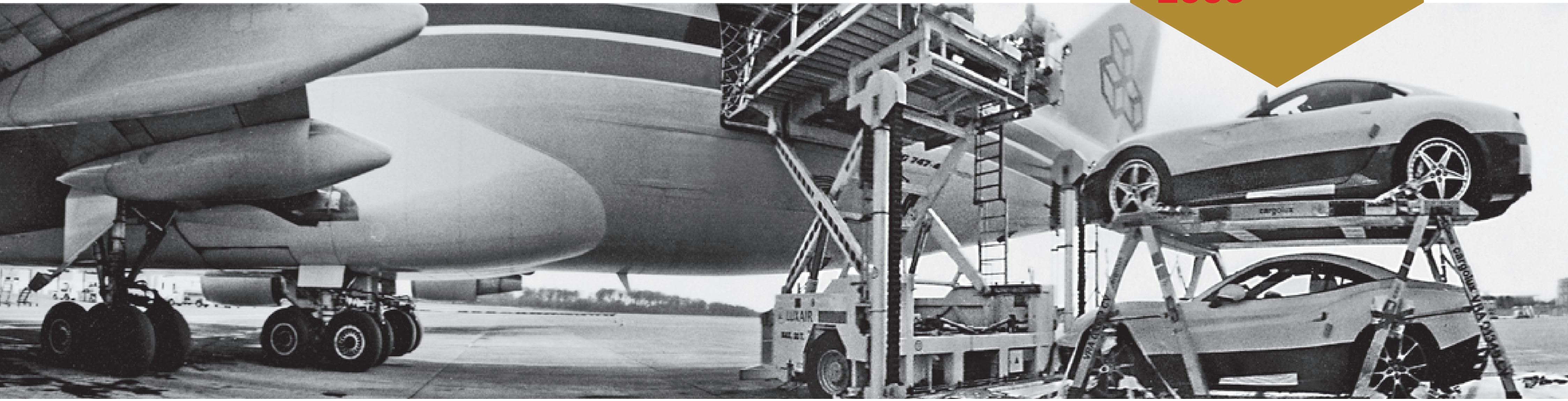
# ANNUAL REPORT 2009

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CARGOLUX ANNUAL REPORT 2009

## 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

### A STRONGER CARGOLUX EMERGES FROM AN EXCEPTIONALLY TOUGH YEAR

In many respects, 2009 – up to the recovery towards the end of the year – presented all the elements of a perfect storm:

- violent,
- furious,
- unpredictable,
- devastating!

The skipper on board had a really tough time to navigate safely to the shore and some external help was needed.

It became apparent early in the year that this was not an "ordinary" cyclical downturn, as this industry has known and Cargolux successfully weathered many times. Indeed by the beginning of the second quarter, we knew we were in un-chartered territory and that simple network changes and cost-saving measures, as foreseen in the budget, would not suffice to get us out of trouble.

The option to park aircraft in the desert presented limited attraction in Cargolux's case because we have no other leg – such as belly capacity – to stand on.

Fortunately, we had made arrangements prior to the crisis to dispose of two aircraft in the Summer. And luckily, if I may say, the 747-8 program suffered delays.

This notwithstanding, there was a doubt whether we would make it through the storm. An external consultant was brought in to validate Cargolux's long term viability under its current business model and positioning in the air cargo industry and to assist Management in the development of a survival / turnaround plan. This firm worked closely with the Board to which it presented its findings numerous times during the Summer. In September, the Board approved a survival plan which was successfully implemented during the balance of the year.

In times of crisis Cargolux's Shareholders had to act decisively and they did:

With the help of the Luxembourg Government – who thereby became a direct Shareholder in Cargolux – Luxair, BCEE and SNCI bought out SAirlines to enable a capital and ownership restructuring; the former to provide sufficient liquidity, the latter to provide the necessary stability.

The other Stakeholders of the Company also contributed to the turnaround plan:

- Our Lenders and Lessors accepted to grant waivers and continue to extend credit at pre-crisis terms & conditions.
- ExIm Bank in particular agreed to support the long term development of the Company and its fleet renewal, which is a key element of our long-term success and speedy return to sustainable profitability.
- The State guaranteed a EUR 100 million stand-by credit facility to ensure that the Company has at all times sufficient access to liquidity, including to fund pre-delivery deposits to Boeing.
- Our Suppliers stood behind us, Boeing in particular. We signed a comprehensive Agreement with Boeing in December to settle all issues arising from the delay of new aircraft deliveries. Under this Agreement, the next generation freighters will be delivered under a more flexible and financially digestible schedule.

As the market strongly picked up in the last quarter, Cargolux was quickly back on its feet and, today, Cargolux is positioned to fully benefit from the recovery:

- The bad news – with the exception of the US class actions – are behind us and adequately provisioned.
- The funding for the six next aircraft is secured.
- Cargolux's position in the market place has been maintained or strengthened.

This does not mean that the Company has become complacent or less vigilant. The economy in many important markets remains sluggish and unemployment is high. 2010 will therefore also be challenging - even if to a lesser degree than 2009. We are confident that Cargolux will not only survive but strive and succeed.

I wish to thank you all for your continued support and assure you that we will make sure that it was not misplaced.

**Marc HOFFMANN**
CHAIRMAN OF THE BOARD

## CONFRONTING THE CRISIS

2009 was one of the toughest years in Cargolux's 40-year history. The air cargo market collapsed because the world's major economies simultaneously went into recession. The first seven months of 2009 saw a progressive deterioration in the air cargo market as demand for capital goods as well as high value capital goods dried up and companies ran down inventories in anticipation of a long crisis.

## FINANCIAL PERFORMANCE

In comparison to 2008 we lost over 10% of our freight volume and one third of our revenues whereas operating costs only decreased by about 20%. As a result, Cargolux lost almost five years of growth in the crisis (measured in freight tonne kilometers) and closed the year with a pre-tax loss of US$153 million. Management enhanced liquidity in 2009 by the means of a State guaranteed credit line (EUR100 million). The balance sheet has been strengthened with the buy-out of the SAir Group shares and a US$100 million capital increase. Furthermore the capital expenditure pipeline has been restructured with the deferral of new aircraft deliveries to be in line with current growth expectations.

## ENVIRONMENT AND SOCIAL RESPONSIBILITY

Although 2009 proved to be one of the most difficult years in Cargolux's history, the company managed to navigate through the difficult economical climate without compulsory redundancies. While economic measures were taken to safeguard the survival of the company and to reduce the company's manpower through the year, these were all voluntary measures such as part-time work, early retirement and sabbatical leave.

Even in difficult times, Cargolux pursues environment-conscious air cargo operations. The 747-8F, with its new engines, innovative aerodynamic design and further developed noise-reduction technologies, will allow Cargolux to further reduce the environmental footprint in terms of fuel consumption, $CO_2$ emissions and noise disturbances.

As signatory of the United Nations Global Compact, Cargolux is committed to align its policies and practices to the UNGC ten principles. We are particularly proud to have completed the ISO 14001 certification of our flight operations and have undertaken a wide-ranging review of our code of ethics, focusing in particular on developing the highest company standards in terms of corporate compliance.

## HIGHLIGHTS OF THE YEAR

Cargolux is continuously seeking new opportunities and, even in a depressed market environment, was able to launch the Cargolux Italia operations with one fully dedicated aircraft in Milano.

Mid 2009, the Maintenance and Engineering division moved into its newly built two-bay hangar facility at Luxembourg airport. This state-of-the-art facility offers the best possible working conditions both in terms of efficiency and security.

## OUTLOOK / PREPARING FOR THE FUTURE

We observed over the last months a strong shift in the purchasing habits of retailers and manufacturers towards maintaining just-in-time inventories. With air cargo markets recovering, faster reaction to market demand is required. In the fourth quarter of 2009 we saw first positive results in terms of market pickup and also as a result of the impact from cost saving measures. These are encouraging trends but will not necessarily be a guarantee of long term, sustainable recovery in air cargo traffic as the global economic outlook remains uncertain. For 2010, Cargolux still foresees a loss and manages this transition year by preserving revenues and maintaining cost reductions achieved in 2009. As in the first quarter of 2010 Cargolux over performed its budget target, confidence increases that we are getting out of the troubled waters. The return into service of previously parked aircraft in combination with upcoming new deliveries from the manufacturers may result in a longer dry spell before the air cargo market returns to pre-crisis profitability.

No doubt, 2009 will be remembered in our history as a year of drastic changes in the markets. 2010 will remain challenging. Going forward, however, we are equipped for the future, based on a strengthened capital structure and a more efficient fleet, as the refleeting commences this year. I wish to express my thanks to all our employees for their continued dedication, our lenders and our shareholders for their precious support and, of course our customers for their loyalty throughout this difficult year.

Luxembourg, April 12, 2010

**Ulrich OGIERMANN**
PRESIDENT AND CEO


cargolux

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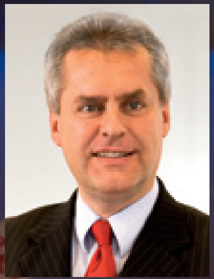
## HIGHLIGHTS CONSOLIDATED FIGURES YEAR ENDED
DECEMBER 31, 2009

| | 2009 | 2008 | 2007 | 2006 |
|---|---|---|---|---|
| TOTAL INCOME IN US$ '000 | **1,352,259** | 1,984,675 | 1,682,921 | 1,551,527 |
| PROFIT/(LOSS) FOR THE YEAR IN US$ '000 | **(153,301)** | (61,043) | (47,099) | 82,637 |
| SHAREHOLDERS' EQUITY IN US$ '000 | **469,508** | 454,240 | 616,019 | 666,542 |
| TONNES CARRIED | **627,813** | 703,601 | 702,765 | 650,947 |
| TONNE-KILOMETERS FLOWN (MILLIONS) | **4,800** | 5,411 | 5,537 | 5,271 |
| AVAILABLE TONNE-KILOMETERS (MILLIONS) | **6,954** | 7,664 | 7,576 | 7,281 |
| NUMBER OF EMPLOYEES WORLDWIDE | **1,482** | 1,530 | 1,491 | 1,446 |
| HEADQUARTERS | **1,110** | 1,155 | 1,105 | 1,081 |
| **FLEET** | | | | |
| BOEING 747-400F | 14 | 16 | 15 | 14 |
| **AIRCRAFT ON ORDER** | | | | |
| BOEING 747-400F | - | - | 1 | 2 |
| BOEING 747-8F | 13 | 13 | 13 | 10 |
| **AIRCRAFT SUBJECT TO FORWARD SALE AGREEMENTS** | **4** | **6** | **4** | **0** |

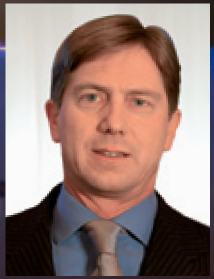
# CORPORATE GOVERNANCE

AT DECEMBER 31, 2009

## EXECUTIVE COMMITTEE

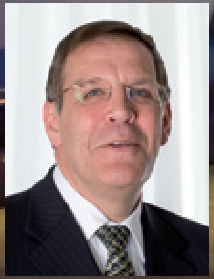


**ULRICH OGIERMANN**
President
and Chief Executive Officer



**DAVID ARENDT**
Executive Vice President
and Chief Financial Officer

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



**PETER VAN DE PAS**
Sr Vice President
and Chief Operating Officer

## BOARD OF DIRECTORS AT DECEMBER 31, 2009*

**MARC HOFFMANN**
Chairman of Luxair
Chairman

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

**ALAIN GEORGES**
Chairman of BIP Investment Partners
Director

**PIERRE GRAMEGNA**
Director General Chambre de Commerce
Director

**JEAN-CLAUDE KNEBELER**
Secrétaire de Légation 1er en rang
Director

**ADRIEN NEY**
President and CEO, Luxair
Director

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

**FRANK REIMEN**
Premier Conseiller de Gouvernement
Director

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

**FRANÇOISE THOMA**
Member of the Management Board of
Banque et Caisse d'Epargne de l'Etat
Director

**PIERRE-OLIVIER EDOUARD**
First Officer Senior
Staff Representative

**GEORGE KARAMBILAS**
Captain
Staff Representative

**FRED LOPES DA SILVA**
Technician (Sr), L&H MTCE
Staff Representative

**DAVID MASSARO**
Supervisor (Sr) Material Repairs
Staff Representative

**ASTRID MOSEL-KNEIP**
Permanent Delegate, Staff Delegation
Staff Representative

**ROGER SIETZEN**
Honorary Chairman of the Board

* The following Board Members served until the Extraordinary General Assembly of November 30, 2009: FRITZ GROTZ, ROLPH WINIGER, KARL WUTHRICH.
The following persons became Board Members on November 30, 2009: JEAN-CLAUDE KNEBELER, FRANK REIMEN, FRANÇOISE THOMA, PIERRE-OLIVIER EDOUARD, GEORGE KARAMBILAS, FRED LOPES DA SILVA, DAVID MASSARO, ASTRID MOSEL-KNEIP.

## STRATEGY COMMITTEE

**MARC HOFFMANN**
Chairman of the Committee

**JEAN-CLAUDE FINCK**

**ALAIN GEORGES**

**PIERRE GRAMEGNA**

**FRANK REIMEN** [1]

**GASTON REINESCH**

## AUDIT COMMITTEE

**MARC HOFFMANN**
Chairman of the Committee

**JEAN-CLAUDE FINCK**

**ALAIN GEORGES**

**PIERRE GRAMEGNA**

**MAX NILLES**

**FRANK REIMEN** [1]

**GASTON REINESCH**

## COMPENSATION COMMITTEE

**MARC HOFFMANN**
Chairman of the Committee

**JEAN-CLAUDE FINCK**

**ALAIN GEORGES**

**PIERRE GRAMEGNA**

**MAX NILLES**

**FRANK REIMEN** [1]

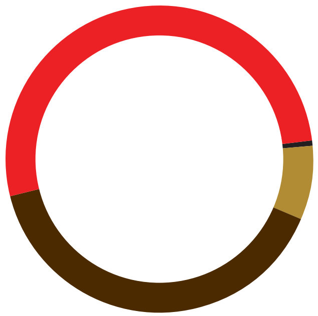
**GASTON REINESCH**

[1] As of November 30, 2009, FRANK REIMEN replaces ROLPH WINIGER in the Strategy Committee, FRITZ GROTZ in the Audit Committee and KARL WUTHRICH in the Compensation Committee.

## SHAREHOLDERS AT DECEMBER 31, 2009

**52.1%**
Luxair

**39.6%**
Luxembourg Financial Institutions
(BCEE, SNCI,
BIP Investment Partners,
Lux-Avantage)



**0,3%**
Others

**8%**
Luxembourg State

CARGOLUX ANNUAL REPORT 2009

CHAPTER 1

# MANAGEMENT'S REPORT OF ACTIVITIES

# FINANCIAL REVIEW AND ANALYSIS

## GENERAL

2009 was an 'annus horribilis' for Cargolux (and many other cargo carriers). The severe market decline which was witnessed towards the end of 2008 continued in 2009. Air cargo traffic (measured in freight tonne kilometers) decreased by 10.1% in 2009. This was the second consecutive year of traffic decline (2008: -4%). IATA estimates that around three years of growth have been lost in air freight markets (Air Transport Market Analysis, January 2010). The adverse market conditions meant that, also for Cargolux, all key performance indicators turned firmly into red: tonnes carried: -10.8%; load factors: -1.6 ppt; average yield: -26.3%. This in turn resulted in heavy monthly losses and severe cash burn.

Given the magnitude of the accumulated losses, the Company prepared a turnaround plan which foresaw a contribution of every stakeholder. This Plan was successfully implemented before year-end except for the planned savings in personnel costs. It resulted in the recapitalization of the Company and restructuring of its ownership. The Company also signed a Settlement Agreement with Boeing pursuant to which the 747-8 deliveries will be stretched out in time. Finally, the Company obtained waivers from Lenders who are party to financings providing for year-end compliance with an interest and rental coverage test (which was breached).

Improved trading conditions in the fourth quarter and a capital gain realized on the sale of two aircraft to UPS in September could only partially offset the losses of the first three quarters of the year. Existing hedging positions prevented the Company to fully benefit from the low interest rate and fuel price environment.

The net loss for the year was US$ 153.3 million. The main reason for the after tax loss was an adjustment of the deferred tax asset in the Balance Sheet.

## KEY PERFORMANCE INDICATORS

Capacity, as measured by availabe tonne kilometers (ATK), decreased by 9.3%, reflecting the lower daily utilization of the fleet and the sale of LX-FCV and LX-ICV to UPS in September. Additional capacity was sourced via wet-leases in the fourth quarter of 2009. The Company's production, as measured by freight tonne kilometers (FTK), was 11.3% lower than in 2008.

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. Load factors dropped to 69.0% or by 1.6 percentage points on the prior year.

Average system yield (US$/kg) was US$ 2.05, down 26.3% versus 2008, partially driven by a 57.2% drop of the fuel surcharge revenue. Ex Europe yields were also negatively affected by the EUR/US$ exchange rate. The underlying yields and demand for air cargo uplift ex Asia, the Middle East and the Americas were under severe pressure in the first three quarters, but saw significant improvements towards the end of the year. Daily average aircraft utilization of the Company's fleet was 14:34 block hours, down 6.7% on the 2008 average.

## MARKETS AND NETWORK

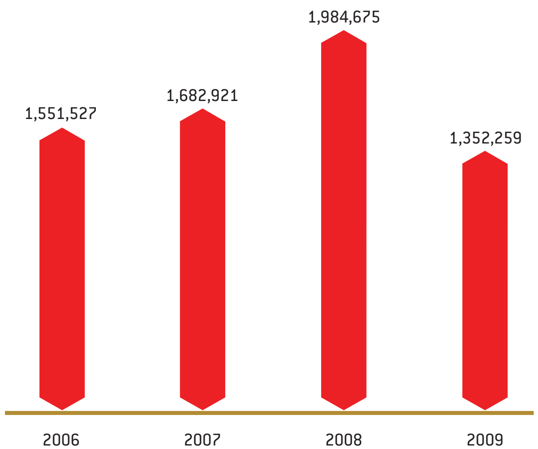
2009 was the worst year in airfreight in history. Markets dropped by over 20% (measured in FTK s) in the first half of the year. There was a significant gap between supply and demand during this period. This led in turn to load factor reductions and a significant yield decline. In the second half of the year, markets rapidly recovered and the year ended with a strong peak season. At the end of 2009, yields had almost recovered to 'pre-crisis' levels.

In terms of tonnage sold, all areas recorded a significant decline:

- US and South America: - 12.1%
- Europe - 7.8%
- Asia - 18.6%

The exception was the area Middle East / East Africa where we recorded a volume growth of 12.9% because we operated more 'turn around flights' in the Persian Gulf (flights that would normally have continued eastbound to pick-up Asian exports). Overall tonnes sold decreased by 10.8% to 627,813 tonnes.

**TOTAL INCOME**
CONSOLIDATED, IN US$ '000






Under the difficult market conditions network management was a challenge. Many short term and long-term network changes had to be made to deal with the extreme market volatility.

Various stations, among them Vienna, Helsinki, Istanbul, Toronto and Cairo, had to be closed.

Cargolux Italia, an affiliate of Cargolux, started operations in the summer of 2009. At the end of the year, Cargolux Italia operated a schedule of three weekly Milan/Dubai/Hong Kong/Milan services. Furthermore, the first phase of an EU-US open skies agreement became effective and allowed Cargolux to operate flights from Milan to New York and Chicago in early 2009.

**PROFIT AND LOSS ACCOUNT**

*Revenues* decreased by 33.8% from US$ 1,983.2 million to US$ 1,313.7 million. 19.6% of the revenues, or US$ 257.3 million, was accounted for by the fuel surcharge, down 57.2% on 2008.

*Other Operating Income* increased to US$ 38.5 million from US$ 1.5 million in 2008 mainly due to the sale of two B747-400F.

*Aircraft Lease Expenses* were down by US$ 18.3 million or 23.3%. The main reasons for the decline were lower dry lease cost (down US$ 4.5 million to US$ 52.3 million, primarily due to the classification to finance lease of the financing arrangement covering LX-MCV following the exercise of a purchase option on that aircraft by the Company), as well as lower ACMI expenses, down 63.3% to US$ 8.1 million from US$ 21.9 million in 2008.

*Aircraft Maintenance Expenses* (outsourced) went down 5.6% to US$ 96.2 million from US$ 101.8 million following the change of the D-check provider and (as from June) the insourcing of C-checks. *Other Aircraft Expenses* represent premiums paid to insure the Company's fleet and went up by 20.6% to US$ 3.8 million.

*Depreciation* increased by 9.7% to US$ 61.6 million, mainly because of the classification to finance lease of the financing covering the aircraft mentioned above and the purchase of a new aircraft under finance lease during the second half of 2008 (LX-YCV).

*Fuel cost (including the result of fuel hedging)* decreased by 44.1% to US$ 522.5 million and now represents 37% of total cost. Hedging losses of US$ 51.6 million were mitigated by US$ 16.8 million of unrealized hedging gains related to the positions taken before the balance sheet date to cover the Company's exposure to higher fuel prices in 2010 and 2011.

*Personnel Costs and Benefits* went down 2.1% to US$ 209.4 million. The overall salary component went down by 1.8% and, in Euro terms, the salary of all Luxembourg-based staff went up 3.7%, mainly due to mandatory salary indexation and time units.

*Handling, Landing and Overflying costs* declined by 11.8% to US$ 239.0 million. Handling charges went down 12.6% due to the decrease of cycles flown (-8.8%), the lower freight tonnage carried (-10.8%) and the depreciation of the EUR and other currencies versus the US$ (-3.0%). Landing charges dropped by 9.5%, driven by the lower number of cycles and the foreign exchange impact (-2.5%). Overflying charges decreased by 11.6%, mainly due to a reduction in block hours (-9.3%) and the foreign exchange impact (-2.6%). Landing and overflying costs were also influenced by network changes reducing activity in areas with relatively high roundtrip costs such as Asia.

*Trucking, Interlining and Truck handling* decreased by 20.3% to US$ 93.1 million. The trucking and truck handling cost decrease was due to unit rate reductions (-4.4%), exchange rate fluctuations (-5.2%) and fewer tonnes sold (-10.8%).




*Other Operating Expenses*, including GSA commissions, IT services, travel & entertainment, office rental and equipment, legal, audit and consulting fees, telecommunication expenses, net worth tax, etc. decreased by 35.8% to US$ 125.4 million. It is also under this line item that the Company booked a provision of US$ 77.7 million in the 2008 accounts with respect to the Company's exposure to the anti-trust proceedings in the US, Australia and New Zealand. In 2009, new provisions related to the anti-trust proceedings in Canada, South Korea and Switzerland were booked but could be compensated by the downwards adjustment of the EU anti-trust provision.

EBIT for the year stood at US$ -59.1 million compared to US$ 13.8 million in 2008. ***Financial income*** decreased by 26.7% to US$ 6.8 million and ***Financial expenses*** increased by 45.0% to US$ 72.3 million. The main reasons for this increase relates to the classification to finance lease of the financing for aircraft LX-MCV, debt service on one additional aircraft (LX-YCV), accrual of interest on provisions taken with respect of anti-trust fines (US$ 8.8 million) and a negative marked-to market of the Company's interest rate hedging portfolio (US$ 21.4 million) primarily due to the reclassification from hedge accounting to fair value accounting of 3 transactions covering 747-8 aircraft, the delivery of which was postponed. ***Net Finance Costs*** were US$ 65.5 million (2008: US$ 40.6 million).

***Loss Before Tax*** was US$ 122.3 million (2008: US$ 22.9 million). Consolidated net after tax loss was US$ 153.3 million (2008: US$ 61.0 million). The reasons for the negative tax adjustment are discussed below.

### TAX ADJUSTMENTS

Current tax for the year amounts to US$ 0.4 million versus US$ 3.1 million in 2008. As in 2008, the Company suffers a substantial adjustment of deferred taxes. The main reasons for the US$ 30.6 million adjustments are the consequence of the reversal of unused/expired Investment Tax Credits (ITC) and taxes being assessed on the basis of a tax balance sheet which requires significant accounting changes from IFRS. ITC can be carried forward for 10 years; unused they expire. The downwards adjustment of the deferred tax asset due to unused ITC was partially offset by the benefit of tax losses which can be carried forward indefinitely.

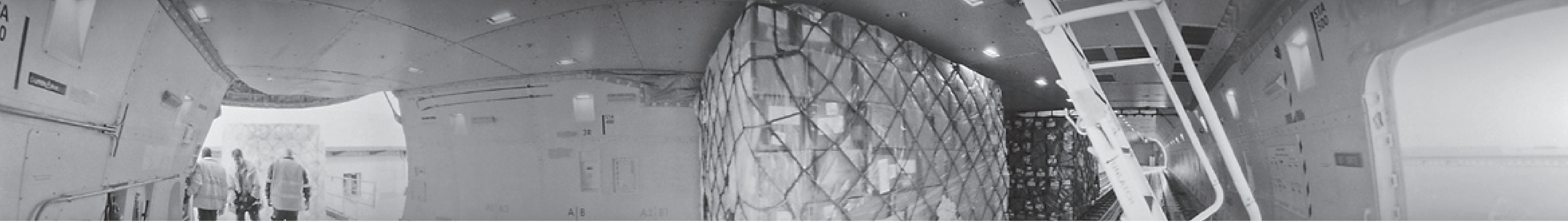
After these adjustments, the net after tax loss for 2009 equals US$ 153.3 million (2008: US$ 61.0 million).

### BALANCE SHEET

***Total Assets*** went down 12.9% to US$ 1,670.1 million from US$ 1,917.3 million. This is primarily due to the sale of two B747-400F aircraft and the reduction of the deferred tax asset. Despite the loss for the fiscal year ***Shareholders' Equity*** increased by 3.4% to US$ 469.5 million from US$ 454.2 million following (i) the Company's capital restructuring in November and December 2009 (see below), and (ii) the positive impact of the interest rate derivative portfolio which is hedge accounted.

In compliance with articles 26-5 and 69(4) of the Luxembourg company law, the capital restructuring was effected as follows:

- Reduction of capital from US$ 360.0 million to US$ 150.0 million through (i) absorption of losses of US$ 177.5 million incurred in prior year and up to October 31, 2009 and (ii) allocating US$ 32.5 million to a new un-distributable reserve.
- Capital increase of US$ 100 million by issuance of 4,000,000 class B shares subscribed to by all the shareholders except the Luxembourg State and one individual shareholder.





Interest-bearing liabilities (including finance leases) decreased by 22.0% to US$ 623.3 million from US$ 799.0 million. The decrease is mainly due the balloon payment on two loans which matured in 2009 (LX-LCV and LX-RCV), repayment of the new hangar financing facility and of the financing facility for the B747-400 Flight Simulator. ***Cash and cash equivalents*** and ***Other investments*** increased by 42.7% from US$ 192.0 million to US$ 274.0 million. Net financial gearing amounted to 74.4%. Net adjusted gearing (to take into account the present value of future lease payments) was 121.0% (2008: 174.8%).

**FLEET DEVELOPMENT**

In January 2010 the Company agreed with UPS to postpone the delivery of LX-GCV and LX-LCV to 2011.The Company foresees to make flexible dry-lease and/or wet-lease, arrangements in 2010 to adjust its capacity to market requirements in the event of a continued recovery of the air cargo market.

**BRANCH NETWORK**

The Company operates worldwide through a network of branches established in 34 countries (2008:35).

**CONSOLIDATION**

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

**OUTLOOK AND RECENT DEVELOPMENTS**

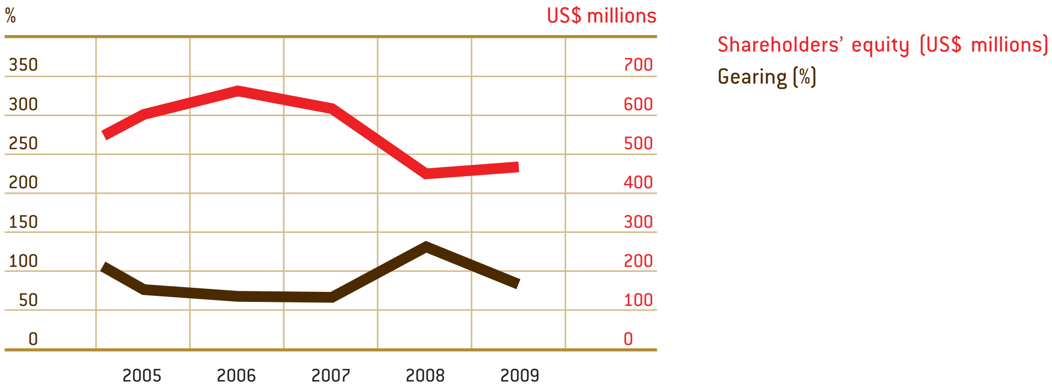
Since the low point reached in December 2008, air freight volumes have risen some 28%. The upturn in traffic, which was particularly strong towards the end of 2009, continued into 2010.

As a result of the US$ 100 million capital injection by the Shareholders in December 2009, the EUR 100 million State guaranteed standby credit facility put into place (also in December) and the proceeds of a further aircraft sale to take place in October, the Company has adequate liquidity to weather another tough year. Additionally, the Board of Directors would initiate a further capital injection (up to US$ 100 million) in the event the Company would breach a solvency ratio foreseen in certain loan agreements or as otherwise required for the business, as determined by the Board of Directors.

With the active support given to it by its shareholders, its lenders, its suppliers and the Luxembourg Government, the Company is well positioned to brace the future.

On March 19, 2010, the Company signed a Memorandum of Understanding with the Delegations and Unions. This MOU foresees that the Collective Work Agreement, which expired in 2009, will be re-conducted for a two-year period ending on December 31, 2010. The MOU further provides that the 13th month payment of December would be postponed in whole or in part if the Company incurs further losses in 2010.

**FINANCIAL GEARING**

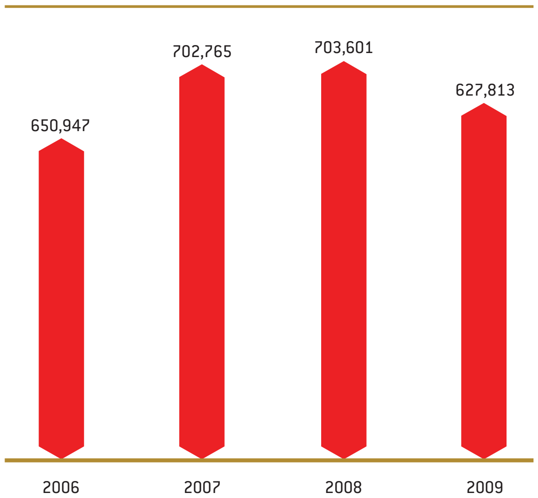


## OVERALL BUSINESS REVIEW

The financial crisis that unfolded in 2008 began to significantly affect the air cargo business in the first quarter of 2009 and caused a decline in freight volume of well over 20%. This led to immediate overcapacity with dire consequences for the industry and Cargolux.

The industry encountered massive losses and was forced to initiate capacity reductions. Some airlines had to re-evaluate their cargo operation alltogether and focused on belly capacity, using freighters only as a contributing element to the belly operation and not as a standalone operation.

**TOTAL TONNES CARRIED**
IN METRIC TONNES




Cargolux saw a reduction in fleet utilization and load factors, but, most importantly, a reduction in yields. In 2009, tonnage declined by close to 11% but yields were down by over 26%.

Because Cargolux, like any airline, incurs a high degree of fixed costs, we elected to continue to operate as long as flights would contribute to covering these costs. This approach led to reduced utilization per aircraft in the first nine months of the year, whereas, in the last three months, utilization returned to historically high levels.

During this crisis, we were able to leverage the strength of Cargolux: the ability to deal with changes quickly and adapt our network. We could implement short-notice flight changes whenever necessary to follow the frequent market shifts.

We could react quickly to avoid too much cash bleed and maximize cash flow. This required a very close cooperation between the commercial department, flight operations and maintenance and enabled us to operate a network that was as flexible as possible.

As a consequence of the market situation and our response to it, our daily average aircraft utilization declined by 6.7% to 14:34 hours. Total block hours for 2009 decreased by 9.3% to 83,102.

The market yield (gross, including surcharges) declined by 26.3%, while our underlying rate declined by 13.8%. We saw a drop in tonnage versus 2008 of 10.8% to 627,813 tonnes.

Freight tonne kilometers were down by 11.3% to 4,800 million while available tonne kilometers reached 6,953 million, a reduction of 9.3%. The average load factor for the year declined by 1.6 points to 69%. (All figures include data for Cargolux Airlines International S.A. and Cargolux Italia S.p.A.).

### NETWORK

The crisis affected all Cargolux destinations and areas. We temporarily reduced capacity on all routes and closed a number of destinations, including Vienna, Istanbul, Toronto, Helsinki and Cairo. No new destinations joined our network in 2009.




**MARKET SHARE**

Despite the worldwide decline and operating with reduced capacity, we could keep our market share stable at around 4%.

**FLEET**

Cargolux kept its fleet of 16 B747-400Fs in operation. However, a lower utilization of each aircraft meant that, in practice, we had the equivalent of two aircraft on the ground during the months of June and July.

In September, we delivered two aircraft to UPS under a transaction that had been concluded before the crisis and was intended to facilitate the planned introduction of our new B747-8 freighters in 2009. However, by the time those two aircraft left our fleet, we actually found ourselves in need of more capacity, as the markets began to rebound.

We therefore wet leased B747-200F capacity to cover peak season demand.

**DELAY OF THE -8**

The production delay of Boeing's new flagship, the B747-8F, has pushed the first delivery to Cargolux from 2009 to late 2010.

Cargolux saw this development with mixed emotions. On one hand, the delay helped us to preserve much-needed cash. On the other hand, we could have well used the added efficiency, lower fuel consumption, higher range and payload to reduce our operating costs. To sum it up: financially, the delay was helpful, operationally, it was not.

**SILVER LINING**

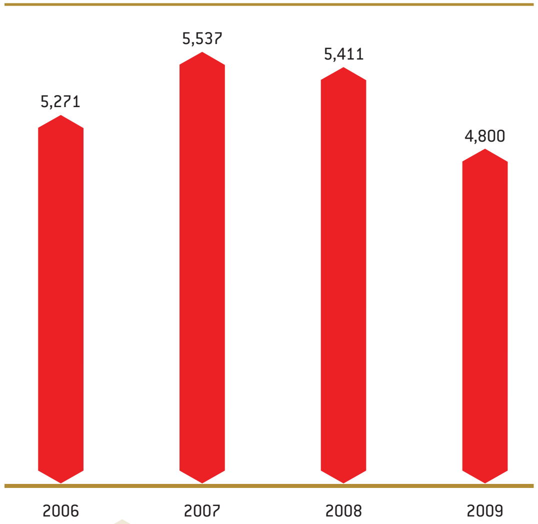
The last months of the year, the traditional peak season in airfreight, brought strong demand and a return of the yield to almost pre-crisis levels.

**CARGOLUX ITALIA**

In 2009, Cargolux Italia SpA was established with a base in Milan, Italy. The new airline operates one B747-400 freighter on lease from Cargolux Airlines International S.A., which acts as a General Sales Agent and supplies services to the Italian carrier.

Cargolux Italia started up with two weekly flights between Milan, Dubai and Hong Kong. A third frequency was soon added.

**TONNE-KILOMETERS FLOWN**
IN MILLIONS






## AREA BY AREA

We saw the most significant reduction in Asia where tonnage was also most severely affected. However, Asia also saw the fastest recovery of all areas, once the market began to pick up again. Europe was affected to a lesser extent, but recovery here was much slower. Perishable shipments out of Africa and South America had the lowest decline rate, but were also the slowest to pick up.

### AREA 1 – THE AMERICAS

While going through one of its toughest years, Area 1 ultimately beat significant odds and produced a result that is ahead of many of our competitors. The area moved a total of 114,261 tonnes.

Although we felt significant pressure on yields, our underlying yield in North America was fairly constant and, by the end of 2009, was at the same level as in 2008. Yields out of South America saw a decline of 13%, this was partly caused by an increase in fifth freedom traffic within South America, as well as a weakened Brazilian export market.

As in previous years, North America focused on network cargo; this means we actively sold destinations beyond our hub in Luxembourg that tie in with Cargolux's extensive route network to the Middle East and Africa. We registered another increase of 9.35% in this traffic; this constitutes a significant achievement and one that actively contributed to Cargolux maintaining such strong load factors out of North America.

A significant area of growth for the Americas was our charter activity. We operated 19 charter and part-charter flights, achieving total revenues of US$4.3 million. Additionally, we operated seven extra sections as scheduled flight.

South America gained additional fifth freedom traffic rights to Ecuador, Columbia, in March 2009; these brought another 1,000 tonnes of freight to existing flights.

### AREA 2 – EUROPE, CENTRAL ASIA AND WEST AFRICA

In 2009, our Area 2 showed a relatively small decline of 7.8% in terms of tonnage compared to 2008. The area produced 266,000 tonnes, a good performance in view of the crisis situation. In the main European markets, we even managed to increase our market share considerably, with an average growth of 8.5%.

The share of Area 2 in the overall company production was 43%. Including transit cargo also handled by the area, it represented 51% of the overall Cargolux tonnage.

Revenues declined by 39% compared to 2008. This was mainly due to the steep rate deterioration prevailing all over the market.

Under these circumstances, the difficult mission was to monitor the market development in order to optimize yields and revenue.

Because of our network design, in which Middle East stopovers play an important role on Asia-bound services, we managed to maintain higher rates on the Asian routes than our competitors. The Asian market decline could partly be compensated by higher volumes to the Middle East, rising by 26% in 2009 compared to 2008, thus representing the biggest tonnage increase.

In Africa, the set-up of on-forwarding possibilities to Pointe Noire, Port Gentil and other destinations further increased oil-related traffic between the United States, Scotland and other origins to these points in Africa. Northbound, our perishables market remained stable.

The North Atlantic traffic was reduced due to consolidation on our West Coast routes, while the US East Coast developed quite well with an increase in tonnage of nearly 10%.

Our South and Central American destinations continued their healthy development with two rounds of rate increases on the back of strong demand.

### AREA 3 – ASIA PACIFIC

2009 was a year of ups and downs in Asia. After several consecutive years of booming growth, the area went through some difficult moments in the first two quarters before the market stabilized somewhat. Because we were prepared for a market rebound towards the second half of the year, we could react swiftly to the positive developments in the last quarter.

Throughout the year, Area 3 operated 1,418 flights, including 47 charters, and carried a total of 160,000 tonnes, including fifth freedom traffic.

We took various measures to best position ourselves during the difficult times. When demand for space from the Asia Pacific region to Europe lessened, Cargolux stations targeted new markets other than the prime markets in Europe. Hong Kong operated a direct service to Lagos in Africa while Hong Kong, Ho Chi Minh City and Bangkok promoted Dubai in order to raise load factors. Singapore, Beijing, Kuala Lumpur and Shanghai offered services to South America, Africa and the Middle East via our hub in Luxembourg.



The area renewed its attempts to carry project shipments on short notice out of New Delhi, India. Some of these strategies turned out to be very effective in view of weaker competition, changing trading behaviors and the unprecedented global economic situation.

In response to overcapacity and low rates, we suspended certain routes and combined others, such as some flights in South East Asia and North Asia. A Beijing, Xiamen and Komatsu frequency, as well as a few Hong Kong frequencies were suspended. Again, these strategies helped load factors and yields to stabilize.

As the GSA for Cargolux Italia in Asia, Cargolux Hong Kong witnessed the Italian carrier's maiden flight to Malpensa in June. The twice-weekly service was expanded to three flights in September as Hong Kong customers welcomed and supported a direct flight to Milan. In the last quarter of 2009, in addition to the chartered flights, Hong Kong and Shanghai operated regular extra flights to cope with increased market demands. Maximizing revenue by combining certain flights, the area promoted fifth freedom sectors such as Ho Chi Minh City to Hong Kong, Komatsu to Taipei, Taipei to Bangkok and Bangkok to Hong Kong.

Area 3 remained alert and was opened to various new business opportunities throughout the year. In the unique market situation of 2009, we received substantial enquiries and requests for charter flights when the market picked up again. We operated a good number of charters out of Hong Kong, Shanghai, Singapore and Taiwan. Customers who experienced the effects of the highly volatile market were more receptive to maintaining contractual relationships to ensure stable and reliable services.

No single strategy worked well in all cases and at all times in 2009. Area 3 did its best to react quickly to fluctuating market situations. Most important of all, Cargolux was responsive to customers' demands.

### AREA 4 – MIDDLE EAST, SOUTH AND EAST AFRICA

Dubai was somewhat less affected by the economic crisis than the rest of our network. Business in the region went on as usual with major construction projects, including the Burj Khalifa, the world's tallest building, under completion.

With the economic downturn, the Middle East became a focal point for Cargolux's strategy and many Asian flights by Cargolux and other airlines were redirected to the Gulf market. As a result, forwarders had an array of options, which drastically brought down the rates.

The revenues produced by the area declined slightly, by 2,5% against 2008. Tonnage grew by 12.9% and reached 79,485 tonnes.

In 2009, sea-air volumes dropped by 40% compared to 2008, but the second half of the year saw an unprecedented increase in demand for capacity. Sea-air cargo charters were operated at round trip prices.

Nairobi has boasted an annual growth rate of 15% for almost two decades, but, for the first time, the Kenya flower industry registered a decline in the period up to September 2009 with tonnage down to 80,000 tonnes, compared with 120,000 tonnes in 2008.

European flower auction turnover in August 2009 decreased by 15.9% compared to the same month in 2008. The cut-flower market, which usually improves at the beginning of August, started to pick up only towards the second week of September.

Cargolux continued to strengthen its position as a reliable and committed partner for flower transports from Kenya and Zambia to Europe, carrying about 1,000 tonnes per week. During the peak season, we were able to add an additional frequency to Lusaka, Zambia. Two additional weekly flights were also added to Nairobi to cope with increased demand during the Christmas period.

### CHARTER

With overcapacity on scheduled flights and growing competition, charter prices declined to historically low levels during the first nine months of 2009.

Especially the automotive industry, driven by cost cutting measures, operated less than half as many charter flights as they did the year before. Telecommunication charters were down by 30%.

The last three months saw a recovery of charter demand and Cargolux operated up to three leased-in aircraft to satisfy the increased demand of our customers. This was driven by the reviving Chinese economy and assisted by the fact that many airlines had reduced their active fleets.

In 2009, we operated 109 charter flights, well below the average of previous years, but the positive developments at the end of the year leave us optimistic for 2010.

### OUTLOOK 2010

Towards the end of 2009, we saw an upwards trend that continued through the first weeks of 2010. The supply/demand ratio has restored itself and yields have picked up. Meanwhile, we are in the process of dry-leasing a B747-400BCF in order to capitalize on this situation and to leverage our fixed cost base. We will start our fleet replacement program with the planned delivery of our first two B747-8Fs in late 2010, while one B747-400F will be handed over to Silkway this fall.

## MAINTENANCE AND ENGINEERING

### RELIABLE OPERATION

The Maintenance and Engineering Division of Cargolux is responsible for the technical status of the Cargolux B747-400F freighter aircraft, ensuring a safe and on-time operation of the Cargolux fleet. Additionally, we support third-party customers in their maintenance requirements.

In 2009, the division has again raised the scheduled reliability of the Cargolux fleet from just over 98% in the previous year to 98.9%. This was made possible in no small way by moving the organization into the new maintenance center in May 2009. As with the design and construction of the hangar, the move itself was well prepared and perfectly executed without any disruption in our maintenance activities. Tools and machinery were brought over on the weekend of 15 May, right after the completion of the final check in the old hangar, and the first A-check in the new building started on Monday, 18 May.

The operation in the new maintenance center was successful from day one. The hangar offers two fully equipped maintenance bays that can accommodate wide body aircraft up to the size of the Airbus A380. The work space itself has been very well laid out and the concept has proved to be as effective as was hoped. Bringing all shops under one roof has also increased our productivity and efficiency as expected. The working environment for the Cargolux maintenance staff have improved considerably.

### HEAVY MAINTENANCE

In 2009, one D-check and eight C-checks were performed on the Cargolux fleet. Of the C-Checks, one was executed by KLM Engineering and Maintenance, two by Singapore Airlines' maintenance division and the last five C-Checks were brought in-house after the opening of the Cargolux hangar.

The Cargolux Maintenance and Engineering Division prepared itself well for the expansion of the in-house activities and quickly adjusted to the execution of C-checks. By the end of the year, we were able to perform these checks with the same man-hours and within the same aircraft downtime as our previous providers. As a result, the Cargolux Maintenance and Engineering division now includes the C-Check in its service portfolio and offers a competitive product to third-party customers who can enjoy all advantages of the professionalism and skills of our workforce.

At the end of 2009, the Cargolux Maintenance and Engineering division employed a staff of 363. During 2009, the organization produced 430,000 man-hours, split between line, hangar and back shops. Roughly 10% of those were used for third-party customers.

### CUSTOMER SERVICES

Due to the worldwide economic and financial crisis of 2008/2009, we saw a decrease in third-party customer turnover, mainly driven by reduced line maintenance activities on our customers' fleets due to their reduced schedules. The revenue in 2009 reached US$ 5.1 million. With the new maintenance center in full operation, we were already able to sign up new customers for hangar and back shop support. 2009 customers included Air Atlanta, Atlas Air, Bluebird Cargo, and Corsair.

### MAINTENANCE SOFTWARE

Cargolux is one of the companies that use the TRAX Maintenance software to its broadest extent. Cargolux also actively works with the TRAX developers to further enhance the software.

In 2009, Cargolux successfully developed and introduced a new TRAX module, the resource management planning tool. This module is now fully operational and allows us to optimize the scheduling of maintenance activities and required staff levels.

### BOEING 747-8F ENTRY INTO SERVICE

Preparations for the introduction of the all-new Boeing 747-8F into the Cargolux fleet continued throughout 2009, although at reduced levels due to the aircraft's production delay at Boeing. Entry into service preparations will, however, be a major topic for our maintenance and engineering division in 2010.




## FLEET PERFORMANCE

With the handover of two B747-400Fs to UPS in September, the Cargolux fleet was reduced to 14 aircraft. Our daily aircraft utilization went down by about an hour to 14:34 hours per day. Despite the reduction, Cargolux remains one of the industry leaders in that respect.

Our network punctuality improved to 61.9% of all flights that departed within one hour of schedule. The Cargolux Pitstop program, aimed at recovering operational delays, was instrumental in recovering 1,036 hours of delay in 2009. The program is part of our standard operating procedures.

## A NEW SIMULATOR

Cargolux is the first customer of a Boeing 747-8F simulator, the first of its kind worldwide. Due to the delay of the aircraft program at Boeing, delivery of the simulator was also pushed back to 2010, but preparations for the installation in Luxembourg began in 2009. The simulator is built by CAE in Montreal, Canada; it will arrive at our training center in October 2010 and be fully operational in March 2011.

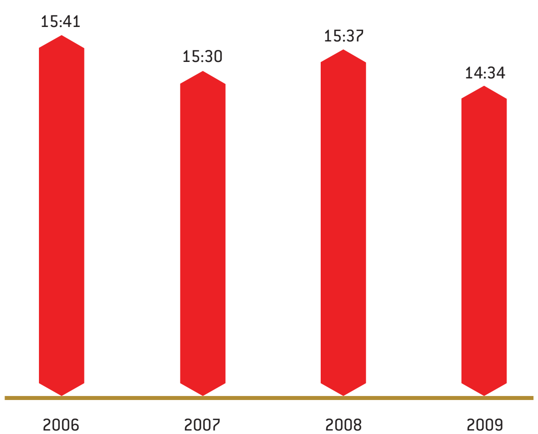
Together with Boeing, we have initiated a training program for our pilots that will begin in September 2010 and last until April 2011. Throughout the year, we have also worked with Boeing on the progress of the B747-8F itself, setting up procedures for the operation of the aircraft at Cargolux.

## CARGOLUX ITALIA

Cargolux Operations was instrumental in building up the flight operations side for Cargolux Italia when that company was established in Milan last year. In a major project that lasted all through 2009 we installed dedicated postholders for Flight Operations and Crew Training and facilitated the issuing of licenses and an Air Operator Certificate from ENAC, the Italian aviation authorities. Cargolux Airlines International S.A. continues to support Cargolux Italia as its GSA and service provider.

**DAILY AIRCRAFT UTILIZATION**

PER BOEING 747-400 FREIGHTER




## IOSA

Cargolux is fully accredited under the IATA Operational Safety Audit Program, IOSA, since 2008. The accreditation certified that Cargolux's operational management, quality, safety and security are on the highest level. In 2009, we passed our first IOSA renewal audit, which differed from the original one because IOSA constantly updates standards. The renewal audit was more demanding on documentation and auditors ensured that Cargolux implements the processes and procedures in its operations manuals. With the renewal, IOSA made a clear and positive statement about the integrity of Cargolux's operations and ability to manage associated risks. Further audits will take place every two years.

# CORPORATE SOCIAL RESPONSIBILITY

*The harsh economic climate that prevailed in 2009 forced Cargolux to focus on overcoming the crisis that affected the global air freight sector. This notwithstanding, we sought to maintain our momentum in the field of corporate social responsibility and, where possible, strengthen our actions.*

*Cargolux ranks amongst its highest priorities to operate its fleet with the best possible fuel efficiency. Intercontinental air transport is a fuel-intensive activity and the atmospheric emissions from our aircraft represent by far the biggest environmental impact of the company. At the same time, Cargolux has a strong financial incentive to ensure that its fuel consumption remains as low as possible. Energy conservation and the fight against global warming is therefore the field that receives our highest attention in terms of environmental protection.*

*As signatory of the United Nations Global Compact, Cargolux also seeks to align its actions and policies ever more closely to the UNGC ten principles. In spite of the difficult economic climate, progress has been achieved in several areas in 2009 and further actions are planned for coming years. We completed ISO 14001 certification of our flight operations, a process that culminated in passing the required audits in March 2009. We developed our internal waste management program in Luxembourg. We launched a fundamental review of our code of ethics, focusing particularly on developing the highest possible company standards in terms of corporate compliance.*

*We also sought to maintain and strengthen, where possible, our relations with many stakeholder groups. In particular we encouraged stakeholders in the commercial field to align their corporate social responsibility practices and to join the UN Global compact. We also undertook an intensive dialogue with staff representations on how to cope with the economic crisis.*

*Beyond our shareholders and immediate commercial contacts (freight forwarders, handling agents, trucking companies, maintenance and IT suppliers), Cargolux lays particular importance on maintaining and developing contacts with neighboring communities of the airports where we operate, local non-governmental organizations, as well as schools and universities.*

*Various factors prevented us from reaching all the objectives we had set ourselves in 2009. Production delays at Boeing's factory resulted in a postponement of our fleet renewal plans to the end of 2010, delaying by one year the arrival of our new, quieter and more fuel efficient generation of aircraft. Our original plans of extending ISO 14001 certification beyond flight operations in 2009 proved overambitious as our Maintenance and Engineering division needed time to move and adapt to its new maintenance facility.*

*Most importantly the global crisis forced the company to focus on overcoming this difficult period, resulting in slower progress in long-term projects aimed at improving our environmental performance. For example, less resources were available to install the new Iridium satellite communications system on our aircraft, and our trucking contractors' fleet renewal schedule was temporarily slowed down.*

*Nevertheless, we are particularly proud to have been able to overcome this difficult year without dramatically downsizing the company and without resorting to compulsory redundancies. We were able to protect the jobs of our permanent employees, thanks to which the company will find itself on a stronger footing when the business climate improves.*

CARGOLUX ANNUAL REPORT 2009

## CHAPTER 2

# CARGOLUX AND THE ENVIRONMENT

# CARGOLUX AND THE ENVIRONMENT


*As a long-haul cargo airline operating large aircraft, we mainly impact the environment through atmospheric emissions resulting from our fuel consumption, notably emissions of $CO_2$. A study undertaken in 2007 showed that our flight operations were responsible for over 98% of the $CO_2$ emitted by the company – all other activities, including road feeder services, staff business travel, office heating and employee commuting represented less than 2% of total emissions.*

*Consequently, our efforts focus primarily on controlling fuel consumption as far as possible and developing new operational techniques that allow us to reduce it even further.*

*Cargolux is also attentive to the other types of environmental impact of its activities. In particular, the company is conscious of the noise produced by its aircraft and takes action to reduce as far as possible disturbances to communities living around the airports where it operates, especially at its hub in Luxembourg. Since 2007, Cargolux has also been developing a comprehensive waste management program, which was extended in 2009 to include maintenance facilities as well as all office buildings at the company's headquarters in Luxembourg.*

## I. ENERGY AND ATMOSPHERIC EMISSIONS

In spite of the difficult business environment that prevailed in 2009, Cargolux has managed to maintain fuel-efficient flight operations. An analysis of the fuel burn of each flight made during the year shows that our aircraft burned on average 165 grams of fuel to transport one tonne of cargo over one km, which corresponds to $CO_2$ emissions of 521 grams per tonne-kilometer.

Since 2008 Cargolux has improved its monitoring methods in terms of fuel consumption and was able to achieve greater precision in the underlying calculations that lead to this fuel burn ratio. In 2009 we fine-tuned our analysis and calculation method. As a consequence the 2009 result is more accurate than that of 2008. We therefore plan to use the 2009 figure as a benchmark from which to assess the company's fuel consumption in future years.

### A) STREAMLINING FLIGHT OPERATION AND CONTROLLING FUEL CONSUMPTION

At Cargolux, we are convinced that our flight operations rank among the most fuel efficient in the air freight sector. This is due to the fact that Cargolux's fleet is solely composed of one of the most fuel-efficient large cargo aircraft currently available, and that constant attention is paid to planning our flights in such a way that our fuel consumption remains as low as possible. A series of fuel conservation measures were introduced in the past years, which have proved effective in reducing our fuel burn even further.

These measures are being maintained where possible and a monitoring system is being established to ensure that the energy efficiency levels remain high. As 2008 was the first full year where many of these measures were implemented, we were able to describe these measures in detail in our previous year's Corporate Social Responsibility Report. The following paragraphs show the results obtained by monitoring progress in their implementation in 2009.

**1) Cost Index:** The most effective measure remains operating under a cost index-based flight schedule, as opposed to the traditional fixed-speed schedule that was operated until 2007. Under the cost-index schedule, the most important variables that constitute the overall cost of a flight are evaluated in order to determine the most efficient speed of operation. For example, if an aircraft is not bound by critical landing slots or crew duty times, it may fly at a speed lower than the standard Mach 0.85 speed and thereby achieve a lower overall fuel burn for the flight.

A new series of calculations undertaken in early 2010 has shown that cost index-based flight planning yields continued positive results in terms of fuel economy. An extrapolation of one week of flight planning to a whole year of operation shows that an estimated 9,000 tonnes of fuel were saved during 2009, representing a saving of 28,350 tonnes of $CO_2$.

**2) Network optimization:** In 2009, new stopover destinations were opened for technical stops on certain routes. These are located nearly halfway between the points of departure and arrival, which makes it possible to achieve a better balance between cargo and fuel loads and carry more freight relative to the amount of fuel burnt.

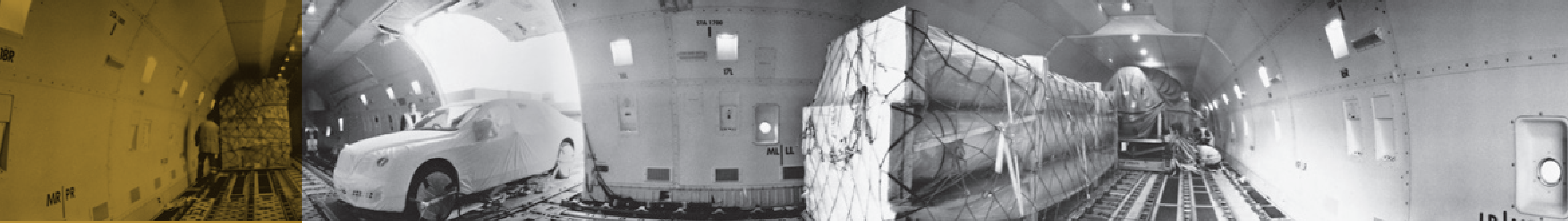
Further optimizations of the network included the opening of new trans-Siberian routes during 2009, allowing more cost-effective and fuel-efficient operations to certain destinations in the Far East. However, a further extension of trans-Siberian routes is hampered by exceedingly high overflying costs over Russia.

**3) Network flexibility:** The flexibility of Cargolux's operations greatly helped the company to overcome the difficult economic climate that prevailed in 2009. A close cooperation between all members of staff from the commercial, operations and maintenance divisions of the company, made it possible to consolidate and re-route flights where

TOTAL $CO_2$ EMISSIONS
(FLIGHT OPERATIONS)
**2.503**
MILLION TONNES

$CO_2$ EMISSIONS
PER TONNE-KM
**521**
G/TKM

TOTAL NUMBER
OF TONNE-KM
**4.8**
BILLION





necessary, thereby maintaining relatively high load factors and increasing as far as possible the fuel efficiency of our operations.

The load factor of an aircraft (i.e. the amount of freight loaded compared to the capacity of the aircraft) is a determining factor in the fuel efficiency of a flight and Cargolux seeks, where possible, to keep its load factor as high as possible. As a result of this flexibility, the average load factor decreased by only 1.6 percentage points in 2009 compared to 2008, in spite of the difficult economic situation that prevailed through most of the year.

**4) Center of gravity:** Determining the optimal load distribution of a cargo aircraft is a delicate art, especially given the large size and disparate weights and volumes of the various shipments that will be brought together into the cargo decks of a 747-400 freighter aircraft. The objective is to achieve an optimal balance between front and rear, as well as left and right side, in order to ensure that the aerodynamic properties of the aircraft will not be impaired and that it will be able to take-off, fly and land safely.

A fine-tuning of the load balance allows to obtain an ideal center of gravity profile offering both the safest flying conditions and the lowest possible fuel burn for that particular set of pallets. Since 2008, a tool was integrated into the system used by load controllers, allowing them to check that their aircraft load is as close as possible to that optimum. This tool is now used as a standard procedure.

Spot checks performed over the year 2009 show that more than half of Cargolux flights continue to be loaded with a center of gravity situated within 0.5% of the optimum. This shows that the initial efforts undertaken in 2008 to optimize aircraft performance by fine-tuning the center of gravity of the aircraft are being maintained.

**5) APU usage:** In 2007 a network-wide campaign was launched aimed at reducing, where possible, the use of the aircraft's auxiliary power unit for energy generation when the aircraft is on the ground. This campaign proved successful and a reduction of 8.8% in the utilization of the APU per aircraft cycle was achieved in 2008 compared to 2007.

In 2009, the utilization of the APU increased again, by 6.25%, to reach 1h42 per aircraft cycle. This increase is due to a variety of factors, including a lack of reliability of ground power supply at certain airports and the need to ensure stable temperatures in the aircraft when perishable goods or live animals are transported.

Nevertheless, Cargolux continues to monitor utilization of the auxiliary power unit and to gradually increase reliance on ground power where possible.

**6) Deep core engine washing** has, since 2008, been fully integrated into Cargolux's maintenance program. In 2009, both General Electric and Rolls Royce engines were washed on a regular basis at a 300-cycle interval. An improvement in Specific Fuel Consumption is particularly noticeable on GE engines, where the reduction in fuel burn reached 0.25%. This represents a substantial improvement, with an estimated fuel saving in excess of 430 tonnes over the entire year, or 1,350 tonnes of $CO_2$.

**7) Compressed air:** With the opening of Cargolux's new twin-bay maintenance hangar in Luxembourg, modern technologies could be applied in our maintenance activities, allowing additional fuel savings. For example, the availability of compressed air in the new hangar removed the need to use the APU for routine checks such as engine tests or the operation of flaps and other moveable parts of the aircraft. As a result, Cargolux estimates that over 30 tonnes of fuel will be saved annually.

## ONGOING PROGRAMS

Cargolux is also engaged in longer-term projects, many of which, once implemented, will yield substantial savings in fuel consumption. The most important are the following:

### IRIDIUM SATELLITE COMMUNICATION

In 2009, Cargolux was able to reach significant milestones in the implementation of Iridium on-board satellite communication technology, which opened the possibility of starting operations in the first half of 2010.

Since 2007 Cargolux has spearheaded the implementation of Iridium-based satellite communication into civil aviation. Iridium offers a cheaper and more powerful alternative to the existing Inmarsat system, mainly due to the fact that lighter equipment is required, both on board the aircraft and on the ground, to operate the system, and because Iridium offers worldwide coverage, including over the poles.




The implementation of iridium satellite technology on Cargolux's fleet offers significant fuel saving prospects as the company's flights will be able to follow air routes that require Future Air Navigation System (FANS) data-based communication. These are often more direct routes, but located over remote areas such as deserts or high seas, where no ground-based VHF radio coverage is available. On these routes, all communication is undertaken through data transfers via the aircraft's on-board flight management computer.

In September 2009, Luxembourg's Civil Aviation Authority certified Cargolux for the operation of FANS routes and, on 1 November 2009, a first test flight was successfully performed between Auckland and Los Angeles, crossing the Pacific Ocean. This test flight marked the first time where a FANS route was flown using iridium satellite communications, and was performed with the collaboration of Air Traffic Control centers covering this flight zone.

Cargolux estimates indicate that, depending on dominant winds, the company may save up to 1,450 tonnes of fuel per year on the Luxembourg-Hong Kong and Luxembourg-Shanghai routes alone thanks to this technology.

**FLEET RENEWAL**

Cargolux's ambitious fleet renewal program was delayed at production stage. We expect the first of 13 firmly ordered Boeing 747-8F aircraft to be delivered by the end of 2010.

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

The 747-8F will thereby allow Cargolux to offer one of the most environment-conscious air cargo services worldwide. Its flights will generate substantially lower $CO_2$ emissions, as well as markedly lower noise disturbances to the communities of the airports where we operate.

Boeing completed its first 747-8F at the end of 2009 and started its nine-month test flight program on 8 February 2010. Cargolux is scheduled to receive two new aircraft in December 2010 and two aircraft in 2011. The new 747-8F will gradually replace our current fleet of 747-400F.

**ALTERNATIVE FUELS**

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

Many scientific and organizational challenges remain to be overcome before sustainable aviation bio-fuel becomes available in large quantities and at an acceptable price-range. However, remarkable progress has already been achieved by specialist industrial partners participating in this initiative. The technology for producing plant-based jet fuel which equals or exceeds the chemical requirements of fossil-based fuel is now ready. Several feed stocks have been identified for the production of the fuel: plants growing in saline environments, in semi-arid areas, fallow-crops and algae-varieties. Research is now ongoing aimed at developing methods for large-scale production that are environmentally sustainable and economically viable.

Two important milestones were reached in 2009. The first was the adoption by the standards development organization ASTM International of a new specification that will allow the use of synthetic fuels in commercial aviation. This new standard opens the possibility of utilizing fuel produced using sustainable feedstocks. It describes the fuel properties and criteria necessary to control the manufacture and quality of these fuels. In doing so, it paves the way towards certification of sustainable bio-fuel in commercial aviation in coming years.

Secondly, SAFUG joined the Lausanne-based Roundtable on Sustainable Biofuels (RSB), which is developing sustainability standards and a certification process for aviation bio-fuels. Certification by the RSB will give assurance that the aviation bio-fuel that will be used is recognized as sustainable at an international level.



#### E-FREIGHT

Cargolux is one of the ten founding airlines participating in the 'IATA e-freight' initiative. This project aims at simplifying the air cargo business and shortening transit times by eliminating the paperwork that currently needs to travel with the freight. This is an industry-wide project of which a positive side-effect would be to reduce substantially the amount of paper used in this sector (estimated at 8,000 tonnes annually). It involves airlines, freight forwarders, customs authorities, ground handlers and shippers.

Cargolux took the decision to coordinate collaboration with customs authorities and freight forwarders in Luxembourg, in order to promote the utilization of e-freight on its flights, and Luxembourg became one of the first countries who obtained e-freight certification, in 2008. This was achieved by performing a live air cargo shipment (in other words transporting a shipment where all paperwork is replaced by electronic messaging) between Luxembourg and Singapore.

In September 2009, Cargolux followed up this trial with another live shipment between Luxembourg and Taiwan. These successes demonstrated that, when all participants in the supply chain work together, they can realize paperless movement of goods around the world.

In a parallel effort, Cargolux is developing a proof of concept web-portal access system designed for smaller forwarders that may not own the IT infrastructure required for e-freight. This system will provide them with the ability to communicate the required Air Waybill data and thereby participate in e-freight when transporting their goods with Cargolux.

An important milestone to facilitate e-freight was achieved at the end of 2009, with the ratification of an agreement between airlines (represented by IATA) and freight forwarders (represented by FIATA) towards the creation of an industry-wide format for electronic air waybills (e-AWB), to replace the paper air waybills.

The implementation of e-freight is likely to accelerate in 2010, as the European Union requires customs pre-notification of all shipments to be effective by end 2010 in all EU countries. This will mean that the EU will be aligned with other customs authorities that already have this requirement, such as in the U.S. and Canada.

### B) NON-FLIGHT ACTIVITIES:

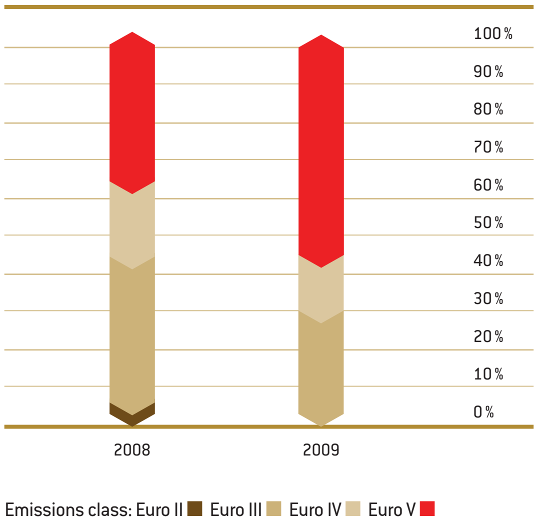
**Road Feeder Services:** Cargolux organizes road feeder services to and from many airports in its network, in order to complement its flights and facilitate the transfer of goods from origin to their final destination. Over 90% of all trucking organized by Cargolux takes place in Europe, where shipments are transported between its hub in Luxembourg and the destination airports of the shipments throughout the continent (and vice-versa). All road feeder activities performed worldwide for Cargolux represent less than 1% of the company's overall $CO_2$ emissions.

In January 2009, the trucking companies that provide the bulk of road feeder services on behalf of Cargolux in Europe agreed on a plan to gradually renew their trucking fleet by phasing out older, more polluting trucks and replacing them with new models that comply with the most recent emissions norms laid out by the European Union.

In spite of the economic difficulties that prevailed in 2009, these trucking companies did manage to reduce the proportion of older trucks: out of 304 vehicles that were regularly used to transport cargo for Cargolux in 2009, 70% were classified as 'Euro IV' or 'Euro V' (compared to 55% in 2008), and more polluting Euro II trucks were completely phased out. This result was achieved both by retiring older trucks and introducing new vehicles. The trucking companies thereby came close to achieving their objective of an 80% 'Euro IV/V' fleet.

However, further fleet renewal activities are likely to depend largely on a confirmed economic recovery in 2010 and beyond.

**EUROPEAN TRUCKING FLEET**
3RD-PARTY FLEET OPERATING FOR CARGOLUX IN EUROPE






## II. CONTROLLING NOISE EMISSIONS

Noise emissions are the second most important area of environmental concern to Cargolux and all possible efforts are being made to mitigate the amount of noise produced by its aircraft.

These efforts are of particular importance at the company's hub in Luxembourg, as this is where the highest number of aircraft movements take place. In 2009, close to 10 Cargolux aircraft took off and landed at Luxembourg on average every day, Cargolux flights representing over 17% of all jet aircraft movements. Luxembourg airport is also located in the vicinity of Luxembourg City and several smaller villages, and Cargolux seeks to ensure that its operations result in the least possible disturbances to these communities.

Cargolux's fleet is currently exclusively composed of one of the quietest large freighter aircraft available, the Boeing 747-400F. From December 2010 onwards, Cargolux looks forward to being able to operate even more quietly, with the arrival of the first Boeing 747-8F. The new engines and wing design of this aircraft will lead to a 30% reduction of its take-off noise footprint at 85 dB, compared to the current aircraft. The 747-8F's noise level will therefore be comparable to that of many smaller twin-engine aircraft.

Between 2005 and 2008, Cargolux, as well as Boeing, actively participated in a study on aviation noise in Luxembourg. This study was initiated by Cargolux and carried out by the Henri Tudor Research Institute. It was funded mainly by the Luxembourg government.

By building a mathematical model specific for Luxembourg's operating conditions and Boeing 747 aircraft, the objective of the study was to simulate aircraft noise patterns and to be able to optimize a number of flight relevant parameters, such as take-off and approach procedures, in order to ultimately reduce the noise impact of Cargolux flight operations at Luxembourg airport. It also sought to determine at what time of the day aircraft movements caused the highest amount of nuisance to the largest number of people and to suggest new approach, take-off and scheduling procedures that would minimize the amount of community noise.

This study proved very valuable in the establishment of the government's noise action plan for Luxembourg Airport, which is being developed.

A second phase of the study on noise is currently in preparation, which aims at calculating optimal trajectory vectors for aircraft taking off and landing at Luxembourg airport, and developing a new tool that will be able to calculate noise thresholds perceived by the population, and thereby determine optimal flight paths, taking into account the level of background noise that the population is exposed to.



## III. WASTE MANAGEMENT:

In 2009, Cargolux was able to build on the efforts made in 2008 and consolidate its waste management program at all its sites in Luxembourg. This includes the company headquarters building, the new maintenance hangar, which became operational in May 2009 and also houses the offices of all Maintenance and Engineering personnel, as well as additional rented offices, including Cargolux offices located at the Luxair Cargo Center in Luxembourg.

Cargolux's Maintenance and Engineering Division benefited in particular from the fact that the waste management program had been introduced in 2008, prior to the move into the new maintenance facility. The experience gained before the move allowed maintenance staff to design a more practical layout of the various new shops and work zones, and to achieve more efficient work flows. By better separating the waste produced at the facility, it became possible to reduce the overall amount of waste classified as hazardous. The layout of the new facility also allowed the installation of waste compactors, substantially reducing of the number of road trips required to dispose of the waste.

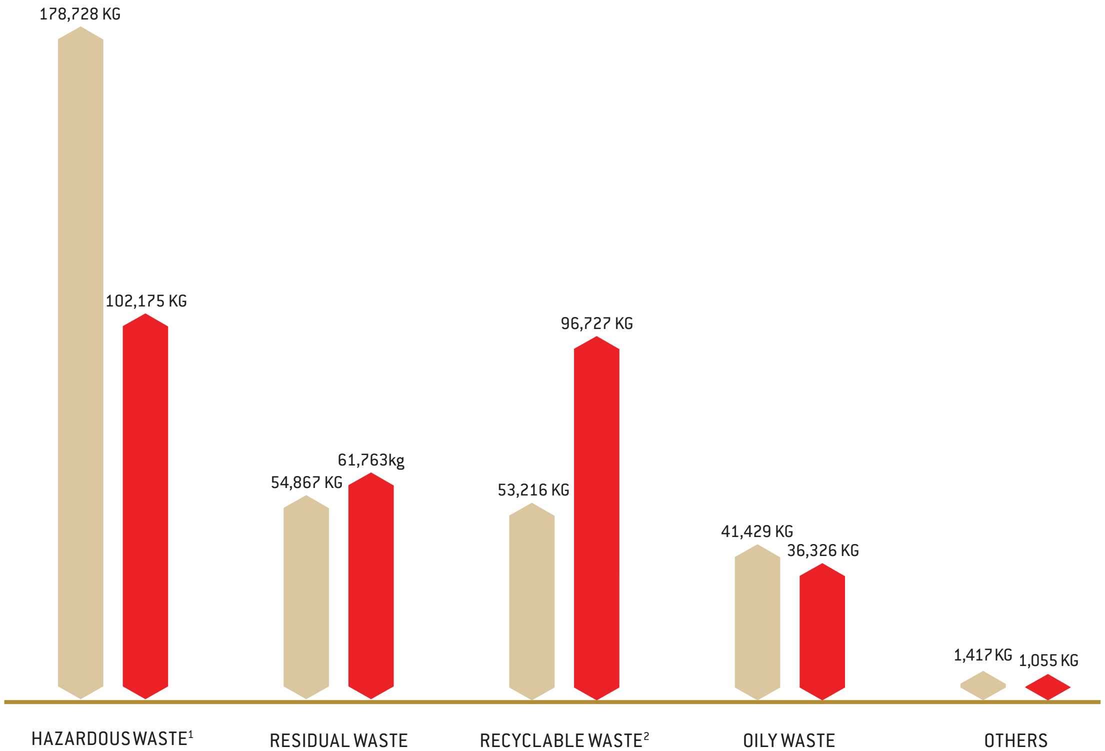
Thanks to a fruitful collaboration with its partners in Luxembourg, Cargolux could expand its waste management program to offices located in rented facilities. As a result, all Cargolux offices in Luxembourg were covered by a waste sorting and recycling system by the end of 2009.

In recognition to the continued efforts made by Cargolux, the Luxembourg Ministry of the Environment renewed the company's 'Superdreckskëscht fir Betriber' (SDK) label in June 2009 for its headquarters. A separate label was awarded specifically for the maintenance hangar in August 2009, due to the specific nature of waste resulting from aircraft maintenance. The SDK label is awarded in Luxembourg 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 is subject to annual renewal following audits that verify the company's adherence to these principles.

### WASTE DISPOSAL BY CATEGORY, 2008 2009

SITES CONTROLLED BY CARGOLUX IN LUXEMBOURG




[1] Hazardous waste includes solvents, paints, adhesives, oily sludges, chemicals, waste containing heavy metals, batteries, among others.
[2] Recyclable waste includes metals, plastics, wood, glass, paper (includes waste generated by the clearing of the old hangar and waste from the new canteen).




In the course of 2009, Cargolux's handling agent in Luxembourg, Luxair Cargo, expanded its own waste management program. This is of particular importance as a large percentage of all the freight transported by Cargolux transits through Luxembourg and is handled at the Luxair Cargo Center. Also, over 70% of all the freight handled by Luxair is transported by Cargolux.

Much of the waste handled by Luxair originates therefore from Cargolux's aircraft pallets, in the form of wrapping material, wood used for spreading the weight of dense pieces of cargo over wider surfaces and spent pallet nets and straps.

Luxair Cargo now segregates three different categories of plastic used as pallet packing material , which can thereby be recycled more efficiently. These are transformed into granules and sold to the plastics industry. Since December 2009, the manure and spent sawdust collected after cleaning out the stalls from the 900 horses that transit through Luxembourg airport every year is sent to a special recycling facility and used to facilitate the regeneration of contaminated soil. Used pallet straps and nets are also separately collected by Luxair, for recycling.

Following these developments, Luxair Cargo was also awarded Luxembourg's "Superdreckskëscht" waste management certificate in 2009. This demonstrates that sound environmental practices are increasingly being implemented by a community of stakeholders at Luxembourg airport, rather than in isolation. Both Cargolux and Luxair will maintain and further strengthen their collaboration in this field in the future and encourage additional stakeholders to take part in these efforts.

## VI. POLICY AND CONTRACTUAL FRAMEWORK

**ISO 14001 certification:** An important milestone was reached in March 2009, when Cargolux was awarded the ISO 14001 certification for its flight operations division and its Type Rating Training Organization. This international recognition demonstrates that Cargolux has adopted an environmental policy and implemented an Environmental Management System, through which the airline monitors and seeks to continuously reduce its impact on the environment, notably in terms of atmospheric emissions. The ISO-appointed auditors also certified that Cargolux complies with all applicable environmental legislation and is monitoring developments in this field. In addition, an appropriate e-training module has been put in place to inform Cargolux's Luxembourg-based staff on environment-related issues.

Cargolux decided to begin its environmental certification process with its flight operations, in other words its core activity. Compared with the other activities of the company, flight operations is the field that has the greatest impact on the environment, and where the greatest benefits are to be gained. Cargolux plans to extend its ISO 14001 certification to the other divisions of the company in coming years.

**Involving handling agents:** At Cargolux, we feel that it is important to ensure that the principles developed in the field of environmental conservation and social responsibility are also respected by our commercial partners. We have made it a requirement that our main group of service providers, the ground handling agents that work for us at airports throughout the world, adopt a corporate social responsibility policy and join the UN Global Compact. A new section has been included to this effect in the standard Service Level Agreement (SLA) that is signed between the handling agents and Cargolux. This is also the contract that is used when the service level agreement with existing handling agents is renewed.

# CARGOLUX'S NEW MAINTENANCE HANGAR:

CORPORATE SOCIAL RESPONSIBILITY IN PRACTICE

*On 18 May 2009, Cargolux's Maintenance and Engineering division moved into its newly-built facility at Luxembourg airport. This state-of-the-art hangar was designed as an efficient maintenance tool, offering best possible ergonomics when working on Cargolux's and customers' aircraft. By integrating new technologies the facility also benefits from a limited environmental footprint.*

## OPTIMIZED WORK ENVIRONMENT

Particular attention was paid to ensure that Cargolux mechanics would not be required to perform dangerous or unduly demanding physical movements in the course of their activities and that they would enjoy a pleasant work environment.

The new facility is large enough to accommodate two wide-body aircraft such as Cargolux's 747 freighters, which allows mechanics to work in a heated and dry environment throughout the year.

Drawing on the close to 40 year-long experience in aircraft maintenance gained at Cargolux's previous facility, the layout of the hangar floor and maintenance shops was optimized to ensure the shortest possible material flows and, where possible, walking distances between the shops, the aircraft and administrative support offices.

A crane system was also installed spanning the entire hangar area, with connecting bridges thanks to which heavy loads such as flaps, engines and flight controls can be easily removed from the aircraft and transported safely between any two points of the hangar.

The hangar floor is equipped with pits located at strategic positions providing power, water, compressed air and IT connections to all points of the aircraft. A nose docking system was installed, providing effortless access to the main deck and various parts at the front of the aircraft where maintenance is frequently required.

The hangar itself was built according to a unique design that allows natural light to penetrate all parts of the building. This brings about a less tiring luminosity for the mechanics and reduces the reliance on artificial lighting. The design incorporates a shed system for the main hangar as well as patios allowing natural light to reach most maintenance shops in the building.

Particular attention was also paid to the comfort of maintenance employees, for instance through the installation of new equipment in a spacious environment, including, where possible, the introduction of more environmentally-friendly processes. Vehicles used inside the building are now all electrically powered, in order to avoid the dissemination of diesel fumes. A high-quality staff restaurant was also built adjacent to the hangar.

## ENVIRONMENTAL EXCELLENCE

Cargolux was subjected to stringent regulations for all aspects of the hangar, and sought to respect all conditions imposed by authorities and to introduce systems and practices going beyond these requirements.

For example, the facility is equipped with a co-generation plant for the production of electricity, hot and cold water, the latter two being a by-product of the electricity production. The hot water feeds the heating system and hot water supply of the building.

During the development phase of the facility, a study determined that this heating system would be the most cost-effective and most energy efficient. Compared to a standard heating system with separate water heating, the co-generation system allows a reduction in $CO_2$ emissions of 34%.

As far as the sorting and collection of waste was concerned, the Maintenance and Engineering division benefited from the fact that Cargolux's waste management program was introduced prior to moving into the new facility. This has allowed mechanics and technicians to provide their input and to design the most efficient layout for the sorting and collection of the various categories of waste.

The installation of compressed air generators also makes it possible to save aviation fuel and reduce overall $CO_2$ emissions generated by the maintenance activities. Thanks to a high-volume three-bar system, the aircraft engines can be started and wing surfaces such as flaps can be moved without operation of the aircraft's auxiliary power unit.

Cargolux is currently monitoring the water and energy consumption of the new facility, as well as the amount of waste produced, with a view to controlling these even further in the future.

## CHAPTER 3

# THE SOCIAL DIMENSION




## I. OUR EMPLOYEES

Although 2009 proved to be one of the most difficult years in Cargolux's history, the company managed to navigate through the difficult economical climate without compulsory redundancies. As the economic crisis became apparent, a clear priority was set by Cargolux's management that all efforts should be made to preserve jobs through the crisis. While economic measures were taken to safeguard the survival of the company, these were all voluntary measures which sought to respect this underlying objective. During the entire year, dialogue was maintained with the staff representatives. Through this course of action, Cargolux remained true to its family-company spirit and reputation for caring for its staff.

### A) TURNOVER

As the market shrunk in 2009, Cargolux needed to scale down its activity. Alongside a reduction of the fleet, it was also necessary to reduce the overall workforce in order to have a cost-base on which the company would be able to survive.

Among the measures taken, Cargolux launched a voluntary part-time work scheme for its employees. This scheme was received positively by Cargolux's employees, some of whom welcomed this as an opportunity to be more available for their family, or to pursue personal interests. At the end of 2009, 9% of Luxembourg-based employees were working part-time.

This measure, along with the non-renewal of temporary work contracts and a voluntary early-retirement scheme, allowed a substantial reduction of the company's manpower through the year, which significantly helped to maintain the economic stability of the company.

**STAFF TURNOVER BY CATEGORY,** (LUXEMBOURG)

| | 2009 | 2008 |
|---|---|---|
| MEN | **4.4%** | 4.3% |
| WOMEN | **7.0%** | 4.6% |
| BELOW 30 YRS | **9,4%** | 6.1% |
| 30 - 50 YRS | **1.5%** | 2.4% |
| >50 YRS | **20,8%** | 13.2% |
| STAFF COVERED BY COLLECTIVE WORK AGREEMENT | **87.8%** | 87.5% |
| STAFF WITH PERMANENT CONTRACT | **99.3%** | 96.4% |
| **NUMBER OF EMPLOYEES** | | |
| WORLDWIDE | **1,482** | 1,530 |
| HEADQUARTERS | **1,110** | 1,155 |

### B) TRAINING

At Cargolux, training all staff categories is considered an essential means of ensuring that the airline not only operates safely and efficiently, but also remains continuously competitive in the global market. However, in order to cope with the economic crisis during 2009, it became necessary to temporarily scale down the training effort. As a result, non-compulsory training of office personnel was reduced by approximately 50% compared to 2008.

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

In particular, Cargolux maintained the cargo training program which is offered to employees of all General Handling Agents working at airports where the airline operates.

In 2009, 392 non-Cargolux persons participated in the Cargo courses (covering dangerous goods, live animals and cargo loading) and in the Security Awareness course, representing 30% of total attendance in those programs. This training program is very important for Cargolux, as it ensures that the persons who are in contact with the airline's aircraft follow all company procedures while handling cargo on its behalf.

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



## C) OCCUPATIONAL HEALTH AND SAFETY OF EMPLOYEES

Cargolux gives the highest level of importance to the health and safety of all its employees. Particular importance is paid to our maintenance staff, who perform demanding physical work and may need to operate machinery and use hazardous substances; to our ground operations staff, who work in close proximity to our aircraft and to the freight we transport, sometimes facing adverse weather conditions; and to our flight crews, who operate our aircraft around the clock and face health risks specific to pilots, including fatigue due to frequent time zone changes.

While the air transport sector is subject to stringent regulations in this field, all efforts are made to ensure that potential risks to the health and safety of these groups of employees, as well as to the health and safty of office staff, are reduced to a minimum. Cargolux makes efforts to go beyond the strict application of the law.

The Health and Safety program includes training, regular medical checks, reviews of dangerous substances used in maintenance activities, checks of temperature and humidity at Cargolux officices and the establishment of strict rules and procedures specifically designed to prevent accidents or undue exposure to health risks. The corresponding prevention and training programs launched in previous years were continued in 2009.

In 2009, an important milestone was reached with the publication of Cargolux's Occupational Health and Safety Management System (OHSMS) which, together with the Cargolux Ground Emergency Manual, forms a comprehensive set of procedures covering all matters relevant to the health and safety of all employees that had previously been approved by senior management.

These documents, together with the extensive health and safety-related information electronically available to all members of staff, form a transparent and open framework that all members of staff and management may refer to in their day-to-day activities. This helps build a safety culture in the company and helps keep the number of accidents as low as possible.

The accident frequency figures recorded in 2009 show that Cargolux seeks to offer a safe working environment. Cargolux figures remain lower than the average rate throughout Luxembourg and substantially lower than the accident frequency recorded among the more than 50 companies belonging to Luxembourg's aviation sector. While the total number of external accidents was lower in 2009 compared to 2008, more minor internal accidents were recorded during the year, owing mainly to the fact that maintenance staff needed to adapt to their new working environment.

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

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.

### NUMBER OF ACCIDENTS

| | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|
| INTERNAL ACCIDENTS | 36 | 41 | 32 | 37 |
| EXTERNAL ACCIDENTS | 27 | 11 | 19 | 11 |
| **TOTAL ACCIDENTS** | **63** | **52** | **51** | **48** |

### ACCIDENT FREQUENCY

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

| | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|
| **CARGOLUX** | **7.03** | **5.7** | **5.41** | **5.07** |
| LUXEMBOURG | 7.69 | 7.01 | 6.81 | N/A |
| AVIATION SECTOR | 9.7 | 8.45 | 8.88 | N/A |

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




## II. OUR RELATIONSHIP WITH THE COMMUNITY:

### A) INTEGRATION INTO LUXEMBOURG SOCIETY

#### ECONOMIC DEVELOPMENT

In 2009, Cargolux became a member of Luxembourg's Cluster for Logistics. This platform was launched at the end of 2008, in order to bring together all actors in the field of logistics in Luxembourg, including transport and logistics companies, shippers, government bodies and higher education institutions. Its objective is to strengthen the competitiveness of the sector by fostering collaboration, information exchange, synergies between its members as well as supporting research and innovation activities.

Cargolux also acted as a main sponsor of Luxembourg's pavillion at the Shanghai Expo 2010 event. Luxembourg's cargo airline will thereby contribute to the promotion of the Grand-Duchy of Luxembourg at the event, and help to promote Luxembourg as a logistics gateway to and from Europe. Cargolux's participation also helps to reassert Luxembourg's position as a center for innovation and openness, both towards the global economy and towards people and cultures worldwide.

#### PARTICIPATION IN EDUCATION AND RESEARCH

**Mechanic's training:** Since 1979, students following a technical school education in Luxembourg have the possibility of taking an aircraft mechanic's diploma. This course was launched at the initiative of Cargolux and Luxair, in order to help develop a long-term specialist workforce based in Luxembourg, and is held at a technical high school in Luxembourg (the Lycée Technique Privé Emile Metz). From 2001 onwards, this program was adapted in accordance with new European-wide EASA regulations, as a result of which students who fulfill the entry requirements and successfully pass the examination obtain an Aircraft Mechanic License conforming to the European Aviation Safety Agency regulations, Part 66, which is recognized in all member states of the European Union.

This is a demanding curriculum due to the technical knowledge level required of students wishing to participate and to the fact that all teaching material is in English, which is not a mother tongue in Luxembourg. However, this is also an important contribution to Luxembourg's education system, as it broadens the scope of available study courses in the country and contributes to the educational diversity among the country's population.

In 2009, the mechanic's course offer was modified in order to develop a more flexible aircraft maintenance workforce in Luxembourg. This program change also led to an increase in the number of places available to student candidates. In addition to the two-year program that was taught since 2001 (termed "B" license according to EASA Part 66), a lighter one-year curriculum is now offered that leads to an aircraft technician's license (termed "A" according to EASA Part 66). This shorter curriculum is also less demanding, and provides the opportunity to more students to access the aircraft mechanic's career.

Whereas in 2008, only eight students were admitted to the course, in 2009, 12 new students could be admitted, of whom 8 took part in the new one-year course. Students who successfully complete the mechanic's training are normally offered an employment contract to work either for Cargolux or for Luxembourg's passenger airline Luxair.

**Higher education and research:** In June 2009, Cargolux accepted to participate in a new research project initiated by the University of Zaragoza, in partnership with Luxembourg's Henri Tudor Research Institute, named OptiAirTrans. This three-year project, which is part of the European Union's seventh Research Framework Program, aims at identifying means of simplifying and improving the efficiency of air cargo flows and thereby increasing the competitiveness of the air cargo sector.

The project will seek to develop a simulation based on actual data provided by Cargolux and two other major air carriers, as well as freight forwarders, handling agents and several airports, including Luxembourg airport.

Cargolux also regularly contributes to the Aviation Business study course offered by the University of Applied Sciences of the Saarland, close to Luxembourg, where Cargolux staff members teach classes in various subjects in the capacity of visiting tutors. Students who successfully complete their curiculum obtain a bachelors' degree in airline management and an airline transport pilots' license.

Cargolux thereby supports the higher education courses in the vicinity of Luxembourg. The fact that this course is available close to Cargolux's headquarters helps in the development of a locally based population of pilots and qualified experts in aviation management.




## B) SUPPORTING NON-GOVERNMENTAL ORGANISATIONS

### FLYING FOR HELP

Where possible, Cargolux helps by doing what it knows best: transporting goods, on behalf of non-governmental organizations. Intercontinental transport often constitutes a large portion of the costs of an aid project. Where capacity on its flights allows and if the goods are destined within reach of one of its destinations worldwide, Cargolux transports the goods free-of-charge to their destination. This help in kind often tips the balance towards the successful completion of an aid project.

Over the course of 2009, Cargolux's support reached many projects and organisations. As many as 26 different shipments were made to various destinations, mainly in Africa, in support of charity projects. Goods transported in 2009 were destined mainly to Kenya, Chad, Haiti, South Africa and Tanzania.

Where possible, when charity goods are being transported, Cargolux supervises the transport to the end-destination, with the cooperation of freight forwarders and Cargolux staff on location, our General Sales Agents and of customs authorities. This helps to ensure that the goods actually reach their beneficiaries.

In 2009, Cargolux continued its support of one of Luxembourg's largest charity events, the annual International Bazaar. This event brings together volunteer representatives from over 50 nations worldwide, who sell goods and culinary specialties from their countries. The proceeds of this charible event are distributed to charity projects throughout the world.

For many years Cargolux has helped this initiative by transporting the goods sold at the event free-of-charge to Luxembourg. The successful implementation of this help is often achieved thanks to the good will and extra effort made by Cargolux personnel stationed at the various airports on our network. In 2009, the efforts of our staff at Houston, USA, were rewarded as the International Bazaar Charity Committee decided to award a donation to the Galveston County Recovery Fund, which provides relief to hurricane victims in the area, close to the city of Houston. This non-governmental organization had been originally recommended by Cargolux's staff.

### SUPPORTING LUXEMBOURG'S SPORTS AND ARTS SECTORS

Since its earliest days, Cargolux has supported both cultural and sports activities in Luxembourg. 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.

During the course of the year, Cargolux has transported free-of-charge the works of art of various Luxembourg artists for exhibitions in New York and Tokyo.

In 2009, Cargolux has pursued its partnership with Luxembourg's Modern Art Museum, 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 a themed temporary exhibition at the museum. In 2009, Cargolux transported works of art destined for three different exhibitions of the museum.

## REPORTING PROCESS AND GRI

### REPORT STRUCTURE, CRITERIA AND SELECTION OF ISSUES

This is Cargolux's second corporate social responsibility report. Following on the report published in the previous year, its elaboration was based on a continued analysis of the Company's main impacts and responsibilities, both as regards the environment and society and on the concerns raised by key groups of stakeholders regarding these topics. Stakeholder groups were identified on the basis of the nature and geographical location of our activities. An ongoing dialogue takes place with these groups, through public meetings, direct representation or via the media. Regular meetings also take place between the Cargolux top management and its employees, which include open 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.

The 2009 report reflects the devastating effects of the global economic crisis that pushed Cargolux and the global air cargo sector to its limits. Despite the difficulties and challenges the company had to overcome, Cargolux took care to uphold its commitment to environmental and social issues. Cargolux is particularly proud to have been able to avoid drastic measures such as staff layoffs.

This strategy has demonstrated the commitment of the company towards one of its main stakeholders, its employees. While Cargolux strives to reduce its costs as much as possible, the company realizes that investments in a skilled workforce and in environmental issues are an important factor in its future success that will pay dividends in the years to come.

GRI REPORT
3rd PARTY CHECKED

This report is based on the guidelines of the Global Reporting Initiative (GRI). We believe that our report meets application level C+ of the guidelines. However, being a global transportation company, we felt the necessity to go beyond and report on areas that are of concern to the Company but not entirely covered by the current version of the guidelines (noise-related issues, for instance).

While Cargolux maintained a similar reporting structure for its 2008 and 2009 reports, the company plans to review and further refine its sustainability reporting process in the coming year, in particular to monitor the relevance of each topic covered. Where necessary or advisable, the Company plans to add further reporting indicators and to collect corresponding data.

### REPORTING BOUNDARIES

This report aims to cover the entire operations and geographical coverage of the Company, except where 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. However, our monitoring of fuel consumption and $CO_2$ emissions includes the data collected by Cargolux Italia.

### EXTERNAL ASSURANCE

Cargolux asked KPMG to provide limited assurance on the environmental and social information in this report (pages 24 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.

### 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.

| G3 INDICATORS | CARGOLUX ANNUAL REPORT 2009 |
|---|---|
| **1 STRATEGY & ANALYSIS** | |
| 1.1 Statement from the most senior executive of the organization about the relevance of sustainability to the organization and its strategy. | p. 6 |
| 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, IT, 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 (including agents) |
| 2.6 Nature of ownership and legal form. | Société Anonyme |
| 2.7 Markets served. | Cargolux provide air freight transport services to freight forwarders in most parts of the world through scheduled and charter flights.<br>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. 9 |
| 2.9 Significant changes. | None |
| 2.10 Awards received. | - 2009 Cargo Operator of the Year (Supply Chain & Transport Award, Dubai)<br>- 2009 Award of Excellence in Air Cargo (Stat Trade Times, Mumbai)<br>- 2009 Air Cargo Award of Excellence (Air Cargo World, USA)<br>- 2009 Best Performing Airline 2009 (Budapest Airport)<br>- 2009 CFO of the year (awarded to Mr David Arendt by CFO World) |
| **3 REPORT PARAMETERS** | |
| 3.1 Reporting period. | Calendar Year 2009 |
| 3.2 Date previous report. | April 2009 |
| 3.3 Reporting cycle. | Annual |
| 3.4 Contact point. | Cargolux Corporate Affairs,<br>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. | $CO_2$ calculation methodology, see p. 29 |
| 3.12 Table Standard Disclosures. | p. 45 |
| 3.9, 3.13 | Not required for C level |

## GRI INDICATORS

| G3 INDICATORS | CARGOLUX ANNUAL REPORT 2009 |
|---|---|
| **4. GOVERNANCE** | |
| 4.1 Governance structure of the organization. | p. 10-11 |
| 4.2 Indicate whether the Chair of the highest governance body is also an executive officer. | No |
| 4.3 Number of members of the highest governance body. | 15 |
| 4.4, 4.14, 4.15 | Reporting Process and GRI, p. 44 |
| 4.5-4.13, 4.16, 4.17 | Not required for C level |
| **ECONOMIC PERFORMANCE INDICATORS** | |
| EC1 Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other Company investments retained earnings, and payments to capital providers and governement. | p. 48-80 |
| EC2-EC8 | Not reported |
| **ENVIRONMENTAL PERFORMANCE INDICATORS** | |
| EN3 Direct energy consumption by primary energy source. | p. 29 |
| EN5 Energy saved due to conservation and efficiency improvements. | p. 29-32 |
| EN16 Total direct and indirect greenhouse gas emissions by weight. | p. 29 |
| EN18 Initiatives to reduce greenhouse gas emissions and reductions achieved. | p. 29-32 |
| EN22 Total weight of waste by type and disposal method. | p. 34 |
| EN 1, 2, 4, 6-15, 17, 19-21, 23-28 | Not reported |
| **SOCIAL PERFORMANCE INDICATORS** | |
| LA1 Total workforce by employment type, employment contract, and region. | p. 40 |
| LA2 Total number and rate of employee turnover by age group, gender, and region. | p. 40 |
| LA4 Percentage of employees covered by collective bargaining agreements. | p. 40 |
| LA7 Rates of injury, occupational diseases, lost days, and absenteeism, and number of work related fatalities by region. | p. 41 |
| LA10 Average hours of training per year per employee by employee category. | p. 40 |
| LA 3, 5, 6, 8, 9, 11-14 | Not reported |
| HR1-HR7 | Not reported |
| SO1-SO8 | Not reported |
| PR1-PR9 | Not reported |

KPMG Audit Société à Responsabilité Limitée
9, allée Scheffer L-2520 Luxembourg
R.C.S. Luxembourg B 103.590
Capital 25.000 EUR



We were engaged by the Management of Cargolux Airlines International S.A. ("Cargolux") to provide limited assurance on the chapters 'Corporate social responsibility', 'Cargolux and the environment', 'Cargolux's new maintenance hangar', 'The social dimension' and the 'Reporting process and GRI' of the Annual Report for the year ended December 31, 2009 of Cargolux (further referred to collectively as the 'Sustainability Report') as set out on pages 24 to 46.

**Management's responsibility for the Sustainability Report**

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

**Responsibility of the Réviseur d'Entreprises**

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

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

- Inquiries of management to gain an understanding of Cargolux's processes for determining the material issues for Cargolux's key stakeholder groups.
- Interviews with senior management and relevant staff at group level and selected business unit level concerning sustainability strategy and policies for material issues, and the implementation of these across the business.
- Interviews with relevant staff at corporate and business unit level responsible for providing the information in the Sustainability Report.
- A visit to the new maintenance hangar at Luxembourg Airport.
- Inquiries and evaluation of the design and implementation of the systems and methods used to collect and process the information reported, including the aggregation of data into information as presented in the Sustainability Report.
- Comparing the information presented in the Sustainability Report to corresponding information in the relevant underlying sources to determine whether all the relevant information contained in such underlying sources has been included in the Sustainability Report.

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

**Conclusion**

Based on the procedures performed, as described above, nothing has come to our attention that causes us to believe that the Sustainability Report of Cargolux for the year ended December 31, 2009 set out on pages 24 to 46 is not presented fairly, in all material respects, in accordance with the Sustainability Reporting Guidelines (G3) of the Global Reporting Initiative as described on pages 44 to 46 of the Sustainability Report.

**Observation**

Without modifying our conclusion, we would like to draw attention to the following: As Cargolux explains in the Sustainability Report, progress in the area of environment and social performance in 2009, set out on pages 24 to 46, was impacted by the effects of the global economic crisis on the business. We strongly recommend Cargolux to give priority in 2010 to the development of a formal corporate strategy for Corporate Social Responsibility in order to provide a clear framework for its activities in the social and environmental field as well as for developing related targets and monitoring and reporting its performance.

Luxembourg, April 14, 2010

KPMG Advisory S à r.l.
**Eric COLLARD**

KPMG Audit S à r.l.
Réviseurs d'Entreprises
**Thierry RAVASIO**

## CHAPTER 4

# CONSOLIDATED FINANCIAL STATEMENTS

CARGOLUX ANNUAL REPORT 2009

## CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED DECEMBER 31, 2009

| NOTES | IN THOUSANDS OF U.S. DOLLAR | **2009** | 2008 |
|---|---|---|---|
| 6 | REVENUES | 1,313,725 | 1,983,212 |
| 7 | OTHER OPERATING INCOME | 38,534 | 1,463 |
| 8 | AIRCRAFT LEASE EXPENSES | (60,371) | (78,705) |
| 9 | AIRCRAFT MAINTENANCE EXPENSES | (96,169) | (101,832) |
| 10 | OTHER AIRCRAFT EXPENSES | (3,787) | (3,139) |
| 15 | DEPRECIATION EXPENSES | (61,630) | (56,185) |
| | FUEL | (522,472) | (934,074) |
| 11 | PERSONNEL COSTS AND BENEFITS | (209,413) | (213,980) |
| | HANDLING, LANDING AND OVERFLYING | (239,042) | (270,924) |
| | TRUCKING, REFORWARDING AND TRUCK HANDLING | (93,056) | (116,754) |
| 12 | OTHER OPERATING EXPENSES | (125,401) | (195,256) |
| | **OPERATING PROFIT / (LOSS) BEFORE FINANCING COSTS** | **(59,082)** | **13,826** |
| | FINANCIAL INCOME | 6,846 | 9,341 |
| | FINANCIAL EXPENSES | (72,334) | (49,896) |
| **13** | **NET FINANCE COSTS** | **(65,488)** | **(40,555)** |
| | SHARE OF PROFIT OF ASSOCIATES | 2,275 | 3,784 |
| | **LOSS BEFORE TAX** | **(122,295)** | **(22,945)** |
| 14 | CURRENT TAX | (372) | (3,090) |
| 14 | DEFERRED TAX | (30,634) | (35,008) |
| | **LOSS FOR THE YEAR** | **(153,301)** | **(61,043)** |
| | **LOSS ATTRIBUTABLE TO:** | | |
| | OWNERS OF THE COMPANY | (153,301) | (61,043) |
| | NON-CONTROLLING INTEREST | - | - |
| | **LOSS FOR THE YEAR** | **(153,301)** | **(61,043)** |

| NOTES | IN THOUSANDS OF U.S. DOLLAR | **2009** | 2008 |
|---|---|---|---|
| | **LOSS FOR THE YEAR** | **(153,301)** | **(61,043)** |
| | **OTHER COMPREHENSIVE INCOME** | | |
| 5 /13 | EFFECTIVE PORTION OF CHANGES IN FAIR VALUE OF CASH FLOW HEDGES | 77,586 | (136,932) |
| 5 /13 | NET CHANGE IN FAIR VALUE OF CASH FLOW HEDGES TRANSFERRED TO PROFIT OR LOSS | 18,698 | (3,474) |
| 14 | INCOME TAX ON OTHER COMPREHENSIVE INCOME | (28,249) | 41,061 |
| | CURRENCY TRANSLATION ADJUSTMENT | 534 | (1,391) |
| | **OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF INCOME TAX** | **68,569** | **(100,736)** |
| | **TOTAL COMPREHENSIVE INCOME FOR THE YEAR** | **(84,732)** | **(161,779)** |
| | **TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:** | | |
| | OWNERS OF THE COMPANY | (84,732) | (161,779) |
| | NON-CONTROLLING INTEREST | - | - |
| | **TOTAL COMPREHENSIVE INCOME FOR THE YEAR** | **(84,732)** | **(161,779)** |



## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED DECEMBER 31, 2009

CARGOLUX ANNUAL REPORT 2009

## CONSOLIDATED BALANCE SHEET

AS AT DECEMBER 31, 2009

| NOTES | IN THOUSANDS OF U.S. DOLLAR | 2009 | 2008 |
|---|---|---|---|
| | **ASSETS** | | |
| 15 | AIRCRAFT AND EQUIPMENT | 774,928 | 923,223 |
| 15 | OTHER PROPERTY, PLANT AND EQUIPMENT | 173,093 | 180,810 |
| | DERIVATIVE ASSETS | 19,021 | 23,944 |
| 16 | INVESTMENTS IN ASSOCIATES | 36,808 | 35,483 |
| | DEPOSITS WITH THIRD PARTIES | 54,162 | 53,980 |
| 17 | DEFERRED TAX ASSETS | 76,735 | 135,619 |
| | **TOTAL NON-CURRENT ASSETS** | **1,134,747** | **1,353,059** |
| | EXPENDABLE PARTS AND SUPPLIES | 22,220 | 21,931 |
| 18 | TRADE RECEIVABLES AND OTHER RECEIVABLES | 239,147 | 350,277 |
| 19 | OTHER INVESTMENTS | 55,780 | 88,200 |
| 20 | CASH AND CASH EQUIVALENTS | 218,220 | 103,792 |
| | **TOTAL CURRENT ASSETS** | **535,367** | **564,200** |
| | **TOTAL ASSETS** | **1,670,114** | **1,917,259** |
| | **EQUITY** | | |
| 21 | ISSUED CAPITAL | 250,007 | 360,018 |
| | SHARE PREMIUM | 5,846 | 5,846 |
| | RESERVES | 225,679 | 124,610 |
| | RETAINED EARNINGS | 141,277 | 24,809 |
| | LOSS FOR THE YEAR | (153,301) | (61,043) |
| | **EQUITY** | **469,508** | **454,240** |
| | NON-CONTROLLING INTEREST | - | - |
| | **TOTAL EQUITY** | **469,508** | **454,240** |
| | **LIABILITIES** | | |
| 22 | INTEREST-BEARING LOANS AND BORROWINGS | 46,978 | 54,054 |
| 22 | FINANCE LEASE LIABILITIES | 377,775 | 501,099 |
| 23 | EMPLOYEE BENEFITS | 11,192 | 11,680 |
| 25 | OTHER PAYABLES | 78,727 | - |
| | DERIVATIVE LIABILITIES | 68,543 | 148,506 |
| 24 | PROVISIONS | 95,543 | 238,369 |
| | **TOTAL NON-CURRENT LIABILITIES** | **678,758** | **953,708** |
| 22 | INTEREST-BEARING LOANS AND BORROWINGS | 72,925 | 172,279 |
| 22 | FINANCE LEASE LIABILITIES | 125,665 | 71,555 |
| 20 | BANK OVERDRAFTS | 2 | 1,721 |
| 25 | TRADE PAYABLES AND OTHER PAYABLES | 260,618 | 234,699 |
| 24 | PROVISIONS | 61,784 | 22,909 |
| | TAXES PAYABLE | 854 | 6,148 |
| | **TOTAL CURRENT LIABILITIES** | **521,848** | **509,311** |
| | **TOTAL LIABILITIES** | **1,200,606** | **1,463,019** |
| | **TOTAL EQUITY AND LIABILITIES** | **1,670,114** | **1,917,259** |

## CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2009

| NOTES | IN THOUSANDS OF U.S. DOLLAR | 2009 | 2008 |
|---|---|---|---|
| | **CASH FLOW FROM OPERATING ACTIVITIES** | | |
| | LOSS FOR THE YEAR | (153,301) | (61,043) |
| | ADJUSTMENTS FOR | | |
| 15 | DEPRECIATION | 61,630 | 56,185 |
| | UNREALIZED FOREIGN EXCHANGE LOSSES/(GAINS) | 2,372 | (3,244) |
| 13 | NET FINANCE COSTS | 65,488 | 40,555 |
| | SHARE OF PROFIT OF ASSOCIATES | (2,275) | (3,784) |
| 7 | GAIN ON SALE OF PROPERTY, PLANT AND EQUIPMENT | (38,534) | (73) |
| 5 | FUEL HEDGING | (16,818) | 17,516 |
| 24 | CHANGE IN PROVISIONS | 337 | 84,956 |
| 12/14 | TAX EXPENSE | 34,836 | 38,098 |
| 24 | USE OF PROVISIONS | (18,958) | (13,795) |
| | **OPERATING CASH FLOW BEFORE CHANGES IN WORKING CAPITAL** | **(65,223)** | **155,371** |
| 18 | CHANGE IN WORKING CAPITAL FROM HANGAR RECEIVABLE | 89,823 | (34,201) |
| | OTHER CHANGES IN WORKING CAPITAL | 28,830 | 9,014 |
| | **CASH GENERATED FROM THE OPERATIONS** | **53,430** | **130,184** |
| | INCOME TAX PAID | (2,261) | (12,083) |
| | INTEREST PAID | (30,198) | (30,091) |
| | **NET CASH FROM OPERATING ACTIVITIES** | **20,971** | **88,010** |
| | **CASH FLOW FROM INVESTING ACTIVITIES** | | |
| 15 | ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT | (19,688) | (143,371) |
| | ACQUISITION OF ASSOCIATES | (75) | (143) |
| | ACQUISITION OF OTHER INVESTMENTS | (16,954) | (45,680) |
| | DIVIDENDS FROM ASSOCIATES | 1,493 | 799 |
| | INTEREST RECEIVED | 7,180 | 8,481 |
| | REIMBURSEMENT OF ADVANCE PAYMENTS | - | 41,329 |
| | PROCEEDS FROM SALE OF PROPERTY, PLANT AND EQUIPMENT | 154,215 | 29 |
| | PROCEEDS FROM SALE OF OTHER INVESTMENTS | 49,913 | 27,710 |
| | DEPOSITS WITH THIRD PARTIES | (5,169) | (17,572) |
| | **NET CASH (USED IN) / FROM INVESTING ACTIVITIES** | **170,915** | **(128,418)** |
| | **CASH FLOW FROM FINANCING ACTIVITIES** | | |
| | DIVIDENDS PAID INCLUDING INTEREST | (23,272) | - |
| | REPAYMENT OF BORROWINGS | (89,693) | (13,630) |
| | REPAYMENT OF FINANCE LEASE LIABILITIES | (62,774) | (44,915) |
| | PROCEEDS FROM CAPITAL INCREASE | 100,000 | - |
| | PROCEEDS FROM BORROWINGS | - | 106,725 |
| | **NET CASH FROM / (USED IN) FINANCING ACTIVITIES** | **(75,739)** | **48,180** |
| | NET INCREASE IN CASH AND CASH EQUIVALENTS | 116,147 | 7,772 |
| | CASH AND CASH EQUIVALENTS AT JANUARY 1 | 102,071 | 94,299 |
| **20** | **CASH AND CASH EQUIVALENTS AT DECEMBER 31** | **218,218** | **102,071** |

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2009

| IN THOUSANDS OF U.S. DOLLAR | ISSUED CAPITAL | SHARE PREMIUM | NON DISTRI-BUTABLE RESERVE | FREE RESERVE | CURRENCY TRANSLATION RESERVE | HEDGING RESERVE | TOTAL RESERVES | RETAINED EARNINGS | TOTAL EQUITY | NON-CONTROLLING INTEREST | TOTAL EQUITY |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **BALANCE AS OF DECEMBER 31, 2007** | **360,018** | **5,846** | 95,372 | 117,000 | 3,124 | (8,950) | **206,546** | **43,609** | **616,019** | - | **616,019** |
| TRANSACTIONS WITH OWNERS | | | | | | | | | | | |
| ALLOCATION TO RESTRICTED RESERVE | - | - | 18,800 | - | - | | **18,800** | **(18,800)** | - | - | - |
| TOTAL OF TRANSACTIONS WITH OWNERS | - | - | 18,800 | - | - | | **18,800** | **(18,800)** | - | - | - |
| TOTAL COMPREHENSIVE INCOME | | | | | | | | | | | |
| CURRENCY TRANSLATION ADJUSTMENT | - | - | - | - | (1,391) | - | **(1,391)** | - | **(1,391)** | - | **(1,391)** |
| LOSS FOR 2008 | - | - | - | - | - | | - | **(61,043)** | **(61,043)** | - | **(61,043)** |
| NET CHANGES IN FAIR VALUE OF CASH FLOW HEDGES, NET OF TAX | - | - | - | - | - | (99,345) | **(99,345)** | - | **(99,345)** | - | **(99,345)** |
| TOTAL COMPREHENSIVE INCOME | - | - | - | - | (1,391) | (99,345) | **(100,736)** | **(61,043)** | **(161,779)** | - | **(161,779)** |
| **BALANCE AS OF DECEMBER 31, 2008** | **360,018** | **5,846** | 114,172 | 117,000 | 1,733 | (108,295) | **124,610** | **(36,234)** | **454,240** | - | **454,240** |
| TRANSACTIONS WITH OWNERS | | | | | | | | | | | |
| ALLOCATION TO RESTRICTED RESERVE | - | - | 11,830 | (11,830) | - | | - | - | - | - | - |
| RESTRUCTURING (NOTE 21) | **(210,011)** | - | 32,500 | - | - | | **32,500** | **177,511** | - | - | - |
| CAPITAL INCREASE (NOTE 21) | **100,000** | - | - | - | - | | - | - | **100,000** | - | **100,000** |
| TOTAL OF TRANSACTIONS WITH OWNERS | **(110,011)** | - | 44,330 | (11,830) | - | | **32,500** | **177,511** | **100,000** | - | **100,000** |
| TOTAL COMPREHENSIVE INCOME | | | | | | | | | | | |
| CURRENCY TRANSLATION ADJUSTMENT | - | - | - | - | 534 | - | **534** | - | **534** | - | **534** |
| LOSS FOR 2009 | - | - | - | - | - | | - | **(153,301)** | **(153,301)** | - | **(153,301)** |
| NET CHANGES IN FAIR VALUE OF CASH FLOW HEDGES, NET OF TAX | - | - | - | - | - | 68,035 | **68,035** | - | **68,035** | - | **68,035** |
| TOTAL COMPREHENSIVE INCOME | - | - | - | - | 534 | 68,035 | **68,569** | **(153,301)** | **(84,732)** | - | **(84,732)** |
| **BALANCE AS OF DECEMBER 31, 2009** | **250,007** | **5,846** | 158,502 | 105,170 | 2,267 | (40,260) | **225,679** | **(12,024)** | **469,508** | - | **469,508** |

## 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, except for Italy, where Cargolux conducts its business through its subsidiary Cargolux Italia S.p.A., an all cargo airline based in Milan. As at the balance sheet date the Company maintained branches in 34 countries.

The consolidated financial statements of the Company for the year ended December 31, 2009, comprise the Company and its subsidiaries, Cargolux RE S.A., Cargolux Italia S.p.A. and Italia Aerologistics S.R.L. (together referred to as the "Group") and the Group's interest in associates.

## 2. BASIS OF PREPARATION

### (a) STATEMENT OF COMPLIANCE

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

The Board of Directors approved the consolidated financial statements for the year ended December 31, 2009 on March 22, 2010 and authorized the publication of said consolidated financial statements on April 21, 2010, following confirmation by the shareholders thereof on that date.

### (b) BASIS OF MEASUREMENT

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

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

### (c) GOING CONCERN

Despite significant loss for the year, the Group believes it is in a position to meet its commitments when they fall due. The Group believes that the operating cash flows, the contracted disposal of assets, the credit facilities in place and the support from the shareholders will secure the liquidity needs of the Group for the foreseeable future and at least 12 months from the date of issuance of those consolidated financial statements (see Notes 5 (e), 21 and 22). Consequently, the financial statements have been prepared on the basis of the assumption of the Company's ability to operate as a going concern.

### (d) FUNCTIONAL AND PRESENTATION CURRENCY

The consolidated financial statements are presented in United States Dollars ("US dollars" or "US$") rounded to the nearest thousand, which is the Company's functional currency.

### (e) USE OF ESTIMATES AND JUDGMENTS

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

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

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

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

### (f) CHANGES IN ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements except for the application of revised IAS 1 *Presentation of financial statements (2007)* which became effective as of January 1, 2009. The standard has only presentational impact. Comparative information presented is in conformity with the revised standard.

## 3. SIGNIFICANT ACCOUNTING POLICIES

### (a) BASIS OF CONSOLIDATION

#### (i) SUBSIDIARIES

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

#### (ii) ASSOCIATES

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

#### (iii) TRANSACTIONS ELIMINATED ON CONSOLIDATION

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

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

#### (iv) SPECIAL PURPOSE ENTITIES

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

### (b) FOREIGN CURRENCY

#### (i) FOREIGN CURRENCY TRANSACTIONS

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

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

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

#### (iii) LEASED ASSETS

*1) Finance leases:*

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

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

### (iv) SUBSEQUENT COSTS

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

### (v) DEPRECIATION

Depreciation is charged to the income statement on a 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 |
|---|---|---|
| COMPONENTS OF B747-400F AIRCRAFT: | | |
| AIRFRAME | 20 YEARS | 15% OF INITIAL COST |
| ENGINES(CF6, RB 211) | 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 or sale value (see Note 15 below).

## (e) INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

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

## (f) INVESTMENTS

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

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

## (g) TRADE AND OTHER RECEIVABLES

Trade and other receivables are stated at their cost less impairment (on which see Note 3 (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 impairment. If any impairment exists, the asset's recoverable amount is estimated and the carrying value adjusted accordingly.

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

Calculation of recoverable amount:

The recoverable amount of assets is the greater of their fair value (less costs to sell) and value in use. In assessing value in use, the estimated future cash flows to be derived from the use of the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment is reversed if there has been a change in the estimates used to determine the recoverable amount. Impairment is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization.

### (ii) FINANCIAL ASSETS

A financial asset is 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.

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.

### (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).

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

### (m) PROVISIONS

A provision is recognized in the balance sheet when the Group has a present legal or contractual obligation 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. Accruals to the future value are recognized as finance cost over the period.

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 COSTS

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

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

### (q) INCOME TAX

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

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

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, 2009 are not yet effective for the year ended December 31, 2009, and have not been applied in preparing these consolidated financial statements. None of these are expected to have a material effect on the consolidated financial statements of the Group in subsequent financial years.

## 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 using independent sources. The values assume a normal functioning of financial markets. Market volatility will necessarily have an impact on said pricings and valuations as well as the Group's eventual liability with respect of the hedging instruments booked at the balance sheet date.

### (iii) OTHER FINANCIAL ASSETS/LIABILITIES

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

## 5. FINANCIAL RISKS AND RISK MANAGEMENT

### RISK MANAGEMENT FRAMEWORK

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

- credit risk
- liquidity risk
- market risk

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

*Credit risk*

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

*Liquidity risk*

Liquidity risk is the risk that a dysfunction of the market affects participants' ability to access funds to finance their working capital requirements or to 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.

### GENERAL

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

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

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

*Risk management policies*

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

*Investment policy*

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

### (a) CREDIT RISK

*Cash, derivatives and other financial instruments*

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

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

*Trade and other receivables*

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

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

Not more than 12 percent (2008: 14 percent) of the Group's revenue is attributable to sales transactions with a single customer. The five largest customers of the Group represent 45 percent (2008: 49 percent) of the net cargo sales. More than 73 percent (2008: 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 closely scrutinized and monitored, and future sales are made on a prepayment or collateral basis with approval of the Credit Committee.

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

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

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

| IN THOUSANDS OF U.S. DOLLAR | 2009 | 2008 |
|---|---|---|
| AREA I | **27,212** | 31,160 |
| AREA II | **69,400** | 70,996 |
| AREA III | **77,319** | 62,096 |
| AREA IV | **2,644** | 3,080 |
| | **176,575** | **167,332** |

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 2009, 62.7 % of receivables were cleared through CASS and ICH (59.6 % in 2008). As of December 31, 2009, 97 % (99 % in 2008) of the total outstanding trade debtors were within the contractual payment terms. The average DSO of trade receivables was 40.2 days in 2009 (40.3 days in 2008). In 2009 the Group suffered a credit loss of US$ 0.4 million which was partially reimbursed by credit insurance.

### (b) FUEL RISK

*Fuel price*

The Group's earnings are significantly exposed to fluctuations in fuel prices. A key challenge during 2009 was the continued decrease in fuel prices earlier in the year, only to be followed by a strong recovery to year-end. At US$/ton 559, the 2009 jet market price (basis barges Rotterdam) was more than US$/ton 400 below the previous year's average. The Group incurred losses from fuel hedging in 2009 equivalent to US$/ton 64. This hedging loss not withstanding the overall effect on the fuel bill was, as required by the Governance framework, that the Group benefited strongly from 2009's lower fuel prices.

*Fuel hedges*

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

As at December 31, 2009, a quantity of 191,192 metric tonnes was hedged for first half of 2010. For second half of 2010, the coverage amounted to 155,364 metric tonnes. Following the Group's gradual approach to building the hedge portfolio, 2011 coverage stood at 94,366 metric tonnes only.

None of the positions built during the 2008 high price framework expires later than end-July 2010. Where there were unfavorable payoffs the Group has attempted to offset or limit the negative settlements.

Guided by the Governance framework of Policy and Procedures the Group regularly added new positions to its fuel hedging portfolio throughout 2009 thereby securing breakeven levels for 2011 at or below forward prices as at the balance sheet date.

As at December 31, 2009, the fair value of fuel derivatives was as follows:

| IN THOUSANDS OF U.S. DOLLAR | **2009** | 2008 |
|---|---|---|
| DERIVATIVE ASSETS | **10,720** | 10,768 |
| DERIVATIVE LIABILITIES | **(48,171)** | - |
| BALANCE AT JANUARY 1 | **(37,451)** | 10,768 |
| NET CHANGE IN FAIR VALUE RECOGNIZED IN EQUITY | **30,703** | (30,703) |
| NON-QUALIFYING HEDGES RECOGNIZED IN PROFIT AND LOSS – PRIOR YEAR | **6,748** | (10,768) |
| NON-QUALIFYING HEDGES RECOGNIZED IN PROFIT AND LOSS – CURRENT YEAR | **10,070** | (6,748) |
| DERIVATIVE ASSETS | **21,427** | 10,720 |
| DERIVATIVE LIABILITIES | **(11,357)** | (48,171) |
| BALANCE AT DECEMBER 31 | **10,070** | (37,451) |

The change in fair value of fuel derivatives included in *Other comprehensive income* in 2008 has been transferred to income statement in 2009 and is recognized in fuel expenses. No new hedges have been considered for hedge accounting under IAS 39 in 2009.

### (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:

| IN THOUSANDS OF U.S. DOLLAR | EUR | HKD | OTHER | % OF TOTAL |
|---|---|---|---|---|
| DEPOSITS WITH THIRD PARTIES | 679 | 50 | 378 | **2.0** |
| TRADE RECEIVABLES AND OTHER RECEIVABLES | 52,497 | 35,760 | 53,627 | **59.3** |
| OTHER INVESTMENTS | 174 | - | - | **0.3** |
| CASH AND CASH EQUIVALENTS | 7,441 | 9,489 | 23,576 | **18.6** |
| TRADE PAYABLES AND OTHER PAYABLES | (70,479) | (1,895) | (9,193) | **31.3** |
| TAXES PAYABLE | (599) | - | (183) | **91.5** |

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

| IN THOUSANDS OF U.S. DOLLAR | EUR | HKD | OTHER | % OF TOTAL |
|---|---|---|---|---|
| DEPOSITS WITH THIRD PARTIES | 5,447 | 51 | 417 | **11.0** |
| TRADE RECEIVABLES AND OTHER RECEIVABLES | 147,096 | 26,895 | 54,875 | **65.3** |
| CASH AND CASH EQUIVALENTS | 18,654 | 473 | 15,641 | **33.5** |
| INTEREST-BEARING, LOANS AND BORROWINGS | (33,168) | - | - | **14.7** |
| FINANCE LEASE LIABILITIES | (7,287) | - | - | **1.3** |
| BANK OVERDRAFTS | (855) | (11) | (848) | **99.6** |
| TRADE PAYABLES AND OTHER PAYABLES | (66,406) | (1,593) | (5,565) | **31.3** |
| TAXES PAYABLE | (5,731) | - | (275) | **97.7** |

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

| | AVERAGE RATE | | REPORTING DATE SPOT RATE | |
|---|---|---|---|---|
| | **2009** | 2008 | **2009** | 2008 |
| EUR | **1.39449** | 1.47082 | **1.43380** | 1.41140 |
| HKD | **0.12901** | 0.12843 | **0.12897** | 0.12903 |

The Group hedges the foreign exchange risk related to receivables through the use of forwards and options, none of which expire beyond 2010.

### (d) INTEREST RATE RISK

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

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

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

| IN THOUSANDS OF U.S. DOLLAR | 2009 | 2008 |
|---|---|---|
| **FIXED RATE INSTRUMENTS** | | |
| FINANCIAL LIABILITIES | **54,102** | 133,804 |
| **FLOATING RATE INSTRUMENTS** | | |
| FINANCIAL ASSETS | **274,000** | 191,992 |
| FINANCIAL LIABILITIES | **575,750** | 674,137 |
| **INTEREST RATE DERIVATIVES** | | |
| NOMINAL AMOUNT OF UNDERLYING FINANCINGS IN PLACE AT THE BALANCE SHEET DATE | **817,311** | 910,266 |
| NOMINAL AMOUNT OF UNDERLYING FINANCINGS WHICH WERE NOT IN PLACE AT THE BALANCE SHEET DATE (WITHIN 18 MONTHS) | **664,795** | - |
| NOMINAL AMOUNT OF UNDERLYING FINANCINGS WHICH WERE NOT IN PLACE AT THE BALANCE SHEET DATE (MORE THAN 18 MONTHS) | **489,595** | 593,565 |

As at December 31, 2009, the fair value of interest rate derivatives was as follows:

| IN THOUSANDS OF U.S. DOLLAR | 2009 | 2008 |
|---|---|---|
| DERIVATIVE ASSETS | **28,330** | 11,170 |
| DERIVATIVE LIABILITIES | **(159,173)** | (28,157) |
| BALANCE AT JANUARY 1 | **(130,843)** | (16,987) |
| NET CHANGE IN FAIR VALUE RECOGNIZED IN EQUITY | **65,581** | (109,703) |
| NON-QUALIFYING HEDGES RECOGNIZED IN PROFIT AND LOSS – PRIOR YEAR | **8,284** | 4,132 |
| NON-QUALIFYING HEDGES RECOGNIZED IN PROFIT AND LOSS – CURRENT YEAR | **(29,702)** | (8,284) |
| DERIVATIVE ASSETS | **18,982** | 28,330 |
| DERIVATIVE LIABILITIES | **(105,662)** | (159,173) |
| BALANCE AT DECEMBER 31 | **(86,680)** | (130,843) |

### (e) LIQUIDITY RISK

The Group's approach to managing liquidity is to ensure that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions.

The Group is subject to loan covenants for some of its borrowing and finance lease arrangements, which in case of breach, unless waived would entitle the lending parties to demand prepayment of the loan. Financial covenants require the Group to respect certain balance sheet and interest and rental coverage ratios. Under one such covenant EBITDAR (Earnings before interest, tax, depreciation, amortization and rentals) must cover 1.3 times net interest expense plus rentals for the period. As at December 31, 2009, the Group did not meet this covenant but received waivers from the lenders having extended the covenanted loans (see Note 22).

The following are the contractual maturities of liabilities:

| IN THOUSANDS OF U.S. DOLLAR | 2010 | 2011 | 2012 | FURTHER THAN 2012 |
|---|---|---|---|---|
| INTEREST-BEARING LIABILITIES | (71,846) | (46,985) | - | - |
| FINANCE LEASE LIABILITIES | (124,969) | (39,811) | (40,939) | (305,301) |
| BANK OVERDRAFTS | (2) | - | - | - |
| TRADE PAYABLES AND OTHER PAYABLES | (212,000) | (19,682) | (19,682) | (39,363) |
| DERIVATIVE LIABILITIES | (40,371) | (23,355) | (8,960) | (8,328) |
| TAXES PAYABLE | (854) | - | - | - |
| | **(450,042)** | **(129,833)** | **(69,581)** | **(352,992)** |

As at December 31, 2009, the Group is in a net current asset position.

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

- Capital expenditures relating to the acquisition of 2 B747-8F, related components, spare engine and a flight simulator (approximately US$ 350 million).
- Repayment of the pre-delivery payment facility drawn in prior years to fund the deposits on the first 2 B747-8F to be delivered in December 2010 (US$ 64.4 million). The facility was partially prepaid in December 2009.
- Payment of the second installment of the fine payable to the US DOJ (US$ 20.7 million) (see Note 24).
- Pre-delivery payments to Boeing in an amount yet to be agreed with Boeing but expected to amount to approximately US$ 15 million.

The Group will be able to meet its financing needs for the following reasons:

- The Group intends to pay its liabilities out of operating cash flows, the sale of an aircraft to Silkway of Azerbaijan in October 2010 and the sale of miscellaneous non-strategic assets (e.g. spare engines).
- The Group expects to finance its aircraft acquisitions in 2010 with funded debt. On November 3, 2009 the Group has received a preliminary commitment from the Ex-Im Bank of the United States to support the financing of the first 6 B747-8F on order.
- The Group maintains credit lines to ensure that it will be able to face its obligations when they fall due. As at December 31, 2009, the Group had the following credit lines available for drawing:
  - Committed credit lines (i.e. lines with respect of which the Group pays commitment fees): US$ 32.5 million and EUR 0.9 million.
  - State guaranteed standby credit facility: EUR 100 million:

  On December 18, 2009, the Group signed with the Luxembourg government and six financial institutions a State guaranteed credit facility under the law of May 29, 2009 enabling the Government to issue its guarantee to undertakings which are temporarily affected by the crisis but are otherwise sound. The Group will be able to draw under the facility in 2010 and 2011. The outstanding amount under the facility at year-end 2011 is to be repaid in three equal installments between 2012 and 2014 subject to any prepayment.
- The Group received financial support from its shareholders through an increase of capital of US$ 100 million drawn from an authorized capital of US$ 200 million. A further US$ 100 million can be drawn at the discretion of the Board of Directors provided that a capital injection is foreseen (up to the remaining balance of the authorized capital) if the Group would otherwise breach a solvency ratio provided in certain loan agreements.

### (f) SENSITIVITY ANALYSIS

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

At December 31, 2009, 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$ 0.6 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$ 3.1 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$/t 50 in the price of jet fuel (basis barges Rotterdam) over a one-year period would have increased the Group's fuel bill by around 40 million. The impact on the Profit and Loss of such an increase can be offset by up to 100% by cash inflows from both fuel hedging and the fuel surcharge program.

### (g) FAIR VALUES

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

| IN THOUSANDS OF U.S. DOLLAR | 31 DECEMBER 2009 | | 31 DECEMBER 2008 | |
|---|---|---|---|---|
| | CARRYING AMOUNT | FAIR VALUE | CARRYING AMOUNT | FAIR VALUE |
| **ASSETS CARRIED AT FAIR VALUE** | | | | |
| OTHER INVESTMENTS | 42,992 | 42,992 | 51,391 | 51,391 |
| INTEREST RATE TRANSACTIONS THROUGH PROFIT AND LOSS | 14,173 | 14,173 | 28,330 | 28,330 |
| FUEL DERIVATIVE CONTRACTS THROUGH PROFIT AND LOSS | 21,427 | 21,427 | 10,720 | 10,720 |
| FORWARD EXCHANGE CONTRACTS USED FOR HEDGING | - | - | 4,477 | 4,477 |
| | **78,592** | **78,592** | **94,918** | **94,918** |
| **ASSETS CARRIED AT AMORTIZED COSTS** | | | | |
| LOANS AND RECEIVABLES | 239,147 | 239,147 | 350,277 | 350,277 |
| CASH AND CASH EQUIVALENTS | 218,220 | 218,220 | 103,792 | 103,792 |
| | **457,367** | **457,367** | **454,069** | **454,069** |
| **LIABILITIES CARRIED AT FAIR VALUE** | | | | |
| INTEREST RATE TRANSACTIONS USED FOR HEDGING | (100,853) | (100,853) | (159,174) | (159,174) |
| FUEL DERIVATIVE CONTRACTS USED FOR HEDGING | (11,357) | (11,357) | (48,171) | (48,171) |
| FORWARD EXCHANGE CONTRACTS USED FOR HEDGING | (142) | (142) | (2,804) | (2,804) |
| | **(112,352)** | **(112,352)** | **(210,149)** | **(210,149)** |
| **LIABILITIES CARRIED AT AMORTIZED COST** | | | | |
| SECURED BANK LOANS | (118,831) | (113,551) | (225,140) | (210,907) |
| FINANCE LEASE LIABILITIES | (511,020) | (402,425) | (581,081) | (461,255) |
| TRADE AND OTHER PAYABLES | (260,618) | (260,618) | (234,699) | (234,699) |
| BANK OVERDRAFT | (2) | (2) | (1,721) | (1,721) |
| | **(890,471)** | **(776,596)** | **(1,042,641)** | **(908,582)** |

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

### (h) FAIR VALUES HIERARCHY

| IN THOUSANDS OF U.S. DOLLAR | 31 DECEMBER 2009 | | | 31 DECEMBER 2008 | | |
|---|---|---|---|---|---|---|
| | LEVEL 1 | LEVEL 2 | TOTAL | LEVEL 1 | LEVEL 2 | TOTAL |
| OTHER INVESTMENTS | 17,058 | 25,934 | 42,992 | 12,720 | 38,671 | 51,391 |
| INTEREST RATE TRANSACTIONS THROUGH PROFIT AND LOSS | - | 14,173 | 14,173 | - | 28,330 | 28,330 |
| FUEL DERIVATIVE CONTRACTS THROUGH PROFIT AND LOSS | - | 21,427 | 21,427 | - | 10,720 | 10,720 |
| FORWARD EXCHANGE CONTRACTS USED FOR HEDGING | - | - | - | - | 4,477 | 4,477 |
| | **17,058** | **61,534** | **78,592** | **12,720** | **82,198** | **94,918** |
| INTEREST RATE TRANSACTIONS USED FOR HEDGING | - | (100,853) | (100,853) | - | (159,174) | (159,174) |
| FUEL DERIVATIVE CONTRACTS USED FOR HEDGING | - | (11,357) | (11,357) | - | (48,171) | (48,171) |
| FORWARD EXCHANGE CONTRACTS USED FOR HEDGING | - | (142) | (142) | - | (2,804) | (2,804) |
| | **-** | **(112,352)** | **(112,352)** | **-** | **(210,149)** | **(210,149)** |

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2: inputs other than prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs)

## 6. REVENUES

| IN THOUSANDS OF U.S. DOLLAR | 2009 | 2008 |
|---|---|---|
| CARGO SALES | **1,295,070** | 1,963,850 |
| THIRD PARTY MAINTENANCE REVENUE | **5,005** | 8,424 |
| OTHER REVENUES | **13,650** | 10,938 |
| | **1,313,725** | 1,983,212 |

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 73% of net turnover (2008: 78%). The third largest contributor to net turnover was Area I (the Americas) traffic, accounting for approximately 18% (2008: 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

| IN THOUSANDS OF U.S. DOLLAR | 2009 | 2008 |
|---|---|---|
| GAIN ON SALE OF PROPERTY, PLANT AND EQUIPMENT | **38,534** | 73 |
| FOREIGN EXCHANGE GAIN, NET | **-** | 1,390 |
| | **38,534** | 1,463 |

During 2009, the Group realized a capital gain on the sale of two B747-400 aircraft.

## 8. AIRCRAFT LEASE EXPENSES

| IN THOUSANDS OF U.S. DOLLAR | 2009 | 2008 |
|---|---|---|
| AIRCRAFT RENTALS UNDER DRY LEASES | **48,670** | 55,301 |
| AIRCRAFT RENTALS UNDER WET LEASES | **5,800** | 21,489 |
| FEES PAYABLE UNDER BLOCKSPACE AGREEMENTS | **2,262** | 458 |
| RETURN CONDITIONS PROVISION WITH RESPECT OF DRY LEASED AIRCRAFT | **3,639** | 1,457 |
| | **60,371** | 78,705 |

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 lease on LX-MCV changed following the notice given in 2008 by the Group to exercise a purchase option on this aircraft (see Note 15 below).

During the 2009 high season, the Group wet-leased B747-200F capacity from Southern Air and Air Atlanta.

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.

## 9. AIRCRAFT MAINTENANCE EXPENSES (OUTSOURCED)

| IN THOUSANDS OF U.S. DOLLAR | 2009 | 2008 |
|---|---|---|
| ENGINE REPAIR AND OVERHAUL | **68,936** | 69,165 |
| HEAVY MAINTENANCE ("C-CHECKS" AND "D-CHECKS" ON DRY LEASED AIRCRAFT) | **1,071** | 5,626 |
| COMPONENT AND BRAKES REPAIR | **7,663** | 8,430 |
| STOCK CONSUMPTION | **8,275** | 9,053 |
| LINE MAINTENANCE AT STATIONS | **5,147** | 5,170 |
| OTHER MAINTENANCE EXPENSES | **5,077** | 4,388 |
| | **96,169** | 101,832 |

## 10. OTHER AIRCRAFT EXPENSES

| IN THOUSANDS OF U.S. DOLLAR | 2009 | 2008 |
|---|---|---|
| INSURANCES, INCLUDING FLEET INSURANCE | **3,787** | 3,139 |
| | **3,787** | 3,139 |

## 11. PERSONNEL COSTS AND BENEFITS

**BY CATEGORY OF EXPENSES**

| IN THOUSANDS OF U.S. DOLLAR | 2009 | 2008 |
|---|---|---|
| SALARIES, OVERTIME, 13TH MONTH | **170,499** | 176,837 |
| SOCIAL SECURITY | **19,654** | 17,986 |
| **EMPLOYEE BENEFITS** | | |
| - EXPENSES RELATED TO DEFINED BENEFIT PLANS | **627** | 731 |
| - EXPENSES RELATED TO DEFINED CONTRIBUTION PLANS | **3,632** | 3,715 |
| - OTHER (ACCIDENT AND INVALIDITY INSURANCE) | **6,593** | 3,849 |
| TRAINING AND SUNDRY PERSONNEL CHARGES | **8,408** | 10,862 |
| | **209,413** | 213,980 |

**AVERAGE NUMBER OF STAFF BY CATEGORY**

| | 2009 | 2008 |
|---|---|---|
| OPERATIONS (INCLUDING CREWS) | **465** | 460 |
| SALES AND MARKETING | **512** | 505 |
| MAINTENANCE | **393** | 399 |
| FINANCE AND ADMINISTRATION | **84** | 83 |
| GENERAL MANAGEMENT (INCLUDING HUMAN RESOURCES, PUBLIC RELATIONS AND INTERNAL AUDIT) | **66** | 62 |
| | **1,520** | 1,509 |

As of December 31, 2009 1,240 (2008: 1,284) employees were based in countries of the European Union, of which 1,112 in Luxembourg (2008: 1,155).

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

## 12. OTHER OPERATING EXPENSES

| IN THOUSANDS OF U.S. DOLLAR | 2009 | 2008 |
|---|---|---|
| GSA COMMISSIONS | **14,813** | 17,629 |
| IT SERVICES | **32,029** | 34,464 |
| TRAVEL & ENTERTAINMENT | **18,718** | 21,584 |
| OFFICE AND OFFICE EQUIPMENT (RENTAL AND MAINTENANCE) | **13,309** | 9,086 |
| LEGAL, AUDIT AND CONSULTING FEES | **14,577** | 10,828 |
| VALUATION ALLOWANCE ON CURRENT ASSETS | **1,066** | 2,408 |
| TELECOMMUNICATION EXPENSES | **1,916** | 2,098 |
| NET WORTH TAX | **3,830** | - |
| FOREIGN EXCHANGE LOSS, NET | **12,339** | - |
| MISCELLANEOUS | **18,761** | 19,477 |
| ANTI-TRUST PROVISIONS | **(5,957)** | 77,682 |
| | **125,401** | 195,256 |

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 2009, US$ 3.4 million (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 2009 and in 2008 to reflect a delay in the expected decision of the EU Commission regarding a fine, the benefit of a multi-year payment schedule, the recalculation of the discount the Group expects to obtain in connection with its ongoing cooperation with the EU Commission in its investigation and the specific economic context. The Group has constituted new provisions to cover its exposure in connection with investigations conducted by the anti-trust authorities of Canada, South Korea and Switzerland. See also Notes 24 and 28 below.

Legal, audit and consulting fees include an amount of US$ 0.4 million (in 2008 US$ 0.4 million) accrued for audit fees and an amount of US$ 0.1 million (in 2008 US$ 0.1 million) paid for tax services to KPMG.

## 13. NET FINANCE COSTS

**RECOGNIZED IN PROFIT OR LOSS**

| IN THOUSANDS OF U.S. DOLLAR | 2009 | 2008 |
|---|---|---|
| NET CHANGE IN FAIR VALUE OF FINANCIAL INSTRUMENTS | **1,750** | 2,501 |
| INTEREST INCOME ON BANK DEPOSITS | **4,690** | 6,235 |
| INTEREST ON LOANS AND RECEIVABLES | **143** | - |
| OTHER FINANCIAL INCOME (IATA CALL DAY ADJUSTMENTS, DISCOUNTS RECEIVED) | **263** | 605 |
| **FINANCIAL INCOME** | **6,846** | 9,341 |
| INTEREST EXPENSE | **(37,427)** | (31,050) |
| NET CHANGE IN FAIR VALUE OF FINANCIAL INSTRUMENTS | **(21,472)** | (7,402) |
| ACCRUED INTEREST ON NET PRESENT VALUE OF PROVISIONS BOOKED IN PRIOR YEAR | **(11,173)** | (9,625) |
| OTHER FINANCIAL EXPENSES (BANK CHARGES, LOAN AGENCY FEES, CASS COMMISSIONS) | **(2,262)** | (1,819) |
| **FINANCIAL EXPENSES** | **(72,334)** | (49,896) |
| **NET FINANCE COSTS** | **(65,488)** | (40,555) |

The increase in "net change in fair value of financial instruments" is due primarily to the requalification of 3 interest rate derivative transactions which were booked to equity in prior year under hedge accounting principles.

**RECOGNIZED IN OTHER COMPREHENSIVE INCOME**

| IN THOUSANDS OF U.S. DOLLAR | 2009 | 2008 |
|---|---|---|
| EFFECTIVE PORTION OF CHANGES IN FAIR VALUE OF INTEREST CASH FLOW HEDGES | **77,586** | (106,229) |
| NET CHANGE IN FAIR VALUE OF CASH FLOW HEDGES TRANSFERRED TO PROFIT OR LOSS | **(12,005)** | (3,474) |
| INCOME TAX ON FINANCE INCOME AND FINANCE COSTS RECOGNIZED IN OTHER COMPREHENSIVE INCOME | **(19,241)** | 32,187 |
| **FINANCE INCOME RECOGNIZED IN OTHER COMPREHENSIVE INCOME (EXPENSES), NET OF TAX** | **46,340** | (77,516) |

## 14. INCOME TAX EXPENSE

| IN THOUSANDS OF U.S. DOLLAR | **2009** | 2008 |
|---|---|---|
| **CURRENT TAX EXPENSE** | | |
| CURRENT YEAR | **372** | 2,152 |
| ADJUSTMENTS FOR PRIOR YEARS | **-** | 938 |
| | **372** | 3,090 |
| **DEFERRED TAX EXPENSE** | | |
| ORIGINATION AND REVERSAL OF TEMPORARY DIFFERENCES | **(837)** | 39,812 |
| BENEFIT OF TAX LOSSES | **(27,828)** | (25,166) |
| REASSESSMENT OF INVESTMENT TAX CREDIT | **59,299** | 20,362 |
| | **30,634** | 35,008 |
| **TOTAL INCOME TAX EXPENSE IN INCOME STATEMENT** | **31,006** | 38,098 |
| **INCOME TAX RECOGNIZED IN OTHER COMPREHENSIVE INCOME** | **28,249** | (41,061) |

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

### RECONCILIATION OF EFFECTIVE TAX RATE

| IN THOUSANDS OF U.S. DOLLAR | **2009** | **2009** | 2008 | 2008 |
|---|---|---|---|---|
| LOSS BEFORE TAX | | **(122,295)** | | (22,945) |
| INCOME TAX USING THE DOMESTIC RATE | **29.34%** | **(35,881)** | 30.38% | (6,971) |
| SHARE OF PROFIT OF ASSOCIATES | | **(667)** | | (1,150) |
| EFFECT OF CURRENT TAX IN FOREIGN BRANCHES | | **30** | | (757) |
| NON DEDUCTIBLE EXPENSES / UNRECOGNIZED DTA | | **8,569** | | 28,378 |
| TAX EXEMPT REVENUES | | **(344)** | | (353) |
| EFFECT OF INVESTMENT TAX CREDIT | | **59,299** | | 17,717 |
| EFFECT OF CHANGE IN TAX RATE | | **-** | | 5,329 |
| UNDER / (OVER) PROVIDED IN PRIOR YEARS | | **-** | | 938 |
| BENEFIT OF TAX LOSSES | | **-** | | (5,033) |
| **INCOME TAX EXPENSE** | | **31,006** | | 38,098 |

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

In 2008, the determination of the tax basis of assets and liabilities and the related taxable income were changed and resulted in tax losses. The reassessment of investment tax credit is linked to the expiry of investment tax credits (ITC) in 2009, 2010 and 2011 which are not expected to be used due to the 2009 tax losses and the downwards revision of the business plan for the period 2010-2013, which shows an important decline of taxable profit due to the adverse economic environment. The benefit of the ITC led to the recognition of a tax asset in prior years (see Note 17 below).

## 15. PROPERTY, PLANT AND EQUIPMENT

| IN THOUSANDS OF U.S. DOLLAR | AIRCRAFT AND EQUIPMENT | LAND AND BUILDINGS | OTHER EQUIPMENT | PAYMENTS ON ACCOUNTS AND ASSETS IN COURSE OF CONSTRUCTION | TOTAL |
|---|---|---|---|---|---|
| COST AT BEGINNING OF YEAR | 1,429,005 | 7,959 | 33,332 | 172,178 | **1,642,474** |
| ACQUISITIONS | 4,540 | 239 | 3,917 | 10,992 | **19,688** |
| TRANSFER FROM ASSETS UNDER CONSTRUCTION | - | 260 | 30 | (290) | - |
| D-CHECK | (5,500) | - | - | - | **(5,500)** |
| REIMBURSEMENT OF ADVANCE PAYMENTS | - | - | - | (20,000) | **(20,000)** |
| DISPOSALS (NOTE 7) | (248,658) | (87) | (1,893) | - | **(250,638)** |
| AT END OF YEAR | 1,179,387 | 8,371 | 35,386 | 162,880 | **1,386,024** |
| ACCUMULATED DEPRECIATION AT BEGINNING OF YEAR | (505,782) | (7,373) | (25,287) | - | **(538,442)** |
| CHARGE FOR THE YEAR | (58,767) | (257) | (2,606) | - | **(61,630)** |
| D-CHECK WRITE OFF | 5,500 | - | - | - | **5,500** |
| ADJUSTMENTS FOR DISPOSALS | 154,590 | 87 | 1,892 | - | **156,569** |
| AT END OF YEAR | (404,459) | (7,543) | (26,001) | - | **(438,003)** |
| NET BOOK VALUE AS OF DECEMBER 31, 2009 | 774,928 | 828 | 9,385 | 162,880 | **948,021** |
| NET BOOK VALUE AS OF DECEMBER 31, 2008 | 923,223 | 586 | 8,046 | 172,178 | **1,104,033** |

### AIRCRAFT SUBJECT TO FINANCE LEASES

The Company leases aircraft under a number of finance lease agreements LX-MCV, LX-RCV, LX-SCV, LX-TCV, LX-UCV, LX-VCV and LX-YCV (2008: 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. At December 31, 2009, the net carrying amount of leased aircraft under finance leases was US$ 609.0 million (2008: US$ 661.9 million).

### SECURITY

At December 31, 2009, aircraft and equipment with a carrying amount of US$ 738.7 million (2008: US$ 791.6 million) are subject to mortgages to secure the bank loans relating to LX-LCV, LX-NCV, LX-RCV, LX-SCV, LX-TCV, LX-UCV, LX-VCV, LX-MCV and LX-YCV (2008: LX-LCV, LX-NCV, LX-RCV, LX-SCV, LX-TCV, LX-UCV, LX-VCV, LX-MCV and LX-YCV). On May 28, 2008 the Grand-Duchy of Luxembourg ratified the Cape Town Convention on international interests in mobile equipment (Cape Town 2001). The convention was enacted into Luxembourg law effective of December 12, 2008. Some of the Group's aircraft are 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-LCV on a forward basis to an unrelated party with delivery date 2010. The sales price for this aircraft was above its then carrying value resulting in discontinuance of the related depreciation expense for the balance of 2007 and further years.

### CAPITALIZED BORROWING COSTS

Assets under construction include capitalization of borrowing costs for an amount of US$ 8.5 million (2008: 4.2 million).

## 16. INVESTMENTS IN ASSOCIATES

The Group has the following investments in associates:

| | COUNTRY | OWNERSHIP 2009 | OWNERSHIP 2008 |
|---|---|---|---|
| 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 THOUSANDS OF U.S. DOLLAR | OWNERSHIP | ASSETS | EQUITY | LIABILITIES | REVENUES | PROFIT / (LOSS) |
|---|---|---|---|---|---|---|
| **2009** | | | | | | |
| LUXFUEL S.A. | 30% | 8,890 | 5,029 | 3,861 | 6,812 | 1,670 |
| CHAMP CARGOSYSTEMS S.A. | 49% | 77,343 | 48,443 | 28,900 | 53,962 | 3,381 |
| FREIGHTER LEASING S.A. | 33% | 221,940 | 5,861 | 216,079 | 25,269 | 6,188 |
| | | 308,173 | 59,333 | 248,840 | 86,043 | 11,239 |
| **2008** | | | | | | |
| LUXFUEL S.A. | 30% | 12,677 | 8,341 | 4,336 | 10,690 | 2,218 |
| CHAMP CARGOSYSTEMS S.A. | 49% | 77,171 | 44,336 | 32,835 | 58,576 | 4,149 |
| FREIGHTER LEASING S.A. | 33% | 232,548 | (294) | 232,842 | 28,938 | 3,258 |
| | | 322,396 | 52,383 | 270,013 | 98,204 | 9,625 |

## 17. DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets and liabilities are attributable to the following:

| | ASSETS | | LIABILITIES | | NET | |
|---|---|---|---|---|---|---|
| IN THOUSANDS OF U.S. DOLLAR | **2009** | 2008 | **2009** | 2008 | **2009** | 2008 |
| AIRCRAFT AND EQUIPMENT | **12,223** | 15,512 | **-** | - | **12,223** | 15,512 |
| OTHER PROPERTY, PLANT AND EQUIPMENT | **524** | - | **-** | (1,458) | **524** | (1,458) |
| DERIVATIVE ASSETS | **-** | - | **(5,581)** | (7,025) | **(5,581)** | (7,025) |
| INVESTMENTS IN ASSOCIATES | **5,630** | 5,059 | **-** | - | **5,630** | 5,059 |
| TRADE RECEIVABLES AND OTHER RECEIVABLES | **-** | - | **(2,149)** | (1,111) | **(2,149)** | (1,111) |
| OTHER INVESTMENTS | **-** | - | **(5,033)** | (3,925) | **(5,033)** | (3,925) |
| CASH AND CASH EQUIVALENT | **-** | - | **(233)** | - | **(233)** | - |
| INTEREST-BEARING LOANS AND BORROWINGS | **-** | - | **(14)** | (44) | **(14)** | (44) |
| FINANCE LEASE LIABILITIES | **-** | 410 | **(802)** | - | **(802)** | 410 |
| EMPLOYEE BENEFITS | **-** | - | **(165)** | (192) | **(165)** | (192) |
| DERIVATIVE LIABILITIES | **20,110** | 43,572 | **-** | - | **20,110** | 43,572 |
| TRADE AND OTHER PAYABLES | **9,109** | 12,138 | **-** | - | **9,109** | 12,138 |
| PROVISIONS | - | - | **(9,878)** | (11,782) | **(9,878)** | (11,782) |
| BENEFIT OF TAX LOSSES BROUGHT FORWARD | **52,994** | 25,166 | **-** | - | **52,994** | 25,166 |
| INVESTMENT TAX CREDIT | **-** | 59,299 | **-** | - | **-** | 59,299 |
| TAX ASSETS / (LIABILITIES) | **100,590** | 161,156 | **(23,855)** | (25,537) | **76,735** | 135,619 |
| SET OFF TAX | **(23,855)** | (25,537) | **23,855** | 25,537 | **-** | - |
| NET TAX ASSETS | **76,735** | 135,619 | | | **76,735** | 135,619 |

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

Deferred tax adjustments of US$ 28.2 million were recognized in equity in 2009 and US$ 41.1 million in 2008 (see Note 14).

The Group reassessed the possibility to use investment tax credits in future period and calculated, in view of tax losses, that the tax asset should be reversed.

An ITC for an amount of US$ 66.2 million and deferred tax losses for an amount of US$ 17.2 million have not been recognized.

## 18. TRADE RECEIVABLES AND OTHER RECEIVABLES

Trade receivables of US$ 176.6 million (2008: US$ 167.3 million) are shown net of any impairment losses recognized in the current year.

| IN THOUSANDS OF U.S. DOLLAR | **2009** | 2008 |
|---|---|---|
| TRADE RECEIVABLES | **176,575** | 167,332 |
| RECEIVABLE FROM MARIE-LEASE S.À R.L. | **-** | 89,823 |
| PREPAID EXPENSES | **18,877** | 50,300 |
| ADVANCES PAID TO SUPPLIERS | **7,858** | 7,550 |
| VAT | **5,556** | 4,280 |
| DERIVATIVE ASSETS | **21,388** | 19,584 |
| OTHER RECEIVABLES | **8,893** | 11,408 |
| | **239,147** | 350,277 |

In 2009, the new hangar was completed resulting in the payment of the receivable from Marie-Lease S.à r.l. and the inception of an operating lease agreement on that property (see Notes 26 and 31).

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

## 19. OTHER INVESTMENTS

| IN THOUSANDS OF U.S. DOLLAR | 2009 | 2008 |
|---|---|---|
| RESTRICTED CASH | **12,788** | 36,809 |
| SECURITIES HELD AT FAIR VALUE THROUGH PROFIT AND LOSS | **42,992** | 51,391 |
| | **55,780** | 88,200 |

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$ 25.6 million are pledged as collateral in derivative transactions.

## 20. CASH AND CASH EQUIVALENTS

| IN THOUSANDS OF U.S. DOLLAR | 2009 | 2008 |
|---|---|---|
| BANK BALANCES | **31,138** | 57,214 |
| SHORT TERM DEPOSITS | **187,082** | 46,578 |
| CASH AND CASH EQUIVALENTS | **218,220** | 103,792 |
| BANK OVERDRAFTS | **(2)** | (1,721) |
| **CASH AND CASH EQUIVALENTS IN THE STATEMENT OF CASH FLOWS** | **218,218** | 102,072 |

## 21. CAPITAL AND RESERVES

### SHARE CAPITAL AND MAIN SHAREHOLDERS

| IN THOUSANDS OF U.S. DOLLAR EXCLUDING SHARE NUMBERS | 2009 | 2008 |
|---|---|---|
| ISSUED AND SUBSCRIBED 10,000,300 COMPRISED OF 6,000,300 REGISTERED COMMON SHARES OF NO PAR VALUE AND 4,000,000 REGISTERED CLASS B SHARES OF NO PAR VALUE (2008: 6,000,300 COMMON SHARES) | **250,007** | 360,018 |

The main shareholders are:

| | 2009 | 2008 |
|---|---|---|
| LUXAIR | 52.1% | 34.9% |
| BANQUE ET CAISSE D'EPARGNE DE L'ETAT (BCEE) | 13.1% | 8.8% |
| SNCI | 12.8% | 8.6% |
| BIP INVESTMENT PARTNERS | 11.5% | 11.5% |
| LUXEMBOURG STATE | 8.0% | - |
| LUX-AVANTAGE | 2.2% | 2.2% |
| INDIVIDUAL SHAREHOLDERS | 0.3% | 0.3% |
| SAIRLINES | - | 33.7% |

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

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

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

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

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

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

*Reserves*

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

*Legal reserve*

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

*Net worth tax reserve*

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

*Currency translation reserve*

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

*Hedging reserve*

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

## 22. INTEREST-BEARING LOANS AND BORROWINGS AND FINANCE LEASE LIABILITIES

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

| IN THOUSANDS OF U.S. DOLLAR | **2009** | 2008 |
|---|---|---|
| **NON-CURRENT LIABILITIES** | | |
| SECURED BANK LOANS | 46,985 | 54,101 |
| LOAN ORIGINATED COSTS | (7) | (47) |
| **TOTAL** | **46,978** | 54,054 |
| FINANCE LEASE LIABILITIES | 386,051 | 511,020 |
| LOAN ORIGINATED COSTS | (8,276) | (9,921) |
| **TOTAL** | **377,775** | 501,099 |
| **GRAND TOTAL** | **424,753** | 555,153 |
| **CURRENT LIABILITIES** | | |
| INTEREST PAYABLE ON CURRENT AND NON-CURRENT LIABILITIES | 3,399 | 4,495 |
| LOAN ORIGINATED COSTS | (1,624) | (1,760) |
| CURRENT PORTION OF SECURED/UNSECURED BANK LOANS | 71,846 | 171,038 |
| CURRENT PORTION OF FINANCE LEASE LIABILITIES | 124,969 | 70,061 |
| **TOTAL** | **198,590** | 243,834 |

### TERMS AND DEBT REPAYMENT SCHEDULE

Terms and conditions of outstanding loans were as follows:

| IN THOUSANDS OF U.S. DOLLAR | CURRENCY | NOMINAL INTEREST RATE | YEAR OF MATURITY | PRINCIPAL AMOUNT 2009 | PRINCIPAL AMOUNT 2008 |
|---|---|---|---|---|---|
| SECURED BANK LOANS | US$ | FIXED | 2011 | **54,102** | 107,243 |
| SECURED BANK LOANS | EUR | EURIBOR 3M + 0.9% | | **-** | 33,168 |
| PDP FINANCINGS | US$ | LIBOR 3M + MARGIN | 2010 | **64,729** | 84,729 |
| FINANCE LEASE LIABILITIES | US$ | FIXED, LIBOR 6M + MARGIN, EIB 3M + MARGIN, LIBOR 3M + MARGIN | 2010, 2013, 2014, 2020 | **511,020** | 573,794 |
| FINANCE LEASE LIABILITIES | EUR | FIXED | | **-** | 7,287 |
| **TOTAL INTEREST-BEARING LIABILITIES** | | | | **629,851** | 806,221 |

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

### FINANCE LEASE LIABILITIES

Finance lease liabilities are repayable as follows:

| IN THOUSANDS OF U.S. DOLLAR | MINIMUM LEASE PAYMENTS 2009 | INTEREST 2009 | PRINCIPAL 2009 | MINIMUM LEASE PAYMENTS 2008 | INTEREST 2008 | PRINCIPAL 2008 |
|---|---|---|---|---|---|---|
| LESS THAN ONE YEAR | **129,480** | **4,511** | **124,969** | 84,511 | 14,450 | 70,061 |
| BETWEEN ONE AND FIVE YEARS | **245,323** | **11,108** | **234,215** | 362,425 | 28,763 | 333,662 |
| MORE THAN FIVE YEARS | **155,053** | **3,217** | **151,836** | 188,570 | 11,212 | 177,358 |
| | **529,856** | **18,836** | **511,020** | 635,506 | 54,425 | 581,081 |

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

### BREACH OF LOAN COVENANT

In some of the Group's borrowing and finance lease agreements the Group undertakes to meet financial ratios to be tested on the basis of the consolidated audited annual consolidated financial statements for that year. Under one such covenant EBITDAR must exceed 1.3 times net interest plus aircraft rentals.

Based on year-to-date performance and projections, the Group decided in October 2009 to request waivers from counterparties in relevant agreements as the interest and rental coverage covenant was likely to be breached for the financial year 2009. All necessary waivers were obtained from the lenders of the covenanted debt before year-end.

The Group's liquidity position is discussed in detail in Note 5 (e) above.

### CAPITAL RATIOS

| IN THOUSANDS OF U.S. DOLLAR | 2009 | 2008 |
|---|---|---|
| OUTSTANDING LOANS | **119,903** | 226,333 |
| OUTSTANDING FINANCE LEASE OBLIGATIONS | **503,440** | 572,654 |
| **TOTAL DEBT** | **623,343** | 798,987 |
| LESS CASH AND CASH EQUIVALENTS AND OTHER INVESTMENTS | **(273,998)** | (190,271) |
| **NET DEBT** | **349,345** | 608,716 |
| PRESENT VALUE OF FUTURE LEASE PAYMENTS | **218,710** | 185,179 |
| **ADJUSTED NET DEBT** | **568,055** | 793,895 |
| **EQUITY** | **469,508** | 454,240 |
| NET DEBT/EQUITY | **74.4%** | 134.0% |
| ADJUSTED NET DEBT/EQUITY | **121.0%** | 174.8% |

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.

As at 31 December 2009 and 2008, the Group was in compliance with a loan covenant which requires that equity represents at least 1/6 of total liabilities plus net present value of non-cancellable operating lease obligations.

## 23. EMPLOYEE BENEFITS

| IN THOUSANDS OF U.S. DOLLAR | 2009 | 2008 |
|---|---|---|
| FAIR VALUE OF PLAN ASSETS | **(11,431)** | (11,827) |
| PRESENT VALUE OF NET OBLIGATIONS | **16,822** | 17,470 |
| UNRECOGNIZED ACTUARIAL GAINS | **584** | 392 |
| RECOGNIZED LIABILITY FOR DEFINED BENEFIT OBLIGATIONS (SEE BELOW) | **5,975** | 6,035 |
| OTHER EMPLOYEE BENEFITS | **5,217** | 5,645 |
| **TOTAL EMPLOYEE BENEFITS** | **11,192** | 11,680 |

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 company in 2002 and are held separately from the Group. The Group is current with respect of its payment obligations of the annual premiums due under the Group's pension schemes and such premiums are expensed under ***Personnel costs and benefits***.

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

The Cargolux defined benefit scheme is not a multi-employer scheme and sufficient information is available to determine the obligation, plan assets and costs to the Group. The funding requirements are determined pursuant to the projected unit funding method and the pension cost and provision have been assessed by a third party qualified actuary. The latest full pension scheme valuation was performed by the scheme's actuaries in January 2010.

### MOVEMENTS IN THE NET LIABILITY FOR DEFINED BENEFIT OBLIGATIONS RECOGNIZED IN THE BALANCE SHEET

| IN THOUSANDS OF U.S. DOLLAR | 2009 | 2008 |
|---|---|---|
| NET LIABILITY FOR DEFINED BENEFIT OBLIGATIONS AT JANUARY 1, 2009 | **6,035** | 5,841 |
| CONTRIBUTIONS RECEIVED | **(555)** | (571) |
| PENSION PAYMENTS | **(227)** | (373) |
| EXPENSE RECOGNIZED IN THE INCOME STATEMENT (SEE BELOW) | **627** | 731 |
| FOREIGN EXCHANGE IMPACT | **95** | 407 |
| NET LIABILITY FOR DEFINED BENEFIT OBLIGATIONS AT DECEMBER 31, 2009 | **5,975** | 6,035 |

**EXPENSE RECOGNIZED IN THE INCOME STATEMENT**

| IN THOUSANDS OF U.S. DOLLAR | 2009 | 2008 |
|---|---|---|
| CURRENT SERVICE COSTS | **406** | 408 |
| INTEREST ON PENSION OBLIGATION | **714** | 879 |
| EXPECTED RETURN ON PLAN ASSETS | **(493)** | (556) |
| | **627** | 731 |

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

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

| | 2009 | 2008 |
|---|---|---|
| DISCOUNT RATE AT DECEMBER 31, 2009 | **4.10%** | 4.61% |
| EXPECTED RETURN ON PLAN ASSETS AT DECEMBER 31, 2009 | **4.10%** | 4.10% |

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

## 24. PROVISIONS

| IN THOUSANDS OF U.S. DOLLAR | ANTI-TRUST | LEGAL | RETURN COST PROVISION | HEAVY MAINTENANCE PROGRAM | TOTAL |
|---|---|---|---|---|---|
| BALANCE AT JANUARY 1, 2009 | 233,614 | 6,000 | 11,923 | 9,741 | **261,278** |
| PROVISIONS MADE DURING THE YEAR | 17,099 | 3,365 | 3,639 | 2,367 | **26,470** |
| EFFECT OF NET PRESENT VALUE ON PROVISIONS | 8,786 | - | 1,372 | 1,015 | **11,173** |
| PROVISIONS USED DURING THE YEAR | (13,593) | (5,365) | - | - | **(18,958)** |
| PROVISIONS REVERSED DURING THE YEAR | (23,056) | - | - | (3,077) | **(26,133)** |
| PROVISION RECLASSIFIED DURING THE YEAR | (99,431) | - | - | - | **(99,431)** |
| EFFECT OF EXCHANGE | 2,928 | - | - | - | **2,928** |
| **BALANCE AT DECEMBER 31, 2009** | **126,347** | **4,000** | **16,934** | **10,046** | **157,327** |
| NON-CURRENT | 68,563 | - | 16,934 | 10,046 | **95,543** |
| CURRENT | 57,784 | 4,000 | - | - | **61,784** |
| | **126,347** | **4,000** | **16,934** | **10,046** | **157,327** |

Provisions constituted with respect of the anti-trust proceedings the Group is involved in and a provision constituted for related legal fees are discussed in Note 12 above. Following the settlement with the Department of Justice (DOJ), the provision constituted with respect of the Group's exposure regarding a possible fine has been transferred to *Trade and other payables*.

The provision of US$ 16.9 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 (2008: five) operating leases for B747-400F aircraft. For the leased aircraft the cost of major aircraft overhaul or so-called "D-checks" is provisioned and charged to operating expenses in the line item *Aircraft maintenance expenses*, based on the estimated remaining number of years until the next major overhaul.

## 25. TRADE PAYABLES AND OTHER PAYABLES

| IN THOUSANDS OF U.S. DOLLAR | 2009 | 2008 |
|---|---|---|
| TRADE PAYABLES | **54,026** | 41,549 |
| GENERAL AND ADMINISTRATION | **2,541** | 1,025 |
| MAINTENANCE | **28,663** | 15,545 |
| FUEL | **12,794** | 19,152 |
| HANDLING, LANDING AND OVERFLYING | **27,177** | 25,994 |
| TRUCKING, REFORWARDING AND TRUCK HANDLING | **8,240** | 8,011 |
| INCENTIVE AND WORLDWIDE COMMISSIONS | **10,762** | 15,488 |
| RENTALS UNDER AIRCRAFT OPERATING LEASES | **838** | 1,815 |
| INSURANCE | **258** | 1,575 |
| PERSONNEL | **4,612** | 5,920 |
| SOCIAL SECURITY | **3,955** | 3,888 |
| DIVIDENDS PAYABLE | **-** | 20,004 |
| DERIVATIVES LIABILITIES ON FUEL | **9,787** | 36,398 |
| DERIVATIVES LIABILITIES ON INTEREST RATE | **38,689** | 22,441 |
| DERIVATIVES LIABILITIES ON FOREX | **142** | 2,803 |
| DEPOSITS RECEIVED | **12,599** | - |
| ANTI-TRUST FINE PAYABLE TO DOJ | **20,704** | - |
| DEFERRED INCOME | **8,500** | - |
| MISCELLANEOUS | **16,331** | 13,091 |
| **CURRENT TRADE PAYABLES AND OTHER PAYABLES** | **260,618** | 234,699 |
| ANTI-TRUST FINE PAYABLE TO DOJ | **78,727** | - |
| **NON-CURRENT TRADE PAYABLES AND OTHER PAYABLES** | **78,727** | - |

## 26. OPERATING LEASES

Non-cancellable operating lease rentals are payable as follows:

| IN THOUSANDS OF U.S. DOLLAR | 2009 | 2008 |
|---|---|---|
| LESS THAN ONE YEAR | **54,830** | 49,585 |
| BETWEEN ONE AND FIVE YEARS | **126,420** | 140,965 |
| MORE THAN FIVE YEARS | **56,861** | 20,312 |

The present value of minimum lease payments related to operating leases of aircraft and the hangar facility amounted to US$ 218.7 million (2008: US$ 185.2 million) at the balance sheet date. This present value was calculated using actual rental terms and a discount factor equal to Libor respectively Euribor rates at December 31.

## 27. CAPITAL COMMITMENTS

In 2009 Boeing announced a further delay in its delivery schedule of the B747-8F aircraft with the first aircraft deliveries to occur now only in the fourth quarter of 2010. In December 2009, the Group and Boeing signed a delivery delay settlement agreement including new delivery dates. As at the balance sheet date, the Group had firm purchase orders for 13 B747-8F aircraft (2008: 13 B747-8F aircraft) to be delivered from 2010 to 2014. Based on prices published by manufacturers the total amount of the above investments is close to US$ 4 billion. All aircraft deliveries are subject to further change.

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

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

## 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, Canada, New Zealand, South Africa, South Korea and Switzerland in connection with a worldwide investigation of air cargo carriers regarding alleged price fixing practices and the exchange of confidential information. The Group is responding to requests for information submitted by the authorities. In 2009, the Group entered into settlement agreements with the anti-trust authorities of the US (DOJ) and Australia (ACCC).

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 provisions to cover the Group's exposure with respect of the anti-trust proceedings initiated by the EU Commission, the Commerce Commission of New Zealand and the anti-trust authorities of the Korean Fair Trade Commission (KFTC) of South Korea, the Competition Bureau of Canada and the Competition Commission of Switzerland against the Group (see also Notes 12 and 24 above). The outcome of the anti-trust proceedings in other jurisdictions and of the civil lawsuits cannot be determined with sufficient precision at this point in time and therefore, no provision has been recorded in the 2009 accounts with respect thereto. If determined against the Group, the outcome of these lawsuits 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.

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

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

| IN THOUSANDS OF U.S. DOLLAR | 2009 | 2008 |
|---|---|---|
| SALARIES AND PROFIT SHARING | **3,472** | 3,143 |
| CONTRIBUTION TO PENSION SCHEME AND ACCIDENT/INVALIDITY INSURANCE | **656** | 664 |
| | **4,128** | 3,807 |

These amounts, which are paid in euros, are included in *Personnel costs and benefits* (see Note 11). In January 2009, a new Executive Committee member was nominated and in November 2009 a further Executive Committee member left the Group. The end-of-contract benefits payable to the leaving executive are reflected in "salaries and profit sharing". Members of the Executive Committee and the heads of area voluntarily agreed to a 10% salary cut in April.

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

| IN THOUSANDS OF U.S. DOLLAR | 2009 | 2008 |
|---|---|---|
| DIRECTORS | **351** | 448 |

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

### SHAREHOLDERS

- The Group pays handling fees and other service charges to Luxair in Luxembourg. The amount charged to operations for such services was US$ 66.2 million (2008: US$ 69.3 million).
- Interest and commissions of approximately US$ 1.2 million (2008: US$ 1.3 million) were paid in 2009 and US$ 0.01 million (2008: US$ 0.1 million) of investment income was received in 2009 from banks which are shareholders.
- The Group receives freight and maintenance revenues from Luxair. The amount invoiced was approximately US$ 0.5 million (2008: US$ 0.5 million).

### ASSOCIATES

During the year ended December 31, 2009 the Group paid US$ 38.5 million (2008: US$ 28.3 million) for IT services to Champ Cargosystems S.A., through-put fees of US$ 0.6 million (2008: US$ 1.1 million) to Luxfuel S.A. and aircraft rentals of US$ 16.6 million (2008: US$ 24.4 million) and lease payments of US$ 8.7 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:**

| IN THOUSANDS OF U.S. DOLLAR | 2009 | 2008 |
|---|---|---|
| ASSOCIATES | 1,752 | 2,058 |
| SHAREHOLDERS | 43,318 | 23,560 |
| | 45,070 | 25,618 |

**ACCOUNTS PAYABLE AND LOAN TO RELATED PARTIES:**

| IN THOUSANDS OF U.S. DOLLAR | 2009 | 2008 |
|---|---|---|
| ASSOCIATES | 3,145 | 3,011 |
| SHAREHOLDERS | 9,699 | 47,230 |
| | 12,844 | 50,241 |

## 30. GROUP ENTITIES

### SUBSIDIARIES

| | COUNTRY OF INCORPORATION | DIRECT OWNERSHIP 2009 | 2008 |
|---|---|---|---|
| CARGOLUX RE S.A. | LUXEMBOURG | 100 | 100 |
| CARGOLUX ITALIA S.p.A. | ITALY | 40 | - |
| ITALIA AEROLOGISTICS S.R.L. | ITALY | 98 | - |

## 31. ACCOUNTING ESTIMATES AND JUDGMENTS

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

### FINANCE AND OPERATING LEASES

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

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

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

### DEFERRED TAX ASSET

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

### HEAVY MAINTENANCE CHECK

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

### PROVISION

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

### IMPAIRMENT TEST AND RESIDUAL VALUES OF AIRCRAFT

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

## 32. SUBSEQUENT EVENTS

On March 12, 2010 the Company signed a Letter of Intent with Air Atlanta regarding a 2-year dry lease to fully benefit from the improved market conditions and replace the aircraft that will be delivered to Silkway prior to the 2010 high season. The lease, to commence on April 1, 2010, can be terminated prematurely subject to a 3 months cancellation notice and the payment of a penalty, the amount of which decreases over time.

On March 19, 2010, the Company signed a Memorandum of Understanding with the Delegations and Unions. This MOU foresees that the Collective Work Agreement which expired in 2009 will be re-conducted for a 2-year period ending on December 31, 2010. The MOU further provides that the 13th month payment of December would be postponed in whole or in part if the Company incurs further losses in 2010.

REPORT OF THE REVISEUR D'ENTREPRISES

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

KPMG Audit Société à Responsabilité Limitée
9, allée Scheffer L-2520 Luxembourg
R.C.S. Luxembourg B 103.590
Capital 25.000 EUR

## *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, 2009 and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes as set out on pages 50 to 80.

### 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 to 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 50 to 80 give a true and fair view of the consolidated financial position of Cargolux Airlines International S.A. as of December 31, 2009, 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.

KPMG Audit S.à r.l.
Réviseurs d'Entreprises

Thierry RAVASIO

Luxembourg, March 22, 2010

## EUROPEAN TRUCKING NETWORK

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.

### EUROPEAN ROAD FEEDER NETWORK FROM AND TO LUXEMBOURG

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# EUROPEAN TRUCKING NETWORK

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Cork
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Glasgow
London
Manchester
Shannon

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Luxembourg

## ROAD FEEDER NETWORK FROM BARCELONA

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Bilbao
Lisbon
Madrid
Porto
Valencia
Zaragoza

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Fiumicino
Genova
Naples
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Krakow
Linz
Ljubliana
Prague
Sarajevo
Sofia
Vienna
Warsaw
Wroclaw
Zagreb

## ROAD FEEDER NETWORK FROM ISTANBUL

Adana
Ankara
Izmir

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*The black and white photos illustrating this report are 360 degree panoramas that were taken using a special rotating camera.*
*The curvy shapes are the result of this rotational movement. In real life Cargolux's aircraft have retained their classic 747 shape.*

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# CARGOLUX ROUTE MAP 2010


ADDITIONAL DESTINATIONS ARE SERVED VIA INTERLINE AND TRUCKING

* CHARTER DESTINATION

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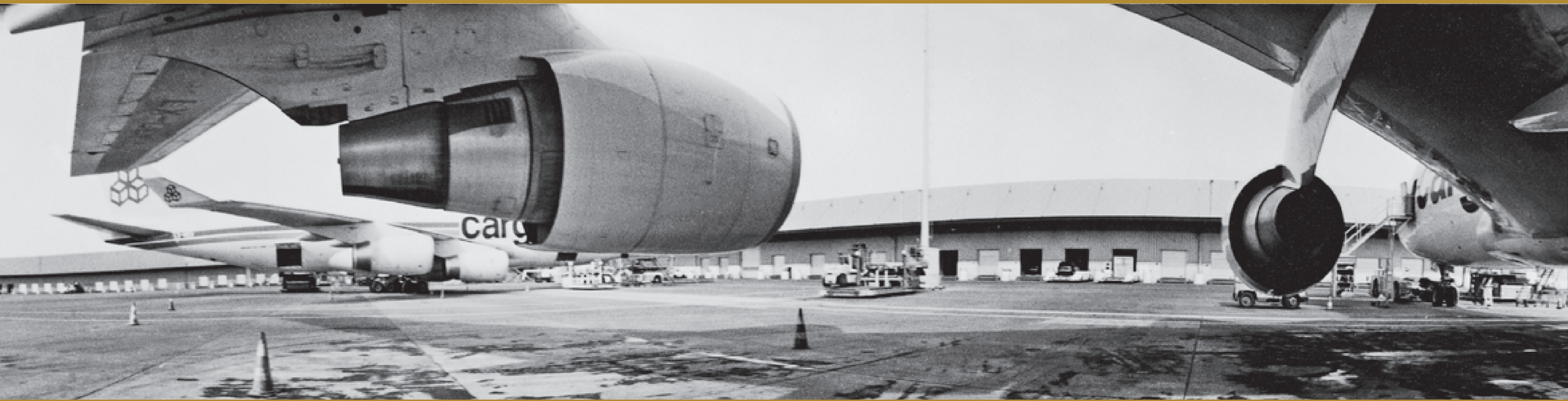

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