Annual Report 2010

for the period 1 January 2010 to 31 December 2010

DFS Deutsche Flugsicherung

You can download and order this report at www.dfs.de.

The business year 2010

Report of the Supervisory Board

The composition of the Supervisory Board changed in the reporting period. On 1 May 2010, Prof Klaus-Dieter Scheurle was appointed to the Supervisory Board as a new member and representative of the Shareholder, replacing the former Chairman of the Supervisory Board Robert Scholl. With effect from 1 July 2010, Dr Angelika Kreppein was appointed as a new member, replacing Christiane Wietgrefe-Peckmann as a representative of the Shareholder.

In the 71st meeting on 1 July 2010, the Supervisory Board elected Prof Klaus-Dieter Scheurle as Chairman of the Supervisory Board.

The Board of Managing Directors reported to the Supervisory Board in 2010 on the situation and development of the corporation in accordance with Article 90 of the German Stock Corporation Law, in addition to the comprehensive quarterly reports with subsequent deliberations in the Supervisory Board at four ordinary meetings of the Supervisory Board. Furthermore, there was one extraordinary meeting of the Supervisory Board on the strategic orientation of the company.

In the 2010 business year, the Supervisory Board performed its functions as prescribed by legal provisions and the Articles of Association. The Supervisory Board regularly advised and monitored the activities of the Board of Managing Directors and was comprehensively involved in decisions of fundamental importance to the company.

The work of the Supervisory Board was supported by the audit, personnel and project committees. The three committees met to intensively discuss the decision papers and to prepare resolutions for the Board's plenary meetings.

In addition to the regular quarterly reports on the situation of the corporation, the Supervisory Board dealt with the following topics:

- the 2009 annual financial statements, management report and audit report on the 2009 annual financial statements

and

- the annual and business plan for 2011 with the medium-term planning until 2015, including financial planning and staff planning.

Furthermore, the Supervisory Board addressed the following key issues:

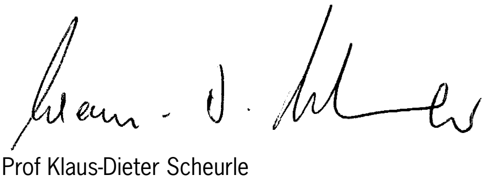
- the restructuring of the company pension scheme,
- the transfer of Munich upper area control from Munich to Karlsruhe,
- the addition of a new operations room to the Munich Control Centre,
- the further strategic development of DFS against the background of the implementation of SES II and the European developments in the Functional Airspace Block Europe Central (FABEC).

The Supervisory Board discussed the 2010 financial statements and the management report with the assistance of the audit report prepared by SUSAT & Partner oHG Wirtschaftsprüfungsgesellschaft in accordance with Article 53 of the German Budgetary Principles Act. The comprehensive risk management system established in the company was included in the audit. The auditors participated in the discussions and answered questions, giving an account of the key results of their report. Overall, the Supervisory Board found no exceptions to be taken after completion of its examination.

The Supervisory Board stated that DFS weathered the disruptions to air traffic caused by the severe winter, various strikes in Europe and not least the volcanic eruption in April 2010. The Supervisory Board evaluates the situation of the company as being stable and healthy, even considering the upcoming economic regulation. DFS is therefore well positioned for the challenges posed by the Functional Airspace Block Europe Central, in whose organisation the company has been actively involved.

The Supervisory Board wishes to thank the Board of Managing Directors, the staff councils as well as all DFS employees for the high level of dedication shown in the 2010 business year and for their excellent performance at a sustained high level of safety.

The Supervisory Board



Prof Klaus-Dieter Scheurle
Chairman

Prof Klaus-Dieter Scheurle

Members of the Supervisory Board

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Prof Klaus-Dieter Scheurle
State Secretary
Ministry of Transport Building and Urban Development

Deputy Chairman
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DFS Deutsche Flugsicherung GmbH
Employee representative

Otto Fischer
DFS Deutsche Flugsicherung GmbH
Employee representative

Dr Norbert Kloppenburg
Member of the Executive Board
KfW Bankengruppe

Dr Angelika Kreppein
Regierungsdirektorin
Federal Ministry of Finance

Holger Müller
DFS Deutsche Flugsicherung GmbH
Employee representative

Rainer Münz
Ministerialdirigent
Ministry of Transport, Building and Urban Development

Hans-Dieter Poth
Colonel (G.S.)
Federal Ministry of Defence

Petra Reinecke
DFS Deutsche Flugsicherung GmbH
Employee representative

Peter Schaaf
DFS Deutsche Flugsicherung GmbH
Employee representative

Martin Walber
Regierungsdirektor
Federal Ministry of Defence

Dirk Wendland
DFS Deutsche Flugsicherung GmbH
Employee representative

Correct at May 2011

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Parliamentary State Secretary
Ministry of Transport, Building and Urban Development
German Bundestag

Christine Alig
Chairperson
BARIG – Board of Airline Representatives in Germany e.V.

Uwe Beckmeyer
Member of Parliament
German Bundestag

Markus Beumer
Member of the Board of Managing Directors
Commerzbank AG

Christoph Blume
President
ADV – German Airports Association e.V.

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Dirk Fischer
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German Bundestag

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President
Aircraft Owners and Pilots Association
AOPA Germany

Winfried Hermann
Chairman of the Committee on Transport, Building and Urban Development
German Bundestag

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Lieutenant General
Chief of Staff, Air Force
Federal Ministry of Defence

Ralf Nagel
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German Shipowners' Association (VDR)

Eduard Oswald
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DB Mobility Logistics AG

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Chief Executive Officer
LVNL - Air Traffic Control the Netherlands

Dr Stefan Schulte
Chairman of the Executive Board
Fraport AG

Ulrich Schulte-Strathaus
Secretary General
AEA – Association of European Airlines

Hans Joachim Suchan
Administrative Director ZDF
Zweites Deutsches Fernsehen, 3sat and ARTE

Ralf Teckentrup
President of the Executive Board
Condor Flugdienst GmbH

Hans-Joachim Tonnellier
Chairman of Board of Management
Frankfurter Volksbank eG

Daniel Weder
Chief Executive Officer
skyguide swiss air navigation services ltd

Friedrich-Wilhelm Weitholz
Chairman of the Supervisory Board
Eurowings Luftverkehrs AG

Permanent guest
Prof Klaus-Dieter Scheurle
Chairman of the DFS Supervisory Board
Ministry of Transport, Building and Urban Development

Correct at May 2011

Group management report for the business year ended 31 December 2010

Business activities and framework conditions

Business activities

DFS Deutsche Flugsicherung GmbH (DFS) is responsible for air navigation services in the German airspace assigned to it by the Federal Ministry of Transport, Building and Urban Development. The business activities of DFS are defined by the tasks set out in Article 27c of the German Aviation Act (LuftVG). Apart from performing air navigation services, DFS also operates and develops air traffic management systems, surveillance systems as well as navigation aids. The company collects all flight-related data and uses them in the provision of its products and services, such as aeronautical maps and charts and its pre-flight information service. In its Academy, the company trains a large number of its own personnel every year. Air navigation charges are collected for these activities. These charges are set by the Federal Ministry of Transport, Building and Urban Development according to the cost-base.

In addition to this core business, DFS also provides consulting and other services to third parties. As part of the commercial business of DFS, the business unit Aeronautical Solutions (AS) offers consulting and training services as well as air navigation systems worldwide. The company's portfolio also comprises flight-relevant data, aeronautical publications and aeronautical information services. The commercial business of DFS is separate from the core business, which is financed by air navigation charges. At the end of the year, DFS had approximately 5,900 employees, almost half of them working directly in air traffic control.

The corporate object of DFS ESSP GmbH, Langen, which was established in 1989, is the management, holding, administration and financing of investments in other subsidiaries that develop and provide services on the air transport market; the further development of the air transport market as well as supporting and promoting DFS in its tasks.

The subsidiary The Tower Company GmbH (TTC), which was established in 2005, had a staff of 32 (including a managing director) at the end of 2010. This company is entrusted with the development and provision of air navigation services as well as providing other services, especially apron management services, the coordination of ground handling and meteorological observations.

In the course of the 2010 business year, the energy plant at DFS was spun off into DFS Energy GmbH, which had been established on 15 December 2009 for this purpose. The object of the company is the generation, provision and sale of energy for DFS and third parties. The associated spin-off and take-over contract provides for the spin-off of all assets and liabilities of the transferring legal entity that are recognised or not recognised on the balance sheet as well as all assets and liabilities that do not have to be or cannot be recognised on the balance sheet with effect of 1 January 2010. The spin-off was published in the commercial register on 6 September 2010.

Legal and organisational framework conditions

In 1993, DFS was entrusted with the tasks of the Federal Administration of Air Navigation Services (BFS). The headquarters of DFS is in Langen, near Frankfurt. The company is registered under HRB 34977 on the Commercial Register at the local district court in Offenbach.

The object of the company is to develop and provide the air navigation services assigned to it by the Federal Ministry of Transport, Building and Urban Development. In addition, the company can provide air navigation services in Europe as well as carry out related sideline activities in Germany and abroad. The sole shareholder is the Federal Republic of Germany. The company is managed by the Chairman of the Board of Managing Directors and two further Managing Directors. The Supervisory Board of DFS comprises 12 members, six appointed by the Shareholder and six elected by the employees.

DFS is the sole shareholder of the following companies that have their headquarters in Langen:

- The Tower Company GmbH
- DFS European Satellite Services Beteiligungsgesellschaft mbh
- DFS Unterstützungskasse GmbH
- DFS Energy GmbH

DFS also holds 55 percent of the shares of the Braunschweig-based FCS Flight Calibration Services GmbH and 36 percent of the shares of GroupEAD Europe S.L., which has its headquarters in Madrid, and 24.9 percent of BILSODA GmbH & Co KG, which has its headquarters in Pullach, near Munich.

As the subsidiaries are not yet of sufficient materiality, the contents of this management report only refer to DFS.

The management organisation is based on the distribution of responsibilities among the DFS Managing Directors.

Distribution of Responsibilities among the DFS Managing Directors

Chairman and CEO (V)

- Corporate development (strategy, organisation, international affairs)
- Institutional and legal affairs, insurances, risk management
- Safety and security management systems
- Auditing, quality management
- Corporate communications, public relations, environment
- Communications, navigation and surveillance services (incl. system management ATS systems for aerodrome control service), logistics
- Technical and infrastructural facility management
- Systems house (business and administrative information technology)
- Consulting services

Managing Director Operations (F)

- Area control and approach control service (incl. ATS systems)
- Aerodrome control service (incl. product management ATS systems)
- Flight information service, alerting service
- Provision of aeronautical information and data, aeronautical information service (incl. ATS systems)
- Research and development
- Military affairs

Managing Director Finance and HR (K) – Labour Director –

- Finance (incl. taxes and charges)
- General administration (controlling)
- Procurement
- Human resources management
- Human resources strategy and development
- Collective bargaining
- DFS Academy

The core processes of DFS are grouped into four business units:

- Control Centre (area and approach control services including ATS systems)
- Tower (aerodrome control service including product management for ATS systems)
- Aeronautical Solutions (consulting services)
- Aeronautical Information Management (provision of aeronautical information and data as well as the aeronautical information service including ATS systems)

The business units are complemented by Corporate Service Centres and Corporate Development Centres. The Corporate Service Centres are in charge of central services, thus supporting the business units. The Corporate Development Centres focus on activities of the management processes and on preparing decisions to be taken by the management.

The Board of Managing Directors is advised by a ten-strong Management Committee. The Management Committee is made up of members of the executive management level.

Overall economic situation

In contrast to 2009, global growth returned and developed positively. At 3.6 percent, the German economy grew at the fastest rate since reunification, taking on a leading role in the European economic area.

This can be attributed, inter alia, to the robust growth in world trade. In 2010, production was ramped up again and inventory restocked internationally and nationally. Capital expenditure projects that had been cancelled or put on hold were given the green light. The economic stimulus packages for the German economy introduced by the German government made an effective contribution to this development.

Development of air transport

The economic environment in Germany has been improving, after the recession in the previous year. This means that air transport returned to its growth path in 2010, despite considerable disruptions caused by the ash cloud, strike activity in Europe and Germany as well as severe winter weather.

The number of civil IFR flights in Europe rose by 0.8 percent in 2010. In the first quarter 2010, the impact of the global economic crisis abated and air transport recovered slowly. The quarter was also characterised by severe winter weather as well as occasional strikes in January and February, inter alia, at Lufthansa as well as in France and Spain. The start of the second quarter saw the first noticeable increases in air traffic. The eruption of the volcano Eyjafjallajökull in April and May 2010, however, hindered the return to growth. Approximately 100,000 flights were cancelled across Europe as a consequence of the ash cloud. As a result, air traffic declined compared with the previous year in the first half of 2010. By way of contrast, in the second half of the year, especially from July to September, the recovery increasingly took hold. The International Air Transport Association (IATA), which represents around 230 airlines worldwide, commented that with fixed costs constant, the strongly growing demand would allow airlines to post higher revenues. The return of severe winter weather in December 2010 prevented an even better result for the entire year 2010.

In Germany, the number of flights under instrument flight rules (IFR) recorded in 2010 rose by a total of 1.5 percent over the previous year. The number of IFR flights increased from 2,926,826 (2009) to 2,971,375 (2010). The distribution was as follows: 12.7 percent domestic flights, 51.7 percent flights arriving in or departing from Germany and 35.6 percent overflights.

The volume of civil air traffic increased by 1.9 percent over the previous year. In contrast, the volume of military air traffic dropped by 14.4 percent.

DFS revenues in the business year 2010 stem from the total number of aircraft movements, calculated on the basis of the maximum take-off weight (MTOW) of the aircraft used, expressed in service units.

The implementation of Commission Regulation (EC) No. 1794/2006 of 6 December 2006 laying down a common charging scheme for arrivals/departures led to a change in the formula for the calculation of service units from 2010. For terminal services, a service unit is the quotient obtained by dividing by fifty the maximum certificated take-off weight, expressed as a figure taken to two decimal places, to the power of 0.7.

For en-route services, a service unit is computed as the square root of the weight factor multiplied by the distance factor. The economic value of each flight conducted is taken into account so that the value of the air traffic control service performed is considered by the legislator when establishing the relevant air navigation charges.

Definition of service units:

Arrivals/departures: $\left(\frac{\text{max. take-off-weight}}{50}\right)^{0.7}$

En-route: $\sqrt{\frac{\text{max. take-off-weight}}{50}} \times \frac{\text{distance in km}}{100}$

In 2010, the number of service units for arrivals and departures in German airspace increased by 13.4 percent to 1,272,339. As mentioned above, a new formula for calculating service units for arrivals/departures has been in place since 1 January 2010. This means that a direct comparison with the previous year is not possible. From 2010, the service units are adjusted for the military service units, which have no impact on revenues. For en-route services, the number of service units rose by 2.4 percent to 12,201,835 over the previous year. Unadjusted, the overall growth rate amounted to 3.2 percent compared with the previous year.

With respect to arrivals and departures, nearly all international airports recorded positive growth rates. With respect to the en-route area, low-cost carriers continue to record the fastest growth in market share. Such airlines now account for around 26.7 percent of total air traffic in Germany.

Operating segments

The business activities of DFS are split between the "Segment financed by air navigation charges" and "All other segments".

Segment financed by air navigation charges:
The segment financed by air navigation charges encompasses the core business of air navigation services, which is conducted by the business units Control Centre and Tower. This segment mainly comprises area and approach control services, aerodrome control services and the control of regional military air traffic.

All other segments:
This encompasses the business activities which are not reportable as they are below the quantitative thresholds. This comprises invest-

ments, financial transactions that do not impact air navigation charges, commercial services and consulting.

The DFS Board of Managing Directors continuously monitors the results of the group produced by the individual business activities and companies. At regular meetings, the activities, results, forecasts and future plans are discussed and financial resources are allocated based on the development of results. Financial information can be accessed at any time from the IT system.

The accounting rules for all transactions in the segments are the same as those for the group financial statements described in Note 4 "Accounting policies". Intersegment transactions are conducted at arm's length using transfer prices.

The services financed by air navigation charges are rendered in Germany, while the commercial services are offered worldwide.

Corporate management

Planning and control as well as reporting are based on the business model and the management organisation. The business model at DFS is based on two areas: services financed by air navigation charges and commercial services. For the purposes of financial reporting, these areas are subject to separate processing, reporting and planning and control. Planning and control for business activities financed by air navigation charges is conducted based on the principle of full cost recovery and a specified return on equity on operating assets by means of cost-control measures in combination with non-monetary indicators concerning safety (infringements of separation), ATC capacity (punctuality) and environment (introduction of CDA).

The logic underlying planning and control at DFS is already based on the SES II Performance Scheme.

The planning and control of the commercial business at DFS is conducted at the business-unit level by means of gross profit, and at the level of the overall company by means of operating profit (EBIT). The difference between gross profit and EBIT arises from the allocation of administrative overhead to the commercial business.

Interest and taxes are not included in the planning and control of the individual organisational units as these are corporate responsibilities.

Corporate management is based on an ongoing performance assessment by means of comparisons between planned and actual figures (monthly, annually). These comparisons are made on the basis of an annual planning process with a 5-year horizon, the focus being on the budgeted year.

Research and development activities

Germany has one of the busiest and most complex airspaces in the world. The growth in air traffic in the medium term demands a particularly well-performing air navigation services organisation. Besides excellent personnel and tried and tested technology, innovations are crucial in this regard. For many years, DFS has collaborated in national and international research projects to identify and shape promising technological trends and new operational approaches at an early stage, as well as to advance and market innovative developments.

A total of approximately 4.1 percent of the costs and 294 staff posts are allocated to research and internally generated developments. These costs were partially offset by grant funding of approximately €2.7 million awarded by the German aeronautical research programme and the European research framework programmes. The activities funded on a national basis, where DFS once again coordinated the largest interconnection project of the air transport section, focused on busy airports and their vicinity. A major objective is the optimal use of the limited capacity with the best possible punctuality, while taking ecological factors into consideration.

The most prominent project at the international level is the Single European Sky Air Traffic Management Research (SESAR) programme. It is organised within the scope of the SESAR Joint Undertaking (SJU), which DFS joined as an active member in June 2009, along with other leading organisations. This puts DFS in a position to help shape the future of European air navigation services on the basis of its experience and benefit optimally from the joint developments. The grant aid received amounts to up to 50 percent.

Results of operations

Development of the unit rates

Since 2007, air-traffic-related cost elements of the German Meteorological Service (DWD), as well as of the national supervisory authority (Federal Supervisory Authority for Air Navigation Services – BAF), have been included in the unit rate for terminal services, in keeping with the EU regulations concerning the provision of air navigation services. The 2010 unit rate for terminal services declined by 3.1 percent, from €167.78 to €162.54.

The 2011 unit rate for terminal services will remain more or less constant compared with the previous year. It will increase by 0.3 percent from €162.54 to €163.05. The DFS share amounts to approximately 96 percent.

		2011	2010	2009	2008	2007	2006
Terminal unit rate	EUR	163.05	162.54	167.78	162.34	160.07	143.85
DFS share	EUR	155.76	154.33	160.80	154.24	151.02	143.85

The national unit rate for en-route charges comprises air-traffic-related cost elements of DFS, the German Meteorological Service (DWD), EUROCONTROL and the national supervisory authority (Federal Supervisory Authority for Air Navigation Services – BAF). In 2010, the national unit rate for en-route services rose by about 2.7 percent, from €67.02 to €68.86. The DFS share increased by 2.0 percent, from €53.30 to €54.39. From 2011 on, the national unit rate for en-route services will rise by about 4.3 percent from €68.86 to €71.84. This increase could be kept moderate thanks to the implementation of a host of cost-limiting measures and is justified by the improvement in capacity requirements from investments in operations personnel. The DFS share of costs amounts to approximately 81 percent.

The European Union adopted Regulation (EU) No. 691/2010 of 29 July 2010 which aims to enhance the performance of air navigation services and network functions in the Single European Sky. In Regulation (EU) 1191/2010 of 16 December 2010, the financial consequences of the performance scheme were translated into the charging scheme. In particular, the EU lays down risk-sharing mechanisms for traffic and cost risks as well as incentive schemes for the provision of air navigation services.

As part of the implementation of the above regulation, the Single Sky Committee (SSC) agreed on European target values for the performance targets applicable from 2012. Within the area of cost-efficiency, the target is to reduce the European average unit rate for en-route charges to €53.92 (inflation adjusted) by 2014. This corresponds to an annual decline of approximately 3.5 percent.

		2011	**2010**	**2009**	**2008**	**2007**	**2006**
En-route unit rate	EUR	71.84	68.86	67.02	64.77	67.21	63.13
DFS share	EUR	58.24	54.39	53.30	51.29	53.10	49.74

Pursuant to Article 27e, paragraph 3 of the German Aviation Act (LuftVG), the unit rates for terminal and en-route services are to be split between the portion subject to VAT and the portion not subject to VAT from 1 January 2010. The portion not subject to VAT relates to the services of the German Meteorological Service.

Revenues

Revenues from air navigation services hardly changed, decreasing slightly from €961 million to €959 million, after netting the 2008 over-recovery and taking into account the 2010 over-recovery.

Revenues from en-route charges	**2010**	**2009**	**2008**	**2007**	**2006**
Gross revenues (in € millions)	–	–	–	–	734
Reimbursements paid by DFS (in € millions)	–	–	–	–	155
Net revenues (in € millions)	665	630	650	655	579

In 2010, net revenues from en-route charges increased by 5.6 percent over the previous year. This is primarily attributable to the 2.7 percent increase in the unit rates and the higher number of service units compared with the planning figures.

Since 1 January 2007, the German government has been reimbursed directly by EUROCONTROL and no longer by DFS. Up until 1 January 2007, DFS had remitted the reimbursements to the Federal Republic of Germany for its contribution to the EUROCONTROL budget as well as the prorated costs for the aeronautical meteorological service of the German Meteorological Service and for the Federal Supervisory Authority for Air Navigation Services (BAF).

In 2010, the German government reimbursed DFS €6.5 million (previous year: €6.5 million) for the costs of services provided for en-route flights under visual flight rules.

In 2010, revenues from net terminal charges billed by DFS increased by approximately 8.3 percent over the previous year. This increase includes the application of the new formula for calculating unit rates laid down by the EU and the amended reimbursement of cost elements of the German Meteorological Service (DWD). From 2010, the air-traffic-related cost elements of the German Meteorological Service (DWD) are no longer considered in the revenues of DFS. The air-traffic-related cost elements of the Federal Supervisory Authority for Air Navigation Services (BAF) remain.

Revenues from terminal charges	**2010**	**2009**	**2008**	**2007**	**2006**
Gross revenues (in € millions)	197	189	194	189	–
Reimbursements paid by DFS (in € millions)	0.5	8	10	11	–
Net revenues (in € millions)	196	181	184	178	162

Government reimbursements to DFS for military flights and the Maastricht unit amounted to €55 million in the year under review. Revenues from other air navigation services (aeronautical publications, flight calibrations, expert reports) amounted to €6.2 million (previous year: €5.7 million), representing an increase of 8.3 percent compared with the previous year.

Revenues from military operational air traffic	**2010**	**2009**	**2008**	**2007**	**2006**
in € millions	55	61	58	56	59

Other sales revenues increased by approximately 6.0 percent, from €17.2 million to €18.2 million. They mainly comprise revenues from training and personnel services as well as consulting and apron management services.

The commercial business generated revenues of €19 million (previous year: €18.6 million) from other air navigation services and other revenues.

Other income

Other income amounted to €30 million (previous year: €33 million) and consisted primarily of the following:

- Income from the reversal of provisions
- Income from the reversal of allowances for doubtful accounts
- Leasing of buildings and calibration aircraft
- Project-specific funding of the European Commission
- Reimbursement of costs of the business year and of previous years
- Income from asset disposals

Changes in the structure of other income resulted from the spin-off of the DFS energy plant. The associated other income from the supply of energy is no longer included.

Principal cost categories

In the year under review, employee expenses amounted to €626 million (previous year: €608 million). Wages and salaries accounted for €528 million (previous year: €486 million), social security costs and expenses for pensions and assistance for €79 million (previous year: €96 million). Staff costs for personnel from the Federal Aviation Office (LBA) totalled €19 million (previous year: €26 million).

Interest of €91.7 million accruing from provisions for pensions and early retirement is charged to the financial result. The return on plan assets (€47.4 million) is credited to the financial result.

The principal cost categories included under other operating expenses are power, rent and other building occupancy costs (€30.1 million), costs of spare parts and maintenance (€41.0 million), other employee expenses (€9.3 million), and costs of external personnel (€14.6 million). In total, they comprise 66 percent of other operating expenses.

Depreciation and amortisation totalled €100.8 million (previous year: €116.3 million), a decrease of 13.3 percent compared with the previous year.

Result

In 2010, DFS realised net income of €104.8 million (previous year: €99.4 million). The operational over-recovery amounted to €12.8 million (previous year: under-recovery of €7.2 million).

It must be taken into account that the revenues contain an amount of €21.6 million (previous year: €47.7 million) from non-recurring effects arising from the conversion of the cost-base to International Financial Reporting Standards in 2007.

When assessing the net income as well as the results of ordinary activities, the particular situation of DFS as regards the principles governing its air navigation charges, which are based on ICAO and EUROCONTROL principles, must be borne in mind. These principles stipulate that – after making allowance for a reasonable return on capital employed – over- or under-recoveries must be passed on to the airspace users in subsequent years.

The operational over-recovery of €12.8 million is carried forward at the end of the 2010 business year and will be taken into account when determining air navigation charges for the year

2012, unless otherwise stipulated in new statutory charging regulations.

Assets and financial position

Capital expenditure

In the 2010 business year, capital expenditure totalled €93.3 million. The following projects are currently under way and represent the highest share of capital expenditure:

- P1/ATCAS software extensions: Adaptations required to the software due, in particular, to legislation; in this case the SES implementing rules from the EU. This involves, for example, the extension of the data exchange with partner organisations.

- P1/VAFORIT in Karlsruhe: The new air traffic management system for upper airspace was put into operation in the night between the 11 and 12 December 2010. P1/VAFORIT is fully stripless and replaced the old system KARLDAP.

- Extension to the Munich control centre: The construction is needed because of the space required for the installation of the P2/ATCAS air traffic management system (the successor system to P1/ATCAS in the control centres for lower airspace). This requires space for operations and equipment rooms as well as the associated supply installations.

- Data link software: The introduction of data link will allow the partial replacement of radiotelephony by air-ground data transfer.

- iCAS software: The future control centre system iCAS will in particular meet the interoperability requirements of the SES regulations.

- IT baseline protection at Munich control centre: To improve the protection of the infrastructure, system components are now housed in separate fire compartments.

- Exchange of office communication hardware and software: As part of the TOPAS project, the existing hardware and software was replaced.

In the 2010 business year, assets under construction worth a total of €58.2 million were completed. The main projects included:

- New control tower at Berlin Brandenburg International: The expansion of Berlin-Schönefeld Airport to become Berlin Brandenburg International (BBI), the airport of Germany's capital, resulted in a changed runway constellation. This required the construction of a new control tower and ground building. The construction phase was completed on 15 October 2010 and thereafter the installation of technical air navigation systems and equipment began. The control tower is now scheduled to be put into operation in the first quarter of 2012, when the airport itself starts operations.

- New Frankfurt control tower: This new tower was required as the airport operator Fraport AG is building a new runway in the north-western part of the airport. The construction phase was completed on 14 June 2010 and thereafter the installation of technical air navigation systems and equipment began. The control tower is scheduled to be put into operation in June 2011, four months before the opening of the new runway.

- The internally generated software PSS was developed further in 2010. The introduction of PSS in the Bremen control centre was completed in the night between 16 and 17 July with the cutover of the last sector family (EBG). PSS displays the former paper strips as digital flight progress strips on a touch screen.

- Software extension to VAN: The value-added network of DFS for the secure switching of ATS messages was equipped with a central flight plan storage to meet the requirement of transmitting flight plans to the end systems. The extension improves in particular the service quality in the handling of VFR flights.

- Mode S system for MSSR on Mount Brocken: In 2010, the radar facility on Mount Brocken was upgraded with the Mode S technology. This technology helps to solve problems such as frequency congestion and code shortage, which result from the high traffic density in the core European airspace.

- Extension of STANLY software: The central DFS statistics and analysis system was supplemented with a software component that enables the generation of suggestions for dynamic sectorisation and daily staff scheduling on the basis of capacity requirements.

- Systems House redevelopment: The redevelopment served to optimise energy use and to improve working conditions.

Balance sheet structure

The group financial statements of DFS as at 31 December 2010 were prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB). The transition to IFRS was effected as at 1 January 2006 (opening IFRS balance sheet). The resulting differences were recognised directly in equity. The causes for the differences and their effects on equity are described in detail in the Notes. As of 31 December 2010, DFS has negative equity amounting to minus €154.8 million. This is mainly due to the fact that provisions for pensions and similar obligations are now determined according to IAS 19 ("Employee benefits").

DFS has the right to spread the ex-post financing requirements resulting from the conversion to the new accounting standards over a period of 15 years by including them in the cost-base (Article 6 of EU Regulation No. 1794/2006). In this way, the negative equity of DFS will be continuously reduced during this period, provided that the current charging regime remains in force. By fully considering the non-recurring effects arising from the conversion of the cost-base to International Financial Reporting Standards, equity would amount to €462.9 million as of the balance sheet date on 31 December 2010. A detailed reconciliation can be found in Note 23.

Last year, the balance sheet total increased by 11.0 percent to €1,061.2 million (previous year: €956.2 million). This was primarily due to the rise in receivables and other current assets; current tax assets as well as liquid funds compared with the previous year. As regards liabilities and equity, this rise was primarily due to the positive change in equity. The increase in long-term borrowings was largely offset by the decline in short-term borrowings. The counteracting changes in non-current liabilities and other liabilities on the one hand and in pension provisions and current other provisions and financial liabilities on the other hand played a role in this regard.

Net financial indebtedness amounted to €89.5 million at 31 December 2010, the leverage ratio at the balance sheet date thus amounted to 8.4 percent. Interest expense exceeds interest income by €44.9 million.

Balance sheet indicators		**2010**	**2009**	**2008**
Net financial indebtedness (Financial liabilities – liquid funds)	€m	89.5	99.7	17.5
Leverage ratio (Net financial indebtedness/balance sheet total)	%	8.4	10.4	1.7
Asset intensity (Non-current assets/balance sheet total)	%	74.7	84.0	73.9

Cash flow statement

The inflow of cash from operating activities declined slightly to €58.2 million (previous year: €59.7 million) as can be seen in the cash flow statement presented in the Notes.

Capital expenditure by DFS amounted to €86.6 million (previous year: €132.5 million).

Cash inflow from financing activities amounted to €120.6 million and was influenced primarily by the principal payment of financial liabilities from bonds issued and the issuing of two debenture loans. Cash and cash equivalents increased by €92.2 million to €85.2 million. Dividends amounting to €6.2 million were paid to the Shareholder.

Financial management

Financial management at DFS secures the liquidity and optimises cash flows in the group.

To this end, DFS finances itself in the short-, medium- and long-term on the money and capital markets with two framework agreements with a volume of €500 million each ("Multi-Currency Commercial Paper Programme" and the "Multi-Currency Debt Issuance Programme") as well as the issuance of debenture loans.

With its money and capital market programme, DFS attracts both national and international investors. These investors base their investment decisions and price fixing on the credit rating of each debtor. To support their decision-making process, DFS has its creditworthiness rated by means of standardised credit ratings from credit rating agencies according to internationally uniform and consistent procedures. DFS has been awarded ratings by the two leading agencies, namely Standard & Poor's and Moody's. Both agencies once again confirmed the creditworthiness of DFS with the best possible rating for both the short-term and long-term, awarding A-1+/AAA and P1/Aaa ratings.

DFS placed two debenture loans of €87.5 million each on the over-the-counter capital market in 2010 to cover its running capital requirements, to refinance two maturing bonds and in preparation for the higher liquidity needs after the upcoming regulation. The loans have a remaining term until 2017 and 2020, respectively.

At year-end 2010, DFS had an issuing volume of bonds with a nominal value of €47.2 million with remaining terms of up to eight years as well as debenture loans of €175 million with remaining terms of up to 10 years. The average nominal interest rate of the bonds and debenture loans amounted to 3.182 percent at the balance sheet date. Existing bonds primarily have fixed interest rates or have been swapped from variable to fixed rates.

In the year under review, a syndicated loan contract for €160 million served DFS as a back-up line of credit to redeem maturing commercial paper. DFS has a cash-pool agreement for all companies in which it holds more than 50 percent of the shares.

Personnel

Motivated and qualified employees are an absolute must for the long-term success of DFS. Tailored development programmes help to support the continuing further development of the current employee base.

As at 31 December 2010, DFS had a total of 5,938 employees. The following table shows the changes in the number of employees at DFS:

	31 Dec 2010	**31 Dec 2009**	**31 Dec 2008**	**31 Dec 2007**	**31 Dec 2006**
Permanent employees					
Total	**5,938**	**5,596**	**5,342**	**5,126**	**5,165**
Salaried staff	5,074	4,745	4,530	4,368	4,382
Soldiers released from regular service	263	268	267	272	285
Wage-earners	31	32	32	33	34
Apprentices	45	45	39	42	37
Air traffic control trainees	213	175	112	27	26
Personnel belonging to the Federal Aviation Office (LBA)	312	331	362	384	401

There are 5,074 salaried staff, 263 soldiers released from regular service, 31 wage-earners, 258 apprentices and trainees and 312 personnel belonging to the Federal Aviation Office (LBA). The personnel belonging to the LBA is made up of 240 established civil servants and 72 non-established civil servants. Forty-seven percent of employees work in air traffic control (including support services) and eight percent perform technical services for air traffic control. The remaining 45 percent work in auxiliary service areas such as finance, human resources management, training, IT, facility management, safety management, and project management.

In addition, the subsidiary The Tower Company GmbH had a staff of 32 at the end of December. This number includes 21 qualified or trainee air traffic controllers.

The number of employees at DFS increased by 6.1 percent compared with the previous year. This increase is due to the high demand for air traffic controllers as a result of age-related separations and the shorter working hours for air traffic controllers required by the collective agreement which re-defined workload-related benefits. Moreover, the future development of traffic also needs to be considered. A further factor is the increased recruitment of technicians and engineers to meet the higher demands placed on operational systems as well as systems still in the project status.

Female employees represent 27 percent of the entire DFS workforce. There were 644 part-time employees – 437 women and 207 men. Since 2002, the number of part-time employees has almost doubled.

In 2010, non-German nationals made up 4.3 percent of the workforce and this figure increased by 0.4 percentage points over 2009. In 2010, DFS employed 253 non-German nationals from 50 nations, mainly from the USA and the United Kingdom, followed by Austria and Spain.

The age structure of staff is well balanced, with the average age being 41 years. The average age for men is 42, whereas the average female employee is 39 years old. The turnover rate – which only considers employees who leave DFS voluntarily – was at a comparatively low level in 2010. This rate was 0.9 percent in 2010 and is therefore much lower than the average rate of turnover of 2.9 percent that prevails in service companies (source: German Association for Personnel Management 2010).

DFS employs non-exempt staff (covered by collective agreements), exempt employees (not covered by collective agreements) and personnel of the Federal Aviation Office (LBA) working for DFS. Non-exempt employees fall under a collective agreement on the grading system. Exempt employees negotiate their contracts freely on an individual basis. These employees have target agreements covering people management and operational issues. The degree of fulfilment of these agreements determines the variable salary components.

The personnel of the Federal Aviation Office (LBA) working for DFS comprise the third employee group at DFS. These established and non-established civil servants still fall under the collective agreement for the public service (Tarifvertrag für den öffentlichen Dienst – TVöD). DFS bears the relevant expenses.

Air traffic controllers and flight data specialists have the option to receive transitional payments for the period before their retirement. This right to receive transitional payments accounts for a significant component of the pension commitment.

Information on the compensation structure of the Board of Managing Directors can be found in Note 40 "Organs of the company".

For many years, DFS has been offering traineeships to job starters. In 2010, a total of 247 apprentices started their training at DFS. On 1 September 2010, 20 apprentices embarked on a business or technical career to become, for example, office clerks, technicians or IT specialists. Others started their career in the dual education system, combining periods of study with interlocking periods of structured work experience at DFS, leading to a Bachelor of Engineering (Information Technology, majoring in telecommunications), Bachelor of Science (Information Technology), and Bachelor of Arts (Aviation Management). At various start times over the course of the year, 197 people started their training to become air traffic controllers and 24 to become flight data specialists.

In the next few years, DFS will continue to expand the number of positions available under the dual education system. This is the reaction of DFS to the growing demand for qualified staff, as these will be trained internally and will, in all likelihood, take on duties in the company on completion of their training.

In 2011, DFS plans to recruit 154 air traffic controllers, 24 flight data specialists and 20 apprentices and students. In 2012, it is expected that 211 traineeship places for air traffic controllers, 32 for flight data specialists as well as further apprenticeships and college places (dual education system) will be made available.

Human resources marketing

In January 2010, a concept for the use of social communication networks in HR marketing was drawn up and implementation began in the following months. The goal is to improve the presence of DFS on the labour market, to increase the awareness of DFS and its employer image as well as the fast, sustainable and cost-effective recruitment of qualified and motivated new staff in sufficient numbers.

Supplementary report

On 27 January 2011, The Tower Company GmbH (TTC) bought a stake in Tower Air Traffic Services S.L. (TATS), with its headquarters in Madrid. Now, TTC GmbH and INDRA Sistemas S.A. each hold a 50 percent stake in TATS. The joint venture aims to provide air navigation services at Spanish airports. The required SES certification has already been applied for.

Risk report

DFS uses efficient instruments to identify, analyse, monitor, and control the risks associated with its business. The ongoing further development of the risk management system, which takes account of the changes taking place in the company and the aviation industry, also guarantees the early identification of risks, including the initiation of countermeasures, in the future.

The risk management process

The risk management process at DFS lays down standards for the ongoing company-wide recognition and assessment of business risks, beginning with the application for approval of business plans and projects.

Possible effects are grouped into four categories for further analysis:
1. Operations: e.g. fulfilling the statutory mandate, technical infrastructure
2. Finance: e.g. costs, financial market, customers and suppliers
3. Leadership: e.g. strategy, personnel, organisation
4. External environment: e.g. politics and legislation, disasters and terrorist attacks

The analysis is conducted for both the services financed by air navigation charges and commercial services. Possible risks for DFS from subsidiaries are included.

Risk assessment is based on the evaluation of the probability of occurrence and the amount of possible damages of the hazard under consideration as reported by the department concerned. The goal is a quantifiable assessment; in well-founded cases a qualified assessment is permissible. The standards for the range applied in a qualified assessment are laid down centrally in an assessment matrix. Based on this, the reported risks are categorised as "red"/threat to going-concern status, "yellow"/material and "green"/internal to the department.

The resulting risk reporting to the Board of Managing Directors takes place on a quarterly basis. The risk reporting of the Board of Managing Directors to the Supervisory Board of DFS takes place every six months. The reporting includes an overview of changes to the prior period and all risks that were closed in the period under review.

A binding version of the risk management process is described in a process description and in an operational instruction concerning risk management. The integrity of the risk management system is tested in the course of the audit of the annual financial statements by the external auditors and on a regular basis by the Internal Audit department.

The organisation

The Board of Managing Directors has tasked the Risk and Contract Management department with the central implementation of the risk management system in the company. The main duties include the methodical further development of the system, including laying down the documentation requirements, as well as the central risk reporting to the Board of Managing Directors.

Risks are managed by the responsible organisational units. The heads of these units are obliged to make quarterly updates and any necessary ad-hoc updates as part of their management responsibilities. As part of this process, measures to mitigate and manage risks are assessed and supplemented. In general, the forecast period is one year. The heads of the organisational units are responsible for ensuring that the statements on the risk situation in their areas are correct.

In 2004, a "risk management committee" (RMC) was set up to support the central department and to provide of company-wide view of the risk situations reported by each department. As a rule, the members belong to the executive management level, are closely involved in the business decision-making processes, know company-wide interrelationships, and are hence in a position to contribute to forming a comprehensive overview.

Presentation of material risk areas

The material risk areas are set out below:

■ **Insured risks**

DFS has taken out insurance to cover common insurable risks, including those of subsidiaries where DFS has a majority shareholding. It particularly includes compensation for the loss or damage of material assets and the resulting interruption of operations, minus the usually agreed deductible.

It should be kept in mind when assessing the insured risks that DFS mainly performs sovereign functions on behalf of the Federal Republic of Germany in keeping with Article 87d of the

German Basic Law (in conjunction with Articles 31b and 31d of the German Aviation Act). As a consequence, the Federal Republic of Germany is liable for claims brought by third parties for damages in line with the principles of State liability. In the case of damage culpably caused by DFS, aviation liability insurance covers a limit of €767 million per instance of damage, thus releasing the Federal Republic of Germany from its liability to this amount. For non-sovereign tasks, statutory and, in some cases such as apron management services, contractual liability is covered up to the named amount.

In addition, claims for damages from third parties from employer's liability risks are covered by insurance.

■ Risks associated with the industry and general conditions

DFS is exposed to market and external risks, such as from political events, economic developments or cross-border health risks, that impact traffic flows and volumes. There is no safeguard against these risks and DFS can only offset their effects in part.

DFS considers known risks in its traffic forecasts. As the forecasts represent a significant element in the calculation of charges, the market risks known at the time of planning are included in the unit rate.

The threat of terrorist attacks, as well as the political unrest in the Middle East, still poses unforeseeable risks for the development of air transport. At the moment, there are no conflicts or pandemics which hinder traffic growth.

The German Federal Cabinet approved the introduction of a passenger-based air transport tax in Germany from 1 January 2011. Under the law, €8 per passenger must be paid for domestic and short-haul flights in Europe, €25 per passenger for medium-haul flights and €45 per passenger for long-haul flights. Overall, this passenger-based air transport tax raises the costs for the entire air transport industry. As a result, some airlines have announced that they will reduce their route network.

Changes to the European regulatory situation will lead, inter alia, to a departure from full-cost recovery and the start of economic regulation. This paradigm shift will expose DFS to new regulatory risks that will be reflected primarily in risks as regards costs and traffic volume. The first reference period for the en-route area will be from 2012 to 2014.

The inclusion of aircraft emissions in emissions trading from 2012 as decided by the European Commission means a further change in the framework conditions. The airlines are expected to pass on the costs of the emission trading scheme directly to customers. This could lead to constraints on the growth of air transport, which cannot be forecasted quantitatively in advance, however.

Experts from the oil sector and analysts from renowned financial institution do not rule out the return to the historic record oil prices of approximately $150 per barrel. A rise in the oil price will mostly be passed on directly to customers in the form of higher air fares.

Warranty obligations from the commercial business are managed as part of a contract-related quality management.

■ Corporate strategy risks

In view of the changes facing air navigation service providers in Europe, DFS conducts a rolling strategic planning process. As a result of the annual strategic planning process, the company is always aligned with the goal of continuing to successfully position itself in a changed environment in the future.

Beginning with the vision of DFS with its long-term focus, strategic planning gives us stability and orientation in light of the changes that the company will face in the coming years. To give an example – the air navigation service providers are focusing more on Europe as shown by the creation of functional airspace blocks (FAB) and the harmonisation of air traffic management systems in terms of interoperability.

In view of the SES II performance scheme and the economic regulation from 2012, DFS has set out performance indicators to operationalise its corporate strategy in the key areas of safety, capacity, environment and cost-efficiency and it permanently monitors the development of these indicators. This allows measures to counter variances from internal and, in the future, external performance targets to be initiated in good time.

Further challenges lie, inter alia, in demographic developments: It will be increasingly difficult to find qualified applicants on the labour market. An improvement in the situation is not expected in the foreseeable future due to the declining numbers of school and university graduates.

In addition, the further development of current air navigation systems as promoted under SESAR will bring with it significant conversion measures and additional costs. Air navigation systems are developing towards an interoperable, global, holistic, networked air traffic management system in which sub-systems are heavily dependent on each other.

■ Performance-related and IT risks

The top priority of DFS is to ensure air safety. DFS has established and complies with a safety management system in keeping with Regulation (EC) No. 2096/2005.

To this end, various measures are taken at all levels of planning, implementing and operating the DFS infrastructure to minimise the probability of downtime of the operational infrastructure of DFS such as would endanger air safety and impact the business performance of DFS.

The risk management system of DFS also incorporates the ATM-related systems and applications as well as the administrative systems and applications.

Measures to avoid downtime that would have safety-related or economic repercussions include the redundancy and spatial separation of critical systems, the storage of comprehensive data on separate data carriers as well as the SAP backup computer centre.

■ Personnel risks

The commitment and dedication of its staff are crucial for DFS to maintain safety in German airspace and for the future economic development of the company.

DFS is continuing to intensify its recruitment marketing owing to demographic developments and the tougher competition to recruit highly qualified staff and executives. A main area of focus is in particular the target groups of trainee air traffic controllers and graduates of IT, mathematics, physics, engineering and engineering management. DFS employs a comprehensive portfolio of measures to find suitable new employees in an ever tighter market for applicants.

Moreover, DFS intends to communicate its extremely attractive working conditions and responsible fields of work more strongly to increase the awareness of DFS as an attractive employer. Social communication networks such as Facebook or Xing are employed and our internet presence "DFS as an employer" on our homepage is being optimised.

■ **Financial risks**

Principles of financial risk management

As part of its business, DFS is exposed to risks relating to interest and exchange rates. Financial risk management also focuses on counterparty and liquidity risks.

The objective of risk management is to mitigate existing risks. It is not permitted to take speculative positions separately from an underlying transaction. As part of its overall risk management system, DFS performs Value-at-Risk (VaR) analyses to manage market price risks (interest, currencies). The risk position is assessed weekly by the Treasury department based on market price risks and is reported to the Board of Managing Directors at regular intervals. The VaR indicates the absolute loss for a company of a defined risk position, which will not be exceeded with a previously defined probability over a given period of time. The calculation of the VaR at DFS is based on a holding period of 10 days and a probability of 95 percent. On 31 December 2010, the cumulative loss at a confidence level of 95 percent amounted to under €4,308 thousand (previous year: €365 thousand).

The VaR is calculated as follows: With the help of statistical time series on the relevant financial market data (interest rates, exchange rates), historical simulations are computed by extrapolating scenarios from the past to the future using simulated changes in market values for financial instruments.

This market risk analysis includes all money market transactions of DFS, the issued bonds, debenture loans, interest derivatives, securities, currency hedges as well as all associated risk positions (foreign currency purchases and foreign currency receivables/liabilities).

Quantitative information on VaR values for risks from currency and interest rate changes is summarised in Note 33.

Currency risk

DFS is exposed to transaction risks as part of cross-border procurement transactions. The majority of foreign currency purchases/liabilities result from suppliers invoicing in US dollars. The total volume amounted to approximately US$6.5 million in the reporting period (previous year: US$4.0 million). Other currencies are only of minor importance.

These risks are limited by means of hedging using financial derivatives.

Currency risks from financial transactions (foreign bonds, commercial paper) are hedged immediately on conclusion of the transaction.

Interest rate risk

DFS is exposed to interest rate risk from both financing activities and financial investments. In 2010, DFS made use of financial derivatives to hedge interest rate risk and to minimise expenses. The effectiveness of the hedges is guaranteed by the matching of maturities and volumes between the hedge and the underlying transaction.

Other price risks
Other price risks were not present or known.

Liquidity risk
The daily liquidity is monitored by the Treasury department and is managed with the help of short-term liquidity planning. As an additional safeguard, DFS has, as a result of its excellent creditworthiness, a syndicated loan contract of €160 million at its disposal, in addition to its capital market programmes. In the year under review, DFS had adequate liquidity at its disposal.

Default risk
DFS is exposed to default risks from its operating business and from financial instruments. As regards financial investing, transactions are only entered into with counterparties who either have a long-term rating of at least AA-/Aa3, short-term A-1/P-1, or a correspondingly high creditworthiness or other form of collateral. In the operating business, receivables are monitored constantly. Default risks are taken into account using specific allowances for doubtful accounts. The maximum default risk is reflected in the carrying amounts of the financial assets recognised on the balance sheet.

Currently, there is no default risk stemming from the cross-border leasing transaction (QTE lease).

■ Characteristics of the internal control and risk management system as regards accounting and financial reporting

Accounting and financial reporting at DFS is designed to present in an orderly and efficient manner all asset and liability positions impacting the finances or accounts and the associated flow of money, goods and services. The assessment of transactions and their recognition are conducted under international and national accounting standards as well as applicable statutory provisions covering tax and air navigation charges.

The necessary organisational structures and processes have been set up in the responsible departments. Their tasks are described in functional diagrams and ISO-certified documents. Process and competence-based job descriptions are available for each member of staff in these departments.

All recordable transactions at DFS are recognised using a standard ERP software product – SAP R/3. The software carries out programmed plausibility checks. Access rights and the separation of functions in the system are not administered by the Finance department.

The statutory regulations are supplemented in all departments by detailed internal instructions. This includes the definition of internal accounting standards in internal accounting handbooks, decisions on accounting treatment and guidelines. The guidelines are constantly updated and revised as necessary. Our internal accounting standards are based on the European regulations concerning air navigation charges which are reflected in the business model used at DFS. This covers the control of cost-efficiency and the separation of tasks financed by air navigation charges from the commercial business.

Possible risks which have been identified as posing a threat to the accounting and financial reporting are countered by means of the monthly reporting of the results of the internal and external accounting systems to the Board of Managing Directors. Variances to planned figures are analysed. This reporting is supplemented by continuous and standardised information to the bodies supervising the Board of Managing Directors.

Early warning signals are defined using these variances. These support the recognition and systematic monitoring of risks from operating activities and form the basis for the resulting counter-measures.

The preparation of the annual financial statements is a process organised in such a way that completeness and correctness are ensured. The external auditors participate in the consultations of the supervisory bodies and report on the results of their audit. The internal control and risk management system covering the accounting process guarantees an efficient accounting and financial reporting system (whose significant characteristics were described above) where errors can be largely avoided, and if not, detected.

■ **Other risks**

Other material risks were not identified.

Overall risk

Based on the evaluation of the risk situation of the company by the Board of Managing Directors of DFS, currently no risks are discernible which individually, or as a group, would pose a threat to the going-concern status of DFS.

Outlook

Future company developments

The outlook contains statements and information concerning the future development of DFS, which are based on expectations and assumptions of the company at the time of publishing the outlook and are subject to known and unknown risks. The success of the company depends on a number of factors, some of which are outside the company's sphere of influence.

DFS is pressing ahead with the work that it started in recent years to get ready for the changing framework conditions in Europe. A crucial factor in this connection is the European Commission's Single European Sky (SES) initiative.

The regulations of the SES II package by the European Commission (Regulation (EC) No. 1070/2009 of the European Parliament and Council amending Regulations (EC) No. 549/2004, (EC) No. 550/2004, (EC) No. 551/2004 und (EC) No. 552/2004) involve the following key objectives:

- The introduction of a performance scheme setting out targets at the European, national and FAB level for each reference period for the key performance areas (KPA) of safety, capacity, environment, and cost-efficiency. The goal is the enhanced performance of air navigation services and network functions in the Single European Sky.
- The adjustment of the charges regulation to implement, inter alia, the risk sharing as regards the development of traffic and costs as envisaged under the performance scheme as well as the introduction of a bonus-malus system.
- The designation of air navigation service providers (ANSPs) to provide air traffic control services in cross-border airspaces regardless of nationality.

- The mandate for Member States to put in place measures by 2012 for the implementation of FABs.
- The development of common infrastructure for the provision of aeronautical data.
- The introduction of network management functions to optimise airspace use.
- The extension of EASA competences to airports and ATM.

A concrete measure to implement the Single European Sky is the creation of a cross-border airspace block. Together with the Benelux States, France, Switzerland and the EUROCONTROL Centre in Maastricht, Germany is actively participating in implementing this project. The goal is a future air navigation services system organised according to traffic flows rather than national borders, thus further enhancing airspace capacity and service quality.

A further requirement of the European initiative is the modernisation of the air traffic management system. The objective of the SESAR programme (SES Air Traffic Management Research) is the development of procedures and technologies that meet the requirements set out. To implement this comprehensive project, a legal entity under European law was established – the SESAR Joint Undertaking. DFS is a member and is working on cutting-edge work packages.

The regulations of the European Commission on the charging scheme (EU) No. 1191/2010 and on the performance scheme (EU) No. 691/2010, specify the further implementation steps in connection with SES II. As part of these schemes, the European Commission has adopted performance targets which have to be reached. These targets can be broken down step by step from the European level to the FAB and/or national level. The first reference period begins on 1 January 2012 and ends on 31 December 2014. The implementation of these regulations will raise the pressure on DFS to boost efficiency by means of monetary and non-monetary performance targets.

In this regard, the Single Sky Committee has agreed on the following uniform performance targets across Europe for the first reference period 2012-2014, which need to be adopted by the European Commission by the start of 2011. These targets are for the key performance areas: capacity, environment and cost-efficiency. As regards safety, no European target values have been defined for the first reference period in order to gather experience with the various safety indicators. The States, however, may lay down target values at the FAB and national level, also for the KPA safety.

For capacity, the average minutes of ATFM delay per flight is to be reduced to 0.5 minutes across Europe by 2014. As regards cost-efficiency, the European target is to reduce the average European unit rate for en-route charges to €53.92 by 2014 (inflation adjusted). This corresponds to an annual decline of 3.5 percent compared with the basis year 2011. The Commission can adjust these target values in the case of extreme fluctuations in the traffic and cost situation.

The regulation of the performance scheme does not set out any methodology on how the European performance targets are to be broken down to the level of the individual FABs or States. Therefore, the direct impact on DFS cannot currently be framed in concrete terms. Nevertheless, the national and FAB targets must contribute to reaching the European targets and must not work against their achievement. In addition, the FABEC States have decided to present the Commission with a joint FABEC performance plan by June 2011.

On 2 December 2010, the Ministers of Transport and high-level military representatives from Belgium, Germany, France, Luxembourg, the Netherlands and Switzerland signed the FABEC Treaty. The FABEC Treaty is a major step forward in the effective implementation of the European Commission's Single European Sky programme, whose air traffic management will be organised based on traffic flows rather than national borders in the future. The Treaty is expected to be ratified by 2012.

The continuation of the positive economic development is expected for the coming year. Constraints on economic growth could result from the end of stimulus programmes and the debt crisis in some European countries. It is forecasted that air traffic will continue to rise in subsequent years. ATC capacity needs to be adjusted in a timely fashion to avoid ATC-related capacity bottlenecks in national and international air traffic in the future. In addition, further investments are being made in the training of air traffic controllers as well as in capacity-expanding air traffic control systems and in the infrastructure at the three most important international airports in Germany, namely Frankfurt, Munich and Berlin. Moreover, DFS started the optimisation programme "Heading 2012" with the goal of improving the efficiency of DFS and aligning it with European target values.

It is also under consideration to acquire additional investments in other companies and found new companies in the future.

Development of the economy

The global economy should continue to develop in a stable manner in 2011. The German Federal Government assumes in its Annual Economic Report 2010 that the real economic growth of gross domestic product for 2011 will be 2.3 percent. In 2012, gross domestic product will rise by another 1.7 percent. The rebound will in particular be supported by domestic demand and exports. In addition, the Federal Government anticipates a decline in unemployment and an increase in employment. Most economic research institutes also expect a plus of 2.2 percent to 2.5 percent for 2011.

The International Air Transport Association (IATA), which represents around 230 airlines worldwide, sees the sector on track to recover and expects airlines to return to profit more and more. The association forecasts that its members will have earnings of US$9.1 billion in 2011.

More unfavourable framework conditions could dampen growth for air transport in Germany. This can be attributed to the continuing rise in the oil price as well as the new air transport tax, which will adversely impact airlines. This tax will be levied from 1 January 2011.

In its medium-term forecast for 2011, EUROCONTROL predicts traffic growth of around 5.7 percent in Germany. Some of this growth is due to the catch-up effects from flight cancellations following the ash cloud. In the medium term, EUROCONTROL expects air traffic to increase in Germany, with an annual rise of around 3.3 percent for IFR flights until 2017.

Development of results and financial position

The financial framework conditions resulting from the regulations adopted in December 2010 will be incorporated into the planning from the year 2012. The impact of the sharing of traffic and cost risks as well as the possible incentive regulation for the provision of air navigation services on the results and financial position will require a raised level of awareness compared with prior years. The preparatory activities and analyses will be completed by mid-2011.

The SES II performance scheme and economic regulation mean a change from the principle of absolute, annual full-cost recovery to a price regulation system spread over several years, with which the efficiency of the European air traffic management system should be enhanced.

In addition, the FABEC Treaty signed in December 2010 will also have an impact. The Treaty is expected to be ratified in 2012. The Treaty lays the foundation for the creation of a Single European Sky (SES) in central Europe. The entrustment of DFS with air navigation services in German airspace will remain unaffected, however. The rating of DFS was confirmed again after the regulatory legislation was submitted. It remains to be seen to what extent the concrete implementation of these regulations will lead to a change in the rating. A joint FABEC performance plan will be submitted to the Commission by mid-2011.

In order to meet financial requirements, securities can be issued within the scope of the existing capital market programmes. Depending on the market situation and funding requirements, refinancing options are also available in the short term. The planned revenues from charges in 2011 cover our expenditures, provided there are no unforeseen economic developments that limit revenues.

Economic forecasts in Europe and Germany for 2011 are positive. This will be supported by infrastructure projects at the Berlin Brandenburg International, Frankfurt and Munich airports. In addition, there will be an impact from the investment of airlines in larger aircraft. Against this background, we expect to see an increase in the use of air navigation services in 2011 and 2012.

Langen, 3 March 2011

The Board of Managing Directors

Dieter Kaden

Ralph Riedle Jens Bergmann

Group statement of comprehensive income
for the period 1 January 2010 to 31 December 2010

	Note	2010 €'000	2009 €'000
Revenues	(6)	977,677	977,798
Changes in inventory and other own work capitalised	(7)	4,946	4,308
Other operating income	(8)	29,696	33,076
Total operating revenues and income		**1,012,319**	**1,015,182**
Cost of materials and services	(9)	-4,635	-4,998
Employee expenses	(10)	-625,839	-608,100
Depreciation and amortisation	(11)	-100,791	-116,317
Other operating expenses	(12)	-144,871	-133,737
Earnings before interest and taxes (EBIT)		**136,183**	**152,030**
Financial income	(13)	56,528	62,498
Financial expenses	(13)	-101,396	-97,161
Financial result	**(13)**	**-44,868**	**-34,663**
Earnings before taxes		**91,315**	**117,367**
Income taxes	(14)	13,446	-18,003
Net income	**(23)**	**104,761**	**99,364**
of which allocated to the Shareholder of the parent company		104,761	99,364
Other result			
Fair value adjustments to available-for-sale financial assets	(23)	-161	290
Income taxes	(23)	-129	-175
Sum of adjustments recognised in equity	**(23)**	**-290**	**115**
of which allocated to the Shareholder of the parent company		-290	115
Total income		**104,471**	**99,479**
of which allocated to the Shareholder of the parent company		104,471	99,479

Group balance sheet
as at 31 December 2010

	Note	31 Dec 2010	31 Dec 2009
		€'000	€'000
Assets			
Intangible assets	(15)	232,090	227,943
Property, plant and equipment	(16)	500,019	524,732
Investment property	(17)	933	963
Financial assets	(18)	34,799	29,555
Future receivables from construction contracts		1,081	0
Other receivables and assets	(19)	16,553	10,837
Deferred tax assets	(14)	7,087	9,015
Non-current assets		**792,562**	**803,045**
Inventories	(21)	5,054	4,365
Trade receivables	(20)	130,612	123,295
Future receivables from construction contracts		163	0
Other receivables and assets	(19)	31,039	19,228
Current income tax assets	(14)	16,613	2,490
Liquid funds	(22)	85,152	3,800
Current assets		**268,633**	**153,178**
Total assets		**1,061,195**	**956,223**

	Note	31 Dec 2010 €'000	31 Dec 2009 €'000
Equity and liabilities			
Subscribed capital	(23)	153,388	153,388
Capital reserves	(23)	74,296	74,296
Retained earnings	(23)	-381,882	-480,488
Other reserves	(23)	-569	-279
Equity		**-154,767**	**-253,083**
Provisions for pensions and similar obligations	(24)	573,082	617,156
Other provisions	(25)	151,260	158,856
Financial liabilities	(26)	174,612	47,529
Trade payables	(27)	1,163	1,175
Other liabilities	(28)	110,089	64,059
Income tax liabilities	(14)	33,354	48,658
Non-current liabilities		**1,043,560**	**937,433**
Other provisions	(25)	24,328	88,717
Financial liabilities	(26)	0	56,021
Trade payables	(27)	34,824	45,948
Other liabilities	(28)	113,234	80,839
Income tax liabilities	(14)	16	348
Current liabilities		**172,402**	**271,873**
Total equity and liabilities		**1,061,195**	**956,223**

Group statement of changes in equity

for the period 1 January 2010 to 31 December 2010

	Subscribed capital	Capital reserves	Retained earnings	Other reserves	Total	of which allocated to the Shareholder of the parent company
	€'000	€'000	€'000	€'000	€'000	€'000
Note	(23)	(23)	(23)	(23)		
As at 1 Jan 2009	**153,388**	**74,296**	**-571,829**	**-394**	**-344,539**	**-344,539**
Payment of dividend to Shareholder	0	0	-8,023	0	-8,023	-8,023
Total result						
Net income	0	0	99,364	0	99,364	99,364
Fair value adjustments to available-for-sale financial assets	0	0	0	290	290	290
Income taxes	0	0	0	-175	-175	-175
As at 31 Dec 2009	**153,388**	**74,296**	**-480,488**	**-279**	**-253,083**	**-253,083**
Payment of dividend to Shareholder	0	0	-6,155	0	-6,155	-6,155
Total result						
Net income	0	0	104,761	0	104,761	104,761
Fair value adjustments to available-for-sale financial assets	0	0	0	-161	-161	-161
Income taxes	0	0	0	-129	-129	-129
As at 31 Dec 2010	**153,388**	**74,296**	**-381,882**	**-569**	**-154,767**	**-154,767**

Group cash flow statement
for the period 1 January 2010 to 31 December 2010

	Note	2010	2009
	(30)	**€'000**	**€'000**
Net income		104,761	99,364
Depreciation and amortisation		100,791	116,317
Income taxes		-13,446	18,003
Income from investments		0	-1,226
Losses (+) / gains (-) from the measurement of bonds		5,114	-1,986
Income (-) from asset disposals		-1,001	-524
Losses (+) from asset disposals		1,849	627
Increase (-) in other receivables and assets		-18,559	-15,518
Decrease (+) / increase (-) in deferred tax assets		1,799	-8,527
Increase (-) in inventories		-688	-101
Increase (-) in trade receivables		-7,317	-605
Increase (-) / decrease (+) in current tax assets		-14,123	2,249
Decrease (-) in provisions for pensions and similar obligations		-44,073	-172,491
Decrease (-) / increase (+) in other provisions		-71,985	42,552
Increase (+) / decrease (-) in other liabilities		56,396	-6,478
Decrease (-) / increase (+) in trade payables		-11,136	7,572
Decrease (-) / increase (+) in income tax liabilities		-15,635	1,567
Taxes paid		-14,536	-22,370
Dividends received		0	1,226
Cash inflow from operating activities		**58,210**	**59,651**
Payments (-) for investments in intangible assets and property, plant and equipment		-87,996	-135,126
Payments (-) for investments in financial assets		-27	0
Proceeds (+) from disposal of intangible assets and property, plant and equipment		1,415	2,099
Proceeds (+) from disposal of financial assets		0	492
Cash outflow from investing activities		**-86,608**	**-132,535**
Payments (-) for finance leases		-252	-53,341
Payment of principal (-) on financial liabilities (bonds)		-45,000	0
Issue (+) of financial liabilities (debenture loan)		175,000	0
Payment (-) of dividend to Shareholder		-6,156	-8,022
Interest result		1,649	-5,352
Interest received		1,140	8,518
Interest paid		-5,831	-5,726
Cash inflow/outflow from financing activities		**120,550**	**-63,923**
Net change in cash and cash equivalents		**92,152**	**-136,807**
Cash and cash equivalents at 1 Jan		-7,000	129,807
Cash and cash equivalents at 31 Dec		**85,152**	**-7,000**

Notes to the group financial statements 2010

(1) Legal basis
DFS Deutsche Flugsicherung GmbH (DFS) has its Headquarters in 63225 Langen, Am DFS-Campus 10. The company is registered on the Commercial Register (HRB 34977) at Offenbach am Main district court, Germany, as a limited liability company (GmbH). The Federal Republic of Germany, represented by the Federal Ministry of Transport, Building and Urban Development, is the sole shareholder of DFS.

With an entry on the Commercial Register on 19 May 2009, the object of the company was expanded. According to Article 3 of the Articles of Association, the object of the company is the development, the provision and the execution of the air navigation services delegated to the company by the Federal Ministry of Transport, Building and Urban Development. In addition, the company can provide air navigation services in Europe as well as carry out related sideline activities in Germany and abroad, provided that this does not directly or indirectly impede the performance of the tasks mentioned above. In order to promote its corporate object, the company is entitled to establish branches, to acquire shareholdings in other enterprises, and to acquire or establish such enterprises, provided that this does not directly or indirectly impede the performance of its tasks.

The field of activity of DFS comprises the tasks of the air navigation services. DFS thus fulfils its tasks pursuant to Article 27c, paragraph 1 of the German Aviation Act (LuftVG) to ensure the safe, orderly and expeditious handling of air traffic. DFS has been entrusted with the performance of the services outlined in Article 27c, paragraph 2, sentence 1, point 1 of the German Aviation Act in accordance with Article 31b, paragraph 1, sentence 1 of the German Aviation Act in conjunction with Article 1 of the Regulation Concerning the Commissioning of an Air Navigation Services Enterprise (FS-AuftragsV) dated 11 November 1992, as modified by the act to amend air traffic regulations dated 24 August 2009 which came into effect on 29 August 2009. DFS is entrusted with the surveillance of both civil and regional military air traffic.

The tasks outlined in Article 27c, paragraph 2, sentence 1, point 1 of the German Aviation Act comprise the following air traffic services:
a) air traffic control services (aerodrome, approach and area control services), including checking, warning and rerouting aircraft in airspace,
b) alerting services,
c) flight information services,
d) air traffic advisory services.

DFS was also entrusted with the training of operational and technical air navigation services personnel, participation in international organisations, the hierarchical authority over the former staff of the Federal Administration of Air Navigation Services (BFS) and the planning of flight procedures.

DFS performs these tasks pursuant to Article 27c, paragraph 2, item 1 of the German Aviation Act only to the extent that they were not transferred to EUROCONTROL by treaty, to military units pursuant to Article 30, paragraph 2, sentence 2 of the German Aviation Act, or to other air navigation service providers (see Articles 31b, paragraph 1, 31f of the German Aviation Act).

The amendment to Article 87d of the Constitution, which came into effect in August 2009, and the corresponding amendments to the German Aviation Act created the basis for the involvement of DFS in the Single European Sky (SES).

(2) Application of accounting standards

DFS prepares its group financial statements on the basis of International Financial Reporting Standards (IFRS), in accordance with Regulation (EC) No. 1606/2002 and 550/2004 (service provision regulation) of the European Parliament and Council on the application of international accounting standards. The Accounting Law Reform Act (Bilanzrechtsreformgesetz) enacted the provisions of the EU Regulation in Article 315a of the German Commercial Code (HGB).

The group financial statements of DFS as at 31 December 2010 were prepared in accordance with the International Financial Reporting Standards of the International Accounting Standards Board (IASB) and their interpretations by the International Financial Reporting Interpretations Committee (IFRIC) as endorsed for use in the European Union. These were supplemented by the applicable provisions of Article 315a, paragraph 1 of the HGB.

All the standards published by the IASB that were in force at the time of the preparation of the group financial statements and applied by DFS were endorsed by the European Commission for application in the EU. This means that these group financial statements were prepared in accordance with the IFRSs endorsed for use in the EU as well as with the provisions of Article 315a, paragraph 1 of the HGB.

On 3 March 2011, the Board of Managing Directors of DFS submitted the group financial statements to the Supervisory Board. The Supervisory Board has the duty to check and state whether it approves the group financial statements. In accordance with Article 325, paragraph 2a, no. 1 of the HGB, the group financial statements as at 31 December 2010 are available via the electronic German Federal Gazette and from our website at www.dfs.de.

The business year at DFS corresponds to the calendar year (1 January to 31 December). The group financial statements were prepared in euro (€). The reporting currency is euro. All figures are in thousands (€'000), unless otherwise stated. The common method of rounding was used.

(3) Scope of consolidation

DFS Deutsche Flugsicherung GmbH is the ultimate parent company of the DFS group. DFS holds over 50.00 percent of the shares in five subsidiaries and has the legal and/or effective control of these companies. DFS has a stake in two further companies, namely GroupEAD (36.00%) and BILSODA (24.90%), and can exercise significant influence over them. DFS ESSP holds stakes of 16.67 percent each in two further investments involved in the development and provision of air traffic services.

Even when taken as whole, these companies are immaterial for the representation of the financial position and financial performance of the group and are not included in the scope of consolidation.

Stakes in affiliated investments and investments are reported under financial assets at cost. Associated lists as well as further information can be found in Note 18 "Financial assets" and Note 39 "Related party disclosures".

(4) Accounting policies

The annual financial statements of group companies were prepared using uniform group-wide accounting policies as at the same balance sheet date.

Measurement in the group financial statements is based on historical cost. If IFRS prescribes a different measurement method, this is applied.

The following revised and new standards as well as interpretations from the IASB and IFRIC are mandatory for the business years beginning on or after 1 January 2010. They were endorsed by the European Union through publication in the Official Journal of the European Union:

Standard	Title	Publication IASB	EU endorsement	Effective date	Relevant for DFS
IFRIC 15	Agreements for the construction of real estate	3 Jul 2008	22 Jul 2009	1 Jan 2010 [1)]	Yes
IFRS 1	First-time adoption of international financial reporting standards	27 Nov 2008	25 Nov 2009	1 Jan 2010 [2)]	No
Catalogue	Improvements to international financial reporting standards 2007-2009	16 Apr 2009	23 Mar 2010	1 Jan 2010	Yes
IFRS 2	Share-based payment (Cash settled share-based payment transactions by a group company)	18 Jun 2009	23 Mar 2010	1 Jan 2010	No
IFRS 1	First-time adoption of international financial reporting standards (Additional exemptions for first-time adopters)	23 Jul 2009	23 Jun 2010	1 Jan 2010	No
	1) different effective date of the IFRIC			1 Jan 2009	
	2) different effective date of the IASB			1 Jul 2009	

IFRIC 15 "Agreements for the construction of real estate"
Impact on DFS: IFRIC 15 has no impact on the group financial statements and the result. DFS does not currently conduct any real estate sales as a real estate company.

IFRS 1 "First-time adoption of international financial reporting standards"
Impact on DFS: The amendments to IFRS 1 have no impact on the group financial statements and the result as only the structure of the standard was adapted. The impact on the separate financial statements that now have to be drawn up is being checked.

"Improvements to international financial reporting standards"
Impact on DFS: The improvements to the IFRSs have no impact on the group financial statements and the result. The improvements involve only small corrections, improved definitions and terms and the clarification of existing standards.

IFRS 2 "Share-based payment"
Impact on DFS: The amendments to IFRS 2 have no impact on the group financial statements and the result. There are no share-based payments.

IFRS 1 "First-time adoption of international financial reporting standards"
Impact on DFS: The amendments to IFRS 1 have no impact on the group financial statements and the result, as DFS is not operating in the crude oil and natural gas sector.

The IASB and IFRIC have adopted the following standards and interpretations, which had already been endorsed by the European Commission. However, the standards and interpretations are mandatory only for the business years after the point in time given. Early voluntary application is permitted. The first-time adoption of the new standards and interpretations will be made from the point in time they become mandatory.

Standard	Title	Publication IASB	EU endorsement	Effective date	Relevant for DFS
IAS 32	Financial instruments: Presentation (Classification of rights issues)	8 Oct 2009	23 Dec 2009	1 Feb 2010	Yes
IFRS 1	First-time adoption of international financial reporting standards (Limited exemption for first-time adopters from comparative disclosures under IFRS 7)	28 Jan 2010	30 Jun 2010	1 Jul 2010	No
IFRIC 14	IAS 19 - The limit on a defined benefit asset, minimum funding requirements and their interaction (Prepayments of a minimum funding requirement)	26 Nov 2009	19 Jul 2010	1 Jan 2011	Yes
IAS 24	Related party disclosures	4 Nov 2009	19 Jul 2010	1 Jan 2011	Yes
IFRIC 19	Extinguishing financial liabilities with equity instruments	26 Nov 2009	23 Jul 2010	1 Jul 2010	No

IAS 32 "Financial Instruments: Presentation"

Impact on DFS: The amendments to IAS 32 have no impact on the group financial statements and the result as such subscription rights are not held.

IFRS 1 "First-time adoption of international financial reporting standards" – "Limited exemption from comparative IFRS 7 disclosures for first-time adopters"

Impact on DFS: The amendments to IFRS 1 have no impact on the group financial statements and the result. The amendment provides relief for disclosures in the notes, which are not applicable for DFS.

IFRIC 14 "IAS 19 - The limit on a defined benefit asset, minimum funding requirements and their interaction"

Impact on DFS: IFRIC 14 has no impact on the group financial statements and the result, as such issues do not arise.

IAS 24 "Related party disclosures"

Impact on DFS: The revised IAS 24 has an impact on the disclosures in the group financial statements; not, however, on the result. The revised standard allows DFS to profit from an exemption for entities controlled by the government. The disclosure of transactions with the government itself and the disclosure of transactions with other entities controlled by the government (e.g. Fraport, airports) are not necessary. Nevertheless, some minimum disclosures must be made, such as the name of the government entity, type of relationship, kind and amount of significant transactions.

The revised version of IAS 24 is to improve the understandability and the clarity of the standard, to ensure a uniform interpretation and application. In particular, it clarified the definition of related parties and of those transactions requiring disclosure.

In addition, a new exemption provided substantial relief as regards the disclosures required for entities that are controlled, jointly controlled or significantly influenced by a government-related entity. The revised version of IAS 24 is mandatory for all business years beginning on or after 1 January 2011.

IFRIC 19 "Extinguishing financial liabilities with equity instruments"

Impact on DFS: IFRIC 19 has no impact on the group financial statements and the result, as such issues do not arise.

The IASB and IFRIC have adopted the following standards and interpretations, which were not mandatory in the period under review. These regulations will be applied following endorsement by the EU, which in some cases was still outstanding at the balance sheet date.

Standard	Title	Publication IASB	EFRAG recommendation	Expected effective date	Relevant for DFS
IFRS 9	Financial instruments	12 Nov 2009	open	1 Jan 2013	Yes
Catalogue	Improvements to international financial reporting standards 2008-2010	17 May 2010	23 Jul 2010	1 Jan 2011	Yes

Use of estimates and assumptions

The accounting policies prescribed by IFRSs and IFRICs require judgements, estimates and assumptions to be made about the future which might not correspond to actual events. All estimates and assumptions used in accounting and measurement are continuously reviewed and are based on experience or expectations about the occurrence of future events which in the given circumstances appear commercially reasonable. Adjustments to the estimates relevant to the financial statements are taken into consideration in the period of the change, provided only this period is affected by the change. An adjustment is taken into consideration both in the current reporting period and in later periods when these changes affect this period and later ones.

In the year under review, the following changes were made to estimates and assumptions:

■ **Depreciation and amortisation**

In 2010, the entire office communication hardware and software was replaced (project: TOPAS 2010). Based on experience, these assets are written off over four years using the straight-line method.

The useful lives for two data storage automation devices were extended by three years until 2014.

■ **Pension obligations**

The discount rate was set at 4.90 percent for measurement purposes from 1 January 2011 because of the current development in interest rates.

The increase of 1.30 percent foreseen following the conclusion of the collective agreement related to remuneration is already covered by the rate of compensation increase of 3.50 percent.

The rate of pension progression is set at 1.25 percent in line with the collective agreement relating to pensions of 2009 (VersTV 2009). The group comprising "Former employee with a date of separation from the company before the 1 November 2004", uses a rate of pension progression of 2.00 percent in line with the VersTV 1993.

In 2010, the method to pay for benefits from the newly regulated 2009 collective agreement relating to old-age pensions for soldiers was changed over fully to the direct guarantee method.

■ **Deferred taxes**

In accordance with IAS 8.34, the Board of Managing Directors has made a change to the estimate because the basis used to estimate tax risks changed as a result of new information. Following the introduction of the German Accounting Law Modernisation Act (BilMoG), commercial law mandates the discounting of long-term provisions for the first time in 2010. The impact on the result from this discounting was neutralised in HGB balancing items for issues concerning the cycle of unit charges. In a similar manner, the interest differences from the years 2007 to 2009 from the differing measurements methods under commercial and charges legislation are eliminated according to the provisions of IAS/IFRS. Under the German law principle that the tax accounts should be based on the commercial accounts (HGB), changes in HGB balancing items lead to a corresponding booking in the tax balancing items.

The Board of Managing Directors has decided to reduce the tax risk provision from previous years by the same amount. The tax provision was therefore reduced by €15,244 thousand and this amount recognised in the income statement.

Changes in comparative information

The current values are not completely comparable with the previous year as DFS Energy GmbH (Energy) was spun off with effect from 1 January 2010.

Income and expense recognition

Revenues and other operating income are recognised upon the rendering of services or upon the delivery of assets and the simultaneous transfer of risks and obligations to the customer. In addition, it must be sufficiently probable that there will be an inflow of economic benefits and these must be capable of being quantified reliably.

Revenues and expenses from long-term service contracts are accounted for using the percentage of completion method, where revenue is recognised based on the stage of completion. It results from the relationship between the contract costs incurred up to the balance sheet date and planned contract costs to this date. If the execution of the service contract requires a significant period of time, contract costs may also include direct borrowing costs.

Under the percentage of completion method, the service contracts are measured according to the contract costs incurred up to the balance sheet date plus the proportionate share of profits based on the stage of completion. These revenues are shown on the balance sheet under trade receivables net of advance payments received. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

If the results of a service contract cannot be estimated reliably, the probable revenues are recorded at the value of the costs incurred. The contract costs are expensed in the period in which they are incurred. If the total contract cost is expected to exceed the total contract revenue, the expected loss is expensed immediately.

Operating expenses are recognised in the income statement when the service is used or at the time of its cause. Interest income and expenses are recognised on an accrual basis.

Intangible assets

Assets acquired for valuable consideration are capitalised at cost when it is probable that the asset will generate future economic benefits for the company and the costs can be measured reliably.

Internally generated intangible assets which are under development are capitalised at cost, to the extent that the provisions of IAS 38 are fulfilled as regards the ability to identify associated costs clearly, the technological feasibility, the intent and ability to use or sell as well as the probability of generating future economic benefits. The production costs of capitalised development costs include all direct costs incurred in the development process and an appropriate share of the overhead costs related to development. The borrowing costs for internally generated intangible assets are capitalised as part of production costs in accordance with IAS 23. The same applies to assets under construction for intangible assets that are not internally generated provided they are a qualifying asset.

Intangible assets have a limited useful life and are subject to straight-line amortisation from the point in time they are put into use. Internally generated intangible assets which are the result of development activities are subject to straight-line amortisation over their probable useful lives from the point in time they are put into use.

Amortisation is based on the following useful lives:

Intangible assets	**Useful life**
Concessions, industrial and similar property rights and assets as well as licenses in such rights and assets	3 - 8 years
Internally generated intangible assets	8 years
Prepayments on intangible assets	–

Research costs are charged directly to the income statement at the point in time at which they are incurred.

Government grants for pure research projects are recognised immediately in the income statement.

Property, plant and equipment

Non-current tangible assets are carried at cost less cumulative scheduled depreciation provided it is probable that the asset will generate future economic benefits for the company and the costs can be measured reliably. Costs include the purchase price as well as all directly attributable costs incurred to bring the asset to the site and get it into the working condition as intended by management. Capitalised production costs for internally generated property, plant and equipment comprise direct production costs (prime costs), as well as an appropriate share of manufacturing overhead.

If the production of a qualifying asset takes a substantial period of time to get it ready for its intended use, then borrowing costs that are directly attributable up to the point in time it is ready for its intended use are capitalised as part of the cost in accordance with IAS 23.

For buildings, each part of an item of the property, plant and equipment with a cost that is significant in relation to the total cost of the asset is assessed, recognised and depreciated separately (component approach). Ongoing repair and maintenance costs are directly recognised as an expense. Costs for the replacement of components and the general overhaul of property, plant and equipment are capitalised provided it is probable that they will generate future economic benefits for the company and the costs can be measured reliably. To the extent that depreciating items of property, plant and equipment are composed of materially identifiable and significant components with different useful lives, then these components are recorded as separate balance sheet items and depreciated over their respective useful life.

Depreciation is based on the following useful lives:

Property, plant and equipment	**Useful life**
Building - Structure	25 - 40 years
Building - Façade	25 - 30 years
Building - Interior finishing	25 years
Building - Heating, ventilation, water	15 - 25 years
Building - Electronics	15 - 25 years
Outdoor installations	5 - 19 years
Technical equipment	3 - 20 years
Operating and office equipment	5 - 20 years

Government grants are deducted from the carrying amount of the corresponding asset.

Leases

A lease is considered a finance lease when the risks and rewards of ownership are transferred substantially to the lessee. If a lease satisfies the provisions of IAS 17 as regards finance leases, it is capitalised at the lower of the present value of the minimum lease payments or the fair value of the leased asset. The leased asset is depreciated over the shorter of the estimated useful life or the term of the lease. The payment obligations resulting from future lease instalments are recognised as a financial liability at the same value as the leased asset. Interest is allocated to the obligation using the effective interest method over the term of the lease.

Leases where the substantial risks and rewards remain with the lessor are classified as operating leases. The leasing instalments are recognised in the income statement over the term of the lease arrangement.

Investment property

Property not used operationally but held solely for rental income or capital gains is classified as investment property and measured at amortised cost. Scheduled depreciation is conducted using the straight-line method over the useful life of buildings.

Impairment

Assets are reviewed at the balance sheet date to determine if there are indications of impairment. This involves comparing the carrying amount with the recoverable amount of the asset. In addition to scheduled depreciation and amortisation, intangible assets and property, plant and equipment are impaired if the recoverable amount is lower than the carrying amount of the asset. The recoverable amount is the higher of the net realisable value (fair value less costs to sell) and the value in use. Value in use is the present value of the future cash flows expected to be derived from the continuing use of an asset and its disposal at the end of its useful life.

The recoverable amount is calculated for each individual asset or, if this is not possible, for the cash-generating unit to which it is allocated.

If the reasons, either in full or in part, for impairments made in previous years no longer apply in future periods, the impairment loss is reversed accordingly.

Financial assets

Financial assets comprise loans, investments and long-term securities. Financial assets are capitalised on the trade date at cost, which corresponds to the fair value of the consideration paid. Long-term loans which are non-interest bearing or have below-market rates are carried at their present value provided the interest effect is material.

Loans are classified as loans or receivables and are measured at the balance sheet date at amortised cost.

Securities are classified as available-for-sale financial assets and are measured at fair value (market value) on the balance sheet date. Unrealised gains and losses from changes in fair value are recognised directly in equity in the reserve for fair value adjustments. Upon sale or permanent impairment, the cumulative gains and losses are recognised in the statement of comprehensive income.

Inventories
Inventories are carried at cost based on the weighted average method or at production cost.

Production costs comprise direct production costs (especially direct materials and direct labour), as well as an appropriate share of the necessary material and manufacturing overhead. Administrative expenses and costs of employee assistance programmes are included to the extent they can be allocated to production. Financing costs are not recognised as part of production costs. Inventory risks resulting from the duration of storage or impaired usability led to write-downs upon determination of the net realisable value. If the reasons for a write-down no longer apply, the write-down is reversed. Lower values at the reporting date due to lower prices on sales markets were taken into account.

Subsequent measurement occurs at the lower of deemed cost and net realisable value.

Trade receivables
Trade receivables are carried at amortised cost.

Possible default risks for trade receivables are recognised in the income statement in the form of an allowance account for specific allowances. The write-downs are reversed through the income statement should the reasons for the write-down no longer apply in subsequent periods. If a receivable which had been written down is classed as uncollectible, it is written off.

Trade receivables in foreign currencies are limited in scope (< €5 thousand, previous year: €0 thousand).

Other receivables and assets
Receivables and other assets are carried at amortised cost. They are adjusted by allowances for doubtful accounts based on possible defaults.

There were no foreign currency other receivables and assets.

Determining fair value
For financial instruments, the fair value is the amount which DFS would receive or pay if the financial instruments were exchanged or settled at the balance sheet date. If quoted market prices for financial instruments exist then these are used. This relates in particular to financial instruments classified as 'available-for-sale'. In other cases, the fair value is determined by the market conditions prevailing at the balance sheet date (for example, interest and exchange rates) using recognised valuation models or the external valuations of third parties.

Liquid funds

Liquid funds include cash, cash accounts and short-term money market investments and certificates of deposit at credit institutions. The funds are carried at amortised cost. Foreign currency funds are translated using the closing rate.

Other reserves

This item relates to changes recognised directly in equity provided they are not based on capital transactions (e.g. dividends) with owners. This includes in particular the revaluation surplus/revaluation reserve for available-for-sale financial assets and their associated deferred taxes.

Provisions for pensions and similar obligations

Provisions for pensions and similar obligations are recognised in accordance with IAS 19 using the projected unit credit method for defined benefit plans on the basis of actuarial reports. In doing so, recognised tables and assumptions concerning trends for relevant factors, such as future salary and pension developments and average life expectancy are taken into account. The assumptions are based on historical trends and take into account country-specific interest and inflation levels as well as the relevant labour market developments. Biometric data serve as the basis for assumptions on life expectancy.

The present value of the defined benefit obligation and the service cost is calculated by discounting the benefits using the projected unit credit method. The interest rate used to discount future benefits is the market yield on high-quality corporate or government bonds.

Actuarial gains and losses reflect the changes in the estimates from year to year as well as the variance to the actual yearly effect. They are only recognised as income or expense when they exceed the higher of either 10.00% of the present value of defined benefit plans before deducting plan assets or 10.00% of the fair value of plan assets (10.00% corridor approach). The amount that exceeds the corridor is amortised proportionally through the income statement over the average remaining working life of the participating employees. Unrecognised actuarial losses as at the balance sheet date amounted to €145,762 thousand (previous year: gains of €100,498 thousand), of which gains of €3,632 thousand were amortised in the statement of comprehensive income in the business year (previous year: gains of €14,756 thousand).

The values on the special working-time account were transferred to a long-term time account. There is a collective agreement covering long-term time accounts. This requires DFS to guarantee the nominal value of the credit found on such accounts, which means that a provision was recognised for this amount. The nominal value comprises the value of the hours on the special working-time account converted into euro, the employer portion of social security and the corresponding guaranteed interest rate incurred.

To the extent that pension obligations are reinsured with insurance companies, the fair value of the entitlement to reinsurance coverage, as a plan asset, is netted against obligations if the entitlement fulfils the criteria under IAS 19.

Contributions to defined contribution plans where the company has no obligation beyond the contribution to a special purpose plan are recognised in the income statement in the year in which they are incurred.

Other provisions
Other provisions are recognised for past events that result in present obligations to third parties which can be estimated reliably and will lead to an outflow of resources in the future with a probability of at least 50.00%. The provisions are recognised with the settlement amount, which represents the highest probability of occurrence based on best estimates and under consideration of all discernible risks.

Provisions for obligations which in all probability will not lead to a reduction in assets in the subsequent year are discounted at prevailing market rates and carried at the present value of the expected outflow of resources provided the interest effect is material. If a change in an estimate results in a reduction of the obligation, then the provision is reversed proportionally and the income reported under other operating income.

Financial liabilities
Financial liabilities are initially recognised at their fair value. Direct transaction costs are also recognised for all financial liabilities which are not carried at fair value. Financial liabilities are derecognised when the contractual obligation is settled or terminated. Liabilities in foreign currencies are translated at the closing rate.

Bonds and debenture loans are carried at amortised cost using the effective interest method. On initial recognition, finance lease liabilities are measured at the lower of the present value of the lease instalments or the fair value of the capitalised leased asset. In subsequent years, the leasing obligations are carried using the effective interest rate method. Trade payables and other liabilities are recognised at their amortised cost.

Derivative financial instruments
Derivative financial instruments are used to hedge against the risks of existing and future interest and currency rate changes.

Interest and combined interest and cross-currency swaps are concluded to control interest rate risk. Combined interest and cross-currency swaps are used to hedge against the currency risk from financing in foreign currencies. They are based on the hedging policy defined by the Board of Managing Directors and monitored by the Treasury department. This policy stipulates that only effective derivatives are used to hedge interest and currency risks.

The measurement of derivatives with positive and negative fair values is at fair value on the basis of published market prices. If there is no quoted market price, a different suitable measurement method is used. These methods include all factors an independent, informed marketplace participant would take into consideration when pricing and represent the common, recognised economic models used for the pricing of financial instruments.

Changes in the fair value and associated deferred taxes are recognised in the income statement. Derivates financial instruments with positive fair values are reported as receivables; those with negative fair values are reported as liabilities. All derivative financial instruments were accounted for without the creation of designated hedging relationships and the changes in market value were directly recognised in the statement of comprehensive income.

Deferred taxes

Deferred taxes are measured in accordance with IAS 12 using the liability method. Deferred tax assets and liabilities are recognised for all temporary differences between the tax base of assets and liabilities and their carrying amounts in the balance sheet according to IFRS as well as for consolidation adjustments recognised in profit or loss.

Deferred tax assets are also recognised for future claims to tax reductions resulting from tax loss carryforwards. Deferred tax assets for deductible temporary differences and for tax loss carryforwards are only recognised to the extent that there are future taxable profits which either the temporary differences or unused taxable losses can offset.

The computation is based on the existing or applicable income tax rates in each country on the date of valuation. The result of changes in tax rates on deferred tax assets and liabilities is reflected in the income tax expense for the period in which the law was changed.

Deferred tax assets and liabilities are netted if permitted under law and the receivables and payables are against the same tax authority. Deferred tax assets and liabilities are not discounted.

(5) Currency translation

The annual financial statements of all group companies are prepared in euro. A translation of foreign currency financial statements of group companies is therefore not necessary.

The monetary items (liquid funds, receivables, payables) booked in the separate financial statements prepared in foreign currencies are translated at the rate prevailing on the reporting date and the currency effects recognised in the income statement. Non-monetary items (intangible assets, property, plant and equipment, inventories) in foreign currencies are carried at historical cost.

The exchange rates of the material currencies are listed below:

Currency	**ISO code** **1 EUR =**	**EMU conversion** **Asked price** **31 Dec 2010**	**EMU conversion** **Asked price** **31 Dec 2009**
U.S. dollar	USD	1.33920	1.44360
British pound	GBP	0.86275	0.89010
Swiss franc	CHF	1.25240	1.48560
Japanese yen	JPY	108.89000	133.4000

Notes to the statement of comprehensive income

(6) Revenues

Revenues comprise the following:

	2010 €'000	2009 €'000
Revenues from air navigation services	959,448	960,600
Other revenues	18,229	17,198
Revenues	**977,677**	**977,798**

The revenues from air navigation services comprise the following:

	2010 €'000	2009 €'000
En-route charges	665,250	629,858
Terminal charges	196,783	188,904
Payments to German MET Service and MoT from terminal charges	-456	-7,676
Offsetting over-recovery from previous years	42,609	69,258
Under-/over-recovery of charges for current year	-12,810	7,250
Revenues from en-route and terminal charges	**891,376**	**887,594**
Reimbursements by the State for military flights and facilities	55,362	60,773
Reimbursements by the State for exempted flights	6,500	6,500
Nachrichten für Luftfahrer (German-language publication)	2,836	2,889
Flight inspection services	2,920	2,534
Other air navigation services	454	310
Revenues from air navigation services	**959,448**	**960,600**

(7) Changes in inventory and other own work capitalised

Changes in inventory and other own work capitalised comprise the following:

	2010 €'000	2009 €'000
Changes in inventory of finished goods and work in progress	36	2
Other own work capitalised	4,910	4,306
Changes in inventory and other own work capitalised	**4,946**	**4,308**

Other own work capitalised relates primarily to internally generated IT systems.

(8) Other operating income

Other operating income comprises the following:

	2010 €'000	2009 €'000
Income from QTE cross-border transaction	5,321	5,321
Revenues from energy sales	2,220	6,681
Income from the reversal of provisions	1,865	1,909
Reversal of allowances for bad debts	1,383	770
Cost reimbursements	4,565	4,186
Rental income	624	1,091
R&D project funding by the EU Commission and German federal and regional ministries	2,713	1,855
Income from asset disposals	1,001	524
Income from the derecognition of liabilities	5,730	5,474
Other	4,274	5,265
Other operating income	**29,696**	**33,076**

(9) Cost of materials and services

These costs can be broken down as follows:

	2010 €'000	2009 €'000
Cost of raw materials, consumables and supplies, and of purchased goods	879	429
Cost of purchased services	3,756	4,569
Cost of materials and services	**4,635**	**4,998**

The purchased services relate to flight inspection and consulting services.

(10) Employee expenses

Employee expenses result from the following items:

	2010 €'000	2009 €'000
Wages and salaries	527,638	485,653
Social security costs and expenses for pensions and assistance	78,710	96,007
Cost of personnel belonging to the Federal Aviation Office (LBA)	19,491	26,440
Employee expenses	**625,839**	**608,100**

Besides the usual outlays for wages, salaries and social security expenses for DFS personnel, this item also includes the costs charged by the Federal Aviation Office (LBA) for personnel who did not transfer to DFS.

The structure of the remuneration system for the Board of Managing Directors and the Supervisory Board is shown under "Organs of the company" in Note 40.

The expenses and income for defined benefit obligations recognised in the statement of comprehensive income can be found in Note 24 "Provisions for pensions and similar obligations":

The average number of staff employed was as follows:

	2010	2009
Salaried staff	4,949	4,669
Soldiers released from regular service	263	268
Wage-earners	31	32
Apprentices and trainees	232	185
DFS personnel	**5,475**	**5,154**
Employees covered by the collective agreement for the public service (TVöD)	77	82
Established civil servants	247	276
Personnel belonging to the Federal Aviation Office (LBA)	**324**	**358**
Total number of staff employed	**5,799**	**5,512**

(11) Depreciation and amortisation

Depreciation and amortisation relate to the following items:

	2010	2009
	€'000	€'000
Intangible assets	28,279	27,696
Property, plant and equipment	72,482	88,591
Investment property	30	30
Depreciation and amortisation	**100,791**	**116,317**

The development in depreciation and amortisation can be found in the notes to the balance sheet (for intangible assets in Note 15 and for property, plant and equipment in Note 16.

In the year under review, no impairment charges were recognised for intangible assets, property, plant and equipment, investment property and financial assets.

(12) Other operating expenses

Other operating expenses comprise the following:

	2010	2009
	€'000	€'000
Spare parts and maintenance	41,009	42,700
Rental, leasing and occupancy costs	30,066	28,701
Legal and consultancy costs	10,591	9,804
Costs of external personnel	14,587	13,417
Other employee expenses	9,327	9,596
Travel costs	7,553	6,731
Write-downs and write-offs of receivables	2,029	2,062
Telecommunication costs	7,092	5,797
Insurance	2,462	3,213
Magazines, journals, stationery	1,509	1,552
Vehicle costs	2,667	2,420
Apportionment EUROCONTROL	1,598	21
QTE costs	3,201	58
Costs of monetary transactions	1,106	336
Asset disposals	1,902	909
Remaining	8,172	6,420
Other operating expenses	**144,871**	**133,737**

(13) Financial result

The financial result can be broken down as follows:

	2010 €'000	2009 €'000
Income from fund assets to finance pension obligations	47,433	50,682
Interest income	1,192	8,525
Income from foreign currency translation	0	1,256
Result from the fair value adjustment of derivatives	6,370	0
Income from profit and loss transfer agreements	1,533	809
Income from investments	0	1,226
Financial income	**56,528**	**62,498**
Expenses from discounting provisions	-93,404	-93,386
Other interest expenses	-2,841	-3,173
Expenses from foreign currency translation	-5,080	0
Expenses from securities	-71	0
Result from the fair value adjustment of derivatives	0	-602
Financial expenses	**-101,396**	**-97,161**
Financial result	**-44,868**	**-34,663**

(14) Income taxes

Taxes on income and revenues based on origin were as follows:

	2010 €'000	2009 €'000
Current taxes	-15,245	26,706
Deferred taxes	1,799	-8,703
Income tax expense	**-13,446**	**18,003**

Current income taxes relate to corporation taxes, including the solidarity surcharge, and German municipal trade taxes. The computation of income taxes is based on applicable tax regulations.

In addition to the tax liabilities from the current business year, possible estimated additional tax demands are also included to the extent that they might result from the planned conversion to regulated charges or from the current tax audit.

Deferred taxes are computed based on the tax rates applicable as at the balance sheet date. Following the German Tax Reform 2008, an income tax rate of 29.83% (previous year: 29.83%) is applied, made up of corporate income tax of 15.00%, a solidarity surcharge of 5.50% and an average German municipal trade tax multiplier rate of 400.00%.

Deferred taxes are recognised for all temporary differences between the tax base of assets and liabilities and their carrying amounts in the balance sheet according to IFRS. The differences are limited to those items whose changes influence taxable earnings. As a rule, items covered by full cost recovery (cf. Article (§) 32, paragraph 4, sentence 1, item 6 of the German Aviation Act) are excluded. It was assumed in these calculations that full cost recovery will continue to apply. It also takes into account the ability to retroactively charge over a period of 15 years for the valuation differences from the conversion of the cost-base for service charges from HGB to IFRS on first adoption. This was authorised by the regulatory authority.

Following the introduction of the German Accounting Law Modernisation Act (BilMoG), commercial law mandates the discounting of long-term provisions for the first time in 2010. The impact on the result from this discounting was neutralised in HGB balancing items for issues concerning the cycle of unit charges. Under the German law principle that the tax accounts should be based on the commercial accounts (HGB), changes in HGB balancing items lead to a corresponding booking in the tax balancing items. The Board of Managing Directors has therefore decided to reduce the tax risk provision from previous years for these issues. The tax provision was reduced by €15,244 thousand and this amount recognised in the income statement.

DFS GmbH is the tax payer as the dominant enterprise for the subordinated companies TTC GmbH and DFS Energy GmbH. Therefore, the deferred taxes of the subordinated companies are reflected in the parent company. The spin-off of the energy plant, which is assigned to those areas relevant for air navigation charges, into DFS Energy GmbH led to a continuation of the tax measurement for this legal entity. Therefore, in determining taxes the special situation as regards air navigation charges at DFS is also taken into consideration at DFS Energy GmbH. This does not lead to taxable temporary differences in value between the IFRS and the tax accounts. At TTC GmbH, there are deferred tax assets of €75 thousand (previous year: €52 thousand) for measurement differences concerning provisions for transitional payments between the IFRS and the tax accounts. The business activities of TTC GmbH are assigned to the commercial business.

Deferred taxes by balance sheet item comprise the following:

	Deferred tax assets		Deferred tax liabilities	
	2010	**2009**	**2010**	**2009**
Deferred taxes	**€'000**	**€'000**	**€'000**	**€'000**
Intangible assets	0	0	14,852	14,469
Property, plant and equipment	8,782	8,565	12,923	14,781
Available-for-sale securities	0	0	2,840	1,175
Receivables and other assets	78,240	50,551	267	0
Provisions for pensions and similar obligations	112,433	124,562	0	6
Other provisions	22,973	32,929	2,671	4,214
Liabilities	19,625	20,013	0	10
	242,053	236,620	33,553	34,655
Impact n + 2				
Intangible assets	0	0	-9,191	-8,841
Property, plant and equipment	-8,782	-8,565	-9,457	-11,521
Available-for-sale securities	0	0	-78	0
Receivables and other assets	-78,240	-50,551	-267	0
Provisions for pensions and similar obligations	-112,433	-124,562	0	0
Other provisions	-22,973	-32,929	-1,947	-3,423
Liabilities	0	-128	0	0
	-222,428	-216,735	-20,940	-23,785
Other allowances	0	0	0	0
Netting	-12,613	-10,870	-12,613	-10,870
Deferred income taxes	**7,012**	**9,015**	**0**	**0**

The current income tax expense of minus €13,446 thousand (previous year: €18,003 thousand) was €40,685 thousand lower than the expected income tax expense of €27,239 thousand (previous year: €35,011 thousand), which would have theoretically arisen based on a domestic tax rate of 29.83 percent (previous year: 29.83 percent).

The reconciliation from the expected to the current income tax expense is shown below:

	2010	2009
	€'000	€'000
Net income before income taxes	**91,315**	**117,367**
Expected income tax expense (in %)	29.83	29.83
Expected income tax expense	27,239	35,011
Tax expense/income not relating to the period under review	-15,303	2,545
Effects of changes in tax rates	-5,438	0
Deviations in municipal trade tax	703	243
Revenues exempt from tax	0	-348
Foreign establishments	-297	-297
Foreign taxes	59	433
Variance of allowance n + 2:		
- Deferred tax assets	5,693	-10,688
- Deferred tax liabilities	2,845	-8,112
Reduction in other allowances	0	-818
Tax effect from not deferring differences	-2,798	0
Booking of balancing items BilMoG tax accounts	-26,181	
Other	32	34
Current income tax expense	**-13,446**	**18,003**
Effective tax rate (in %)	**-14.72**	**15.34**

Notes to the balance sheet

(15) Intangible assets

The development of intangible assets is shown below:

	Concessions, industrial and similar property rights and assets as well as licences in such rights and assets	Internally generated intangible assets	Prepayments on intangible assets	Total
	€'000	**€'000**	**€'000**	**€'000**
Cost				
As at 1 Jan 2009	441,110	38,248	27,341	506,699
Additions	15,487	4,030	11,767	31,284
Disposals	-666	0	0	-666
Transfers	7,393	0	-6,233	1,160
As at 31 Dec 2009	**463,324**	**42,278**	**32,875**	**538,477**
Cumulative amortisation				
As at 1 Jan 2009	275,080	8,339	0	283,419
Additions	25,390	2,306	0	27,696
Disposals	-571	0	0	-571
Transfers	-10	0	0	-10
As at 31 Dec 2009	**299,889**	**10,645**	**0**	**310,534**
Carrying amounts at 31 Dec 2009	**163,435**	**31,633**	**32,875**	**227,943**
Cost				
As at 1 Jan 2010	463,324	42,278	32,875	538,477
Additions	17,659	4,485	9,740	31,884
Disposals	-3,898	0	0	-3,898
Transfers	4,798	0	-4,349	449
As at 31 Dec 2010	**481,883**	**46,763**	**38,266**	**566,912**
Cumulative amortisation				
As at 1 Jan 2010	299,889	10,645	0	310,534
Additions	24,976	3,303	0	28,279
Disposals	-3,870	0	0	-3,870
Transfers	-121	0	0	-121
As at 31 Dec 2010	**320,874**	**13,948**	**0**	**334,822**
Carrying amounts at 31 Dec 2010	**161,009**	**32,815**	**38,266**	**232,090**

Impairment testing of internally generated intangible assets showed no indications that an impairment needed to be recognised, as the recoverable amounts exceed the carrying amounts of the individual assets. The recoverable amount corresponds to the value in use, which is computed as the present value of the future estimated cash flows. The discount rate was calculated using the estimated zero-coupon curves of the German Bundesbank (using the Svensson method). No risk premium in accordance with IAS 36.55 (b) was used, as the assets are not exposed to any special risks due to the principle of full cost recovery.

Borrowing costs for intangible assets of €2,003 thousand (previous year: €2,015 thousand) were capitalised in the business year. The calculation of capitalised borrowing costs was based on a capitalisation rate of 5.66% (previous year: 5.26%).

Disclosures on individually material intangible assets are as follows:

Description	**Carrying amount 31 Dec 2010**	**Remaining useful life**	**Portion of total carrying amount 31 Dec 2010**
	€'000	**in years**	**in %**
VAFORIT software	92,827	8	40.1
P1/ATCAS software incl. release	13,076	14	5.6
P1/ATCAS 2007	10,889	14	4.7
PSS software	6,587	14	2.8
	123,379		53.2
Total carrying amount	**232,090**		100

(16) Property, plant and equipment

Property, plant and equipment can be broken down as follows:

	Land, equivalent rights and buildings including buildings on third-party land €'000	Technical equipment and machinery €'000	Other equipment, operating and office equipment €'000	Assets under construction €'000	Total €'000
Cost					
As at 1 Jan 2009	578,386	1,049,956	91,622	19,272	1,739,236
Additions	21,131	28,543	4,656	49,512	103,842
Disposals	-3,886	-21,375	-3,035	0	-28,296
Transfers	2,715	8,298	954	-13,127	-1,160
As at 31 Dec 2009	**598,346**	**1,065,422**	**94,197**	**55,657**	**1,813,622**
Cumulative depreciation					
As at 1 Jan 2009	291,530	859,695	75,691	0	1,226,916
Additions	33,198	51,052	4,341	0	88,591
Disposals	-3,147	-20,588	-2,892	0	-26,627
Transfers	0	-60	70	0	10
As at 31 Dec 2009	**321,581**	**890,099**	**77,210**	**0**	**1,288,890**
Carrying amounts at 31 Dec 2009	**276,765**	**175,323**	**16,987**	**55,657**	**524,732**
Cost					
As at 31 Dec 2010	598,346	1,065,422	94,197	55,657	1,813,622
Additions	8,662	32,362	3,243	11,845	56,112
Disposals	-13,750	-46,864	-8,068	0	-68,682
Transfers	39,157	10,665	381	-50,652	-449
As at 31 Dec 2010	**632,415**	**1,061,585**	**89,753**	**16,850**	**1,800,603**
Cumulative depreciation					
As at 1 Jan 2010	321,581	890,099	77,210	0	1,288,890
Additions	25,434	43,296	3,752	0	72,482
Disposals	-10,325	-42,649	-7,935	0	-60,909
Transfers	0	117	4	0	121
As at 31 Dec 2010	**336,690**	**890,863**	**73,031**	**0**	**1,300,584**
Carrying amounts at 31 Dec 2010	**295,725**	**170,722**	**16,722**	**16,850**	**500,019**

The useful lives for two data storage automation devices were extended by three years until 2014. The differences in depreciation due to these changes were as follows:

	Carrying amount	Depreciation				
	As at 1 Jan 2010	2010	2011	2012	2013	2014
	€'000	€'000	€'000	€'000	€'000	€'000
Before	222	157	65			
After	222	50	50	50	47	25
Difference		107	15	-50	-47	-25

DFS has leased technical air navigation equipment to two US investors and, at the same time, leased them back. DFS has the option to terminate the transaction after a term of 18.5 years, in 2021 and 2022 respectively. DFS remains the owner of the equipment over the entire term. Beyond the ordinary use, DFS is, however, subject to certain restrictions on use and/or information obligations. Should, for example, DFS shut down a piece of technical air navigation equipment, DFS must ensure the provision of this functionality by an adequate piece of replacement equipment. The investor must be informed accordingly.

In the year under review, grants given by the European Commission and the German federal and regional ministries for research and development project funding amounting to €0 thousand (previous year: €0 thousand) were deducted from cost.

Borrowing costs of €1,942 thousand (previous year: €1,754 thousand) were capitalised. The calculation of capitalised borrowing costs was based on a capitalisation rate of 5.66 percent (previous year: 5.26 percent).

Expenses for research and development amounted to €40,463 thousand (previous year: €31,841 thousand). Of this amount, in the year under review development costs of €36,192 thousand (previous year: €27,811 thousand) were recognised as an expense and €4,271 thousand (previous year: €4,030 thousand) were recognised as additions to "Assets under development". At the balance sheet date, €852 thousand of the development costs were still reported under assets under development and €3,633 thousand were written off over their useful lives using the straight-line method following successful completion.

The carrying amounts of the capitalised leased assets comprise the following:

	Airport facilities	Computer hardware
	€'000	€'000
Cost	14,240	0
Cumulative depreciation	-14,240	0
Carrying amount at 31 Dec 2010	**0**	**0**

(17) Investment property

Investment property developed as follows:

	2010 €'000	2009 €'000
Cost		
As at 1 Jan	1,210	1,210
Additions	0	0
As at 31 Dec	**1,210**	**1,210**
Cumulative depreciation		
As at 1 Jan	247	217
Additions	30	30
As at 31 Dec	**277**	**247**
Carrying amount at 31 Dec	**933**	**963**

Investment property relates to property and buildings held for rental income or capital gains.

In the year under review, the building generated rental income of €121 thousand (previous year: €119 thousand). The building is depreciated over the useful life of 40 years using the straight-line method. The depreciation amounted to €30 thousand (previous year: €30 thousand). There were no indications of the need for assets to be impaired.

The fair value of the property amounts to €1,013 thousand and was valued using the DCF method taking the respective market conditions into account. The value was determined based on carrying forward the assumptions underlying the last appraisal from 2008 (value: €1,030 thousand) and the current gross property yield for administrative buildings in 2010 of 6.30% as published by the Board of Real Estate Appraisers Braunschweig (Gutachterausschuss Braunschweig).

(18) Financial assets

Financial assets comprise the following:

	Shares in affiliated companies	Loans to affiliated companies	Investments	Long-term securities	Total
	€'000	**€'000**	**€'000**	**€'000**	**€'000**
Cost					
As at 1 Jan 2009	21,776	492	360	7,122	29,750
Additions	0	0	0	0	0
Disposals	0	-492	0	0	-492
Changes in fair value	0	0	0	297	297
As at 31 Dec 2009	**21,776**	**0**	**360**	**7,419**	**29,555**
Cumulative impairment	**0**	**0**	**0**	**0**	**0**
Carrying amounts at 31 Dec 2009	**21,776**	**0**	**360**	**7,419**	**29,555**
Cost					
As at 1 Jan 2010	21,776	0	360	7,419	29,555
Additions	5,396	0	2	0	5,398
Disposals	0	0	0	0	0
Changes in fair value	0	0	0	-154	-154
As at 31 Dec 2010	**27,172**	**0**	**362**	**7,265**	**34,799**
Cumulative impairment	0	0	0	0	0
Carrying amounts at 31 Dec 2010	**27,172**	**0**	**362**	**7,265**	**34,799**

Shares in affiliated companies comprise the following:

	Stake in %	Cost €'000
DFS European Satellite Services Provider Beteiligungsgesellschaft mbH, Langen	100.00	21,527
DFS Unterstützungskasse GmbH, Langen	100.00	26
The Tower Company GmbH, Langen	100.00	223
DFS Energy GmbH, Langen	100.00	5,396
FCS Flight Calibration Services GmbH, Braunschweig	55.00	0
Carrying amount at 31 Dec 2010		**27,172**

The registered and fully paid-in capital of DFS European Satellite Services Provider Beteiligungsgesellschaft mbH amounts to DM 50 thousand. The sole shareholder is DFS. The business year corresponds to the calendar year and to the business year at DFS. The financial statements for the year ended 31 December 2010 were prepared under HGB.

The registered capital of DM 50 thousand at the DFS Unterstützungskasse GmbH was fully paid in. The sole shareholder is DFS. The separate financial statements were prepared in accordance with the provisions of HGB. The business year corresponds to the calendar year and to the business year at DFS.

The share capital of The Tower Company GmbH (TTC) amounts to €25 thousand as well as an additional capital contribution of €75 thousand in capital reserves. These amounts were fully paid. The sole shareholder is DFS. The business year corresponds to the calendar year and to the business year at DFS. Its separate financial statements for the year ended 31 December 2010 were prepared under IFRS as endorsed for use in the EU as well as under HGB. There is a profit-and-loss transfer agreement with TTC with effect from 1 January 2006 and with a fixed term until 31 December 2010. After this time, it extends for one year at a time, provided one of the contracting parties does not terminate the contract six months before expiry. As of 31 December 2010, none of the contracting parties had opted for cancellation. In the year under review, €1,145 thousand (previous year: €809 thousand) profit in accordance with HGB was transferred from TTC to DFS.

DFS Energy GmbH (Energy) was established on 15 December 2009 by means of a spin-off and take-over contract. The contract envisages the spin-off of all assets and liabilities that are recognised or not recognised on the balance sheet as well as all assets and liabilities that do not have to be or cannot be recognised on the balance sheet with effect of 1 January 2010. The registered capital of Energy amounts to €5,000 thousand, €25,000 of which was paid in. The sole shareholder is DFS. The business year corresponds to the calendar year and to the business year at DFS. Its financial statements for the year ended 31 December 2010 were prepared under IFRS as endorsed for use in the EU as well as under HGB. There is a control contract and a profit-and-loss transfer agreement with Energy with effect from 1 January 2010 and with a fixed term until 31 December 2014. After this time, it extends for one year at a time, provided one of the contracting parties does not terminate the contract six months before expiry. The obligation to transfer the entire profit and to offset any yearly deficit begins for the first time from the business year from 1 January 2010 to 31 December 2010. In the year under review, €388 thousand profit in accordance with HGB was transferred from Energy to DFS.

The registered capital of FCS Flight Calibration Services GmbH, Braunschweig, amounts to DM 400 thousand and was fully paid in. DFS holds a 55.00 percent stake in the company. Other shares are held by SKYNAV S.A., Awans, Belgium (25.00 percent) and by Austro Control Österreichische Gesellschaft für Zivilluftfahrt mbH, Vienna, Austria (20.00 percent). The business year corresponds to the calendar year and to the business year at DFS. Its separate financial statements for the year ended 31 December 2010 were prepared under HGB.

The investments can be broken down as follows:

	Stake in %	Cost €'000
GroupEAD Europe S.L., Madrid	36.00	360
BILSODA GmbH & Co. KG, Pullach im Isartal	24.90	2
Carrying amount at 31 Dec 2010		**362**

The subscribed capital of the GroupEAD Europe S.L., Madrid, Spain, amounts to €1,000 thousand and is divided into 100,000 company shares with a nominal value of €10 each. DFS holds a 36.00 percent stake in the company. Further stakes are held by FREQUENTIS AG, Vienna, Austria (28.00%) and Entidad Pública Empresarial Aeropuertos Españoles y Navegación Aérea, Madrid, Spain (36.00%). The investment is recognised at its amortised cost in the category "available-for-sale". The business year corresponds to the calendar year and to the business year at DFS. The company's net income is paid out based on the capital share of each shareholder by resolution of the shareholder meeting. In 2010, €0 thousand (previous year: €1,226 thousand) was recognised as income from investments in the financial result.

Since 4 May 2010, DFS has held a stake of 24.90% (€2 thousand) in BILSODA GmbH & Co. KG, Pullach im Isartal. The other stake is held by AD Grundstücksgesellschaft mbH & Co. KG, Pullach im Isartal. The business year corresponds to the calendar year and to the business year at DFS. Corresponding partnership accounts are kept for each shareholder, which record the capital contributions, withdrawals and profit and loss sharing.

There were no indications that financial assets may need to be impaired.

(19) Non-current and current other receivables and assets

Other receivables and assets are shown below:

	31 Dec 2010 Total €'000	31 Dec 2009 Remaining term more than 1 year €'000	31 Dec 2010 Total €'000	31 Dec 2009 Remaining term more than 1 year €'000
Receivables from Shareholder	13,529	0	8,902	0
Receivables from affiliated companies	19	0	0	0
Receivables from investments	46	0	53	0
Interest receivables	1,664	0	1,659	0
Derivative financial instruments	9,088	9,088	3,351	3,351
Under-recovery	7,250	7,250	7,250	7,250
Remaining financial assets	4,665	215	1,743	236
Other financial receivables and assets	36,261	16,553	22,958	10,837
Remaining non-financial assets	8,138	0	7,102	0
Prepayments	3,193	0	5	0
Other receivables and assets	**47,592**	**16,553**	**30,065**	**10,837**

Other receivables and assets are impaired at the reporting date as necessary.

Interest receivables consist primarily of interest swaps and interest income on cash accounts and certificates of deposit. Derivative financial instruments relate to receivables from an interest swap transaction with a remaining term of maturity of more than one year.

The under-recovery relates to the under-recovery of costs in the cost units en-route and terminal services from the previous charging year. This is taken into account in the calculation of charges for 2011.

Remaining financial assets relate primarily to employee relocation loans (those with a remaining term to maturity of more than one year), receivables from employees for advance payment of salary or travel expenses and creditors with debit balances. Remaining non-financial assets comprise VAT credits and prepayments.

(20) Trade receivables
As in the previous year, all trade receivables fall due within one year.

Trade receivables can be broken down as follows:

	Carrying amount	of which not impaired and				
		not yet overdue	overdue for fewer than 30 days	overdue for 31 - 60 days	overdue for 61 - 180 days	overdue for more than 180 days
	€'000	€'000	€'000	€'000	€'000	€'000
31 Dec 2010	130,612	127,021	2,338	264	523	466
31 Dec 2009	123,295	120,207	1,722	539	370	457

With regard to the trade receivables which are neither impaired nor overdue, there was no indication at the balance sheet date that the debtors would not be able to fulfil their payment obligations.

The development of the allowances for doubtful accounts from trade receivables can be found in the following table:

	2010 Specific allowance €'000	2010 General allowance €'000	2009 Specific allowance €'000	2009 General allowance €'000
As at 1 Jan	5,263	1,126	4,949	1,165
Additions	1,667	0	856	24
Utilisation	-17	0	-62	0
Reversal	-241	-1,126	-480	-63
As at 31 Dec	**6,672**	**0**	**5,263**	**1,126**

The following expenses and income are recognised in the statement of comprehensive income.

	2010 €'000	2009 €'000
Expenses for the complete write-off of trade receivables	362	1,183
Income from the payment of trade receivables previously written off	8	182

(21) Inventories

Inventories can be broken down as follows:

	31 Dec 2010 €'000	31 Dec 2009 €'000
Raw materials, consumables and supplies	4,677	4,025
Finshed goods and goods for resale	377	340
Inventories	**5,054**	**4,365**

The cost of inventories amounted to €5,142 thousand (previous year: €4,401 thousand). Raw materials, consumables and supplies were written down by €88 thousand (previous year: €36 thousand). In the business year, €879 thousand (previous year: €429 thousand) of raw materials, consumables and supplies as well as purchased goods were recognised as an expense.

(22) Liquid funds

Liquid funds can be broken down as follows:

	31 Dec 2010 €'000	31 Dec 2009 €'000
Cash in hand and cheques	26	52
Cash at bank	85,126	3,748
Liquid funds	**85,152**	**3,800**

Liquid funds are not subject to any restrictions.

Credit balances in foreign currencies are measured at the closing rate.

(23) Equity

Subscribed capital remained at its 2009 level of €153,388 thousand and was fully paid in.

The capital reserve remained at its 2009 level of €74,296 thousand and relates primarily to an amount of €29.5 million, which exceeds the original capital contribution from the bringing in of the assets of the former Federal Administration of Air Navigation Services as at 31 December 1992 as well as amounts paid in by the Shareholder in prior business years.

Retained earnings relate to the earnings of the current and prior business years as well as adjustments in equity from the first-time conversion to IFRS of minus €679,693 thousand from the opening IFRS balance sheet as at 1 January 2006. Negative equity resulted from the conversion of the financial reporting from HGB to IFRS. DFS has the right to spread the conversion effects resulting from the different measurements over a 15-year period. The conversion effects relating to air navigation charges are included in the cost-base. As the conversion effects are not included in the full cost recovery procedure, this will reduce the negative equity in the long term.

With the Shareholders' resolution No. 107 from 27 April 2010, the Federal Republic of Germany as the sole Shareholder, represented by the Federal Ministry of Transport, Building and Urban Development, adopted the group financial statements and the group management report for the year ended 31 December 2009 in accordance with IAS/IFRS. The annual financial statements for the year ended 31 December 2009 under HGB were also approved. A payout of a gross dividend of €6,155,522.57 (before capital gains tax and solidarity surcharge) from the retained profit for 2009 under HGB of €54,001,139.19 was agreed. The payment was made on 3 May 2010. The remainder of €47,845,616.62 was transferred to retained earnings.

The cumulative income and expenses recognised directly in equity relate to revaluation reserve from the adjustment of the fair value of available-for-sale securities. In the business year, unrealised losses of €161 thousand (previous year: income of €290 thousand) and deferred tax liabilities of €129 thousand (previous year: €175 thousand) were recognised directly in equity. Upon sale, the changes in valuation recorded in equity are recognised in the statement of comprehensive income.

	31 Dec 2010	**31 Dec 2009**
	€'000	**€'000**
Subscribed capital	153,388	153,388
Capitel reserve	74,296	74,296
Retained earnings	-381,882	-480,488
Other reserves	-569	-279
Equity	**-154,767**	**-253,083**

Capital management aims to secure and support the statutory obligation of DFS. Capital expenditure and expenses on the safety of air transport are made on the basis of metrics covering capital management by means of an adequate equity and debt structure, the economical use of equity capital, an optimised use of debt and the control of cash flows in accordance with the plan. At the same time, the competiveness of the commercial business is promoted.

The following metrics substantially determine the goals of capital management:

	31 Dec 2010 €'000	31 Dec 2009 €'000
Equity recognised on the balance sheet	-154,767	-253,083
Differences between HGB and IFRS not recognised at the balance sheet date	651,934	721,346
Deferred taxes on this amount	-34,240	-37,888
Equity adjusted for HGB/IFRS differences	462,927	430,375
Equity ratio	27.57%	26.25%
Return on equity	22.63%	23.09%
Net income	104,761	99,364
EBIT	136,183	152,030
Borrowings	1,215,962	1,209,306
Debt ratio	72.43%	73.75%
Return on total assets	6.24%	6.06%
Leverage ratio	5.33%	6.08%

The company finances itself primarily by drawing on the cash inflows from operating activities and on funds from a money and capital market programme. The solvency of the company is secured by several sources: Firstly, the existing framework agreements, namely the Multi-Currency Commercial Paper Programme and the Multi-Currency Debt Issuance Programme, which covers the issuance of short-, medium- and long-term bearer notes (bonds) with a total volume of €1,000 million and which secures the liquidity inflow from the conversion effects; secondly, since 2010 debenture loans (volume: €175 million) and, thirdly, a syndicated loan of €160 million as a back-up facility.

Net financial indebtedness can be broken down as follows:

	31 Dec 2010 €'000	31 Dec 2009 €'000
Liquid funds	85,152	3,800
Non-current financial liabilities	174,612	47,529
Current financial liabilities	0	56,021
Net financial indebtedness	**89,460**	**99,750**

(24) Provisions for pensions and similar obligations

Company pension schemes for employees comprise both defined contribution and defined benefit schemes. Retirement benefit obligations are dependent on the legal, tax and economic circumstances of the Federal Republic of Germany and are based, as a rule, on the length of service and remuneration of the employee.

For the defined contribution plans, the company pays statutory or contractual contributions to State or private pension plans. The company has no further obligations beyond the payment of these contributions. The current contributions are recorded under employee expenses. Payments to defined contribution plans amounted to €29,803 thousand (previous year: €27,802 thousand).

For defined benefit plans, the company is obliged to honour the benefits payable to active and former employees. These benefits are financed either by recognising provisions or by investing in funds independent of the company.

The provisions for pension obligations are recognised based on the retirement benefit obligation for old-age, disability and surviving dependant's pensions. Provisions are only recognised for defined benefit plans, where the company guarantees certain pension benefits for the employee.

The measurement of pension obligations is based on annual actuarial calculations and assumptions. Defined benefit obligations are calculated using the projected unit credit method, taking into account expected future salary and pension increases. At the beginning of the year, the following assumptions were made as to the life expectancy and the following premises regarding the parameters used in the actuarial calculations in the reports were laid down:

Percentage rate per year	**2011**	**2010**	**2009**	**2008**	**2007**
Discount rate	4.90	5.50	6.30	5.50	4.64
Expected return on plan assets	4.00	4.00	5.00	5.00	5.00
Projected increase in salaries	3.50	3.50	3.50	3.50	3.50
Projected increase in benefits	1.25 - 2.00	1.25 - 2.00	2.00	2.00	2.00

Actuarial gains and losses from adjustments due to experience and changes in actuarial assumptions are recorded using the 10.00% corridor approach.

Actuarial gains and losses may result from increases or decreases in the present value of the defined benefit obligation resulting from, inter alia, changes in calculation parameters and estimates for the risk connected with pension obligations. The provisions for pensions and similar obligations were calculated as follows:

	2010 €'000	2009 €'000
Reconciliation of scope of obligation		
Defined benefit obligation at 1 Jan	1,683,147	1,484,342
Current service cost	52,399	42,437
Interest expense	90,678	91,469
Retirements benefits paid	-61,923	-59,550
Past service cost	10,281	-105,054
Actuarial gain (-) and losses (+)	261,363	229,503
Present value of defined benefit obligations at 31 Dec	**2,035,945**	**1,683,147**
Present value of defined benefit obligations at 31 Dec	2,035,945	1,683,147
Fair value of plan assets	1,317,101	1,166,489
Net obligation	718,844	516,658
Present value of non-funded obligations	0	0
Adjustment for unrecognised actuarial gains (+) and losses (-)	-145,762	100,498
Provisions for pensions and similar obligations	**573,082**	**617,156**

A year-on-year comparison results in the following values:

	2010 €'000	2009 €'000	2008 €'000	2007 €'000	2006 €'000
Present value of defined benefit obligations	2,035,945	1,683,147	1,484,342	1,552,446	1,687,525
Fair value of plan assets	1,317,101	1,166,489	1,004,421	907,366	805,566
Net obligation (-) / surplus (+)	-718,844	-516,658	-479,921	-645,080	-881,959
Experience adjustment of plan obligations	-27,855	-19,411	32,303	307	-121,574
Experience adjustment of plan assets	18,735	35,030	-21,738	-13,076	7,007

For the 2011 business year, DFS expects employer contributions to the plan assets of €123,800 thousand (previous year: €135,000 thousand). Pension payments of €73,283 thousand are expected in 2011 (previous year: €68,913 thousand).

The fair value of plan assets developed as follows:

	2010	2009
	€'000	**€'000**
Reconciliation of assets		
Fair value of plan assets at 1 Jan	1,166,489	1,004,421
Projected return on plan assets	47,433	50,682
Employer contributions	129,455	118,935
Retirement benefits paid	-45,011	-42,579
Actuarial gains (+) and losses (-)	18,735	35,030
Fair value of plan assets at 31 Dec	**1,317,101**	**1,166,489**

The plan assets consist of qualifying insurance policies. To determine the overall expected return on plan assets, a discount rate of 4% was used. The commitments entered into due to the 2009 collective agreement covering pensions are covered by congruent reinsurance policies with a syndicate of underwriters.

As part of the reinsurance fund, there are currently two cover funds. In the years 1993 to 1996, the complete assets of the actuarial reserve were held in the general cover fund of the insurer (in accordance with section 54a of the German Insurance Supervision Act – VAG). At the beginning of 1997, this contract was supplemented by a separate fund-based investment being created for part of the assets under section 54b of the VAG. This however is limited to a maximum of half of the actuarial reserve.

The expenses and income for defined benefit obligations recognised in the statement of comprehensive income can be broken down as follows:

	2010	2009
	€'000	**€'000**
Contributions to the German mutual insurance association	1,401	9,622
Current service cost	52,399	42,437
Interest expense	90,678	91,469
Amortisation of actuarial gains (-)	-3,632	-14,756
Expected return on plan assets	-47,433	-50,682
Past service cost	10,281	-105,054
Additions to over-recovery provision	-38,281	105,054
	65,413	**78,090**

In the 2010 business year, the German mutual insurance association (Pensionssicherungsverein auf Gegenseitigkeit) reduced the contribution rate from 14.2 tenths of a percent to 1.9 tenths of a percent. This significant reduction in the contribution rate positively impacted the company pension scheme.

(25) Other provisions

Other provisions developed as follows in the year under review:

	1 Jan 2010	Utilisation	Reversal	Discounting	Additions	31 Dec 2010	Remaining term more than 1 year
	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Over-recovery of charges	147,663	70,609	10,281	0	12,810	79,583	73,513
Personnel	52,788	9,125	0	909	-95	44,477	37,782
Leasehold	12,558	528	0	1,287	0	13,317	12,778
QTE cross-border transaction	5,452	0	0	229	3,167	8,848	7,218
Restructuring	3,121	26	837	-37	0	2,221	421
Preserving records	5,084	0	0	212	653	5,949	5,129
Re-conversion	14,536	8	425	134	0	14,237	14,127
Other	6,370	42	603	-8	1,239	6,956	292
Other provisions	**247,572**	**80,338**	**12,146**	**2,726**	**17,774**	**175,588**	**151,260**

When calculating air navigation charges, it is assumed that revenues match costs (full cost recovery). Over- and under-recovery can result if the assumptions underlying the planning do not occur in full. Provisions for over-recovery of charges in a business year are carried forward to the year after next (n+2) and deducted, therefore reducing the charges for that year. In the opinion of DFS, the plan amendment concerning pension provisions for the collective agreement covering pensions is part of the difference of €702,593,765 between the measurement of pension liabilities under the HGB and IFRS as of 1 January 2007. The changes in measurement were recognised directly in capital reserves on the first-time adoption of IFRS, i.e. they were not charged to the user. Instead, as of 1 January 2007 the difference between HGB and IFRS is retroactively charged to the user over a 15 year period. This will offset the negative equity situation that arose as of 1 January 2007 without affecting air navigation charges. The Federal Ministry of Transport, Building and Urban Development, the responsible authority for setting charges, has issued a ruling to DFS allowing it to use the income from the decline in pension provisions for the proportionate reduction in the negative equity situation. This ruling became effective from 2010, retroactively from 2007. The income is to be included in the provision for over-recovery, which will be reversed in the income statement from 2010 and in the subsequent years by the reduced, retroactively charged amounts.

Personnel provisions comprise primarily provisions for early retirement, part-time work for older employees and anniversary payments. These provisions are recognised based on the expert reports of actuaries. They also include provisions for recuperation treatments, which are an additional fringe benefit for air traffic controllers under the collective agreement.

The provision for the Berlin leasehold relates to the lease payments for a property in Berlin-Schönefeld which is not used operationally.

The provision for the qualified technological equipment (QTE) cross-border transaction relates primarily to the fees for letters of credit and ongoing information, identification and insurance obligations of the assets concerned.

The provision for restructuring relates to personnel and infrastructural measures in connection with operational units to be closed where no future economic benefits are expected. The expenses for the Operational Centres Concept cover a reduction in the number of control centres from six to four locations. The provision primarily relates to financial settlements for employees due to the closure of locations and the re-conversion obligations for the respective locations.

DFS expects the majority of the other provisions to fall due in the next one to thirty years. Due to the fact that individual provisions may involve longer time periods and are difficult to assess, uncertainties remain as to the timing and concrete amount of the expenses. Nevertheless, DFS expects to utilise the full amount of the provisions and that the outflow of economic benefits will equal the amount set aside in the provisions.

For the individual groups of other provisions the following cash outflows are estimated:

Due by	**2011**	**2012**	**2013**	**2014**	**2015**	**Due from 2016**
	€'000	**€'000**	**€'000**	**€'000**	**€'000**	**€'000**
Over-recovery of charges	6,070	18,924	6,065	6,065	6,065	36,393
Personnel	6,695	4,130	4,126	0	0	29,526
Leasehold	539	542	543	539	531	10,624
QTE	1,628	1,439	1,241	1,049	864	2,626
Restructuring	1,800	0	0	421	0	0
Preserving records	820	804	786	762	737	2,041
Re-conversion	110	3,214	176	0	0	10,737
Other	6,664	292	0	0	0	0
	24,326	**29,345**	**12,937**	**8,836**	**8,197**	**91,947**

Other provisions were discounted and carried at their present value of the expected expenses when the time value of money is material. The discount rates are based on the yields on debt securities outstanding issued by residents, public debt securities and listed Federal securities corresponding to their remaining term as published by the German Bundesbank. In addition to these yields, a company-internal risk premium of 0.25 percent is added.

The rates, broken down by the remaining term, were as follows in the business year:

Remaining term in years	1 to 2	2 to 3	3 to 4	4 to 5	5 to 6	6 to 7
2010	1.00	1.34	1.74	2.12	2.41	2.71
2009	1.45	1.85	2.35	2.65	2.85	3.05
	7 to 8	**8 to 9**	**9 to 10**	**8 to 15**	**15 to 30**	
2010	2.91	3.08	3.20	3.15	3.74	
2009	3.15	3.28	3.33	3.33	4.21	

Due to the change in the discount rates, the interest expense rose by €1,684 thousand (previous year: decline of €467 thousand) in comparison to the application of the rates of the previous year.

(26) Financial liabilities

Financial liabilities can be broken down as follows:

	31 Dec 2010 Total €'000	31 Dec 2010 Remaining term more than 1 year €'000	31 Dec 2009 Total €'000	31 Dec 2009 Remaining term more than 1 year €'000
Bonds	52,612	52,612	92,498	47,529
Liabilities to credit institutions	0	0	10,800	0
Debenture loans	122,000	122,000	0	0
Finance lease liabilities	0	0	252	0
Financial liabilities	**174,612**	**174,612**	**103,550**	**47,529**

DFS taps the money and capital markets for funds. There are two framework agreements for the issuance of short-, medium- and long-term bearer notes. Due to the two framework agreements, the Multi-Currency Commercial Paper Programme and the Multi-Currency Debt Issuance Programme, DFS has a funding framework of €500 million from each of the agreements.

The individual bonds are as follows:

Term	Currency	Nominal value	Nominal interest	Effective interest	31 Dec 2010 €'000	31 Dec 2009 €'000
2000 - 2010	EUR	25,000	5.90%	5.91%	0	24,982
2000 - 2010	EUR	20,000	6.00%	6.01%	0	19,987
2003 - 2018	EUR	25,000	4.84%	4.84%	25,000	25,000
2004 - 2016	JPY	22,200	1.82%	1.82%	27,612	22,529
Bonds					**52,612**	**92,498**

Two maturing bonds with a volume of €45,000 thousand were repaid in the year under review.

In the business year, two debenture loans were issued of €87,500 thousand each. The loans have a term until 2017 and 2020 respectively.

Term	Currency	Nominal value	Nominal interest	31 Dec 2010 €'000	31 Dec 2009 €'000
2010 - 2017	EUR	87,500	2.564%	81,500	0
2010 - 2020	EUR	87,500	3.007%	40,500	0
Debenture loans				**122,000**	**0**

DFS has arranged a syndicated loan of €160 million as a back-up facility for the Multi-Currency Commercial Paper Programme.

Finance lease liabilities result in the following future minimum lease payments:

	31 Dec 2010 up to 1 year €'000	31 Dec 2010 1 - 5 years €'000	31 Dec 2010 more than 5 years €'000	31 Dec 2010 Total €'000	31 Dec 2009 Total €'000
Future minimum lease payments	0	0	0	**0**	**1,304**
Interest component	0	0	0	**0**	**-1,052**
Finance lease liabilities (present value)	0	0	0	**0**	**252**

Liabilities under finance leases had a term up to 31 December 2010 and related to the control tower and the facility buildings at Frankfurt Airport. Minimum lease payments of €789 thousand were recognised as an expense in the business year. This compares with the interest expense of €537 thousand.

(27) Trade payables

Trade payables can be broken down as follows:

	31 Dec 2010 Total €'000	31 Dec 2010 Remaining term more than 1 year €'000	31 Dec 2009 Total €'000	31 Dec 2009 Remaining term more than 1 year €'000
Germany	25,296	0	35,179	4
Abroad	4,437	0	7,549	0
Creditors with debit balances	4,211	0	371	0
Amounts withheld	2,042	1,163	4,023	1,171
Maastricht unit	1	0	1	0
Trade payables	**35,987**	**1,163**	**47,123**	**1,175**

(28) Other liabilities

Other liabilities comprise the following:

	31 Dec 2010 Total €'000	31 Dec 2010 Remaining term more than 1 year €'000	31 Dec 2009 Total €'000	31 Dec 2009 Remaining term more than 1 year €'000
Staff costs	21,313	0	11,095	0
Amounts owed to affiliated companies	9,193	0	6,264	0
Reimbursements to German Meteorological Service (en-route)	2,217	0	1,893	0
Debenture loans	53,000	53,000	0	0
Derivative financial instruments	4,507	4,507	5,140	5,140
Interest payables	4,203	0	3,898	0
Outstanding invoices	7,756	0	9,822	0
Remaining financial liabilities	342	0	218	0
Other financial liabilities	102,531	57,507	38,330	5,140
QTE cross-border transaction	55,870	50,549	61,191	55,870
Staff costs	40,387	2,033	30,506	3,049
Amounts owed to the tax authorities	13,121	0	11,455	0
Remaining non-financial liabilities	11,414	0	3,416	0
Other non-financial liabilities	120,792	52,582	106,568	58,919
Other liabilities	**223,323**	**110,089**	**144,898**	**64,059**

DFS leased and leased back part of its assets as part of a “qualified technological equipment cross-border transaction” to a special purpose company (SPC) founded especially for this transaction. The total transaction consists of five tranches. Under the contract, DFS rents to the SPC for a period of 38 years certain air traffic control systems which are owned and used by DFS. Land and buildings are not included. Simultaneously, the SPC entered into a contract with DFS to rent back the equipment for a period of 23 years. During the term of the contract to rent back the equipment, DFS is obliged to maintain and report to the investors regularly on the air traffic control systems. After 18.5 years, DFS will be entitled to acquire all of the rights of the SPC under the main lease contract by paying an option price. As a result of one-off payments in 2002 and 2003, DFS has no more payment obligations for the term of both agreements (38 and 23 years respectively). Through the payment of the discounted lease instalments and of the present value for the exercise of the purchase option, a net present value benefit arose. The resulting net present value benefit is deferred under other liabilities and reversed in the income statement on a straight-line basis over 18.5 years, the term until the exercise of the purchase option. Income of €5,321 thousand from the QTE cross-border transaction was recorded under other operating income.

Staff costs relate primarily to financial liabilities concerning the back payment of salaries and end-of-year remuneration.

Staff costs also relate to non-financial liabilities comprising liabilities for holidays and flexitime, the surcharge for non-employment of disabled persons, liabilities for the statutory accident insurance scheme, contributions to the insolvency fund of the workers' compensation board as well as payments to the pension indemnity fund. The values on the special working-time account were transferred to a long-term time account. There is a collective agreement covering long-term time accounts. This requires DFS to guarantee the nominal value of the credit found on such accounts. The nominal value comprises the value of the hours on the special working-time account converted into euro, the employer portion of social security and the corresponding guaranteed interest rate incurred.

Additional disclosures

(29) Notes to segment reporting

Segment reporting at DFS is conducted using the management approach based on the internal management and reporting systems. Resource allocation decisions and the assessment of the performance of the operating segment are taken by the Board of Managing Directors as the chief operating decision maker.

The field of activity of DFS comprises the tasks of the air navigation services in accordance with Article 31b, paragraph 1, sentence 1 of the German Aviation Act (LuftVG) in conjunction with Article 1 of the Regulation Concerning the Commissioning of an Air Navigation Services Enterprise (FS-AuftragV) dated 11 November 1992, as modified by the act to amend air traffic regulations dated 24 August 2009 which came into effect on 29 August 2009.

DFS is entrusted with the surveillance of both civil and regional military air traffic.

The air navigation services ensure the safe, orderly and expeditious handling of air traffic pursuant to Article 27c, paragraph 1 of the German Aviation Act. The tasks entrusted to DFS outlined in Article 27c, paragraph 2, sentence 1, point 1 of the German Aviation Act comprise the following air traffic services:

a) air traffic control services (aerodrome, approach and area control services), including checking, warning and rerouting aircraft in airspace;
b) alerting services;
c) flight information services;
d) air traffic advisory services.

These core tasks and the directly associated support activities are defined by DFS as the "Segment financed by air navigation charges".

The category "All other segments" comprises the business activities and segments which are not reportable as they did not exceed the quantitative thresholds. This in particular comprises consulting services offered worldwide, the sale of ATM systems as well as analysis, simulation and project management activities as well as financial transactions and the associated investments. In general, these services are not asset intensive and therefore also not financing intensive.

The segment data are determined as follows:

- Intersegment sales show the revenues between the segments. The determination of the transfer prices for intra-group revenues is conducted in a market-oriented manner based on the principle of dealing at arm's length.
- The operating result (EBIT) is a metric not defined under IFRS. Nevertheless, it is an important performance indicator for the DFS group.
- As the Treasury and Tax departments operate at a corporate level above the segments, the financial result and income taxes are not directly allocated to the individual segments.

■ Planning and control at the group is conducted using the following segment data. Further data are not collected and communicated to the chief operating decision maker. The performance of the individual segments and resource allocation decisions are made by means of EBIT. The reporting considers all metrics under IFRS 8.26 of the chief operating decision maker.
■ The number of staff corresponds to the number of employees.

The reconciliation report for the operating result (EBIT) is as follows:

Information on business fields		**Business financed by air navigation charges**	**All other segments**	**Reconciliation**	**Total**
		€'000	**€'000**	**€'000**	**€'000**
External revenues	2010	958,703	18,974	0	977,677
	2009	960,382	17,416	0	977,798
Intersegment revenues	2010	9,167	0	-9,167	0
	2009	9,161	0	-9,161	0
Other income	2010	27,691	6,951	0	34,642
	2009	30,709	6,675	0	37,384
Total operating revenues	**2010**	**995,561**	**25,925**	**-9,167**	**1,012,319**
and income	**2009**	**1,000,252**	**24,091**	**-9,161**	**1,015,182**
Cost of materials and services	2010	3,035	1,600	0	4,635
	2009	3,265	1,733	0	4,998
Employee expenses	2010	623,515	2,324	0	625,839
	2009	605,946	2,154	0	608,100
Depreciation and amortisation	2010	100,791	0	0	100,791
	2009	116,316	1	0	116,317
Other operating expenses	2010	139,162	5,709	0	144,871
	2009	131,598	2,139	0	133,737
Intersegment costs	2010	0	9,167	-9,167	0
	2009	0	9,161	-9,161	0
Segment EBIT	**2010**	**129,058**	**7,125**	**0**	**136,183**
	2009	**143,127**	**8,903**	**0**	**152,030**

The following table depicts the relations to key external customers whose share of revenues is material in terms of the group's revenues:

Information on important external customers	2010 €'000	2010 in %	2009 €'000	2009 in %
DFS total revenues from terminal and en-route services and military operational air traffic	932,496	100.00	896,811	100.00
Lufthansa	185,180	19.86	182,663	20.37
Air Berlin	76,670	8.22	65,229	7.27
Federal Ministry of Defence	62,121	6.66	70,121	7.82
Ryanair	37,020	3.97	32,419	3.61
KLM	25,088	2.69	24,960	2.78
British Airways	24,338	2.61	24,495	2.73

(30) Additional disclosures on the cash flow statement

The cash flow statement presents the cash flows of a business year and provides information on the movements in the company's means of payment. Cash inflows and outflows are divided into operating, investing and financing activities.

The total of cash and cash equivalents reported at the balance sheet date comprises the short-term liquid funds shown on the balance sheet, comprising cash at bank and in hand.

Cash inflow from operating activities was calculated using the indirect method by adjusting net income for changes in inventory, receivables, other assets and borrowings as well as depreciation and amortisation and other non-cash income and expenses. The cash flows from income taxes were completely allocated to operating activities.

Cash outflows for investing and financing activities are presented using the direct method.

DFS has adopted the recommendation of IAS 7.19 and also shows the cash flows from operating activities according to the direct method. The direct method provides information that makes it easier to estimate future cash flows. This sort of information is not available under the indirect method. The direct cash flow statement orientates itself to the structure of the actual cash flows. The cash flows from revenues are shown alongside the cash outflows. In particular, the difference between staff costs and the employee expenses reported in the statement of comprehensive income can be seen, namely the payment of reinsurance premiums and actual pension payments after the reimbursement from the pension plan reinsurance. These cash outflows are matched with revenues from air navigation charges that show the actual liquidity inflows, which may not correspond exactly to revenues reported in the group statement of comprehensive income. Investment grants, revenues from the commercial business and reimbursements which are relevant to the calculation of charges (SESAR) are recorded under other proceeds. The value accruals item shows the cash flows whose clear allocation to items previously used in the cash flow statement would have involved considerable expense.

			2010	2009
			€'000	**€'000**
1.		Terminal charges received	196,256	188,606
2.	+	En-route charges received	660,655	629,118
3.	+	Reimbursement OAT/Maastricht/VFR flights	74,919	72,715
4.	-	Reimbursements paid	10,100	8,013
5.	-	Staff costs	743,423	750,496
6.	-	Non-staff and project costs	153,787	174,056
7.	+	Other payments	53,429	50,065
8.	-	Interest paid	6,845	7,427
9.	-	Net tax payments (income tax, VAT, withholding tax)	11,560	1,111
	+	"Value accruals"	1,413	4,378
	=	**Cash inflow from operating activities**	**60,957**	**-4,977**

(31) Financial instruments

Financial assets are classified as follows:

2009	Note	Carrying amount €'000	At fair value through profit or loss €'000	Loans and receivables €'000	Available for sale €'000	Fair value €'000
Shares in affiliated companies	(18)	21,776			21,776	21,776
Investments	(18)	360			360	360
Securities	(18)	7,419			7,419	7,419
Derivative financial instruments	(19)	3,351	3,351			3,351
Under-recovery	(19)	7,250		7,250		7,250
Trade receivables	(20)	123,295		123,295		123,295
Receivables from Shareholder	(19)	8,902		8,902		8,902
Receivables from investments	(19)	53		53		53
Interest receivables	(19)	1,659		1,659		1,659
Remaining financial assets	(19)	1,743		1,743		1,743
Liquid funds	(23)	3,800		3,800		3,800
		179,608	3,351	146,702	29,555	179,608
2010		**€'000**	**€'000**	**€'000**	**€'000**	**€'000**
Shares in affiliated companies	(18)	27,172			27,172	27,172
Investments	(18)	362			362	362
Securities	(18)	7,265			7,265	7,265
Derivative financial instruments	(19)	9,088	9,088			9,088
Trade receivables	(20)	130,612		130,612		130,612
Future receivables from construction contracts		1,244		1,244		1,244
Receivables from Shareholder	(19)	13,529		13,529		13,529
Receivables from affiliated companies	(19)	19		19		19
Receivables from investments	(19)	46		46		46
Interest receivables	(19)	1,664		1,664		1,664
Remaining financial assets	(19)	4,665		4,665		4,665
Liquid funds	(23)	85,152		85,152		85,152
		280,818	**9,088**	**236,931**	**34,799**	**280,818**

Financial liabilities are classified as follows:

2009	Note	Carrying amount €'000	At fair value through profit or loss €'000	Amortised cost €'000	Under IAS 17 €'000	Fair value €'000
Bonds	(26)	92,498		92,498		97,375
Derivative financial instruments	(28)	5,140	5,140			5,140
Finance lease liabilities	(26)	252		252	252	252
Amounts owed to credit institutions	(26)	10,800		10,800		10,800
Trade payables	(27)	47,123		47,123		47,123
Staff costs	(28)	11,095		11,095		11,095
Amounts owed to affiliated companies	(28)	6,264		6,264		6,264
Reimbursements to the German Meteorological Service (en-route)	(28)	1,893		1,893		1,893
Interest payables	(28)	3,898		3,898		3,898
Outstanding invoices	(28)	9,822		9,822		9,822
Remaining financial liabilities	(28)	218		218		218
		189,003	**5,140**	**183,863**	**252**	**193,880**
2010		**€'000**	**€'000**	**€'000**	**€'000**	**€'000**
Bonds	(26)	52,612		52,612		57,610
Debenture loans	(26)	122,000		122,000		119,745
Debenture loans	(28)	53,000		53,000		52,020
Derivative financial instruments	(28)	4,507	4,507			4,507
Trade payables	(27)	35,987		35,987		35,987
Staff costs	(28)	21,313		21,313		21,313
Amounts owed to affiliated companies	(28)	9,193		9,193		9,193
Reimbursements to the German Meteorological Service (en-route)	(28)	2,217		2,217		2,217
Interest payables	(28)	4,203		4,203		4,203
Outstanding invoices	(28)	7,756		7,756		7,756
Remaining financial liabilities	(28)	342		342		342
		313,130	**4,507**	**308,623**	**0**	**314,893**

A financial instrument is a contract which results in a financial asset for one party and either a financial liability or an equity instrument for the other party.

For financial instruments, the fair value is the amount which DFS would receive or pay if the financial instruments were exchanged or settled at the balance sheet date. If quoted market prices for financial instruments exist, then these are used. This relates in particular to financial instruments classified as 'available-for-sale'. In other cases, the fair value is determined by the market conditions prevailing at the balance sheet date (for example, interest and exchange rates) using recognised valuation models or the external valuations of third parties.

Financial assets comprise, inter alia, liquid funds, trade receivables and other extended loans and receivables. These are classified as "At fair value through profit or loss","Loans and receivables" or "Available-for-sale".

The category "Loans and receivables" consists of financial assets with fixed or determinable terms of payment which are not traded on an active market. Assets are classified as either current or non-current based on the remaining term. Initial recognition occurs at fair value as of the time of settlement (plus direct transaction costs), subsequent measurement is at amortised cost using the effective interest rate method. If there are doubts about the collectibility of receivables, they are carried at the lower recoverable amount. Reversals are made through the income statement in subsequent periods if necessary. Receivables denominated in a foreign currency are measured in the income statement at the balance sheet date. Cash at bank and in hand is recognised at amortised cost.

The category "Available for sale" includes all additional financial assets which cannot be allocated to any other category (such as investments, securities). Initial recognition at the point when they arise is made at fair value plus direct transaction costs. In subsequent periods, the long-term securities in this category are measured at fair value. This is based on quoted and market prices (if available) at the balance sheet date. Changes in the fair value between the balance sheet dates are recognised in reserves in equity. The reversal of reserves through the income statement takes place either on sale or when the market value is permanently lower than the carrying amount. In the year under review, minus €290 thousand (previous year: €115 thousand) from the valuation of financial assets was recognised directly in equity. The shares and investments in this category are recognised at amortised cost.

Financial liabilities generally give rise to a claim for repayment in cash or in the form of another financial asset. These include bonds, liabilities under finance leases, trade payables and other liabilities. They are subdivided into the categories "At fair value through profit or loss" and "Amortised cost".

Financial liabilities in the category "At fair value through profit or loss" are held exclusively for trading and initial and subsequent recognition is at fair value. The fair value is based on quoted prices at the balance sheet date. Changes in the fair value between the balance sheet dates are recognised in profit or loss in the financial result.

The category "Amortised cost" contains all other financial liabilities which cannot be allocated to another category. In subsequent periods, they are carried at amortised cost using the effective interest rate method. Liabilities denominated in a foreign currency are converted using the rate at the balance sheet date. The measurement is recognised in the income statement.

The fair value of bonds is calculated as the present value of the expected future cash flows. Prevailing market interest rates for the corresponding term are used for discounting.

The fair value for finance lease liabilities is reported as the present value of the minimum lease payments.

Trade payables and other liabilities have short-term maturities, which means that the amounts shown in the balance sheet correspond to the fair value. Financial liabilities with maturities longer than one year correspond to the fair value of the amount discounted at the risk-free rate.

Financial assets at fair value developed as follows:

Derivatives – Interest rate swaps	**647659 no. 45**	**918388L no. 49**
Initial measurement 2003 and 2008	25 €'000	2,221 €'000
Change	1,433 €'000	5,409 €'000
Measurement at 31 Dec 2010	1,458 €'000	7,630 €'000

Financial liabilities at fair value developed as follows:

	Change in value 2010 €'000	**Cumulative change in value €'000**	**31 Dec 2010 €'000**	**31 Dec 2009 €'000**
Interest rate swap 3321195L no. 26	671	0	0	-671
Interest rate swap 653604L no. 46	53	-413	-413	-466
Interest rate swap 918135L no. 50	-217	-2,806	-2,806	-2,589
Interest rate swap LEES2089U0 no. 51	126	-1,288	-1,288	-1,414
	633	-4,507	-4,507	-5,140

The hierarchical classification of financial instruments "At fair value through profit or loss" was as follows:

	Level 1 €'000	**Level 2 €'000**	**Level 3 €'000**
Financial assets			
Derivative financial instruments		9,088	
Financial liabilities			
Derivative financial instruments		4,507	

The levels of the hierarchy as well as their application as regards financial assets and liabilities are described below:

Level 1	Quoted prices in active markets for identical assets or liabilities
Level 2	Other inputs as quoted prices on active markets suitable for the assets or liabilities either direct (i. e. the price) or indirect (i.e. derived from prices) which can be observed
Level 3	Unobservable inputs where observable inputs are not available

The net results of financial instruments by measurement category are as follows:

	Result component €'000	**Currency effect €'000**	**Changes in market value €'000**	**Value adjustment €'000**	**Interest €'000**	**2010 €'000**	**2009 €'000**
Assets							
Recognised at fair value through profit or loss			6,370		-1,526	4,844	-2,095
Loans and receivables				-646	786	140	559
Available for sale	1,533			-71	406	1,868	2,497
Liabilities							
Amortised cost		-5,080			-5,260	-10,340	1,988
	1,533	**-5,080**	**6,370**	**-717**	**-5,594**	**-3,488**	**2,949**

The net result from derivatives recognised at fair value through profit or loss contains positive changes in market value of €6,370 thousand and an interest result of minus €1,526 thousand.

Net gains and losses from loans and receivables contain the result from impairment write-downs and write-backs. Interest income results primarily from cash at bank.

The net result from available-for-sale financial assets comprises dividends received from investments, profit transfers and interest income from securities. In addition, changes in valuation of minus €161 thousand were recognised directly in equity.

The net result of financial liabilities measured at amortised cost comprises the currency translation of bonds as well as the interest result.

Expenses in the form of payments from financial assets and financial liabilities which are not recognised at fair value through profit or loss amounted to €1,101 thousand and are recorded under other operating expenses.

(32) Derivative financial instruments

On the balance sheet date, the derivatives on hand at DFS comprised interest rate swaps, interest and cross-currency swaps and a CO_2 certificate swap.

The volumes as at the balance sheet date are summarised in the following table:

Description	Remaining	Fair value		Nominal volume	
	term	31 Dec 2010	31 Dec 2009	31 Dec 2010	31 Dec 2009
		EUR million	EUR million	EUR million	EUR million
Payer interest rate swaps	1 - 5 years	-1.701	-1.130	32.000	27.000
Payer interest rate swaps	> 5 years	-2.806	-4.000	22.200	47.500
Receiver interest rate swaps	> 5 years	1.459	1.570	25.000	25.000
Interest and cross-currency swaps	> 5 years	7.630	1.770	22.200	22.200
CER/EUA swap	> 1 year	-0.027	-0.052	0.118	0.118
		4.555	**-1.842**	**101.518**	**121.818**

The nominal volume is defined as the sum of all bought and sold amounts of foreign exchange contracts or the computational basis for the interest payments on interest rate swaps. The fair value of a financial instrument is the amount which can be obtained in an arm's length transaction between knowledgeable willing parties under prevailing market conditions. In determining the fair value of a derivative financial instrument, compensating effects from the primary transaction (e.g. pending business or anticipated transactions) are excluded.

The fair values of foreign exchange contracts are determined on the basis of the ECB reference rates taking account of the forward premiums and discounts for the remaining term to trade date and/or measurement date. The fair values of interest rate hedges (e.g. interest rate swaps, interest rate and cross-currency swaps) are calculated on the basis of discounted future expected cash flows. The market interest rate appropriate for the remaining term of the financial instrument or the implicit interest rate which can be derived is applied. The clean price of the financial instruments is reported.

DFS is exposed to counterparty risk, which arises should the counterparty not fulfil its contractual obligations. To minimise counterparty risk, DFS concludes derivative transactions exclusively with its principal bankers, who have very good credit ratings. Counterparty risks only exist for transactions with a positive fair value for DFS.

Currency management

By virtue of its international business activities, DFS is exposed to currency risk which can impact the operating result, the financial result and cash flows. DFS is principally exposed to currency risk through the purchase of technical equipment which is invoiced in US dollars.

In order to reduce the impact of currency fluctuations, DFS continually evaluates currency risks and hedges its risks, where applicable, through the use of derivatives. Currency risks are determined by having a currency risk position. The risk positions resulting from primary transactions are matched to hedges which have been entered into. The Treasury department plans and controls currency risks and the use of derivative financial instruments. The Board of Managing Directors receives regular reports from the Treasury department about currency risks and the use of derivatives.

Interest rate management

Interest rate risks result from the sensitivity of financial assets and financial liabilities and/or their cash flows from future interest payments to changes in market rates. DFS mainly finances itself by drawing on a money and capital market programme. The funds from the capital market programme have predominantly long-term maturities and fixed or variable interest rates. DFS endeavours to limit the resulting interest rate risks through the use of derivative interest rate contracts and interest rate and cross-currency swaps.

Interest swaps are used in relation to financial indebtedness to affect a change in the relationship of the fixed interest rate positions to assets and liabilities with variable rates. An interest rate swap is designed so that the company pays a set fixed interest rate on the principal amount of its underlying variable rate financial liability; the company, in turn, receives a variable rate on the same principal amount. Alternatively, it uses payer swaps to secure a variable rate. Only the interest rate payments are swapped, not the principal amounts.

In order to reduce the impact of interest rate fluctuations, DFS continually evaluates interest rate risks and hedges these through derivative financial instruments. The Treasury department plans and controls interest rate risks and the use of derivatives. The Board of Managing Directors receives regular reports from the Treasury department on newly concluded transactions and on its book of derivatives.

(33) Financial risks

DFS provides comprehensive disclosures in the group management report on the required qualitative information under IFRS 7 about the type and means by which risks from financial instruments arise as well as the procedures for the management and control of these risks.

Financial risks arise within DFS in the form of credit risks, liquidity risks and market price risks. Market price risks are quantified using the Value-at-Risk (VaR) concept.

Credit risks

DFS is exposed to default risks from financial instruments that result for the possible default of a party to a contract. The maximum value equals the positive fair value of the financial instrument.

The maximum credit risk position was as follows:

	2010	**2009**
	€'000	**€'000**
Securities	7,265	7,419
Trade receivables	130,612	123,295
Future receivables from construction contracts	1,244	0
Other financial receivables and assets	36,261	22,958

To reduce the risk of default, financial instruments used for financing are only concluded with counterparties who have a very good credit standing. To further minimise risk, business is only conducted within prescribed counterparty limits.

Securities relate to Deutsche Bank loans classed as low risk. In the operating area, outstanding amounts and default risks are constantly monitored. Trade receivables are normally settled before the prescribed due date for payment. Only customers with poor/uncertain credit standing are required to deposit cash in advance or in rare circumstances to post a guarantee. Allowances for individual doubtful debts are only made in the case that the customer is insolvent or bankrupt.

Liquidity risks

Liquidity risk exists when existing or future payment obligations cannot be met due to the unavailability of sufficient funds. The central duties of liquidity risk management include resource allocation and ensuring financial independence. To ensure solvency and financial flexibility at all times, long-term credit lines and liquid funds are maintained on the basis of a financial plan which spans several years as well as a monthly recurring liquidity plan. In addition, funds are made available to group companies as needed by means of cash pooling.

The following aged-list shows, as at the balance sheet date, the undiscounted principal and interest payments of financial liabilities, the undiscounted payments for trade payables, the undiscounted payments for other financial liabilities as well as the undiscounted net payments for derivative financial liabilities.

2009	Total €'000	Due in less than 3 months €'000	Due in 4 - 12 months €'000	Due in 1 - 5 years €'000	Due in more than 5 years €'000
Financial liabilities - Non-derivative					
Bonds	107,669	1,323	47,042	6,456	52,848
Finance lease liabilities	1,304	326	978	0	0
Trade payables	47,123	45,494	454	549	626
Other liabilities	29,291	20,424	8,867	0	0
Financial liabilities - Derivatives					
Derivatives	5,699	53	1,690	3,482	474
2010	**€'000**	**€'000**	**€'000**	**€'000**	**€'000**
Financial liabilities - Non-derivative					
Bonds	47,200	0	0	0	47,200
Debenture loans	122,000	0	0	0	122,000
Interest	54,120	1,210	5,278	25,955	21,677
Trade payables	35,987	34,638	186	1,163	0
Other liabilities	98,024	37,247	7,777	0	53,000
Financial liabilities - Derivatives					
Derivatives	2,899	167	334	2,566	-168

Market risks

Market risk is the risk that the fair value of future cash flows of a primary or derivate financial instrument fluctuates due to changes of the risk factors. The relevant risks include interest rate and currency risk, which can result in volatility in the result and in cash flows. The goal of risk management to eliminate or mitigate the risks which have arisen by suitable measures (for example, the use of derivative financial instruments).

The following table shows the interest rate risk for financial assets and liabilities:

	31 Dec 2010 Nominal value €'000	31 Dec 2009 Nominal value €'000
Securities		
Fixed interest rate	7,000	7,000
Bonds		
Fixed interest rate	47,200	92,200

The following table shows the net risk by currency:

	31 Dec 2010 Nominal value JPY '000	Rate	31 Dec 2009 Nominal value JPY '000	Rate
Primary transactions	-3,000,000	108.89	-3,000,000	133.16
Derivative financial instruments	3,000,000	108.89	3,000,000	133.16
Planned hedges	0		0	
Net risk	**0**		**0**	
	31 Dec 2010 Nominal value USD '000	**Rate**	**31 Dec 2009 Nominal value USD '000**	**Rate**
Primary transactions	5,585	1.33920	-575	1.42460
Derivative financial instruments	0		0	
Planned hedges	0		0	
Net risk	**5,585**	**1.33920**	**-575**	**1.42460**

The following tables show the annual value of the Value-at-Risk with a confidence interval of 95.00 percent and a holding period of 10 days using the historical simulation for 2010 and 2009 as a basis for the foreign exchange and interest rate risk. The VaR figures are based on a purely financial model which computes a financial loss which will not be exceeded with a probability of 95.00% when the holding period is 10 days:

Foreign exchange risk	2010 €'000	2009 €'000
At year-end	169	46

Foreign exchange risks that impact the balance sheet arise due to monetary items that are not in the functional currency. Primary monetary financial instruments are held primarily in the functional currency or converted into the functional currency by means of derivatives. Changes in exchange rates therefore have no material impact on the result or equity.

Intereste rate risk	2010	2009
	€'000	€'000
At year-end	4,283	350

Interest rate risk results mainly from the sensitivity of financial instruments. Liquidity is ensured by means of money market and capital market programmes with long maturities that have fixed and variable interest rates. The resulting interest rate risk is limited through the use of derivative interest rate contracts and interest and cross currency swaps. The interest rate swaps are designed so that DFS pays a set fixed interest rate on the principal amount of its underlying variable rate financial liability and, in turn, receives a variable rate on the same principal amount. Alternatively, it uses payer swaps to secure a variable rate. Therefore, changes in interest rates have no material impact on the result or equity.

The foreign currency risks rose because of the increase in primary transactions in foreign currencies at the balance sheet date. Interest rate risks rose owing to the issue of debenture loans coupled with the repayment of bonds.

For the overall risk, the end, highest, lowest and average values are shown below:

Overall risk	2010	2009
	€'000	€'000
At year-end	4,309	365
High	4,535	943
Low	291	331
Average	1,093	684

(34) Contingent liabilities and other financial commitments

Contingent liabilities

The nominal values of contingent liabilities comprise the following:

Contingent liabilities	2010 up to 1 year	2010 1 - 5 years	2010 more than 5 years	2010 Total	2009 Total
	€'000	€'000	€'000	€'000	€'000
Sureties	668	96	166	930	530
Warranties	0	2,761	0	2,761	736

No provisions were recognised for the commitments shown because the risk of use was deemed to have a low probability. Sureties relate to guarantees for advance payments, warranties, contract fulfilment and tender guarantees for simulation, radar data and air traffic control systems.

At the end of the business year, there were no obligations for the issuance or endorsement of guarantees covering bills of exchange and cheques.

Other financial commitments

The nominal values of other financial commitments were as follows:

	2010 up to 1 year €'000	**2010 1 - 5 years €'000**	**2010 more than 5 years €'000**	**2010 Total €'000**	**2009 Total €'000**
Loan commitments	1,500	0	0	1,500	1,500
Intercompany credit lines with affiliated companies	14,900	0	0	14,900	13,900
Capital expenditure commitments for the acquisition of					
- intangible assets	24,630	15,034	0	39,664	19,831
- property, plant and equipment	29,071	509	0	29,580	31,661
- other	54,620	19,843	155	74,618	76,238
Commitments from rental and lease contracts	8,238	2,472	102	10,812	13,420
Total	**132,959**	**37,858**	**257**	**171,074**	**156,550**

No provisions were recognised for the commitments shown because the risk of use was deemed to have a low probability.

There is a loan commitment to ESSP for a loan of €1,500 thousand to settle loss allocations from their investments.

In order to cover their liquidity needs, the following affiliated companies were granted an inter-company credit line as part of daily cash pooling. Cash pooling serves to obtain better conditions for cash investments and loans and enables the participating companies to benefit from central, systematic financial planning within the group.

Capital expenditure commitments relate to the contractual obligations for the purchase of intangible assets as well as property, plant and equipment.

Commitments from rental and leasing contracts relate mainly to the use of land and buildings, vehicles, technical facilities and machines. These contracts relate exclusively to operating leases, where the leased asset belongs economically to the lessor, who bears all the significant risks and rewards. There are no other risks from these contracts. The contracts were concluded to retain a suitable amount of corporate flexibility. Commitments from rental and leasing contracts were concluded with limited or unlimited terms. There are no purchase price options for the leased items, rather the items are returned when the lease is over. Vehicles are leased for one year without an option to extend.

(35) Contingent assets

There are two separate abstract acknowledgements of debt (abstrakte Schuldanerkenntnisse – a standard German law acknowledgement of a borrower's indebtedness) between DFS and FCS.

In the acknowledgement of debt with effect from 26 April 2006, FCS acknowledges that it owes DFS €8,500 thousand. All known and unknown objections which do not arise from the agreement itself, especially an objection because of unjust enrichment, are excluded. FCS has provided security for the acknowledgement of debt by registering a charge in favour of DFS on a Raytheon Beechcraft Super King (serial number FL-473, D-CFMD) in accordance with Article 1 of the "Gesetz über Rechte an Flugzeugen – LuftfzgG" (law on rights to aircraft) and agreed to register this charge in the register for pledges on aircraft at the local district court in Braunschweig. The registration was conducted on 22 August 2006. The basis is a loan agreement dated March 2006 between DFS European Satellite Services Provider Beteiligungsgesellschaft mbH and FCS Flight Calibration Services GmbH for the aircraft (serial number FL-473, identification D-CFMD) of €5,500 thousand and the flight inspection system (type Aerodata AeroFIS) of €3,000 thousand. The loan for the aircraft matures on 31.12.22 and for the flight inspection system on 31.12.16. The loan is collateralised over its entire maturity by an abstract acknowledgement of debt in favour of the collateral agent (DFS) by means of a liability of €8,500 thousand. As at the balance sheet date, €7,100 thousand of the volume of the loan had been tapped.

In the acknowledgement of debt with effect from 29 September 2008 or 6 October 2008, FCS acknowledges that it owes DFS €6,000 thousand. All known and unknown objections which do not arise from the agreement itself, especially an objection because of unjust enrichment, are excluded. FCS has provided security for the acknowledgement of debt by registering the charge in favour of DFS on a Hawker Beechcraft Super King Air (serial number FL-626, D-CFME) in accordance with Article 1 of the "Gesetz über Rechte an Flugzeugen - LuftfzgG" (law on rights to aircraft) and has agreed to register this charge in the register for pledges on aircraft at the local district court in Braunschweig. The registration was conducted on 16 September 2009. The basis is a loan agreement from September and October 2008 between DFS European Satellite Services Provider Beteiligungsgesellschaft mbH and FCS Flight Calibration Services GmbH for the aircraft (serial number FL-626, identification D-CFME) of €4,300 thousand and the flight inspection system (type Aerodata AeroFIS) of €1,700 thousand. The loan for the aircraft matures on 31 December 2025 and for the flight inspection system on 30 September 2019. The loan is collaterised over its entire maturity by an abstract acknowledgement of debt in favour of the collateral agent (DFS) by means of a liability of €6,000 thousand. As at the balance sheet date, €5,200 thousand of the volume of the loan had been tapped.

(36) Auditors' fees

The fees for the auditor for the business year according to Article 314, paragraph 1, no. 9 of the HGB comprise the following:

	2010	**2009**
	€'000	**€'000**
Audit of the annual financial statements	167	128
Other assurance services	22	0
Tax advice	0	0
Other services	0	0
Total	**189**	**128**

(37) Post-balance sheet events

On 27 January 2011, TTC GmbH bought a stake in Tower Air Traffic Services S.L. (TATS), with its headquarters in Madrid, Spain. Now, TTC GmbH and INDRA Sistemas S.A. each hold a 50 percent stake in TATS. The joint venture aims to provide air navigation services at Spanish airports. The required SES certification has already been applied for.

(38) Service concession arrangements

The field of activity of DFS comprises the tasks of the air navigation services. DFS took over these tasks from the former Federal Administration of Air Navigation Services (BFS). DFS was entrusted with the performance of the services outlined in Article 27c, paragraph 2, sentence 1, point 1 of the German Aviation Act (LuftVG) in accordance with Article 31b, paragraph 1, sentence 1 of the German Aviation Act in conjunction with Article 1 of the Regulation Concerning the Commissioning of an Air Navigation Services Enterprise (FS-AuftragsV) dated 11 November 1992, as modified by the act to amend air traffic regulations dated 24 August 2009 which came into effect on 29 August 2009.

DFS is entrusted with the surveillance of both civil and regional military air traffic. The air navigation services ensure the safe, orderly and expeditious handling of air traffic pursuant to Article 27c, paragraph 1 of the German Aviation Act. The tasks entrusted to DFS outlined in Article 27c, paragraph 2, sentence 1, point 1 of the German Aviation Act comprise the following air traffic services:

a) air traffic control services (aerodrome, approach and area control services), including checking, warning and rerouting aircraft in airspace;
b) alerting services;
c) flight information services;
d) air traffic advisory services.

These tasks are described in detail in the implementation regulation on air navigation services (FSDurchführungsV).

DFS was also entrusted with the training of operational and technical air navigation services personnel, participation in international organisations, the hierarchical authority over the former staff of the BFS and the planning of flight procedures.

DFS performs these tasks pursuant to Article 27c, paragraph 2, item 1 of the German Aviation Act only to the extent that they were not transferred to EUROCONTROL by treaty; to military units pursuant to Article 30, paragraph 2, sentence 2 of the German Aviation Act, or to other air navigation service providers (see Articles 31b, paragraph 1, 31f of the German Aviation Act).

Charges levied are the main source of revenues at DFS and they should cover the costs incurred. Terminal charges for the use of terminal services and facilities are determined annually by the Federal Ministry of Transport, Building and Urban Development (German Ordinance on Terminal Charges of the Air Navigation Services - FSAAKV). Charges for en-route services are determined by a commission at EUROCONTROL in cooperation with the Federal Ministry of Transport, Building and Urban Development.

To this end, DFS sends the Federal Ministry of Transport, Building and Urban Development a preliminary cost estimate for the coming year by 1 June each year. The cost estimates are based on the actual costs of the last business year and the estimates of the current cost developments in the current and following business year. The difference between the estimated and actual costs of the respective business year (over- and under-recovery) are repaid/charged to the airspace users two years later in the form of lower/higher charges.

(39) Related party disclosures

Related parties – persons

In accordance with IAS 24, DFS also reports on business relationships between the company and related parties (persons), or members of that person's family. Related parties (persons) were identified as the Board of Managing Directors, level 1 executives, the Supervisory Board and their family members. There were no material or, in their form or character, atypical reportable transactions between DFS and people in key positions of management and their close family.

Disclosures on the emoluments of Board of Managing Directors and the Supervisory Board are shown in Note 40 "Organs of the company".

Related parties – entities

In the normal course of business, services are rendered to related entities. Group companies also render services to DFS. These extensive delivery and service relationships are conducted at arm's length and are, as a rule, no different from the business relationships with other companies.

DFS maintains business relations with the sole Shareholder, the Federal Republic of Germany (represented by the Federal Ministry of Transport, Building and Urban Development), and with other companies controlled by the Federal Republic of Germany as part of the entrusted sovereign functions for air navigation services. These transactions are conducted at arm's length and are, as a rule, no different from the delivery and service relationships with other companies.

Affiliated companies and investments are as follows in the list of shares:

Material affiliated companies		Shareholding in %	Equity €'000	Net income €'000
DFS European Satellite Services Provider Beteiligungsgesellschaft mbH	Langen, Germany	100.00	22,448	177
DFS Unterstützungskasse GmbH	Langen, Germany	100.00	26	0
The Tower Company GmbH	Langen, Germany	100.00	223	0
DFS Energy GmbH	Langen, Germany	100.00	5,396	0
FCS Flight Calibration Services GmbH [1] [2]	Braunschweig, Germany	55.00	2,243	669
Material investments				
GroupEAD Europe S.L. [1] [2]	Madrid, Spain	36.00	1,435	441
BILSODA GmbH & Co. KG [2] from 4 May 2010	Pullach, Germany	24.90	paid-in equity €10,000	

[1] Equity and net income as at 31 December 2009

[2] Values as at 31 December 2010 were not available

More information on affiliated companies and investment can be found in Note 18 "Financial assets".

Since June 2009, DFS has been an active member of the SESAR Joint Undertaking (SJU), along with other leading organisations. The most prominent project is the Single European Sky Air Traffic Management Research (SESAR). This puts DFS in a position to help shape the future of European air navigation services on the basis of its experience and benefit optimally from the joint developments. Funds have been made available from the European research framework programmes for this project.

The scope of business relationships with related parties is as follows:

Income and expenses	**Shareholder**	**Affiliated companies**	**Investments**
	€'000	**€'000**	**€'000**
2009			
Revenues	73,775	1,035	186
Other operating income	1,176	692	111
Purchased services		3,112	
Employee expenses	26,440		
Other operating expenses	0	3,606	12
Interest income		1	0
Interest expense		44	0
Profit transfers	8,022	809	1,226

Income and expenses	**Shareholder**	**Affiliated companies**	**Investments**
	€'000	**€'000**	**€'000**
2010			
Revenues	68,276	948	78
Other operating income	1,014	903	96
Purchased services		2,858	
Employee expenses	19,491		
Other operating expenses	0	9,420	74
Interest income		8	0
Interest expense		24	0
Profit transfers	6,155	1,533	0

The outstanding net amounts from the business relationships with related parties are as follows:

Receivables and liabilities	Shareholder	Affiliated companies	Investments
	€'000	€'000	€'000
2009			
Financial assets		21,776	360
Other assets	10,494	1,165	53
Other liabilities	1,592	7,428	0
2010			
Financial assets		27,172	362
Other assets	15,158	1,810	46
Other liabilities	1,628	10,985	0

(40) Organs of the company
Board of Managing Directors

Dieter Kaden, Bad Dürrheim,
Chairman and CEO

Ralph Riedle, Langen,
Managing Director Operations

Jens Bergmann, Bad Homburg vor der Höhe,
Managing Director Finance and Human Resources

The payments due in the short term for the members of the Board of Managing Directors were as follows in the year under review.

	Fixed components (including benefits in kind) €'000	Performance-related components €'000	Total emoluments €'000
Dieter Kaden (Chairman)	320	116	436
Ralph Riedle	242	93	335
Jens Bergmann	225	93	318
	787	**302**	**1,089**

The company granted no advance payments or loans to members of the Board of Managing Directors or to former managing directors. In addition, no remuneration was paid for consultancy or service contracts.

In addition, there are future pension obligations of €9,151 thousand (previous year: €8,255 thousand), of which €4,068 thousand (previous year: €4,025 thousand) are for pension obligations for former members of the Board of Managing Directors. Termination benefits were as follows:

	Pension benefits €'000	Expenses for pension benefits earned in the current year [1)] €'000
Dieter Kaden (Chairman)	2,494	224
Ralph Riedle	1,892	138
Jens Bergmann	697	67
Former Managing Directors	4,068	213
	9,151	**643**

1) Service cost and interest cost

In the year under review, former members of the Board of Managing Directors received total pension payments of €293 thousand (previous year: €292 thousand).

There were no other long-term benefits due or share-based compensation.

Supervisory Board

The Supervisory Board comprises the following voting members:

Shareholder representatives

Robert Scholl
Chairman
Ministerialdirektor a. D.
Abteilungsleiter Z
Federal Ministry of Transport,
Building and Urban Development
until 30 April 2010

Dr Reinhard Kuhn
Ministerialrat
Referatsleiter R II 5
Federal Ministry of Defence

Hans-Dieter Poth
Colonel (G.S.)
Referatsleiter FüL III 4
Federal Ministry of Defence

Dr Angelika Kreppein
Regierungsdirektorin
Federal Ministry of Finance
from 1 July 2010

Prof Klaus-Dieter Scheurle
Chairman
State Secretary
Federal Ministry of Transport,
Building and Urban Development
from 1 May 2010

Dr Norbert Kloppenburg
Member of the Board of Managing Directors
KfW Bankengruppe

Rainer Münz
Ministerialdirigent
Unterabteilungsleiter LR2
Federal Ministry of Transport,
Building and Urban Development

Christiane Wietgrefe-Peckmann
Regierungsdirektorin
Federal Ministry of Finance
until 30 June 2010

Staff representatives

Michael Schäfer
Deputy Chairman
Watch supervisor in flight data handling

Holger Müller
Air traffic controller

Peter Schaaf
Air traffic controller/
Chairman Central Staff Council

Otto Fischer
Director Corporate Development

Petra Reinecke
Air traffic controller

Dirk Wendland
Systems engineer

In the business year, there were four scheduled Supervisory Board meetings.

The remuneration of the Supervisory Board can be broken down as follows:

	Remuneration €'000
Robert Scholl	0.3
Prof Klaus-Dieter Scheurle	0.4
Dr Norbert Kloppenburg	0.9
Dr Reinhard Kuhn	0.6
Rainer Münz	0.7
Hans-Dieter Poth	0.7
Christiane Wietgrefe-Peckmann	0.4
Dr Angelika Kreppein	0.5
Michael Schäfer	0.9
Otto Fischer	0.6
Holger Müller	0.6
Petra Reinecke	0.5
Peter Schaaf	0.6
Dirk Wendland	0.9

The remuneration of the Supervisory Board is set out in the Articles of Association. The emoluments of the Supervisory Board are comprised of fixed and variable components. The fee for meeting attendance is €80 and the daily allowance amounts to €26 per meeting.

The members of the Supervisory Board received no advances, loans or remuneration from consultancy or service contracts.

(41) Disclosures on the public corporate governance code
The Board of Managing Directors has drawn up a corporate governance report for the business year 2010 in accordance with the regulations of the public corporate governance code of the Federal Government. The Board of Managing Directors and the Supervisory Board will jointly issue a compliance statement. The corporate governance report is subsequently published on the Internet page of the company www.dfs.de.

Responsibility statement

The Board of Managing Directors of DFS Deutsche Flugsicherung GmbH issues the following statement, pursuant to Article 37y No 1 of the Securities Trading Act in conjunction with Articles 297 paragraph 2 sentence 4, 315 paragraph 1 sentence 6 and 315a paragraph 1 of the German Commercial Code.

To the best of our knowledge, and in accordance with the applicable reporting principles, the group financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the group, and the group management report includes a fair review of the development and performance of the business and the position of the group, together with a description of the principal opportunities and risks associated with the expected development of the group.

Langen, 3 March 2011

D. Kaden Ralph Riedle J. B.

Dieter Kaden Chairman and CEO	Ralph Riedle Managing Director Operations	Jens Bergmann Managing Director Finance and Human Resources

Auditor's report

We have audited the group financial statements of DFS Deutsche Flugsicherung GmbH (DFS) – consisting of the balance sheet, statement of comprehensive income, statement of changes in equity, cash flow statement and notes to the group financial statements – together with the group management report for the business year from 1 January to 31 December 2010. The preparation of the group financial statements and the group management report in accordance with the IFRS to be applied within the EU and provisions to be additionally applied according to Art. 315a para. 1 of the German Commercial Code are the responsibility of the Company's management. Our responsibility is to express an opinion on the group financial statements and on the group management report based on our audit.

We conducted our audit of the group financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the group financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the group financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of the entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the Company's Board of Management, as well as evaluating the overall presentation of the group financial statements and the group management report.

We believe that our audit provides a reasonable basis for our opinion. Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the group financial statements comply with IFRSs as adopted by the EU, the additional requirements of German commercial law pursuant to section 315a paragraph 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the group financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Cologne, 3 March 2011	Susat & Partner OHG Wirtschaftsprüfungsgesellschaft
Graf von Kanitz Auditor	Schorse Auditor

Acronyms and abbreviations

AG	Public Limited Company – Aktiengesellschaft
ANSP	Air Navigation Service Provider
ATC	Air Traffic Control
ATCAS	Air Traffic Control Automation System
ATFM	Air Traffic Flow Management
ATM	Air Traffic Management
ATS	Air Traffic Services
AUSTRO CONTROL	Austrian ANSP – Austro Control Österreichische Gesellschaft für Zivilluftfahrt mbH, Wien/Österreich
BAF	Federal Supervisory Authority for Air Navigation Services – Bundesaufsichtsamt für Flugsicherung
BFS	Former German ANSP – Bundesanstalt für Flugsicherung
BMVBS	German Ministry of Transport, Building and Urban Development – Bundesministerium für Verkehr, Bau und Stadtentwicklung
CDA	Continuous Descent Approach
DM	Deutsche Mark
DWD	German Meteorological Service – Deutscher Wetterdienst
EASA	European Aviation Safety Agency
EBIT	Earnings Before Interest and Taxes
ECB	European Central Bank
EFRAG	European Financial Reporting Advisory Group
ERP	Enterprise Resource Planning
ESSP	European Satellite Services Provider
EUROCONTROL	European Organisation for the Safety of Air Navigation
e.V.	Registered Association – eingetragener Verein
FAB	Functional Airspace Block
FABEC	Functional Airspace Block Europe Central
FCS	Flight Calibration Services GmbH
GmbH	Limited Liability Company – Gesellschaft mit beschränkter Haftung
HGB	German Commercial Code – Handelsgesetzbuch
HRB	Commercial Register B – Handelsregister Abteilung B
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IATA	International Air Transport Association
ICAO	International Civil Aviation Organisation
iCAS	iTEC Centre Automation System
IFR	Instrument Flight Rules
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
ISO	International Organisation for Standardisation
iTEC	Interoperability Through European Collaboration
JU	Joint Undertaking
KARLDAP	Karlsruhe Automated Data Processing and Display System
KPA	Key Performance Area
LBA	Federal Aviation Office – Luftfahrt-Bundesamt
LuftVG	German Aviation Act – Luftverkehrsgesetz
MSSR	Monopulse Secondary Surveillance Radar
MTOW	Maximum Take-off Weight
OAT	Operational Air Traffic
PSS	Paperless Strip System
QTE	Qualified Technological Equipment
S.A.	Société Anonyme
SES	Single European Sky
SESAR	Single European Sky ATM Research
SJU	SESAR Joint Undertaking
S.L.	Sociedad Limitada
SPC	Special Purpose Company
SSC	Single Sky Committee
STANLY	Statistics and Analysis
TATS	Tower Air Traffic Services S.L.
TTC	The Tower Company GmbH
VAFORIT	Very Advanced Flight Data Processing Operational Requirements Implementation
VAN	Value Added Network
VaR	Value at Risk
VFR	Visual Flight Rules

Imprint

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ISSN 1865-6420

Photography
Prof Klaus-Dieter Scheuerle

60-2290-192