2014

ANNUAL REPORT

cargolux

you name it, we fly it !

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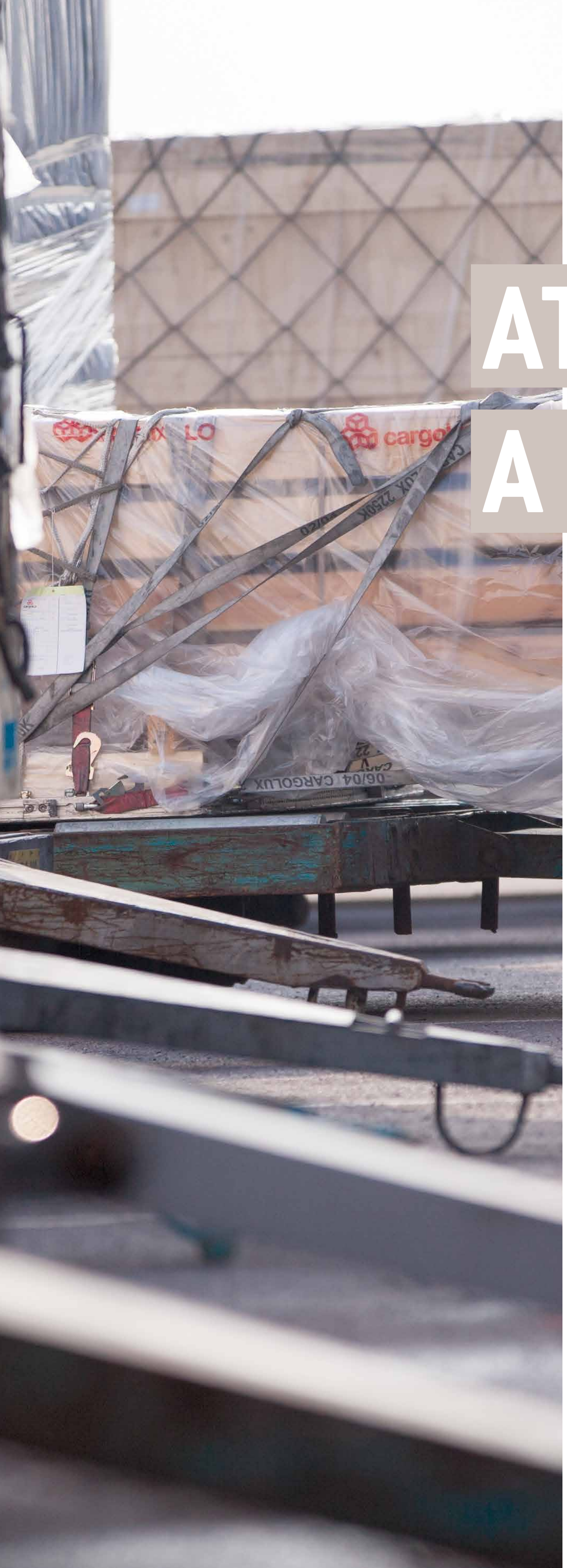

AT A GLANCE

OUR VISION

- To become the undisputed global leader in air cargo

OUR MISSION

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

LIVING OUR VALUES: DEDICATION, RESPECT, INTEGRITY

Dedication

- We act as a team
- We perform to high standards
- We deliver on promises

Respect

- We live diversity and respect
- We respect personal privacy
- We provide a healthy and safe environment for others and ourselves
- We care for the environment
- We live our responsability as a global corporate citizen

Integrity

- We compete fairly
- We avoid conflicts of interest
- We respect the law and act accordingly
- We protect our assets
- We handle information adequately
- We value our business partners

During 2014, Cargolux succeeded in achieving three crucial goals; first, the employment of Dirk Reich as its permanent CEO, enhancing the stability of the senior management and bringing certainty to the company; second, the conclusion of a commercial co-operation agreement with the Henan Civil Aviation Development and Investment Co. Ltd (HNCA), which got off to an excellent start with 15,000 tonnes and 5 frequencies a week to Zhengzhou, the capital of Henan Province, being achieved by year end, despite the fact that services only commenced on 14 June 2014 and third, the quality of the company's earnings from its underlying operations continued to improve in spite of an extremely challenging competitive environment.

In April 2014, we welcomed our new shareholder HNCA, who, through HNCA (Luxembourg) S.à.r.l., acquired 35% of the Cargolux shares, this being the shareholding in Cargolux held previously by the Luxembourg government. The Luxembourg State also took the decision to retain a direct interest in Cargolux and currently holds 8.32% of the company's shares. Luxair Group's shareholding was consequently reduced by the same percentage.

With HNCA, Cargolux gains a shareholder that is committed to our company's growing global presence and will provide Cargolux with the opportunity to increase its presence in the world's future largest economy, China.

The long term sustainability of the company in an extremely volatile industry is the primary objective of the company. Market data show that worldwide cargo revenues in 2014 still lagged behind their peak of 2011 by US$ 5 billion and yields remain under pressure due to the level of overcapacity in the market.

On a positive note, the air cargo market in 2014 grew by an average of 4.5% in FTKs (freight tonne kilometers) compared to 2013. While other European carriers only grew by an average of 2%, Cargolux achieved a growth of 11.2 %. This matched the growth rates of the Gulf carriers which have emerged as a major force in world aviation, be it passenger or cargo. Most of the other top 20 carriers in the industry recorded low single digit growth to even negative growth.

These figures indicate that we will continue to see huge variations in regional developments despite fundamentally positive signals in the global air freight market. Cargolux has to respond to these challenges through revenue enhancement by optimizing yields, identifying new markets to be developed whilst at the same time growing its presence in the markets it presently serves. Being an important element in the Luxembourg economy, Cargolux focusses on growing its volume throughput in Luxembourg whenever the opportunity raises itself. Cargolux produces the major part by far of the freight tonnage handled at Luxembourg airport and is the biggest customer for our handling agent, Luxair Cargo.

Sustainable growth not only secures jobs at Cargolux, it also creates new jobs. These represent additional positions at our company, and, indirectly, also at Luxair Cargo, freight forwarders and other industry suppliers here in Luxembourg. Cargolux's strategy of local and global expansion continued to contribute positively to a 2.9% increase in Luxembourg's GDP in 2014.

As a global player, Cargolux needs to seize opportunities wherever and whenever they arise. We do so with determination and the proven flexibility of our organization. Strengthening our business in China has put us in a position to profit from the trade movements generated by one of the world's most dynamic and fastest developing economies and a country with an accelerating appetite for goods transported by air. China accounts for 7% of the global air freight market and is expected to increase its volumes by 4.9% a year up to 2018. As IATA notes, the rise of e-commerce in the country and the ability of small businesses to export to a global audience have created significant demand and opportunities for air freight.

One of these opportunities has led to the granting of transpacific traffic rights to Cargolux for cargo flights between Zhengzhou and the USA. Consequently, we will link Zhengzhou and Chicago with a new transpacific service in 2015. We see further exciting possibilities to extend the fruitful cooperation with our Chinese partners. We have named the last 747-8F we received in 2014 'City of Zhengzhou' in honor of that partnership and to celebrate our new hub in China's Henan Province, the fastest growing cargo airport in the world.

These developments and activities create stability for one of Luxembourg's most important economic entities. It gives me reason to extend, at this point, my gratitude to our shareholders, who have actively demonstrated their commitment and support for the company; to our new CEO Dirk Reich, who has, since March 2014, facilitated Cargolux's repositioning with a clear focus on growth and profitable markets; and, last but not least, to our employees, whose hard work and dedication have enabled the implementation of these ambitious goals. They all played an essential role in ensuring that the company was able to end 2014 on a positive note.

However, we must not and cannot lessen our efforts in securing the long-term profitability and economic sustainability of Cargolux. We are not out of the woods yet. We still have a great deal to do in order to ensure the long term financial sustainability of the airline. We need to tackle this on two fronts; increase our revenues and control our costs. It is no secret that we are up against competitors with much deeper pockets than ours. But, while we have little control over yield and demand development in the global markets and economies, we do control, to a certain extent, our operational costs. A number of measures have been implemented to achieve this and one of the key points here is certainly the discussion with our social partners on the renewal of the collective work agreement. Negotiations started in 2014 and continue at this point in time.

The unions OGB-L and LCGB, as well as our Comité Mixte, have shown an encouraging willingness to find a solution that benefits both sides. The Cargolux management welcomes the constructive dialogue in an open atmosphere and has expressed its readiness to explore alternative ways to reach its goal of increased productivity and efficiency. I am confident that we can come to a mutually acceptable agreement in the near future. After all, it is the passion for Cargolux that we all have in common.

In over 45 years, Cargolux has become one of the major forces in the air cargo world. The future will see continued improvement through innovation, customer care and efficiency. As a recognized leader and pioneer in the industry, Cargolux has often initiated new ways, business models or tools, as was the case with the 747-400 freighter in 1993 and the 747-8 freighter in 2011.

We now operate one of the most modern and youngest air cargo fleets in the world and, with the addition of two more 747-8Fs in 2015, we will grow this fleet to 24 freighters, the highest number of aircraft that Cargolux has ever operated. This demonstrates our deep belief in a healthy, sustainable and profitable future for Cargolux with everyone working together towards the common goal of financial sustainability.

Once again, my sincere thanks and appreciation to all the employees of Cargolux for their commitment and loyalty to the company.

Paul Helminger

CEO'S LETTER

2014 marks my first year at the helm of Cargolux and what an exciting year it was, for me personally and for our company. I want to explicitly thank the entire Cargolux staff for their passion and dedication and commend everyone for the exceptional efforts throughout the year that resulted in a significant improvement of our performance. It shows that the Cargolux spirit is alive and innovative thinking, as well as flexibility and customer care, remain the pillars that make Cargolux strong.

Yes, we have faced continuing challenges, together with the rest of the airfreight industry, and, yes, we had our share of fighting and, often distracting, media attention, but Cargolux was able to stand its ground; to defend its position as a leading supplier of recognized, high-quality air cargo services in a very challenging environment. According to IATA statistics, Cargolux, at the end of 2014, stood at #7 among the world's freight airlines and is the largest all-cargo carrier in Europe. Our hub Luxembourg is the fastest growing cargo airport in Europe. Our new hub in China, Zhengzhou, ranks as the world's fastest growing cargo airport.

All this must be seen against the prevailing economic difficulties, low yields, severe competition and overcapacity we saw in 2014, especially from carriers in the Middle East that continue to dump massive capacity into the market. Carriers that have little regard for operating profitably and whose interest lies primarily in expanding at all costs in order to build up market share and an economy in their home countries. Carriers that have less friendly labor laws and lower cost structures that put US and European airlines at a disadvantage. How can you compete with that? After building up giant fleets, Gulf carriers, especially the big three, Etihad, Qatar Airways and Emirates, still have hundreds of new airplanes on order, often 777s or 787s that offer a large amount of belly capacity for cargo. This will hurt the air freight carriers of this world as yields deteriorate and capacity growth outstrips demand. And unlike passenger airlines, Cargolux and other all-cargo carriers do not enjoy the high contribution of passenger revenue and subsidized belly freight, but for us, cargo has to absorb the entire cost of flying.

There is no level playing field, no fair competition, unless we get better support from the European Union to create fair conditions for every player in this business.

Against this background of adverse conditions, I am proud to say that Cargolux has achieved some record results in the course of 2014. During the last quarter especially, we registered record tonnages and revenues and an unprecedented amount of block hours for our fleet. More than at any other time in the history of Cargolux. We have grown our market share and tonnage in all markets and we have achieved a net profit of US$ 3 million for the year. What is important is that Cargolux reached this profit through its core activity of flying freight and without the benefit of the one-off payments of recent years; a strong signal that our strategy bears fruit and we are on the right track.

Our success was partly the result of our cost reduction measures, especially our V_R program, introduced in 2014 and running over three years, that is expected to generate a cumulated pre-tax contribution of up to US$ 250 million until 2017. While the biggest savings are expected in 2017, due to the time it takes for the program to gain speed and generate a positive effect, we could already see initial tangible results in 2014. On top of this, Cargolux is continuously exploring additional ways to control costs as we need improvements, both operational and in regards to financing.

Still, cost reductions alone cannot sustain an airline like Cargolux. We are implementing fresh ways and ideas to maintain our position at the top of the industry. We are introducing new, exciting products to the benefit of our customers, we are exploring new avenues in e-commerce and we are investing in future growth and sustainability. Cargolux is reputed as a forward-thinking company that controls costs and grows through innovation.

One matter of concern was the book value of part of our 747-400F fleet that had to be adjusted in 2014; while we depreciate our aircraft over 18 years, we finance them over 12 years. This measure ate up Cargolux's operational profit for 2014, but the consolidated result after taxes and expenses still showed a black zero at the bottom line; a healthy contrast to the red ink of some former years. Only very few European carriers have been able to achieve this, indeed, we see that some long-established and respected players like Air France-KLM or British Airways are reducing their freighter fleets or abandon the all-freighter market altogether.

It also reflects the economic problems we saw in Europe during 2014, where the continued debt crisis in Greece, the hostilities in the Ukraine and lower consumer spending depressed the markets. Looking at our network, Africa and Latin America were two regions that proved challenging. In contrast, Asia showed strong growth and produced solid loads, especially China. As we did in 2014 with the build-up of Zhengzhou as our complementary hub in China's Henan Province, we will continue to focus in 2015 on the further development of our venture in this vast market.

When HNCA, the Henan Civil Aviation and Investment Company, officially became a Cargolux shareholder in April 2014, we gained a new partner that has shown unyielding commitment and support to Cargolux. Being the preferred airfreight carrier for the Henan government gives Cargolux a significant competitive advantage and bears exciting future potential. HNCA has made it clear that they are very much interested in the growth of our company in a market that holds opportunities like no other. And the numbers are there to prove it. Only five months after the inaugural flight to Zhengzhou, we completed the transport of the first 10,000 tonnes of freight between the two hubs. In this time, we also expanded our flights to five weekly services and expect to reach seven weekly frequencies by early 2015.

The dual-hub strategy we agreed with HNCA is a major pillar of our future strategy and guarantees our growth beyond the traditional Cargolux network. In this constellation, we are able to start up new transpacific return flights between Zhengzhou and Chicago in 2015 and we are looking into additional possible areas of cooperation and expansion. Meanwhile, a new joint venture airline with our Chinese partners is still being explored; it is one of the topics we will talk about in 2015.

With this in mind, 2015 promises to be another busy year for our company. We will further invest in innovative products and business activities, such as the e-commerce venture LuxFresh that Cargolux co-founded and that intends to bring fresh products from Luxembourg and Europe to Chinese consumers. We will grow our fleet to 24 aircraft with the delivery of two more 747-8 freighters. We are looking into new destinations; Bahrain and India via Oman have already been initiated. The new transpacific flights from China will lead to an expansion, as well as a strengthening, of our China operations. We will grow our charter activities and are in the preparation stages of entering the ACMI market. With a stable economic situation, we expect to grow our market share in all major regions.

Cargolux has made its homework and we will continue do so to remain sustainable. It will help us to not only secure the future of the company and the jobs of our employees worldwide, it will also create new jobs. We have added 188 new staff in 2014; in 2015, we have budgeted for the hiring of 150 additional employees worldwide. Of those, 100 new jobs will be created in Luxembourg, directly connected to the introduction of the two new aircraft, which will also generate an additional estimated 200 jobs at Luxair Cargo and other suppliers.

Again, and also in the name of my colleagues at the Executive Committee, I want to thank our staff for an exceptional performance and our shareholders, as well as the government of Luxembourg, for their continued valuable support and their vision for the future of Cargolux.

Dirk Reich

HIGHLIGHTS - CONSOLIDATED FIGURES

As at December 31, 2014

	2014	2013[2]	2012[2]	2011
Total income in US$ '000	2,154,880	1,988,508	1,738,852	1,898,641
Profit/loss for the year in US$ '000	2,854	7,636	(35,130)	(18,337)
Shareholders' equity in US$ '000	664,128	482,630	445,164	455,243
Tonnes sold[1]	828,658	753,848	645,759	658,800
Tonne-kilometers flown (millions)	6,364	5,723	4,800	5,039
Available tonne-kilometers (millions)	9,514	8,452	7,002	7,114
Number of employees worldwide	1,710	1,606	1,559	1,564
Headquarters	1,305	1,224	1,191	1,187
FLEET				
Boeing 747-8 Freighter	11	9	6	2
Boeing 747-400 Freighter	8	8	9	10
Boeing 747-400 BCF	2	2	2	3
Boeing 747-400 ERF	1	1	-	-
AIRCRAFT ON ORDER				
Boeing 747-8 Freighter	3	4	7	11

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[1] This figure reflects tonnes sold in contrast to the definition used by IATA and most other airlines (tonnes flown = transfer cargo counted twice).

[2] Restated - See note 2 (f) in the Consolidated Financial Statements

CORPORATE GOVERNANCE

As at December 31, 2014

BOARD OF DIRECTORS

Luxair representatives

Paul Helminger
Chairman of the Board of Cargolux
Chairman of the Board, LuxairGroup
Director

Adrien Ney
President and Chief Executive Officer, Luxair Group
Director

Françoise Thoma
Executive Vice President, Banque et Caisse d'Epargne de l'Etat
Director

Tom Weisgerber
Premier Conseiller de Gouvernement,
Ministère du Développement durable et des Infrastructures
Director

Luxembourg State representatives

Alphonse Berns - until 30th April 2014
Ambassadeur, Directeur de la Fiscalité, Ministère des Finances
Director

Etienne Reuter - appointed by means of a co-optation on 26th March 2014 and re-appointed on 30th April 2014
Premier Conseiller de Gouvernement

BCEE representatives

Jean-Claude Finck
President and Chief Executive Officer, Banque et Caisse d'Epargne de l'Etat
Director

Société Nationale de Crédit et d'Investissement (SNCI)

Director (corporate mandate) represented by
Patrick Nickels

Cargolux staff representatives

Bettina Faulhaber
Manager Business Support Flight Operations

George Karambilas
Captain

Einar Kristjansson
Captain

David Massaro
Permanent Delegate, Staff Delegation

Armand Seil
Officer Material Repairs

HNCA representatives

Huiyuan An - appointed on 30th April 2014
Chairman of Henan Province Airport Group Co., Ltd

Mingchao Zhang - appointed on 30th April 2014
Chairman of Henan Civil Aviation Development and Investment Co., Ltd

Shengbo Yuan - appointed on 30th April 2014
Project Manager of Henan Civil Aviation Development and Investment Co., Ltd

COMMITTEES OF THE BOD

Compensation Committee

Paul Helminger

Jean-Claude Finck

Alphonse Berns - until 30th April 2014

Paul Mousel - until 30th April 2014

Etienne Reuter - appointed on 30th April 2014

Audit Committee

Adrien Ney - until 30th April 2014

Françoise Thoma

SNCI, represented by
Patrick Nickels

Tom Weisgerber

Mingchao Zhang - appointed on 30th April 2014

EXECUTIVE COMMITTEE

Dirk Reich
President & Chief Executive Officer

Richard Forson
Executive Vice President & Chief Financial Officer

Henning zur Hausen - until 31th January 2015

Emese Bekessy - appointed on 1st February 2015
Executive Vice President HR, Legal Affairs & Compliance

Onno Pietersma - appointed on 26th March 2014
Executive Vice President Maintenance & Engineering

Marcel Funk - appointed on 26th March 2014
Executive Vice President Flight Operations

Nicolaas van der Weide - appointed on 1st November 2014
Executive Vice President Sales & Marketing

SHAREHOLDERS

As at December 31, 2014

35.10%	LUXAIR
35.00%	HNCA (LUXEMBOURG) S.À R.L.
10.91%	BANQUE ET CAISSE D'EPARGNE DE L'ETAT
10.67%	SOCIETE NATIONALE DE CREDIT ET D'INVESTISSEMENT
8.32%	LUXEMBOURG STATE

EXECUTIVE COMMITTEE

left to right: Nicolaas van der Weide, Marcel Funk, Emese Bekessy, Dirk Reich, Onno Pietersma, Richard Forson

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MANAGEMENT'S REPORT OF ACTIVITIES

FINANCIAL REVIEW AND ANALYSIS AS AT DECEMBER 31, 2014

GENERAL

The overall market situation in 2014 remained challenging, especially in the first part of the year. It was characterized by pressure on rates and yields and continuous overcapacity, especially from the growth in belly space. The final quarter for the year, however, brought a welcome growth in demand and Cargolux ended the year on a positive note with a net profit despite an aircraft impairment of US$ 39.8 million on its Boeing 747-400 fleet.

The upward trend the Company experienced resulted from positive developments of the Company's transpacific flights due to the harbour strike on the US West Coast, a high number of charter flights and the relatively good market out of Asia.

Since June 2014, the Company also focussed on the development of Zhengzhou as its hub in China. Flights started in June 2014 and the Company has, since then, built up its flight frequencies to five per week at the end of year. Barely five months after the start-up of air freight services between Luxembourg and Zhengzhou, Cargolux celebrated the first 10,000 tonnes of freight carried between the two hubs.

Cargolux, including Cargolux Italia, achieved growth in tonnage and revenues across all Areas. Areas 3 and 1 saw the highest boost with 16.8% and 9.3% in revenues respectively and 17.3% and 11.9% in tonnage respectively. Area 2 remained below budget but well above the levels of 2013, recording a tonnage growth of 5.2% and a revenue growth of 4.8% against the previous year. The Company implemented a revenue enhancement and cost-saving program over three years; this program has progressed well during the year under review and yielded the tangible results.

The Company's fleet operated a record number of block hours and network sectors, more than at any other time in Cargolux's history and recorded a net consolidated profit of US$ 2.9 million for the year.

KEY PERFORMANCE INDICATORS (INCLUDING CARGOLUX ITALIA)

Capacity, measured in ATKs, increased by 12.6% vs. 2013, driven by higher block hours (+11.0%) in addition to the continuing impact of the Boeing 747-8 freighter fleet as additional aircraft were delivered. 2014 daily utilization (14:46) was down by 1.3% versus 2013 levels. The production of additional block hours was possible due to the two Boeing 747-8 freighters delivered in 2014 (July & September) while no aircraft exited the fleet. Cargolux continues to operate two Boeing 747-BCFs and two Boeing 747-400 freighter aircraft on a power-by-the-hour basis in addition to its core fleet. At the end of December, the fleet consisted of seven Boeing 747-400 freighters, eleven Boeing 747-8 freighters and four "power-by-the-hour" aircraft (two Boeing 747-400 BCFs, one Boeing 747-400 freighter and one Boeing 747-400 ERF).

The Company's production, measured in FTKs, increased by 11.2% vs. 2013 resulting in a slightly higher load factor compared to the capacity introduced.

According to IATA statistics and measured by international scheduled FTKs, Cargolux's global market share grew to 3.7% in December 2014. This positioned Cargolux as the number 7 scheduled cargo airline worldwide in the IATA air cargo carriers ranking.

Average system yield (USD/kg) increased by 0.4% versus 2013. The average underlying yield (excluding fuel surcharge) ex Area 2 (Europe and Central Asia) increased by 0.4%. Ex Area 4 (Africa), the average underlying yield increased by 4.5% and that of Area 3 (Asia-Pacific) dropped by 2.3%.

Area 1 (Americas) suffered an average underlying yield decrease of 1.6%.

Compared to 2013, tonnage sold increased to 828,658 (+9.9%) across the Cargolux network.

MARKETS AND NETWORK (INCLUDING CARGOLUX ITALIA)

Last year was another challenging year in the airfreight market with the first six months continuing to be impacted by high fuel prices and over capacity.

The last quarter, however, produced significant improvements in the global airfreight market with positive developments ex Asia and from Europe to the USA. Allied with lower jet fuel prices, this resulted in a positive turnaround for the air cargo market. The main growth areas in 2014 were the USA, Latin America and the Middle East.

The trading environment continues to be tough with significant additional capacity entering the market, especially from the Middle East carriers through both dedicated freighters but especially the high number of wide body passenger aircraft as Airbus 350 and Boeing 777 that are entering the fleets of Qatar Airways, Etihad and Emirates.

Cargolux constantly refines its network in order to take advantage of opportunities and niche markets and continues to look at developing new markets. Capacity on the existing network is adjusted according to demand either adding or reducing frequencies and capacity as required.

Cargolux initiated services to Zhengzhou, the capital city of Henan Province in China as of June 2014, following the acquisition of its Chinese partners of 35% of the equity of Cargolux. The route has performed above expectations, especially in respect of volumes, with the result that Cargolux exceeded 15,000 tonnes on this route by December 31, 2014.

Additional frequencies are planned to be implemented in 2015, including transpacific flights directly from Zhengzhou to Chicago in the USA, a direct result of additional traffic rights granted to Luxembourg by the Chinese authorities.

As mentioned above, strength of the traditional peak period showed a welcome increase in yields and demand versus capacity, especially out of Asia, with the result that charter activities were at a particularly high level during the fourth quarter of 2014, especially with high demand for increased transpacific services out of Asia to the USA. One of the major reasons for the need of charter services and capacity from Asia to the USA was the on-going strike and slowdown at the major ports on the US West Coast.

Cargolux operated a total of 152 full and part charter flights in 2014 which was a significant increase versus 2013 and the highest number of charter flights ever.

Global Traffic volumes went up 4.5% in 2014 versus the year before but there was no improvement on yields and rates in the market.

CONSOLIDATION

As in the prior year, the Company presents consolidated accounts in addition to Parent Company accounts. 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.. The Company's equity accounts its participations in Champ Cargosystems S.A. (49%), 8F Leasing S.A. (33.3%) and a joint venture, Global Aviation Technical Solutions GB (BVI) Ltd (50%).

Income statement

Revenues increased by 9.8% from US$ 1,956.8 million to US$ 2,148.5 million. 33.9% of the revenues, or US$ 729.1 million, was accounted for by the fuel surcharge, up 10.5% on 2013. The Euro weakened versus the US dollar by 12% during 2014 which had a negative impact on the revenues.

Other operating income, mainly including credits from third parties, decreased to US$ 6.4 million from US$ 31.7 million in 2013.

Aircraft lease expenses increased by US$ 7.4 million or 23.0% due mainly to offsetting of lease expenses by return condition provision releases in 2013.

Aircraft maintenance expenses decreased by 22.9% to US$ 73.4 million from US$ 95.2 million.

The main savings related to contract negotiations (US$ 33.7 million) and were offset by an amount of US$ 11.9 million due to a higher utilization of the 747-8s (+11%) and leased aircraft (+58%).

Depreciation increased by 45.3% to US$ 180.0 million, due to the addition of two Boeing 747-8 freighters, delivered during the course of 2014 (LX-VCJ, LX-VCK), two spare engines and the impairment of the Boeing 747-400 fleet amounting to US$ 39.8 million.

Fuel cost (including the result of fuel hedging) increased by 5.9% to US$ 972.9 million and represented 45.8% of operating costs. The marked-to-market value of fuel hedging positions acquired to offset the Company's exposure to higher fuel prices in 2015 decreased by US$ 7.4 million due to the decline of fuel prices especially in the fourth quarter of 2014.

Personnel costs and benefits increased by 7.0% to US$ 257.2 million. In Euro terms, the salary of Luxembourg-based staff went up by 7.8% reflecting a headcount increase, a CWA time unit increase and several promotions.

Handling, landing and overflying costs increased by 13.2% to US$ 324.7 million in 2014.

Handling charges went up by 10.3%. The impact of increased cycles flown (10.0%) as well as additional tonnes handled (+9.9%) and a negative foreign exchange impact (Eur/Usd: +0.03%) was slightly mitigated by a higher unit rate (+0.3%). On the Landing charges side, the increase of 13.3% was driven by increased cycles (+10.0%) and a negative foreign exchange impact (Eur/Usd: +0.02%). The landing unit cost increased by 2.9%. Overflying costs increased by 18.6% mainly driven by the additional BHRs flown (11.0%), a higher unit rate (+6.8%) and a negative currency impact (0.02%).

Trucking, truck handling and interlining costs increased by 8.7% to US$ 121.0 million in 2014.

Trucking and truck handling costs went up by 12.8% driven by higher tonnage carried (+9.9%), together with a higher unit rate (+2.5%). This increase results mainly from a change in the network mix.

Interlining costs went down by 27.0%, originating from a lower interline production.

The EUR/USD had a limited impact on 2014 figures vs 2013.

Other operating expenses, including inter alia GSA commissions, IT services, travel & entertainment, office rental and equipment, legal, audit and consulting fees, other aircraft expenses, telecommunication expenses and net worth tax, increased by 28.6% to US$ 155.6 million due mainly to foreign exchange losses resulting from the significantly weakening Euro, consulting expenses and additional anti-trust provisions for legal charges.

Financial income increased by 23.3% to US$ 10.7 million.

Financial expenses increased by 20.3% to US$ 71.2 million. The movement in financial expenses was due mainly to the acquisition of two Boeing 747-8 freighters at the end of 2013 respectively in 2014.

Net finance costs were US$ 60.5 million (2013: US$ 50.5 million).

Current tax for the year amounted to a credit of US$ 32.3 million (2013: debit of US$ 0.4 million). In 2014, the Company did not account for any adjustment of deferred taxes and did not increase the related deferred tax asset due to the extreme volatility of market conditions, however, it includes a tax value of ITC benefits as a result of several financial transactions involving its Boeing 747-8 freighter fleet.

Taking all of the preceding into account, the net after tax gain was US$ 2.9 million (2013: US$ 7.6 million).

BALANCE SHEET

Total assets increased by 15.0% to US$ 2,947.6 million from US$ 2,563.2 million due mainly to the acquisition of two Boeing 747-8 freighter aircraft. *Shareholders' equity* increased by 37.6% to US$ 664.1 million from US$ 482.6 million following the further increase in share capital by the shareholders in April 2014 of US$ 175 million.

Interest bearing liabilities (including finance leases) increased by 14.6% to US$ 1,802.7 million from US$ 1,572.5 million due mainly to the financing of the two additional Boeing 747-8 freighter aircraft. *Cash and cash equivalents* and *Other investments* increased by 61.4% from US$ 260.3 million to US$ 420.2 million due mainly to the cash contribution from operations, a capital increase offset by investing in new aircraft and the repayment of loans. Net financial gearing amounted to 208.2% (2013: 271.9%) and net adjusted gearing (to take into account the present value of future operating lease payments) was 241.6% (2013: 315.7%).

FLEET DEVELOPMENT

In 2014, Cargolux took delivery of two Boeing 747-8 freighters. On December 31, 2014 Cargolux operated a fleet of twenty-two aircraft of which eleven Boeing 747-8 freighters, seven Boeing 747-400 freighters and four Boeing 747-400s under flexible lease arrangements.

In 2015, the Company aims to maintain as much fleet flexibility as possible given the uncertain market conditions.

Two Boeing 747-8 freighters are planned to be delivered during 2015.

Branch Network

The Company operates worldwide through a network of branches established in 27 countries (2013:29).

Outlook and recent developments

Following a positive result in 2014 of US$ 2.9 million, the Company foresees another positive result with an improvement in 2015. The Company expects stable yields to continue to remain under downward pressure especially from belly capacity entering the market. It has, however, implemented a major yield improvement program to counter this trend and which has already borne fruit in 2014. The intention in 2015 is to expand this program throughout our entire network. In addition, the greater efficiency of the Boeing 747-8 freighter will be focussed on major trade lanes, e.g. transpacific.

In early 2015, the Company further refined its 5 year business plan reflecting the Company's strategy for the period 2015-2019. In 2014, all committed credit facilities available to Cargolux, remained unused. Such committed credit lines amounted in the aggregate to US$ 37.8 million at year-end 2014. The 2015 budget foresees no breach in financial covenants for that same period.

The Company continuously monitors the environment for such risks and in respect of those under our control, has in place existing safeguards, including legal and operational compliance reviews, aircraft maintenance quality programs and IT security measures to protect against unauthorised entry into our systems. The Company's Aircraft and Third Party Liability insurance coverage is also in line with industry best practice and satisfies specific financing contractual obligations.

As regards instances of events out of our control, such as occurred when volcanic ash clouds disrupted flight operations, these tend to affect the industry as a whole and Cargolux would work together with the relevant authorities, including other airlines, to ensure the minimum disruption to normal operations.

THE YEAR IN REVIEW

To say that 2014 was another challenging year for the air freight industry might sound a tad tedious but the overall market situation remained difficult, especially in the first part of the year. The overall market suffered from overcapacity placing pressure on yields. However, the year ended on a positive note for Cargolux; the result of a very strong last quarter. While, in contrast to former years, the traditional high season during last quarter was less distinct than usual, we saw a healthy upward trend in demand and a welcome increase in yields.

Oil prices have shown a decline since August 2014, which continued through to the end of the year. This also had a positive impact on our operating costs.

According to IATA statistics, Cargolux ranked 7th among the world's cargo carriers at the end of 2014 and is the largest all-cargo airline in Europe. In 2014, the company flew 828,658 tonnes of freight, 9.9% more than in 2013. Commercial revenues grew by 10.1% to US$ 2,098 million. Freight ton kilometers grew by 11.2% to 6,364,260 and the loadfactor reached 66.9%. Cargolux had a global market share of 3.7%.

At the end of 2014, the airline operated 11 747-8 freighters and 11 747-400 freighters, the largest fleet in Cargolux's history. This fleet flew a record number of block hours and network sectors. Two more 747-8Fs are scheduled for delivery in 2015. At the same time, we have seen other, major carriers reducing their freighter fleets or exiting the full freighter business completely.

Our transpacific flights and high demand for charter capacity, partly because of the drawn-out port strike at the US West Coast and the huge backlog of cargo in Hong Kong and Shenzhen, as well as the good markets out of Asia, helped us to achieve a net profit for the year of US$ 3 million after taking into account an impairment of US$ 40 million on our fleet of B747-400s and additional provisions for anti-trust exposures.

OWNERSHIP

On 23 April 2014, the Henan Civil Aviation and Investment Co., HNCA, through its Luxembourg subsidiary, HNCA (Luxembourg) S.à.r.l., officially purchased 35% of Cargolux shares from the State of Luxembourg. The government of Luxembourg had previously acquired the shares from Qatar Airways. At the same time, The State of Luxembourg remained a Cargolux shareholder, purchasing 8.32% of Cargolux shares from Luxair, who is still the company's largest shareholder with 35.10%.

As a representative of one of the world's most dynamic and fastest developing economies and a country with growing demand for domestic and international air freight transport, HNCA will be a major contributor to the sustainable development of Cargolux. Our partnership allows us to grow our business activities and expand our footprint in one of the world's most important markets which is forecast to become the world's largest economy in the next 10 years.

In addition to the acquisition of the 35% shareholding from the State of Luxembourg, HNCA also participated in the additional US$ 175 million equity, introduced into Cargolux at the same time, and also took up its pro-rata portion of the mandatory convertible bond of US$ 100 million, taken up by the previous shareholders, excluding the State of Luxembourg, in March 2013.

CHINA FOCUS

Consequent to the signing of the Commercial Cooperation Agreement between HNCA and Cargolux, the airline focused its efforts on the development of Zhengzhou as a major cargo hub. We started our flights in June 2014 and built up our frequencies to five per week by the end of year.

Barely five months after the start-up of flights between Luxembourg and Zhengzhou, Cargolux celebrated the first 10,000 tonnes of freight carried between the two hubs and, by the end of the year, the total tonnage carried exceeded 15,000 tonnes.

The development of Zhengzhou as Cargolux's hub in China, in cooperation with our shareholder HNCA, is a key element of the company's future strategy for Asia Pacific. The successful collaboration will ensure that this goal will be reached.

Cargolux already operates an extensive road feeder network between Zhengzhou and surrounding cities. The introduction of transpacific flights from China to the United States in April 2015 will add a significant route segment to the airline's network.

ECONOMIC ENVIRONMENT

In the course of 2014, we saw a rebound of trade volumes, particularly from the emerging Asian economies. Consumer confidence in the United States reached new heights, was stable in China but weakened in Europe, mainly due to the ongoing economic issues within the Eurozone and the Ukrainian crisis.

The Eurozone economy experienced a difficult year as consumer spending decreased and manufacturing slowed. The rapid decline of the euro versus the US dollar was another concern, but this will have a positive impact for the demand of European exports as manufacturing costs in US$ dollars decline.

On a more negative note, we still see a modal shift from air freight to sea freight.

Surveys of the business confidence in the manufacturing sector continued to signal an expansion, albeit at a slower pace than at

the end of 2013. Demand drivers, such as the Purchasing Manager's Index, the world trade in goods and the semiconductor trade have improved in 2014 against 2013.

Africa and Latin America remain areas of management focus in order to improve the level of the financial performance in operation to these continents. The imbalance of trade volumes, however, remains a concern. Despite this, we achieved growth in tonnage and revenues across all Areas.

FROM THE AREAS

Cargolux merged its former Area 4, Africa, with Area 2, Europe, Middle East and Central Asia into one Area 2 (EMEA) in October 2014.

Area 1 The Americas

In an economic environment that reflected several of the challenges from recent years, along with newly-emerging geopolitical crises, the commercial landscape became progressively more difficult in 2014. Nevertheless, Cargolux in the Americas continued its upward trend of market share growth, while maintaining positive yield development in comparison to the competition. Though the air cargo industry enjoyed a growing export demand from the United States of almost 7% over 2013, ongoing challenges, including increasingly aggressive competition and continued capacity expansion, resulted in significant downward pressure on yields. The Cargolux Americas team met the challenges with coordinated and intensified sales efforts at both local and global account management levels, servicing small, midsize and large customers with increased focus.

As a major supplier of capacity in the North American market, Cargolux provides scheduled capacity in excess of 3,000 tonnes per week, from 14 stations: Atlanta, Calgary, Chicago, Columbus (Rickenbacker), Dallas, Guadalajara, Houston, Huntsville, Indianapolis, Los Angeles, Mexico City, Miami, New York, and Seattle. Cargolux expanded capacity by 15% by the end of the year, including a new Hong Kong to Miami service on the transpacific lane between Asia, the United States and Europe, where we grew our frequencies from seven to eight. Established markets continued to be tapped with positive results, supported by growth in tonnages and revenues, as well as improved efficiencies in route management.

The Latin American market remains a challenge for Cargolux. With a relatively marginal expansion in capacity during 2014 (+3% versus 2013), the region remained reasonably stable. While the Andean region outperformed expectations, we experienced a volatile Brazilian export market where tonnage grew modestly but air freight rates continued to deteriorate, resulting in a less attractive market for Cargolux. Our market portfolio was further diversified during the summer by commencing operations to San Juan, affording Cargolux the opportunities of an ever-growing pharmaceutical market sector. This is a key product line for future growth potential and to expand our global footprint in order to meet changing customer requirements.

Cargolux currently provides capacity of approximately 700 tonnes per week, from ten stations: Aguadilla, Bogota, Buenos Aires, Curitiba, Latacunga, Manaus, Petrolina, Santiago, San Juan, and São Paulo.

Area 1 experienced a remarkable increase in tonnage and market share from the United States, which now stands at 12%. Collectively, the Americas produced 173,758 tonnes of cargo, 18,542 tonnes, or 11.9%, more than during the previous year, and a total revenue that exceeded US$ 365 million, an increase of 9.3% over 2013. Tonnage growth in North America was largely attributable to Chicago, Dallas, Houston, Los Angeles, New York, and Seattle. Meanwhile, Bogota, Quito, and San Juan contributed substantially toward tonnage growth in Latin America, which offset our commercial challenges in the Brazilian export market. A more focused engagement with charter activities also contributed to the Americas' record-setting performance and facilitated diversification of the Cargolux product line.

Area 2 Europe, Middle East, Central Asia & Africa

Despite the problems that the European economies faced, Cargolux in Area 2 achieved its fifth consecutive year of annual growth with a 5.2% increase in tonnage to 358,879 tonnes. Despite the tonnage growth, however, load factors declined slightly, due to the additional capacity introduced as new aircraft joined our fleet.

As in the previous year, Area 2 was able to outperform the market and increase its market share in several European regions. Revenues amounted to US$ 846,884 million, 4.8% more than in 2013.

Yields in Area 2 declined slightly by 0.4% and remained fairly stable. A change in the application of fuel surcharges from actual weight to chargeable weight was introduced in September 2015.

An important new routing was introduced in June between Luxembourg and Zhengzhou, our new hub in China that was established in 2014. Our focused efforts on this service paid off with high loads and successive additional frequencies. We completed the transportation of the first 10,000 tonnes on this route in November, only five months after start-up and exceeded 15,000 tonnes by the end of the year.

Africa presented a challenge due to volume imbalances we saw on these routes. Outbound flights from Luxembourg show satisfactory loads but return flights often see limited volumes due to the low number of export markets from Africa. While exports to Africa are fairly stable, we see significant overcapacity and constant pressure on yields, in line with the rest of the world. Consequently, we have to keep our focus on the costs of our African network.

After the first quarter of 2014, we changed our Nairobi flights from Manston, UK, to Stansted, as Manston airport was closed. We also replaced Maastricht on our Nairobi flights with Amsterdam. Bamako, which we serve since December 2013, developed strongly in 2014 and we started a service to Cairo in early 2015. Unfortunately, flights to Tripoli had to be stopped because of security reasons.

South Africa remains one of the most important markets in our global network. We have served Johannesburg for 20 years and still see it as a market with great potential. Overall, in Africa, we have seen growth in a range of products such as pharmaceuticals and consumer goods. We registered rising volumes on exports to Nairobi, Johannesburg, Accra, Entebbe and Harare. We also operated a number of charter flights with medical supplies for the victims of the Ebola outbreak.

The region produced 42,449 tonnes of freight, 3.2% more than in 2014 and generated revenues of US$ 73.8 million; an increase of 5.5%. For the future, we see opportunities for a direct connection from Africa to China and some expansion on existing routes.

The major growth markets for Area 2 in 2014 were Asia with 10%, where besides Zhengzhou; we registered strong increases in Shanghai, Beijing, Hong Kong and Japan, as well as the Americas with 5% and the Middle East. Increased US production was mainly achieved to Dallas, Houston and Los Angeles, while, in the Middle East, we saw very encouraging developments in the UAE, Kuwait, Qatar and Oman.

Area 3 Asia Pacific

2014 was a busy year for Cargolux Asia Pacific. Besides experiencing stable volumes on our existing scheduled flights, we expanded our network and services, including the introduction of Zhengzhou, the capital of the Henan Province located in East-Central China. The inaugural flight operated on 15 June 2014 and we expanded the service to five weekly frequencies by the end of 2014. In addition, a second weekly frequency was added in September to Beijing and Xiamen, further boosting our presence in China. We also expanded our transpacific services out of Hong Kong from seven to eight weekly frequencies with a new service to Miami and added additional capacity to Columbus, Ohio in May. Cargolux Asia Pacific also swiftly reacted to the needs of our Taiwan customers by diversifying the product portfolio, introducing a direct service from Taipei to Milan and Vienna.

Additionally, we have expanded our South Asian network with an addiditonal frequency to Ho Chi Minh and Hanoi in Vietnam in December. We now offer two weekly services from Ho Chi Minh and four weekly services from Hanoi to Europe. Vietnam saw a strong development overall and still has huge potential as an increasing number of clothing and consumer electronics manufacturers are moving their production sites there.

Throughout the year, Area 3 produced a total of 230,968 tonnes of cargo, a 17.3% increase over 2013. The total revenue increased by 16.8% to US$ 772 million. Cargolux presently operates forty-two scheduled flights per week out of the Asia Pacific region.

Asian markets did not experience an obvious peak until the end of October, when the demand suddenly surged, resulting in Cargolux operating extra frequencies out of Hong Kong with more than eleven additional Hong Kong – USA flights and twelve Hong Kong – Luxembourg flights in the last quarter of 2014 alone.

Competition in Asia Pacific remained high, especially in the Central and North China region that includes Shanghai, Zhengzhou and Beijing. As a result of the level of overcapacity, yields were under pressure; this is expected to continue throughout 2015.

However, with the continuing support of our customers, Cargolux constantly explores new opportunities and reacts to market needs by providing the best possible service, tailor-made to the market requirements.

CARGOLUX ITALIA

Despite a tough business environment, Cargolux Italia achieved important developments in a number of areas. With the introduction of our second 747-400F, LX-TCV, we doubled our available capacity. The new aircraft was mainly deployed on routes to the United States and provided additional capacity for Cargolux to some Middle East destinations.

The expanded fleet gave Cargolux Italia the flexibility to increase capacity according to market demand. This was also reflected in a number of network changes in answer to our customers' needs. FTKs for the year reached 521,828; Tonnes carried amounted to 75,694 tonnes while revenues reached US$ 169.1 million, up from US$ 142.9 million in 2013.

During the year, Cargolux Italia operated four weekly frequencies to Hong Kong, three weekly frequencies to Osaka via Almaty and, later in the year, via Kuwait. Additionally, we operated from Malpensa to Los Angeles via Chicago, as well as to Chicago via New York. In Latin America, we served Brazil and Mexico with a weekly flight.

CHARTER

Charter activities saw an impressive growth in 2014. With 152 charter and part-charter flights, revenues grew by 42.6%, tonnage by 32% and profits by 78% compared to the previous year. Growth was especially registered for certain types of products such as automotive related cargo, humanitarian flights, as well as pharmaceutical and part-charter flights.

Humanitarian flights grew to 10% of our total charter activities. In 2014, it covered the transport of a hospital to Cebu in help of typhoon victims, flights to Syria to aid refugees and a series of flights to Ebola-stricken countries in Africa, where Cargolux was one of the first airlines to fly in with freighter loads of protective clothing and medical supplies for both on site medical staff and the general population.

We also saw growing requests for charter capacity from the pharmaceutical industry for high-value temperature controlled shipments.

In addition to full charters, part-charters now represent 15% of our contracts, adding value to our worldwide scheduled flights.

True to the Cargolux motto of 'You Name It, We Fly It', charter shipments covered a wide variety of commodities, including stage equipment for the Rolling Stones, 600 tonnes of cherries from Chile to China and currency from Germany to South Africa.

Cargolux's charter activities remain a valuable pillar of the business and added a solid contribution to the company's bottom line.

A LOOK AHEAD

The outlook for 2015 is generally more positive than it was for 2014 a year ago. Many agents and airline executives are more hopeful than last year and see an increase in profitability. The global air cargo market is forecast to grow by 4.5%. The Eurozone, with a rapidly depreciating euro, Greece and the effects of the Ukrainian crises will have an impact. Hopefully, with the depreciating euro, there will be increased foreign demand for Eurozone products.

We expect strong growth from the USA and a stable demand from Asia. Africa will remain important, especially for healthcare shipments and while the situation there will still be volatile, we foresee an improvement. The Middle East will be strong on imports, although the current level of oil prices may have a mitigating impact.

For Cargolux, new aircraft and new routes, as well as continued expansion in China, will be the main topics for 2015.

2014

TONNE-KILOMETERS FLOWN

IN MILLIONS

6,364

2013	5,723
2012	4,800
2011	5,039

2014

TOTAL METRIC TONNES SOLD

828,658

2013	753,848
2012	645,759
2011	658,800

MAINTENANCE & ENGINEERING

FLEET SUPPORT

The Cargolux Maintenance & Engineering Division (M&E) is responsible for the support and technical reliability of the fleet of Boeing 747 freighters of both Cargolux Airlines and Cargolux Italia. While Cargolux Airlines operates a mixed fleet of 747-8Fs, 747-400Fs, 747-400ERF and 747-400BCFs, Cargolux Italia flies two 747-400 freighters. Cargolux Italia's second aircraft was added in September 2014, when LX-TCV was transferred to the Italian AOC.

Cargolux Airlines continued its fleet roll-over in 2014 with the delivery of two more 747-8Fs and operated 11 units by the end of the year. In total, the Cargolux fleet numbered 22, the largest fleet that the airline ever operated.

FIELD LEADER IN UTILIZATION

With its large 747-8F fleet, Cargolux regularly ranks as a leader in aircraft utilization for this type. As the fleet grows and matures in service, M&E continuously gains valuable experience in the maintenance and engineering of this aircraft type. With exemplary dedication and efforts, our M&E staff not only enhanced the airline's competitive advantage, but also assisted a range of other operators of the 747-8F, as well as General Electric, with innovative solutions for technical issues, thus growing M&E's excellent reputation and commercial service portfolio.

The operational activity of the Cargolux fleet in 2014 significantly exceeded the budget; the company produced 11% more block hours than in 2013. Nevertheless, M&E managed to keep the schedule reliability on a high level, similar to 2013, and achieved an average dispatch rate of 97.3% for the 747-8F and 97.6% for the 747-400F.

Cargolux takes delivery of its 12th and 13th 747-8 freighter in 2015 and expects to operate a fleet of 24 aircraft by the end of the year. This will add further to the level of activity of M&E and the organization is continuously implementing productivity improvements.

HARD LANDING INCIDENT

At the end of November 2014, one of our 747-8F aircraft experienced a hard landing in Libreville, Gabon; during the subsequent detailed inspections in our hangar in Luxembourg, deformation of some skin-panels and the keel beam were discovered. The aircraft was repaired in cooperation with Boeing's AOG Team and went back into service in April 2015.

HANGAR MAINTENANCE

The 2014 maintenance program included 94 A-checks and 8 C-checks on the Cargolux and Cargolux Italia fleets, the highest productivity level in Cargolux's maintenance history. One D-check on a 747-400 freighter was outsourced to Singapore International Airline Engineering Company (SIAEC), supported by our M&E team.

During the year, we employed an average of 414 maintenance staff, a slight increase versus 2013, and we produced 529,000 man hours, an increase of 7%.

EXCELLENCE IN CUSTOMER CARE

Cargolux M&E is highly regarded throughout the industry and enjoys a high reputation for its excellence in customer service and the quality of its maintenance work on a number of aircraft types. In 2014, Silkway Airways, Air Bridge Cargo, Atlas Air, Corsair and Air Atlanta were among the customers that selected Cargolux to perform maintenance on their aircraft.

In total, we performed 41 A-checks and 9 C-checks on customer aircraft. Revenue from third-party work in 2014 reached US$ 25 million.

FLIGHT OPERATIONS

In 2014, Cargolux continued its fleet roll-over program with the delivery of two additional Boeing 747-8 freighters, LX-VCK, 'City of Contern', on 24 July and LX-VCJ, on 30 September, bearing the name 'City of Zhengzhou' to honor the company's partnership with its shareholder HNCA. One 747-400F, LX-TCV, was transferred to Cargolux Italia in September. At the end of the year, Cargolux operated 11 747-8Fs and 11 747-400 freighters, including two leased-in 747-400BCFs and one 747-400ERF. Cargolux Italia operated another two 747-400F. It represents the largest fleet that the Cargolux Group ever operated.

RECORD-BREAKING PERFORMANCE

The combined fleets of the Cargolux Group flew a record number of block hours; 95,522 for Cargolux and 9,960 for Cargolux Italia, a total of 105,482 hours, 11% more than in 2013. Throughout the year, we operated 19,195 network sectors compared to 17,461 in 2013 and flew 3,959 rotations out of Luxembourg, up from 3,655 in the previous year.

Cargolux routinely records one of the highest daily aircraft utilization rates for the 747 freighter in the industry. In 2014, our 747-8F fleet achieved an average daily utilization of 15.80 hours, while the 747-400F averaged 13.66 hours. An all-time high daily aircraft utilization for the company was achieved by the 747-400F fleet with 17:23 hours during the first week of April. We also saw a higher-than-planned utilization of the two 747-400BCFs, which we operated on a power-by-the-hour basis.

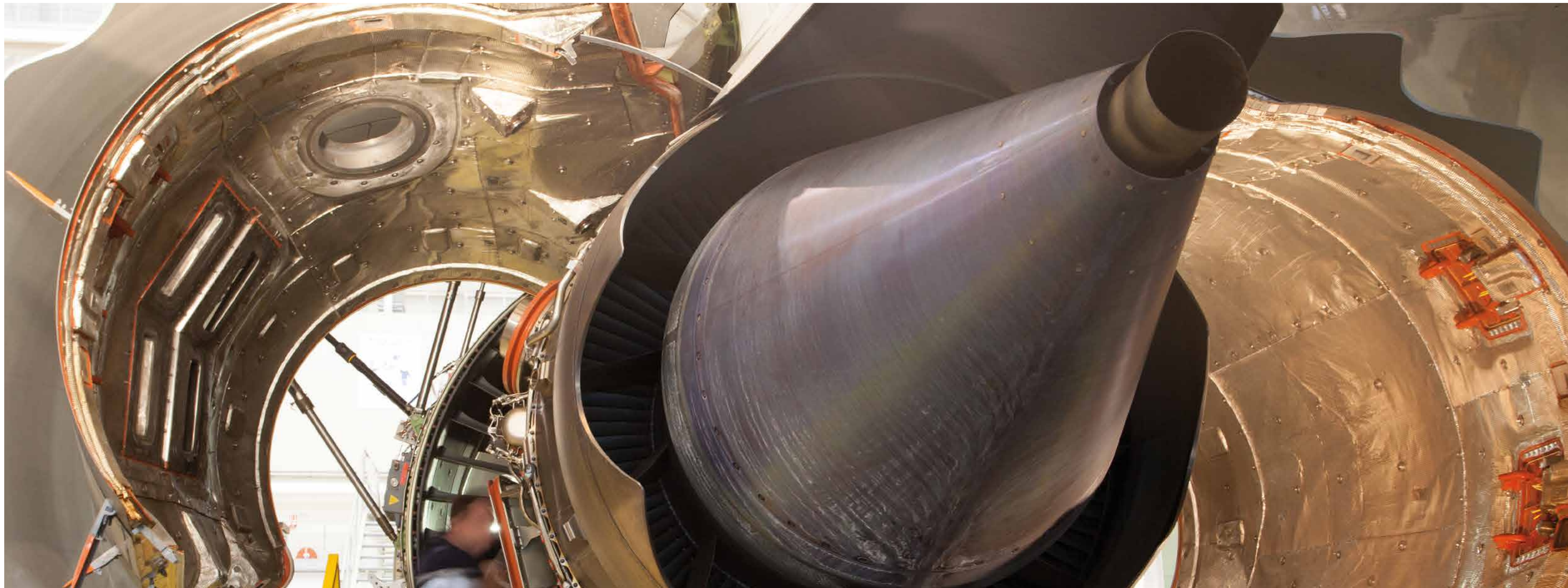
These record breaking levels of operations, especially in the last quarter of the year, placed significant pressure on the organization but the dedication and commitment of our staff came to the fore to ensure that we were able to maintain our schedule.

PUNCTUALITY

The on-time performance remained a concern, however, decreasing by 4.0% compared to 2013, largely due to the very high number of flight sectors and flight hours the company operated. Other reasons include routing changes, shipments that require special attention, such as outsized loads or live animals and ground delays resulting from customer requests. Airport curfews and crew rest delays also had a negative effect on the company's punctuality. As a result, Cargolux will focus extensively on its on-time performance in 2015.

Cargolux's Pit Stop Program, designed to recover flight delays of more than one hour, was launched for 1,615 flights during the year. With the program, we were able to successfully recover 1,235:36 hours of delays, compared to only 844:16 hours in 2013. However, operating a mixed fleet of various 747F models makes it difficult to recover additional allocated ground time.

In 2014, Cargolux hired 64 new pilots. 32 First Officers were promoted to Captain during the year. The company employed 463 pilots on 31 December 2014, up from 417 on 1 January 2014.



TRAINING

Cargolux utilizes two full-motion flight simulators, one each for the 747-400F and the 747-8F. Based on 24 hours per day, the 747-400F simulator was used for 5,410:30 hours, a utilization of 62%, while the 747-8F simulator was used for 4,212:30 hours, or 48%. Apart from the company's own crewmembers, Cargolux makes its simulators available for third-party training. The main customers in 2014 were Silkway Airlines of Azerbaijan and Cargolux Italia. In addition, Cargolux conducted training for mechanics from our Maintenance Division.

MEDIA ATTENTION

During the take-off on its delivery flight from Seattle, the crew of Cargolux's 747-8F LX-VCJ performed a wing wave that deviated from the traditional procedure and resulted in a high bank angle at low altitude. This maneuver not only attracted considerable media interest, but also triggered an investigation by Cargolux's Aviation Safety department as part the company's safety management system (SMS). The investigation determined that the cause of this incident was the pilot flying's handling of the maneuver he intended to fly. After receiving a specific flight data monitoring debriefing and after the completion of further recommended actions, the three crew members returned to flying duties.

The safety management investigation has led to the decision to discontinue the traditional Cargolux wing wave on delivery flights. The Cargolux safety culture and its established SMS have proven to be significant steps forward to further enhance the safety of the airline's operations.

NETWORK

Most of the airports in the Cargolux network are now certified for the 747-8F and only a few airports still remain to be certified for the operation of this larger aircraft type. In 2014, our 747-8F fleet operated to 99 commercial and 8 alternate destinations. In early 2015, Manaus became the 100th 747-8 certified airport in the Cargolux network.

In addition to serving the major air freight lanes, we operate a dynamic network in order to meet the needs of our customers and to optimize the profitability of our scheduled flights.

The network continues to be developed with new markets constantly analyzed for inclusion if it makes economic sense.

03

CONSOLIDATED FINANCIAL STATEMENTS 2014

OF CARGOLUX AIRLINES INTERNATIONAL S.A.

CONSOLIDATED INCOME STATEMENT

For the year ended December 31, 2014

NOTES	IN THOUSANDS OF U.S. DOLLAR	2014	2013*
6	Revenues	2,148,487	1,956,841
7	Other operating income	6,393	31,667
8	Aircraft lease expenses	(39,542)	(32,141)
9	Aircraft maintenance expenses	(73,378)	(95,152)
14	Depreciation and impairment	(179,953)	(123,874)
	Fuel	(972,940)	(919,082)
10	Personnel costs and benefits	(257,201)	(240,440)
	Handling, landing and overflying	(324,650)	(286,838)
	Trucking, truck handling and interlining	(120,969)	(111,254)
11	Other operating expenses	(155,580)	(120,975)
	Operating profit before financing costs	**30,667**	**58,752**
	Financial income	10,653	8,638
	Financial expenses	(71,202)	(59,171)
12	**Net finance costs**	**(60,549)**	**(50,533)**
	Share of profit / (loss) of associates	484	(163)
	Profit/(Loss) before tax	**(29,398)**	**8,056**
13	Current tax	32,252	(420)
13	Deferred tax	-	-
	Profit for the year	**2,854**	**7,636**
	Profit attributable to:		
	Owners of the Company	2,854	7,636
	Non-controlling interests	-	-
	Profit for the year	**2,854**	**7,636**

**Restated – See note 2 (f)*

THE NOTES ON PAGE 42 TO 73 ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2014

NOTES	IN THOUSANDS OF U.S. DOLLAR	2014	2013*
	PROFIT FOR THE YEAR	2,854	7,636
	OTHER COMPREHENSIVE INCOME		
	Items that will never be reclassified to profit or loss		
22	Remeasurements of defined benefit liability / (asset)	(3,695)	442
13	Related tax	1,080	(129)
		(2,615)	313
	Items that are or may be reclassified to profit or loss		
5/12	Effective portion of changes in fair value of cash flow hedges	14,501	41,168
5/12	Net change in fair value of cash flow hedges transferred to profit or loss	(955)	(827)
13	Income tax on other comprehensive income	(4,026)	(11,951)
	Currency translation adjustment	(3,261)	1,127
		6,259	29,517
	OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF INCOME TAX	3,644	29,830
	TOTAL COMPREHENSIVE INCOME FOR THE YEAR	6,498	37,466
	TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:		
	Owners of the Company	6,498	37,466
	Non-controlling interests	-	-
	TOTAL COMPREHENSIVE INCOME FOR THE YEAR	6,498	37,466

**Restated – See note 2 (f)*

THE NOTES ON PAGE 42 TO 73 ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET

As at December 31, 2014

NOTES	IN THOUSANDS OF U.S. DOLLAR	2014	2013*
	ASSETS		
14	Aircraft and equipment	1,935,085	1,693,340
14	Other property, plant and equipment	115,102	89,400
	Derivative assets	8,049	8,080
15	Investments in associates	64,268	61,152
14	Deposits with third parties	42,561	66,813
16	Deferred tax assets	53,940	56,887
	TOTAL NON-CURRENT ASSETS	2,219,005	1,975,672
	Expendable parts and supplies	21,752	22,051
17	Trade receivables and other receivables	286,618	305,204
18	Other investments	114,145	96,880
19	Cash and cash equivalents	306,046	163,407
	TOTAL CURRENT ASSETS	728,561	587,542
	TOTAL ASSETS	2,947,566	2,563,214
	EQUITY		
	Issued capital	425,007	250,007
	Share premium	5,846	5,846
	Reserves	217,319	211,060
	Retained earnings	13,102	8,081
	Profit for the year	2,854	7,636
20	**EQUITY**	664,128	482,630
	Non-controlling interest	-	-
	TOTAL EQUITY	664,128	482,630
	LIABILITIES		
21	Interest-bearing loans and borrowings	128,473	108,071
21	Finance lease liabilities	1,467,339	1,238,173
22	Employee benefits	9,146	6,564
24	Other payables	86,408	116,866
	Derivative liabilities	44,395	57,578
23	Provisions	12,401	8,352
	TOTAL NON-CURRENT LIABILITIES	1,748,162	1,535,604
21	Interest-bearing loans and borrowings	42,296	59,851
21	Finance lease liabilities	164,598	166,443
24	Trade payables and other payables	281,095	281,088
23	Provisions	24,137	17,522
	Taxes payable	23,150	20,076
	TOTAL CURRENT LIABILITIES	535,276	544,980
	TOTAL LIABILITIES	2,283,438	2,080,584
	TOTAL EQUITY AND LIABILITIES	2,947,566	2,563,214

**Restated – See note 2 (f)*

THE NOTES ON PAGE 42 TO 73 ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2014

NOTES	IN THOUSANDS OF U.S. DOLLAR	2014	2013*
	CASH FLOW FROM OPERATING ACTIVITIES		
	Profit for the year	2,854	7,636
	Adjustments for		
14	Depreciation and impairment	179,953	123,874
	Unrealized foreign exchange gains	(5,528)	(1,409)
12	Net finance costs	60,549	50,533
	Share of profit of associates	(484)	163
7	Gain / (loss) on sale of property, plant and equipment	520	(9,787)
5	Fuel hedging	7,413	(631)
23	Change in provisions	18,619	(849)
11/13	Tax expenses	(30,012)	3,457
23	Use of provisions	(8,466)	(4,338)
	OPERATING CASH FLOW BEFORE CHANGES IN WORKING CAPITAL	225,418	168,649
	Changes in working capital	(17,702)	24,664
	CASH GENERATED FROM THE OPERATIONS	207,716	193,313
	Income tax paid	(3,494)	(1,776)
	Benefits of tax credits	32,772	-
	Interest paid	(56,020)	(45,475)
	NET CASH FROM OPERATING ACTIVITIES	180,974	146,062
	CASH FLOW FROM INVESTING ACTIVITIES		
14	Acquisition of property, plant and equipment	(156,812)	(138,231)
	Acquisition of associates	(668)	-
	Acquisition of other investments	(31,733)	(9,433)
	Loans granted to associates	(3,453)	(3,750)
	Dividends from associates	116	233
	Interest received	3,796	4,572
	Reimbursement of advance payments	99,749	140,696
	Proceeds from sale of property, plant and equipment	202	11,274
	Proceeds from sale of other investments	20,745	36,594
	Proceeds from capital reduction in associates	155	-
	Deposits with third parties	12,802	11,484
	NET CASH (USED IN)/FROM INVESTING ACTIVITIES	(55,101)	53,439
	CASH FLOW FROM FINANCING ACTIVITIES		
	Repayment of borrowings	(98,908)	(126,855)
	Repayment of finance lease liabilities	(170,959)	(161,307)
	Capital increase	175,000	-
	Proceeds from borrowings	95,401	149,549
	NET CASH FROM/(USED IN) FINANCING ACTIVITIES	537	(138,613)
	Net increase in cash and cash equivalents	126,410	60,888
	Cash and cash equivalents at January 1	163,407	106,411
	Effect of exchange rate fluctuations on cash held	16,229	(3,892)
19	CASH AND CASH EQUIVALENTS AT DECEMBER 31	306,046	163,407

**Restated – See note 2 (f)*

THE NOTES ON PAGE 42 TO 73 ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2014

IN THOUSANDS OF U.S. DOLLAR	Issued capital	Share premium	Non distributable reserve	Free reserve	Currency translation reserve	Hedging reserve	Total reserves	Retained earnings	Total equity	Non-controlling interest	Total equity
BALANCE AS OF DECEMBER 31, 2012	250,007	5,846	122,402	141,270	(487)	(81,642)	181,543	(6,708)	430,688	-	430,688
Change in accounting policies (note 2 (f))	-	-	-	-	-	-	-	14,476	14,476	-	14,476
BALANCE AS OF DECEMBER 31, 2012 (RESTATED)	250,007	5,846	122,402	141,270	(487)	(81,642)	181,543	7,768	445,164	-	445,164
Transactions with owners											
Allocation to free reserve	-	-	(16,500)	16,500	-	-	-	-	-	-	-
Total comprehensive income											
Profit for 2013	-	-	-	-	-	-	-	7,636	7,636	-	7,636
Total other comprehensive income	-	-	-	-	1,127	28,390	29,517	313	29,830	-	29,830
Total comprehensive income	-	-	-	-	1,127	28,390	29,517	7,949	37,466	-	37,466
BALANCE AS OF DECEMBER 31, 2013 (RESTATED)	250,007	5,846	105,902	157,770	640	(53,252)	211,060	15,717	482,630	-	482,630
Transactions with owners											
Allocation to free reserve	-	-	(18,800)	18,800	-	-	-	-	-	-	-
Capital increase (note 20)	175,000	-	-	-	-	-	-	-	175,000	-	175,000
Total comprehensive income											
Profit for 2014	-	-	-	-	-	-	-	2,854	2,854	-	2,854
Total other comprehensive income	-	-	-	-	(3,261)	9,520	6,259	(2,615)	3,644	-	3,644
Total comprehensive income	-	-	-	-	(3,261)	9,520	6,259	239	6,498	-	6,698
BALANCE AS OF DECEMBER 31, 2014	425,007	5,846	87,102	176,570	(2,621)	(43,732)	217,319	15,956	664,128	-	664,128

THE NOTES ON PAGE 42 TO 73 ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

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 registered address of the Company is Aéroport de Luxembourg, L-2990 Sandweiler, Grand-Duchy of Luxembourg and the registration number is R.C. Luxembourg B 008.916.

The Company is an all-cargo airline. It also maintains its own aircraft and provides third party maintenance and flight operations assistance (including crew training) to third parties at its Luxembourg headquarters. As at the balance sheet date, operations outside of Luxembourg that relate to the Company's business activities are conducted solely under branch offices, except for Italy, where Cargolux mainly 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 27 countries.

The consolidated financial statements of the Company for the year ended December 31, 2014, 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 joint ventures and associates.

2. BASIS OF PREPARATION

a Statement of compliance

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

The Board of Directors approved the financial statements for the year ended December 31, 2014 on March 20, 2015 and authorized the publication of said financial statements on April 29, 2015, following confirmation by the shareholders thereof on that date.

b Basis of measurement

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

- derivative financial instruments are measured at fair value,
- the defined benefit liability is recognized as the net total of: fair value of plan assets plus service cost, actuarial losses minus actuarial gains and the present value of the defined benefit obligation.

c Going concern

The Company believes that the operating cash flows, the credit facilities in place and the injection of additional cash (US$ 175 million) occurred in 2014 through a capital increase which secures the liquidity needs of the Company for the foreseeable future and at least 12 months from the date of issuance of these financial statements (see notes 5 (e), 20 and 21). 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 Dollar ("US dollar" or "US$") as the functional currency US dollars are rounded to the nearest thousand.

e Use of estimates and judgments

The preparation of financial statements in conformity with IFRS as adopted by the EU 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 cannot readily be derived from other sources. 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 financial statements are discussed in note 30.

f Changes in accounting policies

Except for the changes explained below and in note 3 (r), the accounting policies set out below have been applied consistently to all periods presented in these financial statements.

As of 2014, management has revised its accounting policy in the context of benefits received related to investment tax credits (ITC) generated indirectly through finance lease structures. The benefits were previously recognized as a reduction of the assets' cost and depreciated over the useful life of the assets. These benefits are now recognized as a tax credit and therefore recorded in the Income statement under *Current tax* as the ITC benefit is generated directly by the acquisition of the aircraft. This is considered as a better reflection of the substance of the income and avoids the same assets being held on the balance sheet at different values depending on the financing structure put in place. The Company has applied the accounting policy change retrospectively and restated the comparative period accordingly (see note 14).

In addition, certain comparative amounts in the financial statements and in the notes thereto have been reclassified to conform to the current year's presentation.

3. SIGNIFICANT ACCOUNTING POLICIES

a Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has right to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

(ii) Associates and joint ventures

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement. 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 and joint ventures 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.

b Foreign currency

(i) Foreign currency transactions

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

(ii) Financial statements of foreign operations

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

c Derivative financial instruments, including hedge accounting

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

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

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

d Property, plant and equipment

(i) Aircraft and equipment

B747-400F and B747-8F 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 (v) below) and impairment, if applicable (on which see (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 (v)) and impairment, if any (on which see (j)). The related liability is included under *Finance lease liabilities.*

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

2) Operating leases:
Leases under the terms of which the Group does not assume the risks and rewards of ownership are classified as operating leases and are not carried on the Group's balance sheet. The net present value of future lease payments under operating leases is disclosed in the notes to these financial statements (see note 25).

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

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

(iv) Subsequent costs

The Group outsources the major aircraft overhaul checks, as well as the maintenance and repairs of engines to outside contractors, however 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, except engine components (life limited parts ("LLPs") and engine overhaul (shop visits)) which are depreciated based on cycles flown, 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 (AVERAGE)	RESIDUAL VALUE (AVERAGE)
COMPONENTS OF AIRCRAFT:		
Airframe	20 years	[15%-9%] of initial cost
Engines (Carcass)	12 years	8% of initial cost
Engines (LLPs)	9,700 cycles	nil
Engines (Shop visits)	3,700 cycles	nil
1st and 2nd "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. The residual value of certain aircraft and the depreciation pattern of the engines have been reviewed in 2014 (see note 14). Depreciation is discontinued when the carrying amount of the asset is below its residual or sale value.

e Investments in subsidiaries, joint ventures and associates

Subsidiaries, joint ventures and associates are accounted for in accordance with the basis for consolidation (see (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 (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 (h) above) and deferred tax assets (on which see (q)), are reviewed at each balance sheet date to determine whether there is any impairment. If any impairment exists, the asset's recoverable amount is estimated and the carrying value adjusted accordingly.

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

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

(ii) Financial assets

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

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

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

All impairment losses are recognized in profit or loss.

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

k Interest-bearing liabilities and finance lease liabilities

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

l Employee benefits - Retirement benefit costs

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

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

The defined benefit scheme in Luxembourg is accounted for as such under IAS 19, using the Projected Unit Credit Method, with actuarial valuations being carried out at each balance sheet date (see note 22).

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in *Other comprehensive income* ("OCI"). Net interest expense and other expenses related to defined benefit plans are recognized in profit or loss.

m Provisions

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

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

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

n Trade and other payables

Trade and other payables are stated at cost.

o Revenue - Services rendered

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

p Expenses

(i) Operating lease payments

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

(ii) Finance lease payments

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

(iii) Net finance costs

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

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

q Income tax

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

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

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

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

r New and amended standards adopted by the Group

The Group has adopted the following new amendments to standards which did not result in any effect on the Group financial statements, including any consequential amendments to other standards, with a date of initial application of January 1, 2014.

IAS 36 – Recoverable Amount Disclosures – Amendments to IAS 36

The amendments align the disclosures required for the recoverable amount of an asset (or CGU) when this has been determined on the basis of fair value less costs of disposal with those required where the recoverable amount has been determined on the basis of value in use. Certain disclosures are now only required when an impairment loss has been recorded or reversed in respect of an asset or CGU. Other disclosures requirements have been clarified and expanded, for assets or CGUs where the recoverable amount has been determined on the basis of fair value less costs of disposal.

IAS 39 – Financial instruments: Recognition and measurement – Amendments to IAS 39

The amendment considers legislative changes to 'over-the-counter' derivatives and the establishment of central counterparties. Under IAS 39 novation of derivatives to central counterparties would result in discontinuance of hedge accounting. The amendment provides relief from discontinuing hedge accounting when novation of a hedging instrument meets specified criteria.

IFRS 10 – Investment Entities – Amendments to IFRS 10

Those amendments address the investment entities exception under IFRS 10 Consolidated Financial Statements and are not expected to be applicable to the Company.

IAS 27 – Separate Financial Statements

Amendments to IAS 27 were made in connection with the previous new issued standards and reduced the scope of IAS 27 which now only deals with the requirements for separate financial statements. Requirements for consolidated financial statements are now contained in IFRS 10. These amendments require that when an entity prepares separate financial statements, investments in subsidiaries, associates, and jointly controlled entities are accounted for either at cost, or in accordance with IFRS 9.

IFRS 12 – Investment Entities – Amendments to IFRS 12

IFRS 12 requires enhanced disclosures about both consolidated entities and unconsolidated entities in which an entity has involvement. The objective of IFRS 12 is to require information so that financial statement users may evaluate the basis of control, any restrictions on consolidated assets and liabilities, risk exposures arising from involvements with unconsolidated structured entities and non-controlling interest holders' involvement in the activities of consolidated entities (see note 28).

s New standards, amendments and interpretations issued but not effective for the financial year beginning January 1, 2014 and not early adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after January 1, 2014, and have not been applied in preparing these separate financial statements. Those which may be relevant to the Group are set out below. The Group does not plan to adopt these standards early.

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments.
IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirement. It also carries forward the guidance of recognition and derecognition of financial instruments from IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted, however this standard has not yet been endorsed by the EU. The Group is yet to assess IFRS 9's full impact.

IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognized when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2017 and earlier application is permitted. The Group is yet to assess the impact of IFRS 15.

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

Market risk

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

General

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, as well as the Group's objectives and policies for the management of excess cash. Where applicable, further quantitative disclosures are included throughout these 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 BBB- from Standard & Poor's and Fitch and Baa1 from Moody's. Any exception to this rule must be approved by the Risk Management Committee and is closely monitored and reported to the Executive Committee and the Board of Directors. Credit limits for each counterparty are in place and monitored on an ongoing basis. 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 on a daily basis.

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 10% (2013: 11%) of the Group's revenue is attributable to sales transactions with a single customer. The five largest customers of the Group represent 41% (2013: 42%) of the net cargo sales. More than 61% (2013: 60%) 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 standalone 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 purchased from a professional and international insurer that retrocedes the risk to the Group's captive reinsurance company to cover delinquent customer payments.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables (see note 17).

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

IN THOUSANDS OF U.S. DOLLAR	2014	2013
AREA I	41,379	38,987
AREA II*	95,011	123,608
AREA III	100,889	87,283
	237,279	249,878

**Area IV has been included in Area II in 2014*

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 2014, 79.21% of receivables were cleared through CASS and ICH (77.57% in 2013). As of December 31, 2014, 99.22% (98.38% in 2013) of the total outstanding trade debtors were within the contractual payment terms. The average DSO of trade receivables was 42.2 days in 2014 (43.2 days in 2013). In 2014, the Group suffered a credit loss of US$ 0.08 million (2013: US$ 0.35 million).

b Fuel risk

Fuel price

The price of fuel significantly affects the Group's earnings. At a 2014 average of US$/tonne 906, the jet fuel market price decreased by US$/tonne 81 compared to the preceding year. The average reflects both the strong fuel market prevailing until summer and the substantial price weakening during the rest of the year.

Fuel hedges

To manage its fuel price risk the Group uses derivative instruments, mainly options. Call options are purchased as insurance against high fuel prices. The Group is protected against high fuel prices above the call strike price and pays a premium for this insurance. The worst outcome of this strategy would be that the premium is not recovered. Fuel exposures are hedged over time. The hedging portfolio and the strategy are reviewed in regular meetings of the Group's Fuel Risk Management Committee. The Committee works within a Governance framework of Policy and Procedures and actively manages the fuel hedge portfolio regularly reporting to the Audit Committee of the Board of Directors.

As at December 31, 2014, the fair value of fuel derivatives was as follows:

IN THOUSANDS OF U.S. DOLLAR	2014	2013
Derivative assets	7,547	7,097
Derivative liabilities	-	(181)
Balance at January 1	7,547	6,916
Non-qualifying hedges recognized in profit and loss	(7,413)	631
Derivative assets	134	7,547
Derivative liabilities	-	-
Balance at December 31	134	7,547

None of these positions have been considered for hedge accounting in 2014.

c Currency risk

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the functional currency of the Group. Generally, the Group does not incur non-dollar denominated indebtedness to finance its assets stated in US$ in order to eliminate any related volatility in profit or loss.

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

IN THOUSANDS OF U.S. DOLLAR	EUR	HKD	CNY	Other	% of total
Deposits with third parties	5,550	110	1,061	313	16.5
Trade receivables and other receivables	73,788	50,907	33,526	39,756	69.1
Other investments	54,867	-	-	-	48.1
Cash and cash equivalents	47,303	3,559	5,049	19,374	24.6
Interest-bearing loans and borrowings	-	-	-	-	0.0
Finance lease liabilities	(17,916)	-	-	-	1.1
Trade payable and other payables	(117,963)	(5,576)	(5,872)	(16,358)	39.7
Taxes payable	(22,917)	-	-	(233)	100.0

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

IN THOUSANDS OF U.S. DOLLAR	EUR	HKD	CNY	Other	% of total
Deposits with third parties	5,289	74	39	367	8.6
Trade receivables and other receivables	94,119	49,176	16,736	44,044	66.9
Other investments	59,524	-	-	-	61.4
Cash and cash equivalents	30,326	3,941	10,251	22,101	40.8
Interest-bearing loans and borrowings	(32,208)	-	-	-	19.2
Finance lease liabilities	-	-	-	-	0.0
Trade payable and other payables	(126,401)	(2,755)	(3,785)	(24,976)	39.7
Taxes payable	(19,766)	-	-	(311)	100.0

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

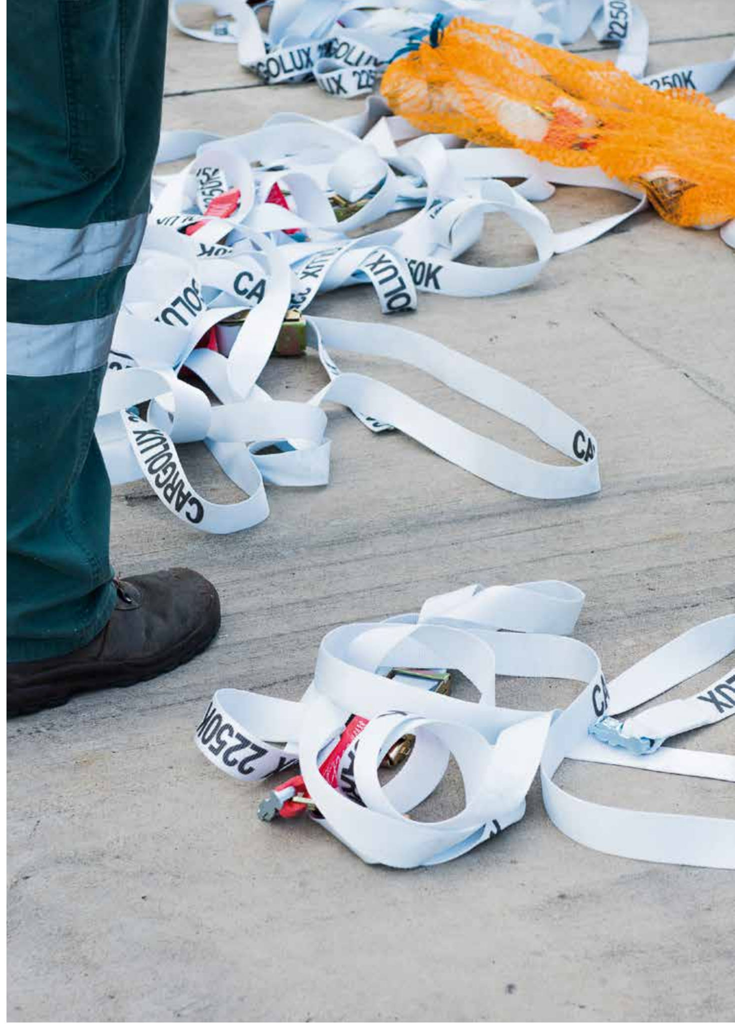
	AVERAGE RATE		REPORTING DATE SPOT RATE	
	2014	2013	2014	2013
EUR	1.32902	1.32813	1.21600	1.38040
HKD	0.12895	0.12892	0.12890	0.12895
CNY	0.16231	0.16266	0.16118	0.16497

The Company hedges the foreign exchange risk related to receivables through the use of forwards and options.

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 generally deemed preferable than fixing the rate at the time the loan is contracted or the payment liability is crystallized, unless at that time interest rates are deemed to be very low and in which case such rates are locked in via a swap or fixed interest loan, strategy that the Group has pursued in 2014 and is likely to continue to pursue in 2015.

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	2014	2013
Fixed rate instruments		
Financial liabilities	945,504	616,065
Floating rate instruments		
Financial assets	382,028	260,287
Financial liabilities	926,208	1,011,022
Interest rate derivatives		
Nominal amount of underlying financings in place at the balance sheet date	804,759	779,336

As at December 31, 2014, the fair value of interest rate derivatives was as follows:

IN THOUSANDS OF U.S. DOLLAR	2014	2013
Derivative assets	9,877	18,109
Derivative liabilities	(89,038)	(138,346)
Balance at January 1	(79,161)	(120,237)
Net change in fair value recognized in equity	13,546	40,341
Non-qualifying hedges recognized in profit and loss	5,190	735
Derivative assets	9,855	9,877
Derivative liabilities	(70,280)	(89,038)
Balance at December 31	(60,425)	(79,161)

e Liquidity risk

The Group's approach to manage liquidity risk is to ensure that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions. Major known 2015 liabilities and how the Group expects to cover same is discussed below.

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, 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 and under the second covenant the shareholders' equity must represent at least 16.7% of total liabilities. As at December 31, 2014, the Group was in compliance with this and all other contractual financial covenants.

The following are the contractual maturities of liabilities:

IN THOUSANDS OF U.S. DOLLAR	Carrying amount	Contracted cash flows	2015	2016	2017	Further than 2017
Interest-bearing liabilities	(170,769)	(175,579)	(145,358)	(10,491)	(4,369)	(15,361)
Finance lease liabilities	(1,631,937)	(1,963,109)	(216,706)	(242,234)	(251,362)	(1,252,807)
Trade payables and other payables	(628,785)	(630,242)	(542,687)	(78,935)	(2,202)	(6,418)
Derivative liabilities	(70,320)	(72,521)	(25,914)	(15,994)	(9,252)	(21,361)
	(2,501,811)	(2,841,451)	(930,665)	(347,654)	(267,185)	(1,295,947)

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

- Capital expenditures relating to the acquisition of two B747-8Fs and related financing fees and aircraft components (approximately US$ 0.4 billion). It should be noted that the Group expects to finance those aircraft under finance lease structures.

- Payment of an anti-trust fine installment of US$ 22.0 million to the Department of Justice (US DoJ).

The Group will be able to meet its financial obligations in 2015 out of a mix of the proceeds of operating cash flows, PDP repayments from Boeing and the facilities mentioned below. Furthermore, the balance sheet and the liquidity of the Group are expected to be significantly strengthened by the following additional measures during 2015:

- The US$ 100 million Convertible Bond issued in 2013 will be converted into common shares in 2015.

- The Group has finalized term sheets for a commercial financing covering a B747-8F scheduled for delivery in March 2015.

- In H1 2015, the Group will likely close a US$ 20 million refinancing of a debt-free B747-400F.

- The Group maintains credit lines to ensure that it will be able to face its obligations when they fall due. As at December 31, 2014, the Group had the following committed credit lines (i.e. lines with respect of which the Group pays commitment fees) available for drawing: US$ 37.8 million (US$ 27.5 million and EUR 8.5 million) with a maturity ranging from June to December 2015.

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.

For the year 2014, it is estimated that a general increase/decrease of one percentage point in interest rates would have decreased/increased the Group's profit before tax before marked-to-market of derivative instruments by respectively approximately US$ 1.6 million and US$ 1.8 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/decrease of one percentage point in the value of the US dollar against other foreign currencies throughout the year would have decreased/increased the Group's profit before tax by approximately US$ 8.3 million. The forward exchange contracts and other hedging instruments that were in place at that time have been included in this calculation. The impact on the Profit and Loss of an increase in the value of the US Dollar can to a certain extent be mitigated by cash inflows from currency hedging.

It is estimated that an increase/decrease of USD/tonne 50 in the price of jet fuel (basis barges Rotterdam) over a one-year period would have increased/decreased the Group's fuel bill by around US$ 51 million. The impact on the Income statement of a fuel price increase can to a large extent be mitigated by cash inflows from the fuel surcharge program and in addition fuel hedging.

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	DECEMBER 31, 2014		DECEMBER 31, 2013	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
ASSETS CARRIED AT FAIR VALUE				
Other investments	17,583	17,583	17,337	17,337
Interest rate transactions through profit and loss	9,855	9,855	9,877	9,877
Fuel derivative contracts through profit and loss	134	134	7,547	7,547
Forward exchange contracts used for hedging	123	123	-	-
	27,695	27,695	34,761	34,761
ASSETS CARRIED AT AMORTIZED COSTS				
Loans and receivables	284,515	284,515	295,860	295,860
Cash and cash equivalents	306,046	306,046	163,407	163,407
	590,561	590,561	459,267	459,267
LIABILITIES CARRIED AT FAIR VALUE				
Interest rate transactions used for hedging	(70,280)	(70,280)	(89,038)	(89,038)
Forward exchange contracts used for hedging	-	-	(293)	(293)
	(70,280)	(70,280)	(89,331)	(89,331)
LIABILITIES CARRIED AT AMORTIZED COST				
Secured bank loans	(71,361)	(65,475)	(35,765)	(33,062)
Unsecured bond issues	(100,000)	(95,417)	(100,000)	(94,857)
Finance lease liabilities	(1,699,414)	(1,407,823)	(1,459,075)	(942,265)
Unsecured bank loan	-	-	(32,209)	(28,418)
Trade and other payables	(255,171)	(255,171)	(249,335)	(249,335)
	(2,125,946)	(1,823,886)	(1,876,384)	(1,347,937)

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

h Fair values hierarchy

IN THOUSANDS OF U.S. DOLLAR	DECEMBER 31, 2014			DECEMBER 31, 2013		
	LEVEL 1	LEVEL 2	TOTAL	LEVEL 1	LEVEL 2	TOTAL
Other investments	12,484	17,583	30,067	12,194	17,337	29,531
Interest rate transactions through profit and loss	-	9,855	9,855	-	9,877	9,877
Fuel derivative contracts through profit and loss	-	134	134	-	7,547	7,547
Forward exchange contracts used for hedging	-	123	123	-	-	-
	12,484	27,695	40,179	12,194	34,761	46,955
Interest rate transactions used for hedging	-	(70,280)	(70,280)	-	(89,038)	(89,038)
Forward exchange contracts used for hedging	-	-	-	-	(293)	(293)
	-	(70,280)	(70,280)	-	(89,331)	(89,331)

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)

Fair values determined for disclosure purposes on assets and liabilities carried at cost are considered level 3.

6. REVENUES

IN THOUSANDS OF U.S. DOLLAR	2014	2013
Cargo sales	2,106,961	1,905,296
Aircraft rental revenues	-	3,876
Maintenance revenues	25,575	33,863
Trucking, handling and other services	15,951	13,807
	2,148,487	1,956,841

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 II (Europe, Middle East, Pakistan & Africa) traffic with 43.9% (2013: 46.1%), followed by Area III (Asia & Pacific) traffic with 36.8% (2013: 34.7%), with the balance accounted for by Area I (the Americas) and charter traffic with 19.3% (2013: 19.2%).

7. OTHER OPERATING INCOME

IN THOUSANDS OF U.S. DOLLAR	2014	2013
Gain/(loss) on sale of property, plant and equipment	(520)	9,787
Miscellaneous	6,913	21,880
	6,393	31,667

In 2013, the Group realized a capital gain on the sale of four spare engines.
Miscellaneous includes mainly credits received from third parties.

8. AIRCRAFT LEASE EXPENSES

IN THOUSANDS OF U.S. DOLLAR	2014	2013
Aircraft rentals under dry leases	36,794	40,582
Fees payable under blockspace agreement	-	(144)
Return conditions provision in respect of dry leased aircraft	2,748	(8,297)
	39,542	32,141

At the balance sheet date the Group dry leased the following aircraft: LX-ACV, LX-DCV, LX-ECV, LX-OCV, LX-WCV and LX-VCC.

In November 2014, the operating lease aircraft LX-VCC performing a freight flight experienced a hard landing in Libreville, resulting in structural damages. The aircraft will be repaired during the first quarter 2015.

In 2013, the Group returned LX-KCV to the Lessor. In addition, return cost provisions on certain leased aircraft exiting the fleet in 2012 and 2013 were reviewed and resulted in a release of such provision (see also note 24).

9. AIRCRAFT MAINTENANCE EXPENSES

IN THOUSANDS OF U.S. DOLLAR	2014	2013
Engine repair and overhaul	23,492	55,883
Engine reserve	9,162	5,017
Heavy maintenance ("C-checks" and "D-checks" on dry leased aircraft)	(327)	687
Component and brakes repair	10,349	9,372
Stock consumption	10,724	10,490
Line maintenance at stations	8,192	6,605
Other maintenance expenses	11,786	7,098
	73,378	95,152

End of 2013, the Rolls Royce engine maintenance contract was terminated. The Group, as of January 2014, capitalizes the cost of engine shop visits and depreciates the related cost over an average period of 3,700 cycles up to the next shop visit.

Heavy maintenance cost includes provision releases of aircraft, which exited the fleet during 2013.

10. PERSONNEL COSTS AND BENEFITS

IN THOUSANDS OF U.S. DOLLAR	2014	2013
BY CATEGORY OF EXPENSES		
Salaries, overtime, 13th month	208,157	191,748
Social security	23,695	22,927
Employee benefits		
Expenses related to defined benefit plans	450	540
Expenses related to defined contribution plans	5,742	5,371
Other (accident and invalidity insurance)	6,757	9,134
Training and sundry personnel charges	12,400	10,720
	257,201	240,440

AVERAGE NUMBER OF STAFF BY CATEGORY

	2014	2013
Active		
Flight Operations (including crews)	564	517
Sales and Marketing	535	510
Maintenance	422	404
Finance and Administration	98	74
General Management (Corporate Division)	39	70
Operation Management (Aviation Safety, Quality Assurance)	19	21
Legal and Compliance Division	33	16
	1,710	1,612
Other		
Reclassified staff	3	4
Employees on early retirement	16	18
Apprentices	10	14
	1,739	1,648

Some divisions have been reclassified from General Management to Finance and Administration or Legal and Compliance.

As of December 31, 2014 1,504 (2013: 1,392) employees were based in countries of the European Union, of which 1,305 in Luxembourg (2013: 1,224).

The collective work agreement (CWA) covering Luxembourg based staff other than managers and exempt employees was cancelled on December 29, 2014. The terms and conditions of the CWA remain in force until November 30, 2015.

11.OTHER OPERATING EXPENSES

IN THOUSANDS OF U.S. DOLLAR	2014	2013
GSA commissions	15,722	16,297
IT services	25,309	25,343
Travel & entertainment	24,864	23,161
Office and office equipment (rental and maintenance)	19,386	17,308
Legal, audit and consulting fees	13,457	7,959
Other aircraft expenses	7,353	6,683
Valuation allowance on current assets	821	748
Telecommunication expenses	2,405	2,237
Net worth tax	2,240	3,037
Foreign exchange loss, net	15,464	2,535
Anti-trust	10,626	(384)
Miscellaneous	17,933	16,051
	155,580	120,975

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

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

Legal, audit and consulting fees include US$ 5.6 million (in 2013: US$ 2.2 million) related to the anti-trust cases in various jurisdiction which are entirely provisioned (see also note 24).
Legal, audit and consulting fees also include an amount of US$ 0.51 million (in 2013: US$ 0.50 million) accrued for audit fees and an amount of US$ 0.18 million (in 2013: US$ 0.13 million) paid for tax services to KPMG.

12.NET FINANCE COSTS

Recognized in profit or loss

IN THOUSANDS OF U.S. DOLLAR	2014	2013
Net change in fair value of financial instruments	4,271	1,286
Interest income on bank deposits	3,046	4,088
Interest on loans and receivables	2,949	2,987
Other financial income (IATA call day adjustments, discounts received)	387	277
Financial income	10,653	8,638
Interest expense	(65,922)	(53,441)
Net change in fair value of financial instruments	(44)	-
Accrued interest on net present value of provisions and liabilities	(2,451)	(3,055)
Other financial expenses (bank charges, loan agency fees, CASS commissions)	(2,785)	(2,675)
Financial expenses	(71,202)	(59,171)
Net finance costs	(60,549)	(50,533)

Recognized in other comprehensive income

IN THOUSANDS OF U.S. DOLLAR	2014	2013
Effective portion of changes in fair value of interest cash flow hedges	14,501	41,168
Net change in fair value of cash flow hedges transferred to profit or loss	(955)	(827)
Income tax on finance income and finance costs recognized in other comprehensive income	(4,026)	(11,951)
Finance income recognized in other comprehensive income, net of tax	9,520	28,390

13.INCOME TAX EXPENSE

IN THOUSANDS OF U.S. DOLLAR	2014	2013
Current tax expense		
Current year	(32,252)	420
	(32,252)	420
Deferred tax expense		
Origination and reversal of temporary differences	5,443	8,602
Use/(Benefit) of tax losses	(5,443)	(8,602)
	-	-
Total income tax expense in income statement	(32,252)	420
Income tax expense recognized in other comprehensive income	2,946	12,080

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	2014	2014	2013	2013
	%		%	
Profit/(Loss) before tax		(29,398)		8,056
Income tax using the domestic rate	29.27	(8,605)	29.43	2,371
Share of profit of associates		142		(48)
Effect of current tax in foreign branches		(328)		(416)
Non-deductible expenses/Non-taxable income		8,638		(2,037)
Benefits of tax credits through finance lease		(32,772)		-
Unrecognized DTA		661		514
Tax exempt revenues		(47)		(46)
Effect of change in tax rate		59		82
Income tax expense		(32,252)		420

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

In 2008, the determination of the tax basis of assets and liabilities and the related taxable income were changed and resulted in tax losses which are amortized over a period of six years.

As indicated in note 2 (f), as of 2014, management has revised its accounting policy in the context of credits received related to ITC benefits generated indirectly through finance lease structures. The benefits were previously recognized as a reduction of the assets' cost and depreciated over the useful life of the assets. These benefits are now recognized as a tax credit and therefore recorded in the income statement under Current tax as ITC benefits generated directly by the acquisition of the aircraft. In 2014, these benefits amounted to US$ 31,7 million.

Unutilized ITC benefits to-date generated through the acquisition of aircraft have not been recognized as a deferred tax asset and are reassessed on a regular basis. The reassessment of these benefits is linked to their expiry dates and they are not expected to be used due to the 2008, 2009, 2011, 2012 and 2013 tax losses. As per the latest business plan, nil of ITC amounting to US$ 95.5 million (2013: US$ 105.2 million) was recognized as a deferred tax asset (in 2013: nil). In addition, an amount of US$ 15.0 million (2013: US$ 13.3 million) of deferred tax losses was not recognized (see note 16).

14. 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	2,238,914	9,349	61,732	68,998	2,378,993
Acquisitions	377,321	825	3,886	168,040	550,072
Transfer from assets under construction	41,388	133	186	(41,707)	-
Reimbursement of advance payments	-	-	-	(99,749)	(99,749)
Disposals (note 7)	(5,574)	(862)	(4,412)	(59)	(10,907)
At end of year	2,652,049	9,445	61,392	95,523	2,818,409
Accumulated depreciation at beginning of year	(545,574)	(8,576)	(39,365)	(2,737)	(596,252)
Charge for the year	(134,390)	(376)	(5,339)	(48)	(140,153)
Impairment loss	(39,800)	-	-	-	(39,800)
Adjustments for disposals	2,800	862	4,273	48	7,983
At end of year	(716,964)	(8,090)	(40,431)	(2,737)	(768,222)
Net book value as of December 31, 2014	1,935,085	1,355	20,961	92,786	2,050,187
Net book value as of December 31, 2013	1,693,340	773	22,367	66,261	1,782,740

Change in estimates

During 2014, the Company reassessed the residual values of the B747-400F airframes and decided to reduce those by almost 40%.

The effect of this change on expected depreciation expenses is as follows:

IN THOUSANDS OF U.S. DOLLAR	2015	2016	2017	2018	2019	LATER
(Decrease) increase in depreciation expense	314	378	314	314	321	(4,490)

In addition, management revised its estimate of depreciation of engines. Certain elements of depreciation are now based on the usage of the engine rather than on the passage of time. This better reflects the cost of usage of the assets.

Impairment loss

As of December 31, 2014, the Group reviewed the carrying amount of aircraft including the residual value assumptions in light of current market condition.
Following the review of the residual values and subsequent impairment tests applied, the carrying amount of several assets exceeded their recoverable amount. Accordingly, the Company recognized an impairment loss of US$ 39.8 million against these aircraft. The estimate of value in use was determined using a pre-tax discount rate of 7% (2013: 7%).

Aircraft subject to finance leases

The Group leases aircraft under finance lease agreements LX-RCV, LX-SCV, LX-TCV, LX-UCV, LX-VCV, LX-YCV, LX-VCB, LX-VCD, LX-VCE, LX-VCF, LX-VCG, LX-VCA, LX-VCH, LX-VCI, LX-VCK and LX-VCJ (2013: LX-RCV, LX-SCV, LX-TCV, LX-UCV, LX-VCV, LX-YCV, LX-VCB, LX-VCD, LX-VCE, LX-VCF, LX-VCG, LX-VCA, LX-VCH and LX-VCI). At the end of each of the leases, the Group has the option to purchase the aircraft at a preferential or favorable price. At December 31, 2014, the net carrying amount of leased aircraft under finance leases was US$ 1,849 million (2013: US$ 1,642 million).

Security

At December 31, 2014, aircraft and equipment with a carrying amount of US$ 1,889 million (2013: US$ 1,653 million) are subject to mortgages to secure the bank loans relating to LX-RCV, LX-SCV, LX-TCV, LX-UCV, LX-VCV, LX-YCV, LX-VCB, LX-VCD, LX-VCE, LX-VCF, LX-VCG, LX-VCA, LX-VCH, LX-VCI, LX-VCK, LX-VCJ and three GEnx spare engines (2013: LX-RCV, LX-SCV, LX-TCV, LX-UCV, LX-VCV, LX-YCV, LX-VCA, LX-VCB, LX-VCD, LX-VCE, LX-VCF, LX-VCG, LX-VCH, LX-VCI and one GEnx spare engine). On May 28, 2008, the Grand-Duchy of Luxembourg ratified the Cape Town Convention on international interests in mobile equipment (Cape Town 2001). The convention was enacted into Luxembourg law effective of December 12, 2008. Some of the Group's aircraft are subject to a mortgage registration in the Cape Town registry.

Capitalized borrowing costs

Assets under construction include capitalization of borrowing costs for an amount of US$ 2.4 million (2013: US$ 3.7 million). The average interest rate used during the year for interest capitalization is 3.8% (2013: 4.2%).

Deposits with third parties

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

15. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

The Group has the following investments in associates and joint ventures:

		OWNERSHIP	
	COUNTRY	2014	2013
Champ Cargosystems S.A.	Luxembourg	49%	49%
8F Leasing S.A.	Luxembourg	33%	33%
Global Aviation Technical Solutions GB (BVI) Ltd.	British Virgin Islands	50%	50%

In 2014, the Group made a contribution in kind to GATS amounting to US$ 3.3 million (2013: US$ 1.6 million).

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

IN THOUSANDS OF U.S. DOLLAR	Ownership	Carrying amount	Assets	Equity	Liabilities	Revenues	Profit/(loss)
2014							
Champ Cargosystems S.A. (associate)	49%	28,420	72,876	32,710	40,166	64,403	2,960
8F Leasing S.A. (associate)	33%	6,544	151,665	13,932	137,733	11,698	(2,052)
Global Aviation Technical Solutions GB (BVI) Ltd. (joint venture)	50%	16,411	31,835	32,832	(997)	4,855	(565)
		51,375	256,376	79,474	176,902	80,956	343
2013							
Champ Cargosystems S.A. (associate)	49%	30,347	61,943	32,444	29,499	64,545	2,399
8F Leasing S.A. (associate)	33%	7,228	162,904	15,983	146,921	11,552	(1,999)
Global Aviation Technical Solutions GB (BVI) Ltd. (joint venture)	50%	13,222	27,288	26,480	808	3,171	(1,351)
		50,797	252,135	74,907	177,228	79,268	(951)

16.DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets and liabilities are attributable to the following:

IN THOUSANDS OF U.S. DOLLAR	ASSETS		LIABILITIES		NET	
	2014	2013	2014	2013	2014	2013
Aircraft and equipment	4,197	13,239	-	-	4,197	13,239
Other property, plant and equipment	-	83	-	-	-	83
Derivative assets	-	-	(2,352)	(2,368)	(2,352)	(2,368)
Trade receivables and other receivables	-	-	(2,069)	(3,740)	(2,069)	(3,740)
Other investments	726	512	-	-	726	512
Finance lease liabilities	-	-	(60)	(5,006)	(60)	(5,006)
Employee benefits	647	-	-	(538)	647	(538)
Derivative liabilities	12,972	16,876	-	-	12,972	16,876
Trade and other payables	5,647	6,883	-	-	5,647	6,883
Provisions	-	-	(17,755)	(15,599)	(17,755)	(15,599)
Benefit of tax losses brought forward	-	-	-	-	-	-
Tax credit on loss carry forward	51,987	46,545	-	-	51,987	46,545
Tax assets / (liabilities)	76,176	84,138	(22,236)	(27,251)	53,940	56,887
Deferred tax assets	-	-	-	-	-	-
Deferred tax liabilities	(22,236)	(27,251)	22,236	27,251	-	-
NET TAX ASSETS	53,940	56,887	-	-	53,940	56,887

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

Deferred tax adjustments of US$ 2.9 million were recognized in equity in 2014 and US$ 12.0 million in 2013 (see note 13).

An ITC for an amount of US$ 95.5 million (2013: US$ 105.2 million) and deferred tax losses amounting to US$ 11.3 million (2013: US$ 10.6 million) were not recognized (see note 13).

17.TRADE RECEIVABLES AND OTHER RECEIVABLES

Trade receivables of US$ 248.5 million (2013: US$ 260.4 million) are shown net of any impairment losses recognized in the current year.

IN THOUSANDS OF U.S. DOLLAR	2014	2013
Trade receivables	248,476	260,429
Prepaid expenses	15,093	20,975
Advances paid to suppliers	3,443	2,984
VAT	7,258	7,871
Derivative assets	2,103	9,344
Other receivables	10,245	3,601
	286,618	305,204

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.

18.OTHEWR INVESTMENTS

IN THOUSANDS OF U.S. DOLLAR	2014	2013
Restricted cash	96,562	79,543
Securities held at fair value through profit and loss	17,583	17,337
	114,145	96,880

Restricted cash comprises an amount of US$ 37.5 million (2013: 11.8 million) of pledged deposits related to aircraft financings and an amount of US$ 56.2 million (2013: US$ 62.4 million) securing letters of credit issued on behalf of the Group, of which US$ 53.5 million (2013: US$ 59.4 million) guarantee the unpaid amount to the EU commission. Cash and securities for an amount of US$ 2.7 million (2013: US$ 5.2 million) are pledged as collateral in derivative transactions.

19.CASH AND CASH EQUIVALENTS

IN THOUSANDS OF U.S. DOLLAR	2014	2013
Bank balances	93,879	81,157
Short term deposits	204,734	75,538
Money market funds	7,433	6,712
Cash and cash equivalents in the statement of cash flows	306,046	163,407

20.CAPITAL AND RESERVES

Share capital and main shareholders

IN THOUSANDS OF U.S. DOLLAR	2014	2013
Issued and subscribed 16,950,857 registered common shares of no par value (2013: 9,971,216)	425,007	250,007

At balance sheet date the main shareholders are:

	2014	2013
Luxair	35.1%	43.4%
HNCA	35.0%	-
Banque et Caisse d'Epargne de l'Etat (BCEE)	10.9%	10.9%
SNCI	10.7%	10.7%
Luxembourg State	8.3%	35.0%

As at December 31, 2014 the share capital of the Company is represented by 16,950,857 common shares which are fully paid in.

On April 23, 2014, the share sale transaction, involving the purchase by HNCA from the Luxembourg State of 3,489,926 common shares representing 35% of the share capital and the voting rights in the Company, as well as 1,395,928 mandatorily convertible bonds issued by the Company, was closed.

In March 2013, the Company closed the issuance of a mandatorily convertible bond with Luxair, BCEE and SNCI, amounting to US$ 100 million.

The extraordinary general meeting of shareholders of September 8, 2011 resolved to renew for a period of 5 years the Company's authorized capital of US$ 100 million and grant authorization to the Board of Directors to issue such instruments. On February 7, 2013, the Board of Directors approved the issue of up to US$ 100 million interest-bearing mandatorily convertible bonds, with a maturity of 2 years. The mandatorily convertible bonds were issued to Luxair, BCEE and SNCI on March 27, 2013 and are expected to be converted into ordinary shares on March 27, 2015 using the authorized share capital (see note 21).

Reserves

Reserves comprise the legal reserve, various non-distributable reserves, net worth tax reserve, the free reserve and the hedging reserves.

Legal reserve

Under Luxembourg corporate law, the Company must allocate at least 5% of the statutory annual net profit to a legal reserve until this reserve reaches 10% of the issued share capital. The legal reserve is not available for dividend distributions. The reserve exceeds the legal limit of 10% of issued share capital.

Net worth tax reserve

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

Hedging reserve

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

21. 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).

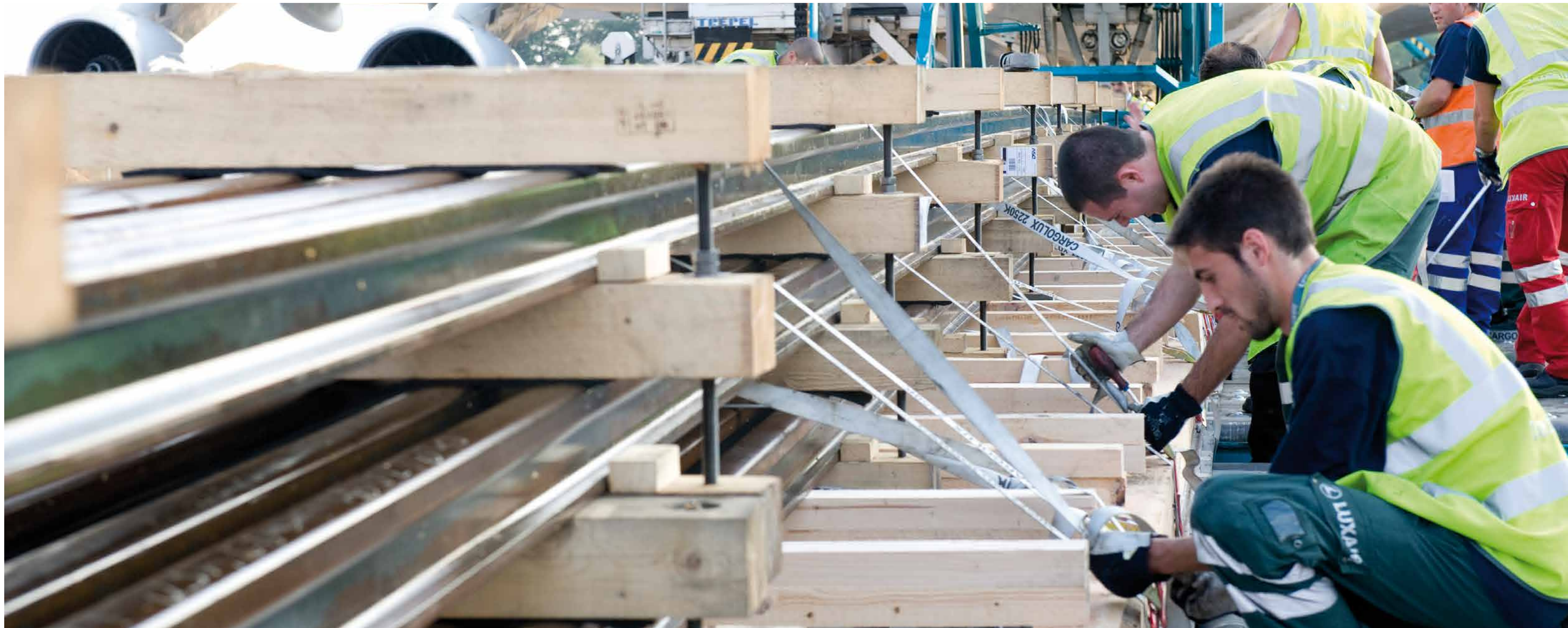
IN THOUSANDS OF U.S. DOLLAR	2014	2013
NON-CURRENT LIABILITIES		
Secured bank loans	29,004	8,175
Loan originated costs	(531)	(104)
Convertible bonds	100,000	100,000
Total:	128,473	108,071
Finance lease liabilities	1,533,534	1,290,957
Loan originated costs	(66,195)	(52,784)
Total:	1,467,339	1,238,173
Grand total:	1,595,812	1,346,244
CURRENT LIABILITIES		
Interest payable on current and non-current liabilities	6,550	5,170
Loan originated costs	(8,830)	(6,830)
Current portion of secured bank loans	42,357	59,799
Current portion of finance lease liabilities	166,817	168,155
Total:	206,894	226,294

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 2014	Principal amount 2013
Secured bank loans	US$	Fixed	2022	33,515	9,265
Secured PDP loans	US$	Libor 1M + margin	2015	37,846	26,500
State guaranteed loan	EUR	Euribor 3M + margin	2014	-	32,209
Convertible bonds	US$	Libor 3M + margin	2015	100,000	100,000
Finance lease liabilities	US$	Fixed, Libor 6M + margin, EIB 3M + margin, Libor 3M + margin	2016, 2017, 2020, 2023, 2024, 2025, 2026	1,700,351	1,459,112
Total interest-bearing liabilities				1,871,712	1,627,086

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	Interest	Principal	Minimum lease payments	Interest	Principal
	2014	2014	2014	2013	2013	2013
Less than one year	199,787	32,969	166,817	191,490	23,335	168,155
Between one and five years	849,385	127,965	721,420	629,876	71,030	558,846
More than five years	895,978	83,864	812,114	780,747	48,636	732,111
	1,945,150	244,798	1,700,351	1,602,113	143,001	1,459,112

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

IN THOUSANDS OF U.S. DOLLAR	2014	2013
Outstanding loans	170,769	167,922
Outstanding finance lease obligations	1,631,937	1,404,616
Total debt	1,802,706	1,572,538
Less cash and cash equivalents and other investments	(420,191)	(260,287)
Net debt	1,382,515	1,312,251
Present value of future lease payments	222,193	211,199
Adjusted net debt	1,604,708	1,523,450
Equity	664,128	482,630
Net debt/equity	208.2%	271.9%
Adjusted net debt/equity	241.6%	315.7%

See also note 5 (e) above.

22.EMPLOYEE BENEFITS

IN THOUSANDS OF U.S. DOLLAR	2014	2013
Fair value of plan assets	(8,387)	(10,290)
Present value of net obligations	14,659	13,784
Recognized liability for defined benefit obligations (see below)	6,272	3,494
Other employee benefits	2,874	3,070
Total employee benefits	9,146	6,564

The Group maintains defined benefit and defined contribution pension schemes for its staff in Luxembourg. Effective January 1, 1997, the terms of the pension plan were amended for all staff who had not reached retirement age at that date. All staff who had retired at this date continue to be covered by the previous plan. Under the new schemes (covering under identical vesting rules the crews and the ground staff covered by collective work agreements and the managers), retirement benefits are generally paid in one lump sum. The rights to pension benefits commence at entry into service date and are fully vested after five 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 2015.

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

IN THOUSANDS OF U.S. DOLLAR	2014	2013
Net liability for defined benefit obligations at January 1	3,494	4,071
Contributions received	(65)	(495)
Pension payments	(445)	(325)
Expense recognized in the income statement (see below)	450	540
Foreign exchange impact	(416)	145
Remeasurements	3,254	(442)
Net liability for defined benefit obligations at December 31	6,272	3,494

Expense recognized in the income statement

IN THOUSANDS OF U.S. DOLLAR	2014	2013
Current service costs	310	395
Interest on pension obligation	140	145
	450	540

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

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

IN THOUSANDS OF U.S. DOLLAR	2014	2013
Discount rate at December 31	2.00%	4.10%
Expected return on plan assets at December 31	2.00%	4.10%

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

23.PROVISIONS

IN THOUSANDS OF U.S. DOLLAR	Anti-trust	Legal	Return cost provision	Heavy maintenance program	total
Balance at January 1, 2014	6,336	2,500	8,804	8,235	25,875
Provisions made during the year	10,944	5,576	2,873	670	20,063
Effect of net present value on provisions	-	-	162	343	505
Provisions used during the year	(451)	(2,176)	(3,321)	(2,518)	(8,466)
Provisions reversed during the year	(318)	-	(127)	(999)	(1,444)
Provision reclassified during the year	-	-	-	-	-
Effect of foreign exchange	5	-	-	-	5
Balance at December 31, 2014	16,516	5,900	8,391	5,731	36,538
Non-current	-	-	7,391	5,010	12,401
Current	16,516	5,900	1,000	721	24,137
	16,516	5,900	8,391	5,731	36,538

In 2014, provisions were recognized to cover the Group against remaining liability risks from pending anti-trust related civil proceedings.

The return cost provision of US$ 8.4 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 provides for two (2013: four) leased aircraft the cost of major aircraft overhaul or so-called "D-checks" and the related costs are recognized to operating expenses in the line item *Aircraft maintenance expenses*, based on the estimated remaining number of years until the next major overhaul.

24.TRADE PAYABLES AND OTHER PAYABLES

IN THOUSANDS OF U.S. DOLLAR	2014	2013
Trade payables	74,701	71,880
Accruals for:		
General and administration	14,666	11,764
Maintenance	14,954	10,926
Fuel	11,846	12,970
Handling, landing and overflying	38,666	33,841
Trucking, truck handling and interlining	7,611	7,893
Incentive and worldwide commissions	21,277	24,664
Staff related costs	11,765	12,486
Derivatives liabilities	25,925	31,753
Anti-trust	96,314	122,038
Amount owed to related parties	3,377	3,462
Deferred income	37,912	47,171
Miscellaneous	8,489	7,106
Total trade payables and other payables	367,503	397,954
of which current	281,095	281,088
of which non-current	86,408	116,866

25.OPERATING LEASES

Non-cancellable operating lease rentals are payable as follows:

IN THOUSANDS OF U.S. DOLLAR	2014	2013
Less than one year	33,568	26,052
Between one and five years	113,073	82,233
More than five years	96,319	110,906

The present value of minimum lease payments related to operating leases of aircraft and the hangar facility amounted to US$ 222.2 million (2013: US$ 211.2 million) at the balance sheet date. This present value was calculated using actual rental terms and a discount factor equal to Libor, respectively Euribor end of the year rates.

26.CAPITAL COMMITMENTS

At the balance sheet date, the Group had firm purchase orders for three B747-8F aircraft to be delivered as from 2015. These deliveries will take the total number of B747-8F in the fleet to fourteen. Based on prices published by manufacturers the total investment amount of the three B747-8Fs is close to US$ 1.1 billion.

The Group constantly reviews its investment program to align it to the extent possible with the market environment.

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

27.CONTINGENCIES

Legal proceedings

The Group is party to legal proceedings, both as defendant and claimant, from time to time in the normal course of its business. In addition, the Group was subject to investigations and proceedings from anti-trust authorities in the US, EU, Canada, Australia, New Zealand, South Africa, South Korea and Switzerland in connection with a worldwide investigation of air cargo carriers regarding alleged violations of anti-trust laws. At balance sheet date, the Group had reached settlements with and/or accepted penalties imposed by the competition authorities in the US, Canada, Australia, New Zealand, Switzerland, South Africa and South Korea. The Group's application for annulment of the EU Commission's 2010 decision that imposed a fine of EUR 79.9 million against the Group is still pending before the EU General Court.

In the wake of the anti-trust proceedings, civil lawsuits have been launched in the US, in Canada, in England, in the Netherlands, in New Zealand, in Norway, in South Korea, in Germany and in Australia against a number of air carriers, including against the Group. The Group settled the class action claims in the US, in Canada and in Australia in previous years. As foreseen by US procedure, some plaintiffs "opted out" of the class settlement and may individually pursue their alleged claims against the Group. After procedural clarifications, some of the civil proceedings in England and in the Netherlands were resumed after having been stayed pending to the decision on the application to annul the mentioned EU Commission.

In 2014 and prior periods, the Group had constituted provisions to cover the Group's exposure with respect of the anti-trust related proceedings (see also notes 11 and 23).

28.RELATED PARTIES

Identity of related parties

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

The Group is an entity that is controlled by the State of Luxembourg directly and indirectly via its shareholders. The Group uses the exemption in IAS 24 and discloses below only the individual significant related party transactions. The Group has transactions and balances with government agencies and administrations that are customary to any entity and which have not been disclosed as a related party below.

Key management personnel and directors

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

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

IN THOUSANDS OF U.S. DOLLAR	2014	2013
Salaries and profit sharing	7,276	4,989
Contribution to pension scheme and accident/invalidity insurance	1,108	1,169
	8,384	6,158

These amounts, which are paid in euros, are included in *Personnel costs and benefits* (see note 11).

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 or the Audit Committee of the Board are paid attendance fees. The total remuneration of Directors was as follows:

IN THOUSANDS OF U.S. DOLLAR	2014	2013
Directors	575	471

Shareholders

- The Group pays landing fees to the "Administration de la Navigation Aérienne". The amount charged to operations for such services was US$ 11.3 million (2013: US$ 11.6 million).
- The Group pays handling fees and other service charges to Luxair in Luxembourg. The amount charged to operations for such services was US$ 74.7 million (2013: US$ 75.6 million).
- The Group pays interest of US$ 5.3 million (2013: 4.0) on the mandatorily convertible bonds.
- Interest and commissions of approximately US$ 0.16 million (2013: US$ 0.25 million) were paid in 2014 and US$ 0.03 million (2013: US$ 0.01 million) of investment income was received in 2014 from banks which are shareholders.
- The Group pays commitment fees of US$ 0.6 million (2013: US$ 1.1 million) for a credit line guarantee to the State of Luxembourg.
- The Group receives freight and maintenance revenues from Luxair. The amount invoiced was approximately US$ 0.6 million (2013: US$ 0.5 million).

Joint ventures and associates

During the year ended December 31, 2014 the Group paid US$ 32.1 million (2013: US$ 28.8 million) for IT services to Champ Cargosystems S.A., overhead fees of US$ 1.1 million (2013: US$ 1.0 million) to Global Aviation Technical Solutions SECS and aircraft rentals of US$ 11.7 million (2013: US$ 11.5 million) to subsidiaries of 8F Leasing S.A..

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

Accounts receivable and deposit with related parties:

IN THOUSANDS OF U.S. DOLLAR	2014	2013
Associates and Joint Venture	16,518	13,244
Shareholders	133,860	17,005
	150,378	30,249

Accounts payable and loan from related parties:

IN THOUSANDS OF U.S. DOLLAR	2014	2013
Associates and Joint Venture	4,601	5,512
Shareholders	102,411	110,372
	107,012	115,884

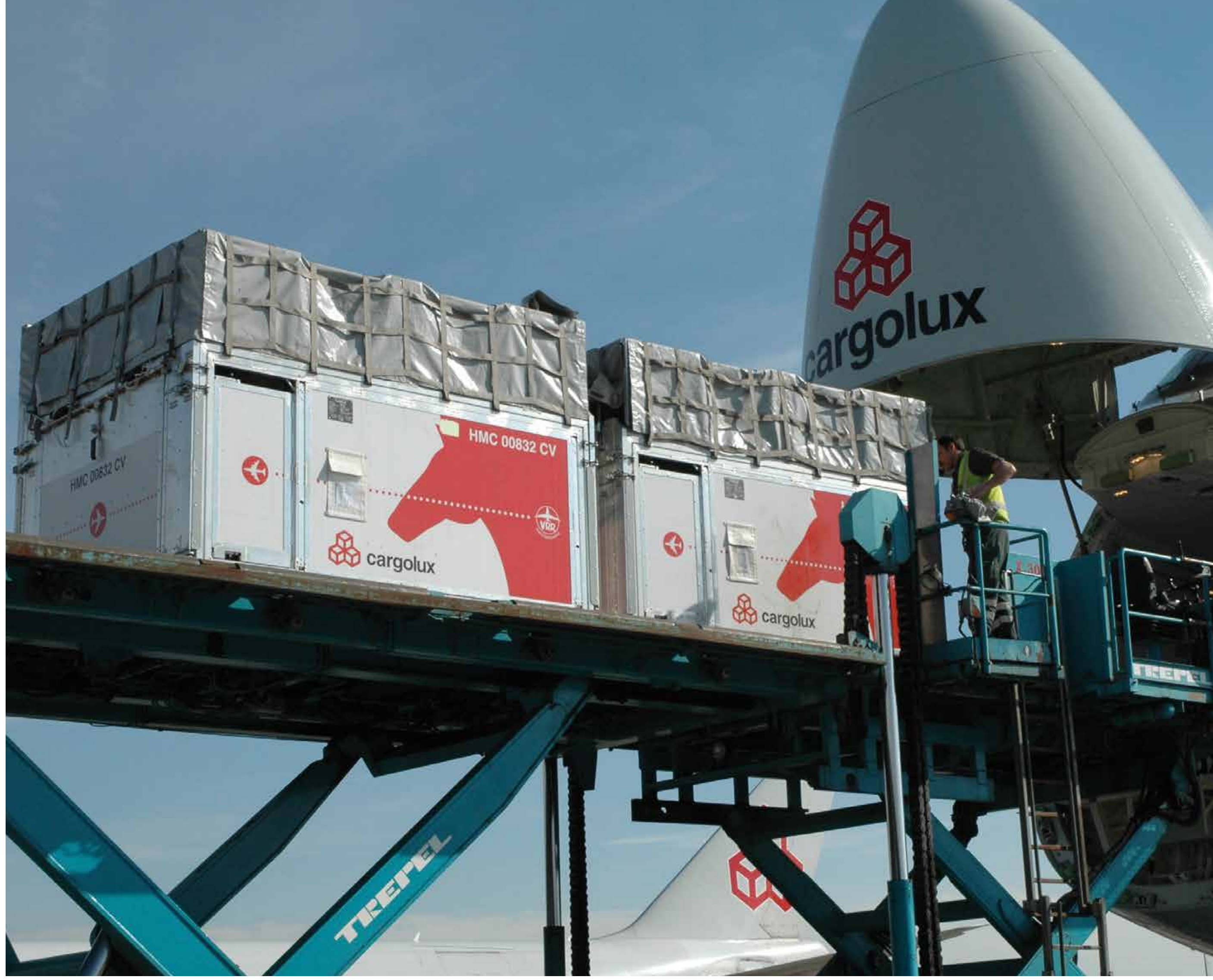
Structured entities

A number of structures entities have been established for the purpose of aircraft financing, notably in the context of finance leases. Given the nature of the contractual arrangements, the assets and liabilities are shown on the balance sheet in accordance with account policy 3 (c).

29. GROUP ENTITIES

Subsidiaries

	COUNTRY OF INCORPORATION	DIRECT OWNERSHIP	
		2014	2013
Cargolux RE S.A.	Luxembourg	100%	100%
Cargolux Italia S.p.A.	Italy	40%	40%
Italia Aerologistics S.R.L.	Italy	98%	98%



30. 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 three extension options for incremental five 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 fifteen years.

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

Deferred tax asset and investment tax credits

Deferred tax assets are recognized on tax losses and/or investment tax credits (see note 13). Their recoverability is based on the most recent business plan available at each balance sheet date and represents a significant estimate. The recognition of ITC benefits generated through finance leases are reflected in current tax following the change in accounting policies as explained in note 2 (f).

Heavy Maintenance Check

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

Provision

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

Residual values of aircraft

Management estimate of residual values is reassessed regularly on the basis of fact and circumstances existing at year end. Estimated market values published by external appraisers, observable transactions or usage of the aircraft are among factors that would, when appropriate lead to revisions to the residual values. This was the case in 2014 (See note 3 (d)(v) and note 14).

31. SUBSEQUENT EVENTS

No event occurred after balance sheet date.

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To the Shareholders of
Cargolux Airlines International S.A.
Aéroport de Luxembourg
L-2990 Sandweiler

REPORT OF THE REVISEUR D'ENTREPRISES AGREE

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, 2014 and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board of Directors' responsibility for the consolidated financial statements

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

Responsibility of the Réviseur d'Entreprises agréé

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the judgement of the Réviseur d'Entreprises agréé, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the Réviseur d'Entreprises agréé considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of Cargolux Airlines International S.A. as of December 31, 2014, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Report on other legal and regulatory requirements

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

Luxembourg, March 20, 2015

KPMG Luxembourg
Société coopérative
Cabinet de révision agréé

Thierry Ravasio

04

SUSTAINABILITY REPORT 2014

It is undeniable that aviation plays its part in the global climate change and Cargolux accepts the responsibility it has. By choosing the most energy-efficient freighter aircraft currently available, Cargolux has demonstrated its commitment to operate with the lowest possible impact on the environment.

Our fleet is one of the most fuel-efficient and quietest in its class. At the end of the reporting period, 11 out of 22 Cargolux 747 freighters were next-generation Boeing 747-8 freighters, which are even more fuel-efficient than its predecessor, the 747-400 freighter, and produce lower noise disturbances at the communities surrounding the airports where we operate. The remaining 11 aircraft in Cargolux's fleet were 747-400 freighters, itself still one of the most efficient and quietest aircraft available.

Cargolux is firmly integrated into its neighboring communities, in particular at its hub in Luxembourg. We contribute to their economic strength, securing stable and rewarding employment to many households. Our commitment extends further to promoting education, research, culture and sports activities, as well as supporting humanitarian NGOs.

ECOVADIS

Ecovadis provides a solution for the monitoring of sustainability in global supply chains; Cargolux is one of the companies audited by Ecovadis. This produces a reliable assessment of the airline's corporate social responsibility performance through comprehensive feedback, benchmarks and tools. Its methodology is based on sustainable development standards of the Global Reporting Initiative GRI, the United Nations Global Compact and ISO 26000.

2014
CSR Rating
SILVER
ecovadis

IN THE TOP 23%

OF SUPPLIERS ASSESSED
IN THE AIR FREIGHT
TRANSPORT CATEGORY

IN THE TOP 11%

OF SUPPLIERS ASSESSED
IN ALL CATEGORIES

AWARDS

- Best freighter only airline 2014 by Air Cargo News
- Highest Volume Cargo Airline 2014 by Budapest Airport
- 10th anniversary: in recognition of its commitment to the Barcelona Airport
- Number 4 Airline in absolute cargo growth (Changi Airlines Awards 2014)

AT A GLANCE

Key figures:

- 1,710 Staff worldwide
- 6,364 million tonne-kilometers flown
- 22 aircraft – biggest fleet in the company history. 11 each 747-400Fs and 747-8Fs (2 ↗ in 2014)
- Europe's biggest all-cargo airline
- First GDP certified airline worldwide
- Four Cargolux stations accredited as Qualified Envirotainer Provider.
- Inaugural flight to Zhengzhou in June, first 10,000 tonnes transported in November
- 14:46 hours daily aircraft utilization (all-time high average daily aircraft utilization of its Boeing 747-400 freighter fleet in the first week of April 2014 - 17:23 hours)
- All-time record performances in November: During November, Cargolux carried 76,504 tonnes of freight, more than in any other month in its history and 3.1% higher than November 2013. For the 11 months to November 2014, Cargolux grew its tonnage by 10.5% against the same period in 2013.

Cargolux Airlines International S.A. is a leading global all-cargo airline, based in Luxembourg, operating a fleet of modern Boeing 747-8 and 747-400 freighters. We provide air freight transport services to freight forwarders in most parts of the world through scheduled and charter flights.

This includes the regular transportation of perishables, temperature and shock-sensitive goods, supply-chain goods, project cargo, finished commodities and live animals on our worldwide network that covers some 90 destinations. The company has developed a unique expertise in the handling of fragile and also outsize commodities that require increasingly sophisticated logistics. Our highly trained and dedicated staff guarantees the best possible service to our customers.

Cargolux also offers third-party maintenance services at its maintenance center in Luxembourg. The company is specialized in 747 line and hangar maintenance up to and including C-checks. Its services offering also includes a range of other specialized maintenance work such as, but not limited to, avionic modifications, structural repairs and worldwide AOG support.

Innovative concepts and the constant drive for quality have earned Cargolux a number of awards throughout the years. In 2014, the company was awarded the 'Best Freighter-Only Airline' by Air Cargo News, 'Highest Volume Cargo Airline 2014' by Budapest airport, '10th anniversary: in recognition of its commitment to Barcelona Airport' and ranked number 4 in absolute cargo growth at the Changi Airlines Awards 2014.

Operational structure of the organization

- Flight Operations
- Sales, Marketing and Ground Operations
- Finance and Administration
- Human Resources, Legal Affairs and Compliance
- Maintenance and Engineering
- Corporate Services

Significant changes during the reporting period regarding size, structure or ownership

On 23 April 2014, the Henan Civil Aviation and Investment Co., HNCA, through its Luxembourg subsidiary, HNCA (Luxembourg) S.à.r.l., acquired 35% of Cargolux shares from the Luxembourg government, which had previously taken over these shares from Qatar Airways. At the same time, the State of Luxembourg remained a Cargolux shareholder with 8.32% of shares obtained from Luxair. Luxair remains Cargolux's largest shareholder with 35.10%.

Precautionary principles and Risk Management

Cargolux is firmly committed to ensuring full compliance with all applicable laws and regulations, as well as adherence to internal rules and policies. We are convinced that ethical corporate and individual behavior is a precondition for sustainable and profitable business relationships, fostering trust and avoiding the risk of reputational and other damage.

Prevention is rooted in the Cargolux Ethics Code and Policies that form the company's constitutional documents. They summarize the principles that guide the Cargolux staff in doing business. Good, sustainable business is always driven by values. Cargolux's values – dedication, respect and integrity, are also the basis for the ethics code.

The Enterprise Risk Management (ERM) program was further developed in 2014. The bottom-up identification of risks is about to be concluded in the second quarter of 2015, consequently resulting in the fact that, for the key processes of all six divisions of the Cargolux entity, process-inherent risks have been mapped. Such mapping was done in close co-operation with the business. The mapping of previous years resulted in the creation of a risk-based internal audit plan. Once the results of the remaining divisional mapping become available in the second quarter of 2015, they will be taken into account for our 2016 internal audit plan. As of 2016, a second review of the divisional key processes will be initiated, in order to update already identified risks and controls. Also, a process review will be done for each division in order to identify new processes which are relevant for the ERM.

In addition to the above, and in close cooperation with the business, a risk review of Cargolux IT's setup was concluded in 2014. It identified 10 key business applications, 8 key interfaces and 6 critical parts of the IT infrastructure. Cargolux's IT Committee validated and approved the results of the risk review, which was undertaken by the internal audit function. As a result thereof, Internal Audit reviewed three key applications in 2014, leading to several changes in their utilization. Also, the internal audit plan for 2015 foresees a review of five key interfaces that will be complemented by an IT risk assessment of Cargolux' external IT services provider.

Business risks are continuously monitored by management and where required are brought to the attention of the Board. The key risks of the entity can be found in section 3 of this report. A risk cockpit on current risk indicators for financial risks was initiated by the internal audit function in 2014. Further development of this tool is foreseen in 2015, with the objective of providing transparency on strategic risks for the entity. Consequently, necessary policies for a risk committee have been drafted. Whereas focus has been concentrated on financial risks confronting the entity, the intention is also to broaden the scope.

The ERM Program is another important part of the sustainable development of the company. It aims to identify and assess risks that could adversely impact the company's objectives, ensures that reporting is done effectively and that the company is compliant with rules and regulations. The ERM is developed in line with the ISO 31000 standard. The ERM will be used to manage risks and seize opportunities related to the achievement of the airline's objectives.

Industry associations and organizations

- UN GLOBAL COMPACT

At Cargolux, we are committed to operating and acting in a socially and environmentally responsible manner and have underpinned this commitment in 2007 when we signed up to the UN Global Compact, pledging to apply its 10 key principles.

- UN GLOBAL COMPACT FOUNDATION

In 2012, Cargolux became gold contributor of the UN Global Compact Foundation.

- CORPORATE CHARTER FOR SOCIAL RESPONSIBILITY AND SUSTAINABLE DEVELOPMENT

Already in 2005, Cargolux signed the *Corporate Charter for Social Responsibility and Sustainable Development*, an initiative launched by the Luxembourg Chamber of Commerce

- INTERNATIONAL AIR TRANSPORT ASSOCIATION

The International Air Transport Association (IATA) is the trade association for the world's airlines, representing some 250 airlines or 84% of total air traffic. It supports many areas of aviation activity and helps to formulate industry policy on critical aviation issues.

Cargolux is member of IATA's Air Cargo Carbon Footprint (ACCF) working group.

- ASSOCIATION OF EUROPEAN AIRLINES (AEA)

The AEA is a non-profit industry association representing 29 of Europe's major airlines.

AEA works together with the institutions of the European Union and other stakeholders in the value chain to ensure the sustainable growth of the European airline industry in a global marketplace.

- CARGO 2000

Cargo 2000 is the name for a joint effort by a group of airlines and forwarders (members), and, today, is an IATA interest group aiming at improving the work processes in the air cargo transportation from shipper- through-to-the-consignee (end-to-end).

As a platinum member, Cargolux finds itself among only nine members that have reached the highest level of the C2K classification system.

- SAFUG

Cargolux is a founding member of SAFUG (Sustainable Aviation Fuel Users Group), a cross-industry initiative that aims at promoting and bringing onto the market sustainable aviation biofuels.

This report provides information for the calendar year 2014. The previous report was published in April 2014. It is published annually.

Its elaboration is based on the continued analysis of the company's main impact and responsibilities, both with regard to the environment and society, and relative to the concerns raised by key groups of stakeholders in this area.

This report is prepared in accordance with the CORE requirements of the G4 guidelines of the Global Reporting Initiatives. Cargolux endeavors to constantly review and further elaborate its Corporate Social Responsibility program and the Sustainability Reporting Process.

This report pertains to Cargolux's operations and geographical presence overall, except where otherwise specified in the report. Certain indicators cover our Luxembourg-based activities only. These include figures relating the company's employees as well as data related to occupational health and safety. Data monitoring the company's waste disposal also relates to our facilities in Luxembourg only. The report does not cover the activities of separate legal entities fully or partly owned by Cargolux. Our monitoring of fuel consumption and CO$_2$ emissions includes the data collected by Cargolux Italia.

Contact point

We invite all interested parties to enter into dialogue with us about our sustainability policy, our activities and this report. Our policy, further information about our activities and previous reports can be found on our website at **www.cargolux.com/corprespons**. All comments and enquiries are welcome and can be forwarded to us through the contact form on the aforementioned webpage, or by writing to **corpcom@cargolux.com**.

11.31%

OF THE AIRCRAFT MOVEMENTS IN LUXEMBOURG*

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

We are engaged in an ongoing dialogue with our stakeholders via public meetings, direct representation or the media.

Frequent and regular meetings between the senior management and the staff are a long-standing tradition at Cargolux. They are complemented by a variety of communication initiatives towards employees, including email, intranet, video, webcasts and electronic newsletters.

Cargolux, in 2014, had to deal with difficult market conditions and economic crises in many parts of the world that had an impact on its operation. The airline also saw changes in its shareholder structure and established a new, strong management team. This helped Cargolux to defend its position as a leading supplier of recognized, high-quality air cargo services in a very challenging environment.

The management maintained an open dialogue with the employees who were kept informed about important developments through a variety of communication channels, including the opportunity to submit questions and relay concerns to the management.

The materiality matrix reconciles the sustainability objectives of the company with those of its stakeholders and the overall strategy of the company.

IMPORTANCE TO STAKEHOLDERS	IMPORTANCE TO CARGOLUX'S BUSINESS		
	LESS SIGNIFICANT	SIGNIFICANT	VERY SIGNIFICANT
VERY SIGNIFICANT		- Employee training & Development - Noise emissions	- Carbon footprint - Environmental compliance - Safety - Regulatory compliance
SIGNIFICANT	- Waste management	- Labor relations - Sustainable Procurement Practices - Community involvement	- Integrity - Ethical business practices - Employee Health & Safety - Economic Performance
LESS SIGNIFICANT		- Diversity - Employee engagement	- Corporate governance

*2013 figures

OPERATIONAL SAFETY

Following EASA, the European Aviation Safety Agency, requirements, Cargolux maintains a safety management system (SMS) that is based on ICAO, the International Civil Aviation Organization, guidelines and recommendations. It embraces all stakeholders within the company, especially the Flight Operations Department, as well as the Maintenance and Engineering and Ground Operations Divisions.

Cargolux's safety management system is overseen by a dedicated team of investigators, analysts, risk management and safety experts, who directly report to the EVP of Flight Operations, who is the accountable manager. Additionally, safety critical issues can quickly be addressed through direct communication between the aviation safety department and the responsible, nominated persons.

The Cargolux Safety Review Board (SRB), the airline's highest governance body for safety-related issues, comprises all nominated persons, as required by EASA. The board regularly meets to analyze and advance the operational safety performance of Cargolux.

The SMS includes pro-active and re-active safety reporting, flight data monitoring, hazard identification and risk management. These and other elements can identify and mitigate potential safety-related issues, thus keeping risks as low as reasonable possible.

A number of safety performance indicators measure the effectiveness of safety barriers. These indicators are regularly presented to the process owners, as well as the SRB, to analyze potential problem areas and take pro-active risk control action.

Cargolux's drive for continuous change and improvement within the organization supports the move towards a risk-based decision-making for operational issues; this culture is aligned with a systematic operational risk management. The process includes the implementation of management of change and safety issue risk assessment procedures that enable a structured, pro-active risk assessment. They are documented in Cargolux's management system manual and are mandatory for all operational stake holders.

The organization has recognized crew fatigue as a safety issue that needs to be monitored. Consequently, Cargolux has established fatigue risk monitoring (FRM) as part of its SMS, using recommended practices based on ICAO guidelines. A dedicated group of FRM safety officers, pilots' representatives and flight operations management meets regularly to discuss fatigue-related issues and recommend to management processes and procedures to reduce and/or control crew fatigue.

Improving the effectiveness of FRM with scientific tools allows Cargolux to better measure and predict the fatigue level of pilots during flight duties. It also enables management to take action before fatigue-related issues occur.

In 2014, the Cargolux Aviation Safety Department accomplished the change to EASA Part-Ops regulations, incorporating not only the Flight Operations department, but also Ground Operations and Maintenance into the process. A new, up-to-date management system manual was created in coordination with the Compliance Monitoring Department. It incorporates a wide operational risk management and management of change process. Seven major safety issue risk assessments and documented operational change management were conducted as part of this process.

During 2014, the company hired a dedicated engineer in an effort to further enhance its flight data monitoring. This measure aims at raising data quality and reliability. Building on an already high recoding reliability of over 97%, this step also underlines Cargolux's constant strive for data quality improvement and the increase of quality output for operational trend monitoring.

Over 1,000 safety reports submitted in 2014 were analyzed, classified and investigated. A steadily growing rate of pro-active reports enabled the airline to take actions before hazards become an event.

Several of the Cargolux Aviation Safety Department members are involved in safety industry groups and contribute to generating best practices that are implemented within Cargolux. These groups include the IATA Safety Group, the IATA Hazard Identification Task Force, the Accident Classification Taskforce, the European Civil Aviation Safety Team and the EASA European Operators Flight Data Monitoring Initiative.

ETHICS AND COMPLIANCE

Cargolux's established compliance program creates a comprehensive safeguard for the company's business. It enables our employees and agents operating in diverse cultural, political and economic environments to identify legal and ethical challenges and provides them with the necessary tools to handle such situations.

Ethical corporate and individual behavior and integrity nurtures sustainable and profitable business relationships. Based on this belief, we are firmly committed to an ethical business culture and promote compliance with all applicable laws and regulations as well as adherence to internal rules and policies.

Training

The Cargolux compliance training program, which incorporates online and classroom courses, introduces the company's legal obligations, values and ethical principles to all employees, sales agents and legal representatives worldwide. It covers a large variety of compliance subjects such as anti-corruption, anti-bribery, money laundering, export controls (embargoes and rules applicable to special commodities), tax evasion, fraud, private data protection and anti-competitive behavior. In 2014, we conducted a total of 2,856 hours of compliance training and trained 1,247 individuals.

Export Control

Cargolux has established state-of-the-art procedures, as well as manual and electronic controlling systems, to ensure full compliance with embargoes applicable to individual countries. A targeted training imparts special procedures for shipping goods to restricted countries and enables Cargolux staff to ensure that the airline does not violate embargoes.

Confidential Reporting

A confidential reporting system, provided by a specialized and independent external organization, enables individuals to report potential misconduct in complete confidentiality. It helps Cargolux to uncover potential breaches of laws, internal rules or procedures and to prevent reoccurrences.

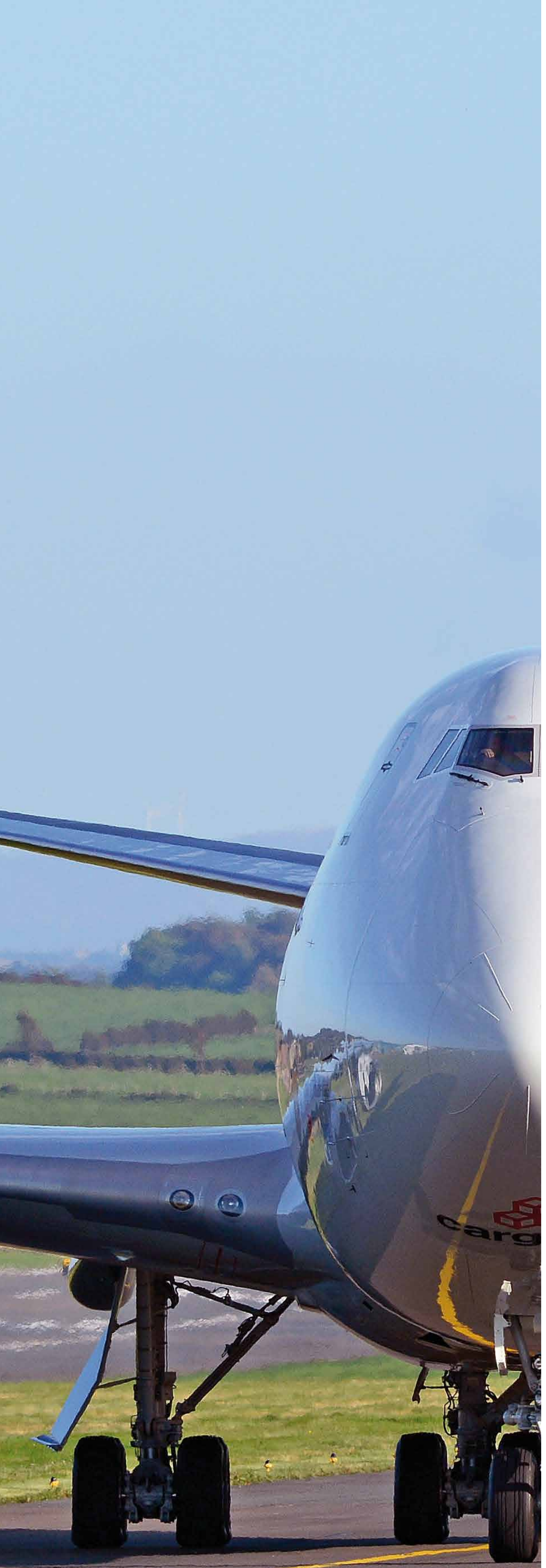
Our Compliance Consultation Desk that aims to accurately and quickly respond to employees' questions regarding applicable rules and their interpretation, has seen continuous growth in the number of submitted questions since its launch in 2009.

Risk Analysis

Cargolux deals with a number of business partners and suppliers worldwide. In order to ensure that these companies work according to our business ethics and compliance principles, we perform due diligence on partners classified as medium and high risk. This risk classification is country specific according to a corruption perception index and is also based on the type of services rendered.

Cargolux is based in a country with very high standards in respect of the observance of human rights. Human rights issues therefore play a minor role in the company's daily business at its home base. However, our service level agreements require that our partners and suppliers also comply with our values and ethics and observe human rights in their business activities.

DISCLOSURE ON MANAGEMENT APPROACH



Cargolux recognizes that its activities have an impact on the environment in general and on the communities around the airports it serves in particular. The company commits to lessen this impact as much as possible and has set a number of near and long-term goals to achieve this.

Operating the most efficient and environmentally friendly aircraft results in a measurable improvement in fuel efficiency as well as a reduction in noise and CO_2 emissions. The introduction of the new Boeing 747-8F fleet represents a significant investment for the company in monetary terms but yields excellent results, not only operationally but also for the environment. Communities, especially, benefit from a further 30% reduction in take-off noise compared to the already excellent values that the company's 747-400 freighters show.

Yet, Cargolux's various programs to reduce greenhouse gas emissions go beyond the operation of a 'green' fleet of aircraft and extend to its ground service vehicles, maintenance equipment and office facilities in Luxembourg. The company's Ground Operations Division and its Luxembourg Station, as well as its Flight Operations Division, the Type Rating Organization and its Maintenance and Engineering Division are ISO 14001 certified, underlining its efforts to lower the environmental impact of its operations. Additionally, Cargolux continuously assess the environmental commitment of its ground handling agents throughout its network. The company's environmental management system follows the requirements of the ISO 14001 certification in defining how to approach environmental challenges.

Cargolux also encourages its staff to cut down on waste and has made conscious efforts to better control and segregate waste at its home base in Luxembourg.

Cargolux is a major employer in Luxembourg and creates many jobs, not only at its home base, but also at many airports and communities around the world. However, as a good corporate citizen and neighbor, the company strives to further support the community, introducing young people to the many career opportunities in air cargo through school visits, presentations and a close relationship with the Lycée Technique Privé Emile Metz in Luxembourg that runs an aircraft mechanics apprenticeship program. In addition, Cargolux supports a number of NGOs that bring relief goods and medication to victims of natural disasters or health crisis around the world. The world of arts and culture benefits from the airline's continuing support in flying artworks to and from exhibitions all over the globe.

As a leader in the air cargo industry, Cargolux is regularly honored with a range of industry awards. But the company also recognizes the efforts that its suppliers and partners make in the field of environmental protection and health and safety awareness. It has created the Cargolux DGR Awareness award that is annually presented to a Cargolux partner for outstanding achievements in the safe and environmentally conscious handling of dangerous goods. It is Cargolux's way of giving back some of the good it receives.

STAFF AND EMPLOYMENT

AT A GLANCE

- Total number of employees 1,710: 6.5% increase in staff throughout the Cargolux network, the majority being flight crews.
- Diversity: 20% women, an increase of 7.6% compared to previous year.
- More than 4,000 job applications, 1,150 crews
- Average seniority of CV staff worldwide: 12.09 years
- 55.6% year-over-year decline of internal accidents at the Maintenance & Engineering Division, despite a 3.68% increase of man-hours in 2014 with stable manpower.
- 81.8% year-over-year decline of lost hours due to external accidents.
- 46% decline in lost days for accidents, compared to previous year, while lost days for sickness remain stable.

LU	446
DE	314
BE	143
FR	103
US	87
NL	67
GB	66
IT	64
50 OTHER NATIONALITIES	<40

4.4%
TURNOVER RATE

Cargolux employs people from many nations, making for a multi-cultural work environment characterized by tolerance and respect.

NATIONALITIES OF THE EMPLOYEES WORLDWIDE

At the end of 2014, Cargolux employed 1,710 staff, 6.48% more than at the end of 2013. 1,305 of those were employed in Luxembourg while 405 staffed our offices and stations around the world. The company's very low turnover rate of 4.4% is a confirmation of our employees' loyalty towards Cargolux.

The air cargo industry is a typical male-dominated industry, the company therefore is proud that its rate of female employees in 2014 increased by 7.6% against 2013.

DIVERSITY - BALANCE MALE / FEMALE STAFF

7.6%
INCREASE

TOTAL STAFF		PERMANENT CONTRACT		HEADQUARTERS		REST OF THE WORLD	
MALE	FEMALE	MALE	FEMALE	MALE	FEMALE	MALE	FEMALE
1,370	340	1,271	309	1,133	172	237	168

The Cargolux Spirit

- Leading by example
- Respecting each other
- Working as a team
- Being dedicated and passionate
- Going the extra mile
- Being cost efficient
- Being flexible
- Delivering service excellence

cargolux
you name it, we fly it !

The company's Human Resources Department takes great care to recruit candidates whose ethics, attitude and expectations are complimentary to the way the company works. This not only has a positive effect on the turn-over rate, it also guarantees that future employees enjoy the work environment at Cargolux, develop their skills and feel comfortable in their role within the organization. People who love to work for the company build the success that Cargolux enjoys.

At Cargolux, we are committed to create a highly engaged workforce whose vision, values and customer focus drive everything the company does. In Luxembourg and at our stations, we are looking for people who are passionate about aviation and love to work in a friendly and transparent environment to achieve our ambitious goals.

THAT'S THE SPIRIT

Cargolux feels privileged that its employees often go beyond their scope of duty to find solutions for problems or help out when things out-of-the-ordinary require unusual and swift actions. This Cargolux spirit has made the company big and lead it the very top of the industry. It is alive and well in 2015 and has led to the definition of a number of principles that embrace it.

TRAINING

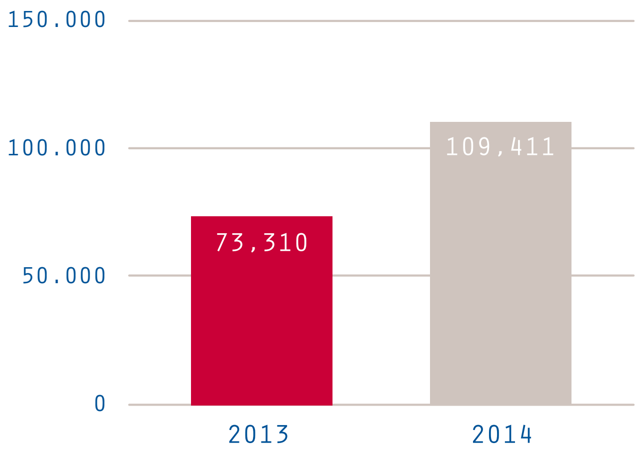
Cargolux makes a range of continuous trainings available to its staff, covering both compulsory and voluntary trainings. Flight crews and maintenance staff, as well as the ground operations staff, regularly go through courses that enhance their knowledge and skills or familiarize them with new procedures and regulations as well as maintain or upgrade their licenses. These training sessions are essential to the operational safety as well as the efficiency of the company.

Based on individual and business requirements, a broad selection of training topics is proposed. They offer employees opportunities to enhance their capabilities and knowledge in order to advance their career possibilities or to grow in fields needed to ensure the success of Cargolux in a highly competitive business environment.

Trainings are conducted either as web-based or classroom trainings.

In total, Cargolux conducted 109,411 training hours for its employees in 2014. This represents an average of 64 hours of training for each individual employee.

TOTAL TRAINING HOURS



In 2014, technical training hours went up by 67%, compared to the previous reporting period. The increase is due to additional trainings such as full B747-400 B1 courses over nine weeks and additional trainings on aircraft engines that lasted one week per engine type.

The company offers its staff in Luxembourg the possibility to attend language courses in Luxembourgish to support the integration of foreign language staff members into the communities and social life in Luxembourg.

Finally, Cargolux started preparations for the introduction of an evaluation system for management and exempt staff in 2014; the system will be fully launched in 2015.

HEALTHY WORKING

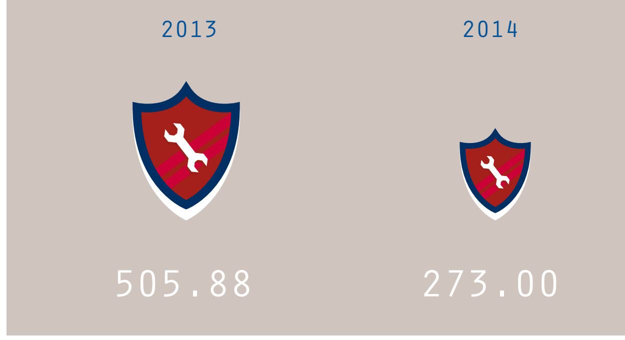
Our success is directly attributable to the people employed at Cargolux. The company is therefore deeply committed to provide a healthy and safe working environment for every single staff member and to protect their health, safety and welfare.

This goes especially for those who work in higher-risk environments, such as maintenance and ground operations, and who might be exposed to potentially dangerous situations because of the use of specific tools and machinery, working at height, the handling of hazardous substances or working close to an aircraft.

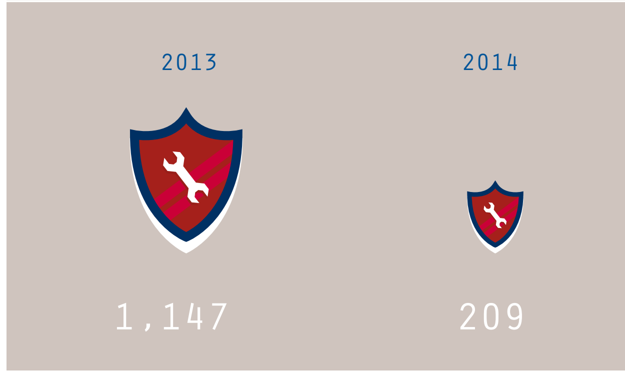
To ensure this, the Maintenance & Engineering Division is fully OHSAS 18001 certified. OHSAS 18001 is the international assessment specification for occupational health and safety management systems that develop a systematic management approach to operational health and safety issues.

The drastic reduction in lost days for accidents from 2013 to 2014 was mainly the result of the Operational Health and Safety staff's presence on site, where they could actively assist and give advice to staff members working in higher-risk environments. Their on-site presence also created a heightened awareness for hazardous substances.

LOST DAYS FOR ACCIDENTS



LOST DAYS FOR ACCIDENTS WAY HOME



ENVIRONMENT

AT A GLANCE

- CO_2 emissions reduced by 12.3% since 2011* ($CV + C8$ CO_2 efficiency evolution)
- 28% reduction of solvent with halogens
- Breakdown of recyclable waste

Key figures:

- **22 747 freighters:** 11 747-8F, 8 747-400F, 2 747-400BCF, 1 747-400ERF
- **Average age** of the fleet on 31.12.2014: 7.6 years

Fuel & Emissions

One of the best carbon footprint in its class

- **Jet fuel** 1,010,977.73 tonnes
- **CO_2 emissions:** 3,184,579.85 tonnes CO_2
- **Carbon footprint:** CO_2 footprint: 500gr/FTK

Noise:

One of the best noise footprint in its class

- 100% of the Cargolux fleet is compliant with ICAO Chapter 4

Waste:

- **Waste:** 24% of produced waste is recyclable (Luxembourg only)

CLIMATE COMMITMENT

Our goals

Cargolux has defined near and long term goals that follow IATA's targets for airlines to reduce CO_2 emissions with the aim to eventually achieve carbon-neutral growth.

Cargolux commits to

- an average improvement in fuel efficiency of 1.5% per year until 2020;
- a cap on aviation CO_2 emissions from 2020, in effect carbon-neutral growth;
- a reduction in CO_2 emissions of 50% by 2050, relative to 2005 levels.

FUEL CONSUMPTION

Cargolux has made significant investments to achieve these goals. Because a reduction of CO_2 emissions can most effectively be reached through a reduction of aircraft fuel consumption, the airline has begun a fleet rollover program in 2011 that sees the introduction of the Boeing 747-8 freighter, the most fuel efficient and environmentally friendly aircraft in its class, gradually replacing Cargolux's 747-400 freighter, which, in itself, still remains as one of the most efficient cargo aircraft in operation today.

FUEL EFFICIENCY

RECORD **0.159** KGS OF FUEL/FTK

INITIATIVES

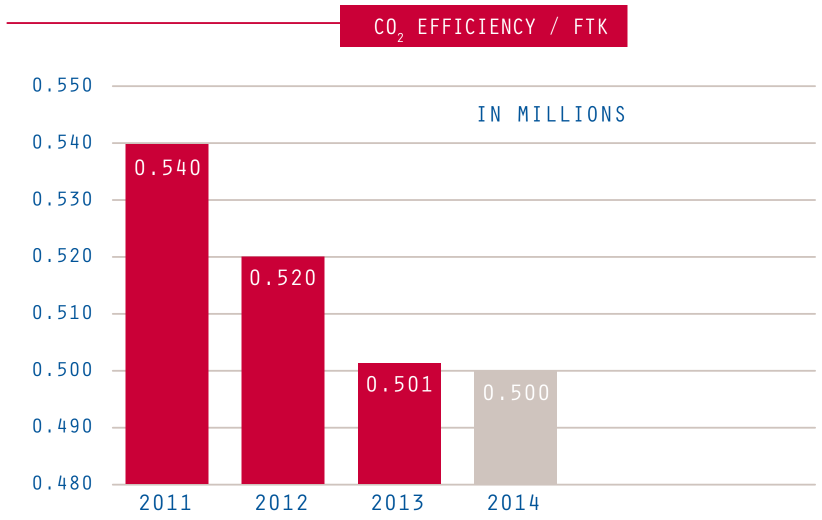
Relying on the seamless cooperation of its commercial, operations and maintenance divisions, Cargolux counteracted the prevailing economic challenges in the worldwide markets it served in 2014 with an optimized network and flexible operations. Consolidating and re-routing flights resulted in an efficient balance between cost control and revenue generation. As a positive effect, it also enabled us to minimize fuel consumption and CO_2 emissions.

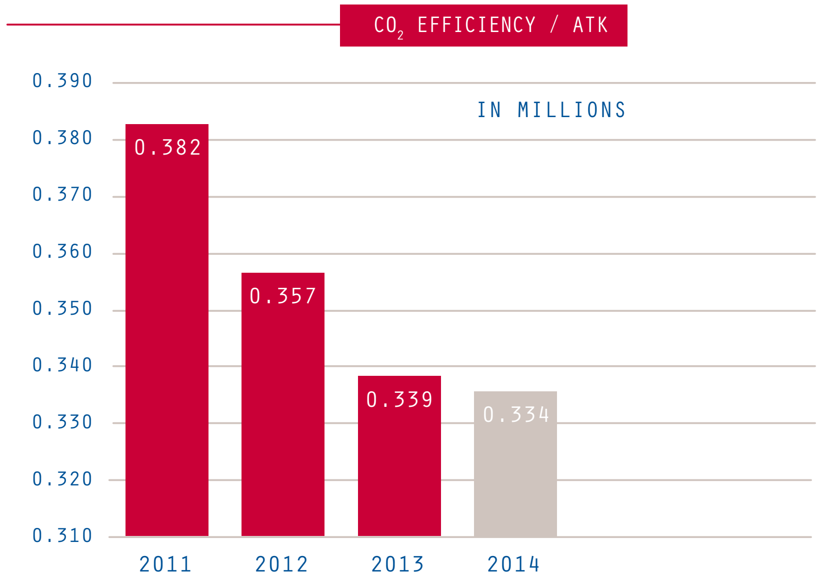
ONGOING PROGRAMS

The company continues a range of programs that support the reduction of greenhouse gas emissions for its fleet of aircraft. These include:

- deep core engine washing;
- fleet renewal;
- PIP - performance improvement package retrofitted to the GEnx engines of the airline's early 747-8Fs;
- optimization of APU usage when no ground power supply is available

EMISSIONS





Scope 1

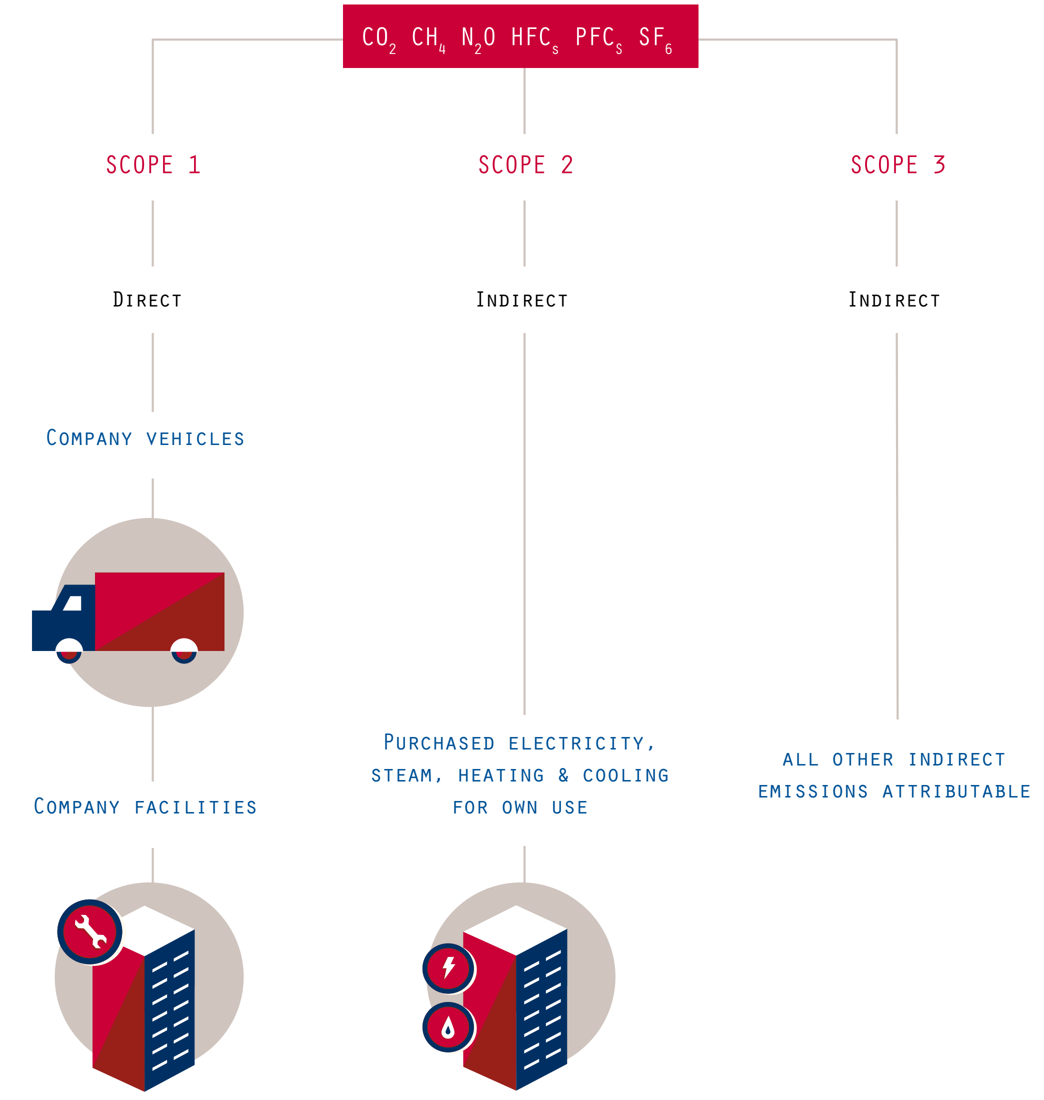
The airline group can show exemplary greenhouse gas emission intensity for its fleet of aircraft. Based on 9.5 million ATKs (available ton kilometers) for the Cargolux and Cargolux Italia fleets, the CO_2 efficiency reached 0.334 kgs CO_2 per ATK.

Scope 2

Cargolux offices and facilities recorded a CO_2 emission of 2,513 tonnes for fuel and gas heating during 2014. Use of electricity emitted no CO_2.

Scopes

The Greenhouse Gas Protocol defines three scopes of emissions:



Scope 1

Direct greenhouse emissions from sources that are owned or controlled by the company. In the case of Cargolux, emissions from the combustion engines of its aircraft, ground vehicles and industrial vehicles or machines.

Scope 2

Accounts for greenhouse emissions from the generation of fuel or gas heating and purchased electricity by the company.

Scope 3

Category that covers all other indirect emissions attributable to the activities of Cargolux, but from sources not owned or controlled by the company. Scope 3 has no relevance to the reporting of Cargolux and is not included here.

EU EMISSIONS TRADING SCHEME (EU-ETS)

Cargolux complies with the EU-ETS reporting requirements and continues to monitor and report the CO_2 emissions.

TRUCKING

Cargolux subcontracts road feeder services in Europa, Asia and the USA to companies that operate modern trucks conforming to the latest standards. In Europe, the area with the majority of the company's trucking activities, 90% of the subcontracted companies comply with emission class EURO 5 and EURO 6, the highest currently applicable standard.

EURO CATEGORIES	NUMBER OF TRUCKS 2014	2013	2012
EURO 2	0	0	0
EURO 3	15	25	40
EURO 4	20	20	20
EURO 5	285	275	270
EURO 6	115	115	50
TOTAL	435	435	380

LOWERING NOISE

Building a sustainable air transport system is a universally recognized necessity. Cargolux firmly believes that achieving this objective will require the collaboration of all partners in the transport chain as well as aircraft and engine manufacturers and governments.

At the same time, Cargolux is aware that its activities affect the communities around the airports it operates from and strives to minimize the impact of these activities as much as possible. The emission of noise is therefore an important area of environmental concern for the company, especially at the airline's home base in Luxembourg where most of its aircraft movements take place.

Operating the world's quietest freighter aircraft in its class, both the Boeing 747-400F and the 747-8F, represents a significant measurable improvement for the surrounding communities. Introducing the 747-8F in particular, with its advanced engine technology and new wing design, reduced the 85db take-off noise footprint around airports by another 30%. Both aircraft types in the Cargolux fleet fully comply with the standards of ICAO chapter 4, the most stringent aviation standard.

Additionally, over the past years, the company studied and implemented a number of operating procedures to further reduce community noise with its existing fleet.

WASTE CONTROL

Cargolux's continuing efforts to better control and segregate waste is supported by the company's established waste management system which is run by a specialized company. It manages and monitors the proper segregation, collection and disposal of waste in all categories, including recyclables and hazardous waste.

55.5%	HAZARDOUS
13.3%	RESIDUAL
8.1%	PAPER / CARBOARD
7.1%	INERT
5.6%	WOOD
4.7%	BIODEGRADABLE
4.7%	METAL
0.8%	PLASTIC
0.2%	GLASS

The amount of hazardous waste produced in Luxembourg in 2014 showed an increase of 21% due to the dismantling of a water purification plant at the old Cargolux hangar where activities have ceased after the opening of the new hangar in 2009. The dismantling resulted in the disposal of contaminated material such as filters, as well as sludge. In the same context, residual waste increased by 33% due to the dismantling of former production shops in the old hangar.

Recycling is a major factor in the company's waste management system. All facilities and rented offices in Luxembourg are equipped with a waste-sorting and recycling system. Wastewater from the airline's maintenance operations and maintenance facilities in Luxembourg are directly collected by the airport sewage system followed by a wastewater treatment plant.

In addition, the company encourages its office staff to adopt measures that cut down on waste production, including

- the use of electronic storage for documents;
- double-sided printing of documents;
- the use of electronic communication methods;
- greater use of recycled paper.

In recognition of its continued efforts in this field, the Luxembourg Ministry for Sustainable Development and Infrastructure has awarded its environmental label 'Superdreckskescht fir Betriber' to Cargolux.

24%

OF THE WASTE PRODUCED
BY CARGOLUX IS
RECYCLABLE

SOLVENTS

Our maintenance shops use solvents for cleaning activities. In 2013, the total consumption of solvents reached 1,764 kgs, these include 40 kgs of solvents containing halogens. Cargolux was able to reduce the use of solvents with halogens by 28% compared to 2012.

SUPPORTING THE COMMUNITY

Cargolux in 2014 supported a range of initiatives, such as school visits and Girls' Day, that give students in Luxembourg the opportunity to get a glimpse of certain aspects of the work life. It gives them the chance to learn about the requirements of and opportunities for a career in the air cargo industry, which could help them to define a choice and preference for their future work life. Cargolux puts great emphasis on visiting and talking to students to introduce them to the various career opportunities a cargo airline offers. These efforts not only include visits and presentation to school classes, but also students' visits to the Cargolux premises where they can take an immediate look behind the scenes.

Cargolux maintains its cooperation and close relationship with the Lycée Technique Privé Emile Metz in Luxembourg that runs an aircraft mechanics apprenticeship program. Students that successfully pass their exam become B.1.1-licensed AML aircraft mechanics with an opportunity to gain employment at Cargolux. B.1.1-licensed mechanics are certified to perform mechanical and/or avionic works during base and line maintenance.

Graduates from Luxembourg's AML apprentice scheme obtain a license in accordance with EASA regulations, Part 66. After obtaining the AML, the junior mechanics have to complete an in-house type-rating training for the 747-400F and 747-8F aircraft in order to be fully licensed to work on Cargolux aircraft.

FLY FOR HELP

Cargolux supports initiatives of NGOs that aim to bring medicine and relief aid to people affected by natural disasters or epidemics, such as the outbreak in 2014 of Ebola in several African countries. Cargolux was among the first operators to fly goods to these areas. Most flights were operated in cooperation with Médecins Sans Frontières.

The company also transports goods such as clothes, books and educational material on a free-of-charge basis for charity organizations that aim to help people in need or support the education of children all over the world.

CURRENTLY

6 STUDENTS

IN THE B1.1 PROGRAM
ACTIVE AT CV

FOR ART'S SAKE

In addition to charity, supporting the arts and culture is also close to the heart of Cargolux. The company regularly supports the transport of art works around the world and maintains a long-running sponsorship program with the Museum of Modern Arts (Mudam) in Luxembourg.

CARGOLUX TRANSPORTED WORKS FOR THE EXHIBITIONS BY LEE BUL AND DAVID ALTMEJD SHOWN AT THE MUDAM IN 2014.

CUSTOMER CARE

Cargolux enjoys a high level of trust and loyalty from its customers and maintains long-lasting partnerships that build on the proven Cargolux quality of services. We work hard to ensure the satisfaction of our partners and are proud that these efforts are mirrored in the many industry awards the company receives.

Cargolux was the first airline worldwide to be granted Good Distribution Practice (GDP) status in early 2014. It attests that the Cargolux management system meets the requirements of the EU directive 'Guidelines on Good Distribution Practice of Medical Products for Human Use', as well as World Health Organization guidelines. It makes Cargolux a preferred carrier for the transport of pharmaceutical goods and underlines the company's strong commitment for the safe and fast movement of high-value, temperature-sensitive healthcare shipments across its global network.

Cargolux Dangerous Goods (DGR) Award

Encouraging its suppliers at stations across the world and emphasizing the importance of careful handling of dangerous goods, Cargolux recognizes particular efforts of ground handling partners in demonstrating a high level of awareness and diligence with its Cargolux DGR Awareness Award.

In 2014, the award was presented to ground handler Air Cargo Services Center – ACS in Hanoi in appreciation of the keen efforts of ACS' DGR team in the area of dangerous goods compliance, handling and reporting.

The Cargolux DGR Awareness Award is an annual recognition and is presented following a joint decision by the Aviation Safety and Ground Services departments on the basis of data from ground safety reports, air safety reports and any other relevant reports and data available.

APPENDIX SOCIAL AND ENVIRONMENT

EMPLOYMENT

	2014	2013	2012
NUMBER OF STAFF			
Worldwide	1.710	1.606	1.559
Headquarters	1.305	1.224	1.187
Rest of the world	405	382	372
Percentage of women	20	20	19
Permanent contract	1.580	1.556	1.534
Newly hired	188	125	45
CWA	1.148	1.078	1.045
Female	8.42%	8.15%	8.01%
Male	58.71%	58.96%	59.01%
Turnover	101	75	76
Retention rate after parental leave	95%	95%	100%
NUMBER OF EMPLOYEES BY AGE GROUPS			
under 30	232	192	165
30-50	1.126	1.117	1.112
over 50	352	297	282

ABSENTEEISM

	2014	2013	2012
Lost days for accidents	273	506	312
Lost days for sickness	13.304	13.746	10.398
maternity leave	7.566	6.536	4.532

OCCUPATIONAL HEALTH & SAFETY

	2014	2013	2012
NUMBER OF INJURIES (ACCIDENTS)			
Internal	42	33	29
External	16	15	14
Injury rate	4,86	4,42	3,85
Work related fatalities	0,00	0,00	0,00
Occupational disease rate	0,00	0,00	0,00

TRAINING

	2014	2013	2012
Number of training hours per employee	64	45	38

ENVIRONMENT

	2014	2013	2012
MATERIALS			
A/C cleaning products, TOTAL (ltrs)	35.741	33.555	32.682
Honey bee (ltrs)	310	254	487
A/C cleaner (ltrs)	32.095	29.940	28.200
Hydraulic removal (ltrs)	3.336	3.391	3.995
De-icing and anti-icing product, TOTAL (kgs)			
Tarmac/airside (ltrs/kgs)	2,500/2,500	15.345	4.850
Salt (parking/road) (kgs)	4.005	16.415	9.350
Paper (DIN A4) (kgs)	30.630	29.237	30.360
Cartridges (pcs)	240	247	239
EMISSIONS			
DIRECT EMISSIONS:			
CO_2 emitted by aircraft (tonnes)	3.184.580	2.867.800	2.497.066
CO_2 emitted by GSE vehicles (tonnes)	233	257	284
INDIRECT EMISSIONS:			
Facilities (tonnes)	2.513	2.362	2.143
CONSUMPTION			
Water (m^3)	9.296	8.639	7.236
Fuel (Heating systems for Lorang building) (ltrs)	87.599	85.160	79.599
Fuel (sprinkler pumps) (ltrs)	2.889	4.699	1.879
Electricity (kWh)	5.787.965	5.781.009	5.844.467
THE FOLLOWING DATA REGARDING THE INDIRECT ENERGY CONSUMPTION ARE ONLY AVAILABLE FOR CMC:			
Heating (kWh)	5.627.100	6.176.300	5.274.400
Cooling (kWh)	466.600	464.380	429.200
Compressed air (m^3)	1.004.077	825.370	852.002
Gas (m^3)	1.088.487	1.039.030	948.643
FUEL			
Aircraft			
Jet A (tonnes)	1.010.978	910.413	792.719
GSE vehicles			
Industrial Fuel (ltrs)	71.305	75.406	85.633
Diesel (ltrs)	13.542	17.452	17.461
Unleaded Gasoline 95 (ltrs)	2.949	4.266	4.785
WASTE			
Hazardous waste (kgs)	176.046	144.615	176.544
Recyclable waste (kgs)	90.625	91.037	116.639
Residual waste (kgs)	76.029	56.836	78.128
Oily waste (kgs)	25.219	21.664	23.836
Other waste (kgs)	4.972	6.879	4.390

	GENERAL STANDARD DISCLOSURES	EXPLANATION/OMISSION	PAGE
	Strategy & Analysis		
G4-1	Provide a statement from the most senior decision-maker of the organization about the relevance of sustainability to the organization and the organization's strategy for addressing sustainability.		11
	Organisational profile		
G4-3	Report the name of the organisation.		80
G4-4	Report the primary brands, products, and services.		80
G4-5	Report the location of the organization's headquarters.		80
G4-6	Report the number of countries where the organization operates, and name of countries where either the organization has significant operations or that are specifically relevant to the sustainability topics covered in the report.		80
G4-7	Report the nature of ownership and legal form.	Joint-stock company (société anonyme)	80
G4-8	Report the markets served (including geographic breakdown, sectors served, and types of customers and beneficiaries).		80
G4-9	Report the scale of organization.		12
G4-10	a.Report the total number of employees by employement contract and gender.		98
	b.Report the total number of permanent employees by employement type and gender.		98
	c.Report the total workforce by employees and supervised workers and by gender.	n/a	
	d.Report the total workforce by region and gender.		98
	e.Report whether a substantial portion of the organization's work is performed by workers who are legally recognized as self-employed, or by individuals other than employees or supervised workers, including employees and supervised employees of contractors.	n/a	
	f.Report any significant variations in employment numbers (such as seasonal variations in employement in the tourism or agricultural industries).	n/a	
G4-11	Report the percentage of total employees covered by collective bargaining agreements.		98
G4-12	Describe the organization's supply chain.	Not reported - data not available	
G4-13	Report any significant changes during the reporting period regarding the organization's size, structure, ownership, or its supply chain.		80
G4-14	Report whether and how the precautionary approach or principle is addressed by the organization.		80
G4-15	List externally developed economic, environmental and social charters, principles, or other initiatives to which the organization subscribes or which it endorses.		81
G4-16	List memberships of associations and national or international advocacy organisations in which the organization holds a positioin on the governance body, participates in projects or committees, provides substantive funding beyond routine membership dues, views membership as strategic.		81
	Materiality matrix		21
G4-17	a.List all entities included in the organization's consolidated financial statements or equivalent documents.		
	b.Report whether any entity included in the organization's consolidated financial statements or equivalent documents is not covered by the report.	n/a	
G4-18	a.Explain the process for defining the report content and the Aspect Boundaries.		82
	b.Explain how the organization has implemented the Reporting Principles for defining report content.		82
G4-19	List all material aspects identified in the process for defining report content.		83
G4-20	For each material aspect, report the aspect boundary within the organization.		83
G4-21	For each material aspect, report the aspect boundary outside the organization.		83
G4-22	Report the effect of any restatements of information provided in previous reports, and the reasons for such restatements.	Nothing to report	
G4-23	Report significant changes from previous reporting periods in the scope and aspect boundaries	Nothing to report	
	Stakeholder engagement		
G4-24	Provide a list of stakeholder groups engaged by the organisation.		83
G4-25	Report the basis for identification and selection of stakeholders with whom to engage.		83
G4-26	Report the organization's approach to stakeholder engagement, including frequency of engagement by type and by stakeholder group, and an indication of whether any of the engagement was undertaken specifically as part of the report preparation process.		83
G4-27	Report key and concerns that have been raised through stakeholder engagement, and how the organization has responded to those key topics and concerns, including through its reporting. Report the stakeholder groups that raised each of the key topics and conerns.		83
	Report profile		
G4-28	Reporting period for information provided.		82
G4-29	Date of most recent previous report.		82
G4-30	Reporting cycle.		82
G4-31	Provide the contact point for questions regarding the report or its contents.		82
G4-32	a.Report the 'in accordance' option the organization has chosen		82
	b.Report the GRI Content Index for the chosen option.		100
	c.Report the reference to the External Assurance Report, if the report has been externally assured.		103
G4-33	Report the organization's policy and current practice with regard to seeking external assurance for the report		82
	Governance		
G4-34	Report the governance structure of the organization, including committees of the highest governance body. Identify any committees responsible for decision-making on economic, environmental and social impacts.		14
	Ethics and Integrity		
G4-56	Describe the organization's values, principles, standards and norms of behaviour such as codes of conduct and codes of ethics.		7

SPECIFIC STANDARD DISCLOSURES		EXPLANATION/OMISSION	PAGE
	ASPECT: MATERIALS		
G4-EN1	Materials used by weight or volume		99
	ASPECT: ENERGY		
G4-EN3	Energy consumption within the organization		99
G4-EN5	Energy intensity		
	ASPECT: WATER		
G4-EN8	Total water withdrawal by source		99
G4-EN10	Water consumption (Percentage and total volume of water recycled and reused)	We have nothing to report as we do not have this process in place.	
	ASPECT: EMISSIONS		
G4-EN15	Direct Greenhouse Gas (GHG) emissions		99
G4-EN16	Indirect Greenhouse Gas (GHG) emissions		99
G4-EN18	Greenhouse Gas (GHG) emissions intensity		
G4-EN19	Initiatives to reduce GHGE and reductions achieved		92
	ASPECT: EFFLUENTS AND WASTE		
G4-EN22	Total water discharge by quality and destination	Wastewater from our maintenance operations at the maintenance facilities in Luxembourg are directly collected by the airport sewage system prior to a wastewater treatment plant.	
G4-EN23	Total weight of waste by type and disposal method		99
G4-EN24	Total number and volume of significant spills	No spills recorded in CMC building	
	ASPECT: EMPLOYMENT		
G4-LA1	Total number and rate of new employee hires and employee turnover by age group, gender and region.		98
G4-LA3	Return to work and retention rates after parental leave, by gender.		98
	ASPECT: OCCUPATIONAL HEALTH & SAFETY		
G4-LA6	Type of injury and rates of injury, occupational diseases, lost days, and absenteeism, and total number of work-related fatalities, by region and by gender.		98
	ASPECT: TRAINING AND EDUCATION		
G4-LA9	Average hours of training per year per employee by gender, and by employee category.		98
	ASPECT: DIVERSITY AND EQUAL OPPORTUNITY		
G4-LA12	Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity.		98
	ASPECT: INVESTMENT		
G4-HR2	Total hours of employee training on human rights policies or procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained.		85

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To the Shareholders of
Cargolux Airlines International S.A.
Aéroport de Luxembourg
L-2990 Sandweiler

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

We have been engaged by the Management of Cargolux Airlines International S.A. ("Cargolux") to provide limited assurance on the "Sustainability Report" of Cargolux for the year ended December 31, 2014 as set out on pages 78-103.

Management's responsibility for the Sustainability Report

Management is responsible for the preparation and presentation of the Sustainability Report in accordance with the Sustainability Reporting Guidelines (G4) of the Global Reporting Initiative ("GRI") as described on pages 100-102 and the information and assertions contained within it, for determining Cargolux's objectives in respect of sustainable development performance and reporting, including the identification of stakeholders and material issues; and for establishing and maintaining appropriate performance management and internal control systems from which the reported performance information is derived.

Responsibility of the Réviseur d'Entreprises agréé

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

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

- Assessment of the suitability of the reporting criteria and their consistent application.
- Inquires of management to gain an understanding of Cargolux processes for determining the material issues for Cargolux key stakeholder groups.
- Interviews with senior management and relevant staff at group level and selected business unit level concerning sustainability strategy and policies for material issues, and the implementation of these across the business.
- Interviews with relevant staff at corporate and business unit level responsible for data capture and preparation of the information in the Sustainability Report.
- Comparing the information presented in the Sustainability Report to corresponding information in the relevant underlying sources to determine whether all the relevant information contained in such underlying sources has been included in the Sustainability Report.
- Review of material qualitative statements in the report with regard to consistency and plausibility.
- Reading the other information presented in the Annual Report 2014 of Cargolux to determine whether it is in line with our overall knowledge of, and experience with, the sustainability performance of Cargolux.

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

Conclusion

Based on the procedures performed, as described above, nothing has come to our attention that causes us to believe that the Sustainability Report of Cargolux for the year ended December 31, 2014 is not presented fairly, in all material respects, in accordance with the Sustainability Reporting Guidelines (G4) of the Global Reporting Initiative as described on pages 100-102 of the Sustainability Report.

Luxembourg, 3 April 2015

ERNST & YOUNG
Société Anonyme
Cabinet de révision agréé

Werner Weynand

05

SPANNING THE WORLD

EUROPEAN TRUCKING NETWORK

TRUCKING SERVICES OUT OF CARGOLUX ONLINE STATIONS

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

EUROPEAN ROAD FEEDER NETWORK FROM AND TO LUXEMBOURG

Austria
Linz
Vienna

Belgium
Antwerp
Brussels

Czech Republic
Prague

Denmark
Billund
Copenhagen

Finland
Helsinki

France
Lille
Lyon
Marseille
Mullhouse
Nice
Paris
Strasbourg

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

Hungary
Budapest

Italy
Bologna
Citanova
Marche
Florence
Milan
Rome
Turin
Venice

Netherlands
Amsterdam
Maastricht
Rotterdam

Norway
Bergen
Stravanger
Oslo

Portugal
Lisbon
Porto

Spain
Alicante
Bilbao
Madrid
Valencia
Zaragoza

Sweden
Gothenburg
Malmö
Stockholm

Switzerland
Basle
Geneva
Zurich

United Kingdom
London
Manchester
Prestwick

Ireland
Cork
Dublin
Shannon

ROAD FEEDER NETWORK FROM ISTANBUL

Adana
Ankara
Izmir

ROAD FEEDER NETWORK FROM PRESTWICK

Aberdeen
Belfast
Birmingham
Bristol
Cardiff
Cork
Derby
Dublin
Glasgow
London
Manchester
Newcastle
Norwich
Shannon

ROAD FEEDER NETWORK FROM MILAN

Barcelona
Basle
Bordeaux
Civitanova
Marche
Firenze
Fiumicino
Geneva
Genova
Lyon
Marseille
Munich
Naples
Nuremberg
Stuttgart
Toulouse
Turin
Venice
Verona
Vienna
Zurich

ROAD FEEDER NETWORK FROM MAASTRICHT

Luxembourg
Amsterdam

ROAD FEEDER NETWORK FROM BARCELONA

Alicante
Bilbao
Lisbon
Madrid
Porto
Valencia
Zaragoza

ROAD FEEDER NETWORK FROM BUDAPEST

Bratislava
Bucharest
Linz
Ljubljana
Prague
Sarajevo
Sofia
Vienna
Warsaw

DESTINATIONS - ROUTE MAP 2015

* served by Cargolux and Cargolux Italia

** served by Cargolux Italia only

*** regular charter flight

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ANNUAL REPORT 2014

cargolux

you name it, we fly it !