

a n n u a l r e p o r t



cargolux

mission & values

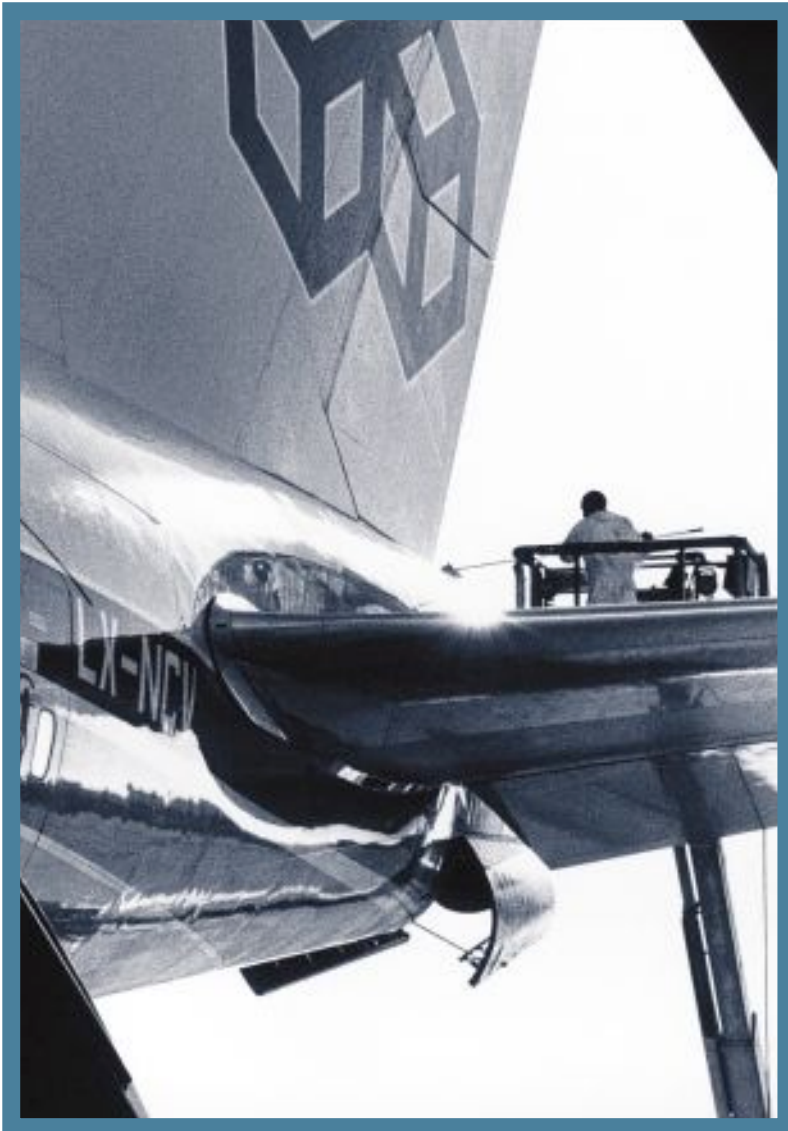
Our mission

- Our mission is to secure the profitability of our company by providing freight forwarders unrivalled competitive advantage in their operations worldwide.

Our values

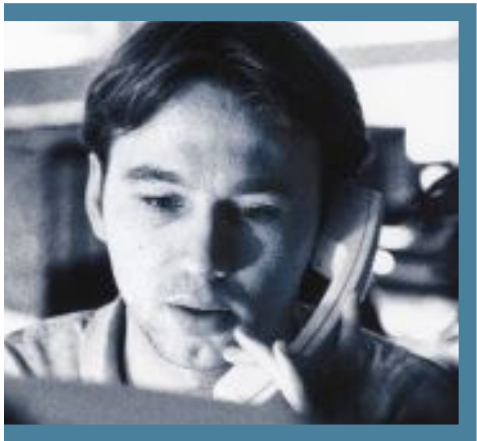
- We are a dynamic, multinational, customer-focused organisation
- We stand for integrity, tolerance and teamwork
- We set ourselves the highest standards and we deliver on our promises
- We succeed through the quality of our relationships
- We value every contribution made by our employees to securing the profitability of our company
- We abide by the laws and regulations governing our activities
- We respect the environments and communities within which we operate.





c o n t e n t s

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m e s s a g e f r o m t h e p r e s i d e n t



The year 2000 showed that Cargolux is stable and profitable, despite excessive fuel prices. We lay the foundations for our future by continuing to strengthen our infrastructure. We refined our competence in the old economy, moving boxes around the world. We reinvigorated our investment in the new economy, creating interactive systems that keep parties in touch with their cargo and with us.

With our fleet of 10 B747-400 freighters we provide fast and reliable air cargo flights to all continents. We are expecting our eleventh aircraft this August and our twelfth in September 2002. With steady growth in our fleet and capacity we will be positioned to respond to forwarders' requests for more frequent services along major cargo routes.

There is a roadblock on this path, however. It is the huge discrepancy between world market demands, craving to exchange goods, and government regulators, manoeuvring to contain them. Forwarders want our aircraft to fly on trunk routes where their customers move big streams of cargo. This is often not possible, because the air cargo business, like the

total airline business, is still highly, too much, regulated by governments. They want to protect their so-called national interests. We push for more liberalization and specifically for the authorities to uncouple traffic rights for cargo and passenger airlines.

In the meantime, the company's rapid expansion, coupled with good profits every year, gives Cargolux a feeling of stability and job security. Forwarders from around the world tell me that they like Cargolux because Cargolux people are there when they need them. Because Cargolux people care for their business partners. When something goes wrong, they know that a Cargolux person will take their problem seriously and resolve the issue.

The constantly growing need for better information systems does not replace the fact that people make our business. Their achievements create happy customers and successful results.

Above all, a company is a group of people striving for the same goal: to fulfil the promises made to our clients, to give them what they paid for and to create value for them. Cargolux wants to preserve the entrepreneurial spirit yet grow rapidly for the benefit of our customers, our shareholders and ourselves.

Last year, Cargolux achieved an operating profit of over US\$ 36 million, a 5% return on sales. A big thank you to our customers for their confidence and to each of our employees world-wide for a job well done.

Heiner Wilkens
President and CEO

h i g h l i g h t s

	2000	1999	1998	1997	1996
Revenue in USD '000	739,264	644,045	578,380	498,507	403,508
Operating results in USD '000	36,188	10,046	38,519	36,619	5,688
After tax profits in USD '000	32,955	30,153	92,078	30,703	7,332
Shareholders' equity in USD '000	272,440	239,491	219,138	135,460	107,557
Tonnes carried (metric)	432,404	377,550	321,982	273,696	233,914
Tonne-kilometers flown (millions)	3,813	3,247	2,687	2,414	2,021
Aircraft utilization (blockhours)	57,195	42,305	39,210	34,497	30,523
Maintenance work (manhours)	404,909	420,644	320,000	430,000	341,000

Number of employees (Dec. 31, 2000)

Worldwide	1,333	1,234	1,087	1,007	886
Head office only	1,000	928	816	752	671

Fleet (Dec. 31, 2000)

Boeing 747-200F	-	-	-	3	4
Boeing 747-400F	10	10	6	5	3

Aircraft on order

Boeing 747-400F	2	2	6	5	1
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b o a r d o f d i r e c t o r s

a s a t d e c e m b e r 31 , 2000

Mr. Roger SIETZEN

Chairman of the Cargolux Board
Chairman of the Luxair Board
Luxembourg-Airport

Mr. Heiner WILKENS

President & CEO
Cargolux Airlines International S.A.
Luxembourg-Airport

Mr. Jean-Donat CALMES

President & CEO
Luxair S.A.
Luxembourg-Airport

Mr. Jean Pierre WALESCH

Secretary of the Cargolux Board
Sr Vice President Finance
Luxair S.A.
Luxembourg-Airport

Mr. Fernand BRISBOIS

Sr Vice President Handling Services
Luxair S.A.
Luxembourg-Airport

Mr. Philippe BRUGGISSER

President & CEO
SAirGroup A.G.
Zurich-Airport

Mr. Klaus KNAPPIK

President & CEO of SAirLogistics A.G. &
Member of the Executive Management
of the SAirGroup
Zurich-Airport

Mr. Ludwig BERTSCH

President & CEO,
Swisscargo A.G.
Zurich-Airport

Mr. Raymond KIRSCH

Managing Director &
President of the Executive Committee of
Banque et Caisse d'Épargne de l'État
Luxembourg

Mr. Roland FRISING

Director
Banque Générale du Luxembourg S.A.
Luxembourg

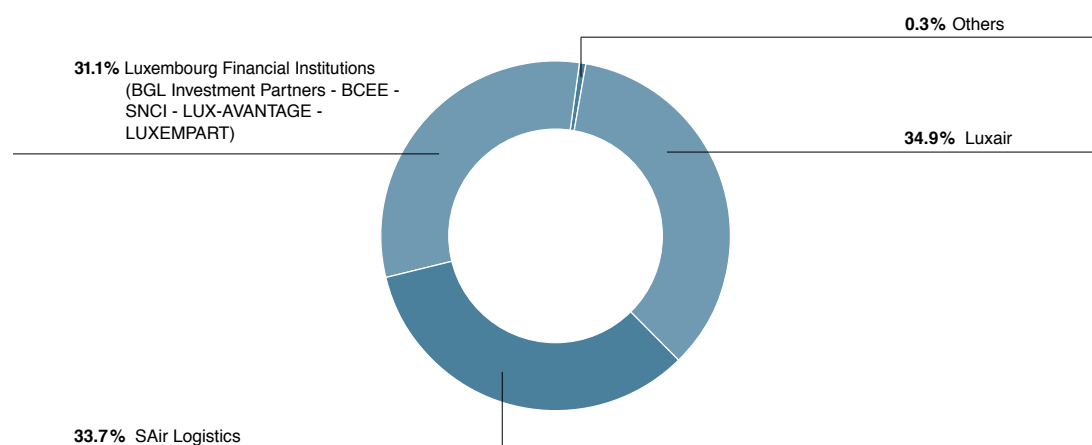
**Société Nationale de Crédit
et d'Investissement**

Luxembourg



s h a r e h o l d e r s

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e x e c u t i v e c o m m i t t e e



Heiner Wilkens

President &
Chief Executive Officer



David Arendt

Sr. Vice President
Finance & Administration



Eyjólfur Hauksson

Sr. Vice President
Operations & Chief Pilot



Ulrich Ogiermann

Sr. Vice President
Sales & Marketing



Jean-Claude Schmitz

Sr. Vice President
Maintenance & Engineering

Cargolux is an integrated transportation company. Using 10 B747-400 freighters and 15 trucking subcontractors, it moves valuable and time-sensitive commodities between 91 destinations, 49 served by aircraft and 42 by truck. It manages this global network and its distribution hubs with customized automation systems.

Logistics providers and freight forwarders purchase wholesale space from Cargolux. They resell it primarily to multinational corporations who rely on air cargo capacity to move supplies into countries where fabrication costs are low and move finished goods into markets where prices are high. When freight forwarders team with Cargolux they can give these customers international logistics that match the reliability and data transparency of integrated carriers. Cargolux is the forwarders' airline.

Trade patterns are well established and capacity is increasingly valuable. The swell of global manufacturing and consumption is causing international trade to grow faster than world GDP. Last year saw the most rapid expansion of global trade since 1976, 11.2%, much more than the 3.3% growth in global production. That flurry of commerce provided the world's airlines with freight worth about US\$2 trillion and air cargo revenues estimated at US\$50 billion.

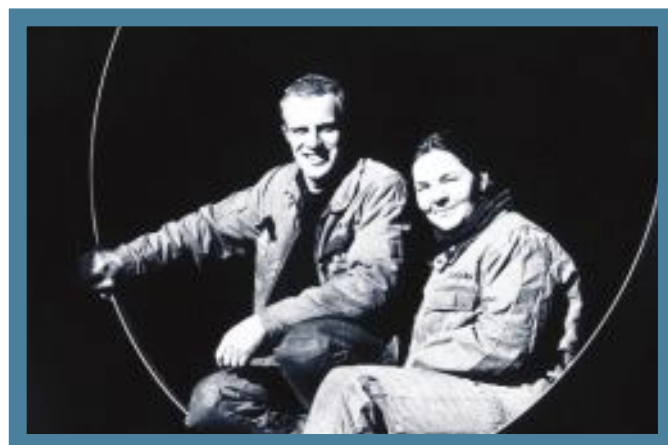
About 60% of this air cargo flies on passenger jets, but to passenger destinations and on passenger schedules. The other 40%, mainly commercial and industrial goods, flies on freighters directly between manufacturing regions. These lanes are Cargolux's specialty. It carries electronics, auto parts, fresh produce, livestock and very large and heavy equipment for the oil and gas industry.



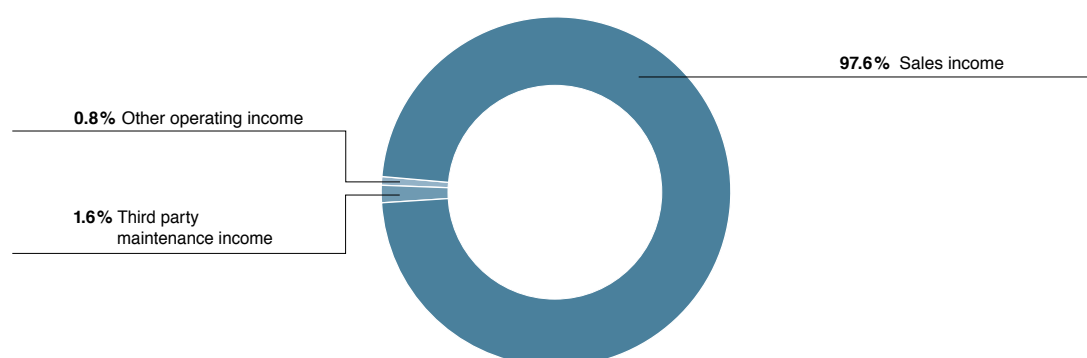
s t a b l e a n d p r o f i t a b l e

To move these goods more efficiently, Cargolux spent the last few years refining its production. It has accelerated the flow of shipments on the ground where they spend most of their time. It built a reliable and fuel efficient airline to speed them through the air. It develops sophisticated computer programs in-house to control these processes and to exchange information with customers.

The company is shielded somewhat from economic disorder. Its network is large enough to minimize losses in any one sector, yet its compact size permits shifting capacity quickly to optimize revenue. It has stable income from long-term contracts. Its fuel efficient fleet outperforms competitors, especially when kerosene prices are high, as they were during 2000. Its future lies with increasing revenue through new services and reducing costs through closer cooperation with its business partners.



r e v e n u e b y t y p e o f b u s i n e s s



Key income statement figures for 2000 compared to 1999

Revenue:	US\$ 739.3 million, up 14.8%
Operating expenses:	US\$ 645.3 million, up 9.7%
EBITDA:	US\$ 157 million, up 50.2%
EBIT:	US\$ 94 million, up 67.9%
Operating profit:	US\$ 36.2 million, up 260.2%
Net Profit:	US\$ 33 million, up 9.3%

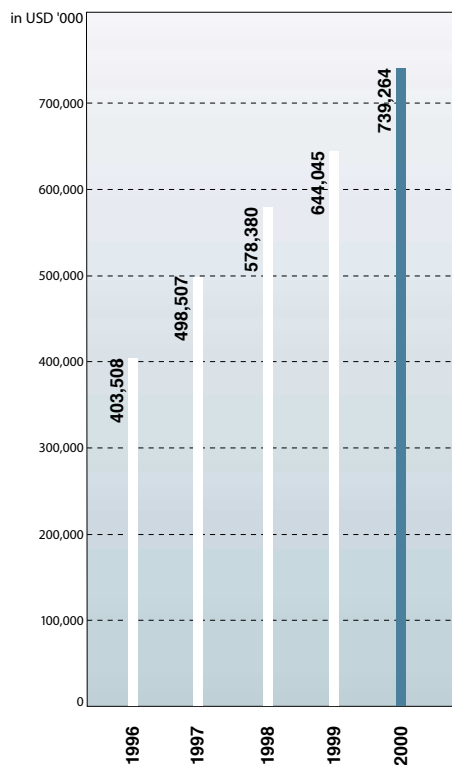
Operating revenues grew 14.8%. The company's core business, the sale of transportation services, generated close to 98% of the income and grew 16.7%, roughly in line with the 17.4% increase of tonne-kilometers flown. Cargolux reports its activity in US dollars and the relative weakness of the euro reduced income from within the Euro Zone, affecting about one-third of the company's sales revenue.

Third-party maintenance decreased 40% because Cargolux's own fleet required more of the maintenance time available during 2000. Also in 1999, Cargolux produced an exceptional gain from the sale of spare parts for B747-200 freighters the company sold in 1998. Third party maintenance generates less than 2% of operating income. CHAMP licensing and other income, representing less than 1% of total operating income, was stable.

Operating expenses grew 9.7%, about one-third less than operating income.

Fuel, the largest expense, increased 86.3%, due partly to an increase in flying activity but mostly to higher jet fuel prices that afflicted the entire industry. The company runs a policy of not hedging fuel but mitigates it with a fuel-efficient fleet and the application of fuel surcharges, which are reflected in operating revenue.

total revenue



finance

Aircraft costs, the second largest item, decreased 29.7%, mainly because aircraft leasing expenses dropped 72% from 1999 when they were exceptionally high. Aircraft costs include insurance, up 21%; maintenance, up 14% and depreciation, up 31%. The last two items are linked directly to the growth of the company's owned fleet.

Personnel costs and benefits grew 6.7% against an 8% increase in head count. Because Cargolux prepares its accounts in US dollars, the relative weakness of the euro reduced expenses within the Euro Zone where most of the company's workforce is based.

Handling, landing and overflying expenses went up 6.8% and **trucking, reforwarding and truck handling** went up 5.2%. Both figures are below the increase in tonne-kilometers flown. Handling costs at the company's hub in Luxembourg are paid in euro.

General and administrative expenses grew 22.2%, representing 7.8% of the total operating expenses compared to 7% during 1999.

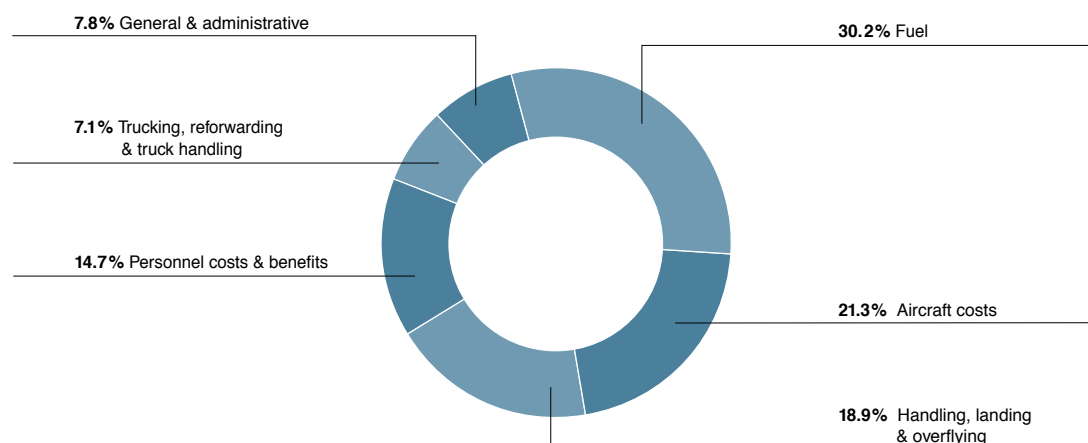
Earnings before interest and taxes increased by 67.9% to US\$ 94 million.

After the deduction of financial charges, which increased 26% due to higher average indebtedness, **operating profit** of US\$36.2 million was up 260.2%.

Net after-tax profit for the year was US\$33 million, up 9.3%.



operating expenses by category



The Cargolux customer base remained steadfast last year even as two significant trends swept the industry: consolidation and e-commerce.

Three large mergers involved valued customers: Deutsche Post-Danzas-AEI, Eagle-Circle and MSAS-Exel. The company is watching for the impact these changes may have on its business and is prepared to venture with these new firms beyond the traditional business of flying consolidations. It is still too early to tell whether these conglomerates evolved simply to acquire each other's business, to increase buying power or to add value through better supply chain practices.

Cargolux created an e-commerce group to provide customers with information over the Internet and to learn whether this new channel will create additional demand for capacity. The company is working with

customers to design a business portal that will improve access to key information. It is expected to strengthen client relations more than to expand the customer base. E-commerce will improve communications; it will not replace the sales force.

After testing the Global Freight Exchange (GFX) during mid-2000, Cargolux enabled forwarders to locate and book basic services from selected European and American cities online. By mid 2001, large customers will be able to manage their Cargolux allocations using GFX.



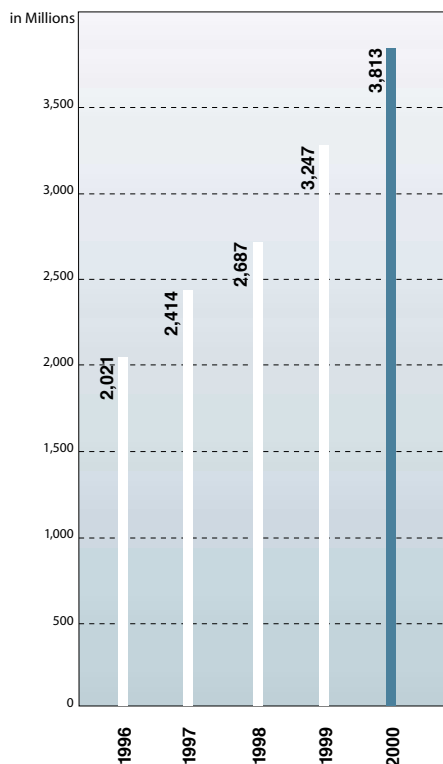
Route Network

Cargolux flies internationally under traffic rights obtained through bilateral government treaties. The company strengthened its network during 2000 with new agreements to mount or intensify services in Auckland, Bangkok, Bogota, Guadalajara, Hong Kong, Johannesburg, Komatsu, Manila, Melbourne, Shanghai, Seoul, Tashkent and Yerevan.

Also, last year, the company concluded or amended route alliances with Aeromexpress, Air Ghana, Asiana, China Airlines, China Eastern Airlines, Staff Airlines, Swisscargo and Thai International.

A widespread network helps reduce freight costs by giving cargo airlines more routes, thus more options to eliminate nonrevenue sectors. Governments often arbitrarily prevent foreign cargo carriers from transporting commercial freight within their jurisdictions and airlines must recover the cost of flying those empty sectors by charging higher rates elsewhere.

tonne - kilometers flow n



Scheduled services

Early 2000 saw a burst of traffic that had been delayed by concerns over the Y2K transition. For the rest of the year, markets remained strong in Europe, Africa and most of Asia but not in North and South America. The end of the year produced solid gains systemwide.

Tonnage grew at a healthy rate in Europe. The sales force worked diligently to overcome the penalty it suffered when its revenue in a declining euro was converted into dollars on the company's books. It did benefit from two rate increases during the year and from network adjustments in the Middle East.

In South Africa, the company converted charter flights into scheduled services using its own aircraft, which are better suited to carrying the region's perishable exports. By adding stops in West Africa, it stabilized capacity and stimulated a market that had stagnated previously due to unpredictable service.

In Asia, Cargolux completed the first year of a successful joint service with Swisscargo to Bombay and Hong Kong. It relocated some of its own capacity to Asia where demand was high, taking it from the US West Coast where the strong dollar had curbed exports to Europe. In North America also, Cargolux responded to a southern shift in manufacturing by adding a stop in Guadalajara.

In South America, Cargolux started a service in Latacunga, Ecuador and adjusted its charter operation from Bogota.

Charter services

As forwarders control more and more capacity through block space agreements, they are able to attract more charter business and carry it using their allotments. The charter market has relatively few participants and they rely heavily on reputation when purchasing specialized services. Cargolux's long track record and experience in charters keeps this business strong.

The company flew 12 % more charter flights during 2000 than it did in 1999. During the second half of 2000, it leased an aircraft exclusively for charter use and this helped increase revenue by 9.4 %.



Product Development

Forwarders must provide year-round cargo capacity on major trade lanes to their manufacturing clients.

During 2000, the combination of undercapacity in the market and consolidation among logistics firms stirred agents to secure cargo space through any means possible: long-term airline contracts, capacity sharing, charter flights or aircraft lease.

Forwarders want more capacity but not higher prices. The average payment airlines receive to transport a tonne of freight has dropped 2.8% per year since 1970, according to Boeing. Cargolux has fought this trend with constant service improvements and saw yields increase last year.

Forwarders purchase a good part of Cargolux's capacity on long-term contracts. Last year, the company began seeking ways to improve the value of its service and its yield. It initiated a program to talk with forwarders and their customers about future manufacturing plans. Almost 40% of airfreight is inter-company movements. Cargolux delivers 20% of its shipments directly to the consignees' facilities. The company also experimented with consolidating traffic flows for key clients, offering monitored transport for temperature-sensitive commodities and arranging specialized trucks.



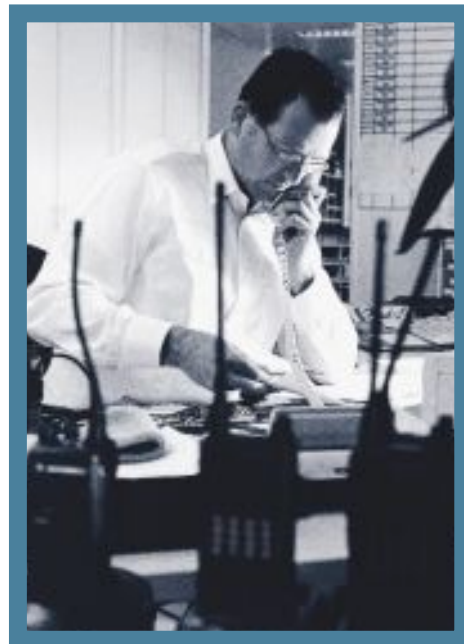
As part of its ongoing effort to improve throughput, Cargolux combined the control of all air and ground activities in February 2001 under a Senior Vice President of Operations. This is a new position, responsible for the entire production process from acceptance through delivery, including trucking, handling and air transport. The reorganization will create opportunities to lower costs and increase efficiency, eliminating duplication and streamlining internal processes.

Ground operations

Cargolux added a second subhub in Luxembourg last year. It opened the first one in Helsingborg during 1999. As anticipated, these subhubs eased the workload at the Luxair CargoCenter. The company's principal handling agent in Luxembourg also invested in new equipment and facilities that will become operational in 2001.

Punctuality improved during 2000 and focus shifted to safety, transparency, quality and ULD management. The company introduced messages to record the safety of each movement, it implemented procedures to record freight status in realtime and it revised policies to ensure proper cargo acceptance. All stations are closely tracking Cargolux's 9,000 unit load devices and the company is discussing the purchase of ULD management services from Swisscargo.

Cargolux formalized its ground operations policy in order to co-ordinate activities systemwide. All stations set performance goals. Measurements were in place in Europe by October, enabling handlers to identify and eliminate bottlenecks during the peak season and keep traffic flowing smoothly.



Load managers and handling agents are swapping duty with other stations to broaden their understanding of the entire network. As an indicator of quality, the number of tracing requests per air waybill, already below 1%, is expected to drop even further during 2001.

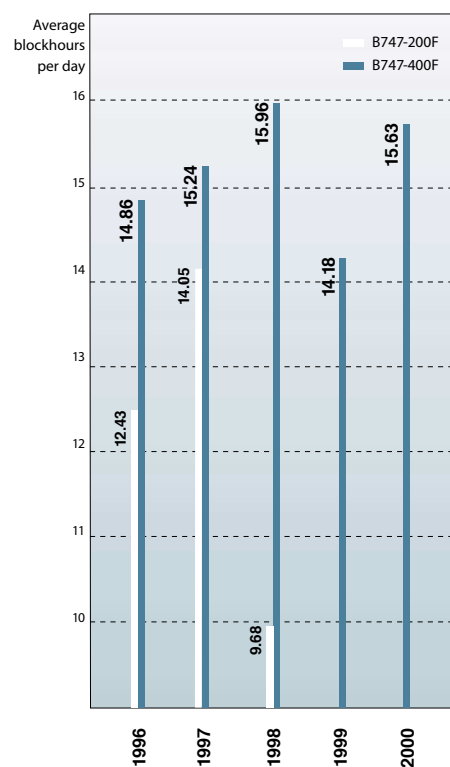


Fleet

In December 1999, Cargolux inaugurated the first aircraft simulator configured as a B747-400 freighter. It was certified by the German civil aviation authority, Luftfahrt-Bundesamt, in February 2000 and by the European Joint Airworthiness Authorities in June. Flight crews can now work and train in Luxembourg, simplifying scheduling and increasing their useful duty time.

A productive fleet is one of Cargolux's competitive advantages and it has participated in developing concepts for the freighter versions of the Airbus A380 and the Boeing B747X. Both new aircraft should have lower unit costs and be quieter by half than the present fleet. In 2001, the company will have to make some strategic decisions on capacity acquisitions for use after its 12th and final B747-400 freighter is delivered in September 2002 and before any new design becomes available, probably after 2005.

daily aircraft utilization per B747 freighter





Maintenance

Operating a uniform fleet of B747-400 freighters last year enabled the company to reduce spares, training and equipment and achieve better use of its manpower. Maintenance crews completed 30% more work with 5% more staff.

The Cargolux fleet averages 15.63 hours a day flying, third highest utilization among all 747-400 operators. The aircraft spend as little time as possible on the ground and maintenance crews must work efficiently to keep them on schedule. New computer terminals installed in the hangar last year give mechanics full access to manufacturers' online maintenance manuals. Inhouse software lets them request parts and have them delivered directly to the aircraft. The fleet's scheduled reliability for 2000 ranked first among all 747-400 operators.



Cargolux reiterated that information technology is fundamental to its success during 2000 with the appointment of a new vice president, a revitalized budget and elevated head count.

At midyear, the company began using a new object-oriented version of its Cargo Handling And Management Planning system for truck movements at certain stations. By fall, this revolutionary program, known as "mrCHAMP," had already revealed previously unknown sources of handling error. In 2001, mrCHAMP will allow Cargolux to indicate arrival times and proactively control the movement of consignments, a milestone that few competitors can match.

The CHAMP system enables Cargolux to exchange electronic messages with forwarders, other airlines, and the US Customs Automated Manifest System. Network standards benefit clients and Cargolux's message traffic tripled during 2000. Cargolux became the first carrier to translate all cargo IMP messages into the XML internet data exchange standard. This step is a prerequisite to exchanging air cargo status messages over the Internet and will eventually allow systems to query each other without operator intervention.

Involvement in IATA Cargo 2000 helps Cargolux conform to the standards of the interest group's Master Operating Plan. It keeps the company abreast of new developments as well as improving transparency and helping to streamline the flow of status messages.

Cargolux also simplified its internal systems during 2000, using a combination of message brokering and standardized programs to build up the coordination and effectiveness of the entire organization.



h u m a n r e s o u r c e s

For the first time in 2000, Cargolux employed over 1,000 people in Luxembourg and more than 1,300 worldwide. This highly qualified workforce has an average of 10 years service with the company.

With such rapid growth, the company has had to become more systematic in human resources development. It initiated programs last year to assess personnel needs for the next decade and to identify and develop young talent through cross-divisional training. Among other challenges, there is a shortage of qualified aviation mechanics and IT specialists. A new program to coordinate manpower, fleet and facilities requirements includes hiring mechanics to replace those who will retire and identifying and training their future leaders.

The company's corporate training program completed its first full year during 2000 with sessions around the world to advance the professionalism of its managers and employees. Employee turnover during 2000 remained constant at 4%.

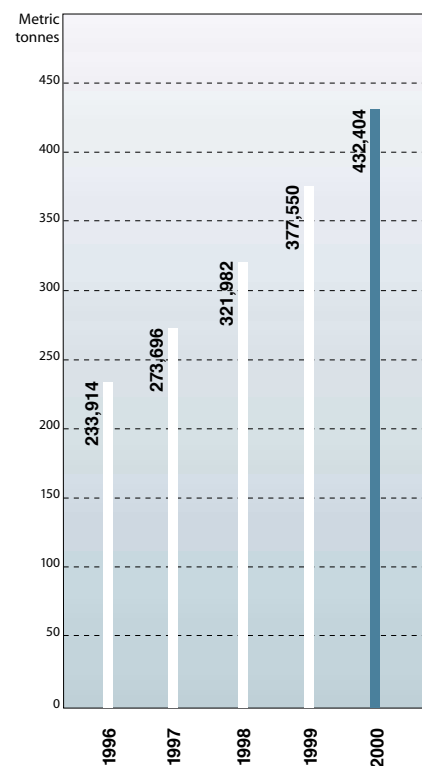


Cargolux contributed close to LUF 8 billion directly to the Luxembourg economy last year, in the form of wages and other employee benefits, social security contributions, taxes and the purchase of goods and services.

The Luxembourg Government supported Cargolux's efforts to gain new and expanded traffic rights.



t o t a l t o n n e s c a r r i e d



r o a d f e e d e r n e t w o r k

