ANNUAL REPORT

.08

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CONTENTS

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


CHAIRMAN'S LETTER

MARC HOFFMANN CHAIRMAN OF THE BOARD

Ladies and Gentlemen, Dear Friends of Cargolux,

I have now followed the development of Cargolux for five years, first as a Director and, since April last year, as Chairman. It has been an exciting experience which I have thoroughly enjoyed. One of the less pleasant experiences at Cargolux has been my active involvement in managing various pending anti-trust proceedings initiated against the Company. I am pleased to report that we recently settled one important case: on 9 April it was announced that Cargolux had reached an agreement with the US DoJ. The US$ 119 million fine imposed on the Company is payable in 6 installments over several years. The 2008 accounts include a provision reflecting the present value of those annual payments. With the US and other cases settled, or close to settlement and/or adequately provisioned for in the Company's accounts, most of this unpleasant overhang seems now to be removed and the Company can focus a 100% on managing the business.

Our CEO and other members of the Executive Committee will comment extensively on how Cargolux performed in 2008 in the following pages. Focusing on the recent challenges ahead, I want to submit two good reasons why I am confident that Cargolux will be able to come out of the current crisis stronger.

1. AN EXCEPTIONAL POSITIONING

In these difficult times, Cargolux shows its resilience and outperforms the competition in the downturn. This is the result of entrepreneurial spirit, strong customer relations and flexibility. Over its close to 40 years of existence, Cargolux has established special relationships with key customers, the big forwarders of this world.

Cargolux and those customers have grown together and Cargolux's growth is in part a response to the customers' expansion. These relationships pay off in tough times and we see continuing customer support across our markets. Since the crisis started to affect airfreight markets in June 2008, we have gained market shares in important markets like Germany, Italy and across Asia - always to the detriment of the home carrier. Except for its home base in Luxembourg, Cargolux does not have any significant ground infrastructure. Therefore, Cargolux can quickly open or close on-line stations to respond to market conditions. While Cargolux will always be careful to avoid that its operational decisions harm its customers, this flexibility is a key advantage, in particular in a bear market.

Finally, Cargolux benefits from a loyal, dedicated work force: the whole organization stands behind the airline and enables last minute changes that, unfortunately, have become quite frequent lately. The first three months of this year have been very difficult and management is implementing drastic cost reduction measures which are aimed at also reducing fixed costs.

2. A KEY ECONOMIC PLAYER IN LUXEMBOURG

Cargolux is directly and indirectly responsible for around 5,000 jobs in a small economy dominated by the financial services industry. For instance, Cargolux is the principal customer of Luxair Cargo Center, which employs over 1,000 people. Luxair is also Luxembourg's flag carrier and the Luxembourg State is its largest shareholder. Cargolux uses mostly Luxembourgish trucking companies. The Government is seeking to diversify the economy away from the financial services industry and the development of the logistics/transportation sector is a cornerstone of that policy. Cargolux contributed directly over EUR 310 million to the Luxembourg economy in 2008.

The continued support of the shareholders of Cargolux must be considered in the context of its strategic importance to the domestic economy. Indirectly, through Luxair in which the State now holds a controlling interest, and through the two state-owned banks, BCEE and SNCI, the Government is very present in the share capital of Cargolux. While no one is too big to fail these days, some companies - such as Cargolux - are too important to fail. Therefore I believe that the current shareholders would undertake the required action to support Cargolux if this ultimately became necessary.

I would like to conclude by asking you – the customers, suppliers, bankers and other financiers of Cargolux – to also continue to support the Company in and through these difficult times. I am sure that Cargolux will always be mindful of your support and find ways to show its gratitude for it in the future.

MARC HOFFMANN
Chairman of the Board


CEO'S LETTER

ULRICH OGIERMANN PRESIDENT AND CEO

The year 2008 will probably go down in history as being one of the most turbulent years the airline industry has faced over the last decade. Indeed, 2008 proved to be a year of two halves:

The first half started with an expected air cargo growth rate of about 5% together with an all-time record aircraft order backlog, a EUR/US$ exchange rate rising towards the 1.60 barrier and unprecedented high oil prices close to US$150 per barrel.

In the second half, the bankruptcies of several financial institutions as well as rising liquidity concerns announced that the world had entered into a new era: the global financial crisis. The demand for goods and services began to weaken and the world entered into one of the most severe recessions since the 1920's, with an adjustment of oil prices by more than 75%, a harsh correction of the EUR/US$ exchange rate and a collapse of the air cargo market in December of more than 20%.

FINANCIAL PERFORMANCE

Despite this difficult market environment, Cargolux carried slightly more tonnes than in 2007 and revenues increased by 18% to US$ 2 billion, of which 30% related to fuel surcharges. The result for the year 2008 was negatively impacted by a new anti-trust provision of US$ 105.4 million, corresponding to the net present value of the fine payable to the United States Department of Justice, a tax adjustment of US$ 38.1 million and a negative marked-to-market impact of our derivative portfolio of US$ 24.6 million. As a consequence, the income Cargolux recorded for 2008 is a net loss of US$ 61 million.

HIGHLIGHTS OF THE YEAR

Operational results are satisfactory, given the circumstances, and show the strength of Cargolux's all-cargo concept, the dedication of its staff and the loyalty of its customers. The Company's capacity, measured in ATK, increased by 6.8% as a result of the arrival in July of our last 747-400F, LX-YCV - 'City of Contern'. At the same time 5% less wet-lease capacity was sourced leading to an overall ATK growth of 1.1%. Despite an improved aircraft utilization of 15:37 blockhours, up 7 minutes from 2007, Cargolux's production, as measured by FTKs, dropped by 2.3% due to lower load factors in the second half of the year. As in 2008 the air cargo market declined by 4%, we were able to strengthen our global market share at about 4%.

These route changes underline the strength of Cargolux's flexibility to adapt to changing market needs, while counting on a strong fleet reliability and high utilization of our 747-400F workhorse. These factors make in-house maintenance capability a key asset and we are eager to see our new maintenance hangar entering into service in 2009.

ENVIRONMENT AND SOCIAL RESPONSIBILITY

We have added momentum to our commitments with respect to corporate social responsibility. In the environmental sphere we have begun ISO14001 certification in 2008, and I am proud to announce that, in a first step, we have been certified for our flight operations in March 2009.

For the first time this year, we are also reporting on our social and environmental performance, according to the standards set out by the Global Reporting Initiative, for which we received an independent assurance. This report provides a welcomed opportunity to present the progress we have achieved in implementing effective fuel-saving measures, our approach towards limiting operational noise levels as well as our Company's long-term commitment both towards our staff and towards fully contributing to Luxembourg's economy and society. This initial reporting effort will be pursued in the coming years, which will allow us to observe our progress in the areas reported.

OUTLOOK

The air cargo market will remain challenging for all involved and the industry will face overcapacity in 2009 as the demand is expected to remain weak. Banks do not seem to be able to provide the required funds and funding gap issues will probably result in the deferrals of deliveries and order cancellations. We see inefficient capacity being grounded and belly capacity reduced as a secondary effect of the passenger industry capacity cuts. Taking into account the announced delays of the Boeing 747-8F program, Cargolux will not take any delivery in 2009. This will not jeopardize Cargolux's re-fleeting program and two debt-free 747-400Fs, already sold on a forward basis in 2007, are planned to leave our fleet in the second half of 2009.

However, in the current context, it will be an uphill struggle towards recovery and profitability, with multiple hurdles along the way. We are confident to find a course through this storm, and thank all our customers, employees, shareholders, and creditors for their support and commitment throughout 2008, and in the years to come.

Luxembourg, April 9, 2009

ULRICH OGIERMANN
President and CEO


cargolux
cargolux
Grand Duchy of
WCV
TRILECTRON
T400
120 KVA
501
501

HIGHLIGHTS CONSOLIDATED FIGURES

YEAR ENDED DECEMBER 31, 2008

	2008	2007	2006	2005
TOTAL INCOME IN US$ '000	**1,984,675**	1,682,921	1,551,527	1,449,491
PROFIT/(LOSS) FOR THE YEAR IN US$ '000	**(61,043)**	(47,099)	82,637	77,601
SHAREHOLDERS' EQUITY IN US$ '000	**454,239**	616,019	666,542	599,456
TONNES CARRIED	**703,601**	702,765	650,947	644,613
TONNE-KILOMETERS FLOWN (MILLIONS)	**5,411**	5,537	5,271	5,292
AVAILABLE TONNE-KILOMETERS (MILLIONS)	**7,659**	7,576	7,281	7,524
NUMBER OF EMPLOYEES WORLDWIDE	**1,530**	1,491	1,446	1,378
HEADQUARTERS	**1,155**	1,105	1,081	1,026
FLEET				
BOEING 747-400F	16	15	14	14
AIRCRAFT ON ORDER				
BOEING 747-400F	**-**	1	2	-
BOEING 747-8F	**13**	13	10	10
AIRCRAFT SUBJECT TO FORWARD SALE AGREEMENTS	**6**	4	0	0

EXECUTIVE COMMITTEE

ULRICH OGIERMANN
President and Chief Executive Officer

DAVID ARENDT
Executive Vice President and Chief Financial Officer

ROBERT VAN DE WEG
Sr Vice President, Sales, Marketing and Ground Services

JEAN-CLAUDE SCHMITZ
Sr Vice President, Maintenance and Engineering
(until 1 April, 2009)

PETER VAN DE PAS
Sr Vice President and Chief Operating Officer
(from 16 January, 2009)

CORPORATE GOVERNANCE
AT DECEMBER 31, 2008

BOARD OF DIRECTORS

MARC HOFFMANN
Chairman of Luxair
Chairman

PIERRE GRAMEGNA
Director General
Chambre de Commerce
Luxembourg
Director

MAX NILLES
Attaché de Gouvernement
Member of the Board of Luxair
Director

JEAN MEYER
Attorney at Law
Director, Secretary of the Board

FRITZ GROTZ
Representing SAirLines
Director

KARL WUTHRICH
Attorney at Law
Representing SAirLines
Director

ROLF WINIGER
Representing SAirLines
Director

JEAN-CLAUDE FINCK
President and CEO of
Banque et Caisse d'Epargne de l'Etat
Director

ALAIN GEORGES
Chairman of
BIP Investment Partners
Director

Société Nationale de Crédit
et d'Investissement, represented by
GASTON REINESCH, President
Director

ROGER SIETZEN
Honorary Chairman of the Board

STRATEGY COMMITTEE

MARC HOFFMANN
Chairman of the Committee

JEAN-CLAUDE FINCK
ALAIN GEORGES
PIERRE GRAMEGNA
GASTON REINESCH
ROLF WINIGER

AUDIT COMMITTEE

MARC HOFFMANN
Chairman of the Committee

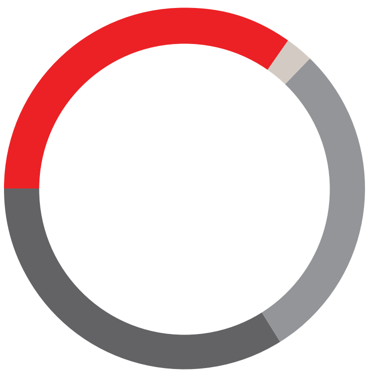
JEAN-CLAUDE FINCK
PIERRE GRAMEGNA
FRITZ GROTZ
ALAIN GEORGES
MAX NILLES
GASTON REINESCH

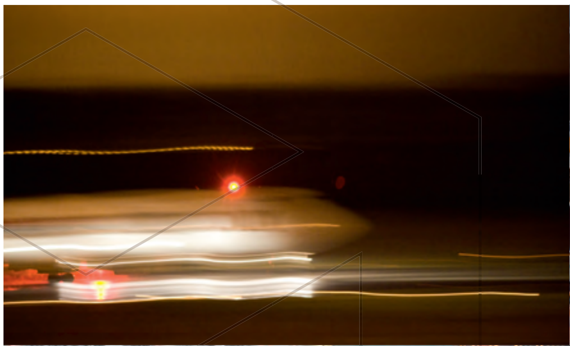
COMPENSATION COMMITTEE

MARC HOFFMANN
Chairman of the Committee

JEAN-CLAUDE FINCK
ALAIN GEORGES
PIERRE GRAMEGNA
MAX NILLES
GASTON REINESCH
KARL WUTHRICH

SHAREHOLDERS AT DECEMBER 31, 2008





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ATLAS

MANAGEMENT'S REPORT OF ACTIVITIES

FINANCIAL REVIEW AND ANALYSIS

GENERAL

The onslaught of the recession and the extraordinary volatility in interest rates, foreign exchanges and fuel prices have made their imprint on our performance in 2008.

Because of the recession – which affected our loadfactors as from the third quarter – the air cargo market suffered a decline of 4% in 2008. The ever rising fuel prices – which peaked at US$ 147/barrel in July – caused our revenues and fuel bill to reach record levels, at US$ 1,983.2 million and US$ 934.1 million, respectively. The fuel surcharge, representing 30.3% of our revenues in 2008, and net realized hedging gains were unable to compensate for rapid, successive increases of the fuel price: we were largely unable to absorb the uncovered deficit elsewhere in our cost base. The low interest rate and fuel price environment that prevailed at the balance sheet date caused important unrealized losses of our related derivative portfolios. The majority of these losses have been charged to equity. The unrealized, marked-to-market driven losses will be reversed in future exercises to the extent that interest rates and fuel prices rise from their low year-end levels. The pre-antitrust provision results from operations were US$ 54.7 million, down from US$ 105.3 million or - 48 % from the comparable figure in 2007.

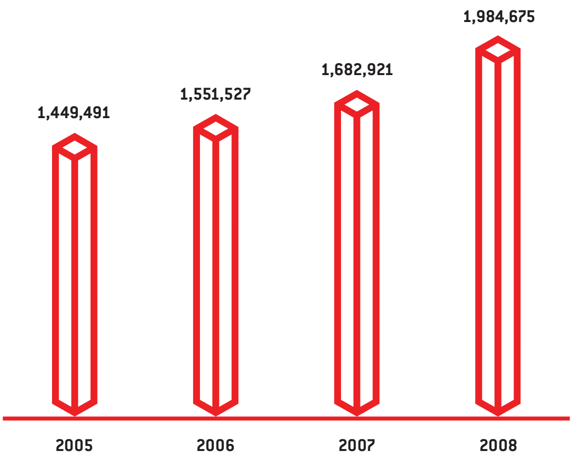
On 21 July, 2008, the 16th and last 747-400F – LX-YCV, christened "City of Contern" – joined the Company's fleet. Boeing advised in December that the delivery of the Company's 13 firm 747-8F orders would suffer delays of up to 10 months on the front-end. Therefore, no B747-8F deliveries are expected before the Summer of 2010. A new delivery schedule and related pre-delivery payment schedule have yet to be agreed with Boeing. On 7 July 2008, the Company sold two units of its existing fleet to Silk Way of Azerbaijan on a forward basis. LX-NCV and LX-MCV – which the Company currently leases from Freighter Leasing and with respect of which the Company has given notice that it will exercise its contractual purchase option at lease end – will be delivered to Silk Way on October 2010 and March 2011, respectively.

KEY PERFORMANCE INDICATORS

Capacity, as measured by available tonne kilometers (ATK), increased by 6.8% due to the LX-YCV delivery and LX-WCV (delivered in August 2007) being available for the full year. Additional capacity was sourced via wet-leases, which accounted for 3.4% of total ATKs for the year, 5% percent less than during the prior year, reflecting the gradual phase-out of leased capacity towards the end of the year. The Company's production, as measured by freight tonne kilommeters (FTK) , was 2.3% lower than in 2007. Tonnes sold stayed flat (+0.1%) at 703,601 tonnes. Based on IATA statistics and measured by international FTKs, Cargolux's global market share was about 4%, approximately the same level as in the year before. In the light of the overall economic development, load factors dropped to 70.6% or by 2.4 percentage points on the prior year. Average system yield (US$/kg) was 18% higher, mainly due to successive increases of the fuel surcharges until the middle of the year. Increases in the underlying yields could be achieved in some markets, in particular ex the Americas. The underlying yield ex Europe has additionally been boosted by the favorable EUR/US$ exchange rate. However, underlying yields and demand for air cargo uplift especially ex Asia came under severe pressure towards the end of the year. Daily average aircraft utilization of the Company's fleet was 15:37 block hours, up 7minutes on the 2007 average.

TOTAL INCOME

CONSOLIDATED, IN US$ '000



PROFIT AND LOSS ACCOUNT

Revenues increased by 18.1% from US$ 1,679.7 million to US$ 1,983.2 million. 30.3% of the revenues, or US$ 601.6 million, was accounted for by the fuel surcharge, up 66.9% on 2007.

Other Operating Income decreased to US$ 1.5 million from US$ 3.2 million in 2007.

MANAGEMENT'S REPORT OF ACTIVITIES

FINANCIAL REVIEW AND ANALYSIS

Aircraft Lease Expenses were down by US$ 57.8 million or 42.3%. The main reasons for the decline were lower dry lease cost (down US$ 31.5 million to US$ 56.8 million, primarily due to the classification to finance lease of LX-UCV and LX-VCV as of December 2007 and LX-MCV as of August 2008 following a notice given by the Company that it had opted to exercise its purchase option with respect of the aircraft) and lower ACMI expenses, down 54.5% to US$ 21.9 million from US$ 48.2 million in 2007.

Aircraft Maintenance Expenses (outsourced) went up 7.8% to US$ 101.8 million from US$ 94.4 million. This increase is mainly due to a rate increase under both the Rolls Royce and the GE engine maintenance contracts and the fleet increase in July 2008. *Other Aircraft Expenses* represent premiums paid to insure the Company's fleet and went down by 9.3% to US$ 3.1 million.

Depreciation increased by 29.1% to US$ 56.2 million mainly because of the classification to finance lease of the financing covering the aircraft mentioned above and the purchase of new aircraft under finance lease in 2008 (LX-YCV).

Fuel increased by 48.9% to US$ 934.1 million and represents now 47.4% of total cost. Net hedging gains of US$ 14.3 million were achieved. However, because of the high volatility in the oil market, the Company suffered negative marked-to-market of positions taken during the spring and summer, when oil and fuel prices peaked. These hedging losses were mostly booked against the equity account. US$ 17.5 million of unrealized hedging losses could not be hedge accounted and are flown through the Income Statement.

Personnel Costs and Benefits went up 8.9% to US$ 214.0 million. The overall salary component went up by 12.0%, and, in Euro terms, the salary of all Luxembourg-based staff went up 5.1% due to mandatory salary indexation, head count increases, time units and salary increases foreseen in the Collective Work Agreement.

Handling, Landing and Overflying increased by 7.9% to US$ 270.9 million. Handling charges went up 9.9% due primarily to the appreciation of the EUR and other currencies versus the US$, an increase in cycles flown and handling rate increases. Navigational charges increased by 9% due to the foreign exchange impact, increased block hours, as well as a new overflying charge system in China. Costs were also influenced by network changes shifting more capacity to areas with relatively higher cost. The number of flights to Africa and South America grew by 16% compared to 2007 while the number of North Atlantic flights dropped by 10%. Overall landing costs stayed flat. *Trucking, Interlining and Truck handling* increased by 7.0% to US$ 116.8 million, due in part to an increase in interlining costs on some sectors. Trucking and truck handling went up by 6.0% due to rate increases and exchange rate fluctuations while tonnes sold stayed stable.

Other Operating Expenses include GSA commissions, IT services, travel & entertainment, office rental and equipment, legal, audit and consulting fees, telecommunication expenses, etc. It is also under this line item that the Company booked a provision of US$ 154.9 million in the 2007 accounts with respect to the Company's exposure to a monetary fine which could be imposed by the EU Commission. This provision was reduced in the 2008 accounts for the reasons stated elsewhere in this report (see e.g. footnote 12 to the financial statements). However new provisions related to the anti-trust proceedings in the United States, Australia and New Zealand and which could not be compensated by the adjustment to the provision for the EC fine caused a new exceptional charge to be booked against this item. EBIT for the year stood at US$ 13.8 million compared to US$ -33.0 million in 2007. Financial income decreased by 19.4% to US$ 9.3 million and financial expenses increased by 67.9% to US$ 49.9 million. The main reasons for this increase are the classification to finance lease of the financing for the aircraft mentioned above and a negative marked-to-market of the Company's interest rate hedging portfolio (US$ 4.2 million). Net Finance Costs were US$ 40.6 million.

Operating results were negatively impacted by fair value losses of US$ 24.6 million flown through the profit and loss account. In 2007, operating results were boosted by US$ 13.5 million of fair value gain. Before marked-to-market and anti-trust provisions the pre-tax result was US$ 79.3 million, 13.6% down from the comparable 2007 figure.

Loss Before Tax was US$ 22.9 million (2007: Loss of US$ 49.5 million). Consolidated net after tax loss was US$ 61.0 million (2007: US$ 47.1 million). The reasons for the negative tax adjustment are discussed below.

MANAGEMENT'S REPORT OF ACTIVITIES

FINANCIAL REVIEW AND ANALYSIS

TAX ADJUSTMENTS

Current tax for the year amounts to US$ 3.1 million versus US$ 8.5 million in 2007. However, in 2008 the Company suffers a substantial adjustment of deferred taxes. The main reasons for the US$ 39.0 million adjustment are the consequence of (i) the reversal of unused Investment Tax Credits (ITC) (see below), (ii) taxes being assessed on the basis of a Luxembourg GAAP balance sheet which requires significant accounting changes from IFRS and (iii) a one time charge resulting from the adoption of the year end exchange rate to prepare the tax balance sheet (in previous exercises some balance sheet items had to be translated into euros at their corresponding historical exchange rate which caused a high degree of volatility in the Income Statement). All the above were offset by and to the extent of the benefit of tax losses of US$ 25.2 million. ITC can be carried forward for 10 years; unused they expire. The Company suffered two consecutive years of losses and the latest available business plan for the period 2009-2011 shows a decline in future pre-tax income compared to previous business plans. The combined effect of the losses and downwards revision of the business plan caused the reversal of the ITC mentioned above.

PROFIT AND LOSS MARGIN ANALYSIS

On a pro-forma basis, excluding exceptional items (2007 and 2008: anti-trust provisions), the EBIT and EBITDAR margins would have been 4.6% (2007: 7.25%) and 11.4% (2007: 18.0%) respectively.

FINANCIAL GEARING

Gearing (%)
Shareholders' equity (US$ million)

BALANCE SHEET

Total Assets went up 18.9% to US$ 1,917.3 million from US$ 1,612.7 million. This is primarily due to the on-balance sheet classification of the leases relating to LX-MCV (previously accounted for as an operating lease) and LX-YCV.

Shareholders' Equity decreased by 26.3% to US$ 454.2 million from US$ 616.0 million due to (i) the US$ 61.0 million loss for the fiscal year and (ii) the portion of the fuel and interest rate derivative portfolio which is hedge accounted.

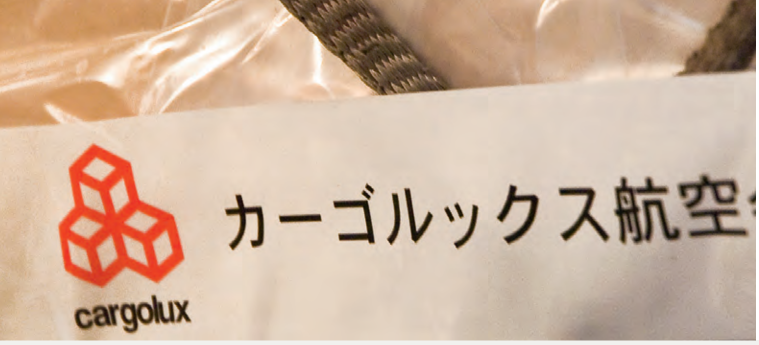
Interest-bearing liabilities (including finance leases) increased by 49.2% to US$ 799.0 million from US$ 535.5 million. The increase is mainly due to the acquisition of LX-YCV, the financing of deposits made to Boeing for the acquisition of the two first B747-8F aircraft and the on-balance sheet classification of LX-MCV. *Cash and Cash Equivalents* and *Other Investments* increased by 14.8% from US$ 167.2 million to US$ 192 million. Net financial gearing amounted to 134.0% and net adjusted (to take into account the present value of future lease payments) was 174.8%.

BRANCH NETWORK

The Company operates worldwide through a network of branches established in 35 countries.

CONSOLIDATION

The consolidated accounts comprise Cargolux RE S.A., a captive reinsurance company which was created in February 2004 and which is fully owned by the Company. In addition, the Company equity accounts in its consolidated financial statements its participation in Champ Cargosystems S.A. (49%), Luxfuel (30%) and Freighter Leasing S.A. (33.3%), which was incorporated in December 2006 and to which the Company sold and leased back 3 units of its existing fleet.



MANAGEMENT'S REPORT OF ACTIVITIES

OVERALL BUSINESS REVIEW

OVERALL VIEW

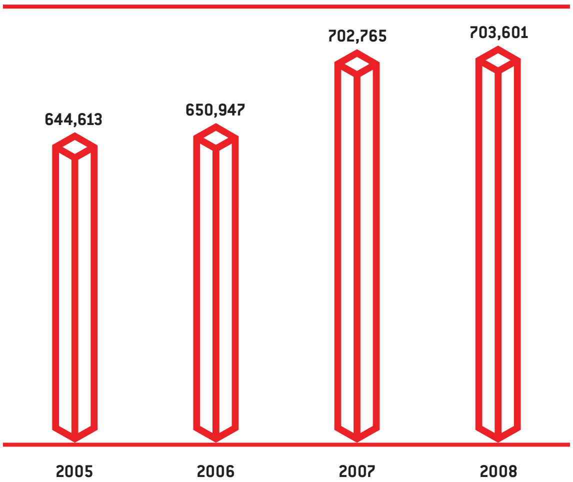
2008 was an extremely volatile year for everyone in the industry. For Cargolux, 2008 can be characterized in simple terms: strong markets but fuel costs moving from high to extremely high in the first half; weakening markets, falling to extreme lows with drastically declining fuel prices in the second half.

In terms of tonnages sold, we experienced a decline in the United States that was mainly capacity-driven. We also saw a decline in Europe and Asia that was in part balanced by strong growth in Africa, especially into and out of Africa, where Nairobi was our strongest growing market by far.

Our revenue and cost curves criss-crossed towards the end of the year, creating circumstances which made it difficult to maintain a profitable network operation. Nevertheless, our overall business registered a slight tonnage growth of 0.1% in 2008.

However, tonne kilometers flown declined by 2.3% and our system-wide load factor dropped by 2.4 ppt. to 70.6%.

TOTAL TONNES CARRIED
IN METRIC TONNES



MARKET VIEW

The explosion of oil prices coupled with the implosion of the worldwide economy after October 2008 had a major influence on the performance of the industry.

Markets grew between 2% and 5% in the first half of 2008 and, with the collapsing economy, dropped to a dramatic -17% in December 2008. This phenomenon affected all markets worldwide, but was particularly noticeable in Asian exports.

Perishable shipments remained reasonably firm throughout the year, especially from South America and Africa, where they contributed towards making this area our strongest growth market.

Africa showed a growth of 8.2% in tonnage, while the United States registered a decline of -2.9%, Europe -1.7% and Asia -1.9%.

Yields fared better with a system-wide increase of 18%, largely driven by increases in fuel surcharges but also by local yield increases, notably out of the USA.

MARKET SHARE

In early 2008, we were capacity-constrained and registered no growth in market share. In the last two months of the year, we saw our market share grow significantly.

Overall, our market share in 2008 was just around 4%, roughly the same level as the year before.

FLEET

Cargolux took delivery of its sixteenth and last B747-400F in July 2008. Additionally, we wet-leased one B747-200F throughout the year and one B747-400F from January to April. Both aircraft were supplied and operated by Air Atlanta Icelandic.

Daily aircraft utilization increased by 0.7% compared to the previous year, reaching 15:37 block hours per day. With this rate, Cargolux remains at the top of all B747-400F operators.

Boeing announced a delay of the new B747-8F production, resulting in a new delivery date for Cargolux's first unit in the second half of 2010. Cargolux is the launch customer for this new generation freighter aircraft.

MANAGEMENT'S REPORT OF ACTIVITIES

OVERALL BUSINESS REVIEW

NETWORK

The delivery of our last B747-400F enabled us to expand our network, adding some new destinations and strengthening others. Additional services were introduced to places such as Almaty, Doha and Baku, while new destinations included Cairo, Miami, Vienna, Brussels, Hahn, Amsterdam and Tbilisi in Georgia.

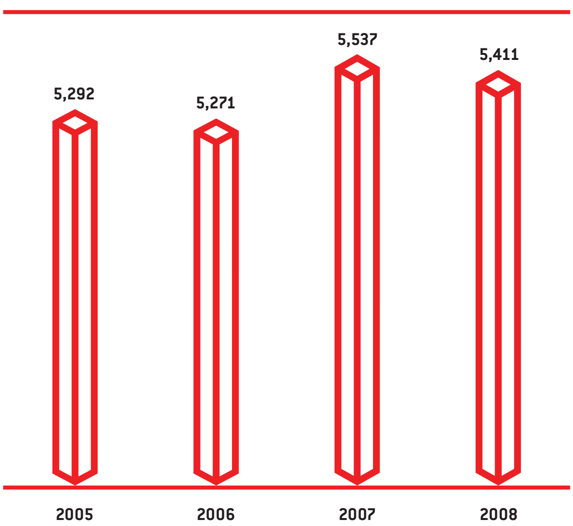
In order to successfully mitigate the adverse circumstances of 2008, we had to rely on our versatile network policy. At the beginning of 2008, we fine-tuned the network to deal with the rising fuel costs. We eliminated some fuel-intensive routes, for instance to Australia and the US West Coast, and our continuous restructuring was mainly driven by the rising oil price.

Later in the year, the picture changed completely and we found ourselves chasing the demand in the market, trying to keep our fleet in the air and earning revenue to cover our fixed costs. All of the sudden, it was a very different game! Costs in the second half of 2009 benefited from the oil price decline.

TRAFFIC RIGHTS AND FIFTH FREEDOM

The fuel price developments in the first half of the year and the economic collapse in the second half necessitated creativity in adapting our network.

TONNE-KILOMETERS FLOWN
IN MILLIONS



We saw a major breakthrough in our operations to and from Brazil, where, with the support of the Luxembourg government, we were granted scheduled traffic rights after operating charter services for 10 years. The signing of a bilateral agreement gave us seven weekly frequencies, including fifth freedom rights from Brazil to Ecuador, Colombia and all African states.

Austria granted us fifth freedom rights between Hong Kong and Vienna. With the benefit of those rights, we launched a weekly service in June and added a second flight in September.

Towards the end of the year, after trying unsuccessfully to take over an existing operation, we also began to prepare with partners the launch of Cargolux Italia, that is expected to begin operations during the second quarter of 2009. Cargolux Italia will support our strong position in the Italian market, where Cargolux was the biggest cargo operator in 2008. This helped us obtain the necessary local and political support for the new airline. We continue to operate the Luxembourg – Milan shuttle flights to better connect Italy with our worldwide network.

The first phase of the landmark EU – US open skies agreement went into effect on 30 March 2008, which made it possible to operate flights from Milan to New York and Chicago in early 2009.

Cooperation with Toumai Air Tchad made it possible to operate a new Abu Dhabi – N'Djamena flight. For this operation, we reopened our Abu Dhabi station.

We continued our successful cooperation with Finnair on the Helsinki – Hong Kong route, with Mexicana between Mexico and the United States and with South African Airways between Johannesburg and Lagos. The latter service was extended to include Accra.

A new cooperation with Hewa Bora Airways resulted in a weekly Brussels – Kinshasa service.

The additional fifth freedom rights that were granted to us gave Cargolux a number of new destinations and resulted in an expansion of our network. Fifth freedom tonnage in our system reached 19%, while related revenues rose from 15% to 16%.

MANAGEMENT'S REPORT OF ACTIVITIES

OVERALL BUSINESS REVIEW

AREA BY AREA

AREA 1 – THE AMERICAS

The year in Area 1 started off much where 2007 ended, with continued growth across all sectors. 2008 ranks among the most successful years on record for the Americas and we have seen retention and growth in most markets. In total, Area 1 produced 130,000 tonnes.

Revenue in North America was over US$ 246 million, 16% above the previous year. The increase in revenue was driven both by increased fuel surcharges and by a growing underlying yield. Load factors increased by 3% compared to 2007.

North America continued to grow the so-called "network cargo", by moving 25,000 tonnes of cargo through Luxembourg to onward network destinations in the Middle East and Africa. This represents an increase of 2,000 tonnes over the previous year.

We continued the ongoing review of our route network in the Americas to ensure maximum efficiency and, as a result, decided to consolidate capacity on the West Coast of the USA in Los Angeles and Seattle and to discontinue services into San Francisco. This market is still served by truck, though, with a regular weekly feed.

We saw continued growth amongst our top customers with 17 out of our top 20 clients showing positive growth over the previous year.

South America also turned in a good performance: Revenues reached over US$ 63 million, 26% above the previous year. Load factors for the year remained at 93%, identical to the previous year, despite an increase in deployed capacity.

Ecuador is by far our largest market in South America and represents almost 50% of total South America revenues. We were again active in providing much needed additional capacity during the peak flower season out of Columbia and Ecuador by routing an additional seven flights through these markets.

An ever-growing area of success has been the continued growth of our fifth freedom sectors in South America. This has been our continued focus and we have seen a significant increase in revenue derived therefrom.

AREA 2 –EUROPE, CENTRAL ASIA AND WEST AFRICA

In 2008, Area 2 reached a production of 289,000 tonnes, 2% less than in 2007. Revenue grew by 18% to US$ 734 million. The area handled 51,000 tonnes (+22%) of non-Area 2 transit cargo, so that, in total, 49% of our production was carried on export flights from our hub in Luxembourg.

The steady production level reflects the available capacity and its deployment, whereas the revenue development was affected by a competitive market environment, marked by continuous pressure on rates, extraordinary fuel price fluctuations and foreign exchange volatility.

Given these circumstances, we constantly monitored the market development to optimize yields and capacity allocations between traditional and developing markets.

Due to an underlying trade imbalance between Asia and Europe and the resulting rate pressure on eastbound flights to Asian destinations, the focus remained on destinations in the Near and Middle East as well as the Caspian Sea area and Central Asia which are served via Baku, where the cooperation with Azeri carrier Silk Way was expanded. The network was adapted accordingly, with new or increased frequencies to Cairo, Amman, Doha and Dubai, including the addition of Tbilisi to the network.

Flights to Africa developed strongly and additional capacity was deployed to Lagos, Kinshasa, Accra and Abidjan.

The market to South America has shown a healthy development, so that one additional Brazil frequency was introduced in August. However, we had to scale back that service towards the end of the year as a result of a sharp drop in automotive traffic to Brazil. Capacity to Mexico was kept steady in 2008.

On North Atlantic sectors, high fuel cost, unfavorable exchange rate developments and demand shifts caused some structural changes. Traditional long-haul flights to the US West Coast have been reduced in frequencies and the direct service to San Francisco was discontinued, while additional capacity has been allocated to US East Coast destinations to satisfy customer demand. New flights have been added to Miami, with connections to Caribbean and Latin American destinations, while the service to Houston has been extended.

OVERALL BUSINESS REVIEW

Cargolux's coverage of the European export markets was strengthened. Our market share grew in most countries. Germany and Italy are the biggest export markets, both in size and importance. The scheduled feeder flights between Luxembourg and Milan are the backbone of a successful market presence. Smaller markets like France, Belgium, the UK, the Netherlands, Switzerland and the Nordic countries have experienced higher growth rates. Feeder flights from Budapest and Barcelona have stabilized our presence in these markets and two new feeder flights from Vienna were introduced in 2008. Our presence in Turkey was boosted by regular freighter capacity linking Istanbul to the worldwide network via our Luxembourg hub.

Despite the crisis that hit the European export industries in the last quarter of 2008, our strong presence and adaptive commercial market approach has helped to avoid production shortfalls in 2008 and enabled us to increase our market share in the European and Central Asian countries.

AREA 3 – ASIA PACIFIC

2008 held both threat and opportunity for the industry, especially in the Asia and Pacific region. Export growth was steady in the first three quarters of the year, but the pace slowed down compared to the boom of the last few years. For the first time in decades, almost half of the shipping costs were surcharges, reflecting the increasingly higher fuel costs. On the other hand, the beginning of the Cross-Strait flights marked a big change in the air transportation history. It created much speculation but also positive reactions from our customers.

The area produced a total of 197,000 tonnes, including fifth freedom traffic. This translated into more than US$ 750 millions in revenue. Including fifth freedom traffic, our load factor in 2008 was again very high.

Hong Kong remained one of our biggest stations worldwide and the biggest station in the area. A 14th weekly frequency was added in August in preparation for the traditional high season in the last quarter. Our direct services to Eastern Europe, Barcelona, Helsinki and the connection to Malpensa via Luxembourg remained strong and continued to drive the station's growth.

Due to the escalated demand in that market, a fourth Hong Kong-Budapest frequency was introduced in February. Furthermore, two additional direct frequencies to Vienna were inaugurated, in June and September respectively. These flights were introduced as a result of our customers' demand and also to further strengthen our market share on routes to Eastern Europe.

Other stations in Greater China continued their crucial contribution to our system. A new frequency was launched out of Shanghai on Wednesdays. Direct services into Budapest from Taipei were explored and our space-swap program with other carriers was expanded. It gave us operational benefits and cost efficiency.

South East Asian markets were steady. We saw growing traffic from Singapore and Kuala Lumpur to the Middle East, catering to the increasing demand for oil well drilling equipment. Bangkok showed strong growth throughout the year. A new fifth-freedom sector, Bangkok-Hong Kong, was launched and generated additional revenue.

Overall, the export markets were healthy and steady in the first three quarters of 2008, even though they were highly competitive. The worldwide economic turmoil in the latter part of the year did not really hit exports until November and December. Since then, we have strived to reduce costs by combining commercial stops and routings. Some stations diversified their products and services by exploring different markets, such as the Middle East, South America and Africa. Fifth-freedom revenue remained an important source of revenue.

Flexibility and a quick reaction to customers' needs helped us to protect our market position.

MANAGEMENT'S REPORT OF ACTIVITIES

OVERALL BUSINESS REVIEW

AREA 4 – MIDDLE EAST, SOUTH AND EAST AFRICA

Area 4 had a satisfactory year: Freight tonnage production went up by 8,2% to 70,000 tonnes, while revenues grew 20,8% to US$ 112,6 million, however largely driven by increased fuel surcharges.

The UAE, particularly Dubai, has shown a growth in tonnage of 9.4% compared to the previous year. Sea-air cargo went up 31% to 38,500 tonnes. Transshipments represent half of the area's total tonnage and mainly go to Europe, Africa and other Middle East destinations.

As in 2007, Cargolux experienced increased demand and we expect that this trend will continue into 2009.

However, 2008 was also very challenging, with fuel prices following a roller-coaster pattern and the worldwide economic crisis hitting the area. The UAE and most of the region have felt the effect primarily in the banking, finance and realty sectors. Air cargo imports have remained mostly steady and are expected to continue this way. The increase in capacity into the UAE and the consistent demand for airlift into Qatar and Saudi Arabia are fuelling this growth.

Regarding the African export region, Kenya remained our biggest market. In 2008, two more flights were added to our network out of Kenya, bringing our services up to 11 flights per week; three to Manston, two to Amsterdam and seven to Maastricht. Tonnage increased by 22%, compared to 2007.

Africa continues to be the area's focus. A new operation was started from Abu Dhabi to N'Djamena in cooperation whith Toumai Air Tchad in August 2008. We also operated outbound flights from Cairo back to Luxembourg, carrying fresh strawberries and green beans. Egypt is also a good market for oil drilling equipment. Live horses are regularly carried and crystals are often flown from Cairo to Hong Kong.

South Africa saw a decrease compared to 2007. We operated four weekly flights to Johannesburg that continued to Nairobi, Lagos and Lusaka. Main commodities shipped from South Africa to Lagos include drilling and mining equipment and spares, car parts, electronic consumer commodities, medical equipment and perishables. Because there is a large expansion of mobile phone coverage in West Africa, we have seen increased shipments of telecom equipment.

Exports also include car parts for assembly lines in the United Kingdom, Germany, France and Italy. These consist of leather seat covers, catalytic converters and engine blocks. Seasonal traffic included flowers, fruit, fish and seafood.

CHARTER

2008 was an extremely good year for our charter operations. In the beginning of the year, we used a leased-in B747-400F to fly charters for the automotive industry. Charter flights to Africa were very strong all through the year. With the economic downturn towards the end of the year, we focused even more on the charter business to make use of increased downtime in the network.

OUTLOOK

2009 will be an extremely tough year for Cargolux and the industry. In the first few weeks of 2009, we saw a further decline in the market to -20% levels. Cargolux's relative performance in this market trend is substantially better, which is a hopeful sign. It will, however, be a challenge to operate profitably under these circumstances and we don't expect the year to be "business as usual".

MAINTENANCE AND ENGINEERING

HIGH RELIABILITY

Cargolux's Maintenance and Engineering Division maintains our fleet of 16 B747-400F, as well as aircraft of several airline customers.

Our scheduled reliability improved slightly over 2008, reaching just over 98%. This was partly due to the introduction of our Maintenance Control Center in mid 2008. The Maintenance Control Center (MCC) is linked to line maintenance and monitors all aircraft movements throughout the Cargolux network from a technical point of view.

The MCC allows us to be proactive in addressing problems on an aircraft, giving line stations pre-advice and suggesting troubleshooting and repair scenarios. This helps us to minimize aircraft ground times and enhances our technical reliability.

HEAVY MAINTENANCE

Only one D-Check was performed during 2008; it was also the final D-Check contracted to KLM in Amsterdam. KLM has informed us that they are no longer offering checks on customer B747 aircraft, which made it necessary for us to find a new service partner. As of August 2009, D-Checks on our B747s will be performed in Singapore by SIA Engineering Company.

In January 2009, the last C-Check will be performed at KLM. With the opening of our new maintenance hangar in May 2009, we will now performe these checks in-house. Building up experience and capabilities also allows us to increase our third party work and we will include customer B747 C-Checks in our service portfolio.

THIRD PARTY MAINTENANCE

With the winding down of B747 third party maintenance work at KLM, Cargolux remains one of the few operators offering B747 maintenance in Europe. Consequently, we are talking to a number of existing and potential customers about work on their fleets as soon as our new hangar is operational.

In 2008, our third-party maintenance activities generated revenues in excess of of US$ 8.4 million, more than budgeted. This was made possible by a solid base of satisfied customers and the professionalism and skills of our workforce.

FOCUS ON THE -8

Cargolux is a launch customer of Boeing's 747-8F; the first unit of the type will join our fleet in 2010. In 2008, we intensified the preparations for the -8 introduction, working closely with Boeing to get our maintenance organization ready for the aircraft.

OTHER PROJECTS

New hangar: Construction of our new Hangar progressed according to schedule.

Moving our maintenance organization to the new facilities requires careful planning and 2008 saw the beginning of preparations that culminate in the physical relocation to our new hangar in May 2009. This state-of-the-art building will support our goals to:

- achieve higher productivity, mainly reflected in the reduced downtime of the aircraft for 'A' checks;
- enable us to insource 'C' checks and other specific projects;
- expand our services to customers;
- develop a center of excellence for B747-8 aircraft.

Cargolux Italia: Cargolux has decided to establish a new airline in Italy in 2009: Cargolux Italia. Our Maintenance and Engineering division was involved in setting up this entity from the technical side.

TRAX

On the software side, our "TRAX" system was further developed: one case in point is resource planning and controlling, which helps us to work and plan efficiently and better track the jobs we have performed. This new module was developed in close cooperation with the designer of "TRAX" and is expected to go live in the second quarter 2009.

MANAGEMENT'S REPORT OF ACTIVITIES

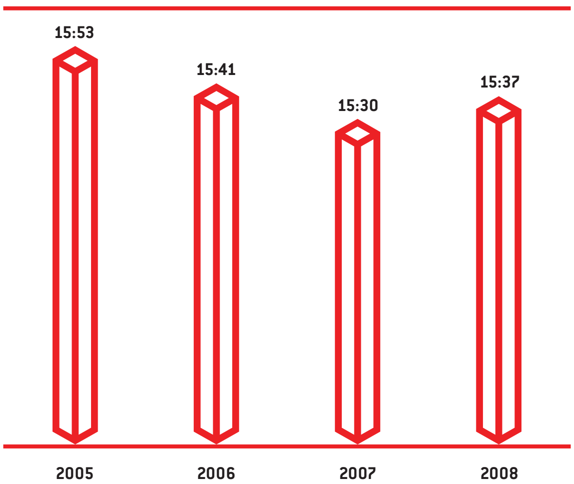
FLIGHT OPERATIONS

FLEET PERFORMANCE

During 2008, Cargolux increased its average daily aircraft utilisation rate. Our fleet of Boeing 747-400F flew an average of 15:37 block hours per day, which represents an increase of seven minutes per day for each aircraft, compared to 2007. This figure places Cargolux among the airlines using this aircraft type most intensively worldwide.

Cargolux's network punctuality also saw an improvement of 6.3% over 2007. 58.6% of all flights departed within 1 hour of our schedule. The network punctuality improvement is partly due to Cargolux's Pitstop delay recovery program, which has become part of the company's standard day-to-day operating procedures. As many as 1,119 hours of delay could be recovered thanks to this system of advance notification, which ensures that all parties involved in turning around a delayed aircraft are ready at all stations where this aircraft will be landing.

DAILY AIRCRAFT UTILIZATION
PER BOEING 747-400 FREIGHTER



IOSA ACCREDITATION

On 16 December 2008 Cargolux became fully accredited under the IATA Operational Safety Audit Program (IOSA), following an audit process that began in October 2007. IOSA measured our airline against over 700 safety standards and recommended practices in the management of the Company's Flight Operations, Ground Operations, Maintenance and Engineering and Operational Security.

The IOSA accreditation offers a guarantee to our customers and air transport authorities that our operational management, quality, safety and security are of the highest level. It also shows that continuous efforts are made to improve them further, in line with the evolution of best practices within the air transport sector.

The accreditation is valid for two years from the date of the first IOSA audit, and Cargolux is currently preparing the first renewal of its accreditation, due in October 2009.

CARGOLUX AND THE ENVIRONMENT

CARGOLUX AND THE ENVIRONMENT

One of Cargolux's key business principles is to seek at all times to operate with the smallest possible impact on the environment, be it in terms of atmospheric emissions, noise or other waste materials. Upholding this modus operandi is essential to ensure the long term viability of the airline.

Cargolux has a direct economic interest in applying this principle: aviation being an energy-intensive activity, any reduction in fuel consumption translates into increased efficiency and profitability. Similarly, it is in the Company's interest to produce as little noise as possible, to reduce as much as possible disturbances to neighboring communities to the airports where we operate, and to maintain close control of the Company's waste production.

Cargolux demonstrated its commitment to environmentally sound operations by taking two decisions at the end of 2007. The first one was to sign up to the UN Global Compact. In so doing, Cargolux pledged to apply 10 key principles of sound management from the environmental and social point of view. The present report indicates Cargolux's progress towards their implementation.

The second decision was to undergo ISO 14001 Certification for our flight operations and aircraft maintenance and engineering activities, both core business divisions of the Company. The certification process began in 2008. Cargolux received the ISO14001 certification for its flight operations including its type rating training organisation on 19 March 2009; the Company will seek to extend this certification to its maintenance and engineering activities by end-2009.

As foreseen by ISO 14001 guidelines, Cargolux developed an environmental policy in 2008, which further codifies the Company's commitment in this field. This policy was adopted in February 2009.

CARGOLUX AND THE ENVIRONMENT

I. ENERGY USE AND ATMOSPHERIC EMISSIONS

Cargolux's long range air cargo activities are energy-intensive, and the vast majority of the Company's energy usage is dedicated to its flight operations. According to an internal study undertaken in 2007, an estimated 98.7% of all CO_2 emitted by the Company in that year are due to our core activity, whereas 0.7% are attributable to our trucking operations and 0.6% to all other activities of the Company (maintenance, ground handling, heating, employee commuting, electricity use, waste disposal, duty travel). In 2008 Cargolux's aviation fuel expense amounted to US$ 934 million, or 47.4% of the Company's overall operating expenses

Consequently, the atmospheric emissions resulting from our flight operations represent by far the largest share of Cargolux's total environmental impact. By the same token, it is the aspect Cargolux seeks to maintain most tightly under control.

A) FLIGHT OPERATIONS

Cargolux has a threefold interest in reducing its energy use:

1. financially, aviation fuel represents the largest burden on the Company, far above capital investments and labor costs. Any reduction in fuel consumption contributes directly to the financial health of our Company ;

2. from an environmental point of view, Cargolux can play a direct part in reducing global greenhouse gas production, and wishes to do so to support the sustainable development of the global community;

3. from a regulatory point of view, with the implementation of the European Union emissions trading scheme (EU-ETS), Cargolux will need to regularly reduce its emissions in order to limit future purchases of CO_2 credits.

Cargolux's commitment to reducing its fuel consumption (and CO_2 emissions) per production unit, whenever possible, is demonstrated by the figures of recent years.

Whereas in 2005 Cargolux aircraft emitted on average 538 gram CO_2 for each tonne transported over 1 km, in 2007 the emission rate was reduced to 526g per tonne-km, an efficiency improvement of 2.1% over the 3-year period. These figures are derived from fuel purchased by and invoiced to Cargolux. In 2008 a new system was introduced for the measurement of our fuel consumption, to be consistent with the requirements of the European Union's new Emissions Trading System for aviation.

This system collects actual fuel consumption figures of each flight operated by Cargolux, including flights operated using leased-in capacity. It returned a CO_2 emission rate of 535g per tonne-km for 2008, measured on the basis of Cargolux's worldwide operation. All future CO_2 measurements will be undertaken using this new system.

These figures indicate that Cargolux has successfully managed, over the past years, to keep in check its overall fuel consumption and to maintain a positive overall energy trend.

Many different measures have been introduced over the past several years to increase the energy efficiency of our flight operations. These are detailed below. However, the efficiency of long-range flight operations also depends on many external and economical factors, as a result of which the efficiency benefits of fuel-saving measures are often only visible over longer periods of time.

While the energy consumption figure reported for 2008 cannot be compared to those of previous years, because of the new methodology used to calculate it, its higher value could be explained by a lower average load factor recorded over the year (70.6% in 2008, compared to 73% in 2007). Operational constraints also affect the operational performance of our aircraft, including our average sector length, altitudes flown or waiting times to be allowed to land at airports. Finally, external factors, such as changes in predominant winds, also play an important role.

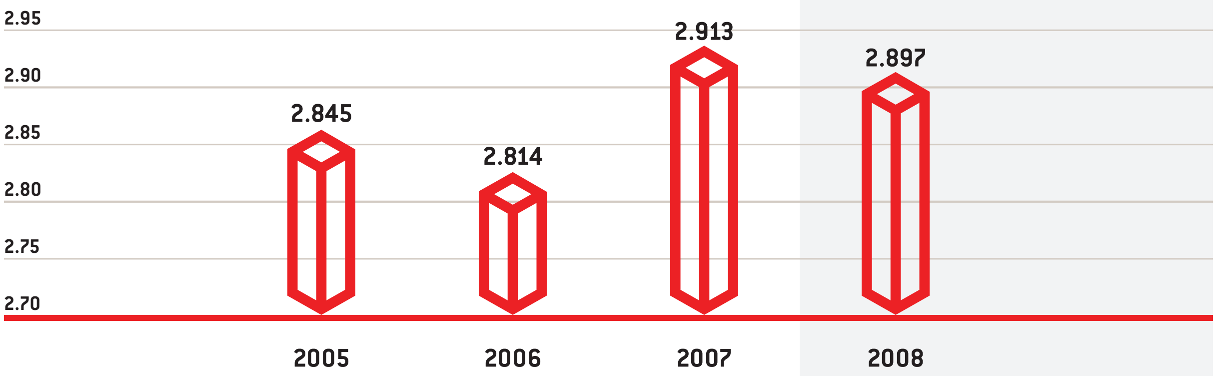
Below, we discuss in more detail each of the major programs recently undertaken by Cargolux to reduce fuel burn and related air emissions:

1) **"Cost-index" flying:** In mid-2007, Cargolux implemented a cost-index based flight planning speed schedule. The cost index takes into account several cost variables in a flight and is used to determine how fast an aircraft should fly. For instance, if an aircraft is not bound to time-critical landing slots or crew duty times, it may fly at a slower speed than the standard Mach 0.85.

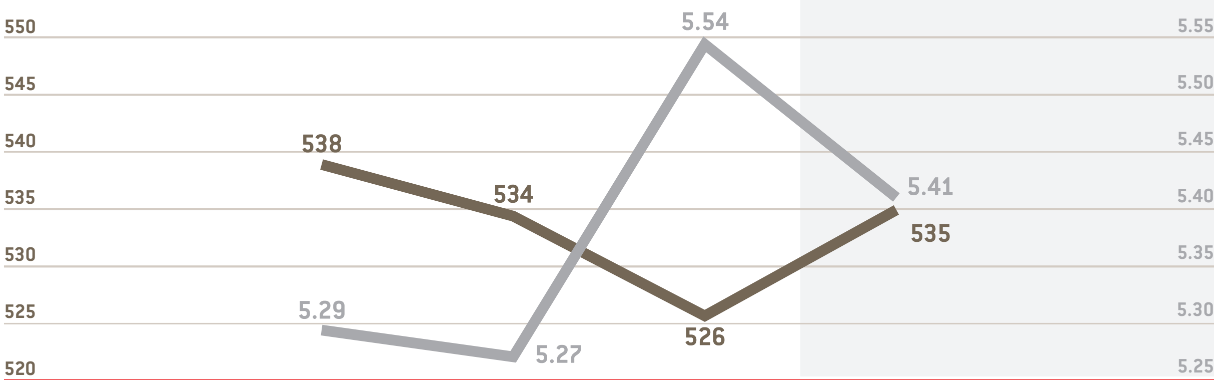
2008 was the first full year during which cost-index-based flying was applied. As a result, Cargolux achieved an estimated fuel saving of 9,025 tonnes throughout 2008, compared to our previous method of flying our aircraft. This represents a saving of 28,430 tonnes of CO_2.

MILLION TONNES OF CO_2

PRODUCED BY CARGOLUX'S AIRCRAFT, INCLUDING ADDITIONAL LEASED-IN CAPACITY.



	2005	2006	2007	2008
CO_2 EVOLUTION		-1.1%	+3.5%	
CO_2 / FTK EVOLUTION		-0.7%	-1.5%	



NB: CO_2 EMISSIONS ARE CLOSELY LINKED TO THE GROWTH OF OUR ACTIVITY

CARGOLUX UNIT OF PRODUCTION: THE FREIGHT TONNE-KILOMETER (FTK)

As a cargo airline, Cargolux measures its production in the number of metric tonnes of cargo flown over numbers of kilometers. This gives an indication of how much freight was transported, as well as the distance each tonne traveled (on average).

2) Saving on APU use: The Auxiliary Power Unit (APU) is a small turbine located in the tail section of the aircraft. It provides electrical power when no ground energy supply is available, and pneumatic air to start the main aircraft engines. The APU has several drawbacks: it is noisy and uses significant amounts of fuel to provide power. In 2007, a network-wide campaign was launched to ensure that, wherever possible, electric power was obtained from the airport, either from a mobile ground power unit (diesel powered), or from a fixed ground power installation. Ground power is far more fuel-efficient and in many cases cheaper.

As a result, through 2008, the average usage of the APU could be reduced by 8.8% over the year compared to 2007, which represents an average monthly saving of 12 hours per aircraft. This represents a total saving of 817 tonnes of fuel over the year, or 2,574 tonnes of CO_2.

3) Aircraft weight reduction: In 2008, a weight reduction program was undertaken for our entire fleet. Approximately 250 kg of material could be removed from each one of our aircraft through a modification of our bulk cargo compartment, the removal of unused cargo locks and a modification of our fly-away maintenance kit.

Bearing in mind that each kg saved across the fleet represents a saving of approximately 2700 Kg of fuel over the year, this program is estimated to lead to an overall fuel saving of close to 675 tonnes, or 2,100 tonnes of CO_2.

CARGOLUX AND THE ENVIRONMENT

4) Center of gravity optimization: The fuel consumption of an aircraft is influenced by the way cargo loads are balanced out on the aircraft, and by the center of gravity that is achieved as a result of this load balancing. An ideal center of gravity has been defined by Cargolux, through which the lowest fuel consumption is achieved without compromising safety. Cargolux's load planners seek at all times to reach this center of gravity, within the operational constraints imposed by each routing.

Since 2008, a new IT module has been integrated into our load planning system that makes it possible to plan the aircraft loading more precisely and bring it closer to the optimal center of gravity. An analysis of all flights undertaken in 2008 has shown that, thanks to this tool, flights are now loaded more closely to the ideal center of gravity. Overall, 9.5% more flights are now loaded within 0.5% of the target compared to a reference period in 2007, before the tool was used.

Fuel savings achieved as a result over the year amount to an estimated 88.6 tonnes.

5) Engine compressor washing: Research performed by Cargolux's engineering department in 2007 and 2008 has shown that certain engine types consume less fuel if the core of the engine is regularly washed. This removes the deposits that accumulate over time on the compressor blade airfoils and improves airflow and overall engine performance.

Our research has found that washed General Electric engines consume up to 0.18% less fuel. The same procedure applied to Rolls Royce engines does not yield substantial fuel savings, but does improve the longevity of the engine.

In 2008 Cargolux has begun regularly cleaning both General Electric and Rolls Royce engines. Based on our current fuel consumption and GE-engined fleet composition, we expect savings of approximately 500 tonnes of fuel per year as a result.

6) Fuel usage for air-conditioning: In certain cases, flying goods at specific temperatures requires more fuel than flying non temperature-sensitive cargo. In 2008, our flight planning department systematically started to plan additional fuel requirements when perishable goods are on board. This removes an element of uncertainty in our flight operations, which previously led pilots, in certain cases, to request more fuel than necessary.

AVIATION EMISSIONS: WHAT ARE THEY, WHAT IS THEIR IMPACT ON THE ENVIRONMENT?

Aircraft engines have tremendously evolved over time, which resulted in substantial improvements as far as atmospheric emissions are concerned. Contrary to models of previous decades, modern jet aircraft such as the Boeing 747-400F emit comparatively small amounts of carbon monoxide (CO) or unburned hydrocarbons (UHC).

However, they do emit carbon dioxide (CO_2), Oxides of Nitrogen (NO_x) and water vapor, all three of which contribute to global warming at varying degrees. Engines also emit smaller quantities of particulates, which are also believed to contribute to global warming.

While aircraft engine manufacturers try to reduce the overall emissions of their engines, the engineering challenges get more and more difficult to overcome as the engines get better.

For instance, more efficient engines burn fuel at higher temperatures, which will result in a higher power output with less CO_2 emissions. However the high temperatures also result in high NO_x output. Conversely, reducing the burning temperature reduces NO_x emissions but the engine requires more fuel to achieve the same power, and therefore would emit more CO_2.

The challenge of engine makers is to produce engines with high power output at relatively low temperatures, featuring a relatively low fuel burn and low NO_x emissions at the same time. All manufacturers are currently contributing to this tremendous research effort. The latest result is the GEnx engine produced by General Electrics, that will equip the next generation Boeing 747-8F, planned for delivery in 2010.

Legal limits are set on the amounts of NO_x that may be emitted. The engine types operated by Cargolux fall well below these limits.

CO_2 emissions, on the other hand, occur in direct relation to fuel consumption and cannot be regulated in the same way. Scientific research has determined that, for each kg of fuel burnt in an aircraft turbine, 3.15kg of CO_2 are emitted into the atmosphere. The responsibility falls therefore on airlines to constantly improve their equipment and procedures, in order to ensure that their flight operations are as energy efficient as possible.

CARGOLUX AND THE ENVIRONMENT

FLEET PERFORMANCE MONITORING

Aside from the fuel-saving exercise outlined above, a one-time saving was realized in 2006 when one of Cargolux's aircraft was re-calibrated. Extensive research indicated that its flight profile did not correspond to measurements made by its own instruments. This was found to be due to a small inaccuracy in the profile of the aircraft's skin in the area of one of the aircraft sensors, which was therefore returning incorrect speed and altitude information. A re-profiling of the fuselage was undertaken and the instruments now function accurately.

Since this small modification was made this particular aircraft burns an estimated 790 tonnes less fuel each year.

ONGOING PROGRAMS

In addition to the actions underlined above, Cargolux is currently engaged in several programs that will lead to additional fuel savings in the near future.

SATELLITE COMMUNICATIONS

Cargolux is testing a new cost-effective satellite communication system for its aircraft, based on the Iridium network.

Satellite communications offer the advantage of allowing aircraft to fly where no air traffic control is available over VHF radio. As a result, straighter routings become available over desert areas, high-sea regions (e.g. the Pacific) or the North Polar region. Many of these routings are part of the Future Air Navigation System (FANS), a new data-based air traffic control system. They are only accessible to aircraft equipped with both FANS data transfer and satellite communications technology.

Cargolux has been involved in the development of Iridium for aviation use from the earliest stages. Since 2008, Cargolux is taking part in the work of an FAA Rulemaking Committee addressing the use of Iridium for the FANS data transfer within the US airspace. This will allow Cargolux to be one of the first airlines to implement the system.

In 2008, testing has been successfully completed on four airplanes and the rest of the fleet is being equipped during the regular "A" maintenance checks at our facilities. According to current estimates, the entire Cargolux fleet will be equipped by August 2009.

The savings Cargolux may realize by flying FANS routes are substantial. Depending on dominant winds, up to 28 minutes could be saved on routings between Europe and China. The estimated annual fuel saving on our Luxembourg-Hong Kong and Luxembourg-Shanghai routes would amount to over 1,450 tonnes, based on our current schedule.

Cargolux will begin flying FANS routings as soon as the civil aviation authorities involved have approved the use of FANS datalink and Iridium satcom technology.

FLEET RENEWAL

The most significant reductions in CO_2 emissions are planned to be achieved through our scheduled fleet renewal program.

Cargolux is the launch customer for the next-generation Boeing 747-8F, which is currently being built and is expected to be ready for delivery in the second half of 2010. Cargolux has ordered 13 aircraft, has options to buy two more, and will be the first airline to operate the new type. These 13 aircraft are scheduled to be delivered by 2014. As the new 747-8F aircraft join our fleet, our current 747-400F fleet will be gradually reduced.

Boeing predicts fuel savings of 17% per tonne-km flown compared to our current aircraft type, the Boeing 747-400F. This efficiency increase will lead to an equivalent reduction in CO_2 emissions deriving from our activities.

B) NON-FLIGHT ACTIVITIES

Cargolux's second largest energy consumption sector concerns trucking. Around 24 million tonne-km of goods are trucked each year, on fleets of trucks that are sub-contracted on a long-term basis. The great majority of this trucking activity (92%) takes place in Europe, where goods are transported between production or distribution centers throughout the continent and Cargolux's operational hub in Luxembourg. A more limited amount of trucking also links Cargolux's other European flight destinations.

In total, 362 vehicles were regularly used to transport goods on behalf of Cargolux, owned by 9 different contract operators. Similarly to Cargolux, these contractors seek to regularly improve the fuel-efficiency of their fleets, and have committed to further efficiency improvements in coming years.

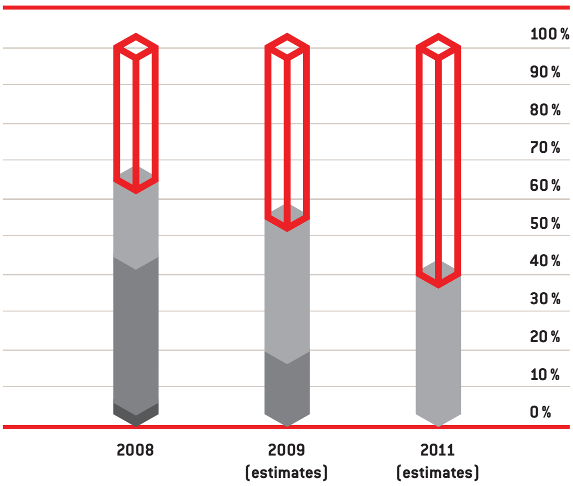
CARGOLUX AND THE ENVIRONMENT

European trucks are categorized according to the amount of atmospheric emissions they produce. In January 2009, an agreement was reached whereby Cargolux's trucking contractors commit to gradually modernizing their fleets, in order to achieve a full Euro IV and Euro V classed fleet by 2011 (Euro V being the currently applicable standard for newly built trucks, and the most stringent).

The graph below outlines the development of our contractors' fleets dedicated to Cargolux activities over the coming years.

EUROPEAN TRUCKING FLEET

PROJECTED COMPOSITION OF 3RD-PARTY FLEET OPERATING FOR CARGOLUX IN EUROPE



EMISSIONS CLASS: EURO II ■ EURO III ■ EURO IV ■ EURO V ■

II. NOISE

The emission of noise is the second most important area of environmental concern to Cargolux and all possible efforts are made to mitigate the amount of noise produced by our aircraft.

Noise emissions are particularly an issue at Cargolux's hub airport, Luxembourg, due to its location in the direct vicinity of Luxembourg City. Cargolux is responsible for about 16.6% of all jet aircraft movements at the airport. On average, 11 Cargolux aircraft currently take off and land at Luxembourg airport every day.

Cargolux's efforts to maintain low noise levels are evidenced through:

- the Company's current fleet and fleet renewal policy;
- current approach and landing practices;
- the Company's participation in research efforts in the field of aviation noise, and;
- current efforts at improving noise monitoring, both within the Company and at airport level.

Cargolux's efforts are appreciated not only in Luxembourg, but also at other airports on its network. This is demonstrated for instance by the "2007 Fly Quiet Award" that was awarded in June 2008 to Cargolux by Seattle's SEATAC airport, for its application of noise abatement procedures.

QUIET FLEET

Cargolux has, for many years, sought to produce as little noise as possible when operating in and out of Luxembourg airport. Since 1999, our fleet of aircraft is solely composed of one of the quietest large cargo aircraft available, the Boeing 747-400F. This aircraft produces substantially less noise than its predecessor aircraft, the Boeing 747-200F, which is still operated by many other carriers flying into Luxembourg. Indeed, the noise footprint of a Boeing 747-400F at 85 dBA is only about half as long as the equivalent footprint of a Boeing 747-200F. This footprint will be significantly reduced with the introduction of the 747-8F.

CARGOLUX AND THE ENVIRONMENT

During 2008, Cargolux leased two 747-200F aircraft from a third party provider. These flights only represented 4.1% of take-offs and landings in Luxembourg over the year, or 3 take offs and landing per week. This lease agreement was not renewed and no 747-200F based operations are planned by Cargolux for 2009.

From the second half of 2010 onwards, Cargolux will be the first airline worldwide to operate Boeing's new generation of 747 aircraft, the Boeing 747-8F. This all-new aircraft will benefit from several important technological advances that will reduce its noise footprint by a further 30%. This will bring the noise levels of the 747-8F to that of many smaller aircraft taking off from Luxembourg airport.

The new technologies center on the aircraft's engine, which will feature a new type of 3-D shaped aerodynamic fan blade, a seamless air intake that will cause less resonance, as well as chevron-shaped exhausts. The combined effect of these features, in addition to the larger size of the fan (which therefore turns more slowly), will substantially reduce noise levels of the aircraft.

RESPONSIBLE OPERATIONS

Cargolux seeks at all times to observe noise abatement procedures prescribed by all airports where we operate. At Luxembourg airport, for example, when landing, our flight crews apply idle-reverse braking whenever weather conditions allow. This method of braking relies on opening thrust reversers without applying thrust and using wheel brakes. It is a much quieter way of slowing down the aircraft than the more common full thrust reverse method.

Similarly, whenever air traffic and air traffic control restrictions allow, Cargolux flight crews apply a continuous descent approach, which consists in regularly approaching the airport on a 3 degree slope from cruising altitude. In contrast to the traditional stepped approach, the aircraft does not need to maintain level flight at low altitude, and thereby does not need to apply thrust close to the ground. This results in quieter landings.

UNDERSTANDING AND REDUCING AVIATION NOISE

Over recent years, Cargolux has taken part in several research projects focusing on aviation noise in Luxembourg. The most recent of these, "Luxembourg Aviation Noise", was undertaken by the Henry Tudor Research Center, funded largely by the Luxembourg government. This study was completed at the end of 2008 and its conclusions were submitted to the Luxembourg government in November. These proved very valuable in the establishment of the government's noise action plan for Luxembourg Airport.

The researchers calculated the overall noise levels produced at the airport. The noise levels were based on a simulation study of the Boeing 747-400F aircraft. In turn, the levels were weighted according to the topography as well as the population density surrounding the airport. The objective of the study was 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 aviation noise nuisances.

The researchers also developed a tool that may be used by Cargolux in order to determine the levels of noise exposure to populations surrounding the airport for a given schedule and take-off or landing profile.

DAY-TO-DAY MONITORING

Luxembourg's airport administration currently measures the noise produced by every aircraft landing or taking off and submits reports to every airline using the airport. However, due to the positioning of the microphones, current measurements cannot properly monitor improvements in noise levels that would result from a change in operational procedures.

Cargolux supports the enhancement of this measurement system with a view to obtaining more accurate noise data on our operations. This would allow us to better monitor the effectiveness of new operational procedures.

CARGOLUX AND THE ENVIRONMENT

III. WASTE

Cargolux has an interest in ensuring that the waste produced by the Company is disposed of properly and recycled where possible. Compared to certain heavy industries, the total amount of waste produced by an airline is limited. However, it remains crucial to ensure that all sensitive substances are properly treated.

While the sorting and safe disposal of waste resulting from Cargolux's maintenance activity (oily waste, VOCs, acids) has taken place for many years, Cargolux has contracted in 2008 a new waste disposal Company which manages all waste disposal on the sites and in buildings controlled by Cargolux in Luxembourg.

This new service offers several advantages over previous waste disposal arrangements. More categories of waste can now be sorted and treated. The new service provider offers total traceability over how and where the waste is treated, and the new scheme extends to the sorting and disposal or recycling of office-generated paper and plastics waste, in the buildings where this activity is controlled by the Company.

In recognition of the efforts made by Cargolux in the area of waste management, the Luxembourg Ministry of Environment awarded Cargolux its "Superdreckskëscht fir Betriber" label on 18 June 2008. The label is delivered to 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 will be subject to annual renewal following audits that will verify our adherence to these principles.

WASTE DISPOSAL BY CATEGORY, 2008

SITES CONTROLLED BY CARGOLUX IN LUXEMBOURG

[1] Recyclable waste includes metals, plastics, wood, glass, paper

[2] Hazardous waste includes solvents, paints, adhesives, oily sludges, chemicals, waste containing heavy metals, batteries, among others

ONGOING PROJECTS

RECYCLING OF PALLET PACKING MATERIALS

Air freight also generates waste that is normally managed by handling agents. Aircraft pallets are usually covered in plastic sheeting to protect the cargo from humidity and rain during loading or offloading. Wood is used to spread the weight of very dense shipments over the surface of the pallet.

Our Luxembourg-based handling agent, Luxair Cargo, handles the largest volume of Cargolux freight. In 2008, Luxair Cargo reported the recycling of an estimated 355 tonnes of PE plastic sheeting used to cover Cargolux pallets, and shredded an estimated 670 tonnes of wood from Cargolux shipments, for re-use as heating pellets.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THE SOCIAL DIMENSION

THE SOCIAL DIMENSION

I. OUR EMPLOYEES

A) CARGOLUX'S STAFF MANAGEMENT PHILOSOPHY

At Cargolux we are convinced of the value of hiring staff for the long term. Keeping employees for long periods of time allows them to reach a high degree of specialization and provides the right framework for developing the skills that will allow them to efficiently participate in the operation of the airline.

Cargolux offers a friendly, family-company atmosphere and employs its staff on the basis of an advantageous collective work agreement, coupled with a standard package of non-income based benefits that reach well beyond minimum employment requirements in Luxembourg. The vast majority of our employees are hired on the basis of firm, full-time contracts, and all office-based staff benefit from a flexible working time arrangement.

Both Cargolux's staff management philosophy and the working conditions offered result in a low turnover rate, of 4,3% in 2008. Cargolux benefits from a balanced spread of age groups among its staff, and thereby a healthy mix of experienced and developing members. This ensures that specialist knowledge is passed on to new generations and contributes to the stable growth of the Company.

STAFF TURNOVER BY CATEGORY, 2008 (LUXEMBOURG)

MEN	4.3%
WOMEN	4.6%
BELOW 30 YRS	6.1%
30 - 50 YRS	2.4%
>50 YRS	13.2%
STAFF COVERED BY COLLECTIVE WORK AGREEMENT	87.5%
STAFF WITH PERMANENT CONTRACT	96.4%

Cargolux benefits additionally from the extremely multi-national and multi-cultural composition of its staff. As many as 31 different nationalities are represented among the 1,155 staff members employed in Luxembourg, and 51 nationalities among the 1,530 persons employed worldwide. This is an important element, that greatly helps the Company to integrate and adapt to cultures and customs throughout the world.

B) TRAINING: DEVELOPING OUR MOST IMPORTANT ASSET – OUR STAFF

Training constitutes an important element of the day-to-day functioning of all airlines. This is especially true for Cargolux, having set itself the objective of featuring among the most efficient airlines in the world.

Training at Cargolux falls into two categories:

1. Pilots and mechanics regularly attend courses in order to maintain and upgrade their licences and receive training on the use of new equipment, technologies or the application of new procedures. Similarly, ground services employees follow courses to be entitled to perform certain functions, such as supervise the loading of an aircraft. This type of training is a legal requirement.

2. Cargolux also offers various types of training to its office staff, so that they can acquire new skills and develop their areas of competence and expertise. This type of training falls beyond legal requirements and constitutes a voluntary action on the part of the Company.

Training for office staff ranges from ad-hoc, short term courses to longer-term training programs (for instance, Cargolux organizes a Management Development Program, aimed at developing the leadership and personal skills of its middle and upper management). It also includes the possibility to undertake higher education degrees in disciplines of interest to the Company. Cargolux offers studying staff members additional days off, and reimburses 50% of the tuition fees upon completion of the degree.

Both types of training contribute to the personal development of employees concerned, by giving them skills and levels of knowledge that they may not have acquired by working in other economic sectors, or even for other airlines.

In 2008, 957 Cargolux employees received non-compulsory training, totaling 11,710 hours. This represents an average of 7.7 hours per employee.

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GIVING A HELPING HAND THROUGH TRAINING

Cargolux's training activities also benefit individuals working for other companies throughout the world. Due to the specialist knowledge required to supervise the loading and offloading of a Boeing 747-400F, Cargolux provides its own cargo training to employees of General Handling Agents (GHA) working for the airline. These employees travel to a location where this training is provided at Cargolux's expense, and obtain a qualification that can also be used for working with other airlines.

This arrangement extends to GHA employees who may not directly work on Cargolux aircraft. This little help provided by Cargolux can be very valuable, especially in countries where obtaining professional qualifications can represent an economic challenge to large parts of the population. In 2008, Cargolux provided training to 304 external persons, many of whom are employees of GHAs working with Cargolux throughout the world. These represented 32% of total participation at Cargolux training courses.

C) CARING FOR THE HEALTH AND SAFETY OF OUR EMPLOYEES

Cargolux gives the highest level of importance to the health and safety of all its employees. Particular attention is paid to our maintenance and ground operations staff; these may be exposed to potentially dangerous situations, be it through the use of specific machinery or equipment, by coming into contact with hazardous substances or due to their activities close to the aircraft. It also concerns our flight crews, who are exposed to higher levels of cosmic radiation at high altitude.

Cargolux's accident statistics refer to all accidents occurring to Luxembourg-based staff (including all pilots and mechanics). However accidents occurring outside Luxembourg are also monitored and preventive actions are discussed and agreed with the responsible station manager.

ACCIDENT FREQUENCY
COMPARED TO LUXEMBOURG AVERAGE AND COMPARED TO LUXEMBOURG AVIATION SECTOR (57 COMPANIES)

	2005	2006	2007	**2008**
CARGOLUX	**6.93**	**7.03**	**5.7**	**5.41**
LUXEMBOURG	7.75	7.69	7.01	**N/A**
AVIATION SECTOR	8.21	9.7	8.45	**N/A**

Number of accidents per 100 full-time employee units
Note: the Luxembourg Accident Insurance Association (AAA) publishes its annual figures in April. 2008 figures could therefore not be included in the present report.

Accidents involving Cargolux staff, both at work (internal) and while on their way to/from work (external), have traditionally remained at very low levels. Our statistics show that over the past 10 years, the percentage of internal accidents compared to the total number of employees has remained below 4%, which is a very good rate for industrial sites.

NUMBER OF ACCIDENTS

	2005	2006	2007	**2008**
INTERNAL ACCIDENTS	33	36	41	**32**
EXTERNAL ACCIDENTS	24	27	11	**19**
TOTAL ACCIDENTS	**57**	**63**	**52**	**51**

According to Luxembourg's Accident Insurance Association (AAA), Cargolux's accident frequency rating was situated at 5.41 in 2008. For the past 10 years, Cargolux's rating has remained consistently below the average rating of Luxembourg companies, and also well below the safety rating within Luxembourg's aviation sector (currently counting 57 companies).

The AAA frequency rating shows the percentage of hours lost compared to total available work hours. The rating takes into account all accidents where one working hour or more were lost and where external medical treatment was provided to the employee.

PREVENTION PROGRAMS

Cargolux regularly launches health and safety programs aimed at addressing particular concerns. The latest, entitled “Hazsub”, was launched in 2007 and ran through 2008. Its objective was to perform a professional risk assessment on the use of hazardous substances at the workplace at Cargolux’s headquarters in Luxembourg. This program was jointly completed with the cooperation of Luxembourg’s Ministry of Health and our Company doctor.

Its objective was, where possible, to simplify information on hazardous substances and to ensure that vital safety and health related information is clearly and rapidly understood. Over 650 substances have been assessed and classified during this project and the information on their material safety data sheets was used to write a product information sheet providing the most important information on the product in a simplified and user-friendly way. In addition, on-site training is provided to mechanics and their medical checks are adapted to take into account the substances they may enter in contact with. As a result of the initiation of this program, a review of all substances used at Cargolux is performed, resulting in the reduction, or replacement of a number of dangerous substances.

The efforts made by Cargolux in 2007 and 2008 on that project were recognized by the Luxembourg Labour Inspectorate which represented the European Agency for Safety and Health at Work. Cargolux obtained a Best Practice Award in October 2008.

Another ongoing program, launched by Cargolux in 2006, is entitled “0-5”. It focuses on the potential health and safety risks that mechanics could be exposed to in their first 5 years of activity. Through this program specific training is organized on the use of certain types of equipment, to prevent accidents that could occur from lack of experience, as well as to ensure a safety-oriented approach to the mechanics’ work at all times. Cargolux has made this training compulsory for all starting mechanics. 14 new mechanics joined the program in 2008.

All machinery and equipment used at Cargolux is subjected to both internal and external audits. The recommendations made by the external auditors have all been implemented to date.

2008 also saw the continuation of Cargolux’s latest Health and Safety Awareness campaign, launched to attract attention to potentially careless or dangerous behaviour, in particular in the vicinity of our aircraft.

II. OUR RELATIONSHIP WITH THE COMMUNITY

A) CARGOLUX’S APPROACH TO OPERATIONAL SAFETY

The safety of Cargolux’s flight operations is, and will always remain, Cargolux’s first priority. In order to ensure that the highest levels of safety are maintained, a Safety Management System is implemented within Cargolux, through which a careful monitoring of flights and an analysis of potential threats to safety are undertaken.

These activities are backed by a safety reporting system functioning under a no-blame policy, whereby employees are encouraged to point out any occurrences or safety hazards, in the interest of maintaining the highest possible safety level. These reports are reviewed regularly by a flight safety committee. Where appropriate, corrective action is undertaken, which may be the removal or risk reduction of an identified hazard or the organization of training aimed at perfecting specific skills or other knowledge.

The safety system is integrated into the day-to-day functioning of all divisions connected to the operation of our aircraft (maintenance, flight and ground operations). It also relies on data obtained from a variety of sources, and information to our staff, provided through several distinct channels. This ensures that all possible threats to the safety of our operations are comprehensively taken into consideration and addressed as soon as they are identified.

B) INTEGRATION INTO LUXEMBOURG SOCIETY

Cargolux is firmly integrated into the Luxembourg community and is committed to pursuing and developing its contribution to the local economy and society.

ECONOMIC DEVELOPMENT

With 1,155 employees in Luxembourg and 1,530 worldwide, Cargolux counts among the most important economic actors in the country. The Company was listed as the 25th largest employer in the country in 2008. Its contribution to the Luxembourg economy, in terms of salaries, taxes, landing and handling fees and payments for goods and services, amounted to € 314 million in 2008.

As an economic actor, however, Cargolux’s contribution to the Luxembourg economy is far greater. Many companies benefit directly or indirectly from the airline’s operations in Luxembourg. For example, in 2008, Cargolux’s activities represented

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68.2% of all traffic handled at Luxair's Cargo Center, which employs close to 1,150 persons (Luxair Cargo is Cargolux's handling agent at Luxembourg airport). For each new aircraft joining our fleet, Luxair hires on average up to 40 persons who take care of the handling. Cargolux's activity also provides employment to freight forwarders and trucking companies, as well as other local commercial activities (restaurants and various service providers for instance).

A study published in 2008 by the organization Findel ASBL indicated that as many as 4,717 jobs depended directly on the activities of the airport and that these activities generated just over 1,600 indirect jobs (including over 1,300 jobs created by trucking and freight forwarding companies).

PARTICIPATION IN EDUCATION AND RESEARCH

Mechanic's training: Since 1979, Cargolux has been an active participant in Luxembourg's education system. Together with the national passenger carrier Luxair and the private secondary school Lycée Technique Privé Emile Metz, a partnership was concluded which allows secondary school students to become fully trained as aircraft mechanics in Luxembourg. In 2001, the program was expanded and students now obtain an Aircraft Mechanics' licence conforming to the European Aviation Safety Agency regulations, Part 66.

This curriculum is quite demanding on the part of the students, in particular since all teaching material is provided in English, the language of the aviation sector, which is not a mother tongue in Luxembourg. Following a successful completion of the two-year school program and two years of practical training at either Cargolux or Luxair, the students obtain their licence, which is a prerequisite for a full time employment contract.

In 2008, eight new students were admitted into the program. 58 students joined the program since 2001 and 31 were hired as full-time mechanics at Cargolux.

Higher education and Research: Cargolux's most recent participation in a research project was the Luxembourg Aviation Noise project, mentioned in our section on noise. This project is very important to Cargolux, as its results, as well as those of possible follow-up studies, will lead to an improvement in the quality of our service and to a reduction in nuisances caused to communities living around the airport, in particular those living in Luxembourg City.

Cargolux plans to actively support further research efforts centering on air cargo transport and the improvement of air traffic at Luxembourg airport.

Since Autumn 2008, Cargolux is also participating in a research project initiated by Boeing, which aims at developing a new type of bio-fuel specifically geared towards commercial aviation. This fuel should be derived from plants that do not compete with food crops (plants envisaged include certain types of algae or plants able to grow in semi-desertic areas, such as jatropha). This initiative is beneficial both from the environmental point of view, since the plants grown for the fuel will participate in absorbing some of the CO_2 that will be emitted by aircraft consuming it, and from an economic standpoint, by ensuring the independence of the aviation industry from highly fluctuating fuel prices. Eight airlines besides Cargolux are participating in this project, representing 15% of worldwide commercial aviation jet fuel demand.

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SUPPORTING NON-GOVERNMENTAL ORGANISATIONS

Where possible, Cargolux seeks to assist Luxembourg-based non-governmental organizations in the implementation of various projects.

In 2007 a multi-annual partnership was initiated with the NGO "Hëllef fir d'Natur", which works towards the preservation of wildlife and nature throughout the country. Our yearly financial donation supports the efforts of this organization to maintain and develop the equipment of a nature reserve located at the foot of the plateau on which Luxembourg airport is situated.

These wetlands provide a very specific environment that allows various species of migratory birds to nest and reproduce, during a break on their long journey between Northern Europe and the Mediterranean or Africa. Birds from as many as 87 different species have been ringed at this reserve, 84 of which are migratory. This allows scientists to track their progress and better understand the birds' migratory patterns.

Many of these birds would not be able to reproduce at all if these wetlands had not been preserved by this association. The reserve is also located sufficiently far away from the airport that neither the birds nor aircraft operations face any risk from one another.

Occasionally Cargolux also supported other Luxembourg-based NGOs in 2008, including the Kiwanis association, which provides psychological support to children staying at hospital, the Luxembourg Red Cross and ZAZ, which supports children struck with diabetes.

SUPPORTING LUXEMBOURG'S CULTURAL AND SPORTS SECTORS

Since its earliest days, Cargolux has sought to support both Luxembourg's cultural and sports activities: Whether Luxembourg sportsmen or musicians performing abroad, or Luxembourg artists exhibiting at museums overseas. This support also extends to cultural and sports activities in Luxembourg.

In 2008, Cargolux has pursued its partnership with Luxembourg's Modern Art Museum (MUDAM), which was first initiated in 2004. Cargolux transports works of art on behalf of MUDAM that are on loan from museums and collectors worldwide, and that become part of themed temporary exhibitions at the museum. In 2008, Cargolux supported five different exhibitions through free of charge transports and also transported goods for the permanent collection of the museum

Cargolux similarly supports sports activities in Luxembourg. On the occasion of the Olympic games in Beijing, Cargolux flew the equipment of the 12 sportsmen of the Luxembourg team to Beijing and back. Over 2008, Cargolux has also sponsored various Luxembourg sports teams and events, focusing on youth teams, with a view to supporting young sportspeople and their efforts towards achieving international recognition.

Since 2008, Cargolux is also actively involved in the organization of Luxembourg's pavilion at the Shanghai Expo 2010. This is a major undertaking where Cargolux will help represent Luxembourg's image to a global audience.

FLYING HELPS!

When providing assistance to non-governmental organizations, sportspeople and artists, Cargolux helps, where possible, by doing what it knows best: flying cargo. Cargo transport constitutes a substantial part of the budget of a humanitarian, sports or artistic project, in particular if goods need to be transported between continents. Cargolux's help often tips the balance towards its successful completion.

Transport is provided on a stand-by basis, according to space availability on our flights.

THE SOCIAL DIMENSION

C) SOCIAL CONTRIBUTIONS, WORLDWIDE

Cargolux has a long-standing tradition of supporting local and international relief organizations, not only in times of crisis or natural disaster, but on a regular basis. In order to play its part in helping countries and people, Cargolux has flown relief goods to those who urgently need them. Most of these shipments are carried free-of-charge on a stand-by basis.

In 2008, Cargolux has carried goods to various destinations in Africa, including Chad, Tanzania, South Africa, Togo, the Ivory Coast, the Democratic Republic of Congo, Nigeria and Burkina Faso. Other shipments were flown to destinations in India and Ecuador.

These shipments contain items ranging from clothing, toys, books and school supplies to medical equipment, wheelchairs, medication and even bicycles and second-hand computers. They are collected by a number of organizations and mostly trucked to Luxembourg where they are fed into Cargolux's worldwide network. 23 shipments were transported free of charge for humanitarian purposes in 2008.

But the Company's support does not end here. All year round, the Cargolux staff collects relief items, either at its headquarters or at its worldwide stations, to add to one of the charity organizations' shipments or to arrange for a separate Cargolux charity shipment for the benefit of children and adults in need. Cargolux staff also packs the boxes, gets the necessary paperwork done and brings the goods to the Cargo Center in Luxembourg, where they are palletized. Cargolux offices at the destinations ensure customs clearance and onward distribution to local organizations.

HELPING THE CHILDREN OF CHENNAI, INDIA

Both Cargolux and its employees have been engaged in a long-term commitment to help the disadvantaged children under the care of a number of organizations in Chennai, India.

For many years, Cargolux has been helping three institutions in particular, the St Thomas Hospital, which specializes in treating children struck by cancer and leukemia, the Shishu Bhavan orphanage, run by the Sisters of Mother Theresa, which houses about 100 abandoned children of all ages, and the Cheshire Home for physically handicapped children.

This help is coordinated locally through a local NGO, LIFE (Luxembourg India Friendship Endeavour) , which is also involved in vocational training of the physically challenged women from the tsunami villages and educational and medical care for abandoned children. One of the organizers of LIFE is Cargolux's Country Manager for India.

Cargolux's contribution consists partly in direct financial support from the Company, as well as in voluntary contributions and donations of clothing, medication and medical equipment, school items and toys collected by Cargolux's crew and staff-members. Over time this solidarity action has become known outside the Company and Cargolux has been receiving additional donations from many individuals throughout Luxembourg.

In 2008, Cargolux suspended flights to India, as a result of which Cargolux and its employees could only help LIFE with financial donations. These are now being used for waterproofing the roof and renovating the sanitary installations of the vocational center, to improve access to handicapped persons. Part of the donations will also be used for supplying medicines to a home for the elderly, that LIFE also supports, in the Nilgiris mountains.

REPORTING PROCESS AND GRI

REPORT STRUCTURE, CRITERIA AND SELECTION OF ISSUES

This is Cargolux's first Corporate Social Responsibility report. Its elaboration was based on an 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 Cargolux top management and its employees, which include open questions and answer sessions

These 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.

This report is based on the guidelines of the Global Reporting Initiative (GRI), an international organization that provides global standards for reporting on sustainability. We believe that our report meets level C+ of the GRI G3 guidelines of 2006. 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).

The report covers key topics identified by the Company's Code of Business Conduct and Ethics, adopted in 2007, and its Environmental Policy, adopted in March 2009.

Cargolux plans to review and further refine its sustainability reporting process in the coming years, and 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 specified in the report. Certain indicators cover only our Luxembourg-based activities. These include figures relating to waste disposal, Cargolux's employees and health and safety-related data. It does not cover the activities of separate legal entities entirely or partially owned by the Company.

EXTERNAL ASSURANCE

Cargolux asked KPMG to provide limited assurance on the environmental and social chapters of this report (pages 27 to 46). However, the information and data published was collected by Cargolux and is presented entirely under the Company's responsibility. KPMG's assurance report can be found on page 47. Where possible Cargolux acts upon recommendations made by KPMG in order to improve its reporting process.

CONTACT

Cargolux invites all interested parties to enter into dialogue with us about our sustainability policy, 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.

GRI INDICATORS

G3 INDICATORS	CARGOLUX ANNUAL REPORT 2008
1 STRATEGY & ANALYSIS	
1.1 Statement from the most senior decision maker of the organization about the relevance of sustainability to the organization and its strategy.	p. 9
1.2	Not required for C level
2 ORGANIZATIONAL PROFILE	
2.1 Name of organisation.	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, Maintenance & Engineering, Human Resources, Corporate Services
2.4 Location of organization's headquarter.	Luxembourg
2.5 Number of countries where the organization operates.	51 countries
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.	- 2008 All Cargo Airline of the Year (Air Cargo News) - 2008 Award of Excellence (Air Cargo World) - 2008 Best All-Cargo Airline in Spain (Inter-Transport) - Fly Quiet Award 2007 (Seattle Airport) - Laureate European Health and Safety Week (Luxembourg)
3 REPORT PARAMETERS	
3.1 Reporting period.	Calendar Year 2008
3.2 Date previous report.	First report
3.3 Reporting cycle.	Annual
3.4 Contact point.	Cargolux Sustainability and Environment Services, e-mail: sustainability@cargolux.com
3.5-3.8	Reporting Process & GRI, p. 44
3.10 Explanation of the effect of any re-statements.	None
3.11 Significant changes from previous reporting.	First report, integrated into Annual Report
3.12 Table Standard Disclosures.	p. 45
3.9, 3.13	Not required for C level

GRI INDICATORS

G3 INDICATORS	CARGOLUX ANNUAL REPORT 2008
4. GOVERNANCE	
4.1 Governance structure of the organization.	p. 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.	10
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 governement.	p. 53-83
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. 29-32
EN16 Total direct and indirect greenhouse gas emissions by weight.	p. 30
EN18 Initiatives to reduce greenhouse gas emissions and reductions achieved.	p. 29-32
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. 38
LA2 Total number and rate of employee turnover by age group, gender, and region.	p. 38
LA4 Percentage of employees covered by collective bargaining agreements.	p. 38
LA7 Rates of injury, occupational diseases, lost days, and absenteeism, and number of work related fatalities by region.	p. 39
LA10 Average hours of training per year per employee by employee category.	p. 38
LA 3, 5, 6, 8, 9, 11-14	Not reported
HR1-HR7	Not reported
SO1-SO8	Not reported
PR1-PR9	Not reported

INDEPENDENT ASSURANCE REPORT

To the readers of the Cargolux Annual Report 2008.

We report on the information provided in the Environment chapter and Social chapter of the 2008 Annual Report (further referred to as "Environment and Social chapters") of Cargolux Airlines International S.A. ("the Company" or "Cargolux") for the year ended December 31, 2008 as set out on pages 27 to 46. The preparation and presentation of Environment and Social chapters including the identification of material environmental and social issues, in accordance with the sustainability performance reporting criteria applied by the Company is the responsibility of the Company's management. Environment and Social chapters include both quantitative and qualitative information. Our responsibility is to independently express a conclusion about the information provided in Environment and Social chapters and to report that conclusion to you.

WHAT WAS INCLUDED IN THE SCOPE OF OUR LIMITED ASSURANCE ENGAGEMENT?

Our engagement was designed to provide limited assurance on whether the information in Environment and Social chapters does not appear to be unfairly stated based on sustainability performance reporting criteria applied by the Company.

Procedures performed to obtain a limited level of assurance are aimed at determining the plausibility of information provided in Environment and Social chapters. To obtain a thorough understanding of the financial results and financial position of the Company, the reader should consult the audited financial statements of the Company for the year ended December 31, 2008.

Supplementary information included in the 2008 Annual Report of the Company has been reviewed in the context of our mandate but has not been subject to specific procedures carried out in accordance with the assurance standard described below. Consequently, we express no opinion on such information. However, we have no observation to make concerning such information in the context of Environment and Social chapters taken as a whole.

WHICH REPORTING CRITERIA DID CARGOLUX USE?

Cargolux applies its own sustainability performance reporting criteria, derived from the G3 Sustainability Reporting Guidelines of the Global Reporting Initiative as detailed on pages 44 to 46. We believe that these criteria are suitable in view of the purpose of our limited assurance engagement as they are criteria established by the Global Reporting Initiative.

WHICH ASSURANCE STANDARD DID WE USE?

We carried out our engagement in accordance with the International Standard on Assurance Engagements other than audits or reviews of historical financial information (ISAE 3000) as adopted by the Institut des Réviseurs d'Entreprises. This Standard requires, amongst others, that the assurance team possesses the specific knowledge, skills and professional competencies needed to understand and review the information in Environment and Social chapters, and that they comply with the requirements of the IFAC Code of Ethics for Professional Accountants to ensure their independence.

WHAT DID WE DO TO REACH OUR CONCLUSIONS?

To determine whether the information in Environment and Social chapters does not appear to be unfairly stated we:

- performed a media analysis and internet search to obtain information on relevant sustainability issues for the Company during the year ended December 31, 2008;
- reviewed the corporate level systems and processes for information management, internal control and processing of the qualitative and quantitative information in Environment and Social chapters;
- interviewed relevant staff at corporate level in Luxembourg responsible for the reported information as for example: environmental policy, fuel consumption, CO_2 emissions, human resources and training, health and safety, flight operations;
- collected and reviewed internal and external documentation to determine whether the qualitative and quantitative information in Environment and Social chapters is supported by sufficient evidence.

We did not perform all the work that would ordinarily be performed in a reasonable assurance engagement and therefore less assurance was obtained than in a reasonable assurance engagement.

WHAT ARE OUR CONCLUSIONS?

Based on the above work we conclude that the information in the Environment and Social chapters as set out on pages 27 to 46 of the Cargolux Annual Report 2008 of Cargolux Airlines International S.A. for the year ended December 31, 2008 does not appear to be unfairly stated based on sustainability performance reporting criteria applied by the Company.

WHAT ELSE DID WE OBSERVE?

Without affecting the conclusions presented above, we would like to draw readers' attention to the following:

This is the first environmental and social report of Cargolux. We recommend them to further develop their environmental and social management and reporting by, among others:

- incorporating existing social and environmental initiatives and policies into a formal strategy to ensure continuous improvement in performance and a basis for future reporting;
- considering the review of the current Code of Business Conduct and Ethics approved early 2007, with a view to incorporating additional requirements introduced by Cargolux signing-up to UN Global Compact at the end of 2007;
- further expanding its environmental indicators to include other material emissions to air such as SO_2, NO_x.

Luxembourg, April 3, 2009

KPMG ADVISORY S à r.l.

ERIC COLLARD

KPMG AUDIT S à r.l.

THIERRY RAVASIO


ROLLS
ROYCE



cargolux
LX-UCV




CONSOLIDATED FINANCIAL STATEMENTS

(AND NOTES THERETO)
OF CARGOLUX AIRLINES INTERNATIONAL S.A.
AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF THE **RÉVISEUR D'ENTREPRISES**

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 31,2008 and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes as set out on pages 53 to 83.

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. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due ta fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

RESPONSIBILITY OF THE RÉVISEUR D'ENTREPRISES

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 by the Institut des Réviseurs d'Entreprises. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance 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, 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 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 53 to 83 give a true and fair view of the consolidated financial position of Cargolux Airlines International S.A. as of December 31, 2008, 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, April 1, 2009
KPMG Audit S.à r.l.
Réviseurs d'Entreprises

THIERRY RAVASIO

KPMG Audit S.à r.l.
9, allée Scheffer
L-2520 Luxembourg

IFRS FINANCIAL STATEMENTS

CONSOLIDATED **INCOME STATEMENT**

FOR THE YEAR ENDED DECEMBER 31, 2008

NOTES		**2008 US$**	2007 US$
6	REVENUES	**1,983,212,241**	1,679,699,828
7	OTHER OPERATING INCOME	**1,462,762**	3,221,301
8	AIRCRAFT LEASE EXPENSES	**(78,704,596)**	(136,513,105)
9	AIRCRAFT MAINTENANCE EXPENSES	**(101,832,284)**	(94,443,909)
10	OTHER AIRCRAFT EXPENSES	**(3,139,017)**	(3,460,481)
15	DEPRECIATION EXPENSES	**(56,185,327)**	(43,507,646)
	FUEL	**(934,073,954)**	(627,332,407)
11	PERSONNEL COSTS AND BENEFITS	**(213,980,008)**	(196,474,618)
	HANDLING, LANDING AND OVERFLYING	**(270,923,840)**	(250,977,781)
	TRUCKING, REFORWARDING AND TRUCK HANDLING	**(116,753,927)**	(109,137,726)
12	OTHER OPERATING EXPENSES	**(195,256,241)**	(254,108,438)
	OPERATING PROFIT / (LOSS) BEFORE FINANCING COSTS	**13,825,809**	**(33,034,982)**
	FINANCIAL INCOME	**9,340,744**	11,594,163
	FINANCIAL EXPENSES	**(49,895,883)**	(29,724,295)
13	**NET FINANCE COSTS**	**(40,555,139)**	**(18,130,132)**
	SHARE OF PROFIT OF ASSOCIATES	**3,784,047**	1,628,172
	LOSS BEFORE TAX	**(22,945,283)**	**(49,536,942)**
14	CURRENT TAX	**(3,090,294)**	(8,519,199)
14	DEFERRED TAX	**(35,007,834)**	10,956,979
	LOSS FOR THE YEAR	**(61,043,411)**	**(47,099,162)**

IFRS FINANCIAL STATEMENTS

CONSOLIDATED **BALANCE SHEET**

AS AT DECEMBER 31, 2008

NOTES		2008 US$	2007 US$ *
	ASSETS		
15	AIRCRAFT AND EQUIPMENT	**923,222,712**	757,995,930
15	OTHER PROPERTY, PLANT AND EQUIPMENT	**180,809,944**	99,694,827
	DERIVATIVE ASSETS	**23,943,816**	11,353,120
16	INVESTMENTS IN ASSOCIATES	**35,482,855**	33,598,269
	DEPOSITS WITH THIRD PARTIES	**53,979,408**	27,108,614
17	DEFERRED TAX ASSETS	**135,618,567**	129,564,926
	TOTAL NON-CURRENT ASSETS	**1,353,057,302**	1,059,315,686
	EXPENDABLE PARTS AND SUPPLIES	**21,931,644**	20,454,352
18	TRADE RECEIVABLES AND OTHER RECEIVABLES	**350,277,232**	365,763,510
19	OTHER INVESTMENTS	**88,199,884**	72,619,573
20	CASH AND CASH EQUIVALENTS	**103,792,431**	94,594,174
	TOTAL CURRENT ASSETS	**564,201,191**	553,431,609
	TOTAL ASSETS	**1,917,258,493**	**1,612,747,295**
	EQUITY		
21	ISSUED CAPITAL	**360,018,000**	360,018,000
	SHARE PREMIUM	**5,845,691**	5,845,691
	RESERVES	**124,610,278**	206,546,301
	RETAINED EARNINGS	**24,808,674**	90,707,836
	LOSS FOR THE YEAR	**(61,043,411)**	(47,099,162)
	TOTAL EQUITY	**454,239,232**	616,018,666
	LIABILITIES		
22	INTEREST-BEARING LOANS AND BORROWINGS	**54,054,263**	107,092,499
22	FINANCE LEASE LIABILITIES	**501,098,781**	355,919,118
23	EMPLOYEE BENEFITS	**11,679,630**	12,881,111
	DERIVATIVE LIABILITIES	**148,505,501**	22,587,273
24	PROVISIONS	**238,369,490**	177,021,182
	TOTAL NON-CURRENT LIABILITIES	**953,707,665**	675,501,183
22	INTEREST-BEARING LOANS AND BORROWINGS	**172,279,164**	26,773,132
22	FINANCE LEASE LIABILITIES	**71,554,669**	45,675,176
20	BANK OVERDRAFTS	**1,720,688**	295,518
25	TRADE PAYABLES AND OTHER PAYABLES	**234,700,085**	227,503,580
24	PROVISIONS	**22,908,824**	10,228,958
	TAXES PAYABLE	**6,148,166**	10,751,082
	TOTAL CURRENT LIABILITIES	**509,311,596**	321,227,446
	TOTAL LIABILITIES	**1,463,019,261**	996,728,629
	TOTAL EQUITY AND LIABILITIES	**1,917,258,493**	**1,612,747,295**

* as reclassified – see Note 2

IFRS FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT **OF CASH FLOWS**

FOR THE YEAR ENDED DECEMBER 31, 2008

NOTES		2008 US$	2007 US$
	CASH FLOW FROM OPERATING ACTIVITIES		
	LOSS FOR THE YEAR	(61,043,411)	(47,099,162)
	ADJUSTMENTS FOR		
15	DEPRECIATION	56,185,327	43,507,646
	UNREALIZED FOREIGN EXCHANGE LOSSES/(GAINS)	3,244,244	(1,237,079)
13	NET FINANCE COSTS	40,555,139	18,130,132
	SHARE OF PROFIT OF ASSOCIATES	(3,784,047)	(1,628,172)
7	GAIN ON SALE OF PROPERTY, PLANT AND EQUIPMENT	(72,815)	(1,957,611)
5	FUEL HEDGING	17,515,378	(14,266,525)
24	CHANGE IN PROVISIONS	84,955,877	178,765,493
14	TAX EXPENSE/(INCOME)	38,098,129	(2,437,780)
24	USE OF PROVISION	(13,795,341)	(16,239,201)
	OPERATING CASH FLOW BEFORE CHANGES IN WORKING CAPITAL	161,858,480	155,537,741
	CHANGE IN WORKING CAPITAL	(31,673,494)	(85,531,458)
	CASH GENERATED FROM THE OPERATIONS	130,184,986	**70,006,283**
	INCOME TAX PAID	(12,083,317)	(6,691,422)
	INTEREST PAID	(30,090,829)	(21,797,830)
	NET CASH FROM OPERATING ACTIVITIES	88,010,840	41,517,031
	CASH FLOW FROM INVESTING ACTIVITIES		
15	ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT	(143,371,121)	(64,094,496)
	ACQUISITION OF ASSOCIATES	(143,038)	(15,243,462)
	ACQUISITION OF OTHER INVESTMENTS	(45,679,735)	(33,751,842)
	DIVIDENDS FROM ASSOCIATES	799,068	-
	INTEREST RECEIVED	8,481,012	8,605,271
	REIMBURSEMENT OF ADVANCE PAYMENTS	41,329,100	35,303,850
	PROCEEDS FROM SALE OF PROPERTY, PLANT AND EQUIPMENT	29,056	130,972,958
	PROCEEDS FROM SALE OF OTHER INVESTMENTS	27,710,206	12,720,077
	DEPOSITS WITH THIRD PARTIES	(17,572,221)	(10,485,269)
	NET CASH (USED IN) / FROM INVESTING ACTIVITIES	(128,417,673)	64,027,087
	CASH FLOW FROM FINANCING ACTIVITIES		
	REPAYMENT OF BORROWINGS	(13,630,167)	(59,161,600)
	REPAYMENT OF FINANCE LEASE LIABILITIES	(44,915,196)	(27,352,279)
	PROCEEDS FROM BORROWINGS	106,725,283	-
	NET CASH FROM / (USED IN) FINANCING ACTIVITIES	48,179,920	(86,513,879)
	NET INCREASE IN CASH AND CASH EQUIVALENTS	7,773,087	19,030,239
	CASH AND CASH EQUIVALENTS AT JANUARY 1	94,298,656	75,268,417
20	**CASH AND CASH EQUIVALENTS AT DECEMBER 31**	102,071,743	**94,298,656**

CONSOLIDATED STATEMENT **OF CHANGES IN EQUITY**

FOR THE YEAR ENDED DECEMBER 31, 2008

IN US$	ISSUED CAPITAL	SHARE PREMIUM	NON DISTRI-BUTABLE RESERVE	FREE RESERVE	CURRENCY TRANSLATION RESERVE	HEDGING RESERVE	TOTAL RESERVES	RETAINED EARNINGS	TOTAL EQUITY
BALANCE AS OF DECEMBER 31, 2006	**360,018,000**	**5,845,691**	78,871,800	57,000,000	(296,766)	(2,104,756)	**133,470,278**	**167,207,836**	**666,541,805**
ALLOCATION TO RESTRICTED RESERVE	-	-	16,500,000	-	-	-	**16,500,000**	**(16,500,000)**	-
ALLOCATION TO FREE RESERVE	-	-	-	60,000,000	-	-	**60,000,000**	**(60,000,000)**	-
CURRENCY TRANSLATION ADJUSTMENT	-	-	-	-	3,421,014	-	**3,421,014**	-	**3,421,014**
EFFECTIVE PORTION OF CHANGES IN FAIR VALUE OF CASH FLOW HEDGES, NET OF TAX	-	-	-	-	-	(6,844,991)	**(6,844,991)**	-	**(6,844,991)**
LOSS FOR 2007	-	-	-	-	-	-	-	**(47,099,162)**	**(47,099,162)**
TOTAL RECOGNIZED INCOME AND EXPENSE	-	-	-	-	3,421,014	(6,844,991)	**(3,423,977)**	**(47,099,162)**	**(50,523,139)**
BALANCE AS OF DECEMBER 31, 2007	**360,018,000**	**5,845,691**	95,371,800	117,000,000	3,124,248	(8,949,747)	**206,546,301**	**43,608,674**	**616,018,666**
ALLOCATION TO RESTRICTED RESERVE	-	-	18,800,000	-	-	-	**18,800,000**	**(18,800,000)**	-
ALLOCATION TO FREE RESERVE	-	-	-	-	-	-	-	-	-
CURRENCY TRANSLATION ADJUSTMENT	-	-	-	-	(1,391,333)	-	**(1,391,333)**	-	**(1,391,333)**
EFFECTIVE PORTION OF CHANGES IN FAIR VALUE OF CASH FLOW HEDGES, NET OF TAX	-	-	-	-	-	(99,344,690)	**(99,344,690)**	-	**(99,344,690)**
LOSS FOR 2008	-	-	-	-	-	-	-	**(61,043,411)**	**(61,043,411)**
TOTAL RECOGNIZED INCOME AND EXPENSE	-	-	-	-	(1,391,333)	(99,344,690)	**(100,736,023)**	**(61,043,411)**	**(161,779,434)**
BALANCE AS OF DECEMBER 31, 2008	**360,018,000**	**5,845,691**	114,171,800	117,000,000	1,732,915	(108,294,437)	**124,610,278**	**(36,234,737)**	**454,239,232**

IFRS FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2008

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 provides self and third party maintenance services at its Luxembourg headquarters. As at the balance sheet date, operations outside of Luxembourg that relate to the Company's core business are conducted solely under branch offices. As at the balance sheet date the Company maintained branches in 35 countries.

The consolidated financial statements of the Company for the year ended December 31, 2008, comprise the Company and its subsidiary, Cargolux RE S.A. (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 financial statements under International Financial Reporting Standards ("IFRS") as adopted by the EU.

The Board of Directors approved the financial statements for the year ended December 31, 2008 on March 23, 2009 and authorized the publication of said financial statements on April 22, 2009, following confirmation by the shareholders thereof on that date.

(b) BASIS OF MEASUREMENT

The financial statements are presented in United States Dollars («US dollars» or «US$»), which is the Group's functional currency. Assets and liabilities are stated at their historical cost as at the date of acquisition or incurrence except that the following are stated at their fair value at the balance sheet date: derivative financial instruments and financial instruments. The methods used to determine fair value are discussed in Note 4.

(c) USE OF ESTIMATES AND JUDGMENTS

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and 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 recognized in the period in which the estimate is revised and in any future periods affected.

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

(d) RECLASSIFICATION

Consistently with the presentation of the non-current portion of derivative assets and liabilities in 2008, the 2007 comparatives have been reclassified.

3. SIGNIFICANT ACCOUNTING POLICIES

Except for the early adoption of IAS 23 'Borrowing costs' (Revised) that has been applied on qualifying assets for which the commencement date is after January 1, 2008, the accounting policies set out below have been applied consistently to all periods presented in these financial statements.

(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 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 Company 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 the year. The year-end value reflects, if and as applicable, amortization, payments and interest accruals effected during the period. Non-monetary assets and liabilities that are stated at historical cost less amortization are translated into 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 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

The Group uses derivative financial instruments to hedge its exposure to the fluctuation in 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 immediately in the income statement unless the derivative qualifies for hedge accounting, in which case the effective part of the derivative financial instrument is recognized directly 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

IFRS FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2008

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 net profit or loss for the period.

(d) PROPERTY, PLANT AND EQUIPMENT

(i) AIRCRAFT AND EQUIPMENT

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

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 (j)).

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 Note (v)).

(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 (j)). The related liability is included under *Finance lease liabilities*.

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 financial statements (see Note 26 below).

In the context of sale and operating 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 the fair value.

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

(iv) SUBSEQUENT COSTS

The Group outsources the major aircraft overhaul «C» and «D-checks», as well as the maintenance and repairs of engines to outside contractors. The cost related to line maintenance and «A-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 straight-line 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
AIRCRAFT COMPONENTS:		
AIRFRAME	20 YEARS	15% OF INITIAL COST
ENGINES	12 YEARS	10% OF INITIAL COST
1ST "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 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 held for investment 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 investments.

(g) TRADE AND OTHER RECEIVABLES

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

(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 indication of impairment. If any such indication 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 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.

In respect of other assets, 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, if no impairment had been recognized.

(ii) FINANCIAL ASSETS

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that the asset is impaired. 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 measured 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. Any cumulative loss in respect of an available-for-sale financial asset recognized previously in equity is transferred to profit or loss, when impaired.

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 measured 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.

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(k) INTEREST-BEARING LIABILITIES

Interest-bearing 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).

In respect of actuarial gains and losses in calculating the Group's obligation in respect of a plan, 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 recognized 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 as a result of a past event that can be estimated reliably, and if it is probable that an outflow of economic benefits will be required to settle a measurable 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.

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

The Group accrues for delivery costs related to aircraft under operating leases as soon as the asset does not meet the return condition criteria.

(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 EXPENSE

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*), dividend income 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 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.

Current tax is the expected tax payable on the taxable income for the year, using tax rates applicable at the balance sheet date, and any adjustment to tax payable in respect of previous years.

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 published by the IASB as at December 31, 2008 are not yet effective for the year ended December 31, 2008, and have not been applied in preparing these financial statements:

- Revised IAS 1 Presentation of Financial Statements (2007) introduces the term total comprehensive income, which represents changes in equity during a period other than changes resulting from transactions with owners in their capacity as owners. Total comprehensive income may be presented in either a single statement of comprehensive income (effectively combining the income statement and all non-owner changes in equity in a single statement) or in the income statement and in a separate statement of comprehensive income. Revised IAS 1, which becomes mandatory for the Group's 2009 financial statements, is expected to have an impact on the presentation of the financial statements.
- Revised IFRS 3 Business Combinations (2008) incorporates the following changes:

  • The definition of a business has been broadened, which is likely to result in more acquisitions being treated as business combinations.

  • Contingent consideration will be measured at fair value, with subsequent changes therein recognised in profit or loss.

  • Transaction costs, other than share and debt issue costs, will be expensed as incurred.

  • Any pre-existing interest in the acquiree will be measured at fair value with the gain or loss recognised in profit or loss.

  • Any non-controlling (minority) interest will be measured at either fair value, or at its proportionate interest in the identifiable assets and liabilities of the acquiree, on a transaction-by-transaction basis.

Revised IFRS 3, which becomes mandatory for the Group's 2010 consolidated financial statements, will be applied prospectively and therefore there will be no impact on prior periods in the Group's 2010 consolidated financial statements.

- Amended IAS 27 Consolidated and Separate Financial Statements (2008) requires accounting for changes in ownership interests by the Group in a subsidiary, while maintaining control, to be recognised as an equity transaction. When the Group loses control of a subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognised in profit or loss. The amendments to IAS 27, which become mandatory for the Group's 2010 consolidated financial statements, are not expected to have a significant impact on the consolidated financial statements.

The following new standards, amendments to standards and interpretations are currently under analysis by the Group, but are expected to have no or limited impact:

- IFRS 8 Operating Segments
- IFRIC 13 Customer Loyalty Programmes
- IFRIC 15 Agreement for the Construction of Real Estate
- IFRIC 16 Hedges of a Net Investment in a Foreign Operation
- Amendment to IFRS 2 Share-based Payment – Vesting Conditions and Cancellations

- Amendments to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation
- Amendment to IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items.

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

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 and 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, fixed interest bearing 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 (j) above).

5. FINANCIAL RISKS AND RISK MANAGEMENT

RISK MANAGEMENT FRAMEWORK

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

- credit risk
- liquidity risk
- market risk

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 fails to meet its contractual obligations because of insolvency, bankruptcy or similar event.

LIQUIDITY RISK

Liquidity risk is the risk that market or other conditions cause a disfunction of the market which affects participants' ability to access funds to meet their obligations or correctly price securities or derivatives.

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

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, and the Group's management of excess cash. Where applicable, further quantitative disclosures are included throughout these 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 with respect of financial instruments. The Risk Management Committee reports on a regular basis to the Board of Directors and its Audit Committee on the committee's activities.

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.

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 sellings.

The primary goal of the Group's investment policy is to maximize investment returns while 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. In accordance with this strategy, 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 the necessary credit rating and which makes a daily market in those securities or financial instruments.

(a) CREDIT RISK

CASH, DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS

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. In 2008 the Group established credit limits for each counterparty. 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 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.

Not more than 14 percent of the Group's revenue is attributable to sales transactions with a single customer. The five largest customers of the Group represent 49 percent of the net cargo sales. More than 71.5 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 placed on a restricted customer list, 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).

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

	2008 US$	2007 US$
AREA I	**31,160,208**	35,173,773
AREA II	**70,995,993**	111,709,986
AREA III	**62,095,954**	100,231,032
AREA IV	**3,080,338**	10,085,091
	167,332,493	257,199,882

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 2008, 59.6 % of receivables were cleared through CASS and ICH (42.5 % in 2007). As of December 31, 2008 over 99 % (99 % in 2007) of the total outstanding trade debtors were within the contractual payment terms. The average DSO of trade receivables was 40.3 days in 2008 (42.5 days in 2007).

(b) FUEL RISK

FUEL PRICE

The Group's earnings are significantly exposed to fluctuations in fuel prices. In 2008 the Group agreed and implemented new governance and also a policy and procedures document covering Fuel Risk Management. This was based on a full review which had been done in 2007. The Group has significantly improved the risk management of its most volatile cost element. This was illustrated by the successful financial outcome to Fuel Risk Management in 2008 when the Group was confronted with unprecedented fuel price movements.

FUEL HEDGES

As at December 31, 2008, the Group had hedges in place for 100,980 tons in Q1 2009, 78,656 tons in Q2 2009, 65,682 tons in Q3 2009, 37,258 tons in Q4 2009, 80,000 tons for H1 2010 and 13,907 tons in H2 2010. The majority of the forward cover for 2009 and 2010 was built during the high price environment of 2008. Breakeven levels are currently at US$ 1,162/ton and US$1,135/ton respectively. Most of the protection is provided through call options and the premiums were reduced by the Group selling puts which creates a potential for the Group to pay out monies when prices are below the above mentioned break-even levels. The fair value of these hedges has negatively impacted the year-end result and shareholders' equity as shown below.

Generally the Group seeks to apply hedge accounting in order to manage volatility in profit or loss.

As at 31 December 2008, the fair value of fuel derivatives was as follows:

	2008 US$	2007 US$
DERIVATIVE ASSETS	**10,767,755**	352,720
DERIVATIVE LIABILITIES	-	(3,851,490)
BALANCE AT 1 JANUARY	**10,767,755**	(3,498,770)
EFFECTIVE PORTION OF HEDGES RECOGNIZED IN EQUITY	**(30,703,006)**	-
INEFFECTIVE PORTION OF HEDGES AND NON-QUALIFYING HEDGES RECOGNIZED IN INCOME STATEMENT	**(17,515,378)**	14,266,525
DERIVATIVE ASSETS	**10,720,435**	10,767,755
DERIVATIVE LIABILITIES	**(48,171,064)**	-
BALANCE AT 31 DECEMBER	**(37,450,629)**	10,767,755

(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.

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:

	US$	EUR	HKD	OTHER	**TOTAL**
DEPOSITS WITH THIRD PARTIES	48,064,417	5,447,306	50,749	416,936	**53,979,408**
TRADE RECEIVABLES AND OTHER RECEIVABLES	121,411,159	147,095,927	26,894,728	54,875,418	**350,277,232**
OTHER INVESTMENTS	88,199,884	-	-	-	**88,199,884**
CASH AND CASH EQUIVALENTS	69,024,878	18,654,490	472,519	15,640,544	**103,792,431**
INTEREST-BEARING LIABILITIES	(193,165,527)	(33,167,900)	-	-	**(226,333,427)**
FINANCE LEASE LIABILITIES	(565,366,577)	(7,286,873)	-	-	**(572,653,450)**
BANK OVERDRAFTS	(6,519)	(855,294)	(10,586)	(848,289)	**(1,720,688)**
TRADE PAYABLES AND OTHER PAYABLES	(161,135,355)	(66,405,869)	(1,593,487)	(5,565,374)	**(234,700,085)**
TAXES PAYABLE	(141,811)	(5,731,439)	-	(274,916)	**(6,148,166)**

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

	US$	EUR	HKD	OTHER	**TOTAL**
DEPOSITS WITH THIRD PARTIES	21,976,789	4,666,109	49,079	416,637	**27,108,614**
TRADE RECEIVABLES AND OTHER RECEIVABLES	104,436,124	149,091,644	46,996,660	65,239,082	**365,763,510**
OTHER INVESTMENTS	72,619,573	-	-	-	**72,619,573**
CASH AND CASH EQUIVALENTS	65,219,318	8,016,262	365,647	20,992,947	**94,594,174**
INTEREST-BEARING LIABILITIES	(122,086,831)	(11,778,800)	-	-	**(133,865,631)**
FINANCE LEASE LIABILITIES	(392,479,919)	(9,114,375)	-	-	**(401,594,294)**
BANK OVERDRAFTS	(32,971)	(183,621)	(1,772)	(77,154)	**(295,518)**
TRADE PAYABLES AND OTHER PAYABLES	(133,300,640)	(83,543,878)	(5,602,353)	(5,056,709)	**(227,503,580)**
TAXES PAYABLE	-	(6,004,207)	(4,536,510)	(210,365)	**(10,751,082)**

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

	AVERAGE RATE		REPORTING DATE SPOT RATE	
	2008	2007	2008	2007
EUR	1.47082	1.37059	1.41140	1.47235
HKD	0.12843	0.12817	0.12903	0.12814

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(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 extend 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, 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 marked-to-market of derivative instruments which are booked to equity.

The interest rate hedging programme involves interest rate swaps and other interest rate hedging instruments acquired through "Over the Counter" (OTC) derivative markets with the unique objective of reducing the interest rate risk linked to the debt portfolio of the Group. Where possible the Group seeks to apply hedge accounting for those instruments in order to reduce volatility in profit or loss. No short selling or leveraging of structure is permitted.

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

	2008 US$	2007 US$
FIXED RATE INSTRUMENTS		
FINANCIAL LIABILITIES	**133,803,893**	162,099,980
FLOATING RATE INSTRUMENTS		
FINANCIAL ASSETS	**191,992,315**	167,213,747
FINANCIAL LIABILITIES	**674,136,868**	379,071,201
INTEREST RATE DERIVATIVES		
NOMINAL AMOUNT OF DERIVATIVES WITH RESPECT OF UNDERLYING FINANCINGS IN PLACE AT THE BALANCE SHEET DATE	**910,265,692**	821,048,929
NOMINAL AMOUNT OF DERIVATIVES WITH RESPECT OF UNDERLYING FINANCINGS WHICH WERE NOT IN PLACE AT THE BALANCE SHEET DATE	**593,565,000**	435,950,000

As at 31 December 2008, the fair value of interest derivatives was a follows:

	2008 US$	2007 US$
DERIVATIVE ASSETS	**11,170,177**	2,298,948
DERIVATIVE LIABILITIES	**(28,157,255)**	(8,171,034)
BALANCE AT 1 JANUARY	**(16,987,078)**	(5,872,086)
EFFECTIVE PORTION OF HEDGES RECOGNIZED IN EQUITY	**(109,703,160)**	(9,831,932)
INEFFECTIVE PORTION OF HEDGES AND NON-QUALIFYING HEDGES RECOGNIZED IN INCOME STATEMENT	**(4,152,488)**	(1,283,060)
DERIVATIVE ASSETS	**28,330,322**	11,170,177
DERIVATIVE LIABILITIES	**(159,173,048)**	(28,157,255)
BALANCE AT 31 DECEMBER	**(130,842,726)**	(16,987,078)

(e) LIQUIDITY RISK

The Group's approach to managing liquidity is to ensure 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 reputation.

The Group is subject to loan covenants for some of its borrowing and finance lease arrangements, which in case of breach, 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 31 December 2008, the Group meets all covenants.

The following are the contractual maturities of assets and liabilities:

	2009 US$	2010 US$	2011 US$	FURTHER THAN 2011 US$	NO MATURITY US$
TRADE RECEIVABLES AND OTHER RECEIVABLES	295,831,162	1,055,091	60,000	325,000	53,005,979
OTHER INVESTMENTS	63,909,524	6,155,475	-	5,415,375	12,719,510
CASH AND CASH EQUIVALENTS	103,792,431	-	-	-	-
INTEREST-BEARING LIABILITIES	(172,279,164)	(7,116,928)	(46,937,335)	-	-
FINANCE LEASE LIABILITIES	(71,554,669)	(125,620,513)	(39,810,486)	(335,667,782)	-
BANK OVERDRAFTS	(1,720,688)	-	-	-	-
TRADE PAYABLES AND OTHER PAYABLES	(234,700,085)	-	-	-	-
TAXES PAYABLE	(6,148,166)	-	-	-	-
	(22,869,655)	**(125,526,875)**	**(86,687,821)**	**(329,927,407)**	**65,725,489**

As at 31 December 2008, the Group is in a net current liability position. In addition to routine capital repayment under interest bearing loans and finance lease liabilities, the Group faces the following payments in the year immediately following the balance sheet date:

- Negative marked-to-market of fuel and interest rate derivatives based on market prices as of December 31, 2008
- Balloon payments on 2 loans maturing in 2009 (LX-LCV and LX-RCV)
- Repayment of the new hangar facility
- Maturity of the pre-delivery payment facility which the Group expects to extend to match the new delivery deadlines of the aircraft concerned
- The current portion on 2 financings which were not on the books of the Group in the immediately preceding fiscal year (LX-MCV and LX-YCV)
- The first installment of the fine payable to the US DOJ (USD 10 million)

Further the Group incurred current liabilities with respect of negative marked-to-market of fuel and interest rate derivatives based on market prices as of December 31, 2008 (see Notes 5 (b) and (d)).

The Group is continuously taking various initiatives to improve its liquidity position including by:

- Managing its credit lines
- Selling non strategic assets, e.g. spare engines having a low carrying value
- Avoiding the posting of cash collateral under derivative transactions.

The Group entered into various forward sales of aircraft with delivery dates in 2009, 2010 and 2011 (see Note 15). This will result in substantial cash inflows for the Group during these

3 years which will more than compensate the amount then outstanding on the remaining loans with respect of the sold aircraft (the loans with respect of LX-FCV and LX-ICV were fully paid off in the previous exercise).

The Group has substantial receivables from an unrelated party in connection with the construction of the new hangar (see Note 18) which has in part been financed by own funds. The delivery in 2009 will result in a significant cash inflow which will more than compensate the amount then outstanding under the new hangar construction facility.

The Group maintains credit lines to ensure that it will be able to face its obligations when they fall due. As at 31 December 2008, the Group had the following credit lines available for drawing:

- New hangar construction facility: EUR 46.5 million
- Committed credit lines (i.e. lines with respect of which the Group pays commitment fees): 60 million. A line of USD 25 million is currently unavailable as the Group does not meet a financial covenant for drawing under the facility. This covenant is presently under renegotiation to allow future drawings.

The Group has commitments for the acquisition of the new fleet (see Note 27). Advance payments are regularly made based on contractual terms. Due to delivery delays as announced by Boeing, pre-delivery payments have been suspended as from December 2008 pending final agreement with Boeing on new delivery slots and credit to be given to the Group for pre-delivery payments made too early. In the meantime, Boeing has confirmed that pre-delivery payments will not resume before the end of the first quarter of 2010.

On December 31, 2009 a pre-delivery payment facility expires. As the delivery of the related aircraft is postponed to the summer 2010, the Group intends to seek an extension of that facility in 2009.

In connection with a settlement made with the Australian Competition and Consumer Commission (ACCC), the Group has paid a fine of A$ 5.2 million (US$ 3.3 million) to this authority in March 2009. A provision has been constituted in the 2008 accounts to reflect this payment.

(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 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 an impact on earnings and cash flows.

At December 31, 2008, it is estimated that a general increase of one percentage point in interest rates would have decreased the Group's profit before tax by approximately US$ 3 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$ 7 million. The forward exchange contracts and other hedging instruments that were in place at that time have been included in this calculation.

It is estimated that an increase of US$ 50 in the price of jet fuel (NW European) over a one year period would have increased the Group's fuel bill by around US$ 5 million. The impact on the results of such increase depends on a number of factors, primarily how much of the increase can be absorbed by the fuel surcharge.

6. REVENUES

	2008 US$	2007 US$
CARGO SALES	**1,963,849,626**	1,657,044,318
THIRD PARTY MAINTENANCE REVENUE	**8,424,692**	8,860,710
OTHER REVENUES	**10,937,923**	13,794,800
	1,983,212,241	1,679,699,828

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 & West Africa) traffic, which collectively accounted for 78% of net turnover (2007: 78%). The third largest contributor to net turnover was Area I (the Americas) traffic, accounting for approximately 16% (2007: 16%) with the balance accounted for by Area IV (Middle East, South & East Africa) and charter traffic.

Included in *Other revenues* are trucking, handling and other services rebilled to freight forwarders.

7. OTHER OPERATING INCOME

	2008 US$	2007 US$
GAIN ON SALE OF PROPERTY, PLANT AND EQUIPMENT	**72,815**	1,957,611
FOREIGN EXCHANGE GAIN, NET	**1,389,947**	1,263,690
	1,462,762	3,221,301

8. AIRCRAFT LEASE EXPENSES

	2008 US$	2007 US$
AIRCRAFT RENTALS UNDER DRY LEASES	**55,300,543**	84,617,448
AIRCRAFT RENTALS UNDER WET LEASES	**21,489,451**	47,994,948
FEES PAYABLE UNDER BLOCKSPACE AGREEMENTS	**457,634**	232,510
RETURN CONDITIONS PROVISION WITH RESPECT OF DRY LEASED AIRCRAFT	**1,456,968**	3,668,199
	78,704,596	136,513,105

At the balance sheet date the Group dry leased the following aircraft: LX-GCV, LX-KCV, LX-OCV, LX-PCV and LX-WCV. The classification of the leases on LX-UCV and LX-VCV in 2007 and LX-MCV in 2008 changed following the notice given by the Group electing to exercise the purchase options on those three aircraft (see Note 15 below).

During 2008, the Group wet-leased from Air Atlanta one B747-200F during the whole year, one B747-400F from January to and including April and one additional B747-200F for the last three months of the year.

During 2007, the Group wet-leased one B747-400F and one B747-200F from Air Atlanta. For the last 4 months of the year, an additional B747-200F was leased in to deal with peak season demand.

9. AIRCRAFT MAINTENANCE EXPENSES (outsourced)

	2008 US$	2007 US$
ENGINE REPAIR AND OVERHAUL	**69,165,219**	62,885,011
HEAVY MAINTENANCE ("C-CHECKS" AND "D-CHECKS" ON DRY LEASED AIRCRAFT)	**5,626,003**	4,792,204
COMPONENT REPAIR	**5,564,527**	6,106,574
STOCK CONSUMPTION	**9,053,007**	10,806,968
MAINTENANCE AT STATIONS	**5,169,801**	4,096,789
BRAKES REPAIR	**2,865,963**	2,769,164
OTHER MAINTENANCE EXPENSES	**4,387,764**	2,987,199
	101,832,284	94,443,909

10. OTHER AIRCRAFT EXPENSES

	2008 US$	2007 US$
INSURANCES, INCLUDING FLEET INSURANCE	**3,139,017**	3,460,481
	3,139,017	3,460,481

11. PERSONNEL COSTS AND BENEFITS

	2008 US$	2007 US$
BY CATEGORY OF EXPENSES		
SALARIES, OVERTIME, 13TH MONTH AND PROFIT SHARING	**176,836,709**	161,646,749
SOCIAL SECURITY	**17,985,463**	16,717,343
EMPLOYEE BENEFITS		
- EXPENSES RELATED TO DEFINED BENEFIT PLANS	**730,678**	136,033
- EXPENSES RELATED TO DEFINED CONTRIBUTION PLANS	**3,715,413**	2,479,518
- OTHER (ACCIDENT AND INVALIDITY INSURANCE)	**3,849,365**	4,739,717
TRAINING AND SUNDRY PERSONNEL CHARGES	**10,862,380**	10,755,258
	213,980,008	196,474,618

	2008	2007
AVERAGE NUMBER OF STAFF BY CATEGORY		
OPERATIONS (INCLUDING CREWS)	**460**	445
SALES AND MARKETING	**505**	495
MAINTENANCE	**399**	394
FINANCE AND ADMINISTRATION	**83**	81
GENERAL MANAGEMENT (INCLUDING HUMAN RESOURCES, PUBLIC RELATIONS AND INTERNAL AUDIT)	**62**	57
	1,509	1,472

As of December 31, 2008 1,284 (2007: 1,238) employees were based in countries of the European Union, of which 1,155 in Luxembourg (2007: 1,105).

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12. OTHER OPERATING EXPENSES

	2008 US$	2007 US$
GSA COMMISSIONS	**17,629,234**	15,769,494
IT SERVICES	**34,463,615**	33,027,426
TRAVEL & ENTERTAINMENT	**21,584,428**	19,002,868
OFFICE AND OFFICE EQUIPMENT (RENTAL AND MAINTENANCE)	**9,086,303**	7,715,467
LEGAL, AUDIT AND CONSULTING FEES	**10,827,765**	4,017,513
VALUATION ALLOWANCE ON CURRENT ASSETS	**2,407,921**	(25,011)
TELECOMMUNICATION EXPENSES	**2,097,588**	1,978,757
MISCELLANEOUS	**19,476,569**	17,743,733
ANTI-TRUST PROVISIONS	**77,682,818**	154,878,191
	195,256,241	254,108,438

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

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

In connection with the anti-trust investigations and proceedings initiated against the Group by anti-trust authorities in various jurisdictions, the Group constituted in its 2006 accounts a provision of US$ 20 million to provide for legal fees payable to counsel representing the Group and certain Group executives in these proceedings. In 2008, US$ 4.5 million was added to that provision (under "Legal, audit and consulting fees" above).

In 2007, a provision of US$ 154.9 million was constituted to cover the Group's exposure with respect of anti-trust proceedings initiated against the Group by the EU Commission. This provision was adjusted in 2008 to reflect a delay in the expected payment dates of the related fine, the benefit of a 3 year payment schedule, recalculation of the discount the Group expects to obtain in connection with its ongoing cooperation with the EU Commission and the specific economic context. In 2008 the Group constituted an additional provision to cover fines the Group expects to pay to the US DOJ, the ACCC in Australia and the Commerce Commission of New Zealand. The present value of all anti-trust provisions constituted with respect of the Group's exposure to fines payable to the EC, DOJ, ACCC and Commerce Commission of New Zealand was US$ 233,6 million (2007: US$ 154.9 million) at the balance sheet date. See also Notes 24 and 28 below.

13. NET FINANCE COSTS

	2008 US$	2007 US$
NET CHANGE IN FAIR VALUE OF FINANCIAL ASSETS AT FAIR VALUE	**2,500,882**	2,988,890
INTEREST INCOME ON BANK DEPOSITS	**6,234,830**	7,758,197
OTHER FINANCIAL INCOME (IATA CALL DAY ADJUSTMENTS, DISCOUNTS RECEIVED)	**605,032**	847,076
FINANCIAL INCOME	**9,340,744**	11,594,163
INTEREST EXPENSE	**(31,050,439)**	(23,795,690)
NET CHANGE IN FAIR VALUE OF FINANCIAL ASSETS AT FAIR VALUE	**(7,401,564)**	(1,477,560)
EFFECT OF NET PRESENT VALUE ON PROVISIONS	**(9,625,517)**	(2,852,686)
OTHER FINANCIAL EXPENSES (BANK CHARGES, LOAN AGENCY FEES, CASS COMMISSIONS)	**(1,818,363)**	(1,598,359)
FINANCIAL EXPENSES	**(49,895,883)**	(29,724,295)
NET FINANCE COSTS	**(40,555,139)**	(18,130,132)

14. INCOME TAX EXPENSE

	2008 US$	2007 US$
CURRENT TAX EXPENSE		
CURRENT YEAR	**2,152,560**	8,902,240
ADJUSTMENTS FOR PRIOR YEARS	**937,734**	(383,041)
	3,090,294	8,519,199
DEFERRED TAX EXPENSE / (INCOME)		
ORIGINATION AND REVERSAL OF TEMPORARY DIFFERENCES	**39,811,965**	(6,789,111)
BENEFIT OF TAX LOSSES	**(25,166,159)**	-
EFFECT OF INVESTMENT TAX CREDIT	**20,362,028**	(4,167,868)
	35,007,834	(10,956,979)
TOTAL INCOME TAX EXPENSE / (INCOME) IN INCOME STATEMENT	**38,098,128**	(2,437,780)

Origination and reversal of temporary differences mainly relates to different depreciation periods on aircraft (18 years versus 20 years) and the reversal of the deferred tax asset arising from the conversion of the commercial balance sheet prepared in USD into the tax balance sheet prepared in Euro.

Reconciliation of effective tax rate

	2008 %	2008 US$	2007 %	2007 US$
LOSS BEFORE TAX		(22,945,283)		(49,536,940)
INCOME TAX USING THE DOMESTIC RATE	30.38	(6,970,777)	30.38	(15,049,322)
SHARE OF PROFIT OF ASSOCIATES		(1,149,593)		(494,639)
EFFECT OF CURRENT TAX IN FOREIGN BRANCHES		(756,420)		(2,857,038)
NON DEDUCTIBLE EXPENSES		28,377,612		47,090,783
TAX EXEMPT		(353,293)		-
EFFECT OF INVESTMENT TAX CREDIT		17,716,779		(13,522,068)
EFFECT OF CHANGE IN TAX RATE		5,329,318		-
UNDER / (OVER) PROVIDED IN PRIOR YEARS		937,734		(383,041)
EFFECT OF TAX LOSS		(5,033,232)		-
FOREIGN EXCHANGE DIFFERENCE		-		(17,222,455)
INCOME TAX EXPENSE / (INCOME)		38,098,128		(2,437,780)

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.

During 2008, the determination of the tax basis of assets and liabilities and the related taxable income were changed and resulted in tax losses. The effect of investment tax credit (ITC) is linked to the expiry of ITC in 2009, 2010 and 2011 which are not expected to be used due to the 2008 tax losses and the revision of the business plan for the period 2009-2011, which shows an important decline of taxable profit due to the economic environment.

In December 2008, a corporate tax rate reduction of 1% was enacted resulting in a combined rate of 29.34% applicable for fiscal years commencing after December 31, 2008.

15. PROPERTY, PLANT AND EQUIPMENT

	AIRCRAFT AND EQUIPMENT US$	LAND AND BUILDINGS US$	OTHER EQUIPMENT US$	PAYMENTS ON ACCOUNTS AND ASSETS IN COURSE OF CONSTRUCTION US$	TOTAL US$
COST AT BEGINNING OF YEAR	1,215,692,302	7,542,526	32,418,959	89,809,064	1,345,462,851
ACQUISITIONS	8,915,036	12,285	1,031,728	133,412,072	143,371,121
FINANCE LEASES	209,937,476	-	-	-	209,937,476
TRANSFER FROM ASSETS UNDER CONSTRUCTION	-	417,032	-	(417,032)	-
D-CHECK WRITE OFF	(5,200,000)	-	-	-	(5,200,000)
RECLASSIFICATION OF DEPOSITS	-	-	-	(9,296,750)	(9,296,750)
REIMBURSEMENT OF ADVANCE PAYMENTS	-	-	-	(41,329,100)	(41,329,100)
DISPOSALS	(339,764)	(13,228)	(118,198)	-	(471,190)
AT END OF YEAR	1,429,005,050	7,958,615	33,332,489	172,178,254	1,642,474,408
ACCUMULATED DEPRECIATION AT BEGINNING OF YEAR	(457,696,372)	(7,057,051)	(23,018,671)	-	(487,772,094)
CHARGE FOR THE YEAR	(53,475,012)	(328,423)	(2,381,892)	-	(56,185,327)
D-CHECK WRITE OFF	5,200,000	-	-	-	5,200,000
ADJUSTMENTS FOR DISPOSALS	189,046	12,739	113,884	-	315,669
AT END OF YEAR	(505,782,338)	(7,372,735)	(25,286,679)	-	(538,441,752)
NET BOOK VALUE AS OF DECEMBER 31, 2008	**923,222,712**	**585,880**	**8,045,810**	**172,178,254**	**1,104,032,656**
NET BOOK VALUE AS OF DECEMBER 31, 2007	757,995,930	485,475	9,400,288	89,809,064	857,690,757

AIRCRAFT SUBJECT TO FINANCE LEASES

The Group leases aircraft under a number of finance lease agreements (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 equipment at a preferential or favorable price. On December 21, 2007, the Group gave notice to exercise the purchase option granted to it under the operating leases covering LX-UCV and LX-VCV. On August 25, 2008, the Group gave notice to exercise the purchase option granted to it under the operating lease covering LX-MCV. The option exercise notices had the effect of changing the classification of those leases from operating to finance lease. At December 31, 2008, the net carrying amount of leased aircraft under finance leases was US$ 661,854,548 (2007: US$ 486,622,067).

The net carrying amount of other equipment (simulator) under finance leases was US$ 4,967,827 (2007: US$ 5,795,798).

SECURITY

At December 31, 2008, aircraft and equipment with a carrying amount of US$ 791,576,753 (2007: US$ 621,296,994) 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, LX-MCV and LX-YCV (2007: LX-LCV, LX-NCV, LX-RCV, LX-SCV, LX-TCV, LX-UCV and LX-VCV). 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 or will be subject to a mortgage registration in the Cape Town registry.

DEPRECIATION

In July 2008, the Group sold LX-MCV and LX-NCV on a forward basis to an unrelated party with delivery dates in 2010 and 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-FCV, LX-ICV and LX-LCV on a forward basis to an unrelated party with delivery dates in 2009 and 2010. The sales prices for those aircraft were above their then carrying values resulting in discontinuance of the related depreciation expense for the balance of 2007 and further years.

CAPITALIZED BORROWING COSTS

Assets under construction include borrowing costs for an amount of US$ 4.2 million (2007: nil).

16. INVESTMENTS IN ASSOCIATES

The Group has the following investments in associates:

	COUNTRY	OWNERSHIP 2008	OWNERSHIP 2007
LUXFUEL S.A.	LUXEMBOURG	**30%**	30%
CHAMP CARGOSYSTEMS S.A.	LUXEMBOURG	**49%**	49%
FREIGHTER LEASING S.A.	LUXEMBOURG	**33%**	33%

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

IN US$	OWNERSHIP	ASSETS	EQUITY	LIABILITIES	REVENUES	PROFIT / (LOSS)
2008						
LUXFUEL S.A.	30%	12,676,795	8,341,159	4,335,636	10,689,606	2,217,818
CHAMP CARGOSYSTEMS S.A.	49%	77,170,852	44,335,764	32,835,088	58,575,585	4,148,601
FREIGHTER LEASING S.A.	33%	232,547,947	(293,653)	232,841,600	28,938,338	3,257,660
		322,395,594	52,383,270	270,012,324	98,203,529	9,624,079
2007						
LUXFUEL S.A.	30%	13,305,874	8,984,237	4,321,637	9,850,582	2,268,389
CHAMP CARGOSYSTEMS S.A.	49%	66,321,402	41,903,315	24,418,087	54,683,987	4,388,407
FREIGHTER LEASING S.A.	33%	244,663,956	42,176,433	202,487,523	32,967,902	(3,608,353)
		324,291,232	93,063,985	231,227,247	97,502,471	3,048,443

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17. DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets and liabilities are attributable to the following:

	ASSETS		LIABILITIES		NET	
	2008 US$	2007 US$	**2008 US$**	2007 US$	**2008 US$**	2007 US$
AIRCRAFT AND EQUIPMENT	**15,512,041**	96,040,518	-	-	**15,512,041**	96,040,519
OTHER PROPERTY, PLANT AND EQUIPMENT	**-**	-	**(1,457,560)**	(1,760,763)	**(1,457,560)**	(1,760,763)
DERIVATIVE ASSETS	**-**	-	**(7,025,115)**	(2,980,534)	**(7,025,115)**	(2,980,534)
INVESTMENTS IN ASSOCIATES	**5,059,232**	4,630,964	**-**	-	**5,059,232**	4,630,964
TRADE RECEIVABLES AND OTHER RECEIVABLES	**-**	-	**(1,111,013)**	(278,311)	**(1,111,013)**	(278,311)
OTHER INVESTMENTS	**-**	-	**(3,925,271)**	(1,342,039)	**(3,925,271)**	(1,342,039)
INTEREST-BEARING LOANS AND BORROWINGS	**-**	-	**(44,132)**	(11,396,835)	**(44,132)**	(11,396,835)
FINANCE LEASE LIABILITIES	**409,980**	-		(28,405,972)	**409,980**	(28,405,972)
EMPLOYEES BENEFITS	**-**	-	**(191,936)**	(414,112)	**(191,936)**	(414,112)
DERIVATIVE LIABILITIES	**43,571,514**	-	**-**	(6,862,014)	**43,571,514**	(6,862,014)
TRADE AND OTHER PAYABLES	**12,137,564**	12,001,513	**-**	-	**12,137,564**	12,001,512
PROVISIONS	**-**	-	**(11,781,882)**	(9,328,503)	**(11,781,882)**	(9,328,503)
BENEFIT OF TAX LOSSES BROUGHT FORWARD	**25,166,159**	-	**-**	-	**25,166,159**	-
INVESTMENT TAX CREDIT	**59,298,986**	79,661,014	**-**	-	**59,298,986**	79,661,014
TAX ASSETS / (LIABILITIES)	**161,155,476**	192,334,009	**(25,536,909)**	(62,769,083)	**135,618,567**	129,564,926
SET OFF TAX	**(25,536,909)**	(62,769,083)	**25,536,909**	62,769,083	**-**	-
NET TAX ASSETS	**135,618,567**	129,564,926	**-**	-	**135,618,567**	129,564,926

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

The Group has unused ITC's in excess of US$ 100 million as at December 31, 2008 (2007: in excess of US$ 100 million). ITC can be carried forward over a period of 10 years from the date of entitlement to claim same and a significant portion is not expected to be used and resulted in the decrease of ITC from 2007.

Deferred tax adjustments of US$ 41,061,476 were applied against equity in 2008 (2007: US$ 2,986,941).

18. TRADE RECEIVABLES AND OTHER RECEIVABLES

Trade receivables of US$ 167.3 million (2007: US$ 257.2 million) are shown net of any impairment losses recognized in the current year.

	2008 US$	2007 US$
TRADE RECEIVABLES	**167,332,493**	257,199,882
RECEIVABLE FROM MARIE-LEASE S.À R.L	**89,822,993**	55,622,211
PREPAID EXPENSES	**50,300,422**	17,460,197
ADVANCES PAID TO SUPPLIERS	**7,550,390**	7,997,984
VAT	**4,279,960**	5,444,940
DERIVATIVE ASSETS	**19,583,777**	10,607,639
OTHER RECEIVABLES	**11,407,197**	11,430,657
	350,277,232	365,763,510

On October 16, 2006, the Group entered into a leasing agreement with Marie-Lease S.à r.l. pursuant to which the Group will lease a new built hangar from Marie-Lease S.à r.l. for an initial period of 15 years. On the same day, the Group and Marie-Lease S.à r.l. entered into a construction contract pursuant to which Marie-Lease S.à r.l., as beneficiary of the land rights ("droit de superficie") and owner and builder of the improvement, delegated the construction of the hangar to the Group. Under this agency agreement, the Group directs, coordinates, monitors and supervises the planning, design, assembly and construction of the hangar and adjacent facilities (e.g. canteen, car park and energy building) and will deliver same to Marie-Lease S.à r.l. at completion against payment to the Group of all accrued and paid construction and construction related (e.g. architect and engineering fees) costs, subject to a cap. The above receivable from Marie-Lease S.à r.l. represents the total cost incurred by the Group at December 31, 2008 in connection with the new hangar project.

Prepaid expenses include security deposits made in connection with operating leases, rental payments made in advance and other prepayments.

19. OTHER INVESTMENTS

	2008 US$	2007 US$
RESTRICTED CASH	**36,808,795**	6,053,449
SECURITIES HELD AT FAIR VALUE THROUGH PROFIT AND LOSS	**51,391,089**	66,566,124
	88,199,884	72,619,573

Restricted cash comprises an amount of US$ 6 million securing letters of credit issued on behalf of the Group. Cash and securities for an amount of US$ 49 million are pledged as collateral in derivative transactions.

20. CASH AND CASH EQUIVALENTS

	2008 US$	2007 US$
BANK BALANCES	**57,213,883**	27,938,908
SHORT TERM DEPOSITS	**46,578,548**	66,655,266
	103,792,431	94,594,174
BANK OVERDRAFTS	**(1,720,688)**	(295,518)
CASH AND CASH EQUIVALENTS IN THE STATEMENT OF CASH FLOWS	**102,071,743**	94,298,656

21. CAPITAL AND RESERVES

Share capital and main shareholders

	2008 US$	2007 US$
AUTHORIZED, ISSUED AND SUBSCRIBED 6,000,300 (2007: 6,000,300) REGISTERED SHARES OF NO PAR VALUE	**360,018,000**	360,018,000

The main shareholders are:

LUXAIR	34.9%
SAIRLINES	33.7%
BIP INVESTMENT PARTNERS	11.5%
BANQUE ET CAISSE D'EPARGNE DE L'ETAT	8.8%
SNCI	8.6%
OTHERS	2.5%

The shareholders 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.

RESERVES
Reserves comprise the legal reserve, other reserves and the hedging reserves.

LEGAL RESERVE
Under Luxembourg corporate law, the Group 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. No further allocation is required since the reserve has reached the legal limit of 10% of issued share capital, i.e. US$ 36 million (2007: US$ 36 million).

OTHER RESERVES
To forego payment of the net worth tax, the Group 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.

CURRENCY TRANSLATION RESERVE
The currency translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations (see Note 3 (b)).

IFRS FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2008

HEDGING RESERVE

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

DIVIDENDS

In light of anti-trust proceedings and upgrading of the Cargolux fleet, the Directors recommend that the shareholders forego any dividend payment with respect of 2008.

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).

NON-CURRENT LIABILITIES	2008 US$	2007 US$
SECURED BANK LOANS		
AIRCRAFT	**54,101,632**	107,242,915
LOAN ORIGINATED COSTS	**(47,369)**	(150,416)
TOTAL	**54,054,263**	107,092,499
FINANCE LEASE LIABILITIES		
AIRCRAFT	**511,019,626**	356,061,453
SIMULATOR	**-**	7,601,550
LOAN ORIGINATED COSTS	**(9,920,845)**	(7,743,885)
TOTAL	**501,098,781**	355,919,118
GRAND TOTAL	**555,153,044**	**463,011,617**

CURRENT LIABILITIES		
INTEREST PAYABLE ON NON-CURRENT LIABILITIES	**4,495,040**	3,740,911
LOAN ORIGINATED COSTS	**(1,760,022)**	(1,262,348)
CURRENT PORTION OF SECURED/UNSECURED BANK LOANS (CAPITAL REPAYMENT)	**171,038,023**	25,408,967
CURRENT PORTION OF FINANCE LEASE LIABILITIES (CAPITAL REPAYMENT)	**70,060,792**	44,560,778
TOTAL	**243,833,833**	72,448,308

TERMS AND DEBT REPAYMENT SCHEDULE

Terms and conditions of outstanding loans were as follows:

	CURRENCY	NOMINAL INTEREST RATE	YEAR OF MATURITY	**PRINCIPAL AMOUNT 2008 US$**	PRINCIPAL AMOUNT 2007 US$
SECURED BANK LOANS	US$	FIXED	2009, 2011	**107,242,915**	120,873,082
SECURED BANK LOANS	EUR	EURIBOR 3M + 0.9%	2009	**33,167,900**	11,778,800
PDP FINANCINGS	US$	LIBOR 3M + MARGIN	2009	**84,728,840**	-
FINANCE LEASE LIABILITIES	US$	FIXED, LIBOR 6M + MARGIN, EIB 3M + MARGIN, LIBOR 3M + MARGIN	2009, 2010, 2013, 2014, 2016, 2020	**573,793,545**	399,109,406
FINANCE LEASE LIABILITIES	EUR	FIXED	2009	**7,286,873**	9,114,375
TOTAL INTEREST-BEARING LIABILITIES				**806,220,073**	540,875,663

As of December 31, 2008, the aggregate annual principal amortization of non-current secured/unsecured loans is as follows:

2009	171,038,023
2010	7,116,928
2011	46,984,704
TOTAL	225,139,655

FINANCE LEASE LIABILITIES

Finance lease liabilities are payable as follows:

	MINIMUM LEASE PAYMENTS 2008 US$	**INTEREST 2008 US$**	**PRINCIPAL 2008 US$**	MINIMUM LEASE PAYMENTS 2007 US$	INTEREST 2007 US$	PRINCIPAL 2007 US$
LESS THAN ONE YEAR	**84,510,820**	**14,450,028**	**70,060,792**	64,636,315	20,075,537	44,560,778
BETWEEN ONE AND FIVE YEARS	**362,423,765**	**28,762,340**	**333,661,425**	211,018,498	56,102,643	154,915,855
MORE THAN FIVE YEARS	**188,570,669**	**11,212,468**	**177,358,201**	227,647,870	18,900,722	208,747,148
	635,505,254	**54,424,836**	**581,080,418**	503,302,683	95,078,902	408,223,781

Under the terms of the lease agreements, no contingent rents are payable.
The Group's liquidity position is discussed in detail in Note 5 (e) above.

IFRS FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2008

CAPITAL RATIOS

	2008 US$	2007 US$
OUTSTANDING LOANS	226,333,427	133,865,631
OUTSTANDING FINANCE LEASE OBLIGATIONS	572,653,450	401,594,294
TOTAL DEBT	798,986,877	535,459,925
LESS CASH AND CASH EQUIVALENTS AND OTHER INVESTMENTS	(190,271,627)	(166,918,229)
NET DEBT	608,715,250	368,541,696
PRESENT VALUE OF FUTURE LEASE PAYMENTS	185,178,735	269,409,124
ADJUSTED SUBTOTAL	793,893,985	637,950,820
EQUITY	454,239,232	616,018,666
NET DEBT/EQUITY	134.0%	59.8%
ADJUSTED NET DEBT/EQUITY	174.8%	103.6%

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 in compliance with a loan covenant which requires that shareholders' equity represents at least 1/6 of total liabilities plus net present value of non-cancellable operating lease obligations.

23. EMPLOYEE BENEFITS

	2008 US$	2007 US$
FAIR VALUE OF PLAN ASSETS	(11,827,399)	(12,677,374)
PRESENT VALUE OF NET OBLIGATIONS	17,470,390	18,129,138
UNRECOGNIZED ACTUARIAL GAINS	391,827	389,572
RECOGNIZED LIABILITY FOR DEFINED BENEFIT OBLIGATIONS (SEE BELOW)	6,034,818	5,841,336
OTHER EMPLOYEE BENEFITS	5,644,812	7,039,775
TOTAL EMPLOYEE BENEFITS	11,679,630	12,881,111

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 were 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 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 Group 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 professionally qualified actuary. The latest full pension scheme valuation was performed by the scheme's actuaries in January 2009.

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

	2008 US$	2007 US$
NET LIABILITY FOR DEFINED BENEFIT OBLIGATIONS AT JANUARY 1	5,841,336	6,209,622
CONTRIBUTIONS RECEIVED	(571,469)	(683,858)
PENSION PAYMENTS	(373,274)	(662,200)
EXPENSE RECOGNIZED IN THE INCOME STATEMENT (SEE BELOW)	730,678	136,033
FOREIGN EXCHANGE IMPACT	407,547	841,739
NET LIABILITY FOR DEFINED BENEFIT OBLIGATIONS AT DECEMBER 31	6,034,818	5,841,336

Expense recognized in the income statement

	2008 US$	2007 US$
CURRENT SERVICE COSTS	408,286	1,009,443
INTEREST ON OBLIGATION	878,429	1,362,694
EXPECTED RETURN ON PLAN ASSETS	(556,037)	(989,209)
EFFECT OF TRANSFER	-	(1,246,895)
	730,678	136,033

In 2007, the "effect of transfer" related to the transformation of the pension scheme for managers and some of the crews, who had not done so before, from a defined benefit plan into a newly created defined contribution plan, so that there remains no obligation under the defined benefit scheme. All these transfers were done between insurance contracts directly subscribed with an external provider for the benefit of the pension plan affiliates. There was therefore no cash effect for the Group.

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

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

	2008	2007
DISCOUNT RATE AT DECEMBER 31	**4.61%**	4.60%
EXPECTED RETURN ON PLAN ASSETS AT DECEMBER 31	**4.10%**	4.10%

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

24. PROVISIONS

IN US$	ANTI-TRUST	LEGAL	RETURN COST PROVISION	HEAVY MAINTENANCE PROGRAM	TOTAL
BALANCE AT JANUARY 1, 2008	**154,878,191**	**13,364,492**	**9,595,485**	**9,411,972**	**187,250,140**
PROVISIONS MADE DURING THE YEAR	112,484,755	4,461,943	4,094,328	3,877,030	124,918,056
EFFECT OF NET PRESENT VALUE ON PROVISIONS	7,811,492	-	870,387	943,639	9,625,518
PROVISIONS USED DURING THE YEAR	-	(11,826,435)	-	(1,968,906)	(13,795,341)
PROVISIONS REVERSED DURING THE YEAR	(34,801,936)	-	(2,637,360)	(2,522,883)	(39,962,179)
EFFECT OF EXCHANGE	(6,757,880)	-	-	-	(6,757,880)
BALANCE AT DECEMBER 31, 2008	**233,614,622**	**6,000,000**	**11,922,840**	**9,740,852**	**261,278,314**
NON-CURRENT	216,705,798	-	11,922,840	9,740,852	238,369,490
CURRENT	16,908,824	6,000,000	-	-	22,908,824
	233,614,622	6,000,000	11,922,840	9,740,852	261,278,314

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.

The provision of US$ 11.9 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 (2007: six) 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.

IFRS FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2008

25. TRADE PAYABLES AND OTHER PAYABLES

	2008 US$	2007 US$
TRADE PAYABLES	**41,548,580**	45,640,926
GENERAL AND ADMINISTRATION	**1,025,381**	774,221
MAINTENANCE	**15,544,709**	20,820,696
FUEL	**19,152,322**	30,535,357
HANDLING, LANDING AND OVERFLYING	**25,994,304**	32,801,567
TRUCKING, REFORWARDING AND TRUCK HANDLING	**8,011,068**	8,760,000
INCENTIVE AND WORLDWIDE COMMISSIONS	**15,488,506**	20,110,302
RENTALS UNDER AIRCRAFT OPERATING LEASES	**1,814,840**	5,824,511
INSURANCE	**1,574,870**	681,605
PERSONNEL	**5,920,022**	18,113,036
SOCIAL SECURITY	**3,888,193**	4,759,925
DIVIDENDS PAYABLE	**20,003,646**	20,003,646
DERIVATIVES LIABILITIES ON FUEL	**22,440,656**	-
DERIVATIVES LIABILITIES ON INTEREST RATE	**36,397,955**	8,740,048
DERIVATIVES LIABILITIES ON FOREX	**2,803,398**	-
MISCELLANEOUS	**13,091,635**	9,937,740
	234,700,085	227,503,580

26. OPERATING LEASES

Non-cancellable operating lease rentals are payable as follows:

	2008 US$	2007 US$
LESS THAN ONE YEAR	**49,585,286**	63,331,197
BETWEEN ONE AND FIVE YEARS	**140,964,814**	192,939,598
MORE THAN FIVE YEARS	**20,312,493**	44,462,720

The above outstanding rentals are based on interest rates as of December 31, 2008 (respectively as of December 31, 2007).

The present value of minimum lease payments related to aircraft operating leases amounted to US$ 185.2 million (2007: US$ 269.4 million) at the balance sheet date. This present value was calculated using actual rental terms and a discount factor equal to Libor rates at December 31.

The decrease is mainly linked to the classification of LX-MCV as finance lease following the notice given by the Group to exercise the option to purchase this aircraft at the end of the lease.

27. CAPITAL COMMITMENTS

As at the balance sheet date, the Group had firm purchase orders for 13 B747-8 aircraft (2007: 13 B747-8 aircraft) to be delivered from 2010 to 2014. In addition, the Group has firm purchase orders for 4 GEnx engines (2007: 4 GEnx engines) to be delivered from 2010 to 2015. Based on prices published by manufacturers the total amount of the above investments is close to US$ 4 billion. Boeing has announced a delay in its delivery schedule of the B747-8 aircraft with the first airplane deliveries to occur now only in the third quarter of 2010 instead of September 2009. All aircraft and engines deliveries are subject to further change.

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

In connection with aircraft and engine 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***.

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 is subject to investigations and proceedings from anti-trust authorities in the EU, US, Australia, 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 is responding to requests for information submitted by the authorities.

Additionally, civil lawsuits have been launched in the US and in Canada against a number of air carriers, including the Group. The Group has constituted a provision of US$ 233,6 million (2007: US$ 154.9 million) to cover the Group's exposure with respect of the anti-trust proceedings initiated by the EU Commission, the US Department of Justice, the Australian ACCC and the Commerce Commission of New Zealand against the Group (see also Notes 12 and 24 above). The outcome of the anti-trust proceedings and civil lawsuits in other jurisdictions cannot be determined with sufficient precision at this point in time and therefore, no provision has been recorded in the

2008 accounts with respect thereto. If determined against the Group, the outcome of these proceedings and lawsuits in the aggregate could have a material adverse impact on the financial condition of the Group.

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.

The compensations are as follows:

	2008 US$	2007 US$
SALARIES AND PROFIT SHARING	**3,143,474**	4,332,669
CONTRIBUTION TO PENSION SCHEME AND ACCIDENT/INVALIDITY INSURANCE	**664,253**	581,865
	3,807,727	4,914,534

These amounts, which are paid in euros, are included in *Personnel costs and benefits* (see Note 11). The 2007 amount includes a one-off payment to an Executive Committee member who left the Group.

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:

	2008 US$	2007 US$
DIRECTORS	**447,869**	380,379

SHAREHOLDERS

- The Group pays handling fees and other service charges to a shareholder in Luxembourg. The amount charged to operations for such services was US$ 69.3 million (2007: US$ 76.0 million).

- Interest and commissions of approximately US$ 1.3 million (2007: US$ 1.6 million) were paid in 2008 and US$ 0.1 million (2007: US$ 1.8 million) of investment income was received in 2008 from banks which are shareholders.

- The Group receives freight and maintenance revenues from a shareholder. The amount invoiced was approximately US$ 0.5 million (2007: US$ 0.8 million).

ASSOCIATES

During the year ended December 31, 2008 the Group paid US$ 28.3 million (2007: US$ 34.0 million) for IT services to Champ Cargosystems S.A., through-put fees of US$ 1.1 million (2007: US$ 1.8 million) to Luxfuel S.A. and aircraft rentals of US$ 24.4 million (2007: US$ 31.7 million) and lease payments of US$ 4.5 million to subsidiaries of Freighter Leasing S.A.

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

ACCOUNTS RECEIVABLE AND DEPOSIT FROM RELATED PARTIES:

	2008 US$	2007 US$
ASSOCIATES	**2,057,575**	1,101,567
SHAREHOLDERS	**23,560,076**	19,029,565
	25,617,651	20,131,132

ACCOUNTS PAYABLE AND LOAN TO RELATED PARTIES:

	2008 US$	2007 US$
ASSOCIATES	**3,010,575**	6,900
SHAREHOLDERS	**47,229,961**	40,879,968
	50,240,536	40,886,868

30. GROUP ENTITIES

SUBSIDIARIES

	COUNTRY OF INCORPORATION	OWNERSHIP INTEREST IN % 2008	2007
CARGOLUX RE S.A.	LUXEMBOURG	**100**	100

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 will operate 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 15th anniversary of the lease.

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.

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

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

Following consent proceedings initiated by the ACCC on February 16, 2009, the Federal Court of Australia ratified the settlement reached with the ACCC and pursuant to which the Group agrees to pay a fine of A$ 5.2 million (US$ 3.3 million) for breaching the price fixing provision of the Australian Trade Practices Act, 1974.

In February the Group announced that it has entered into a strategic partnership in Italy to create Cargolux Italia for intercontinental all-cargo services from Milan's Malpensa airport. Cargolux Italia has applied for a business license and certification with ENAC, the Italian civil aviation authority. It aims to become a fully certified Italian all-cargo carrier. Start of operations is planned as soon as ENAC grants the required permits. Launch date is expected in April 2009.

On April 1, 2009, the Board of Directors of the Group agreed to settle the US anti-trust proceeding initiated against the Group by the US Department of Justice. The fine payable by the Group under the related plea agreement is provisioned in the Group's 2008 accounts (see Notes 12 and 24).

EUROPEAN TRUCKING NETWORK

EUROPEAN ROAD FEEDER NETWORK FROM AND TO LUXEMBOURG

AUSTRIA
Graz
Linz
Salzburg
Vienna

BELGIUM
Antwerp
Brussels

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
Oslo

PORTUGAL
Lisbon
Porto

SPAIN
Alicante
Barcelona
Bilbao
Madrid
Valencia
Zaragoza

SWEDEN
Gothenburg
Malmoe
Stockholm

SWITZERLAND
Basle
Geneva
Zurich

UNITED KINGDOM
London
Manchester
Prestwick

Trucking services out of Cargolux's online stations
Ad hoc trucking can be arranged upon client's request, please contact our Cargo services Office for additional information.

ROAD FEEDER NETWORK FROM PRESTWICK

Aberdeen
Birmingham
Cork
Dublin
Glasgow
London
Manchester
Shannon

ROAD FEEDER NETWORK FROM MAASTRICHT

Luxembourg

ROAD FEEDER NETWORK FROM BUDAPEST AND VIENNA

Belgrade
Bratislava
Bucharest
Krakow
Linz
Ljubliana
Prague
Sarajevo
Sofia
Vienna
Warsaw
Wroclaw
Zagreb

ROAD FEEDER NETWORK FROM ISTANBUL

Adana
Ankara
Izmir

ROAD FEEDER NETWORK FROM BARCELONA

Alicante
Bilbao
Lisbon
Madrid
Porto
Valencia
Zaragoza

ROAD FEEDER NETWORK FROM MILAN

Bologna
Civitanova Marche
Fiumicino
Genova
Naples
Turin
Venice
Verona

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CARGOLUX ROUTE MAP 2009

ADDITIONAL DESTINATIONS ARE SERVED
VIA INTERLINE AND TRUCKING

* In cooperation with MNG Airlines
and Silk Way Airlines

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ANNUALREPORT

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