre-recession levels.





## Area by Area

Asian markets turned out to be especially strong and the area was a leader in the 2010 recovery, even though China showed signs of a slow-down during the final months of the year. As Asia was leading the way, other markets began to move, notably the United States, with Europe and Africa following behind.

### Area 1 – The Americas

2010 brought a significant improvement over 2009, much as expected, with growth in almost every market. We increased capacity in Brazil, Chicago, New York, Atlanta, with positive effect. We grew our export load factor by over 5% and Cargolux North America moved 11,000 tonnes of freight more than in 2009.

The new Trans-Pacific services from Hong Kong were immediately successful and firmly positioned Cargolux in the Trans-Pacific market, one of the largest global trade lanes. We now operate five round-the-world/Trans-Pacific flights every week.

With a total of 127,438 tonnes, Cargolux Area 1 contributed significantly to the network. It represents a rise of 11.5% versus 2009. Markets were strong throughout the year, in particular in the aftermath of the airspace closure in Europe due to volcanic ash in April. Revenue in Area 1 reached US\$ 279.5 million, an improvement of almost 22%.

Cargolux has a long history in North America and, today, is very well positioned in this important area. We provide capacity in excess of 2,000 tonnes per week and are considered a major supplier to the market.

South America showed an equally positive performance. We deployed additional capacity on flights from Brazil, thus providing much needed capacity to this expanding market.

### Area 2 – Europe, Middle East and Central Asia

On 1 August 2010, Area 2 regrouped the markets in Europe, the Middle East and Central Asia. Consequently, a new Area 4, Africa, was created. With the new setup, Area 2 achieved a total production of 283,685 tonnes, representing 42% of the overall Cargolux production in 2010.

The recovery of the markets after a very difficult year 2009 was stronger than anticipated and enabled a 3.6% increase in tonnes carried, which is still around 2% below 2008 levels, not taking into account the available capacity.

Area 2 saw high load factors and a stable production throughout the year. After the traditional slow start in January, we did not experience the usual dip during the summer, nor did we see a particularly high season in the last quarter. An exception was activity following the closure of the European airspace due to the volcanic eruptions in Iceland, which led to a very busy month of May.

The industry-wide dip in yields in 2009 presented a big challenge even during 2010. In Area 2, we achieved an increase in yield/kg compared to 2009, but have yet to return to 2008 levels.

In August, we terminated services to Chile, Panama, Melbourne and Auckland. We saw a slightly negative development in terms of tonnage in the Middle East compared to 2009, but still remained above 2008 levels. This was mainly caused by the reduced capacity allocations to and from this region. The market itself remained healthy, but faced strong competition. To reinforce our position in the Saudi Arabian market, we started flights to Riyadh on 1 August in addition to the two existing flights to Dammam.

In line with our capacity allocation, 33% of the Area 2 production was going to Asia, but generated only 23% of our total area revenue of US\$ 541.4 million. With an increase of 12% over 2009, 25% of the Area 2 production went to the American continent, generating 28% of the income, mainly driven by the growing demand in Central and South America.

### Area 3 – Asia Pacific

The rebound of 2010 was particularly noticeable in Asia. Taking advantage of the market recovery and surge in demand, we were able to reinstate a number of services that were suspended during the previous year and could tap into new markets. However, changes in trading patterns and capacity allocations still made for a year of ups and downs in the Asia/Pacific region.

In May 2010, we re-introduced a third weekly frequency to each of Komatsu, Kuala Lumpur and Incheon. Growing demand for aerospace and pharmaceutical shipments, as well as for off-size cargo led to the launch of a fourth weekly service to Singapore. Strong growth in exports of electronics prompted a fourth Taiwan frequency in September. We also started a third weekly service out of Ho Chi Minh City and boosted our presence in Vietnam with a new flight to Hanoi.

Routings to South East Asian destinations such as Singapore, Kuala Lumpur, Ho Chi Minh City and Bangkok were re-shuffled to lower costs, take advantage of fifth freedom opportunities and maximize operational efficiency.

Hong Kong was once again the cornerstone of Area 3 in 2010. We increased our weekly services from Europe to 12, up from 10 in 2009, and inaugurated new Trans-Pacific services to New York and Chicago in April. In July, we added two additional frequencies after the success of the initial flights and could thereby strengthen our market presence.

Driven by market demand, we launched a weekly service from Hong Kong to Los Angeles in August, complementing our US West Coast service.

In view of strong competition to Mainland China with signs of over-capacity, Area 3 decided to opt for a stable Shanghai service and suspended the previously operated two frequencies on Fridays. Xiamen remained well supported by local producers and Beijing kept its niche status for off-size cargo, as well as shipments to destinations in South America, Africa, the Middle East and a highly competitive Central European market.

Throughout the year, Area 3 operated 1,781 flights, including 91 charters, and carried a total of 205,398 tonnes, including fifth freedom traffic. This translated into more than US\$ 761 million in revenue.

2010 was a successful year for Cargolux in Asia, especially compared to previous years. Because the business is very competitive by nature, we are constantly exploring new opportunities to enhance our network coverage.

### Area 4 - Africa

Africa has steadily gained in importance within our system and, consequently, in early 2010, our African organization was split off and a new Area 4, covering the entire continent of Africa, was set up.

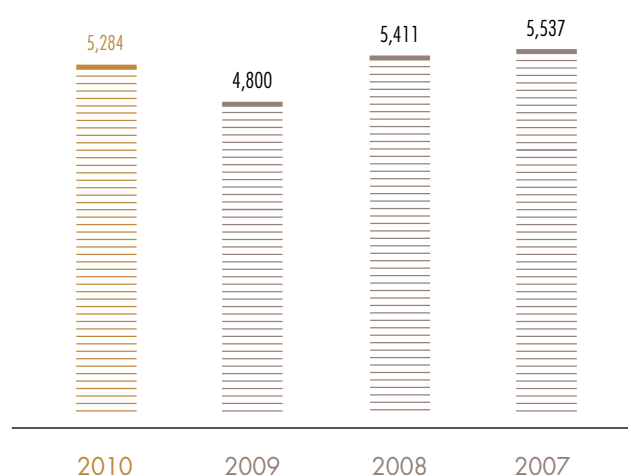
The newly created area performed well under the given circumstances and showed a clear upward trend for yield throughout the year, even though the recovery of demand from Africa, mainly for perishables, was slower than from other Cargolux export markets.

As a consequence, we reduced capacity here while deploying it mainly in the booming Asian market. The African southbound system continues to play an important role for our export flights from North America and Asia.

As a result, Area 4 export volumes declined by over 20% compared to 2009. Revenues reached US\$ 84.3 million and the tonnage amounted to 57,111 tonnes.

On southbound flights, oil and gas equipment, as well as consumer goods, were the key commodities that drove the area's recovery. Traffic to Kinshasa and Brazzaville showed very positive results with good support for our network while we also operated a high number of charters to Lagos. As usual, the perishable market absorbed most of our northbound capacity and gave stability to the operation.

Tonne-Kilometers flown - In millions



## Charter

Charter business in 2010 was exceptionally strong, certainly boosted by the backlogs created after the two operational crises in spring and winter. We operated a total of 104 ad-hoc charters to and from all 5 continents and 51 high-season charters from the Far East.

Charters operated include medical equipment charters, F1, Moto GP and GT1 charters, peak season charters, garments and telecommunication equipment charters and charters for the automotive industry. Charters have always been an important part of our business and we ensured that the high demand did not affect our regular operation by utilizing a wet-leased B747-200SF.

## Cargolux Italia

The Company has dry-leased one of its aircraft to Cargolux Italia S.p.A., an Italian subsidiary that was established in Milan in 2009. Cargolux continues to support Cargolux Italia S.p.A. as its General Cargo Sales Agent.

Since its beginning, Cargolux Italia has secured a strategic portfolio of traffic rights, allowing the Italian company a quick and flexible response to market requirements.

At the beginning of 2010, Cargolux Italia operated three weekly round services between Milan Malpensa and Hong Kong.

A new service to Johannesburg, Lusaka and Nairobi was initiated at the end of February, but the route failed to sustain a profitable operation despite the positive commercial reaction it received and was therefore discontinued in the summer. In July, Osaka was added to the network. A second service was launched in November, utilizing fifth freedom rights between Osaka and Hong Kong, similar to the first Osaka service.

Cargolux Italia flew 5,714 block hours and moved 63,701 tonnes of freight in 2010. Gross turnover reached US\$ 105 million.

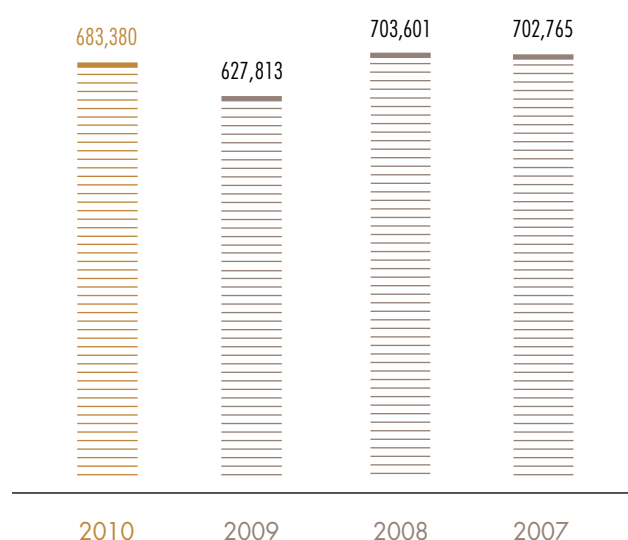
At the end of the year, the company served seven international gateways. Combined with some sixty destinations via the Cargolux hub in Luxembourg, this makes the group one of the strongest air freight players in Italy.

Cargolux Italia is positive about future prospects and expects to add new destinations in areas with significant growth and more frequencies to its existing services.

## Outlook 2011

Following the turmoil of the previous two years, we expect a more stable year with a relatively balanced supply-demand ratio, possibly with some overcapacity during the first half of the year, in particular in China. We see reasonably healthy markets, albeit with strong regional differences, therefore, a flexible management of our network will remain important. A key challenge and main focus for 2011 will be our fleet planning and how to manage the continued delay of the 747-8F delivery through wet and dry leases.

Total tonnes carried - In metric tonnes



# Management's Report of Activities

## Maintenance and Engineering

### Reliability

Cargolux' Maintenance and Engineering (M&E) Division is responsible for the technical status of the Cargolux freighter fleet, to guarantee a safe, on-time network. In addition to its work on Cargolux aircraft, the M&E division also provides maintenance and engineering support to other airlines. In spite of a very challenging operation in 2010, the M&E division managed to achieve a schedule reliability of the Cargolux fleet of 98.83%.

The operation in the new maintenance center, which went into operation in May 2009, has been successful from day one. The hangar offers two fully equipped maintenance bays that can accommodate the largest wide body aircraft. The work space itself is designed for maximum efficiency of the workforce. Bringing all shops under one roof has also contributed to improved productivity and efficiency.

### Heavy Maintenance

In 2010, M&E performed one D-check and five C-checks on the Cargolux fleet. While all C-Checks were performed in-house by Cargolux' own staff, the D-Check was executed by Singapore Airlines' Engineering Company. Also, in 2010, the M&E division further optimized the Company's B747 maintenance program, resulting in increased inspection intervals for A and D-checks.

The number of employees at Maintenance did not change throughout the year. At the end of 2010, the Cargolux M&E division employed a staff of 366. During 2010, we achieved 442,000 production hours, split between line, hangar and back shops. The hours produced were distributed between support for the Cargolux fleet (roughly 86%) and support to customer aircraft (roughly 14%).

### For the Customer

As the world airlines were gradually recovering from the economic and financial crisis of 2008/2009, the maintenance activities for customers increased accordingly. The M&E division attracted new clients and extended the scope of services provided. We performed 51 A-Checks on the customer fleets of Corsair, Air Bridge Cargo, Atlas Air, Air Atlanta, World Airways and Bluebird Cargo and began to perform C-Checks on customer aircraft in December 2010. In 2010, the maintenance revenue reached US\$ 9,3 million.

### Bits and Bites

Cargolux is a major user of the TRAX maintenance software and we continually work with the TRAX developers to further enhance their product. In 2010, we implemented the resource management tool of TRAX into our system.

### Boeing 747-8F

Due to the delays in the delivery of the Boeing 747-8F, preparations for the introduction were continued at a reduced level. Mechanics, that have already been trained on the new aircraft type, will have to go through a refresher training once the aircraft arrives. Additionally, we expect to add a significant number of new mechanics to our staff and entry-into-service preparations will be a major topic for our Maintenance and Engineering division in 2011.

# Management's Report of Activities

## Flight Operations

### Flight Operations

At the beginning of 2010, Cargolux operated 14 747-400 freighters in addition to one leased-in 747-400BCF. One of our aircraft, LX-MCV, left the fleet in October and was replaced with another wetleased unit. Fleet utilization and loadfactors were good. However, due to operational crises such as the eruption of volcano Eyjafjallajökull in Iceland and the subsequent closure of European air space, as well as severe winter disruptions in December, and, last but not least, the delay of the 747-8 delivery, network punctuality was down. The daily aircraft utilization reached 15:46 hours against 14:34 hours in 2009. Block hours for Cargolux' fleet amounted to 83,524. All figures take into account data of the aircraft operating for Cargolux and Cargolux Italia.

Cargolux went through the economic crisis without lay-offs amongst its crews and hired 21 new pilots in 2010. These also included replacements for a number of retired pilots.

Cargolux employed 405 pilots at the end of 2010 versus 393 at the end of the previous year.

### Simulator Training

Utilization of the Company's 747-400F simulator was high, standing at 69% throughout 2010, a significant step up from the 64% in 2009. During the year, it was necessary to shut down the simulator for six weeks because of modifications that included a new visual system and the addition of an instructor's position with new software. These modifications make the 747-400F simulator compatible with Cargolux' new 747-8F simulator and allow the use of one database for both units. Roughly 53% of the utilization covered Cargolux' own training needs, while 15% was sold to customer airlines.

With the sale of one aircraft to Silkway Airlines of Azerbaijan, Cargolux fulfilled its contractual obligations and type-trained 16 Silkway pilots. With authorization from the Luxembourg Civil Aviation Authority, DAC, Silkway pilots can also complete their line training on Cargolux aircraft and regular Cargolux flights. This program required a major investment of resources and time from Cargolux' Flight Operations division and is available for future Silkway pilot trainings if required. Since Silkway began flying the aircraft on its own routes in November, Cargolux supported the operation with the allocation of a Cargolux instructor on Silkway's flights. This support continues into 2011.

### Dash Eight Simulation

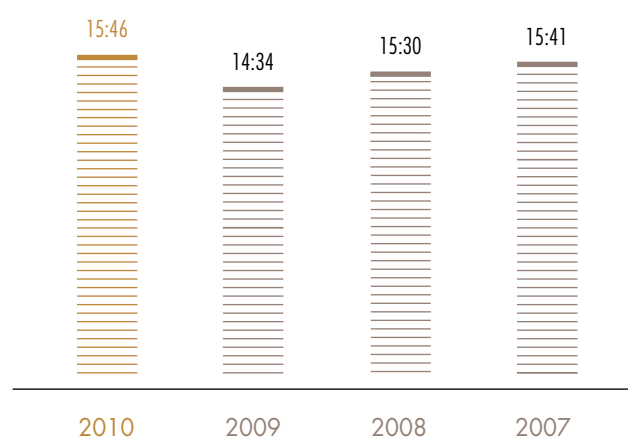
In parallel to the delays of the Boeing 747-8F, delivery of the new simulator has also been pushed back. Manufactured by CAE in Canada, the simulator shell is completed and awaits shipment to Luxembourg after a four-week test in March 2011. However, the required software is not entirely complete; CAE's developers await Boeing's test data that will only be available after the actual flight tests of the aircraft are completed. While the simulator hardware will be delivered to Luxembourg in April 2011, the final software update will be available for installation by November. Current planning foresees to start operating the 747-8F simulator by Christmas 2011.

For the pilots' difference training, we rely on a flat-panel trainer that is already in use at our crew training facility. All 747-8 training is performed in-house. As foreseen in our contracts with Boeing, six Cargolux instructors will be trained by Boeing personnel in Luxembourg, prior to the delivery of the aircraft.

### Managing Crises

As mentioned, Cargolux Flight Operations was mostly affected by the crises of the Icelandic ashcloud and the winter conditions in December. Between 220 and 240 pilots are constantly travelling within the Cargolux network and could not immediately return to Luxembourg in both cases. To keep the fleet operational, rosters had to be changed and duties shifted. With full support from our crews, the network could almost instantly be rebuilt and resulted in only four aircraft being blocked during the ashcloud shut-down of European air space. The remaining 70% of our fleet could operate its full schedule.

Daily aircraft utilization - Per Boeing 747-400 Freighter



# Corporate Social Responsibility



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Following a particularly difficult year in 2009, dominated by the crisis that plagued international trade and, as a result, long-range air cargo activities, Cargolux focused in 2010 on regaining economic strength and resuming normal operations. Nevertheless, the Company also sought to maintain its momentum in the field of corporate social responsibility and reinforce activities in this field.

Cargolux maintained in particular its commitment to operate with the best possible fuel efficiency. Because long-range air cargo transport is an inherently fuel intensive activity, the atmospheric emissions from the Company's aircraft represent by far the biggest environmental impact of the Company. At the same time, Cargolux has a strong financial incentive to ensure that its fuel consumption remains as low as possible. Energy conservation and the fight against global warming is therefore the field that receives the Company's highest attention in terms of environmental protection and long-term plans are in place to achieve a steady reduction of our emissions.

As signatory of the United Nations Global Compact, Cargolux also seeks to align its actions and policies ever more closely to the UNGC 10 principles. The Company sought to build on the efforts initiated in 2009, in particular by expanding its ISO 14001 certification process to new areas of competence and by developing its activities in the field of corporate compliance.

The Company also sought to maintain and develop its contacts with its stakeholder groups, be they commercial contacts and partners (freight forwarders, handling agents, trucking companies, maintenance and IT suppliers) or the neighboring communities at airports where we operate, local non-governmental organizations as well as schools and universities.

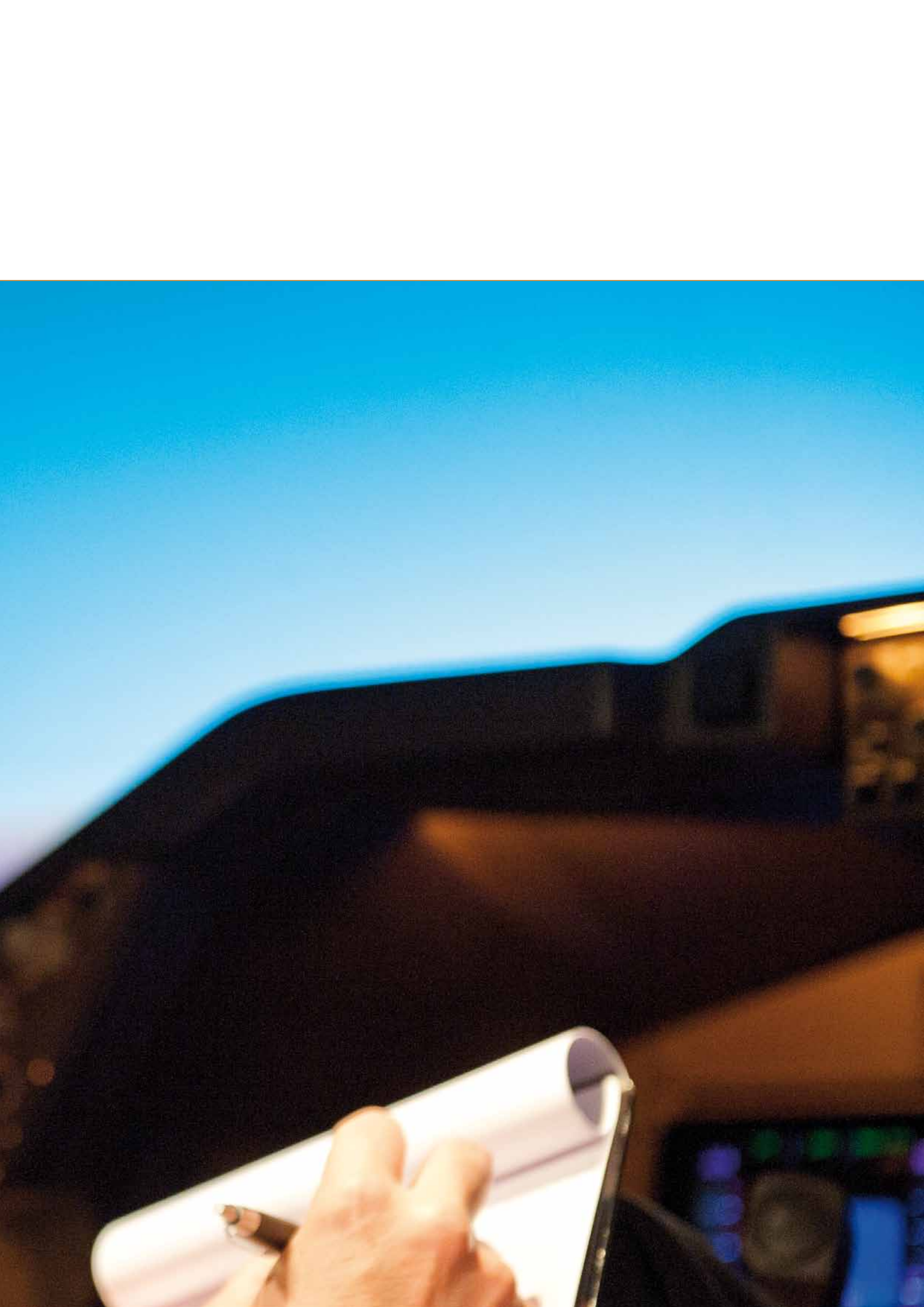
Cargolux still faced challenges which prevented the Company from reaching some of its objectives in terms of corporate social responsibility. In particular, additional production delays at Boeing's factory resulted in a further postponement of the delivery of the new, quieter and more fuel efficient 747-8F. As a result, the Company could not realize part of its planned efficiency gains in terms of fuel conservation and atmospheric emissions.

Nevertheless, the Company has managed to strengthen its course of actions both in the environmental and social fields and looks forward to further progress in 2011 and the years to come.



The Environment





# The Environment

As Cargolux is an airline offering worldwide cargo transport, the vast majority of its energy consumption is attributable to its flight operations. A study undertaken in 2007 showed that our flight operations were responsible for over 98% of the CO<sub>2</sub> emitted by the Company. All other activities, including road feeder services, staff business travel, office heating and employee commuting represented less than 2% of total emissions. In the years since this study was completed the business model has remained largely stable. As a result this ratio can still be considered as valid.

Consequently, the Company's efforts focus primarily on controlling the fuel consumption of its flight operations as much as possible and developing new operational techniques that allow us to reduce it even further. In order to be able to express a ratio between energy consumption and our core activity, the transport of goods by air, this figure is expressed in grams of fuel burnt for each tonne of goods transported over 1 km. The amount of CO<sub>2</sub> emitted through flight operations is directly proportional to this fuel consumption and is therefore expressed in the same way (grams CO<sub>2</sub> emitted per tonne-km).

Cargolux is also attentive to the other types of environmental impact of its activities. In particular, the Company is conscious of the noise produced by its aircraft and takes action to reduce, as much as possible, disturbances to communities living around the airports where it operates, especially at its hub in Luxembourg.

Cargolux is gradually expanding its monitoring capabilities, regarding for instance the consumption of energy and use of water and other resources at its headquarters in Luxembourg. At the same time, the Company maintains and develops a comprehensive waste management program at its headquarters.

## Energy and Atmospheric Emissions

Following a difficult year in 2009, Cargolux has managed to substantially improve its fuel efficiency in 2010. An analysis of the fuel burn of each flight made during the year shows that our aircraft burned on average 164 grams of fuel to transport one tonne of cargo over one km, which corresponds to CO<sub>2</sub> emissions of 517 grams per tonne-km. This result represents an improvement of 3.6% over 2009 (fuel consumption reached 170g per tkm, CO<sub>2</sub> emissions 537g per tkm in 2009)<sup>1</sup>. This development represents a significant achievement, given in particular that Cargolux has operated a similar fleet of 747-400F aircraft and that this aircraft type was used for the vast majority of flights during both years.

Several factors may be highlighted as having contributed to this result. Cargolux has made efforts and undertaken projects which have actively helped to achieve this improvement. However, it should be noted that, from year to year, Cargolux' aircraft are also subjected to external factors, such as weather and wind conditions, which may also affect the overall fuel performance of the Company's fleet.

During 2010, Cargolux has also managed to substantially improve its average load factor, with a ratio of 73.3% compared to 69% in 2009<sup>2</sup>. As more freight was transported on average on each of our flights, the ratio between the aircraft's own weight and that of the cargo was changed to the benefit of the latter. This development also helps to explain the improvement in the fleet's fuel efficiency in 2010.

Total CO <sub>2</sub> Emissions (Flight Operations)	2010	2009 <sup>1</sup>
CO <sub>2</sub> emissions	2.673 million tonnes	2.503 million tonnes
CO <sub>2</sub> emissions per tkm	517 g/tkm	537 g/tkm
Fuel burn per tkm	164 g/tkm	170 g/tkm

<sup>1</sup> CO<sub>2</sub> emissions per tonne-km for 2009 are restated compared to the figure published in our 2009 annual report due to the fact that the number of tonne-km used as basis for this calculation now does not take into account traffic resulting from certain commercial agreements.

<sup>2</sup> Load factor is based on tonne-kilometers including traffic resulting from certain commercial agreements.





## A. Control and Efficiency

Throughout its existence, Cargolux has tested and developed techniques and adapted its flight planning as well as its operating procedures in order to conserve fuel as much as possible. The following is a description of the main measures which have positively impacted on the fuel efficiency of the Company's operations in 2010.

### Network Optimization and Flexibility

Cargolux operates with a high level of flexibility in order to achieve the best possible balance between the revenues generated by servicing our customers and – at the same time - the optimization of our costs. In this, the cost of fuel (and therefore carbon emissions) plays the most important role. Routings are constantly modified in line with changes in these business economics and, as a consequence, waste of fuel and excess carbon emissions can be avoided.

### FANS Operation

In 2010, Cargolux completed a program to equip all aircraft in its own fleet with the Iridium onboard satellite communications system. Since 2007, Cargolux has spearheaded the introduction into civil aviation of this technology, which offers a less costly and less equipment-intensive alternative to the incumbent Inmarsat satellite communications system used in aviation. Iridium offers the additional advantage of a global coverage, including over the polar regions.

Consequently, in June 2010, Cargolux aircraft could operate on Future Air Navigation System (FANS) routes and thereby achieve significant savings in flying time. These routes are more direct than routes where traffic is controlled via conventional VHF radio communication, but they typically overfly remote areas where no ground-based radio communication is available, such as desert regions or over oceans. Instead, the aircraft crew communicates over data link, via the satellite communications system.

The most important FANS route on the Cargolux network is located over the Gobi desert between Almaty and Hong Kong. In 2010 this route was used on four to six flights per week. The fuel savings are substantial as flight time is reduced by 30 to 35 minutes on each flight. The fuel savings that could be achieved are estimated at 700 tonnes for the year, or over 2,200 tonnes of CO<sub>2</sub>.

While the main benefit of this technology is currently derived from Cargolux' flights across China, the Company will extend FANS flights through its worldwide network, wherever air routes can support this system and offer a shorter alternative routing.

### APU Usage

Large jet airliners such as Cargolux' 747-400 aircraft are equipped with an onboard generator which provides electric power while the aircraft is on the ground and pneumatic air to start the aircraft's main engines. Although necessary for the operation of the aircraft, the auxiliary power unit (APU) has a fairly high fuel consumption, especially compared to diesel-powered ground power generators or electricity supply from the airport grid. In an effort to limit kerosene consumption, a network-wide campaign was launched in 2007 to seek to reduce reliance on the APU when the aircraft is on the ground, and favor ground power supply when it is available.

This effort led to a substantially reduced average running time of the auxiliary power unit per aircraft cycle during 2008. Although it increased in 2009, owing to a less optimized aircraft utilization rate during the economic slowdown, this figure came down again in 2010, almost reaching 2008 levels. This demonstrates that the procedures established appear effective in the long run as they have led to long-lasting efficiency gains in this field.

### Compressed Air

The new Cargolux hangar is in operation since May 2009 and has introduced a number of improvements in modern technologies into the Cargolux maintenance activities. One of them is the use of a high output compressed air system that produces the pneumatic pressure that is normally obtained from the aircraft's auxiliary power unit to move flight controls such as flaps and elevators, as well as to start the aircraft's main engines.

This system offers the combined advantages of not only reducing ambient noise pollution, but also enabling an estimated reduction in fuel consumption of over 120 tonnes annually, as the APU is no longer required for maintenance operations in the hangar.

It is estimated that, thanks to this system, about 300 hours of APU use have been saved, which would have been required for over 600 engine as well as flap and elevator tests performed during routine maintenance checks over the year.

### **Flight Control Rigging**

As part of the Company's maintenance program a regular check is performed to ensure the proper rigging of flight controls on its aircraft. This procedure helps to ensure that moving parts on the wings such as flaps are flush with the wing when not deployed. In turn, it helps to improve the aerodynamics of the aircraft and, consequently, reduces the fuel consumption throughout the Cargolux fleet.

Under the program, all flight controls are rigged every time they are replaced. Full control rigging also occurs during regular maintenance checks and whenever pilots report irregularities. An indication system on the aircraft indicates if controls are not properly rigged. Cargolux crew members are thus able to report possible discrepancies, which ensures that these are addressed within short timeframes.

### **Deep Core Engine Washing**

This established maintenance program has proven to effectively reduce fuel consumption on Cargolux' General Electric engines and to improve the speed margins on its Rolls Royce powerplants. The fuel burn reduction of 0.25% on GE engines achieved in the previous year has been maintained and is confirmed by maintenance data. The resulting savings in fuel consumption is estimated at over 430 tonnes during the course of 2010, an equivalent of over 1,300 tonnes of CO<sub>2</sub>.

Deep core washing is also undertaken on the Company's Rolls Royce engines. For this engine type, tests have shown only a marginal reduction in fuel burn. However, the operation leads to an improvement in speed margins, in other words, the different parts of the engine rotate more closely to their optimum speed. This in turn prolongs the service life of the engine.

## *Ongoing programs*

### **Fleet Renewal**

Cargolux' ambitious fleet renewal program suffered additional delays during the testing phase of the new Boeing 747-8F. The first three of 13 firmly ordered aircraft are now scheduled to be delivered in the second half of 2011.

This new-generation 747 aircraft will offer the single most important improvement in fuel efficiency for our operations. Thanks to its new engines and new aerodynamic design, this aircraft is expected to achieve 17% fuel savings per tonne-km compared to our current aircraft, the 747-400F. Newly developed noise-reduction technology also makes the 747-8F remarkably quieter, with an estimated 30% smaller take-off noise footprint at 85 dB, compared to its predecessor.

The 747-8F will thus allow Cargolux to offer one of the most environment-conscious air cargo services worldwide. Its flights will generate substantially lower CO<sub>2</sub> emissions, as well as markedly lower noise disturbances to the communities of the airports where we operate.

The delivery delays have considerably slowed down energy efficiency improvements that had been projected for 2010 and therefore also resulted in a correspondingly higher fuel consumption than planned. However, once started, the regular deliveries of the new aircraft type are expected to lead to regular efficiency improvements over coming years. The new 747-8F will gradually replace our current fleet of 747-400F.

### **Alternative Fuels**

In 2008 Cargolux became one of the founding members of a cross-industry initiative that aims at promoting research and bringing onto the market a bio-derived, environmentally sustainable type of jet aviation fuel. The Sustainable Aviation Fuel User's Group (SAFUG) brings together airlines and other stakeholders that share a common interest in developing a long-term, renewable source of aviation fuel that does not compete with agricultural food production, does not pose a threat to fragile eco-systems and has a positive socio-economic impact.



Many scientific, regulatory and organizational challenges remain to be overcome before sustainable aviation bio-fuel becomes available in large quantities and at an acceptable price range. However, remarkable progress has already been achieved by specialist industrial partners participating in this initiative. The technology for producing plant-based jet fuel which equals or exceeds the chemical requirements of fossil-based fuel is now ready. Several feedstocks have been identified for the production of the fuel, even though methods for large-scale production of these crops and industrial-scale processing systems still need to mature in order to ensure adequate supply streams at global level.

SAFUG's current efforts center on securing an adequate definition of sustainability criteria and working towards the certification of the bio-fuel, as well as addressing policy issues in order to ensure that the development of sustainable aviation bio-fuel is promoted rather than hampered by regulation. Overcoming these challenges will help create a framework allowing a steady resolution of the technical challenges facing the introduction of the fuel onto the market and the commercial introduction of the fuel itself.

### **E-Freight**

Cargolux continues to prepare for the introduction of a full e-freight system. This IATA initiative will simplify the air freight industry and eliminate the paperwork that has to travel with each shipment. It will save an estimated 8,000 tonnes of paper annually, once it is adopted industry-wide. In achieving this, the industry faces a multitude of challenges because paperwork and documentation coming from several sources and following a number of different procedures, have to be collected and processed for electronic use.

The efforts made in 2010 towards the implementation of e-freight centered on the development by the freight forwarder community of IT systems that will make it possible to replace current paper documents (required in particular for customs clearing) into their electronic equivalents, and process this information in an integrated way, together with airlines and customs authorities.

### **Emissions Trading Scheme (ETS)**

2010 was a crucial year for all airlines operating into and out of the European Union, including Cargolux. In preparation towards the entry of the aviation sector into the EU-ETS scheme in 2012, all airlines operating into the EU were required to monitor both their overall activity in terms of tonne-km and/or passenger-km, according to the methodology prescribed by the EU, as well as their CO<sub>2</sub> emissions, over the whole year 2010.

Under the EU-Emissions Trading Scheme, CO<sub>2</sub> production of all airlines operating in the EU will be capped at a ratio based on their production (tonne-km and/or passenger-km) in 2010 and on an average of historical CO<sub>2</sub> emissions of the aviation sector during the years 2004-2006. Starting 2012 all concerned airlines will receive a defined percentage of CO<sub>2</sub> allocations free of charge, while excess emissions produced above this amount will need to be compensated through credits purchased on the CO<sub>2</sub> markets, or by other means.

This system aims to act as an incentive for airlines to control and limit future CO<sub>2</sub> emissions, for instance through the introduction of more energy-efficient fleets or other energy-saving operational procedures.

During 2009, in accordance with the requirements of the EU directive published in 2008, Cargolux undertook the exercise of establishing adequate monitoring procedures and introducing IT-based tools to allow a rigorous monitoring of CO<sub>2</sub> emissions and tonne-km production data. These will serve to monitor flights entering or leaving the EU as well as intra-EU operations for the purposes of the EU-ETS, but also to monitor Cargolux' overall flight operations. The fact that both the monitoring system and Cargolux' corresponding procedures will be subject to external verification will help ascertain the robustness of the data reported in the future. Starting in 2010, all CO<sub>2</sub> data reported by Cargolux are derived from this system.

## B. Non Flight Activities

### Energy and Water Consumption

Because it is a long-range cargo airline, the largest portion of Cargolux' energy consumption, by a wide margin, is related to its flight operations. However, while much smaller in relative terms, the energy consumed by the Company to run its office and maintenance facilities and to power its ground equipment is by no means insignificant.

In this respect also Cargolux seeks to achieve a high degree of energy efficiency. This is exemplified by the construction and entry into service of the Company's new maintenance facility in May 2009, where every effort was made to ensure an optimal level of energy conservation, including in particular the avoidance of heat loss through the hangar doors in winter.

For example, the facility is partly heated in winter and cooled in summer by hot water produced by a gas-powered co-generation plant located on its premises. This hot water is a by-product of the plant's production of electricity, which is fed into the national electricity grid. This represents a highly efficient means of energy production and in addition may allow a portion of the CO<sub>2</sub> emissions of the plant to be offset. This co-generation plant is complemented by a regular gas heater to heat the building.

Following the entry into service of its new maintenance facility, Cargolux is better able to monitor both water and energy consumption related to its activities. This monitoring has started in 2010 and will allow the Company to identify possibilities in coming years.

### European Trucking Fleet

3<sup>rd</sup>-Party Fleet Operating for Cargolux in Europe

	2010	2009	2008	2007
EURO 2	0	0	18 (5%)	40 (12%)
EURO 3	99 (24%)	92 (30%)	145 (40%)	171 (51%)
EURO 4	59 (14%)	46 (15%)	72 (20%)	17 (5%)
EURO 5	254 (62%)	166 (55%)	127 (35%)	108 (32%)
Total Fleet	412	304	362	336

### Road Feeder Services

2010 was a year of consolidation for the trucking companies that regularly provide road feeder services to Cargolux in Europe. During the economic crisis of 2009, as demand slowed down, many of Cargolux' suppliers scaled down their fleets by retiring mainly older vehicles. At the same time a small number of new, Euro 5 standard trucks was introduced.

In 2010, as business recovered, the number of trucks operating for Cargolux was increased by over 100 units. While most of these were new acquisitions, the trucking companies continued using or even reintroduced a few older vehicles in order to cope with the sudden surge in demand. Nevertheless, the combined fleet of trucks operated for Cargolux in Europe is steadily becoming more environmentally efficient: over 60% of trucks operated belong to the Euro 5 category, corresponding to the highest standard currently applicable in the European Union.

This trend is likely to continue over coming years as several trucking companies have significant fleet development plans. For example, Transports Welter, one of our subcontractors in Europe, foresees to replace or increase its dedicated air freight fleet by up to 70 new trucks by the end of 2012.

The economic crisis did not lead to an accelerated retirement of less environmentally-efficient fleets, as the economic gains that may be achieved through reduced fuel consumption are usually not sufficient to justify, on their own, the purchase of new equipment.

Rather, with air cargo trucking being a premium product on the road transport market, the reliability and overall efficiency of newer vehicles also play a part in the decision to operate a younger fleet. Consequently the road feeder service fleets operated for Cargolux (and other airlines) tend to be more efficient than fleets used for other trucking services by these suppliers. The majority of trucks currently put into service comply with or supersede the Euro 5 emissions standard. In order to achieve this standard, many of these vehicles are equipped with a Selective Catalytic Reduction catalyst which substantially reduces emissions of NO<sub>x</sub> (by up to 90%) through a treatment of exhaust gases with a reductant chemical.





## Waste Management

Since 2008 Cargolux has developed and maintained a waste management program that, today, covers the Company's facilities and offices in Luxembourg, the maintenance hangar and offices, as well as rented offices at other locations. All Luxembourg-based offices are covered by a waste-sorting and recycling system.

In recognition of its continued efforts in this field, Cargolux obtained the renewal of its environmental label "Superdrecksäsch fir Betriber". 'Superdrecksäsch' is a program run by Luxembourg's Ministry for Sustainable Development and Infrastructure. The label is awarded to Luxembourg companies that demonstrate exemplary waste management practices, including waste avoidance measures, safe and environmentally-friendly waste storage, selective collection and a transparent waste recycling and disposal system. This certificate is subject to annual renewals following audits that verify the Company's adherence to these principles.

In spite of an increase in the Company's overall activity, Cargolux has produced smaller quantities of waste in all significant categories compared to 2009 (with the exception of an increase of the relatively small "others" category which comprises mainly end-of-life tires and polystyrene). The main reason for the overall reduction in waste production was that, in 2009, Cargolux moved its maintenance and engineering activity to a new state-of-the-art facility.

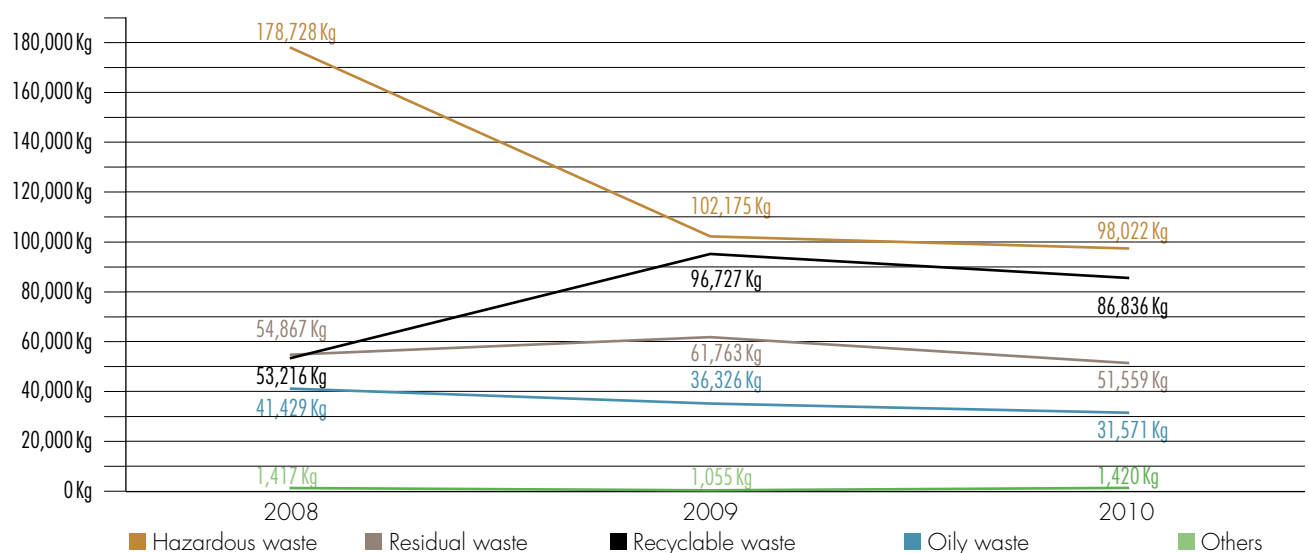
During the course of 2010, Cargolux' handling agent at the Company's hub in Luxembourg, Luxair Cargo, further developed its own waste management program. This development is important as a large percentage of the freight transported by Cargolux transits through Luxembourg and is handled at the Luxair Cargo Center.

Also, about 70% of all the freight handled by Luxair Cargo is transported by Cargolux. Much of the waste handled by Luxair therefore originates from Cargolux' aircraft pallets in the form of wrapping material, wood used for spreading the weight of dense pieces of cargo over wider surfaces and spent pallet nets and straps.

Luxair Cargo was awarded the "Superdrecksäsch fir Betriber" label for its Ground Handling activities and Ground Equipment Shop in 2009 and extended its certification to other parts of the Company during 2010.

During the course of the year, Luxair began the certification process for the entire Cargo Center, including the parts of the building rented by third parties. This is a welcome development for Cargolux, as our Ground Operations are housed in rented offices at the Luxair Cargo Center. This process will lead to a convergence in waste management practices between Cargolux and one of its major stakeholders in Luxembourg.

Waste Disposal by Category - Sites controlled by Cargolux in Luxembourg



## Controlling Noise Emissions

Controlling noise is a major concern for Cargolux, not only at its Luxembourg base but also at the communities where the Company operates worldwide. The opening of the new hangar has reduced noise within the neighborhood, both because maintenance activities that previously had to be performed in the open due to restricted space in the old facility can now be undertaken behind closed doors, and because the high-pressure air supply system installed in the hangar removes the need to operate the aircraft's noisy auxiliary power unit when testing elevators and flaps and when performing main engine run-ups.

Cargolux operates one of the quietest air cargo fleets in the world. Its Boeing 747-400 freighters are recognized as being substantially less noisy than other, older aircraft that many airlines still operate today. Over the past years Cargolux studied a number of operating procedures aimed at further reducing community noise with its existing fleet of aircraft.

In particular, a study was undertaken between 2005 and 2008 by the Henri Tudor Research Institute with the active collaboration of Cargolux and Boeing. This study was funded mainly by the Luxembourg government. By building a mathematical model specific for Luxembourg's operating condition and Boeing 747-400 aircraft, the objective of the study was to simulate aircraft noise patterns to optimize a number of flight-relevant parameters, such as take-off and approach procedures, in order to ultimately reduce the noise impact of Cargolux flight operations at and around Luxembourg airport. It also sought to determine at what time of the day aircraft movements caused the highest amount of nuisance to the largest number of people and to suggest new approach, take-off and scheduling procedures that would minimize the amount of community noise.

Introducing the 747-8F with its advanced engine technology and new wing design will lead to a substantial reduction in noise levels for Cargolux' operations, in particular around Luxembourg airport. As a result of an important research effort carried out by Boeing and engine manufacturer General Electric, the 85 dB noise footprint at take-off will be reduced by an estimated 30%, which will represent a measurable improvement for the surrounding communities.

However, repeated delays in the delivery of the new aircraft type have kept noise emissions in 2010 on a higher level than planned and hoped for. The delivery of the Boeing 747-8F is now foreseen for mid-2011, with 3 aircraft planned for delivery, followed by 3 additional aircraft in 2012.

## ISO 14001 certification

Cargolux' Flight Operations Division and its Type Rating Training Organization are ISO 14001 certified since 2009 and have successfully passed subsequent annual surveillance audits. These audits confirm that Cargolux has adopted and implemented an environmental policy and an Environmental Management System, through which the airline monitors and seeks to continuously reduce its impact on the environment, notably in terms of atmospheric emissions. Auditors also certified that Cargolux complies with all applicable environmental legislation and is monitoring the development of new laws and regulations, and that Cargolux has put in place appropriate training for its Luxembourg-based staff.

In 2010, Cargolux began preparations for the certification of its Maintenance Division. Evaluation of processes and documentation for training and implementation of ISO 14001 are ongoing. This process is a major undertaking, notably due to the number of processes to analyze and due to the fact that it will require the training of around 300 people. This certification process is currently estimated to be completed in 2012.

Cargolux started its environmental certification process with its flight operations, in other words its core activity. Compared with the other activities of the Company, its flight operations is the field that has by far the greatest impact on the environment and where the greatest benefits are to be gained from an environmental management system.



# The Social Dimension







# The Social Dimension

## Compliance

Over the past years and in particular following the anti-trust proceedings initiated by authorities in a number of countries against most of the large freight airlines worldwide, Cargolux has put strong emphasis on its compliance program. In 2010, the Company's Board of Directors reconfirmed compliance as one of the highest priorities of the Company, and adopted a comprehensive Compliance Strategy in May 2010.

During the year, Cargolux' compliance organization was strengthened, and a Company-wide project led by the Executive Committee was launched in the fourth quarter of 2010. The project aims at reinforcing compliance procedures and a compliance-oriented culture. Major milestones are scheduled for completion during the year 2011 (e.g. adapted and supplemented internal policies, supplier due diligence procedures, extended compliance training curriculum).

In 2010, Cargolux intensified its compliance-related training, both through e-training modules and on-site. Cargolux staff were depending on their individual area of activity requested to complete mandatory training courses in the form of both e-training and grouped on-site trainings.

The training topics were chosen on the basis of a study on the major compliance concerns of global companies, undertaken by Integrity Interactive and called "Integrity Interactive 2010 Report Top Compliance Concerns of Global companies". Cargolux employees received over 4,000 hours of compliance-related training, including over 1,000 hours of an on-site training provided to a targeted group of 228 employees. In total, over 80% of ground staff completed at least one compliance course in 2010.

## Our Employees

Following the crisis year of 2009, the Company concentrated on consolidating its strength throughout 2010 and, correspondingly, adopted a cautious approach as far as human resources management was concerned. New appointments were to a large extent limited to flight crews and mechanics, corresponding to the cautious development of flight operations and maintenance activities over the year.

Turnover figures returned to the very low levels habitually recorded by the Company before the 2009 crisis, which demonstrates to a great extent the continued commitment and trust which the employees place in their Company, as well as the positive and constructive spirit that prevails in the Company, with an emphasis on the long term.

### Number of employees

	2010	2009	2008
Employees worldwide	1,477	1,482	1,530
Employees headquarters	1,120	1,110	1,155
Staff covered by collective work agreement (Luxembourg)	91.5%	87.8%	87.5%
Staff with Permanent Contract (Luxembourg)	99.8%	99.3%	96.4%

### Staff Turnover by Category (Luxembourg)

	2010	2009	2008
Men	2.9%	4.4%	4.3%
Women	4.5%	7.0%	4.6%
Below 30 years	3.9%	9.4%	6.1%
30-50 years	2.3%	1.5%	2.4%
Over 50 years	7.0%	20.8%	13.2%





## Helping First-Time Jobseekers

Cargolux actively supported two programs run by Luxembourg's Employment Administration (ADEM), which aim at facilitating young job-seekers who have completed their studies to access on-the-job training and gain professional experience.

The "Contrat d'Initiation à l'Emploi" (CIE), aimed at holders of an end-of-school diploma or technical qualification, and the "CIE-Expérience Professionnelle" (CIE-EP), created for holders of a university-level diploma, provide a legal framework for on-the-job training positions, in accordance with Luxembourg labor law, setting remuneration levels and other practical modalities. At the same time, the employment administration waives employer contributions and participates in the trainee's remuneration, making this scheme attractive both for employers and first-time jobseekers.

During 2010, Cargolux employed 14 persons under the CIE and 4 university graduates under the CIE-EP schemes.

## Training

At Cargolux, training all staff categories is considered an essential means of ensuring that the airline not only operates safely and efficiently, but also remains continuously competitive in the global market. However, in 2009 and 2010, in order to cope with the economic crisis, it became necessary to scale down the non-compulsory training effort.

Nevertheless, all legally required training programs for flight crews, mechanics and ground operations staff, were strictly maintained. These are an essential means of ensuring operational flight safety, which is a field where no compromise can be made.

Cargolux also maintained its offer on cargo training to employees of all General Handling Agents (GHA) and General Sales Agents (GSA) working at airports where the airline operates.

In 2010, 323 non-Cargolux persons participated in the cargo courses (covering dangerous goods, live animals and cargo loading) and in the Security Awareness course, representing 30% of total attendance in those programs. This training program is very important for Cargolux, as it ensures that the persons who are in contact with the airline's aircraft follow all Company procedures while handling cargo on its behalf.

It is also important for the employees of our GHAs and GSAs working at airports around the globe, in particular in developing economies, as they thereby gain skills that will constitute a personal advantage throughout their careers, including when working for other airlines.

## Health and Safety

In 2010 Cargolux recorded the lowest number of lost work hours due to accidents since 2002. This excellent result can be attributed for a large part to a marked reduction in the gravity of external accidents (i.e. accidents occurring on the way to or from work).

2010 was the first full year of operation of Cargolux' new maintenance facility, which was designed to provide a much safer and healthier work environment to Cargolux' mechanics. In particular, the new two-bay hangar offers the possibility of working behind closed doors and thereby eliminates exposure to humid and cold weather in winter. In addition, the hangar's state-of-the-art infrastructure is designed specifically towards the activities required for the maintenance of Boeing 747 aircraft, which offers vastly improved ergonomics, and thereby a reduced risk of accidents.

### Number of Accidents

	2010	2009	2008	2007
Internal	36	37	32	41
External	15	11	19	11
Total	51	48	51	52

### Accident Frequency

Compared to Luxembourg average and compared to Luxembourg aviation sector (57 companies)

	2010	2009	2008	2007
Cargolux	5.51	5.07	5.41	5.70
Luxembourg	N/A	6.12	6.81	7.01
Aviation Sect.	N/A	7.34	8.88	8.45

Number of accidents per 100 full-time employee units (according to the Luxembourg Accident Insurance Association methodology).

## Risk Assessment Program

With Cargolux' new maintenance facility now fully operational, 2010 offered the opportunity to resume and develop the Company's Risk Assessment Program.

While such a program is mandatory, the high number of processes inherent to the functioning of an airline such as Cargolux has required a particularly important effort on the part of the Company to build up and carry out its Risk Assessment Program, involving all concerned staff members.

The program seeks to review and evaluate the risks of all processes within the Company and, wherever possible, minimize or eliminate these risks. Cargolux' efforts resulted in improved procedures for risk assessment and a safer organization with team leaders who hold more responsibilities which, in turn, should lead to a more effective program.

## Monitoring Health

Cargolux upgraded its medical surveillance software, Maïrisk, which was developed by Luxembourg's business federation Fedil, and sponsored by the country's Accident Insurance Association (AAA). In 2010, thanks to the cooperation of the Company doctor's office, this software was especially adapted to Cargolux' needs and organizational structure and is used by both the doctor and the Occupational Health and Safety department. Maïrisk is an overall health and safety management program. One module stores all work positions within the Company that involve an element of risk together with its risk classification such as exposure to extreme temperatures and chemical or ionization risk.

The data is used to adapt and optimize medical checks of workers and allows for a tailor-made medical surveillance of all positions, according to the specific risks each worker is exposed to (for instance hot or cold temperatures, specific chemicals, ionization). As a result, it increases the possibility to avoid or to detect possible health conditions at an early stage. At Cargolux this system is mainly used for staff working in risk areas, such as the Maintenance & Engineering division, ground operations and facility support. Close to 280 positions are currently recorded in this system.

## Our Relationship with the Community

### Participation in education

With growing fleets and constant advances in aircraft technology, airlines are in constant need of qualified experts that can maintain their aircraft and ensure a safe and profitable operation. Realizing this already in 1979, Cargolux and Luxair initiated a training system in cooperation with the Lycée Technique Privé Emile Metz, a Luxembourg-based technical high school, to ensure that their future staff needs are effectively covered. Students fulfilling the requirements for entry and successfully passing their exams obtain an aircraft mechanics license under the European Aviation Safety Agency (EASA) regulations, Part 66. It is recognized in all member states of the European Union.

In 2010, the aircraft mechanic's course was modified, following implementation of the reform of the national vocational training system initiated by the Luxembourg Government. To date, only a limited number of professions are affected, including that of aircraft mechanic. The reform will be fully implemented in 2014 when all 90 professions are included. Under this system, aircraft mechanics apprentices with a 'B' license now obtain a full diploma, the "Certificat de Technicien", which carries a higher level of recognition than under the previous system.

Cargolux has accepted five apprentices for the two-year program that leads to a 'B' license (as defined by EASA, Part 66) and three apprentices for the 'A' license program, a one-year curriculum. The courses started in September 2010 and, according to the new vocational training system, include intermediate and final projects that have to be completed.

In addition to accepting new apprentices, Cargolux offered permanent employment contracts to all apprentices who have successfully ended their apprenticeship and passed their exams during the last year. These are now going through the next step in training, the Boeing 747-400 Level 2 Type Training, an advanced introduction training that will be followed later by a full Level 3 Type Training.



## Support for Non-Governmental Organizations

### Flying for Help

Cargolux' strength is the transportation of shipments over long distances. Putting this to good use, Cargolux offers its support to non-governmental organizations to reduce the costs of relief and aid shipments. Whenever space is available and the intended destination is within reach of Cargolux' network, we carry these goods free-of-charge, often with the cooperation of our partners, for instance when trucking is required from/to a Cargolux gateway. Intercontinental transport often constitutes a large portion of the cost of an aid project. This help in kind often tips the balance towards its successful completion.

In 2010 Cargolux supported numerous projects and organizations. Some 35 shipments were organized, many of which to the benefit of NGO projects throughout Africa. Relief shipments were also sent in aid of victims of the earthquake in Haiti in January 2010, of the earthquake in Chile in February, of the flooding in Pakistan in July and of the fire that took place in the Moscow region in Summer 2010. Most of the shipments were organized at the initiative of NGOs, individuals or associations in Europe, as well as by Cargolux employees.

Where possible, when charity goods are being transported, Cargolux supervises the transport to the end-destination, with the cooperation of Luxair Cargo at Luxembourg airport and Cargolux staff on location, our General Sales Agents and the assistance of customs authorities. This helps to ensure that the goods actually reach their beneficiaries. Many of these transports are coordinated by voluntary staff members.

In 2010, as has been the case for over 10 years, Cargolux has also transported goods to Luxembourg, on behalf of several country stands participating in a major annual charity event, the Bazaar International. This event brings together volunteers from over 50 nations who sell goods and specialities from their home countries. The benefits made during this event are allocated to a wide number of larger and smaller aid and relief projects throughout the world. In 2010, Cargolux supported the stands of the United States, South Korea, South Africa and Hungary.

### The Arts and Culture

The support of the arts and culture is equally important to Cargolux. In 2010, we helped a number of institutions and individuals and carried art shipments for MUDAM, the Luxembourg Museum of Modern Art, the "Casino Luxembourg" modern art institution as well as the Mito Arts Foundation, close to Tokyo, Japan.

Other beneficiaries included Luxembourg artists who participated in events and exhibitions organized by the Luxembourg-American Chamber of Commerce, in collaboration with the Luxembourg consulate in New York, USA. These events provide a valuable opportunity to these artists to demonstrate their talents internationally in one of the world's centers for arts and culture.

2010 was the year of the World Expo in Shanghai and Cargolux was a main sponsor of the pavilion of the Grand Duchy of Luxembourg. The Company carried the Golden Lady, a statue and national symbol of the Grand Duchy, to China and back. Other goods and equipment to the Shanghai expo were carried in support of the Luxembourg National Day, The Family Story Project and the Luxembourg Commercial Week at the Expo.

Other support for the arts in 2010 was given in the form of a shipment of musical instruments for the "Centre National Sportif et Culturel" to Shanghai and back to Luxembourg.

At the end of the year, Cargolux donated money to two charitable organizations in Luxembourg, the "Fondation Kribskrank Kanner" and "Le Rêve du Petit Prince asbl", instead of spending the funds on Christmas and year-end gifts for customers and business partners. The two organizations help children with cancer, autism and Down syndrome, as well as children that grow up in children's homes and orphanages, respectively.

# Reporting Process and GRI

## Report Structure, Criteria and Selection of Issues

This is Cargolux' third corporate social responsibility report. Following on the report published in the past two years, its elaboration was based on a continued analysis of the Company's main impacts and responsibilities, both as regards the environment and society, and on the concerns raised by key groups of stakeholders regarding these topics. Stakeholder groups were identified on the basis of the nature and geographical location of our activities. An ongoing dialogue takes place with these groups, through public meetings, direct representation or via the media.

Regular meetings also take place between the Cargolux top management and its employees, which include open question and answer sessions.

Stakeholder groups include our shareholders, employees, customers, investors and suppliers. They also include the communities potentially affected by our activities, primarily living around the airport of Luxembourg (our main operational hub), as well as government and local authorities, national representations, industrial representations and non-governmental organizations and auditing bodies.

The 2010 report describes the Company's efforts in a context where its priorities centered on regaining its economic strength, following the devastating global economic crisis that pushed Cargolux and the global air cargo sector to its limits in 2009. Despite the difficulties and challenges the Company had to overcome, Cargolux took care to uphold its commitment to environmental and social issues.



This report is based on the guidelines of the Global Reporting Initiative (GRI). We believe that our report meets application level C+ of the guidelines. However, being a global transportation company, we felt the necessity to

go beyond and report on areas that are of concern to the Company but not entirely covered by the current version of the guidelines (noise-related issues, for instance).

While Cargolux maintained a similar reporting structure for its reports since 2008, the Company plans to review and further refine its sustainability reporting process in the coming year, in particular to monitor the relevance of each topic covered. Where necessary or advisable, the Company plans to add further reporting indicators and to collect corresponding data.

## Reporting Boundaries

This report aims to cover the entire operations and geographical coverage of the Company, except where otherwise specified in the report. Certain indicators cover only our Luxembourg-based activities. These include figures relating to waste disposal, Cargolux' employees and health and safety-related data. It does not cover the activities of separate legal entities entirely or partially owned by the Company. However, our monitoring of fuel consumption and CO<sub>2</sub> emissions includes the data collected by Cargolux Italia.

## External Assurance

Cargolux asked KPMG to provide limited assurance on the environmental and social information in this report (pages 26 to 46). However, the information and data published was collected by Cargolux and is presented entirely under the Company's responsibility. KPMG's limited assurance report can be found on page 47.

## Contact

Cargolux invites all interested parties to enter into dialogue with us about our sustainability policy, our activities and about this report. Our policy, as well as further information on our activities, can be found on our web site at

<http://www.cargolux.com/sustainability/>

All comments and enquires are welcome and can be forwarded to us through the contact form available on our web site, or by writing to [sustainability@cargolux.com](mailto:sustainability@cargolux.com).

# GRI Indicators

G3 Indicators	Cargolux Annual Report 2010
1 Strategy & Analysis	
1.1 Statement from the most senior executive of the organization about the relevance of sustainability to the organization and its strategy.	p. 8
1.2	Not required for C level
2 Organizational Profile	
2.1 Name of organization.	Cargolux Airlines International S.A.
2.2 Primary brands, products and/or services.	Long-range transport of goods by air
2.3 Operational structure of the organization.	Main Company divisions: Flight Operations, Sales, Marketing & Ground Services, Finance & Administration, Legal Affairs and Compliance, IT, Maintenance & Engineering, Human Resources, Corporate Services
2.4 Location of organization's headquarter.	Luxembourg
2.5 Number of countries where the organization operates.	31 countries (excluding agents)
2.6 Nature of ownership and legal form.	Société Anonyme
2.7 Markets served.	Cargolux provide air freight transport services to freight forwarders in most parts of the world through scheduled and charter flights. This includes the regular transportation of supply-chain goods, finished commodities, project cargo, perishables, temperature and shock-sensitive goods and live animals, among others.
2.8 Scale of the reporting organization.	p. 11
2.9 Significant changes.	None
2.10 Awards received.	- 2010 All-Cargo Airline of the Year (Stat Trade Times, Mumbai, India) - 2010 Best Freightler Only Airline 2010 (Air Cargo News, UK) - 2010 Air Cargo Award of Excellence (Air Cargo World, USA) - 2010 Global All-Cargo Airline Award (Institute of Transport Management, UK) - 2009 award for Quality Overall Performance (A.N.A.M.A, Italy)
3 Report Parameters	
3.1 Reporting period.	Calendar Year 2010
3.2 Date previous report.	April 2010
3.3 Reporting cycle.	Annual
3.4 Contact point.	Cargolux Corporate Communications e-mail: sustainability@cargolux.com
3.5-3.8 Reporting Process & GRI.	p. 44
3.10 Explanation of the effect of any re-statements.	p. 30
3.11 Significant changes from previous reporting.	CO <sub>2</sub> calculation methodology, see p. 30
3.12 Table Standard Disclosures.	p. 45
3.9, 3.13	Not required for C level

# GRI Indicators

G3 Indicators	Cargolux Annual Report 2010
4. Governance	
4.1 Governance structure of the organization.	p. 12-13
4.2 Indicate whether the Chair of the highest governance body is also an executive officer.	No
4.3 Number of members of the highest governance body.	15
4.4, 4.14, 4.15 Reporting Process and GRI.	p. 44
4.5-4.13, 4.16, 4.17	Not required for C level
Economic Performance Indicators	
EC1 Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other Company investments retained earnings, and payments to capital providers and government.	p. 48-80
EC2-EC8	Not reported
Environmental performance indicators	
EN3 Direct energy consumption by primary energy source.	p. 30
EN5 Energy saved due to conservation and efficiency improvements.	p. 30-34
EN16 Total direct and indirect greenhouse gas emissions by weight.	p. 30
EN18 Initiatives to reduce greenhouse gas emissions and reductions achieved.	p. 30-34
EN22 Total weight of waste by type and disposal method.	p. 35
EN 1, 2, 4, 6-15, 17, 19-21, 23-28	Not reported
Social Performance Indicators	
LA1 Total workforce by employment type, employment contract, and region.	p. 40
LA2 Total number and rate of employee turnover by age group, gender, and region.	p. 40
LA4 Percentage of employees covered by collective bargaining agreements.	p. 40
LA7 Rates of injury, occupational diseases, lost days, and absenteeism, and number of work related fatalities by region.	p. 41
LA10 Average hours of training per year per employee by employee category.	p. 40
LA 3, 5, 6, 8, 9, 11-14	Not reported
HR1-HR7	Not reported
SO1-SO8	Not reported
PR1-PR9	Not reported



# Independent Limited Assurance Report



KPMG Audit  
9, allée Scheffer, L-2520 Luxembourg  
R.C.S. Luxembourg B 103.590  
Capital 25,000 EUR

## Independent Limited Assurance Report to Cargolux Airlines International S.A.

We were engaged by the Management of Cargolux Airlines International S.A. ("Cargolux") to provide limited assurance on the chapter "Corporate Social Responsibility" (including the sub-chapters 'The environment', 'The Social Dimension' and the 'Reporting process and GRI') of the Annual Report 2010 of Cargolux (further referred to as the "Sustainability Report") for the year ended December 31, 2010 as set out on pages 26 to 46.

## Management's responsibility for the Sustainability Report

Management is responsible for the preparation and presentation of the Sustainability Report in accordance with the Sustainability Reporting Guidelines (G3) of the Global Reporting Initiative (GRI) as described on pages 44 to 46 and the information and assertions contained within it, for determining Cargolux's objectives in respect of sustainable development performance and reporting, including the identification of stakeholders and material issues; and for establishing and maintaining appropriate performance management and internal control systems from which the reported performance information is derived.

## Responsibility of the Réviseur d'Entreprises agréé

Our responsibility is to carry out a limited assurance engagement and to express a conclusion based on the work performed. We conducted our engagement in accordance with the International Standard on Assurance Engagements (ISAE) 3000, Assurance Engagements other than Audits or Reviews of Historical Financial Information as adopted for Luxembourg by the Commission de Surveillance du Secteur Financier. This standard requires that we comply with applicable ethical requirements, including independence requirements, and that we plan and perform the engagement to obtain limited assurance about whether the Sustainability Report is free from material misstatement.

A limited assurance engagement on a sustainability report consists of making inquiries, primarily of persons responsible for the preparation of information presented in the sustainability report and applying analytical and other evidence gathering procedures, as appropriate. These procedures included:

- Inquiries of management to gain an understanding of Cargolux processes for determining the material issues for Cargolux key stakeholder groups.
- Interviews with senior management and relevant staff at group level and selected business unit level concerning sustainability strategy and policies for material issues, and the implementation of these across the business.
- Interviews with relevant staff at corporate and business unit level responsible for providing the information in the Sustainability Report.
- Comparing the information presented in the Sustainability Report to corresponding information in the relevant underlying sources to determine whether all the relevant information contained in such underlying sources has been included in the Sustainability Report.
- Reading the other information presented in the Annual Report 2010 of Cargolux to determine whether it is in line with our overall knowledge of, and experience with, the sustainability performance of Cargolux.

The extent of evidence gathering procedures performed in a limited assurance engagement is less than that for a reasonable assurance engagement, and therefore a lower level of assurance is provided.

## Conclusion

Based on the procedures performed, as described above, nothing has come to our attention that causes us to believe that the Sustainability Report of Cargolux for the year ended December 31, 2010 is not presented fairly, in all material respects, in accordance with the Sustainability Reporting Guidelines (G3) of the Global Reporting Initiative as described on pages 44 to 46 of the Sustainability Report.

Luxembourg, March 17, 2011

KPMG Audit S.à r.l.  
Cabinet de révision agréé

Thierry Ravasio

# Consolidated Financial Statements







# Consolidated Financial Statements

for the year ended December 31, 2010

## Consolidated Income Statement

for the year ended December 31, 2010

Notes	In thousands of U.S. Dollar	2010	2009
6	Revenues	1,722,554	1,313,725
7	Other operating income	25,877	38,534
8	Aircraft lease expenses	(77,589)	(60,371)
9	Aircraft maintenance expenses	(108,917)	(96,169)
10	Other aircraft expenses	(4,371)	(3,787)
15	Depreciation expenses	(59,266)	(61,630)
	Fuel	(661,681)	(522,472)
11	Personnel costs and benefits	(219,302)	(209,413)
	Handling, landing and overflying	(252,517)	(239,042)
	Trucking, reforwarding and truck handling	(102,825)	(93,056)
12	Other operating expenses	(150,379)	(125,401)
	Operating profit / (loss) before financing costs	111,584	(59,082)
	Financial income	13,778	6,846
	Financial expenses	(54,070)	(72,334)
13	Net finance costs	(40,292)	(65,488)
	Share of profit of associates	4,716	2,275
	Profit / (Loss) before tax	76,008	(122,295)
14	Current tax	(7)	(372)
14	Deferred tax	(16,163)	(30,634)
	Profit / (Loss) for the year	59,838	(153,301)
	Profit / (Loss) attributable to:		
	Owners of the Company	59,838	(153,301)
	Non-controlling interest	-	-
	Profit / (Loss) for the year	59,838	(153,301)

The notes on pages 56 to 82 are an integral part of these consolidated financial statements.



## Consolidated Statement of Comprehensive Income

for the year ended December 31, 2010

Notes	In thousands of U.S. Dollar	2010	2009
	Profit / (Loss) for the year	59,838	(153,301)
	Other comprehensive income		
5/13	Effective portion of changes in fair value of cash flow hedges	(19,363)	77,586
5/13	Net change in fair value of cash flow hedges transferred to profit or loss	(11,436)	18,698
14	Income tax on other comprehensive income	8,782	(28,249)
	Currency translation adjustment	(2,428)	534
	Other comprehensive income for the year, net of income tax	(24,445)	68,569
	Total comprehensive income for the year	35,393	(84,732)
	Total comprehensive income attributable to:		
	Owners of the Company	35,393	(84,732)
	Non-controlling interest	-	-
	Total comprehensive income for the year	35,393	(84,732)

## Consolidated Balance Sheet as at December 31, 2010

Notes	In thousands of U.S. Dollar	2010	2009
	Assets		
15	Aircraft and equipment	650,353	774,928
15	Other property, plant and equipment	81,226	173,093
	Derivative assets	18,826	19,021
16	Investments in associates	35,377	36,808
15	Deposits with third parties	92,560	54,162
17	Deferred tax assets	69,353	76,735
	<b>Total non-current assets</b>	<b>947,695</b>	<b>1,134,747</b>
	Expendable parts and supplies	20,172	22,220
18	Trade receivables and other receivables	275,505	239,147
19	Other investments	52,672	55,780
20	Cash and cash equivalents	267,811	218,220
	<b>Total current assets</b>	<b>616,160</b>	<b>535,367</b>
	<b>Total assets</b>	<b>1,563,855</b>	<b>1,670,114</b>
	Equity		
	Issued capital	250,007	250,007
	Share premium	5,846	5,846
	Reserves	201,234	225,679
	Retained earnings	(12,024)	141,277
	Profit/(Loss) for the year	59,838	(153,301)
	<b>Equity</b>	<b>504,901</b>	<b>469,508</b>
	Non-controlling interest	-	-
21	<b>Total equity</b>	<b>504,901</b>	<b>469,508</b>
	Liabilities		
22	Interest-bearing loans and borrowings	-	46,978
22	Finance lease liabilities	339,548	377,775
23	Employee benefits	8,754	11,192
25	Other payables	132,018	78,727
	Derivative liabilities	79,487	68,543
24	Provisions	30,461	95,543
	<b>Total non-current liabilities</b>	<b>590,268</b>	<b>678,758</b>
22	Interest-bearing loans and borrowings	48,083	72,925
22	Finance lease liabilities	44,560	125,665
20	Bank overdrafts	-	2
25	Trade payables and other payables	356,029	260,618
24	Provisions	15,194	61,784
	Taxes payable	4,820	854
	<b>Total current liabilities</b>	<b>468,686</b>	<b>521,848</b>
	<b>Total liabilities</b>	<b>1,058,954</b>	<b>1,200,606</b>
	<b>Total equity and liabilities</b>	<b>1,563,855</b>	<b>1,670,114</b>



## Consolidated Statement of Cash Flows for the year ended December 31, 2010

Notes	In thousands of U.S. Dollar	2010	2009
	Cash flow from operating activities		
	Profit/(Loss) for the year	59,838	(153,301)
	Adjustments for		
15	Depreciation	59,266	61,630
	Unrealized foreign exchange losses/(gains)	(6,522)	2,372
13	Net finance costs	40,292	65,488
	Share of profit of associates	(4,716)	(2,275)
7	Gain on sale of property, plant and equipment	(11,358)	(38,534)
5	Fuel hedging	(7,561)	(16,818)
24	Change in provisions	(563)	337
12/14	Tax expenses	18,835	34,836
24	Use of provisions	(7,757)	(18,958)
	Operating cash flow before changes in working capital	139,754	(65,223)
18	Change in working capital from hangar receivable	-	89,823
	Other changes in working capital	10,798	28,830
	Cash generated from the operations	150,552	53,430
	Income tax paid	(589)	(2,261)
	Interest paid	(28,950)	(30,198)
	Net cash from operating activities	121,013	20,971
	Cash flow from investing activities		
15	Acquisition of property, plant and equipment	(99,982)	(19,688)
	Acquisition of associates	(66)	(75)
	Acquisition of other investments	(27,818)	(16,954)
	Dividends from associates	3,180	1,493
	Interest received	3,944	7,180
	Proceeds from sale of property, plant and equipment	83,302	154,215
	Proceeds from sale of other investments	31,309	49,913
	Proceeds from capital reduction in associates	5,474	-
	Deposits with third parties	(4,502)	(5,169)
	Net cash used in investing activities	(5,159)	170,915
	Cash flow from financing activities		
	Dividends paid including interest	-	(23,272)
	Repayment of borrowings	(13,221)	(89,693)
	Repayment of finance lease liabilities	(53,040)	(62,774)
	Proceeds from capital increase	-	100,000
	Proceeds from borrowings	-	-
	Net cash used in financing activities	(66,261)	(75,739)
	Net increase in cash and cash equivalents	49,593	116,147
	Cash and cash equivalents at January 1	218,218	102,071
20	Cash and cash equivalents at December 31	267,811	218,218

## Consolidated Statement of Changes in Equity

for the year ended December 31, 2010

In thousands of U.S. Dollar	Issued capital	Share premium	Non distributable reserve	Free reserve
Balance as of December 31, 2008	360,018	5,846	114,172	117,000
Transactions with owners				
Allocation to restricted reserve	-	-	11,830	(11,830)
Restructuring (Note 21)	(210,011)	-	32,500	-
Capital increase (Note 21)	100,000	-	-	-
Total of transactions with owners	(110,011)	-	44,330	(11,830)
Total comprehensive income				
Currency translation adjustment	-	-	-	-
Loss for 2009	-	-	-	-
Net changes in fair value of cash flow hedges, net of tax	-	-	-	-
Total comprehensive income	-	-	-	-
Balance as of December 31, 2009	250,007	5,846	158,502	105,170
Transactions with owners				
Total comprehensive income				
Currency translation adjustment	-	-	-	-
Profit for 2010	-	-	-	-
Net changes in fair value of cash flow hedges, net of tax	-	-	-	-
Total comprehensive income	-	-	-	-
Balance as of December 31, 2010	250,007	5,846	158,502	105,170

Currency translation reserve	Hedging reserve	Total reserves	Retained earnings	Total equity	Non-controlling interest	Total equity
1,733	(108,295)	124,610	(36,234)	454,240	-	454,240
-	-	-	-	-	-	-
-	-	32,500	177,511	-	-	-
-	-	-	-	100,000	-	100,000
-	-	32,500	177,511	100,000	-	100,000
534	-	534	-	534	-	534
-	-	-	(153,301)	(153,301)	-	(153,301)
-	68,035	68,035	-	68,035	-	68,035
534	68,035	68,569	(153,301)	(84,732)	-	(84,732)
2,267	(40,260)	225,679	(12,024)	469,508	-	469,508
(2,428)	-	(2,428)	-	(2,428)	-	(2,428)
-	-	-	59,838	59,838	-	59,838
-	(22,017)	(22,017)	-	(22,017)	-	(22,017)
(2,428)	(22,017)	(24,445)	59,838	35,393	-	35,393
(161)	(62,277)	201,234	47,814	504,901	-	504,901

# Notes to the Consolidated Financial Statements

As at December 31, 2010

## 1. Reporting entity

The parent company, Cargolux Airlines International S.A. (the "Company" or "Cargolux"), was incorporated on March 4, 1970 and is registered as a "société anonyme" under the laws of the Grand Duchy of Luxembourg. The Company is an all cargo airline. It also maintains its own aircraft and provides third party maintenance and flight operations assistance (including crew training) to third parties at its Luxembourg headquarters. As at the balance sheet date, operations outside of Luxembourg that relate to the Company's business activities are conducted solely under branch offices, except for Italy, where Cargolux conducts its business through its subsidiary Cargolux Italia S.p.A., an all cargo airline based in Milan. As at the balance sheet date the Company maintained branches in 31 countries.

The consolidated financial statements of the Company for the year ended December 31, 2010, comprise the Company and its subsidiaries, Cargolux RE S.A., Cargolux Italia S.p.A. and Italia Aerologistics S.R.L. (together referred to as the "Group") and the Group's interest in associates.

## 2. Basis of preparation

### (a) Statement of compliance

The Group prepares its consolidated financial statements under International Financial Reporting Standards ("IFRS") as adopted by the EU.

The Board of Directors approved the consolidated financial statements for the year ended December 31, 2010 on March 14, 2011 and authorized the publication of said consolidated financial statements on March 30, 2011, following confirmation by the shareholders thereof on that date.

### (b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following material items in the consolidated financial statements:

- derivative financial instruments are measured at fair value;
- liabilities for cash-settled share-based payment arrangements are measured at fair value;
- the defined benefit asset is recognized as the sum total of: plan assets plus service cost, actuarial losses minus actuarial gains and the present value of the defined benefit obligation.

### (c) Going concern

The Group believes that the operating cash flows, the proceeds from the scheduled disposal of assets and the credit facilities in place will secure the liquidity needs of the Group and enable it to meet its financial commitments, including with respect of contracted

fleet additions for the foreseeable future and at least 12 months from the date of issuance of those consolidated financial statements (see Notes 5 (e), 21 and 22). Consequently, the consolidated financial statements have been prepared on the basis of the assumption of the Company's ability to operate as a going concern.

### (d) Functional and presentation currency

The consolidated financial statements are presented in United States Dollar ("US dollar" or "US\$") as the functional currency US dollars are rounded to the nearest thousand.

### (e) Use of estimates and judgments

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities, income and expenses.

The estimates and related assumptions are based on historical experience and various other factors: these estimates and related assumptions are believed to be reasonable under the circumstances and on their basis judgments about carrying values of assets and liabilities that can not readily be derived from other sources are made. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are given effect in the period during which the estimate was revised and in any future periods affected.

Judgments made by management in the application of IFRS that have significant effect on the consolidated financial statements are discussed in Note 31.

### (f) Changes in accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

## 3. Significant accounting policies

### (a) Basis of consolidation

#### (i) Subsidiaries

Companies in which the Group exercises exclusive control are fully consolidated. Control exists when the Group has the power directly or indirectly to govern the financial and operating policies of an entity so as to obtain benefits from the entity's activities. In assessing control, potential voting rights that presently are exercisable (e.g. under option agreements) are taken into account. The consolidated financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

**(ii) Associates**

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Group's share of the total recognized gains and losses of associates on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases. Typically, associates where the Group controls 20% or more of the equity but does not exercise control, are equity accounted. When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation to make payments or has made payments on behalf of that investee.

**(iii) Transactions eliminated on consolidation**

Intragroup balances and any unrealized gains and losses or income and expenses arising from intragroup transactions with fully consolidated entities are eliminated in preparing the consolidated financial statements.

Unrealized gains and losses arising from transactions with associates are eliminated to the extent of the Group's interest in the associate.

**(iv) Special purpose entities**

The Group has established a number of special purpose entities (SPEs) for aircraft financing purposes. Generally, the Group does not have any direct or indirect shareholding in these entities. An SPE is consolidated if, based on an evaluation of the substance of its relationship with the Group and the SPEs' risks and rewards with respect of the asset in its balance sheet, the Group concludes that it controls the SPEs. SPEs controlled by the Group are always established under terms that impose strict limitations on the decision-making powers of the SPEs' management and that result in the Group receiving all of the benefits related to the SPEs' operations and net assets.

**(b) Foreign currency****(i) Foreign currency transactions**

Transactions in foreign currencies are translated into the functional currency of the Group at the foreign exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into functional currency at the foreign exchange rates applicable at the balance sheet date. The foreign currency gain or loss on monetary items is the difference between the value of the item expressed in the functional currency at the beginning of the period and the value of the item expressed in functional currency at the end of the period, using for translation purposes the exchange rate prevailing at the end of each relevant date. The year-end value reflects, if and as applicable, amortization, payments and interest accruals effected during the year.

Non-monetary assets and liabilities that are stated at historical cost less amortization are translated into the functional currency using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated into the functional currency at foreign exchange rates applicable at the date the fair value is determined. Foreign exchange differences arising on translation are recognized in the income statement.

**(ii) Financial statements of foreign operations**

The assets and liabilities of entities controlled by the Group that have a functional currency other than the US dollar ("foreign operations") are translated into US dollar at foreign exchange rates applicable at the balance sheet date. The rule also applies to goodwill and fair value adjustments arising on consolidation of foreign operations. The revenues and expenses of foreign operations are translated into US dollar at rates applicable at the dates of the transactions. Foreign exchange differences arising on retranslation are recognized directly in a separate component of equity.

**(c) Derivative financial instruments, including hedge accounting**

The Group uses derivative financial instruments to hedge its exposure to the fluctuation of exchange rates, interest rates and fuel prices arising from operational and financing activities. In accordance with its hedging policy, the Group does not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are treated as trading instruments.

The gain or loss in the fair value of the derivative financial instrument is recognized in the income statement unless the derivative qualifies for hedge accounting, in which case the effective part of the derivative financial instrument is recognized in other comprehensive income and presented in the hedging reserve in equity. Any gain or loss with respect to the ineffective part of hedge accounted instruments (as are gains or losses on trading instruments) is recognized in the income statement.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognized in equity is retained in equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognized in equity is transferred to profit or loss for the period.

**(d) Property, plant and equipment****(i) Aircraft and equipment**

B747-400F aircraft (including installed engines) and rotatable spare parts (including spare engines) are stated at cost, adjusted for any impairment, less accumulated depreciation.

## Notes to the Consolidated Financial Statements

As at December 31, 2010

Borrowing costs related to the acquisition of an aircraft are capitalized as part of the cost of this aircraft.

The initial cost of the aircraft includes the first "D-check" as a separate component. The costs of subsequent "D-checks" are capitalized when the first "D-check" (or second or third "D-check", as the case may be) occurs and the capitalized "D-check" is depreciated over the period to the next scheduled "D-check". The period of depreciation of "D-checks" is set forth in (v) below.

### (ii) Other property, plant and equipment

Other items of property, plant and equipment are also stated at cost less accumulated depreciation (see Note (v)) and impairment, if applicable (on which see Note 3 (i)).

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment (see (v) below).

### (iii) Leased assets

#### 1) Finance leases:

Leases under the terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. The assets acquired by way of finance leases are recognized as non-current assets and are stated at an amount equal to the lower of their fair value and the present value of the minimum future lease payments at inception of the lease, less accumulated depreciation (see Note (v)) and impairment, if any (on which see Note 3 (i)). The related liability is included under *Finance lease liabilities*.

In the context of sale and leaseback transactions, the recognition of any gain on the sale is deferred and recognized instead as finance income over the lease term. No loss is recognized unless the asset is impaired.

#### 2) Operating leases:

Leases under the terms of which the Group does not assume the risks and rewards of ownership are classified as operating leases and are not carried on the Group's balance sheet. The net present value of future lease payments under operating leases is disclosed in the notes to these consolidated financial statements (see Note 26 below).

In the context of sale and leaseback transactions, the related gains are accounted for as follows:

- they are immediately recognized as income when the transaction is realized at fair market value;
- they are deferred and amortized over the lease term when the transaction is realized under or over fair value.

### (iv) Subsequent costs

The Group outsources the major aircraft overhaul checks, as well as the maintenance and repairs of engines to outside contractors. As of July 2009, the Group performs the major overhaul "C-checks" internally. The cost related to line maintenance, "A-checks" and "C-checks" performed in Luxembourg are expensed when incurred under various line items in the income statement.

### (v) Depreciation

Depreciation is charged to the income statement on a straightline basis over the estimated useful lives of each component or part of aircraft and other property, plant and equipment. The estimated useful lives and residual values of relevant assets are as follows:

	Useful life	Residual value
Components of B747-400F aircraft:		
Airframe	20 years	15% of initial cost
Engines (CF6, RB 211)	12 years	10% of initial cost
1 <sup>st</sup> and 2 <sup>nd</sup> "D-check"	8 years	nil
Subsequent "D-checks"	6 years	nil
Rotable spare parts	10 years	nil
Equipment:	5 years	nil

Depreciation methods, useful lives and residual values are reassessed periodically as circumstances warrant. Depreciation is discontinued when the carrying amount of the asset is below its residual or sale value (see Note 15 below).

### (e) Investments in subsidiaries and associates

Subsidiaries and associates are accounted for in accordance with the basis for consolidation (see Note 3 (a)).

### (f) Investments

Treasury instruments are carried at fair value with variations in value flowing through the income statement. These assets are classified as current assets in *Other investments*. Related transaction costs are expensed when incurred.

Financial instruments are recognized / derecognized by the Group on the date it commits to purchase / sell the instruments.

### (g) Trade and other receivables

*Trade and other receivables* are stated at their cost less impairment (on which see Note 3 (i)).

### (h) Expendable parts and supplies

*Expendable parts and supplies* are stated at the lower of cost and net realizable value. Inventories are carried on a first-in-first-out basis. Net realizable value is the estimated market price in the ordinary course of business, less estimated sales costs. Expendable parts and supplies are charged to *Aircraft maintenance* expenses when used.



**(i) Cash and cash equivalents**

*Cash and cash equivalents* comprise cash balances, call and short term deposits and shares in money market funds. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of *Cash and cash equivalents* in the Statement of Cash Flows.

**(j) Impairment****(i) Non-financial assets**

The carrying amounts of the Group's non-financial assets, other than expendable parts and supplies (on which see Note 3 (h) above) and deferred tax assets (on which see Note 3 (q)), are reviewed at each balance sheet date to determine whether there is any impairment. If any impairment exists, the asset's recoverable amount is estimated and the carrying value adjusted accordingly.

Impairment is recognized whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognized in the income statement.

Calculation of recoverable amount:

The recoverable amount of assets is the greater of their fair value (less costs to sell) and value in use. In assessing value in use, the estimated future cash flows to be derived from the use of the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment is reversed if there has been a change in the estimates used to determine the recoverable amount. Impairment is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization.

**(ii) Financial assets**

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset carried at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its fair value.

Significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognized in profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets carried at amortized cost and available-for-sale financial assets that are debt securities, the reversal is recognized in profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognized directly in equity.

**(k) Interest-bearing liabilities and finance lease liabilities**

Interest-bearing liabilities and finance lease liabilities are recognized initially at principal amount less related transaction costs. Subsequent to initial recognition, interest-bearing liabilities are stated at amortized amount using the effective interest rate method.

**(l) Employee benefits****Retirement benefit costs**

The Group maintains defined contribution and defined benefit pension schemes for its Luxembourg-based employees.

Premiums paid to the insurance company in relation to defined contribution retirement benefit plan are charged as an expense as they fall due.

The defined benefit scheme in Luxembourg is accounted for as such under IAS 19, using the Projected Unit Credit Method, with actuarial valuations being carried out at each balance sheet date (see Note 23 below).

To the extent that any cumulative unrecognized actuarial gain or loss exceeds 10 per cent of the greater of the present value of the defined benefit obligation and the fair value of plan assets, that portion is amortized in the income statement over the expected average remaining working lives of the employees participating in the plan. Otherwise, the actuarial gain or loss is not recognized.

**(m) Provisions**

A provision is recognized in the balance sheet when the Group has a present legal or contractual obligation that can be estimated reliably as a result of a past event, and if it is probable that an outflow of economic benefits will be required to settle this obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Accruals related to those provisions are recognized as finance cost over the period.

Heavy maintenance costs ("D-checks") relating to aircraft under operating leases are recognized as provisions on the basis of the heavy maintenance supplier agreement.

## Notes to the Consolidated Financial Statements

As at December 31, 2010

The Group accrues for delivery costs related to aircraft under operating leases as soon as it becomes apparent that the asset does not meet the return condition criteria set forth in the lease agreement.

### (n) Trade and other payables

*Trade and other payables* are stated at cost.

### (o) Revenue - Services rendered

Cargo sales, net of discounts, are recognized as revenue when the transportation service is provided. Other revenue, primarily third party aircraft maintenance, is also recognized when the service is rendered.

### (p) Expenses

#### (i) Operating lease payments

Rentals paid under operating leases are recognized in the income statement over the term of the lease. Lease incentives received are recognized in the income statement as an integral part of the total lease expense over the term of the lease.

#### (ii) Finance lease payments

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. The interest expense component of finance lease payments is recognized in the income statement using the effective interest rate method.

#### (iii) Net finance costs

*Net finance costs* comprise the net result of (i) interest payable on borrowings, and (ii) interest receivable on funds invested (*Cash and cash equivalents* and *Other investments*), and gains and losses (realized and unrealized) on *Other investments* and on interest rate hedging instruments that do not qualify for hedge accounting (see Note 3 (c)).

Interest income is recognized in the income statement as it accrues, using the effective interest method where appropriate. Dividend income is recognized in the income statement as *Other operating income* on the date the Group's right to receive the payments is established.

### (q) Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognized in the income statement except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity or in *Other Comprehensive Income*.

*Current tax* is the expected tax payable on the taxable income for the year, using tax rates applicable at the balance sheet date, subject to any adjustment to tax payable in respect of previous years. Taxes that are not assessed on the Group's income (e.g. Net worth tax) are recognized in *Other operating expenses*.

*Deferred tax* is computed using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. *Deferred tax* is not recognized for temporary differences related to *Investments in subsidiaries* to the extent that they will probably not be reversed in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted at the balance sheet date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the deferred tax asset can be utilized. Deferred tax assets are reviewed at each balance sheet date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

### (r) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2010, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except for:

- IFRS 9 Financial Instruments, which becomes mandatory for the Group's 2013 consolidated financial statements and could change the classification and measurement of financial assets. The Group does not plan to adopt this standard early and the impact has not been determined at this time.
- IAS 24 Related party, which becomes mandatory for the Group's 2011 consolidated financial statements and change the disclosure on the transactions with the government. The Group does not plan to adopt this standard early and the impact has not been determined at this time.

## 4. Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

### (i) Investments in equity securities other than shares in subsidiaries and associates

The fair value of financial assets is determined by reference to their quoted bid price at the reporting date.

**(ii) Derivatives**

Fair values of hedging instruments, representing unrealized gains and losses, are determined on the balance sheet date based on third party pricings and valuations, including valuations provided by the Group's counterparties to the hedging transactions. Where feasible, any counterparty valuation is verified by the Group using independent sources. The values assume a normal functioning of financial markets. Market volatility will necessarily have an impact on said pricings and valuations as well as the Group's eventual liability with respect of the hedging instruments booked at the balance sheet date.

**(iii) Other financial assets/liabilities**

The fair value of non-current receivables and payables is determined by discounting future cash flows using current market interest rates. Other financial assets and liabilities are carried at the fair value subject to any adjustment for impairment (on which see Note 3 (i) above).

**5. Financial risks and risk management****Risk management framework**

The Group has exposure to the following risks with respect of its financial assets and use of financial instruments:

- credit risk
- liquidity risk
- market risk

The objective of risk management is to manage and control risk exposures within acceptable parameters, while optimizing the benefit expected to be derived from the investing and risk management activities, respectively.

**Credit risk**

Credit risk is the risk of financial loss to the Group if a counterparty to a financial instrument or issuer of a security owned by the Group fails to meet its contractual obligations because of insolvency, bankruptcy or similar event.

**Liquidity risk**

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's assets or reputation.

**Market risk**

Market risk is the risk that changes in asset prices resulting from fluctuation in foreign exchange rates, interest rates or fuel prices will affect the Group's income or the value of its holdings of financial instruments.

**General**

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, as well as the Group's objectives and policies for the management of excess cash. Where applicable, further quantitative disclosures are included throughout these consolidated financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board has established the Risk Management Committee, which is responsible for executing and monitoring the Group's risk management policies. The Risk Management Committee reports on a regular basis to the Board of Directors and its Audit Committee on the committee's activities and on the evolution of the Group's derivative portfolio.

The Group's risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, to determine appropriate instruments to protect the Group against risks and to monitor risks and financial limits. Risk management policies and procedures are reviewed as required to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which employees involved in the risk management activity understand their respective roles and obligations.

**Risk management policies**

The Group buys derivatives in order to manage market risks. In connection with purchases of derivatives, the Group sometimes also sells derivatives. Such transactions are carried out within the risk management framework and control mechanisms described below. Where possible the Group seeks to apply hedge accounting for those instruments in order to reduce volatility in profit or loss. The Group's risk management policy prohibits short selling of options.

**Investment policy**

The primary goal of the Group's investment policy is to maximize investment returns while always protecting the invested capital. To this effect, the Group invests excess cash, subject to limits established in its treasury policy, in investment funds, bank deposits, zero-coupons and structured products with a capital guarantee at maturity. The return on structured products depends on the performance of the underlying used, which may be equities, commodities, indices, currencies, securities or interest rates. Structured products are designated as Other investments and recorded at fair value in the balance sheet with any change in value flowing through the income statement. The Group does only purchase securities or structured investment products from a counterparty having a minimum, pre-determined credit rating and which makes a daily market in those securities or financial instruments.

## Notes to the Consolidated Financial Statements

As at December 31, 2010

### (a) Credit risk

#### *Cash, derivatives and other financial instruments*

Generally, the Group limits its exposure to credit risk by only making deposits with, investing in securities issued by and buying protection from counterparties that have a long-term credit rating of at least A+ from Standard & Poor's and A1 from Moody's. Any exception to this rule must be approved by the Risk Management Committee and is closely monitored. Credit limits for each counterparty are in place. This enables the Group to cap the maximum amount of business that can be transacted with any given counterparty. Compliance with those credit limits is monitored by the Risk Management Committee.

The carrying amount of financial assets represents the maximum credit exposure.

#### *Trade and other receivables*

The Group's exposure to credit risk is influenced mainly by the individual characteristics of the customer and the demographics of the Group's customer base, including the default risk of the industry and country in which customers operate. The Group distinguishes between countries considered as low risk and countries of higher risk depending on their geographical and political situation and monitors customers on either list separately.

The Credit Committee has established a credit policy under which each new customer not paying through CASS (Cargo Accounts Settlement Systems) is analyzed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group's review includes external ratings, when available and, in some cases, bank references. Purchase limits are established for each customer, which represents the maximum open amount allowed for trading without requiring approval from the Credit Committee; these limits are reviewed regularly. Customers that fail to meet the Group's benchmark creditworthiness may transact with the Group only on a prepayment basis or if they can offer collateral e.g. bank guarantees or letters of a credit. The creditworthiness of customers paying through CASS is assessed and monitored by IATA which runs this clearing and settlement system on behalf of the cargo carriers.

Not more than 13 percent (2009: 12 percent) of the Group's revenue is attributable to sales transactions with a single customer. The five largest customers of the Group represent 45 percent (2009: 45 percent) of the net cargo sales. More than 65 percent (2009: 73 percent) of the Group's customers have been transacting with the Group for over four years, and losses have occurred infrequently. In monitoring customer credit risk, customers are grouped according to their credit characteristics, including whether they are an individual or legal entity, whether they are stand alone entities or part of a larger group, geographic location, aging profile, maturity and credit history.

Customers that are graded as "high risk" are closely scrutinized and monitored, and future sales are made on a prepayment or collateral basis with approval of the Credit Committee.

The Group's credit risk exposure is mitigated by a credit risk insurance against delinquent customer payments purchased from a professional insurer that retransfers part of the risk to the Group's captive reinsurance company.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables (see Note 18).

The maximum exposure to credit risk for trade receivables at the reporting date by areas was:

In thousands of U.S. Dollar	2010	2009
Area I	32,978	27,212
Area II	77,902	69,400
Area III	87,522	77,319
Area IV	2,414	2,644
	200,816	176,575

Cargolux is a member of the IATA clearing systems CASS (Cargo Accounts Settlement Systems) and ICH (IATA Clearing House) commonly used by forwarders and airlines, respectively, to settle payments. In 2010, 67.6% of receivables were cleared through CASS and ICH (62.7% in 2009). As of December 31, 2010, 97% (97% in 2009) of the total outstanding trade debtors were within the contractual payment terms. The average DSO of trade receivables was 40.9 days in 2010 (40.2 days in 2009). In 2010 the Group suffered a credit loss of US\$ 0.2 million (2009: US\$ 0.4 million).

### (b) Fuel risk

#### *Fuel Price*

The Group's earnings are significantly exposed to fluctuations in fuel prices. 2010 marked an upwards trend to fuel prices. At US\$/tonne 721, the 2010 jet market price (basis barges Rotterdam) increased more than US\$/tonne 130 from the previous year's average. During the first half of 2010, the Group paid out under few positions in the fuel hedge portfolio entered into during the 2008 price spike.

**Fuel hedges**

The Group uses derivative instruments, mainly options, to manage its fuel price risk. Most of the protection is provided through call options. To reduce the premiums paid for call options the Group sometimes combines the purchase of call options with the sale of put options, which creates a potential for the Group to pay out monies when prices are below the put strike price. Regular Risk Management Committee reviews ensure a solid balancing between such downside exposures and sustained protection against high fuel prices.

During the second half of 2010, however, hedges provided positive cash flows so that for 2010 expenses in the order of the Group's premium budget arose. Additionally, the Group benefited from fuel prices below business plan levels while enjoying protection against high prices, thus fulfilling its main fuel risk management objectives.

As at December 31, 2010, a quantity of 164,503 metric tonnes was hedged for first half of 2011. For second half of 2011, the coverage amounted to 130,728 metric tonnes. Following the Company's gradual approach to building the hedge portfolio, 2012 coverage stood at 49,669 metric tonnes only.

In line with the Governance framework of Policy and Procedures the Group has created a portfolio providing sustained upside protection but no material downside exposure above US\$/tonne 472 jet equivalent. Supplementing this conservative approach by active management provides the Group with the means to adapt the portfolio to fuel price dynamics and reduce risks.

As at December 31, 2010, the fair value of fuel derivatives was as follows:

In thousands of U.S. Dollar	2010	2009
Derivative assets	21,427	10,720
Derivative liabilities	(11,357)	(48,171)
Balance at January 1	10,070	(37,451)
Net change in fair value recognized in equity	-	30,703
Non-qualifying hedges recognized in profit and loss – prior year	(10,070)	6,748
Non-qualifying hedges recognized in profit and loss – current year	17,631	10,070
Derivative assets	19,270	21,427
Derivative liabilities	(1,639)	(11,357)
Balance at December 31	17,631	10,070

No new hedges have been considered for hedge accounting under IAS 39 in 2010 and 2009.

## Notes to the Consolidated Financial Statements

As at December 31, 2010

### (c) Currency risk

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the functional currency of the Group.

Generally the Group does not incur non-dollar denominated indebtedness to finance its assets stated in US\$ in order to eliminate any related volatility in profit or loss.

At the balance sheet date, the Group's exposure to foreign currency risk was as follows:

In thousands of U.S. Dollar	EUR	HKD	OTHER	% of TOTAL
Deposits with third parties	2,148	50	397	2.8
Trade receivables and other receivables	54,028	41,163	58,377	55.7
Other investments	161	-	-	0.1
Cash and cash equivalents	22,956	1,479	30,036	20.3
Interest-bearing, loans and borrowings	(127)	-	-	0.3
Trade payables and other payables	(128,817)	(1,470)	(14,808)	40.8
Taxes payable	(4,701)	-	(262)	103.0

At the immediately preceding balance sheet date, the Group's exposure to foreign currency risk was as follows:

In thousands of U.S. Dollar	EUR	HKD	OTHER	% of TOTAL
Deposits with third parties	679	50	378	2.0
Trade receivables and other receivables	52,497	35,760	53,627	59.3
Other investments	174	-	-	0.3
Cash and cash equivalents	7,441	9,489	23,576	18.6
Trade payables and other payables	(70,479)	(1,895)	(9,193)	31.3
Taxes payable	(599)	-	(183)	91.5

Relevant foreign exchange rates relative to the US\$ were as follows:

	Average rate		Reporting date spot rate	
	2010	2009	2010	2009
EUR	1.32744	1.39449	1.32840	1.43380
HKD	0.12872	0.12901	0.12849	0.12897

The Group hedges the foreign exchange risk related to receivables through the use of forwards and options, none of which expire beyond 2011.



## Notes to the Consolidated Financial Statements

As at December 31, 2010

### (d) Interest rate risk

The Group is exposed to interest rate risk on interest payments relating to its on balance sheet debt and on rental payments. Additionally, the Group is also exposed to interest rate risk related to future, non contingent interest bearing liabilities such as financings for aircraft to be delivered outside the current reporting period. The Group adopts a policy of ensuring that its exposure to increases in interest rates on borrowings is capped or reduced while allowing the Group to benefit to a certain extent from a low interest rate environment. Generally, this objective is achieved by buying caps and selling floors. This strategy is deemed preferable than fixing the rate at the time the loan is contracted or the payment liability is crystallized, unless at that time interest rates are deemed to be very low and in which case such rates are locked in via a swap or fixed interest loan. However, in a low interest rate trend environment – as was prevailing at the balance sheet date – this strategy results in important negative fair value of derivative instruments which are booked to equity.

Where possible, the Group seeks to apply hedge accounting for those instruments in order to reduce volatility in profit or loss.

At the reporting date, the interest rate profile of the Group's interest-bearing financial instruments was:

In thousands of U.S. Dollar	2010	2009
<b>Fixed rate instruments</b>		
Financial liabilities	46,985	54,102
<b>Floating rate instruments</b>		
Financial assets	320,483	274,000
Financial liabilities	386,050	575,750
<b>Interest rate derivatives</b>		
Nominal amount of underlying financings in place at the balance sheet date	583,381	817,311
Nominal amount of underlying financings which were not in place at the balance sheet date (more than 18 months)	475,930	487,535

As at December 31, 2010, the fair value of interest rate derivatives was as follows:

In thousands of U.S. Dollar	2010	2009
Derivative assets	18,982	28,330
Derivative liabilities	(105,662)	(159,173)
<b>Balance at January 1</b>	<b>(86,680)</b>	<b>(130,843)</b>
Net change in fair value recognized in equity	(30,799)	65,581
Non-qualifying hedges recognized in profit and loss – prior year	29,702	8,284
Non-qualifying hedges recognized in profit and loss – current year	(17,330)	(29,702)
Derivative assets	19,874	18,982
Derivative liabilities	(124,980)	(105,662)
<b>Balance at December 31</b>	<b>(105,106)</b>	<b>(86,680)</b>

### (e) Liquidity risk

The Group's approach to managing liquidity is to ensure that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions. Major known 2011 liabilities and how the Group expects to cover same is discussed below.

It is the Group's intention to manage its balance sheet so that the adjusted net debt/equity ratio will not exceed 250% as at any balance sheet date.

The Group is subject to loan covenants for some of its borrowing and finance lease arrangements, which in case of breach, unless waived, would entitle the lending parties to demand prepayment of the loan. Financial covenants require the Group to respect certain balance sheet and interest and rental coverage ratios. Under one such covenant EBITDAR (Earnings before interest, tax, depreciation, amortization and rentals) must cover 1.3 times net interest expense plus rentals for the period. As at December 31, 2010, the Group was in compliance with this and all other financial covenants. Waivers for compliance with the interest and rental coverage ratios were obtained prior to December 31, 2009.

## Notes to the Consolidated Financial Statements

As at December 31, 2010

The following are the contractual maturities of liabilities:

In thousands of U.S. Dollar	Carrying amount	Contracted cash flows	2011	2012	2013	Further than 2013
Interest-bearing liabilities	(48,083)	(49,537)	(49,537)	-	-	-
Finance lease liabilities	(384,108)	(440,061)	(60,680)	(53,811)	(138,963)	(186,607)
Trade payables and other payables	(440,622)	(440,622)	(308,604)	(43,372)	(42,384)	(46,262)
Derivative liabilities	(126,912)	(128,503)	(46,877)	(37,764)	(24,149)	(19,713)
	(999,725)	(1,058,723)	(465,698)	(134,947)	(205,496)	(252,582)

As at December 31, 2010, net current assets equal 127% of current liabilities.

In addition to routine capital repayment under interest bearing loans, finance lease liabilities and rentals under operating leases, the Group faces the following payments during the year immediately following the balance sheet date:

- Capital expenditures relating to the acquisition of 3 B747-8F and related financing fees, aircraft components, spare engine and a flight simulator (approximately US\$ 600 million). It should be noted that the Group expects to finance one such aircraft via an operating lease where the lessor is an associate.
- Payment of anti-trust fines (US\$ 22.0 million, respectively EUR 40.0 million) to the Department of Justice (US DOJ) and the EU Commission (see Note 24).
- Pre-delivery payments to Boeing (US\$ 85.1 million).
- A balloon payment of US\$ 43.3 million related to a mortgage loan for LX-NCV, maturing on March 3, 2011.

The Group will be able to meet its financial obligations in 2011 out of a mix of operating cash flows, the proceeds of the sale of 3 aircraft and the facilities mentioned below:

- On November 3, 2009, the Group has received a preliminary commitment from the Ex-Im Bank of the United States to support the financing of the first 6 B747-8F on order. The Group expects to receive final commitment from Ex-Im Bank for those aircraft prior to the scheduled delivery date of the first two aircraft.
- The Group maintains credit lines to ensure that it will be able to face its obligations when they fall due. As at December 31, 2010, the Group had the following credit lines available for drawing:
  - Committed credit lines (i.e. lines with respect of which the Group pays commitment fees): US\$ 26.3 million and EUR 6 million.
  - State guaranteed standby credit facility: EUR 70 million: On December 18, 2009, the Group signed with the Luxembourg government and six financial institutions a State guaranteed credit facility under the law of May 29, 2009, enabling the Government to issue its guarantee to undertakings which are

temporarily affected by the crisis but are otherwise sound. The Group will be able to draw under the facility during 2011. The outstanding amount under the facility at year-end 2011 is to be repaid in three equal installments between 2012 and 2014 subject to any prepayment.

- During the first quarter of 2011, the Group has closed the following transactions:
  - A secured loan in an amount of the euro equivalent to US\$ 38.5 million utilized to partially refinance the balloon of a maturing mortgage loan of US\$ 43.3 million relating to LX-NCV. The loan will be repaid at the earlier of (i) December 31, 2011 and (ii) the sale of aircraft LX-NCV to Silkway under a forward sale agreement
  - A revolving facility of US\$ 67.6 million to partially fund pre-delivery payments owing to Boeing with respect of aircraft deliveries scheduled to occur before end of 2013.
  - Additional committed credit lines, respectively increases of existing committed credit lines of US\$ 2.2 million and EUR 6 million.

### (f) Sensitivity analysis

In managing currency, interest rate and fuel price risks, the Group seeks to reduce the impact of short- to medium-term changes in values on the Group's budgeted earnings and cash flows. Over the longer term, however, permanent changes in any or all of the above would have a material impact on earnings and cash flows.

At December 31, 2010, it is estimated that a general increase of one percentage point in interest rates would have increased the Group's profit before tax before marked-to market by approximately US\$ 2.5 million. Interest rate swaps and other hedging instruments that were in place at that time have been included in this calculation.

It is estimated that a general increase of one percentage point in the value of the US dollar against other foreign currencies throughout the year would have decreased the Group's profit before tax by approximately US\$ 6.1 million. The forward exchange contracts and other hedging instruments that were in place at that time have been included in this calculation.

## Notes to the Consolidated Financial Statements

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It is estimated that an increase of US\$/t 50 in the price of jet fuel (basis barges Rotterdam) over a one-year period would have increased the Group's fuel bill by around US\$ 42 million. The impact on the Profit and Loss of such an increase can to a large extent be mitigated by cash inflows from both fuel hedging and the fuel surcharge program.

### (g) Fair values

The fair values of financial assets and liabilities, together with the carrying amounts shown in the balance sheet, are as follows:

In thousands of U.S. Dollar	31 December 2010		31 December 2009	
	Carrying amount	Fair value	Carrying amount	Fair value
<b>Assets carried at fair value</b>				
Other investments	33,691	33,691	42,992	42,992
Interest rate transactions through profit and loss	14,910	14,910	8,940	8,940
Fuel derivative contracts through profit and loss	19,270	19,270	21,427	21,427
Forward exchange contracts used for hedging	-	-	-	-
	<b>67,871</b>	<b>67,871</b>	<b>73,359</b>	<b>73,359</b>
<b>Assets carried at amortized costs</b>				
Loans and receivables	275,505	275,505	239,147	239,147
Cash and cash equivalents	267,811	267,811	218,220	218,220
	<b>543,316</b>	<b>543,316</b>	<b>457,367</b>	<b>457,367</b>
<b>Liabilities carried at fair value</b>				
Interest rate transactions used for hedging	(79,349)	(79,349)	(59,550)	(59,550)
Fuel derivative contracts used for hedging	(1,639)	(1,639)	(11,357)	(11,357)
Forward exchange contracts used for hedging	(293)	(293)	(142)	(142)
	<b>(81,281)</b>	<b>(81,281)</b>	<b>(71,049)</b>	<b>(71,049)</b>
<b>Liabilities carried at amortized cost</b>				
Secured bank loans	(46,985)	(46,678)	(118,831)	(113,551)
Finance lease liabilities	(386,050)	(316,762)	(511,020)	(402,425)
Trade and other payables	(356,029)	(356,029)	(260,618)	(260,618)
Bank overdraft	-	-	(2)	(2)
	<b>(789,064)</b>	<b>(719,469)</b>	<b>(890,471)</b>	<b>(776,596)</b>

The basis for determining fair values is discussed in Note 4.

## Notes to the Consolidated Financial Statements

As at December 31, 2010

### (h) Fair values hierarchy

In thousands of U.S. Dollar	31 December 2010			31 December 2009		
	Level 1	Level 2	Total	Level 1	Level 2	Total
Other investments	17,856	15,835	33,691	17,058	25,934	42,992
Interest rate transactions through profit and loss	-	14,910	14,910	-	8,940	8,940
Fuel derivative contracts through profit and loss	-	19,270	19,270	-	21,427	21,427
Forward exchange contracts used for hedging	-	-	-	-	-	-
	17,856	50,015	67,871	17,058	56,301	73,359
Interest rate transactions used for hedging	-	(79,349)	(79,349)	-	(59,550)	(59,550)
Fuel derivative contracts used for hedging	-	(1,639)	(1,639)	-	(11,357)	(11,357)
Forward exchange contracts used for hedging	-	(293)	(293)	-	(142)	(142)
	-	(81,281)	(81,281)	-	(71,049)	(71,049)

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: inputs other than prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs)

### 6. Revenues

In thousands of U.S. Dollar	2010	2009
Cargo sales	1,697,339	1,295,070
Maintenance revenues	9,202	5,005
Trucking, handling and other services	16,013	13,650
	1,722,554	1,313,725

Cargo sales represent revenues directly related to the Group's core business, i.e. air freight, net of customer incentives and rebates. The largest contributors to net turnover were Area III (Asia & Pacific) traffic and Area II (Europe, Middle East & Pakistan) traffic, which collectively accounted for 77,1 % of net turnover (2009: 74.1%). The third largest contributor to net turnover was Area I (the Americas) traffic, accounting for approximately 16.5% (2009: 18%) with the balance accounted for by Area IV (Africa) and charter traffic.

### 7. Other operating income

In thousands of U.S. Dollar	2010	2009
Gain on sale of property, plant and equipment	16,334	38,534
Foreign exchange gain, net	9,543	-
	25,877	38,534

In 2010 and 2009, the Group realized a capital gain on the sale of one, respectively two B747-400 aircraft.

## Notes to the Consolidated Financial Statements

As at December 31, 2010

### 8. Aircraft lease expenses

In thousands of U.S. Dollar	2010	2009
Aircraft rentals under dry leases	52,817	48,670
Aircraft rentals under wet leases	15,687	5,800
Fees payable under blockspace agreements	1,238	2,262
Return conditions provision with respect of dry leased aircraft	7,847	3,639
	<b>77,589</b>	<b>60,371</b>

At the balance sheet date the Group dry leased the following aircraft: LX-GCV, LX-KCV, LX-OCV, LX-PCV and LX-WCV.

During 2010, the Group wet-leased a B747-200F from Southern Air for the first three months, a B747-200SF from Air Atlanta from June until end of the year and a B747-400BDSF from World Airways from October until end of the year.

A B747-400 BCF was dry-leased from Air Atlanta from mid-April until end of the year.

During the 2009 high season, the Group wet-leased B747-200F capacity from Southern Air and Air Atlanta as well as B747-400F capacity from Cargolux Italia S.p.A..

### 9. Aircraft maintenance expenses

In thousands of U.S. Dollar	2010	2009
Engine repair and overhaul	75,683	68,936
Heavy maintenance ("C-checks" and "D-checks" on dry leased aircraft)	(2,550)	1,071
Component and brakes repair	8,264	7,663
Stock consumption	10,253	8,275
Line maintenance at stations	4,654	5,147
Other maintenance expenses	12,613	5,077
	<b>108,917</b>	<b>96,169</b>

Heavy maintenance includes the release of D-check provisions related to the extension of the second D-check from 6 to 8 years.

### 10. Other aircraft expenses

In thousands of U.S. Dollar	2010	2009
Insurances, including fleet insurance	3,685	3,787
Miscellaneous fees	686	-
	<b>4,371</b>	<b>3,787</b>

### 11. Personnel costs and benefits

In thousands of U.S. Dollar	2010	2009
<b>By category of expenses</b>		
Salaries, overtime, 13 <sup>th</sup> month	178,639	170,499
Social security	19,330	19,654
Employee benefits		
- Expenses related to defined benefit plans	559	627
- Expenses related to defined contribution plans	4,346	3,632
- Other (accident and invalidity insurance)	5,900	6,593
Training and sundry personnel charges	10,528	8,408
	<b>219,302</b>	<b>209,413</b>

### Average number of staff by category

In thousands of U.S. Dollar	2010	2009
<b>Active</b>		
Operations (including crews)	463	465
Sales and Marketing	495	512
Maintenance	374	393
Finance and Administration	82	84
General Management (including Human Resources, Public Relations and Internal Audit)	61	66
	<b>1,475</b>	<b>1,520</b>
<b>Other</b>		
Reclassified staff	2	3
Employees on early retirement	22	12
Apprentices	23	22
	<b>1,522</b>	<b>1,557</b>

As of December 31, 2010 1,247 (2009: 1,240) employees were based in countries of the European Union, of which 1,120 in Luxembourg (2009: 1,112).

The collective work agreement (CWA) covering Luxembourg based staff other than managers and exempt employees expired during the period under review. A renewal or extension of the CWA is under negotiation.

## Notes to the Consolidated Financial Statements

As at December 31, 2010

### 12. Other operating expenses

In thousands of U.S. Dollar	2010	2009
GSA commissions	16,901	14,813
IT services	30,026	32,029
Travel & entertainment	19,711	18,718
Office and office equipment (rental and maintenance)	13,784	13,309
Legal, audit and consulting fees	21,093	14,577
Valuation allowance on current assets	1,649	1,066
Telecommunication expenses	2,051	1,916
Net worth tax	2,665	3,830
Foreign exchange loss, net	-	12,339
Anti-trust provision	(6,095)	(5,957)
Civil litigation	34,527	-
Miscellaneous	14,067	18,761
	<b>150,379</b>	<b>125,401</b>

GSA commissions represent commissions payable to the Group's general sales agents.

Valuation allowance on current assets relate to doubtful customers and stock obsolescence.

Legal, audit and consulting fees include US\$ 4.3 million (in 2009 US\$ 3.4 million) related to the anti-trust cases in various jurisdictions out of which US\$ 3.0 million (in 2009 US\$ 4.0 million) are provisioned (see also Note 24).

Legal, audit and consulting fees also include an amount of US\$ 0.4 million (in 2009 US\$ 0.4 million) accrued for audit fees and an amount of US\$ 0.04 million (in 2009 US\$ 0.1 million) paid for tax services to KPMG.

On November 9, 2010, the Group was fined EUR 79.9 million by the EU Commission in connection with its alleged participation in an air cargo cartel. The Group has appealed this decision. Notwithstanding the appeal, the fine is payable provided that the Group must post a guarantee for any amount which is not paid on the due date. The Group had provisioned its exposure related to this and other possible fines in prior years. On December 9, 2010, the Group signed a settlement agreement with civil litigants in US class actions. The net present value of the settlement amounts of US\$ 35.1 million which is payable (subject to certain acceleration clauses) in 3 annual installments. The first payment of US\$ 25.1 million was made value January 3, 2011 and is included in *Other operating expenses*. See also Notes 24 and 28 below.

### 13. Net finance costs

Recognized in profit or loss

In thousands of U.S. Dollar	2010	2009
Net change in fair value of financial instruments	10,412	1,750
Interest income on bank deposits	2,942	4,690
Interest on loans and receivables	182	143
Other financial income (IATA call day adjustments, discounts received)	242	263
<b>Financial income</b>	<b>13,778</b>	<b>6,846</b>
Interest expense	(43,420)	(37,427)
Net change in fair value of financial instruments	(659)	(21,472)
Accrued interest on net present value of provisions and liabilities	(8,817)	(11,173)
Other financial expenses (bank charges, loan agency fees, CASS commissions)	(1,174)	(2,262)
<b>Financial expenses</b>	<b>(54,070)</b>	<b>(72,334)</b>
<b>Net finance costs</b>	<b>(40,292)</b>	<b>(65,488)</b>

Recognized in other  
comprehensive income

In thousands of U.S. Dollar	2010	2009
Effective portion of changes in fair value of interest cash flow hedges	(19,363)	77,586
Net change in fair value of cash flow hedges transferred to profit or loss	(11,436)	(12,005)
Income tax on finance income and finance costs recognized in other comprehensive income	8,782	(19,241)
<b>Finance income recognized in other comprehensive income (expenses), net of tax</b>	<b>(22,017)</b>	<b>46,340</b>



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### 14. Income tax expense

In thousands of U.S. Dollar	2010	2009
Current tax expense		
Current year	549	372
Adjustments for prior years	(542)	-
	7	372
Deferred tax expense		
Origination and reversal of temporary differences	9,648	(837)
Use/(Benefit) of tax losses	8,358	(27,828)
Reassessment of investment tax credit	(1,843)	59,299
	16,163	30,634
<b>Total income tax expense in income statement</b>	<b>16,170</b>	<b>31,006</b>
<b>Income tax recognized in other comprehensive income</b>	<b>(8,782)</b>	<b>28,249</b>

Origination and reversal of temporary differences mainly relates to different depreciation periods on aircraft and derivative accounting.

#### Reconciliation of effective tax rate

In thousands of U.S. Dollar	2010 %	2010	2009 %	2009
Profit/(Loss) before tax		76,008		(122,295)
Income tax using the domestic rate	29.34	22,301	29.34	(35,881)
Share of profit of associates		(1,384)		(667)
Effect of current tax in foreign branches		(75)		30
Non deductible expenses/unrecognized DTA		(857)		8,569
Tax exempt revenues		(1,259)		(344)
Effect of investment tax credit		(1,843)		59,299
Effect of change in tax rate		(171)		-
Under/(over) provided in prior years		(542)		-
<b>Income tax expense</b>		<b>16,170</b>		<b>31,006</b>

The Group is subject to corporate income tax, municipal business tax and net worth tax in Luxembourg. The Group is also subject to certain taxes in foreign tax jurisdictions in which it maintains permanent establishments.

In 2008, the determination of the tax basis of assets and liabilities and the related taxable income were changed and resulted in tax losses which are amortized over a period of six years. The reassessment of investment tax credit is linked to the expiry of investment tax credits (ITC) in 2010, 2011, 2012 and 2013 which are not expected to be used due to the 2008 (as explained above) and the 2009 tax losses. As per the latest business plan only US\$ 1.8 million (in 2009: US\$ nil), of ITC amounting to US\$ 59.2 million (in 2009: US\$ 66.2 million), could be recognized as a deferred tax asset (see Note 17 below).

## Notes to the Consolidated Financial Statements

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### 15. Property, plant and equipment

In thousands of U.S. Dollar	Aircraft and equipment	Land and buildings	Other equipment	Payments on accounts and assets in course of construction	Total
Cost at beginning of year	1,179,387	8,370	35,387	162,880	1,386,024
Acquisitions	4,842	20	708	8,134	13,704
Transfer from assets under construction	-	78	2,949	(3,027)	-
D-check write off	(5,600)	-	-	-	(5,600)
Reclassification of advances on leased aircraft	-	-	-	(32,915)	(32,915)
Reimbursement of advance payments	-	-	-	(64,227)	(64,227)
Disposals (Note 7)	(95,048)	(54)	(1,973)	-	(97,075)
At end of year	1,083,581	8,414	37,071	70,845	1,199,911
Accumulated depreciation at beginning of year	(404,459)	(7,543)	(26,002)	-	(438,004)
Charge for the year	(56,086)	(245)	(2,935)	-	(59,266)
D-check write off	5,600	-	-	-	5,600
Adjustments for disposals	21,717	54	1,567	-	23,338
At end of year	(433,228)	(7,734)	(27,370)	-	(468,332)
Net book value as of December 31, 2010	650,353	680	9,701	70,845	731,579
Net book value as of December 31, 2009	774,928	828	9,385	162,880	948,021

#### Aircraft subject to finance leases

The Company leases aircraft under finance lease agreements LX-RCV, LX-SCV, LX-TCV, LX-UCV, LX-VCV and LX-YCV (2009: LX-MCV, LX-RCV, LX-SCV, LX-TCV, LX-UCV, LX-VCV and LX-YCV). At the end of each of the leases, the Group has the option to purchase the aircraft at a preferential or favorable price. At December 31, 2010, the net carrying amount of leased aircraft under finance leases was US\$ 488.6 million (2009: US\$ 609.0 million).

#### Security

At December 31, 2010, aircraft and equipment with a carrying amount of US\$ 618.2 million (2009: US\$ 738.7 million) are subject to mortgages to secure the bank loans relating to LX-LCV, LX-NCV, LX-RCV, LX-SCV, LX-TCV, LX-UCV, LX-VCV, and LX-YCV (2009: LX-LCV, LX-NCV, LX-RCV, LX-SCV, LX-TCV, LX-UCV, LX-VCV, LX-MCV and LX-YCV). On May 28, 2008, the Grand-Duchy of Luxembourg ratified the Cape Town Convention on international interests in mobile equipment (Cape Town 2001). The convention was enacted into Luxembourg law effective of December 12, 2008. Some of the Group's aircraft are subject to a mortgage registration in the Cape Town registry.

**Depreciation**

In July 2008, the Group sold LX-NCV on a forward basis to an unrelated party with a delivery date in 2011. The sales price for LX-NCV was above its then carrying value, resulting in discontinuance of the related depreciation expense for the balance of 2008 and further years.

In April 2007, the Group sold LX-LCV on a forward basis to an unrelated party with a delivery date in 2011. The sales price for this aircraft was above its then carrying value resulting in discontinuance of the related depreciation expense for the balance of 2007 and further years.

**Capitalized borrowing costs**

Assets under construction include capitalization of borrowing costs for an amount of US\$ 9.9 million (2009: 8.5 million).

**Deposits with third parties**

Advance payments to aircraft manufacturers are recorded under *Other property, plant and equipment* or *Deposits with third parties* depending on whether or not the Group keeps the risks and rewards of the aircraft.

The fleet plan anticipates that additional aircraft will be operated under operating leases and advance payments of US\$ 30.2 million have been reclassified from Payments on accounts to *Deposits with third parties*.

**16. Investments in associates**

The Group has the following investments in associates:

	Country	Ownership 2010	Ownership 2009
Luxfuel S.A.	Luxembourg	30%	30%
Champ			
Cargosystems S.A.	Luxembourg	49%	49%
Freighter Leasing S.A.	Luxembourg	33%	33%

## Notes to the Consolidated Financial Statements

As at December 31, 2010

Summary financial information for equity accounted investees, not adjusted for the percentage ownership held by the Group:

In thousands of U.S. Dollar	Ownership	Assets	Equity	Liabilities	Revenues	Profit/(Loss)
<b>2010</b>						
Luxfuel S.A.	30%	8,673	5,841	2,832	9,105	1,915
Champ Cargosystems S.A.	49%	72,183	45,719	26,463	38,641	3,040
Freighter Leasing S.A.	33%	148,041	45,116	102,925	40,095	9,915
		<b>228,897</b>	<b>96,676</b>	<b>132,220</b>	<b>87,841</b>	<b>14,870</b>
<b>2009</b>						
Luxfuel S.A.	30%	8,890	5,029	3,861	6,812	1,670
Champ Cargosystems S.A.	49%	77,343	48,443	28,900	53,962	3,381
Freighter Leasing S.A.	33%	221,940	5,861	216,079	25,269	6,188
		<b>308,173</b>	<b>59,333</b>	<b>248,840</b>	<b>86,043</b>	<b>11,239</b>

### 17. Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

In thousands of U.S. Dollar	Assets 2010	Assets 2009	Liabilities 2010	Liabilities 2009	Net 2010	Net 2009
Aircraft and equipment	9,071	12,223	-	-	9,071	12,223
Other property, plant and equipment	373	524	-	-	373	524
Derivative assets	-	-	(5,469)	(5,581)	(5,469)	(5,581)
Investments in associates	4,784	5,630	-	-	4,784	5,630
Trade receivables and other receivables	-	-	(2,758)	(2,149)	(2,758)	(2,149)
Other investments	-	-	(5,185)	(5,033)	(5,185)	(5,033)
Cash and cash equivalent	-	-	(266)	(233)	(266)	(233)
Interest-bearing loans and borrowings	-	-	(2)	(14)	(2)	(14)
Finance lease liabilities	-	-	(2,427)	(802)	(2,427)	(802)
Employee benefits	-	-	(152)	(165)	(152)	(165)
Derivative liabilities	23,091	20,110	-	-	23,091	20,110
Trade and other payables	9,480	9,109	-	-	9,480	9,109
Provisions	-	-	(7,666)	(9,878)	(7,666)	(9,878)
Benefit of tax losses brought forward	44,636	52,994	-	-	44,636	52,994
Investment tax credit	1,843	-	-	-	1,843	-
<b>Tax assets / (liabilities)</b>	<b>93,278</b>	<b>100,590</b>	<b>(23,925)</b>	<b>(23,855)</b>	<b>69,353</b>	<b>76,735</b>
<b>Set off tax</b>	<b>(23,925)</b>	<b>(23,855)</b>	<b>23,925</b>	<b>23,855</b>	<b>-</b>	<b>-</b>
<b>Net tax assets</b>	<b>69,353</b>	<b>76,735</b>	<b>-</b>	<b>-</b>	<b>69,353</b>	<b>76,735</b>

Deferred tax assets and liabilities are presented net because the Group has the legal right to offset.

Deferred tax adjustments of US\$ 8.8 million were recognized in equity in 2010 and US\$ 28.2 million in 2009 (see Note 14).

An ITC for an amount of US\$ 57.4 million (2009: US\$ 66.2 million) has not been recognized (see Note 14).

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### 18. Trade receivables and other receivables

Trade receivables of US\$ 200.8 million (2009: US\$ 176.6 million) are shown net of any impairment losses recognized in the current year.

In thousands of U.S. Dollar	2010	2009
Trade receivables	200,816	176,575
Prepaid expenses	27,637	18,877
Advances paid to suppliers	13,076	7,858
VAT	3,932	5,556
Derivative assets	20,318	21,388
Other receivables	9,726	8,893
	<b>275,505</b>	<b>239,147</b>

Prepaid expenses include security deposits made in connection with operating leases, rental payments made in advance, premium paid for the purchase of options and other prepayments.

### 19. Other investments

In thousands of U.S. Dollar	2010	2009
Restricted cash	18,981	12,788
Securities held at fair value through profit and loss	33,691	42,992
	<b>52,672</b>	<b>55,780</b>

Restricted cash comprises an amount of US\$ 11.3 million (2009: US\$ 6.0 million) securing letters of credit issued on behalf of the Group. Cash and securities for an amount of US\$ 7.6 million (2009: US\$ 25.6 million) are pledged as collateral in derivative transactions.

### 20. Cash and cash equivalents

In thousands of U.S. Dollar	2010	2009
Bank balances	31,614	31,138
Short term deposits	236,197	187,082
Cash and cash equivalents	267,811	218,220
Bank overdrafts	-	(2)
<b>Cash and cash equivalents in the statement of cash flows</b>	<b>267,811</b>	<b>218,218</b>

### 21. Capital and reserves

#### Share capital and main shareholders

In thousands of U.S. Dollar excluding share numbers	2010	2009
Issued and subscribed 10,000,300 comprised of 6,000,300 registered common shares of no par value and 4,000,000 registered class B shares of no par value	250,007	250,007

The main shareholders are:

	2010	2009
Luxair	52.1%	52.1%
Banque et Caisse d'Épargne de l'État (BCEE)	13.1%	13.1%
SNCI	12.8%	12.8%
BIP Investment Partners	11.5%	11.5%
Luxembourg State	8.0%	8.0%
Lux-Avantage	2.2%	2.2%
Individual Shareholders	0.3%	0.3%

The share capital of the Group is represented by 6,000,300 common shares and 4,000,000 class B shares which were subscribed in 2009 by all the shareholders except the Luxembourg State and one individual shareholder.

In November 2009, the shares previously owned by SAirLines were bought by Luxair, BCEE, SNCI and the Luxembourg State.

In November and December 2009, the Group's capital was restructured in compliance with articles 26-5 and 69(4) of the Luxembourg company law as follows:

- Reduction of capital from US\$ 360.0 million to US\$ 150.0 million through (i) absorption of losses of US\$ 177.5 million incurred in prior year and up to October 31, 2009 and (ii) allocating US\$ 32.5 million to a new un-distributable reserve.
- Capital increase of US\$ 100.0 million by issuance of 4,000,000 class B shares subscribed by all the shareholders except the Luxembourg State and one individual shareholder.

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The class B shares vote on a pari passu basis with the common shares and carry a preferential dividend. The class B shares were created pursuant to a decision taken by the shareholders on November 30, 2009. 4,000,000 class B shares remain available for issuance. The shareholders have granted authority to the Board of Directors to issue an additional US\$ 100.0 million during a 5 year period commencing on the date of the authorization (November 30, 2009) in the event the Group would but for this capital increase breach a financial covenant or "required for the business" as otherwise determined by the Board of Directors. The shareholders have waived their preferential subscription rights in connection with any further issue of class B shares.

All the shareholders apart from the Luxembourg State are party to a Shareholders' Agreement which provides inter alia for pre-emption rights in case of a share sale and contains certain corporate governance provisions.

No dividend on the common shares and the B shares can be paid as long as the State guaranteed standby credit facility is outstanding (see Note 5 (e)).

### Reserves

Reserves comprise the legal reserve, various non-distributable reserves, including the reserve constituted pursuant to article 69 (4) of the Luxembourg company law, net worth tax reserve, the free reserve and the hedging reserves.

### Legal reserve

Under Luxembourg corporate law, the Company must allocate at least five percent of the statutory annual net profit to a legal reserve until this reserve reaches 10% of the issued share capital. The legal reserve is not available for dividend distributions. The reserve exceeds the legal limit of 10% of issued share capital.

### Net worth tax reserve

To forego payment of the net worth tax, the Company has utilized the option provided by Luxembourg law and decided to constitute and maintain a restricted reserve as of fiscal year 2003. Any dividend payments from this reserve during the restricted period would suffer tax.

### Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedge accounted derivative instruments.

## 22. Interest-bearing loans and borrowings and finance lease liabilities

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings. For more information about the Group's exposure to interest rate and foreign currency risk, see also Note 5 (c) and (d).

In thousands of U.S. Dollar	2010	2009
<b>Non-current liabilities</b>		
Secured bank loans	-	46,985
Loan originated costs	-	(7)
<b>Total:</b>	-	46,978
Finance lease liabilities	346,240	386,051
Loan originated costs	(6,692)	(8,276)
<b>Total:</b>	339,548	377,775
<b>Grand total:</b>	339,548	424,753
<b>Current liabilities</b>		
Interest payable on current and non-current liabilities	7,437	3,399
Loan originated costs	(1,590)	(1,624)
Current portion of secured/unsecured bank loans	46,985	71,846
Current portion of finance lease liabilities	39,811	124,969
<b>Total:</b>	92,643	198,590



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### Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

In thousands of U.S. Dollar	Currency	Nominal interest rate	Year of maturity	Principal amount 2010	Principal amount 2009
Secured bank loans	US\$	Fixed	2011	46,985	54,102
PDP Financings	US\$	Libor 3M + margin		-	64,729
Finance lease liabilities	US\$	Fixed, Libor 6M + margin, EIB 3M + margin, Libor 3M + margin	2013, 2014, 2016	386,051	511,020
Total interest-bearing liabilities				433,036	629,851

The maturity analysis is provided in Note 5 (e).

### Finance lease liabilities

Finance lease liabilities are repayable as follows:

In thousands of U.S. Dollar	Minimum lease payments 2010	Interest 2010	Principal 2010	Minimum lease payments 2009	Interest 2009	Principal 2009
Less than one year	43,314	3,504	39,810	129,480	4,511	124,969
Between one and five years	243,008	9,594	233,414	245,323	11,108	234,215
More than five years	114,603	1,776	112,827	155,053	3,217	151,836
	400,925	14,874	386,051	529,856	18,836	511,020

Under the terms of the lease agreements, no contingent rents are payable.

## Notes to the Consolidated Financial Statements

As at December 31, 2010

### Capital Ratios

In thousands of U.S. Dollar	2010	2009
Outstanding loans	48,083	119,903
Outstanding finance lease obligations	384,108	503,440
<b>Total debt</b>	<b>432,191</b>	<b>623,343</b>
Less cash and cash equivalents and other investments	(320,483)	(273,998)
<b>Net debt</b>	<b>111,708</b>	<b>349,345</b>
Present value of future lease payments	177,962	218,710
<b>Adjusted net debt</b>	<b>289,670</b>	<b>568,055</b>
<b>Equity</b>	<b>504,901</b>	<b>469,508</b>
Net debt/equity	22.1%	74.4%
Adjusted net debt/equity	57.4%	121.0%

See also Note 5 (e) above.

### 23. Employee benefits

In thousands of U.S. Dollar	2010	2009
Fair value of plan assets	(11,388)	(11,431)
Present value of net obligations	15,631	16,822
Unrecognized actuarial gains	852	584
Recognized liability for defined benefit obligations (see below)	5,095	5,975
Other employee benefits	3,659	5,217
<b>Total employee benefits</b>	<b>8,754</b>	<b>11,192</b>

The Group maintains defined benefit and defined contribution pension schemes for its staff in Luxembourg. Effective January 1, 1997, the terms of the pension plan were amended for all staff who had not reached retirement age at that date. All staff who had retired at this date continue to be covered by the previous plan. Under the new schemes (covering under identical vesting rules the crews and the ground staff covered by collective work agreements and the managers), retirement benefits are generally paid in one lump sum. The rights to pension benefits commence at entry into service date and are fully vested after 5 years of service. The Group's pension fund obligations (other than the liabilities with respect of the pensioners at January 1, 1997) and related assets were transferred to a life insurance company in 2002 and are held separately from the Group. The Group is current with respect of its payment obligations of the annual premiums due under the Group's pension schemes and such premiums are expensed under *Personnel costs and benefits*.

The Group also maintains separate insurance schemes providing for death, orphan, widow and disability benefits. These schemes are covered by an insurance plan and the related insurance premiums are reflected as a current year operating expense.

The Cargolux defined benefit scheme is not a multi-employer scheme and sufficient information is available to determine the obligation, plan assets and costs to the Group. The funding requirements are determined pursuant to the projected unit funding method and the pension cost and provision have been assessed by a third party qualified actuary. The latest full pension scheme valuation was performed by the scheme's actuaries in January 2011.

### Movements in the net liability for defined benefit obligations recognized in the balance sheet

In thousands of U.S. Dollar	2010	2009
Net liability for defined benefit obligations at January 1, 2010	5,975	6,035
Contributions received	(447)	(555)
Pension payments	(554)	(227)
Expense recognized in the income statement (see below)	559	627
Foreign exchange impact	(438)	95
<b>Net liability for defined benefit obligations at December 31, 2010</b>	<b>5,095</b>	<b>5,975</b>

### Expense recognized in the income statement

In thousands of U.S. Dollar	2010	2009
Current service costs	367	406
Interest on pension obligation	626	714
Expected return on plan assets	(434)	(493)
	<b>559</b>	<b>627</b>

The expense is recognized in *Personnel costs and benefits*.

Principal actuarial assumptions at the balance sheet date (expressed as weighted averages):

	2010	2009
Discount rate at December 31, 2010	4.10%	4.10%
Expected return on plan assets at December 31, 2010	4.10%	4.10%

Assumptions regarding future mortality are based on published statistics and mortality tables.

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### 24. Provisions

In thousands of U.S. Dollar	Anti-trust	Legal	Return cost provision	Heavy maintenance program	Total
Balance at January 1, 2010	126,348	4,000	16,934	10,046	157,328
Provisions made during the year	-	4,308	7,847	2,350	14,505
Effect of net present value on provisions	3,036	-	1,409	830	5,275
Provisions used during the year	(2,449)	(5,308)	-	-	(7,757)
Provisions reversed during the year	(10,254)	-	-	(4,814)	(15,068)
Provision reclassified during the year	(102,037)	-	-	-	(102,037)
Effect of exchange	(6,591)	-	-	-	(6,591)
Balance at December 31, 2010	8,053	3,000	26,190	8,412	45,655
Non-current	2,430	-	19,619	8,412	30,461
Current	5,623	3,000	6,571	-	15,194
	8,053	3,000	26,190	8,412	45,655

Provisions constituted with respect of the anti-trust proceedings the Group is involved in and a provision constituted for related legal fees are discussed in Note 12 above. Following the fine of EUR 79.9 million imposed by the EU Commission, the provision constituted with respect of the Group's exposure regarding this fine has been transferred to *Trade and other payables*.

The provision of US\$ 26.2 million represents the net present value of maintenance cost expected to be incurred to deliver the aircraft under operating leases to the lessor at lease-end in conformity with the delivery conditions stipulated in the respective lease agreements.

The Group is the lessee under five (2009: five) operating leases for B747-400F aircraft. For the leased aircraft, the cost of major aircraft overhaul or so-called "D-checks" is provisioned and charged to operating expenses in the line item *Aircraft maintenance expenses*, based on the estimated remaining number of years until the next major overhaul.

## Notes to the Consolidated Financial Statements

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### 25. Trade payables and other payables

In thousands of U.S. Dollar	2010	2009
Trade payables	68,753	54,026
General and administration	4,498	2,541
Maintenance	11,473	28,663
Fuel	17,435	12,794
Handling, landing and overflying	31,062	27,177
Trucking, reforwarding and truck handling	6,957	8,240
Incentive and worldwide commissions	14,098	10,762
Rentals under aircraft operating leases	500	838
Insurance	1,016	258
Personnel	16,889	4,612
Social security	3,847	3,955
Derivatives liabilities on fuel	1,500	9,787
Derivatives liabilities on interest rate	45,631	38,689
Derivatives liabilities on forex	293	142
Deposits received	20,599	12,599
Anti-trust fine	76,576	20,704
Deferred income	16,600	8,500
Miscellaneous	18,302	16,331
<b>Current trade payables and other payables</b>	<b>356,029</b>	<b>260,618</b>
Anti-trust fine	122,591	78,727
Civil litigation	9,427	-
<b>Non-current trade payables and other payables</b>	<b>132,018</b>	<b>78,727</b>

### 26. Operating leases

Non-cancellable operating lease rentals are payable as follows:

In thousands of U.S. Dollar	2010	2009
Less than one year	47,136	54,830
Between one and five years	103,440	126,420
More than five years	53,497	56,861

The present value of minimum lease payments related to operating leases of aircraft and the hangar facility amounted to US\$ 178.0 million (2009: US\$ 218.7 million) at the balance sheet date. This present value was calculated using actual rental terms and a discount factor equal to 3-months and 6-months Libor respectively Euribor rates at December 31.

### 27. Capital commitments

In 2010, Boeing announced a further delay in its B747-8F program with the first aircraft deliveries to occur now only by mid-year 2011. In December 2009, the Group and Boeing signed a delivery delay settlement agreement including new delivery dates. As at the balance sheet date, the Group had firm purchase orders for 13 B747-8F aircraft (2009: 13 B747-8F aircraft) to be delivered from 2011 to 2016. Based on prices published by manufacturers the total amount of the above investments is close to US\$ 4 billion.

In addition the Group holds options to purchase two further B747-8F aircraft with delivery slots in 2014 and 2015, respectively (exact delivery dates to be confirmed).

In connection with aircraft purchases, the Group routinely makes down payments to manufacturers. Such advance payments are recorded under *Other property, plant and equipment* or *Deposits with third parties* depending on whether or not the Group keeps the risks and rewards of the aircraft.

### 28. Contingencies

#### Legal proceedings

The Group is party to legal proceedings, both as defendant and claimant, from time to time in the normal course of its business. In addition, the Group was or is subject to investigations and proceedings from anti-trust authorities in the US, EU, Canada, New Zealand, South Africa, South Korea and Switzerland in connection with a worldwide investigation of air cargo carriers regarding alleged price fixing practices and the exchange of confidential information. The Group has and is responding to requests for information submitted by the authorities. In 2009, the Group entered into settlement agreements with the anti-trust authorities of the US (DOJ) and Australia (ACCC).

In 2010, the Group entered into settlement agreements with and/or accepted to pay fines to the anti-trust authorities of Canada and South Korea. The Group expects to reach a settlement agreement with the anti-trust authorities of New Zealand in 2011. In November 2010 the EU Commission imposed a fine of EUR 79.9 million against the Group. The Group has lodged an appeal against the Commission's fining decision.

## Notes to the Consolidated Financial Statements

As at December 31, 2010

Additionally, civil lawsuits have been launched in the US and in Canada against a number of air carriers, including the Group. In December 2010, the Group reached a settlement agreement with the plaintiffs in the US case pursuant to which the Group agreed to pay US\$ 35.1 million to such plaintiffs. The settlement agreement with US civil plaintiffs was preliminarily approved by the competent US Court by order dated January 5, 2011. The deadline by which customers may request exclusion from the settlement (which means they would not be entitled to receive any share of the settlement proceeds but could sue the Group individually) has not been fixed by the Court but will likely be in or around early June 2011. A final approval hearing by the Court is scheduled for June 24, 2011. In prior periods, the Group had constituted provisions to cover the Group's exposure with respect of the anti-trust proceedings initiated by the anti-trust authorities mentioned above against the Group (see also Notes 12 and 24 above). No provision had been recorded in prior periods accounts with respect to civil litigation.

### 29. Related parties

#### Identity of related parties

The Group has a related party relationship with shareholders, its subsidiaries, associates and with its directors and executive officers.

#### Key management personnel and directors

In addition to their salaries, the Group also provides cash (described below) and non-cash benefits (company car and fuel card) to members of the Executive Committee and 4 area vice-presidents and contributes (as for other Group employees) to a defined contribution plan and to an accident/invalidity insurance on their behalf.

In 2006, four members of the Executive Committee were granted a total of 4,450 share options at a strike price of EUR 83.09 under a cash-settled share based payment scheme terminating 5 years after the grant date.

The compensations of the Executive Committee and heads of areas are as follows:

In thousands of U.S. Dollar	2010	2009
Salaries and profit sharing	2,364	3,472
Contribution to pension scheme and accident/invalidity insurance	719	656
	3,083	4,128

These amounts, which are paid in euros, are included in Personnel costs and benefits (see Note 11). Members of the Executive Committee and the heads of area voluntarily agreed to a 10% salary cut in April 2009. As from April 2010, their full salary was reinstated. However, the salary withheld under the salary cut is still outstanding.

Directors are given an annual fee for their supervisory work on behalf of the Group. In addition, Board members who sit on the Compensation Committee, the Audit Committee or the Strategy Committee of the Board are paid attendance fees. The total remuneration of Directors was as follows:

In thousands of U.S. Dollar	2010	2009
Directors	404	351

In 2009, the Directors accepted to reduce their director's fee by 10%.

#### Shareholders

- The Group pays handling fees and other service charges to Luxair in Luxembourg. The amount charged to operations for such services was US\$ 66.0 million (2009: US\$ 66.2 million).
- Interest and commissions of approximately US\$ 0.2 million (2009: US\$ 1.2 million) were paid in 2010 and US\$ 0.1 million (2009: US\$ 0.01 million) of investment income was received in 2010 from banks which are shareholders.
- The Group receives freight and maintenance revenues from Luxair. The amount invoiced was approximately US\$ 0.4 million (2009: US\$ 0.5 million).

#### Associates

During the year ended December 31, 2010 the Group paid US\$ 32.3 million (2009: US\$ 38.5 million) for IT services to Champ Cargosystems S.A., through-put fees of US\$ 0.6 million (2009: US\$ 0.6 million) to Luxfuel S.A. and aircraft rentals of US\$ 16.4 million (2009: US\$ 16.6 million) and lease payments of US\$ 7.4 million (2009: US\$ 8.7 million) to subsidiaries of Freightier Leasing S.A..

## Notes to the Consolidated Financial Statements

As at December 31, 2010

Year end balances arising from sales purchases and services are as follows:

Accounts receivable and deposit with related parties:

In thousands of U.S. Dollar	2010	2009
Associates	1,352	1,752
Shareholders	12,611	43,318
	13,963	45,070

Accounts payable and loan from related parties:

In thousands of U.S. Dollar	2010	2009
Associates	247	3,145
Shareholders	7,923	9,699
	8,170	12,844

### 30. Group entities

Subsidiaries

	Country of incorporation	2010	Direct ownership 2009
Cargolux RE S.A.	Luxembourg	100	100
Cargolux Italia S.p.A.	Italy	40	40
Italia Aerologistics S.R.L.	Italy	98	98

### 31. Accounting estimates and judgments

Certain critical accounting judgments in applying the Group's accounting policies are described below.

#### Finance and operating leases

The Group entered into a lease arrangement in relation with the hangar it operates in Luxembourg. The lease contains 3 extension options for incremental 5 year lease periods. This option can be exercised for the first time on the 15<sup>th</sup> anniversary of the lease, i.e. on June 15, 2024.

In determining lease classification, the Group evaluated whether substantially all the risks and rewards of ownership were transferred to the Group. Specifically, it was not considered as reasonably certain, at the inception of the lease, that the Group will operate the hangar beyond 15 years.

Based on this judgment, it is concluded that the lease is an operating lease.

#### Deferred tax asset

The deferred tax asset is based on the most recent business plan available at each balance sheet date.

#### Heavy Maintenance Check

The timing of "C" and "D-check" is determined in accordance with the Group's maintenance program which is based on recommendations of the manufacturer and is approved by the civil aviation authorities (DAC). The amount provisioned is based on prices derived from contractual arrangements concluded with providers and are discounted to the balance sheet date. As of July 2009, the Group performs the major overhaul "C-checks" in-house.

#### Provision

The recognition of a provision requires that the management is in the position to make a reliable estimate of the amount of the obligation resulting from past events. When no reliable estimate can be made, a contingent liability is disclosed.

#### Residual values of aircraft

Management estimate of residual values is reassessed yearly on the basis of the current and future estimated market values published by external appraisers and on the basis of observable transactions. Where appropriate, this review may lead to revisions to the residual values from the current estimate.

### 32. Subsequent events

On January 31, 2011, the shareholders accepted amendments to the Group's articles of association. The amendments broaden the corporate purpose of the Group to include training to third parties, change the date of the annual general shareholders' meeting (to be the last Wednesday of March instead of the third Wednesday of April) and align the Group charter with changes in Luxembourg corporate law regarding the participation in and voting at Board of Directors meetings.

On January 20, 2011, LX-GCV left the Group's fleet to join that of UPS. That aircraft was owned by a subsidiary of Freighter Leasing S.A., an affiliated company, and leased to the Group.

On March 3, 2011, LX-LCV was delivered to UPS under a separate forward sale agreement concluded in April 27, 2007.

Financings closed after the balance sheet date are described in note 5 (e) above.



# Report of the Réviseur d'Entreprises agréé



KPMG Audit  
9, allée Scheffer, L-2520 Luxembourg  
R.C.S. Luxembourg B 103.590  
Capital 25,000 EUR

## Report of the Réviseur d'Entreprises agréé

To the Shareholders of Cargolux Airlines International S.A. Luxembourg Airport L-2990 Luxembourg

### Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Cargolux Airlines International S.A., which comprise the consolidated balance sheet as at December 31, 2010 and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information as set out on pages 48 to 82.

### Board of Directors' responsibility for the consolidated financial statements

The Board of Directors is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### Responsibility of the Réviseur d'Entreprises agréé

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted for Luxembourg by the Commission de Surveillance du Secteur Financier. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the judgement of the Réviseur d'Entreprises agréé, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments,

the Réviseur d'Entreprises agréé considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the consolidated financial statements as set out on pages 48 to 82 give a true and fair view of the consolidated financial position of Cargolux Airlines International S.A. as of December 31, 2010, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

### Report on other legal and regulatory requirements

The directors' report, which is the responsibility of the Board of Directors, is consistent with the consolidated financial statements.

Luxembourg, March 14, 2011

KPMG Audit S.à r.l.  
Cabinet de révision agréé

Thierry Ravasio

# European Trucking Network

## Trucking services out of Cargolux' online stations

Ad hoc trucking can be arranged upon client request, please contact our Cargo services Office for additional information.

## European Road Feeder Network from and to Luxembourg

### Austria

Linz  
Vienna

### Belgium

Antwerp  
Brussels

### Czech Republic

Prague

### Denmark

Billund  
Copenhagen

### Finland

Helsinki

### France

Lille  
Lyon  
Marseille  
Mulhouse  
Paris  
Strasbourg

### Germany

Berlin  
Bremen  
Cologne  
Dortmund  
Dresden  
Dusseldorf  
Frankfurt  
Hamburg  
Hanover  
Leipzig  
Nuremberg  
Munich  
Munster-Osnabruck  
Stuttgart

### Hungary

Budapest

### Italy

Bologna  
Civitanova Marche  
Florence  
Milan  
Rome  
Turin  
Venice

### Netherlands

Amsterdam  
Maastricht  
Rotterdam

### Norway

Bergen  
Stavanger  
Oslo

### Portugal

Lisbon  
Porto

### Spain

Alicante  
Barcelona  
Bilbao  
Madrid  
Valencia  
Zaragoza

### Sweden

Gothenburg  
Malmoe  
Stockholm

### Switzerland

Basle  
Geneva  
Zurich

### United Kingdom

Belfast  
London  
Manchester  
Prestwick

### Ireland

Cork  
Dublin  
Shannon

### Road Feeder Network from Prestwick

Aberdeen	Glasgow
Birmingham	London
Cork	Manchester
Dublin	Shannon

### Road Feeder Network from Maastricht

Luxembourg

### Road Feeder Network from Barcelona

Alicante	Porto
Bilbao	Valencia
Lisbon	Zaragoza
Madrid	

### Road Feeder Network from Milan

Bologna	Naples
Civitavecchia	Turin
Fiumicino	Venice
Genova	Verona

### Road Feeder Network from Budapest and Vienna

Bratislava	Ljubljana	Vienna
Bucharest	Prague	Warsaw
Krakow	Sarajevo	Wroclaw
Linz	Sofia	

### Road Feeder Network from Istanbul

Adana  
Ankara  
Izmir

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# Cargolux Destinations

## Three-Letter Codes

Luxembourg	LUX	Chicago	ORD	Karachi	KHI	N'Djamena	NDJ
Abidjan	ABJ	Curitiba	CWB	Kinshasa	FIH	New York	JFK
Accra	ACC	Damascus	DAM	Komatsu	KMQ	Petrolina	PNZ
Almaty	ALA	Dammam	DMM	Kuala Lumpur	KUL	Prestwick	PIK
Amman	AMM	Doha	DOH	Kuwait	KWI	Quito	UIO
Atlanta	ATL	Dubai	DXB	Lagos	LOS	Riyadh	RUH
Baku	GYD	Guadalajara	GDL	Latacunga	LTX	Sao Paulo	VCP
Bangkok	BKK	Hanoi	HAN	Libreville	LBV	Seattle	SEA
Barcelona	BCN	Hi Chi Minh City	SGN	Los Angeles	LAX	Seoul	ICN
Beijing	PEK	Hong Kong	HKG	Maastricht	MST	Shanghai	PVG
Beirut	BEY	Houston	IAH	Manston	MSE	Sharjah	SHJ
Bogota	BOG	Huntsville	HSV	Mexico City	MEX	Singapore	SIN
Brazzaville	BZV	Indianapolis	IND	Miami	MIA	Taipei	TPE
Budapest	BUD	Istanbul	SAW	Milan	MLP	Tbilisi	TBS
Calgary	YYC	Johannesburg	JNB	Nairobi	NBO	Xiamen	XMN





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[www.cargolux.com](http://www.cargolux.com)



Additional destinations are served via interline and trucking

\* Charter Destination  
¹ Added in 2010  
² Stopped in 2010

