Annual Report 2011

Annual Report

DFS Deutsche Flugsicherung

The business year 2011

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

Report of the Supervisory Board

In the 2011 business year, the Supervisory Board performed its functions as prescribed by law 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.

In its work, the Supervisory Board was supported by three committees: an audit, a personnel and a project committee. These committees met to intensively discuss the decision papers and to prepare resolutions for the Board's plenary meetings.

The composition of the Supervisory Board changed in the reporting period. Effective 30 April 2011, Dr Reinhard Kuhn left his position as a representative of the Shareholder. With effect from 1 May 2011, Mr Martin Walber was appointed as his successor in the Supervisory Board.

In 2011, the Board of Managing Directors reported to the Supervisory Board 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 at four ordinary meetings of the Supervisory Board. In addition, two extraordinary meetings were called. The Board of Managing Directors also provided the Supervisory Board with ad hoc information on important areas.

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

- the 2010 annual financial statements, management report and audit report on the 2010 annual financial statements

and

- the economic plan for 2012 until 2016 with the associated investment and financial plan, taking account of the end of full cost recovery as the principle underlying the core business financed by air navigation charges.

At two extraordinary meetings, the Supervisory Board discussed the collective bargaining situation at one and, at the other, the strategic orientation of the company with the new approach of strategic business units and the expansion of the commercial business.

Furthermore, the Supervisory Board addressed the following key issues:

- anchoring the Public Corporate Governance Code of the Federal Government (PCGK) in the Articles of Association of DFS,
- the modernisation of the DFS energy plant,
- the DFS contribution to the performance plan 2012-2016,
- the construction of a technical centre in Langen,
- the review of the efficiency of the Supervisory Board,
- and the strategy regarding investments in other companies and the IT strategy.

In the future, DFS will face great challenges both internally and externally. Against this background, the Shareholder has decided to change the distribution of responsibilities among the DFS Managing Directors and to strengthen the Board of Managing Directors by appointing a board member exclusively for human resources. The implementation of this decision will be made in 2012.

The Supervisory Board discussed the 2011 financial statements and the management report with the assistance of the audit report prepared by RBS RoeverBroennerSusat GmbH & Co. KG 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. The Supervisory Board found no exceptions to be taken against the audit report and findings submitted by RBS RoeverBroennerSusat GmbH & Co. KG Wirtschaftsprüfungsgesellschaft.

The Supervisory Board would like to thank the Board of Managing Directors, all members of staff and the staff councils for their work in the 2011 business year and for their dedication to the company.

Prof Klaus-Dieter Scheurle

The Supervisory Board

Prof Klaus-Dieter Scheurle
Chairman

Members of the Supervisory Board

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

Deputy Chairman
Michael Schäfer
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
Federal Ministry of Transport, Building and Urban Development

Hans-Dieter Poth
Brigadier General
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 March 2012

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

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

Uwe Beckmeyer
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ADV – German Airports Association e.V.

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Belgocontrol

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Wolfgang Faden
Chief Executive Officer Germany
Allianz Global Corporate & Specialty AG

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AOPA Germany

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Aarne Kreuzinger-Janik
Lieutenant General
Chief of Staff, Air Force
Federal Ministry of Defence

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Managing Director of the Executive Board
German Shipowners' Association (VDR)

Eduard Oswald
Vice-President of the German Bundestag

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Member of the Board of Management for Transport and Logistics
DB Mobility Logistics AG

Paul Riemens
Chief Executive Officer
LVNL - Air Traffic Control the Netherlands

Dr Stefan Schulte
Executive Board Chairman
Fraport AG

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

Wolfgang Stertenbrink
Chairman of the Supervisory Boards
ALTE LEIPZIGER – HALLESCHE Group

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

Ralf Teckentrup
President of the Executive Board
Condor Flugdienst GmbH

Daniel Weder
Chief Executive Officer
skyguide swiss air navigation services ltd

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

Correct at March 2012

Group management report for the business year ended 31 December 2011

Business and framework conditions

Business activities

The main business of DFS Deutsche Flugsicherung GmbH is defined by the tasks set out in Article 27c of the German Aviation Act (LuftVG). Under this act, DFS is entrusted with providing air traffic services and air traffic flow management as well as with the management of airspace utilisation. DFS provides air traffic services, develops and sells air traffic management systems, surveillance systems and navigation aids, and processes flight-relevant data. DFS operates control centres in Langen, Bremen, Karlsruhe and Munich as well as 16 control towers at international airports in Germany. Through these activities, DFS ensures that approximately three million flights under instrument flight rules (IFR) reach their destinations safely and on time each year. As payment for its main business, DFS levies air navigation charges, which cover the costs of provision. These charges are set by the Federal Ministry of Transport, Building and Urban Development.

In addition to the statutory obligations, DFS also provides commercial services for third parties on the free market. These commercial services comprise project work in national and international air navigation services, consulting services, aeronautical publications, aeronautical information services, apron management services as well as the training services offered by our Air Navigation Services Academy. The main business and the commercial business operating on the free market form the core processes of the company.

Structure of the Group

DFS has organised the distribution of additional activities as follows:

DFS Deutsche Flugsicherung GmbH (Ultimate parent company)	
DFS Energy GmbH (DFS Energy)	Generation, provision and sale of energy for DFS and third parties.
DFS ESSP GmbH (DFS ESSP)	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 Tower Company GmbH (TTC)	Development, provision and conduct of air navigation services (at regional airports) as well as providing other services, especially apron management services as well as the coordination of ground handling and meteorological observations.
DFS Unterstützungskasse GmbH (Benevolent fund/UKasse)	Payment of grants in exceptional emergencies to active and former employees of DFS and their dependants.
FCS Flight Calibration Services GmbH (FCS)	Operation of an air transport company for the transport of third parties and their material for the flight inspection of navigation aids as well as services, developments and support of all kinds for the conduct of flight inspections.
Group EAD Europe S.L.	Operation of a database of aeronautical information for the provision of aeronautical data and associated services.
BILSODA GmbH & Co KG (BILSODA)	Construction, rental, operation and administration of a parking structure for DFS.

Legal and organisational framework conditions

In 1993, DFS was entrusted with the tasks of the Federal Administration of Air Navigation Services. 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 holds 55 percent of the shares of the Braunschweig-based FCS Flight Calibration Services GmbH. DFS also holds 36 percent of the shares of GroupEAD Europe S.L., which has its headquarters in Madrid, Spain and 24.9 percent of BILSODA GmbH & Co KG, which has its headquarters in Pullach, near Munich.

The contents of this management report refer to DFS only, as the subsidiaries do not individually nor collectively exceed quantitative thresholds or display quantitative characteristics and therefore do materially impact the results and financial position of 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)	Managing Director Operations (F)	Managing Director Finance and HR (K) – Labour Director
■ 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	■ 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	■ 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 product management for 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 an eleven-strong Management Committee. The Management Committee is made up of members of the executive management level.

Operating segments

The business activities of DFS are split between the "Segment financed by air navigation charges" and "All other segments" (see Note 30).

Segment financed by air navigation charges:
This segment encompasses the activities conducted by the business units Control Centre and Tower and their technical support units, and represents the core business of providing air navigation services in Germany. Its tasks are set out in Article 27c of the German Aviation Act (LuftVG).

All other segments:
This encompasses the business activities which are not reportable as they are below the quantitative thresholds. These activities primarily comprise investments, financial transactions that do not impact air navigation charges and commercial services. Commercial services are offered globally.

The DFS Board of Managing Directors continuously monitors the results of the group produced by the individual operating segments and group companies. Intersegment transactions are conducted at arm's length conditions and prices.

Corporate management

Corporate management and reporting at DFS are based on the strategy, on the structures of the business financed by air navigation charges and the commercial business not financed by air navigation charges as well as on the management organisation of DFS. The business fields are subject to separate analysis, reporting, and planning and control.

Business financed by air navigation charges:
As in prior years, the business financed by air navigation charges in 2011 was subject to full cost recovery and the planning and control was carried out using monetary and non-monetary indicators:

1. Monetary indicators: As part of the yearly planning, the costs necessary for the provision of the air navigation services are determined and compared with the actual costs in the monthly reporting. Furthermore, the monthly internal reporting also uses additional financial indicators relevant for planning and control.

2. Non-monetary indicators: These include for example:

- Safety (infringements of separation),
- ATC capacity (punctuality) and
- Environment (average horizontal en-route flight efficiency).

The logic underlying planning and control at DFS is already based on the SES II Performance Scheme, which applies to air navigation services and network functions from 2012 (see Outlook).

Commercial business:
In contrast to the business financed by air navigation charges, the commercial business is not subject to full cost recovery. This means that planning and control is based on contribution margins and the results achieved. A differentiation is made between DFS as a whole and the units:

- DFS as a whole: EBIT is used for planning and control
- Units: Contribution margins are used for planning and control

Reporting system:
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. Reports are drawn up for both DFS as a whole and for the individual units. The Controlling Department produces monthly and any necessary ad hoc reports for the Board of Managing Directors and the management of the units to enable the planning and control of the units.

Economic environment

Overall economic situation

Following the strong upturn in the first half of the year, the German economy cooled off dramatically over the rest of the year. Nevertheless, gross domestic product grew by an annual average rate of 3.0 percent in 2011 compared with the prior year. As was the case in 2010, domestic demand was the strongest growth driver. In consequence, Germany ranked number one in Europe for growth. In Germany, the private sector is not overleveraged, there are no after-effects from property or financial bubbles that need to be tackled and, at 5.7 percent, the unemployment rate was one of the lowest in Europe. Nevertheless, the poor economy in the States on the periphery of Europe as well as the weakening of the global economy began to increasingly impact the economies at the centre of the eurozone. The sovereign debt crisis, in particular, put a brake on underlying economic growth in Germany, triggering increasing uncertainty in the corporate sector and among consumers. As a result, capital expenditure and consumer spending were postponed, leading to declines first of all in incoming orders and then in sales.

Overall economic risks and the pressure to consolidate public finances in almost all industrial countries means that the economy is expected to grow only slightly in 2012.

Development of air traffic

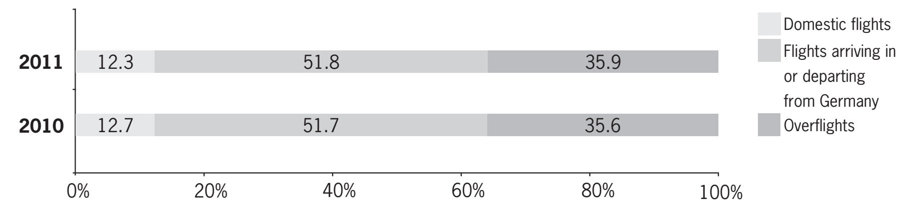
In 2010, air traffic in Germany was impacted by significant cancellations caused by the ash cloud, strike activity in Europe and Germany as well as severe winter weather. Traffic growth recovered in 2011. The Arab Spring and the associated political unrest negatively affected the European route system, meaning that growth in air traffic was slow although overall economic conditions were favourable. The number of civil IFR flights in Europe increased by 3.1 percent in 2011. The growth in air traffic in the first half of 2011 was adversely affected by the political unrest in North Africa, the nuclear catastrophe in Japan, the eruption of the volcano Grimsvötn and high oil prices. As a result of the commissioning of the new tower in Frankfurt, the available capacity was further reduced for a short period.

In January 2011, the air transport tax was introduced. As a consequence, passenger numbers declined significantly, particularly at small airports with a high percentage of low-cost carriers. Overall, however, the favourable overall economic environment led to growth in air traffic of 5.6 percent in the first half of the year. Nevertheless, it must be kept in mind that this reported growth rate is artificially high. This is due to the statistical base effect resulting from the high number of cancellations after the eruption of the Icelandic volcano Eyjafjallajökull in 2010. The beginning of the second half of the year saw a depressed economy with a resulting decline in air traffic. The International Air Transport Association (IATA) reported a loss of confidence within the sector brought about by the worsening business climate and the decline in consumer confidence. Furthermore, international trade was weak and fuel prices were high. Overall, air traffic rose by only 0.6 percent in the second half of the year.

In Germany, the number of flights under instrument flight rules (IFR) recorded in 2011 rose by a total of 3.0 percent over the previous year.

IFR flights in Germany	2011	2010
Total	3,060,225	2,971,375
Compared with previous year (%)	**+3.0**	**+1.5**

Distribution of IFR flights (%)



The volume of civil air traffic increased by 3.3 percent over the previous year. In contrast, the volume of military air traffic dropped by 12.9 percent.

Results of operations

Development of the unit rates

DFS revenues in the business year 2011 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.

En-route area:

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:

En-route:

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

Development of service units – en-route	2011	2010
Total	12,657,524	12,201,835
Compared with previous year (%)	**+3.7**	**+2.4**

The national unit rate for en-route charges comprises air-traffic-related cost elements of DFS; the German Meteorological Service (DWD); EUROCONTROL, the Maastricht Control Centre, the national supervisory authority (Federal Supervisory Authority for Air Navigation Services – BAF) and the Air Navigation Services Division of the Federal Ministry of Transport, Building and Urban Development.

En-route unit rate (EUR)	2012	2011	2010	2009	2008	2007
Total	74.19	71.84	68.86	67.02	64.77	67.21
DFS share	60.41	58.24	54.39	53.30	51.29	53.10
Compared with previous year (total, in %)	**+3.3**	**+4.3**	**+2.7**	**+3.6**	**-3.6**	**+6.5**

In 2011, the national unit rate for en-route services rose by about 4.3 percent. The increase from the year 2012 is due to the increased training of operational staff and the higher costs for salaries resulting from collective agreements concluded and for company pensions. The DFS share of costs of the en-route unit rate amounts to approximately 81 percent. More information on the future development of the en-route unit rate from 2012 as part of the EU-wide regulation can be found in the Outlook.

Terminal services:

For terminal services, a service unit is the quotient obtained by dividing by fifty the maximum take-off weight, expressed as a figure taken to two decimal places, to the power of 0.7.

Definition of service units:

Arrivals/departures:

$$\left(\frac{\text{max. take-off weight in tonnes}}{50}\right)^{0.7}$$

Development of service units – terminal services	2011	2010
Total	1,327,797	1,272,339
Compared with previous year (%)	**+4.4**	**+13.4**[1]

[1]Since 1 January 2010, there has been a new formula for calculating service units, which influenced the increase in 2010.

The unit rate for terminal services comprises air-traffic-related cost elements of DFS; of the German Meteorological Service (DWD); of the national supervisory authority (Federal Supervisory Authority for Air Navigation Services (BAF) and of the Air Navigation Services Division of the Federal Ministry of Transport, Building and Urban Development, in keeping with the EU regulations concerning the provision of air navigation services.

Terminal unit rate (EUR)	2012	2011	2010	2009	2008	2007
Total	171.29	163.05	162.54	167.78	162.34	160.07
DFS share	165.70	155.76	154.33	160.80	154.24	151.02
Compared with previous year (total, in %)	**+5.1**	**+0.3**	**-3.1**	**+3.4**	**+1.4**	**+11.3**

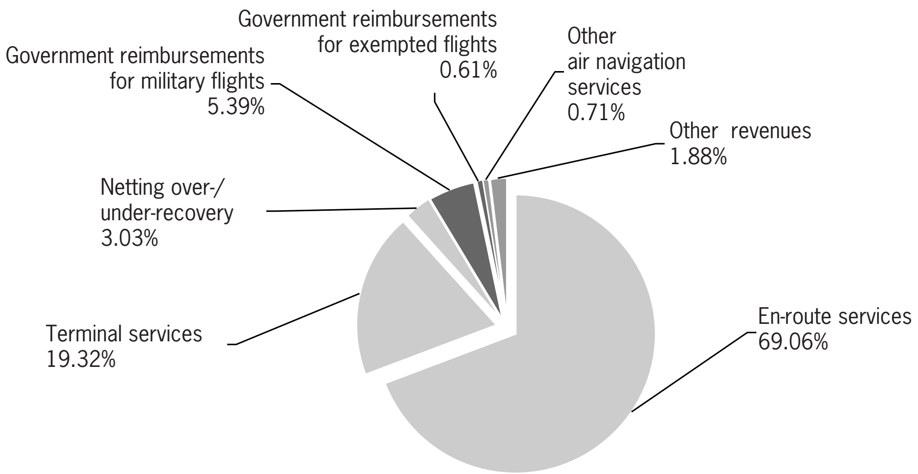
The 2011 unit rate for terminal services remained more or less constant compared with the previous year. The rise from 2012 resulted primarily from salary increases arising from collective agreements, the higher costs for company pensions as well as the build-up of operational personnel. The DFS share of costs of the national unit rate for terminal services amounts to approximately 97 percent.

Revenues

In the 2011 business year, DFS revenues rose compared with the previous year to €1,070.3 million.

Revenues (€m)	2011	2010	2009	2008	2007
Total	1,070.3	977.7	977.8	914.6	904.1
Compared with previous year (%)	**+9.5**	**+-0.0**	**+6.9**	**+1.2**	**+3.3**

Revenue breakdown (%)
(includes result component from netting over-/under-recovery)



Revenues from air navigation services increased from €959.4 million to €1,050.2 million after netting the 2009 under-recovery and taking into account the 2011 over-recovery.

Revenues from en-route charges (€m)	2011	2010	2009	2008	2007
Total[2]	739.1	665.3	629.9	649.9	654.5
Compared with previous year (%)	**+11.1**	**+5.6**	**-3.1**	**-0.7**	**+13.0**

In 2011, the growth in revenues from en-route charges was due primarily to the roughly 3.7 percent rise in the number of service units and the development of unit rates. In particular the mainstream air carriers, such as Lufthansa and Air France-KLM, conducted more flights in 2011. On the other hand, the number of flights by airlines in the low-cost sector, such as Air Berlin and Ryanair, declined.

Revenues from terminal charges (€m)	2011	2010	2009	2008	2007
Gross	207.4	196.8	188.9	194.0	188.7
Reimbursements paid[3]	0.6	0.5	7.7	9.5	10.7
Net	206.8	196.3	181.2	184.5	178.0
Compared with previous year (net, in %)	**+5.3**	**+8.3**	**-1.8**	**+3.7**	**+9.5**

In 2011, the growth in revenues from terminal charges was due primarily to the roughly 4.4 percent rise in the number of service units. The important international airports of Munich, Frankfurt, Berlin-Tegel and Düsseldorf reported significant growth, while the economically less significant airports of Bremen, Saarbrücken and Berlin-Schönefeld reported a decline in traffic.

Revenues from government reimbursements (€m)	2011	2010	2009	2008	2007
Military operational air traffic	57.7	55.4	60.8	57.7	56.3
Exempted flights	6.5	6.5	6.5	5.5	5.4
Total	64.2	61.9	67.3	63.2	61.7
Compared with previous year (%)	**+3.7**	**-8.0**	**+6.5**	**+2.4**	**+4.0**

[2] Since 1 January 2007, the share of charges to be reimbursed to the German government is no longer remitted by DFS but directly by EUROCONTROL. 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).

[3] Since 2010, the air-traffic-related cost elements of the German Meteorological Service (DWD) have no longer been considered in the revenues of DFS. The air-traffic-related cost elements of the Federal Supervisory Authority for Air Navigation Services (BAF) remain.

Government reimbursements to DFS for military flights contain services from the Maastricht unit. The exempted flights relate to the provision of services for en-route flights under visual flight rules.

Revenues from other air navigation services (€m)	2011	2010	2009	2008	2007
Notices to Airmen (German-language publication)	3.6	2.8	2.9	2.9	3.2
Flight inspection services	3.1	2.9	2.5	2.3	2.3
Other air navigation services	0.9	0.4	0.3	0.2	0.4
Total	7.6	6.2	5.7	5.4	5.9
Compared with previous year (%)	**+22.6**	**+8.8**	**+5.6**	**-8.5**	**+9.3**

Other revenues (€m)	2011	2010	2009	2008	2007
Total	20.1	18.2	17.2	22.4	19.4
Compared with previous year (%)	**+10.4**	**+5.8**	**-23.2**	**+15.5**	**-8.1**

Other revenues were generated primarily from consulting and personnel services, apron management services and training services.
Within other air navigation services and other revenues, commercial services made up 81.9 percent, generating revenues of €22.7 million (previous year: €19 million).

Other operating income

Other operating income (€m)	2011	2010	2009	2008	2007
Total	38.4*	29.7	33.1	54.4	34.1
Compared with previous year (%)	**+29.3**	**-10.3**	**-39.2**	**+59.5**	**-8.3**

* Due to a reclassification carried out in 2011, the disclosures are not directly comparable with the previous year. More information can be found in the Notes under "Changes in comparative information".

Other operating income primarily comprises the following:
- ■ Reversal of provisions (€10.0 million)
- ■ Project-specific funding of the European Commission (€5.9 million)
- ■ Reversal of provisions from the QTE cross-border transaction (€5.3 million)
- ■ Derecognition of liabilities (€4.7 million)
- ■ Reimbursement of costs of the business year and of previous years (€4.0 million)
- ■ Energy sales (€2.4 million)

Principal cost categories

Employee expenses (€m)	2011	2010	2009	2008	2007
Total	701.9	625.8	608.1	590.0	554.5
Thereof wages and salaries	550.3	527.6	485.7	462.2	407.0
Thereof social security costs and expenses for pensions and assistance	130.2	78.7	96.0	102.4	118.8
Thereof cost of personnel belonging to the Federal Aviation Office (LBA)	21.3	19.5	26.4	25.4	28.7
Share of total costs (%)	72.5	71.4	70.4	69.7	67.9
Compared with previous year (%)	**+12.2**	**+2.9**	**+3.1**	**+6.4**	**-2.2**

The change compared with the previous year is primarily due to the growth in the numbers of air traffic controllers undergoing initial training and changes to the discount rate used for occupational pensions. Interest of €98.0 million accruing from provisions for pensions and early retirement is charged to the financial result. The return on plan assets (€53.1 million) is credited to the financial result.

Other operating expenses (€m)	2011	2010	2009	2008	2007
Total	155.0*	144.9	133.8	142.8	135.4
Share of total costs (%)	16.0	16.5	15.5	16.9	16.6
Compared with previous year (%)	**+7.0**	**+8.3**	**-6.3**	**+5.3**	**+3.2**

* Due to a reclassification carried out in 2011, the disclosures are not directly comparable with the previous year. More information can be found in the Notes under "Changes in comparative information".

Other operating expenses primarily comprise the following:
- ■ Spare parts and maintenance (€44.1 million)
- ■ Rental, leasing and occupancy costs (€35.4 million)
- ■ Costs of external personnel (€15.0 million)
- ■ Legal and consultancy costs (€9.3 million)
- ■ Other employee expenses (€8.9 million)
- ■ Travel costs (€8.2 million)

Depreciation and amortisation (€m)	2011	2010	2009	2008	2007
Total	102.5	100.8	116.3	109.5	122.5
Share of total costs (%)	10.5	11.5	13.5	12.9	15.0
Compared with previous year (%)	**+1.7**	**-13.3**	**+6.2**	**-10.6**	**+3.4**

Result

In 2011, DFS realised net income of €79.6 million (previous year: €104.8 million). The operational under-recovery amounted to €39.7 million (previous year: over-recovery of €12.8 million).

Net income (€m)					
	2011	**2010**	**2009**	**2008**	**2007**
Total	79.6	104.8	99.4	49.6	41.8
Compared with previous year (%)	**-25.2**	**+5.4**	**+100.4**	**+18.7**	**+143.0**

When judging the result, it must be taken into account that the revenues contain an amount of €41.6 million (previous year: €21.6 million) arising from the conversion of the cost-base to International Financial Reporting Standards in 2007, the effects of which are to be allocated over a 15 year period.
The principles governing air navigation charges laid down by ICAO and EUROCONTROL continue to 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. According to these principles, the operational under-recovery is carried forward at the end of the 2011 business year and will be taken into account when determining air navigation charges for the year 2013.

Assets and financial position

Capital expenditure

In the 2011 business year, capital expenditure totalled €120.8 million. The following projects are currently under way and represent the highest share of capital expenditure:

- Extension to the Munich Control Centre: This extension 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). Space is required for operations and equipment rooms as well as the associated supply installations.

- Voice switching system ISIS-XM in Langen: As part of the LASER project, the voice switching system in Langen is being replaced. DFS operates a voice switching system of the same type in Bremen and Karlsruhe. This system type is to be installed in all DFS control centres in the future to achieve a homogeneous system landscape through the use of one product family. By using a uniform user interface and concept, training time and expenses will decline and the conditions prepared for the transfer of services (e.g. consolidating control centres at night) and for new contingency[4] concepts.

- 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.

- VAFORIT software extension: Further development of the new air traffic management system for upper airspace, which was put into operation in December 2010. P1/VAFORIT is fully stripless and replaced the old system KARLDAP.

- RASUM 8.33: The project RASUM 8.33 implements the resolution taken by the ICAO EANPG 48 in November 2006. RASUM 8.33 involves the upgrade of 95 DFS radio stations to the 8.33 kHz channel spacing including the necessary structural and infrastructural measures. The introduction of the 8.33 kHz channel spacing in lower airspace is to cater for future air traffic growth.

- Rehosting P1/ATCAS hardware and software: The rehosting of P1/ATCAS ensures the lifecycle of P1/ATCAS. The P1/ATCAS software is ported on Linux using Intel-compatible hardware.

- ILS Frankfurt: The ILS to ensure all-weather operations on the new runway in the north-western part of the airport.

- Construction of the Langen technical centre: Construction of a technical centre for the set-up of ATC test and reference installations as well as the housing of the administrative computer centre.

- Arrival and departure system (MLAT) for Frankfurt Airport: The goals of the project Precision Approach Monitoring – Frankfurt are to boost the performance of the surveillance data processing and display (e.g. in P1/ATCAS, Phoenix-CC and SDR), particularly as regards the target update rate of the surveillance of arrivals and departures in Frankfurt, thus supporting the high safety standards as the traffic volume grows, through the early recognition of planned and unplanned manoeuvres of aircraft. A continued optimal exploitation of capacity through the improved use of existing separation minima under instrument meteorological conditions (IMC) is thus ensured.

- Mode S for Berlin-Brandenburg: The new airport in Berlin, Berlin Brandenburg International (BBI), is scheduled to open in June 2012. At the moment, there is only one radar facility with Mode S capability in Berlin-Tegel. To meet operational requirements, two sensors with Mode S capability will be needed. A second radar facility is required to ensure a Mode S service (use of the conspicuity code 1000) in a timely manner for the opening of the airport.

In the 2011 business year, assets under construction worth a total of €40.0 million were completed. The main projects included:

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

- Voice switching system ISIS-XM in Munich: As part of the MUSE project, the voice switching system in Munich is being replaced. DFS operates a voice switching system of the same type in Bremen and Karlsruhe. This system type is to be installed in all DFS control centres in the future to achieve a homogeneous system landscape through the use of one product family. By using a uniform user interface and concept, training time and expenses will decline and the conditions prepared for the transfer of services (e.g. consolidating control centres at night) and for new contingency concepts.

[4] Securing ATC operations in emergencies

Special items impacting assets
The group financial statements of DFS as at 31 December 2011 were prepared in accordance with European regulations for air navigation service providers and the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB). The regulations are to ensure better comparability of data between European air navigation service providers. DFS has implemented the required reconciliation of the cost-base for air navigation charges from the German Commercial Code (HGB) to IFRS as at 1 January 2006 (IFRS opening balance sheet). The resulting differences were recognised directly in equity. These are 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. As of 31 December 2011, DFS thus has negative equity amounting to minus €66.5 million. By fully considering the effects arising from the conversion of the cost-base to International Financial Reporting Standards which are to be distributed, equity would amount to a positive value of €498.1 million as of the balance sheet date on 31 December 2011. A detailed reconciliation can be found in Note 23.

Balance sheet structure
In 2011, the balance sheet total increased by 4.2 percent to €1,116.8 million (previous year: €1,061.2 million). On the assets side, the increase is primarily due to the rise of around 5.8 percent in capital expenditure on intangible assets and property, plant and equipment, which exceeded the amount of depreciation and amortisation, as well as the rise in other non-current assets from the capitalisation of the under-recovery 2011. As regards liabilities and equity, this rise was primarily due to the positive change in equity. DFS was able to considerably improve the negative equity situation by 51.3 percent through the net income earned. The decline in long-term borrowings by 5.3 percent was brought about by the change to pension provisions and other provisions. Pension provisions decreased by 4.4 percent after netting against the associated plan assets and adjustments due to non-realised actuarial losses. Other provisions went down by 15.5 percent. Short-term borrowings grew by 12.1 percent due to higher other provisions and trade payables. Net financial indebtedness amounted to €145.3 million at 31 December 2011, the leverage ratio at the balance sheet date thus amounted to 13.1 percent. Interest expenses, driven primarily by pension obligations, were higher than interest income by €55.3 million.

Balance sheet indicators	2011	2010	2009
Net financial indebtedness (€m) (Financial liabilities – liquid funds)	145.3*	89.5	99.7
Leverage ratio (%) (Net financial indebtedness/balance sheet total)	13.1*	8.4	10.4
Asset intensity (%) (Non-current assets/balance sheet total)	75.8	74.7	84.0

* Due to a reclassification carried out in 2011, the disclosures are not directly comparable with the previous year. More information can be found in the Notes under "Changes in comparative information".

Balance sheet indicators when fully considering conversion to IFRS	2011	2010	2009
Net financial indebtedness (€m) (Financial liabilities – liquid funds)	145.3*	89.5	99.7
Leverage ratio (%) (Net financial indebtedness/balance sheet total)	8.7*	5.3	6.0
Asset intensity (%) (Non-current assets/balance sheet total)	49.9	47.2	48.9

* Due to a reclassification carried out in 2011, the disclosures are not directly comparable with the previous year. More information can be found in the Notes under "Changes in comparative information".

More indicators can be found in Note 24.

Cash flow statement
Detailed information can be found in the cash flow statement and in Note 31.

Cash and cash equivalents at year-end are made up as follows:

Cash and cash equivalents (€'000) Cash inflow (+) / cash outflow (-)	2011	2010	Change (%)
Operating activities	121,425	58,210	108.6
Investing activities	-119,469	-86,608	37.9
Financing activities	-2,445	120,550	-102.0
Changes impacting cash flow	-489	92,152	-100.5
Cash and cash equivalent at the beginning of the year	85,152	-7,000	1,316.5
Cash and cash equivalent at the end of the year	84,663	85,152	-0.6

No payout was made to the Shareholder in the 2011 business year.

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. For 2011, the two leading agencies Standard & Poor's and Moody's awarded DFS the best possible credit ratings both short- and long-term area (A-1+/AAA, P1/Aaa). At the end of 2011/beginning of 2012, Standard & Poor's

reviewed the rating of the Federal Republic of Germany. Within the scope of this review, the rating of DFS as a government-related entity to the Federal Republic of Germany was placed under review. The confirmation of the best possible rating for the Federal Republic of Germany remained unchanged, as did the rating of DFS. Moody's is currently monitoring the consequences of regulation (see Outlook) on DFS and will review the rating after further analysis.

At year-end 2011, DFS had an issuing volume of bonds with a nominal value of €47.2 million with remaining terms of up to seven years as well as debenture loans of €175 million with remaining terms of up to nine 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 agreement 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 directly holds more than 50 percent of the shares.

Personnel

DFS employs non-exempt staff (covered by collective agreements), exempt employees (not covered by collective agreements), personnel of the Federal Aviation Office (LBA) working for DFS and soldiers released from regular service. Non-exempt employees come under a company collective agreement on the grading system, which was renegotiated in 2011. Exempt status for employees is characterised by the ability to negotiate contracts freely on an individual basis. These employees have target agreements. 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, who remain in an employment relationship with the Federal Government, still fall under the collective agreement for the public service (Tarifvertrag für den öffentlichen Dienst – TVöD). The collective agreements at DFS do not apply to these groups. DFS bears the relevant expenses.

Air traffic controllers (from the age of 55) and flight data specialists (from 59) receive transitional payments in the period before their formal 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 41 Organs of the company.

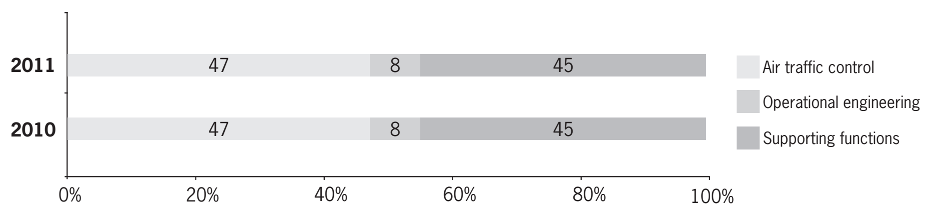
Motivated and qualified employees are an absolute must for the long-term success of DFS. This is why human resources management at DFS stresses a holistic approach, ranging from selection through development to retention, which is supported by HR policies aligned with different phases of life. This orientation improves the attractiveness of the employer and contributes to the economic performance of DFS. In 2011, DFS was involved in setting up a childcare centre in Langen, where DFS has its Headquarters. Places are available for our employees' children here, as they are at the other DFS branches. The individual work-life balance needs of our employees are fostered by health centres, seminars and further training programmes.

As at 31 December 2011, DFS had a total of 6,064 employees. The following table shows the changes in the number of employees at DFS:

Employees (as at 31 December)					
	2011	**2010**	**2009**	**2008**	**2007**
Permanent employees (Total)	**6,064**	**5,938**	**5,596**	**5,342**	**5,126**
Salaried staff	5,239	5,074	4,745	4,530	4,368
Soldiers released from regular service	259	263	268	267	272
Wage-earners	31	31	32	32	33
Technical/commercial students & apprentices	51	45	45	39	42
Air traffic control trainees	189	213	175	112	27
Personnel belonging to the Federal Aviation Office (LBA)	295	312	331	362	384
of which established civil servants	(227)	(240)	(255)	(280)	(295)
of which non-exempt employees	(68)	(72)	(76)	(82)	(89)
Compared with previous year (%)	+2.1	+6.1	+4.8	+4.2	-0.8
Share of female employees (%)	26.0	27.0	26.0	26.0	26.0
Share of foreign employees (%)	4.3	4.3	3.9	3.1	2.6

The increase in the workforce is the result of the demand for air traffic controllers. A further factor is primarily the increased recruitment of technicians and engineers to meet the higher demands placed on operational systems as well as systems still under development.

Employees by area of duties (%)



There were 611 part-time employees – 416 women and 195 men. The share of part-time employees declined by 5 percent over the previous year. Foreign employees come mainly from the USA and the United Kingdom, followed by Austria and Spain. Overall, 47 nations are represented. The age structure of staff is well balanced, with the average age being 41 years. The average age for men is 42, while the average female employee is 39 years old. The turnover rate – which only considers employees who leave DFS voluntarily – was 2.1 percent in 2011. The subsidiary The Tower Company GmbH had a staff of 40 at the end of December. This number includes 27 qualified or trainee air traffic controllers. For many years, DFS has been offering traineeships to job starters.

Numbers beginning training at DFS		
	2011	**2010**
Total	**180**	**247**
Air traffic controller	136	197
Flight data specialist	24	24
Dual system studies/apprenticeship	20	20
Compared with previous year (%)	**-27.1**	**+96.0**

DFS currently offers places under the dual study system, which combines periods of study with interlocking periods of structured work experience at DFS, leading to a Bachelor of Engineering (Information Technology, majoring in telecommunications and computer science), Bachelor of Science (computer science), and Bachelor of Arts (Aviation Management). In the next few years, DFS will continually expand the number of positions available for these courses. This is the reaction of DFS to the growing demand for qualified staff. As these staff are trained internally, they will, in all likelihood, take on duties in the company on completion of their training. In 2012, DFS will recruit 197 air traffic controllers, 19 flight data specialists and 20 apprentices/students.
In 2013, it is expected that 184 traineeship places for air traffic controllers, 16 for flight data specialists as well as further trainee and college places (dual education system) will be made available.

HR marketing activities started or continued in 2011 pursue the goal of improving the presence of DFS on the labour market, increasing the awareness of DFS, improving its employer image as well as ensuring the fast, sustainable and cost-effective recruitment of qualified and motivated new staff in sufficient numbers. As well as intensive work with colleges and upper secondary schools, including excursions and guest lectures, DFS is also increasing its presence on social networks.

The success of these HR marketing measures was demonstrated in 2011 when DFS won an award as one of the employers of choice in a survey of 1,000 students and graduates.

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. Excellent personnel and tried-and-tested technology as well as technological and operational innovations are crucial in this regard. DFS therefore collaborates in national and international research projects and promotes and markets innovative developments. A total of approximately 3.0 percent of the costs and 202 staff posts were allocated to research and internally generated developments. These costs were partially offset by grant funding of approximately €5.9 million awarded by the German aeronautical research programme and the European research framework programmes, including SESAR . The activities funded on a national basis focus on optimising busy airports and their vicinity.

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.

Supplementary report
In a resolution of the Supervisory Board dated 31 January 2012, it was decided not to extend the contracts of all DFS Managing Directors beyond 2012. The appointment of the new Board of Managing Directors will also see a change in the allocation of duties between the individual Board Members. Since 1 January 2012, DFS has been subject to EU Regulation No 1191/2010 laying down a common charging scheme for air navigation services (see Outlook). In a press release dated 29 February 2012, the rating agency Moody's reduced the rating for DFS from Aaa to Aa3 against the background of the regulation regime which came into force from 2012 (see Outlook). This step was justified by the transition from the full cost recovery approach to a system of regulated charges for en-route services when levying charges. Moody's judges the support of the Federal Republic of Germany and therefore the value of a federal authority more highly than a State-owned enterprise subject to regulation.
In view of the special importance of DFS for aviation in Europe, Moody's is nevertheless convinced that the Federal Republic of Germany would support DFS in a crisis. A further downgrading of the rating of DFS is thus not indicated. The downgrading by Moody's led to a trigger event under the existing QTE agreement (see Risk Report). Standard & Poor's kept its rating unchanged, awarding its highest rating AAA with a stable outlook.

Compliance
The State-owned DFS Deutsche Flugsicherung GmbH is entrusted with sovereign tasks of public service. It is subject to the Public Corporate Governance Code of the Federal Government. Under Item 4.1.2 of the Code, the Board of Managing Directors has to ensure the adherence to legal provisions and corporate guidelines and also ensure that group companies do the same. DFS has therefore set up a Compliance Management System which, together with the risk management system and the internal control system for accounting and financial reporting, represents the three pillars of the corporate structure for risk management. Regular reports on compliance topics are made to the Board of Managing Directors and the Supervisory Board.

Risk report
DFS uses a comprehensive set of 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 applications 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, infrastructure
2. Finance: e.g. costs, financial markets, customers/suppliers

3. Management: 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 the commercial services. Possible risks for DFS from subsidiaries are included. Business risks at subsidiaries are reported in direct contact between their boards and their supervisory organs. Risks are assessed based on an 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 from the prior period and all reports that were no longer judged as risks 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 independent Risk and Contract Management department with the central implementation of the risk management system in the company. The main duties include the methodological 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. 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.

Material risk areas

Insured risks

DFS has taken out insurance to cover common insurable risks, including those of subsidiaries where DFS has a direct majority shareholding. The insurance specifically 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 liability, 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 air navigation charges, the market risks known at the time of planning are included in the unit rate. The threat of terrorist attacks and the conflict potential in the Middle East still pose unforeseeable risks for the development of air transport. In particular political unrest in North Africa could adversely impact the growth of the airline sector. At the moment, there are no additional conflicts or pandemics which hinder traffic growth.

In Germany, the air transport tax has been in force since the beginning of 2011. This law (Luftverkehrssteuergesetz - LuftVStG) governs the levying of a tax that passengers are liable to pay when departing from a domestic German airport. The Federal Government expects tax income of around €1 billion a year from this tax. Overall, this passenger-based air transport tax increases the costs for the entire air transport industry. According to forecasts from the ADV, the German Airports Association, this will cause demand to slow down by up to 5 million passengers in 2011.

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 forecast quantitatively in advance, however. Europe's airlines fear a severe distortion of competition, as China, Russia and the United States are resisting the EU plans to demand emission certificates from their airlines. Several US airlines brought a case before the European Court of Justice protesting the inclusion of aviation in the EU emissions trading scheme. However, in the opinion of the European Court of Justice in a judgement of 21 December 2011, the compulsory participation of airlines in the trading scheme is lawful. According to the judgement handed down, non-European airlines also have to participate in the European emissions trading scheme from January 2012.

The German Federal Ministry of Finance may, in consultation with the German Federal Ministry of the Environment, reduce the rate of the air transport tax depending on the income from the emissions trading scheme. This may happen without the approval of the German Bundesrat. To what extent the Ministry of Finance will actually avail of this right is uncertain.

Kerosene prices continue to remain at a high level. Industry experts no longer reckon with a sustainable decline in the medium term. Rises in the oil price are mostly passed on directly to customers in the form of higher air fares. Changes to the European regulatory situation are leading, inter alia, to a departure from full cost recovery and the start of economic regulation. DFS may thus be exposed to new regulatory risks that will primarily be reflected in a cost risk as well as a traffic volume risk (see Outlook). Warranty obligations from the commercial business are managed as part of a contract-related quality management.

Corporate strategy risks
Corporate strategy risks arise primarily from misjudgements of future market developments and environmental conditions and the resulting misalignment of corporate activities with negative consequences for the earnings position.

The development of air traffic can only be influenced by DFS to an extremely limited extent. For this reason, the development of air traffic is analysed in detail and forecast. Starting from the vision of DFS with its long-term focus, group and business strategies are adjusted annually and implemented in a consistent manner in a rolling strategic planning process based on an intensive and comprehensive environmental analysis and an investigation of market chances (see also Outlook). Strategic planning thus gives us stability and orientation in the light of the changes that the company will face in the coming years. To give an example – air navigation services are increasingly taking on a European perspective as shown by the creation of functional airspace blocks, the introduction of economic regulation from 2012 and the harmonisation of air traffic management systems in terms of interoperability.

The continued development of the company is ensured by close cooperation between the Board of Managing Directors, the Supervisory Board and the heads of the business areas. Against this background, corporate strategy risks are judged to be low.

Performance-related and IT risks
The top priority for 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, a variety of measures are taken at all levels of planning, implementing and operating 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 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 to ensure 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 specialists and executives. A main area of focus are in particular the target groups of trainee air traffic controllers and graduates of IT, mathematics, physics, engineering and engineering management courses. DFS employs a comprehensive portfolio of measures to find suitable new employees in an ever tighter market for applicants. The number of places for training new air traffic controllers remained constant at a high level to counter staff shortages.

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

The objective of risk management is to mitigate and/or minimise 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 2011, the cumulative loss at a confidence level of 95 percent amounted to under €3,074 thousand (previous year: €4,308 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$8.5 million in the reporting period (previous year: US$6.5 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 2011, 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. From 2012, DFS anticipates potential material interest rate risks from the modified treatment on the balance sheet of defined benefit plans that are reinsured. DFS has developed an approach to dampen and distribute these effects for the calculation of charges (see Outlook).

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

Liquidity risk
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 creditworthiness, a syndicated loan agreement 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. DFS demands security deposits from customers with relevant sales volumes when defined warning thresholds are exceeded. The maximum default risk is reflected in the carrying amounts of the financial assets recognised on the balance sheet.

Currently, there does not appear to be any default risk stemming from the cross-border leasing transaction (QTE lease). Since the end of 2011, DFS has been conducting negotiations with investors with the aim of reaching a mutually agreed termination of the QTE transaction. A declaration of intent has already been signed. DFS therefore assumes that there will be a significantly lower liquidity risk stemming from this transaction.

Risk arising from the downgrading of the rating of DFS
DFS is subject to risks that could result from the downgrading from the best possible ratings by the two agencies Standard & Poor's and Moody's. As detailed in the supplementary report, Moody's downgraded the rating of DFS to below that of the Federal Republic of Germany at the beginning of 2012. The rating downgrading counts as a trigger event for the existing QTE agreement. This entitles investors to demand more security. In view of the advanced negotiations on the mutually agreed termination of the QTE transaction, the Board of Managing Directors assumes that at least the main investor, Wells Fargo, will not demand the provision of security. At the moment, it cannot be predicted if the other investors will demand security. The Board of Managing Directors is striving to fully terminate this agreement in a timely manner. A further downgrading by a rating agency could lead to a fundamental deterioration of the finance management conditions and make the taking on of finance more difficult. Especially due to the unchanged highest rating from Standard & Poor's and the stable outlook from Moody's, DFS does not believe that the previously described consequences will occur.

Characteristics of the internal control and risk management system as regards accounting and financial reporting
The internal control and risk management system implemented at DFS as regards accounting and financial reporting 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 by adhering to international and national accounting and disclosure standards as well as by adhering to the applicable European and national statutory provisions covering air navigation charges, tax and corporate law and German principles of proper accounting.

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 administered outside of the Finance department.

The statutory regulations and the regulations laid out in the Articles of Association are supplemented in all departments by detailed internal instructions. These include the mandatory provisions laid down in internal accounting handbooks, guidelines and orders that reflect IAS/IFRS, the German Commercial Code and tax law. These provisions are constantly updated and revised as necessary. Special issues due to complex, one-off and non-routine transactions are also governed by decisions on their accounting treatment. Our internal accounting standards are based on special European regulations tailored to the business model used at DFS. Cost-efficiency is reviewed and there is a separation between the tasks financed by air navigation charges and 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 constant and standardised information to the Supervisory Board. Early warning signals are defined for variances, with whose support the risks from the ongoing business are counteracted systematically.

The preparation of the annual and group financial statements is an organised process coordinated by a central department. To ensure the completeness and correctness of the processed information, a detailed procedural plan as well as standardised information and request methods and checklists tailored to DFS are used. To ensure an optimal exchange of information, all those involved in the process participate in regular coordination rounds. The staff members involved in the accounting and financial reporting receive regular training. There is a clear separation of duties among those involved in preparing the annual and group financial statements. This separation of functions and segregation of duties are strictly applied. Complex actuarial expertises and valuations are drawn up by specialised external providers. Any advances in knowledge gained are used to continuously improve the efficiency, transparency and reliability of the process. The external auditors participate in the consultations of the Supervisory Board and report on the results of their audit.

The interlocking instruments described above provide DFS with an internal control and risk management system for accounting and financial reporting which ensures a true and fair view of the actual assets, liabilities, financial position and profit or loss of the group. Conscious or unconscious erroneous actions are thus avoided to a large extent and discovered with a high degree of probability. Complete security cannot be guaranteed despite the highest possible level of care.

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 Board of Managing Directors expects the following material influencing factors to centrally impact the future development of DFS. The following statements are based on the expectations and assumptions at the time the management report was drawn up.

1. Single European Sky (SES):
DFS is pressing ahead with the work that it started in recent years to get ready for the changing framework conditions in Europe. In this connection, the initiative of the European Commission on forming and administering a single cross-border European sky (SES) represents a significant factor. In the future, Europe's air traffic management will be aligned with traffic flows regardless of national borders, which will further boost the capacity and service quality in the airspace.
This initiative is being pushed ahead by numerous States. Together with the Benelux States, France, Switzerland and the EUROCONTROL Control Centre in Maastricht, Germany is actively participating in implementing this project. In December 2010, the Ministers of Transport and high-level military representatives from Germany, Belgium, Luxembourg, the Netherlands, France, and Switzerland signed the FABEC Treaty. The Treaty is expected to be ratified in 2012. DFS expects that the implementation of this Treaty will provide significant momentum for the progression of this European Commission initiative.

Within the scope of the passing of the SES II package, Regulation 691/2010 and Regulation 1191/2010 introduced a performance scheme for air navigation services and network functions from 2012. Regulation 691/2010 lays down a performance scheme for air navigation services and network functions (formerly Regulation 2096/2005) and Regulation 1191/2010 lays down a common charging scheme for air navigation services (formerly 1794/2006). The goal is the enhanced performance of air navigation services and network functions in the Single European Sky. The performance scheme has mandatory performance goals for predefined periods (reference periods) at the European level for the areas:

- Safety
- Capacity
- Environment
- Cost-efficiency

The performance scheme is supported at the FABEC level by the planned effective use of civil-military airspaces.

Single European Sky ATM Research (SESAR):
DFS supports the European requirements for the modernisation of the air traffic management network through its participation in the SJU project by jointly developing technologies and procedures that are fit for purpose with its partners.

2. Strategic orientation of DFS:
In the light of these exogenous factors, DFS is adjusting its strategic orientation and has set up strategic business fields. Each of these forms a market-product combination. This strategic approach allows a group-wide view of the markets that DFS wants to be active in and also bundles all products and services for the respective market in one strategic business field. With this modified strategic approach, DFS is concentrating on the markets and products of the future. DFS is creating the conditions for its successful future development in the increasingly regulated business financed by air navigation charges as well as in its commercial activities.

Development of the economy
Most economic institutes have revised their 2012 economic forecasts for Germany downward. This forecast is based on the sovereign debt crisis, which has led to large-scale austerity programmes in many countries and a deep scepticism regarding future developments. As a consequence, capital expenditure and consumer spending are being postponed, leading Germany into a downward spiral that threatens a slide into recession. The growth of the German economy already levelled off over the course of 2011. In their autumn forecast, the participating economic research institutes predicted that real gross domestic product in 2012 would only increase by 0.8 percent. The Federal Government also anticipates economic growth of only 0.7 percent in its Annual Economic Report for 2012.
The International Air Transport Association (IATA), which represents around 230 airlines worldwide, expects a year of losses for the aviation industry. The weakening economy and rising costs, including those caused by the European emissions trading scheme for aviation, are adversely impacting the situation according to the association. In addition, should no long-term solution be found for the sovereign debt crisis, IATA is of the opinion that an international crisis is threatened in the air transport market.

On the other hand, in its medium-term outlook for 2012 to 2018 EUROCONTROL assumes a decline in traffic in Germany of around 0.4 percent for 2012, after the increase in traffic in 2011 of 3.0 percent. In the medium term, EUROCONTROL expects air traffic to increase in Germany, with an annual rise of around 1.9 percent for IFR flights until 2018.

Development of results and financial position
The results and financial position have been influenced primarily by changes in the legal framework conditions.

1. A conflict of norms between those governing the levying of charges and those governing the determination of results
DFS is now exposed to a material conflict of norms between the standards used to determine charges and the standards used to draw up the commercial and tax accounts. On the one hand, there are European regulations requiring the application of IFRS for the recognition and measurement of issues that impact charges and, on the other hand, commercial and tax regulations that require judge-

ments to be made that significantly deviate from those required by those same European regulations. This conflict forces DFS to report differences in the calculation of charges in both the commercial and tax accounts to ensure the presentation of the results and the financial position that reflects the actual situation. Legislation is required to ensure that the reporting of the financial statements and the regulatory requirements for the calculation of charges match each other in a timely manner. This would avoid results in the commercial and tax accounts that are materially damaging and which would otherwise result from this conflict of norms.

2. Shift from full cost recovery to regulation from 2012

In Regulation (EU) 1191/2010 of 16 December 2010, the financial provisions of the performance scheme (see Future company developments) were translated into a charging scheme. In particular, the European Commission has laid down risk-sharing mechanisms for traffic and cost risks as well as incentive schemes for the provision of air navigation services (area and approach control services). With the decision dated 21 February 2011, the European Commission has laid down the performance targets and alert thresholds for the whole European Union for the provision of air navigation services in the first reference period 2012 to 2014. The average EU-wide unit rate for en-route service is being reduced from €59.97 in 2011 to €53.92 in 2014 (in real terms, based on 2009). The regulation of the performance area cost-efficiency will begin from 2012 and the national supervisory authorities Europe-wide will lay down the respective unit rates for the en-route cost unit.

The German Federal Supervisory Authority for Air Navigation Services (BAF) has implemented this cost-efficiency target in a national performance plan and transmitted this to the European Commission on schedule. The national unit rate for en-route services corresponds with the requirements of the performance plan. At the time DFS drew up its contribution to the performance plan in spring 2011, it was assumed that there would be traffic growth in the first reference period. As a result of the latest financial crisis, the economic climate and, as a consequence, the air transport market deteriorated dramatically over the second half of 2011.

For DFS, the shift from full cost recovery to a performance-oriented charging structure for en-route services brings with it significant changes in the cost and revenue position. Currently, there are still issues concerning interpretation and application which could have considerable influence on the future development of the company's economic situation. From the point of view of DFS, there are material measurement, accounting and charging issues which have not been unequivocally resolved as of the date of the transition (31 December 2011/1 January 2012). In addition, a mandatory catalogue of qualifying uncontrollable costs is still missing. Such costs are to be borne in full by airspace users.

Based on the current regulations, DFS thus does not have the necessary planning reliability to make forecasting decisions beyond the first reference period. Although the legal situation stipulates that uncontrollable costs may be transferred to the next reference period, the Board of Managing Directors anticipates that these costs will have to be distributed over longer time periods, for reasons of the fairness of charging among other things. This will lead to considerable liquidity issues for the company. Independent of this, DFS is participating, within certain limits, in a share of the opportunities and risks stemming from the development of traffic from 2012.

Transfer of risks caused by traffic volume deviations

Deviation in traffic volume	DFS	Users
Up to 2%	100%	–
>2% up to 10%	30%	70%
From 10%	–	100%

At the same time, the end of the full cost recovery principle in en-route services exposes DFS to other opportunities and risks. Savings or additional expenses are no longer passed on to airspace users. Now a defined proportion directly impacts the results of DFS. The current forecast development in traffic volume for 2012 to 2014 sees a significant decline compared with the planning in spring, meaning that DFS now assumes there will be a considerable reduction in revenues. The general economic situation will be reflected in the results of DFS for the first time since the foundation of DFS.

3. Changes to IAS 19 from 2013

The changes to IAS 19 "Employee benefits" pose a special challenge for DFS. In particular, the impact of changes in interest rates used for occupational pensions can no longer be smoothed when the corridor approach is abolished from 2013. The immediate impact on the other result would therefore lead to more volatility in equity.

4. Special treatment of occupational pensions for the purpose of calculating charges

In view of the special significance of occupational pensions for the results and financial position, DFS has, in close coordination with the Federal Supervisory Authority for Air Navigation Services (BAF), modified the direct application of IFRS/IAS as the foundation for calculating charges. In the first reference period from 2012 to 2014, the company is using a uniform interest rate of 4.65 percent based on prudent commercial considerations.

This uniform rate is being used for the assets underlying the occupational pension scheme as well as for the discounting of the corresponding obligations. Because of IFRS/IAS regulations, the collective agreement concluded in 2011 will lead to a significant increase in the provisions for occupational pensions in 2012. This amount is not fully included in the performance plan for regulated charges for the years 2012 to 2014. Because of the transition from full cost recovery to regulation from 1 January 2012, these cost elements can no longer be completely transferred to 2013. The Board of Managing Directors assumes that these costs can be compensated through higher air navigation charges in the subsequent reference periods. The regulatory authorities have not yet taken a binding position on this issue. The Board of Managing Directors assumes that a solution will be found in a timely manner and that this solution will support DFS in its position as a leading air navigation service provider.

5. Increase in personnel in air traffic control and the negotiations with the German air navigation services union (GdF)

The required increase in staff numbers in air traffic control makes up a central influence on expenses in the next few years. The growth in staff numbers in this core element of the business is to avoid ATC-related capacity bottlenecks in national and international air traffic. In addition, DFS has to increase its investment in the training of air traffic controllers to improve the delay situation. This measure will counteract personnel shortages in some sectors and planned retirements due to age as well as meet the demand for air traffic controllers owing to the forecast rise in air traffic. In 2011, DFS concluded the collective bargaining with the German air navigation service union (GdF) covering compensation and grading that will lead to significant increases in staff costs. The collective agreement covering grading runs until the end of October 2016. Three other collective agreements can be terminated in 2012, namely the agreement covering remuneration (VTV); the agreement covering remuneration for apprentices (VTV-A) and the agreement covering allowances (ZTV). These three agreements could then be the subject of negotiations, the outcome of which cannot be forecast at this moment.

6. Developments in the environment
The positive expectations from the opening of the new runway at Frankfurt Airport have been dampened as a result of the night curfew currently in force. The new airport in Berlin, known as the Willy Brandt Airport, will not drive growth in the short term, but merely consolidate the traffic flows from the Berlin Schönefeld and Tegel airports, which are to be closed. In the medium term, Lufthansa's commitment to the Berlin location could drive growth.

7. Capital expenditure, financing and cost reductions
In the future, capital expenditure for air navigation systems to expand capacity and in the infrastructure at the international airports in Munich and Berlin will lead to generally higher charges for depreciation and amortisation. The evaluation process begun in the previous business year on the possible purchase of a significant stake in the British air navigation service provider NATS will continue to be pursued for strategic reasons.

The events on the capital markets continue to influence the financial situation. Moody's downgrading of the rating of DFS means that DFS cannot optimally exploit the current low interest rate level for its financing. On the other hand, the weak interest level on the capital markets is resulting in higher expenses from the discounting of provisions. At the same time, only low returns can currently be earned on the market on pension plan assets, which does not provide substantial help in limiting the trend to increasing staff costs. The Board of Managing Directors is taking targeted measures to counteract the cost risks coming from regulation. The cost-cutting programme focuses on limiting the planned rise in staff numbers, optimising capital expenditure and reducing project and general costs. In order to meet financial requirements, as a rule long-term securities can be issued within the scope of the existing capital market programmes and private placements. Depending on the market situation and funding requirements, refinancing options are also available in the short term.

Langen, 8 March 2012

The Board of Managing Directors
Dieter Kaden
Ralph Riedle
Jens Bergmann

Group statement of comprehensive income
for the period 1 January 2011 to 31 December 2011

	Note	2011 €'000	2010 €'000
Revenues	(6)	1,070,253	977,677
Changes in inventory and other own work capitalised	(7)	1,845	4,946
Other operating income	(8)	38,442	28,313
Total operating revenues and income		**1,110,540**	**1,010,936**
Cost of materials and services	(9)	-7,470	-4,635
Employee expenses	(10)	-701,875	-625,839
Depreciation and amortisation	(11)	-102,478	-100,791
Other operating expenses	(12)	-154,961	-143,488
Earnings before interest and taxes (EBIT)		**143,756**	**136,183**
Financial income	(13)	59,780	56,528
Financial expenses	(13)	-115,084	-101,396
Financial result	**(13)**	**-55,304**	**-44,868**
Profit (loss) before income taxes		**88,452**	**91,315**
Income taxes	(14)	-8,818	13,446
Net income	**(24)**	**79,634**	**104,761**
Of which attributable to the Shareholder of the parent company		79,634	104,761
Other result			
Items that can subsequently be reclassified in profit or loss:			
Change in the fair value of available-for-sale financial assets	(24)	-159	-161
Tax effects	(24)	-84	-129
Total other result	**(24)**	**-243**	**-290**
Of which attributable to the Shareholder of the parent company		-243	-290
Total result		**79,391**	**104,471**
Of which attributable to the Shareholder of the parent company		79,391	104,471

Group balance sheet
as at 31 December 2011

	Note	31 Dec 2011 €'000	31 Dec 2010 €'000
Assets			
Intangible assets	(15)	236,434	232,090
Property, plant and equipment	(16)	508,873	500,019
Investment property	(17)	903	933
Financial assets	(18)	35,032	34,799
Future receivables from construction contracts	(21)	0	1,081
Other receivables and assets	(19)	50,642	16,553
Deferred tax assets		6,291	7,087
Non-current assets		**838,175**	**792,562**
Inventories	(22)	5,026	5,054
Trade receivables	(20)	147,268	130,612
Future receivables from construction contracts	(21)	3,998	163
Other receivables and assets	(19)	24,746	31,039
Current income tax assets		2,188	16,613
Liquid funds	(23)	84,663	85,152
Current assets		**267,889**	**268,633**
Balance sheet total		**1,106,064**	**1,061,195**

Group balance sheet
as at 31 December 2011

	Note	31 Dec 2011 €'000	31 Dec 2010 €'000
Equity and liabilities			
Subscribed capital	(24)	153,388	153,388
Capital reserve	(24)	74,296	74,296
Retained earnings	(24)	-302,248	-381,882
Other reserves	(24)	-812	-569
Equity		**-75,376**	**-154,767**
Provisions for pensions and similar obligations	(25)	547,916	573,082
Other provisions	(26)	127,933	151,260
Financial liabilities	(27)	229,940	227,612
Trade payables	(28)	1,123	1,163
Other liabilities	(29)	50,533	57,089
Income tax liabilities		30,869	33,354
Non-current debt		**988,314**	**1,043,560**
Other provisions	(26)	38,189	24,328
Trade payables	(28)	41,471	34,824
Other liabilities	(29)	112,779	113,234
Income tax liabilities		687	16
Current debt		**193,126**	**172,402**
Balance sheet total		**1,106,064**	**1,061,195**

Group statement of changes in equity
for the period 1 January 2011 to 31 December 2011

	Subscribed capital €'000	Capital reserve €'000	Retained earnings €'000	Other reserves €'000	Total €'000	Of which attributable to the Shareholder of the parent company €'000
Note	(24)	(24)	(24)	(24)		
As at 1 Jan 2010	**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
Other result						
Change in the fair value of available-for-sale financial assets	0	0	0	-161	-161	-161
Tax effects	0	0	0	-129	-129	-129
As at 31 Dec 2010	**153,388**	**74,296**	**-381,882**	**-569**	**-154,767**	**-154,767**
Payment of dividend to Shareholder	0	0	0	0	0	0
Total result						
Net income	0	0	79,634	0	79,634	79,634
Other result						
Change in the fair value of available-for-sale financial assets	0	0	0	-159	-159	-159
Tax effects	0	0	0	-84	-84	-84
As at 31 Dec 2011	**153,388**	**74,296**	**-302,248**	**-812**	**-75,376**	**-75,376**

Group cash flow statement
for the period 1 January 2011 to 31 December 2011

	Note	2011 €'000	2010 €'000
	(31)		
Net income		79,634	104,761
Depreciation and amortisation expense		102,478	100,791
Income taxes		8,818	-13,446
Income from investments		-167	0
Losses (+) from the measurement of bonds		2,328	5,114
Gains (-) from the measurement of securities		-6	0
Gains (-) from asset disposals		-84	-1,001
Losses (+) from asset disposals		3,522	1,849
Increase (-) in other receivables and assets		-30,606	-18,559
Decrease (+) in deferred tax assets		713	1,799
Decrease (+) / increase (-) in inventories		27	-688
Increase (-) in trade receivables		-16,656	-7,317
Decrease (+) / increase (-) in current income tax assets		14,425	-14,123
Decrease (-) in provisions for pensions and similar obligations		-25,166	-44,074
Decrease (-) in other provisions		-9,466	-71,985
Decrease (-) / increase (+) in other liabilities		-17,813	56,396
Increase (+) / decrease (-) in trade payables		6,607	-11,136
Decrease (-) in income tax liabilities		-1,814	-15,635
Taxes received (+) / paid (-)		4,484	-14,536
Dividend received		167	0
Cash inflow from operating activities		**121,425**	**58,210**
Payments (-) for investments in intangible assets and property, plant and equipment		-120,387	-87,996
Payments (-) for investments in financial assets		-386	-27
Proceeds (+) from disposal of intangible assets and property, plant and equipment		1,304	1,415
Proceeds (+) from disposal of financial assets		0	0
Cash outflow for investing activities		**-119,469**	**-86,608**
Payments (-) for finance leases		0	-252
Principal payment (-) on financial liabilities (bonds)		0	-45,000
Taking on (+) of financial liabilities (debenture loan)		0	175,000
Payment (-) of dividend to Shareholder		0	-6,156
Interest result		3,905	1,649
Interest received		1,989	1,140
Interest paid		-8,339	-5,831
Cash outflow/inflow for financing activities		**-2,445**	**120,550**
Net change in cash and cash equivalents		**-489**	**92,152**
Cash and cash equivalents at the beginning of the year		85,152	-7,000
Cash and cash equivalents at the end of the year		**84,663**	**85,152**

Notes to the group financial statements 2011

(1) Legal basis
DFS Deutsche Flugsicherung GmbH 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.

The group management report contains more information on the object of the company and the activities of DFS.

(2) Application of accounting standards
DFS is required to prepare 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. Article 315a of The Accounting Law Reform Act (Bilanzrechtsreformgesetz) enacted the provisions of the EU Regulation in the German Commercial Code (HGB).

DFS prepared its group financial statements as of 31 December 2011 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 by the EU. 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 that were applicable by the balance sheet date.

These were supplemented by the applicable provisions of Article 315a, paragraph 1 of the HGB. On 8 March 2012, the Board of Managing Directors of DFS submitted the group financial statements to the Supervisory Board. The Supervisory Board reviewed and approved the group financial statements. In accordance with Article 325, paragraph 2a, no. 1 of the HGB, the Board of Managing Directors has made the group financial statements as at 31 December 2011 available via the electronic German Federal Gazette and from the website at www.dfs.de.

The business year at DFS corresponds to the calendar year (1 January to 31 December). The reporting currency used for the preparation of the group financial statements is the euro. Unless otherwise stated, all amounts are given in thousands of euros (units of currency). The common method of rounding was used.

(3) Scope of consolidation
DFS Deutsche Flugsicherung GmbH is the ultimate parent company of the DFS group. The scope of consolidation is made up as follows:

Abbreviation	Company	Registered seat	Shareholding in %
DFS	DFS Deutsche Flugsicherung GmbH	Langen, Germany	Parent company
Affiliated companies			
ESSP	DFS European Satellite Services Provider Beteiligungsgesellschaft mbH	Langen, Germany	100.00
U-Kasse (Benevolent fund)	DFS Unterstützungskasse GmbH	Langen, Germany	100.00
TTC	The Tower Company GmbH	Langen, Germany	100.00
Energy	DFS Energy GmbH	Langen, Germany	100.00
FCS	FCS Flight Calibration Services GmbH	Braunschweig, Germany	55.00
Investments			
GroupEAD	GroupEAD Europe S.L.	Madrid, Spain	36.00
BILSODA	BILSODA GmbH & Co. KG	Pullach, Germany	24.90
Investments through affiliated companies			
Investments through DFS European Satellite Services Provider Beteiligungsgesellschaft mbH:			
ESSP EEIG	European Satellite Services Provider European Economic Interest Grouping i. L. (Liquidated on 23 December 2011)	Brussels, Belgium	16.67
ESSP SAS	European Satellite Services Provider Société par Action Simplifiée	Toulouse, France	16.67
Investment through The Tower Company GmbH:			
TATS	Tower Air Traffic Services S.L. (Since 27 January 2011)	Madrid, Spain	50.00

Even when taken as a whole, the affiliated companies and investments are immaterial for the representation of the net assets, financial position and results of operation 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. The associated lists as well as further information can be found in Note 18 and Note 40.

(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 at DFS 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 2011. 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
IAS 32*	Financial instruments: Presentation (Classification of rights issues)	8 Oct 2009	23 Dec 2009	1 Feb 2010
IFRS 1*	First time adoption of IFRS (Limited exemption for first-time adopters from comparative disclosures under IFRS 7)	28 Jan 2010	30 Jun 2010	1 Jul 2010
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
IAS 24	Related party disclosures	4 Nov 2009	19 Jul 2010	1 Jan 2011
IFRIC 19*	Extinguishing financial liabilities with equity instruments	26 Nov 2009	23 Jul 2010	1 Jul 2010
Catalogue*	Improvements to international financial Reporting Standards (2008–2010)	17 May 2010	18 Feb 2011	1 Jul 2010/ 1 Jan 2011

* Although the amendments to the standards IAS 32 and IFRS 1, the interpretations IFRIC 14 and 19 as well as the IFRS are all relevant for DFS, they have no impact on the management report, the result as well as the results and net assets, financial position and results of operation of the group financial statements as such issues do not arise.

IAS 24 "Related party disclosures"

The revised version of IAS 24 has resulted in changes in the disclosures, but not to the result or the net assets, financial position and results of operation in the group financial statements. The changes to the stan-dard allow DFS to profit from an exemption for entities controlled by the government. This exemption covers entities that are controlled, jointly controlled or significantly influenced by a government-related entity. These entities are exempted from having to disclose details of transactions with the government itself and from the disclosure of transactions with other entities controlled by the government (e.g. Fraport, airports). Nevertheless, some minimum disclosures must be made: name of the government entity, type of relationship, kind and amount of significant transactions, scope of the transactions that are of importance when considered as a whole.

The IASB published the following standard that has already been endorsed by the European Commission. However, the standard is mandatory only from the business year after the point in time given. Early voluntary application is permitted. DFS will not be taking advantage of the option to apply the revised standard ahead of time.

Standard	Title	Publication IASB	EU endorsement	Effective date
IFRS 7	Financial instruments: Disclosures (Transfer of financial assets)	7 Oct 2010	22 Nov 2011	1 Jul 2011

The IASB and IFRIC have published the following standards and interpretations, which were not mandatory in the period under review. The endorsement by the EU is required before application. DFS will not apply any of the named new or revised standards and interpretations ahead of time.

Standard	Title	Publication IASB	Expected effective date	Relevant for DFS
IFRS 9	Financial instruments	12 Nov 2009	1 Jan 2015	Yes
IAS 12	Deferred taxes (recovery of underlying assets)	20 Dec 2010	1 Jan 2012	Yes
IFRS 1	Severe hyperinflation and removal of fixed dates for first-time adopters	20 Dec 2010	1 Jul 2011	No
IFRS 10	Group financial statements	12 May 2011	1 Jan 2013	Yes
IFRS 11	Joint arrangements	12 May 2011	1 Jan 2013	Yes
IFRS 12	Disclosure of interests in other entities	12 May 2011	1 Jan 2013	Yes
IFRS 13	Fair value measurement	12 May 2011	1 Jan 2013	Yes
IAS 27	Separate financial statements	12 May 2011	1 Jan 2013	Yes
IAS 28	Investments in associates and joint ventures	12 May 2011	1 Jan 2013	Yes
IAS 19	Employee benefits	16 Jun 2011	1 Jan 2013	Yes
IAS 1	Presentation of components of other comprehensive income	16 Jun 2011	1 Jul 2012	Yes
IFRIC 20	Stripping costs in the production phase of a surface mine	19 Oct 2011	1 Jan 2013	No
IAS 32	Financial instruments: Presentation (Offsetting of financial assets and liabilities)	16 Dec 2011	1 Jan 2014	Yes
IFRS 7	Financial instruments: Disclosures (Offsetting of financial assets and liabilities)	16 Dec 2011	1 Jan 2012	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.

DFS made changes to the following estimates and assumptions:

- **Depreciation and amortisation**

  The useful life of the voice switching system and of the dismantling costs at the airports in Berlin was shortened. More information on this issue can be found in Note 16.

- **Intangible assets**

  The requirements for the capitalisation as an intangible asset of a study on the optimisation of procedures planning no longer applied, resulting in the costs being recognised in profit or loss as a disposal.

- **Pension obligations**

  The discount rate used for measurement purposes has been reduced by 0.40 percent to 4.50 percent from 1 January 2012. The projected increase in benefits from the collective agreement on health and long-term care insurance has risen from 2.00 percent to 4.00 percent from 1 January 2012. Amendments to the collective agreements led to above-average increases in the salaries relevant for pension benefits. This increase was significantly higher than the assumption for the rise in salaries of 3.50 percent for 2011 used in the forecast. For economic reasons, as of 1 November 2011 DFS took over the obligations for the benefits previously provided through the benevolent fund arising from the collective agreement relating to pensions as well as for benefits arising from individual contracts. In the future, the benefits will be rendered fully directly by DFS. Due to the overfunding of the benevolent fund when the obligations were taken over by DFS, tax regulations require that these excess assets be transferred to DFS to the extent that they exceed the paid-in capital. Against this background, the benevolent fund has transferred the rights to the assets (reinsurance policies) underlying these obligations to DFS. At the same time, DFS took over all the obligations stemming from the insurance transactions.

■ **Other provisions**

The provision to cover obligations to preserve records was aligned with the settlement amount with an average term of 11 years. In 2011, negotiations were conducted with an investor to terminate the QTE transaction ahead of schedule. A declaration of intent and an offer for the termination was signed by both negotiating parties. The provision of securities underlying the QTE provision was therefore reversed. More information can be found in Note 26 and 29.

Changes in comparative information

The following disclosures were adjusted for the comparative period.

Line item in the balance sheet and number in the Notes	Before €'000	After €'000
Reporting of debenture loans as financial liabilities		
Balance sheet – Liabilities and equity – Non-current debt	174,612	227,612
Balance sheet – Liabilities and equity – Liabilities	110,089	57,089
(24) Equity – Net financial indebtedness	174,612	227,612
(27) Financial liabilities – Debenture loans	122,000	175,000
(29) Other liabilities – Debenture loans	53,000	0
(32) Financial instruments – Debenture loans	122,000	175,000
(32) Financial instruments – Debenture loans	53,000	0
(34) Financial risks – Debenture loans	122,000	175,000
(34) Financial risks – Other liabilities	98,024	45,024
Netting of income with expenses from the allowances for bad debts and losses		
Statement of comprehensive income – Other operating income	29,696	28,313
Statement of comprehensive income – Other operating expenses	-144,871	-143,488
(8) Other operating income	1,383	
(12) Other operating expenses	2,029	
Reporting of net result from financial instruments by measurement category		
(32) Financial instruments – Net result		
Impairment losses for loans and receivables	-646	-2,029
Consideration of contribution premiums for soldiers		
(25) Payments to defined contribution plans	29,803	32,201

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. The degree of completion is calculated 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. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer. The contract costs are expensed in the period in which they are incurred. If the total contract cost exceeds the total contract revenue, the expected loss is expensed immediately. If the results of a service contract cannot be estimated reliably, the probable revenues are recorded at the value of the costs incurred. Revenues from long-term service contracts accounted for using the percentage-of-completion method are reported under "Future receivables from construction contracts" after deducting any payments received.

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 recorded in accordance with the matching principle.

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 clearly identify associated costs, 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.

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.

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 an unlimited useful life. As a rule, amortisation is carried out on a straight-line basis from the beginning of use:

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

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.

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.

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

Property, plant and equipment have a limited useful life. As a rule, depreciation is carried out on a straight-line basis from the beginning of use:

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

Leases
A lease is considered a finance lease when all the risks and rewards of ownership of an asset 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 which are not finance leases are classified as operating leases. The lease payments are recognised in the statement of comprehensive income over the term of the lease arrangement in a straight-line fashion. Commitments from rental and leasing contracts are concluded with limited or unlimited terms to maintain flexibility as regards liquidity.

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 and the value in use. The net realisable value is equal to fair value less costs to sell. 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 discount rate used is an interest rate before tax that reflects market conditions.

If a recoverable amount cannot be determined for the individual asset, then it is determined for the smallest cash generating unit to which the relevant asset can be allocated. If at a later date the reasons, either in full or in part, for impairments made in previous years no longer apply, the impairment loss is reversed accordingly. The reversal is limited to the carrying amount which would have applied if the impairments from the past were excluded. The reversal is recognised in the income statement. It is not permissible to reverse impairments of goodwill.

Financial instruments
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.

Financial assets are classified as "At fair value through profit or loss", "Loans and receivables" or "Available-for-sale". The breakdown of financial assets by category can be found in Note 32.

The category "At fair value through profit and loss" comprises financial assets that are held for trading (derivative financial instruments). Initial and subsequent recognition is made at fair value. The fair value is based on quoted prices at the balance sheet date. The changes in the fair value between the reporting dates are recognised in profit or loss in the financial result.

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 for interest bearing and non-interest bearing loans and receivables. 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 at the balance sheet date and recognised in the income statement.

The category "Available-for-sale" includes all other financial assets which cannot be allocated to any other category. This includes financial assets, comprising shares in affiliated companies, investments and long-term securities. Initial recognition at the point when they arise occurs at fair value (plus direct transaction costs). Subsequent measurement of this category occurs at fair value to the extent this can be reliably determined at the balance sheet date. For securities, the fair value is determined from the price on an active market. Unrealised gains and losses from changes in fair value between the reporting dates are recognised directly in equity in other reserves. Upon sale of financial assets or permanent impairment of the market value below the carrying amount, other reserves are reversed and the cumulative gains and losses are recognised in the statement of comprehensive income.

Financial liabilities generally give rise to a claim for repayment in cash or in the form of another financial asset. Financial liabilities are derecognised from the balance sheet when they are discharged, i.e. when the contractual obligations are met, cancelled or expire. Liabilities denominated in a foreign currency are converted using the rate at the balance sheet date.

The classification is subdivided into the categories "At fair value through profit or loss" and "Amortised cost". The breakdown of financial liabilities by category can be found in Note 32. Financial liabilities with maturities longer than one year correspond to the fair value of the amount discounted at the risk-free rate.

Financial liabilities classified as "At fair value through profit and loss" are held exclusively for trading. These include derivative financial instruments. The initial and subsequent recognition of financial liabilities is at fair value. The fair value is based on quoted prices at the balance sheet date. The changes in the fair value between the reporting 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. The initial recognition is at fair value, including transaction costs directly connected with the issuance of the liability. Subsequent measurement is at amortised cost using the effective interest rate method for liabilities with high or low interest rates. Bonds and debenture loans are carried at amortised cost using the effective interest method. 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. Trade payables and other liabilities have short-term maturities, which means that the amounts shown in the balance sheet correspond to the fair value.

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 that 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.

The changes in the fair value and associated deferred taxes are recognised in the income statement. Derivative 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.

Investments accounted for using the equity method
Investments accounted for using the equity method are capitalised at cost on the acquisition date. In subsequent periods, the carrying amounts are adjusted annually to account for the changes in the equity of the associated company attributable to DFS. If there are indications that the stake could be impaired, impairment tests are conducted in accordance with the provisions of IAS 36 and IAS 39.

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.

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 (< €50 thousand, previous year: <€5 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.

Liquid funds
Liquid funds include cash, cash accounts and short-term money market investments and certificates of deposit at credit institutions. Cash and cash equivalents are carried at amortised cost. Liquid funds in foreign currencies are converted at the closing rate.

Overdrafts taken up are reported in the balance sheet as liabilities to credit institutions under current finance liabilities.

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 and purchase markets were taken into account.

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

Other reserves
This item relates to changes recognised directly in equity, provided they are not based on capital transactions with the Shareholder. This includes, in particular, the changes in fair value of the available-for-sale financial assets and their associated tax effects.

Provisions for pensions and similar obligations
Defined benefit plans are measured in accordance with IAS 19 using the projected unit credit method on the basis of actuarial reports at the balance sheet date. This requires, in particular, assumptions to be made about future salary and pension developments as well as average life expectancy. The assumptions on salary and pension developments are based on historical trends and take into account country-specific interest and inflation levels. Biometric data serve as the basis for the estimates of average life expectancy.

The interest rate used to discount future benefits is the market yield on high-quality corporate or government bonds. Differences between the assumptions made and what has actually occurred are reflected in actuarial gains and losses. The amortisation of actuarial gains and losses are made using the corridor approach. This is only recognised as income or expense when it exceeds 10.00 percent of the higher amount of 1) the obligation from the defined benefit plan or 2) the fair value of the plan assets. The amount that exceeds the corridor is amortised proportionally through the statement of comprehensive income over the average remaining working life of the active employees.

The service cost, which reflects the additional claims of active employees gained in the business year, is reported under employee expenses. The interest expense and expected income from plan assets are reported under financial result.

Pension obligations for which there are plan assets are netted against the fair value of these plan assets. Payments for defined contribution plans are expensed when due and reported as part of employee expenses.

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 percent. 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.

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.

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. 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. 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.

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 group balance sheet according to IFRS as well as for consolidation adjustments recognised in profit or loss. 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 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. 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 of deferred taxes is based on the existing or applicable income tax rates in each country on the date of valuation. Following the German Tax Reform 2008, an income tax rate of 29.83 percent (previous year: 29.83 percent) is applied, made up of corporate income tax of 15.00 percent, a solidarity surcharge of 5.50 percent and a weighted-average German municipal trade tax multiplier rate of 400.00 percent. 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 =	Standard conversion Mean exchange rate 31 Dec 2011	EMU conversion Asked price 31 Dec 2011	EMU conversion Asked price 31 Dec 2010
U.S. dollar	USD	1.29390	1.29690	1.33920
British pound	GBP	0.83530	0.83730	0.86275
Swiss franc	CHF	1.21560	1.21760	1.25240
Japanese yen	JPY	100.20000	100.44000	108.89000

Notes to the statement of comprehensive income

(6) Revenues

Revenues comprise the following:

	2011 €'000	2010 €'000
Revenues from air navigation services	1,050,186	959,448
Other revenues	20,067	18,229
Revenues	**1,070,253**	**977,677**

The revenues from air navigation services comprise the following:

	2011 €'000	2010 €'000
En-route charges	739,112	665,250
Terminal charges	207,365	196,783
Payments to German MET Service and MoT from terminal charges	-568	-456
Offsetting under-/over-recovery from previous years	-7,250	42,609
Under-/over-recovery for current year	39,672	-12,810
Revenues from en-route and terminal charges	**978,331**	**891,376**
Reimbursements by the State for military flights and facilities	57,707	55,362
Reimbursements by the State for exempted flights	6,500	6,500
Nachrichten für Luftfahrer (German-language publication)	3,644	2,836
Flight inspection services	3,069	2,920
Other air navigation services	935	454
Revenues from air navigation services	**1,050,186**	**959,448**

The item "Other revenues" contains revenues of €2,754 thousand (previous year: €2,011 thousand) from construction contracts.

(7) Changes in inventory and other own work capitalised

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

	2011 €'000	2010 €'000
Changes in inventory of finished goods and work in progress	-18	36
Other own work capitalised	1,863	4,910
Changes in inventory and other own work capitalised	**1,845**	**4,946**

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

(8) Other operating income

Other operating income comprises the following:

	2011 €'000	2010 €'000
Income from QTE cross-border transaction	13,727	5,321
- of which income from the reversal of QTE provision	8,406	0
R&D project funding by the EU Commission and German federal and regional ministries recognised in the income statement	5,935	2,713
Income from the derecognition of liabilities	4,718	5,730
Revenues from energy sales	2,442	2,220
Cost reimbursements	3,954	4,565
Income from the reversal of provisions	1,615	1,865
Rental income	623	624
Income from asset disposals	84	1,001
Miscellaneous	5,344	4,274
Other operating income	**38,442**	**28,313**

(9) Cost of materials and services

These costs can be broken down as follows:

	2011 €'000	2010 €'000
Cost of raw materials, consumables and supplies, and of purchased goods	2,756	879
Cost of purchased services	4,714	3,756
Cost of materials and services	**7,470**	**4,635**

The purchased services relate to flight inspection and consulting services.

(10) Employee expenses

Employee expenses result from the following items:

	2011 €'000	2010 €'000
Wages and salaries	550,349	527,638
Social security costs and expenses for pensions and assistance	130,249	78,710
Cost of personnel belonging to the Federal Aviation Office (LBA)	21,277	19,491
Employee expenses	**701,875**	**625,839**

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 in Note 41. Details of the income and expenses for defined benefit obligations recognised in the statement of comprehensive income can be found in Note 25.
The average number of staff employed was as follows:

	2011	**2010**
Salaried staff	5,143	4,949
Soldiers released from regular service	259	263
Wage-earners	31	31
Technical and commercial students and apprentices	261	232
DFS personnel	**5,694**	**5,475**
Employees covered by the collective agreement for the public service (TVöD)	73	77
Established civil servants	235	247
Personnel belonging to the Federal Aviation Office (LBA)	**308**	**324**
Total number of staff employed	**6,002**	**5,799**

(11) Depreciation and amortisation

Depreciation and amortisation relate to the following items:

	2011	**2010**
	€'000	**€'000**
Intangible assets	30,737	28,279
Property, plant and equipment	71,711	72,482
Investment property	30	30
Depreciation and amortisation	**102,478**	**100,791**

More information on depreciation and amortisation can be found in Note 15 and Note 16. The annual impairment tests carried out in the year under review resulted in no impairment charges being recognised for intangible assets, property, plant and equipment, investment property and financial assets.

(12) Other operating expenses

Other operating expenses comprise the following:

	2011	**2010**
	€'000	**€'000**
Spare parts and maintenance	44,061	41,009
Rental, leasing and occupancy costs	35,424	30,066
Costs of external personnel	15,008	14,587
Other employee expenses	12,623	9,946
Legal and consultancy costs	9,330	10,591
Travel costs	8,168	7,553
Telecommunication costs	7,642	7,092
Costs from previous years	4,663	2,682
Vehicle costs	3,085	2,667
Asset disposals	2,660	1,902
Insurance	2,417	2,462
Apportionment EUROCONTROL	1,911	1,598
Magazines, journals, stationery	1,343	1,509
Advertising costs	1,138	1,203
Entertainment	1,109	1,154
Costs of monetary transactions	668	1,106
Write-downs and write-offs of receivables	444	646
QTE costs	54	3,201
Remaining	3,213	2,514
Other operating expenses	**154,961**	**143,488**

Further disclosures:

	2011	**2010**
	€'000	**€'000**
Contract costs for construction contracts	1,432	1,115
Minimum lease payments from operating leases	13,054	11,394
Impairment losses on financial assets in the category "Loans and receivables"	3,158	2,029

(13) Financial result

The financial result can be broken down as follows:

	2011 €'000	2010 €'000
Income from fund assets to finance pension obligations	53,070	47,433
Result from the fair value adjustment of derivatives	1,944	6,370
Interest income	1,934	1,192
Income from foreign currency translation	1,812	0
Income from profit and loss transfer agreements	853	1,533
Income from investments	167	0
Financial income	**59,780**	**56,528**
Expenses from discounting provisions	-104,550	-93,404
Other interest expenses	-5,839	-2,841
Expenses from foreign currency translation	-4,133	-5,080
Expenses from the assumption of losses	-558	0
Expenses from securities	-4	-71
Result from the fair value adjustment of derivatives	0	0
Financial expenses	**-115,084**	**-101,396**
Financial result	**-55,304**	**-44,868**

Further disclosures:

	2011 €'000	2010 €'000
The interest result from financial instruments determined using the effective interest method not classified in the category "At fair value through profit or loss"	-7,761	-8,021
Interest income from impaired financial assets	306	187
Impairment losses from the category "Available-for-sale"	-163	-71
Impairment losses from the category "Available-for-sale" recognised directly in equity	-159	-161

(14) Income taxes

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

	2011 €'000	2010 €'000
Current taxes	8,105	-15,245
Deferred income taxes	713	1.799
Income tax expense	**8,818**	**-13,446**

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 timing differences, the planned conversion to regulated charges or from the current tax audit.

DFS is the tax payer as the dominant enterprise for the subordinated companies TTC and Energy. 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 Energy 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 Energy. This does not lead to taxable temporary differences in value between the IFRS and the tax accounts. At TTC, there are deferred tax assets of €77 thousand (previous year: €75 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. The tax loss carryforward from the year 2010 was fully used up. There were no issues which resulted in deferred tax assets not being recognised.

The reconciliation from the expected to the current income tax expense is as follows:

	2011 €'000	2010 €'000
Net income before income taxes	**88,452**	**91,315**
Expected income tax expense (in %)	29.83	29.83
Expected income tax expense	26,385	27,239
Tax expense/income not relating to the period under review	-2,485	-15,303
Effects of changes in tax rates	0	-5,438
Deviations in municipal trade tax	0	703
Revenues exempt from tax	-47	0
Foreign establishments	-332	-297
Foreign taxes	66	59
Variance of allowance n + 2:		
- Deferred tax assets	65,246	5,693
- Deferred tax liabilities	1,976	2,845
Tax effect from not deferring differences	0	-2,798
Entry of balancing items BilMoG (German Accounting Law Modernisation Act) in the tax accounts	-80,108	-26,181
Corporation tax loss carryforward	-1,439	0
Trade tax loss carryforward	-992	0
Miscellaneous	-165	32
Current income tax expense	**8,105**	**-13,446**
Effective tax rate (in %)	**9.16**	**-14.72**

Deferred taxes by balance sheet item comprise the following:

	Deferred tax assets		Deferred tax liabilities	
	2011	**2010**	**2011**	**2010**
	€'000	**€'000**	**€'000**	**€'000**
Intangible assets	0	0	13,918	14,852
Property, plant and equipment	8,977	8,782	11,275	12,923
Available-for-sale securities	0	0	3,309	2,840
Receivables and other assets	98,863	78,240	353	267
Provisions for pensions and similar obligations	157,208	112,433	0	0
Other provisions	22,626	22,973	2,335	2,671
Liabilities	18,668	19,625	228	0
	306,342	242,053	31,418	33,553
Impact n + 2:				
Intangible assets	0	0	-8,426	-9,191
Property, plant and equipment	-8,977	-8,782	-7,991	-9,457
Available-for-sale securities	0	0	-79	-78
Receivables and other assets	-98,863	-78,240	-353	-267
Provisions for pensions and similar obligations	-157,208	-112,433	0	0
Other provisions	-22,626	-22,973	-1,887	-1,947
Liabilities	0	0	-228	0
	-287,674	-222,428	-18,964	-20,940
Other allowances	0	0	0	0
Netting	-12,454	-12,613	-12,454	-12,613
TTC	77	75	0	0
Deferred income taxes	**6,291**	**7,087**	**0**	**0**

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	Total
	€'000	**€'000**	**€'000**	**€'000**
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**
Cost				
As at 1 Jan 2011	481,883	46,763	38,266	566,912
Additions	19,329	1,204	17,016	37,549
Disposals	-4,787	0	0	-4,787
Transfers	29,837	0	-29,372	465
As at 31 Dec 2011	**526,262**	**47,967**	**25,910**	**600,139**
Cumulative amortisation				
As at 1 Jan 2011	320,874	13,948	0	334,822
Additions	26,731	4,006	0	30,737
Disposals	-1,853	0	0	-1,853
Transfers	-1	0	0	-1
As at 31 Dec 2011	**345,751**	**17,954**	**0**	**363,705**
Carrying amounts at 31 Dec 2011	**180,511**	**30,013**	**25,910**	**236,434**

Disclosures on individually material intangible assets are as follows:

	Carrying amount 31 Dec 2011 €'000	Remaining useful life in years	Share of total carrying amount 31 Dec 2011 in %
VAFORIT software	85,583	7	36.3
iCAS software	26,914	7	11.4
P1/ATCAS software incl. release	22,073	13	9.3
P1/ATCAS 2007	10,111	13	4.3
PSS software	9,900	13	4.2
	154,581		**65.4**
Total carrying amount	**236,434**		**100.0**

Impairment testing of internally generated intangible assets showed no indications that an impairment under IAS 36 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.

The capitalisation of intangible assets is based on the following conditions.

	31 Dec 2011	31 Dec 2010
Borrowing costs in €'000	1,558	2,003
Capitalisation rate in %	5.41	5.66

Intangible assets that have been ordered but do not yet come under the economic power of disposition of DFS are shown in Note 35. There were no other intangible assets which DFS does not freely control or which have been pledged against liabilities.

(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 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**
Cost					
As at 1 Jan 2011	632,415	1,061,585	89,753	16,850	1,800,603
Additions	8,327	38,356	5,890	30,265	82,838
Disposals	-33,597	-30,363	-1,745	0	-65,705
Transfers	965	8,901	325	-10,656	-465
As at 31 Dec 2011	**608,110**	**1,078,479**	**94,223**	**36,459**	**1,817,271**
Cumulative depreciation					
As at 1 Jan 2011	336,690	890,863	73,031	0	1,300,584
Additions	23,312	44,167	4,232	0	71,711
Disposals	-33,449	-28,735	-1,714	0	-63,898
Transfers	0	1	0	0	1
As at 31 Dec 2011	**326,553**	**906,296**	**75,549**	**0**	**1,308,398**
Carrying amounts at 31 Dec 2011	**281,557**	**172,183**	**18,674**	**36,459**	**508,873**

The useful life of the voice switching system was shortened because of the introduction of new technology. In addition, the term of the dismantling costs at the airports in Berlin was reduced. The impact on the level of depreciation was as follows:

	Carrying amount	Depreciation				
	€'000	€'000	€'000	€'000	€'000	€'000
	1 Jan 2011	2011	2012	2013	2014	2015
Before	5,078	824	824	815	771	596
After	5,078	2,255	1,972	542	64	64
Difference		-1,431	-1,148	273	707	532
	2016	2017	2018	2019	2020	2021
Before	596	364	72	72	72	72
After	64	43	22	22	22	8
Difference	532	321	50	50	50	64

There were no indications that property, plant and equipment may need to be impaired as required by IAS 36. The capitalisation of property, plant and equipment is based on the following conditions:

	31 Dec 2011	31 Dec 2010
Borrowing costs in €'000	860	1,942
Capitalisation rate in %	5.41	5.66

The breakdown of research and development costs is as follows:

	31 Dec 2011	31 Dec 2010
	€'000	€'000
Expenses for research and development	29,779	40,463
- of which research costs recognised in the income statement	28,617	36,192
- of which capitalised additions in assets under construction	1,162	4,271
Development costs in assets under construction as at the balance sheet date	761	852
Scheduled depreciation of development costs based on the degree of completion notified	4,006	3,633
R&D project funding by the EU Commission and German federal and regional ministries deducted from cost	0	0

The fully written down carrying amounts of the leased items that were capitalised under finance leases relate to the Frankfurt Airport location and the leased items were returned on 15 December 2011.

	Airport facilities	Computer hardware
	€'000	€'000
Cost	0	0
Cumulative depreciation	0	0
Carrying amount at 31 Dec 2011	**0**	**0**

There are long-term lease and lease-back agreements for air navigation facilities with two US investors as part of a qualified technological equipment cross-border transaction. There are options to terminate the transaction for the years 2021 and 2022. DFS remains the owner of the equipment over the entire term, but is subject to certain restrictions. Further information can be found in Note 29.

The breakdown of the maturities of operating leases is as follows:

Commitments from rental and lease contracts	up to 1 year €'000	1-5 years €'000	more than 5 years €'000	Total €'000
2011	7,428	4,981	1,212	13,621
2010	8,238	2,472	102	10,812

Commitments from rental and leasing contracts relate mainly to the use of land and buildings, technical facilities and machines as well as vehicles. These contracts relate exclusively to operating leases, where the leased asset belongs economically to the lessor as he bears all the significant risks and rewards. There are no other risks from these contracts. There are no purchase price options for the leased items, rather the items are returned when the lease matures. Vehicles are leased for one year without an option to extend.

Items of property, plant and equipment that have been ordered but do not yet come under the economic power of disposition of DFS are shown in Note 35. There were no other items of property, plant and equipment which DFS does not freely control or which have been pledged against liabilities.

The amount of €12 thousand (previous year: €17 thousand) for compensation for third parties in the statement of comprehensive income relates to property, plant and equipment that was impaired, irrecoverably lost or decommissioned.

(17) Investment property

Investment property developed as follows:

	2011 €'000	2010 €'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	277	247
Additions	30	30
As at 31 Dec	**307**	**277**
Carrying amount at 31 Dec	**903**	**933**

Further disclosures:

	31 Dec 2011 €'000	31 Dec 2010 €'000
Rental income	121	121
Depreciation and amortisation	30	30
Repairs	0	0
Fair value	1,013	1,013

Investment property is either held for rental income or capital gains. Investment property relates to the building and land in Braunschweig, Germany, rented to FCS. The property is depreciated over the useful life of 40 years using the straight-line method. There were no indications of a need to impair as required by IAS 36.

There are no contractual obligations to carry out repairs, maintenance or improvements. DFS is authorised to carry out maintenance, repairs and associated modifications to the property and the rental object. It does not need the approval of the lessee in such instances. There are no other contractual obligations or restraints on disposition.

The fair value of the property was based on 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 (fair value: €1,030 thousand) and the current gross property yield for administrative buildings in 2011 of 6.30 percent as published by the Board of Real Estate Appraisers Braunschweig (Gutachterausschuss Braunschweig).

(18) Financial assets

Financial assets comprise the following:

	Shares in affiliated companies €'000	Loans to affiliated companies €'000	Investments €'000	Long-term securities €'000	Total €'000
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**
Cost					
As at 1 Jan 2011	27,172	0	362	7,265	34,799
Additions	0	0	386	0	386
Disposals	0	0	0	0	0
Changes in fair value	0	0	0	-153	-153
As at 31 Dec 2011	**27,172**	**0**	**748**	**7,112**	**35,032**
Cumulative impairment	**0**	**0**	**0**	**0**	**0**
Carrying amounts at 31 Dec 2011	**27,172**	**0**	**748**	**7,112**	**35,032**

Shares in affiliated companies comprise the following:

	Shareholding in %	Cost €'000
DFS European Satellite Services Provider Beteiligungsgesellschaft mbH	100.00	21,527
DFS Unterstützungskasse GmbH	100.00	26
The Tower Company GmbH	100.00	223
DFS Energy GmbH	100.00	5,396
FCS Flight Calibration Services GmbH*	55.00	0
Shares in affiliated companies		**27,172**

* Cost under €1 thousand

The registered and fully paid-in capital of ESSP 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. Its separate financial statements for the year ended 31 December 2011 were prepared under HGB. The registered capital of DM 50 thousand at the benevolent fund (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 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 2011 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. A profit in accordance with HGB of €853 thousand (previous year: €1,145 thousand) was transferred from TTC to DFS.

The fully paid-in capital of Energy amounts to €5,000 thousand. 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 2011 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 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 loss under HGB taken over by DFS amounts to €558 thousand (previous year: profit of €388 thousand).

The registered capital of FCS 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 2011 were prepared under HGB.

The investments can be broken down as follows:

	Shareholding	Cost	Total assets	Total liabilities
	in %	€'000	€'000	€'000
GroupEAD Europe S.L.*	36.00	360	3,139	1,622
BILSODA GmbH & Co. KG*	24.90	388	7	0
Investments		**748**		

* Assets and liabilities as at 31 December 2010

The subscribed capital of the company 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 percent) and Entidad Pública Empresarial Aeropuertos Españoles y Navegación Aérea, Madrid, Spain (36.00 percent). 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 2011, €167 thousand (previous year: €0 thousand) was recognised as income from investments in the financial result.

Since 4 May 2010, DFS has held a stake of 24.90 percent with a registered capital contribution of €2 thousand in BILSODA. 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. Its separate financial statements for the year ended 31 December 2010 were prepared under HGB. The corporation acting as the general partner with unlimited liability (Komplementär-GmbH) keeps corresponding partnership accounts for each partner which record the capital contributions, withdrawals and profit and loss sharing. Additions at cost relate to a share of other capital contributions to partly finance the construction of the parking structure. The percentage of voting shares in the investment remains unaffected.

Further information can be found in Note 3 and Note 40.

There were no indications that financial assets may need to be impaired as required by IAS 36.

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

Other receivables and assets are shown below:

	31 Dec 2011 Total €'000	31 Dec 2011 Remaining term more than 1 year €'000	31 Dec 2010 Total €'000	31 Dec 2010 Remaining term more than 1 year €'000
Under-recovery	39,672	39,672	7,250	7,250
Derivative financial instruments	10,812	10,812	9,088	9,088
Receivables from Shareholder	7,107	0	13,529	0
Interest receivables	1,600	0	1,664	0
Remaining financial assets	1,273	158	4,665	215
Receivables from investments	18	0	46	0
Receivables from affiliated companies*	0	0	19	0
Other financial receivables and assets	60,482	50,642	36,261	16,553
Remaining non-financial assets	11,047	0	8,138	0
Prepayments	3,859	0	3,193	0
Other receivables and assets	**75,388**	**50,642**	**47,592**	**16,553**

* Receivables under €1 thousand

The carrying amounts of other receivables and assets correspond to the respective fair value. Other receivables and assets are impaired at the reporting date as necessary. There are no overdue other receivables and assets.

DFS did not pledge any other receivables and assets as securities for loans. No other receivables and assets serve as collateral for liabilities.

(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 2011	147,268	139,871	5,318	436	1,001	642
31 Dec 2010	130,612	127,021	2,338	264	523	466

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.

Allowances developed as follows:

	2011 Specific allowance €'000	2011 General allowance €'000	2010 Specific allowance €'000	2010 General allowance €'000
As at 1 Jan	6,672	0	5,263	1,126
Additions	439	0	1,667	0
Utilisation	0	0	-17	0
Reversal	-2,672	0	-241	-1,126
As at 31 December	**4,439**	**0**	**6,672**	**0**

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

	2011 €'000	2010 €'000
Expense for complete write-off	2,719	362
Income from receivables previously derecognised	39	8

DFS did not pledge any trade receivables as securities for loans.

(21) Future receivables from construction contracts

The breakdown of future receivables from construction contracts is as follows:

	31 Dec 2011 Total €'000	31 Dec 2011 Remaining term more than 1 year €'000	31 Dec 2010 Total €'000	31 Dec 2010 Remaining term more than 1 year €'000
ATECH	4,046	0	1,848	1,848
Phoenix Hahn	0	0	163	0
Phoenix Almaty	74	0	0	0
Qatar	547	0	0	0
Aman LVNL	98	0	0	0
Prepayments	-767	0	-767	-767
Future receivables from construction contracts	**3,998**	**0**	**1,244**	**1,081**

(22) Inventories

Inventories can be broken down as follows:

	31 Dec 2011 €'000	31 Dec 2010 €'000
Raw materials, consumables and supplies		
- Cost	4,667	4,765
- Impairment	0	-88
Finished goods and goods for resale	359	377
Inventories	**5,026**	**5,054**

(23) Liquid funds

Liquid funds can be broken down as follows:

	31 Dec 2011 €'000	31 Dec 2010 €'000
Cash in hand and cheques	29	26
Cash at bank	84,634	85,126
Liquid funds	**84,663**	**85,152**

Liquid funds are not subject to any restrictions.

(24) Equity

Equity as recorded on the balance sheet breaks down as follows:

	31 Dec 2011 €'000	31 Dec 2010 €'000
Subscribed capital	153,388	153,388
Capital reserve	74,296	74,296
Retained earnings	-302,248	-381,882
Other reserves	-812	-569
Equity	**-75,376**	**-154,767**

The subscribed capital was fully paid in. The capital reserve relates primarily to an amount of €29,500 thousand, 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.

Other reserves are used for changes recognised directly in equity, provided they are not based on capital transactions with the Shareholder. The items can subsequently be reclassified as profit or loss:

	31 Dec 2011 €'000	31 Dec 2010 €'000
As at 1 Jan	-569	-279
Change in the fair value of available-for-sale financial assets	-159	-161
Tax effects	-84	-129
Other reserves	**-812**	**-569**

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.

The Federal Republic of Germany as the sole Shareholder, represented by the Federal Ministry of Transport, Building and Urban Development approved the group financial statements and the group management report as of 31 December 2010 with the Shareholder resolution No. 117 dated 26 April 2011. The annual financial statements for the year ended 31 December 2010 under HGB were also approved. The net income for 2010 under HGB was transferred to retained earnings.

	31 Dec 2011 €'000	31 Dec 2010 €'000
Retained profit	7,751	54,001
Gross dividend to the Shareholder	0	6,155
Transferred to retained earnings	7,751	47,846

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 through 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 competitiveness of the commercial business is promoted.

The following metrics substantially determine the goals of capital management:

	31 Dec 2011 €'000	31 Dec 2010 €'000
Equity recognised on the balance sheet	-75,376	-154,767
Differences between HGB and IFRS not recognised at the balance sheet date	604,164	651,934
Deferred taxes on this amount	-30,733	-34,240
Equity adjusted for HGB/IFRS differences	498,055	462,927
Equity ratio	29.66%	27.57%
Return on equity	15.99%	22.63%
Net income	79,634	104,761
EBIT	143,756	136,183
Borrowings	1,181,440	1,215,962
Debt ratio	70.34%	72.43%
Return on total assets	4.74%	6.24%
Leverage ratio	8.65%	8.49%

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 cover the issuance of short-, medium- and long-term bearer notes (bonds) with a total volume of €1,000 million and which secure 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 2011 €'000	31 Dec 2010 €'000
Liquid funds	84,663	85,152
Non-current financial liabilities	229,940	227,612
Current financial liabilities	0	0
Net financial indebtedness	**145,277**	**142,460**

(25) Provisions for pensions and similar obligations

Provisions for pensions are recognised exclusively for defined benefit plans for active and former employees.

■ Pension plans

There are various forms of pension provision available to the employees of DFS, which are largely governed by collective agreements.

Under the collective agreement covering pensions, employees who began employment by 31 December 2004 receive old-age, disability and surviving dependant's pensions. These are defined benefits linked to the respective final salary of the employee. However, employees who entered service from 1 January 2005 receive benefits under the collective agreement covering pensions which are linked to average career earnings. Under this system, each year a pension component is calculated based on the respective income and the old-age pension is determined based on the sum of the annual pension components.

In addition, air traffic controllers and flight data specialists employed at the company receive transitional retirement benefits to cover the period from the end of their operational activity until the earliest possible receipt of the statutory pension. These are defined benefits linked to the respective final salary when the employee leaves the company.

Both plans are financed by congruent reinsurance policies that are recognised as plan assets under IAS 19.7. 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.

DFS continues to pay an increased employer contribution for health insurance for the employees who were previously employed as established civil servants with the former Federal Administration of Air Navigation Services (BFS) or the Federal Aviation Office (LBA). This covers the period of active employment, the period of receipt of transition payments or early retirement benefits and the period of receipt of statutory pension benefits. This is to compensate for the loss of other benefits normally received by civil servants. This plan also has to be accounted for as a defined benefit.

There also exist, to a limited extent, defined contribution plans whose benefits are completely financed by contributions to external pension providers. The company has no benefits or risks beyond the payment of the defined contributions.

■ Actuarial assumptions

The measurement of defined benefit plans was based on the following premises:

In percent	2012	2011	2010	2009	2008
Discount rate	4.50	4.90	5.50	6.30	5.50
Expected return on plan assets	4.65	4.00	4.00	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	1.25–2.00	2.00	2.00

■ Scope of obligations

The defined benefit obligation developed as follows:

	2011 €'000	2010 €'000
Defined benefit obligation as at 1 Jan	2,035,945	1,683,147
Current service cost	68,749	52,399
Interest expense	97,966	90,678
Retirements benefits paid	-66,402	-61,923
Past service cost	0	10,281
Actuarial losses (+)	281,808	261,363
Present value of defined benefit obligations at 31 Dec	**2,418,066**	**2,035,945**

■ Plan assets

The fair value of plan assets developed as follows:

	2011 €'000	2010 €'000
Fair value of plan assets at 1 Jan	1,317,101	1,166,489
Projected return on plan assets	53,070	47,433
Employer contributions	122,165	129,455
Retirement benefits paid	-47,199	-45,011
Actuarial losses (-) and gains (+)	-15,415	18,735
Fair value of plan assets at 31 Dec	**1,429,722**	**1,317,101**

■ Pension provision

	2011 €'000	2010 €'000
Present value of defined benefit obligations at 31 Dec	2,418,066	2,035,945
Fair value of plan assets	1,429,722	1,317,101
Net obligation	988,344	718,844
Present value of non-funded obligations	0	0
Adjustment for unrecognised actuarial losses (-)	-440,428	-145,762
Provisions for pensions and similar obligations	**547,916**	**573,082**

■ Expenses and income

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

	2011 €'000	2010 €'000
Contributions to the German mutual insurance association	1,512	1,401
Payments to defined contribution plans	34,154	32,201
- of which contributions to pension insurance	31,651	29,803
Current service cost	68,749	52,399
Interest expense	97,966	90,678
Amortisation of actuarial losses (+) / gains (-)	2,557	-3,632
Expected return on plan assets	-53,070	-47,433
Past service cost	0	10,281

■ Five-year development of the financing status

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

	2011 €'000	2010 €'000	2009 €'000	2008 €'000	2007 €'000
Present value of defined benefit obligations at 31 Dec	2,418,066	2,035,945	1,683,147	1,484,342	1,552,446
Fair value of plan assets	1,429,722	1,317,101	1,166,489	1,004,421	907,366
Net obligation (-) / surplus (+)	-988,344	-718,844	-516,658	-479,921	-645,080
Experience adjustment of plan obligations	-89,357	-27,855	-19,411	32,303	307
Experience adjustment of plan assets	-15,414	18,735	35,030	-21,738	-13,076

■ **Expected pension and contribution payments**

The future estimates and expectations for the pension obligations and plan assets developed as follows:

	2012 €'000	2011 €'000
Estimated pension payments	73,523	73,283
Expected employer contributions to plan assets	123,400	123,800

(26) Other provisions

Other provisions developed as follows:

	As at 1 Jan 2011 €'000	Utilisation €'000	Reversal €'000	Discounting €'000	Additions €'000	As at 31 Dec 2011 €'000	Remaining term of more than 1 year €'000
Over-recovery of charges	79,583	-6,119	0	0	0	73,464	54,589
Personnel	44,477	-6,426	-326	1,059	2,309	41,093	35,275
Leasehold	13,317	-539	0	2,558	0	15,336	14,786
QTE cross-border transaction	8,848	0	-8,406	526	0	968	778
Restructuring	2,221	0	0	27	0	2,248	448
Preserving records	5,949	-820	0	355	4,535	10,019	9,130
Re-conversion	14,237	-110	-30	2,051	79	16,227	12,927
Miscellaneous	6,956	-86	-1,259	8	1,148	6,767	0
Other provisions	**175,588**	**-14,100**	**-10,021**	**6,584**	**8,071**	**166,122**	**127,933**

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, the difference between HGB and IFRS is retroactively charged to the user over a 15 year period as of 1 January 2007. 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 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. In 2011, QTE loan securities were derecognised due to the termination of a transaction ahead of schedule with an investor. Additional information on the QTE transaction can be found in Note 29.

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 were to 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.

The cash flows for the future non-discounted settlement values for individual groups of other provisions are distributed as follows:

Due by	2012 €'000	2013 €'000	2014 €'000	2015 €'000	2016 €'000	Due from 2017 €'000
Over-recovery of charges	18,875	6,065	6,065	6,065	6,066	30,327
Personnel	5,818	4,269	1,649	1,650	1,650	26,291
Leasehold	550	561	572	583	595	19,446
QTE	190	167	145	123	101	289
Restructuring	1,800	0	458	0	0	0
Preserving records	889	908	930	953	976	6,403
Re-conversion	3,300	865	0	0	0	15,340
Miscellaneous	6,767	0	0	0	0	0
	38,189	**12,835**	**9,819**	**9,374**	**9,388**	**98,096**

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

Remaining term in years	1 to 2	2 to 3	3 to 4	4 to 5	5 to 6	6 to 7
2011	0.60	0.71	0.95	1.10	1.43	1.63
2010	1.00	1.34	1.74	2.12	2.41	2.71
	7 to 8	**8 to 9**	**9 to 10**	**11 to 15**	**15 to 30**	
2011	1.74	1.88	2.12	1.95	2.68	
2010	2.91	3.08	3.20	3.15	3.74	

Due to the change in the discount rates, the provisions and interest expense rose by €4,159 thousand respectively (previous year: €1,684 thousand) in comparison with the application of the rates of the previous year.

(27) Financial liabilities

Financial liabilities can be broken down as follows:

	31 Dec 2011 Total €'000	31 Dec 2011 Remaining term more than 1 year €'000	31 Dec 2010 Total €'000	31 Dec 2010 Remaining term more than 1 year €'000
Bonds	54,940	54,940	52,612	52,612
Liabilities to credit institutions	0	0	0	0
Debenture loans	175,000	175,000	175,000	175,000
Financial liabilities	**229,940**	**229,940**	**227,612**	**227,612**

Note 24 contains more information on the financing of DFS.

The individual bonds are as follows:

Term	Currency	Nominal value	Nominal interest	Effective interest	31 Dec 2011 €'000	31 Dec 2010 €'000
2003–2018	EUR	25,000	4.84%	4.84%	25,000	25,000
2004–2016	JPY	22,200	1.82%	1.82%	29,940	27,612
Bonds					**54,940**	**52,612**

The individual debenture loans are as follows:

Term	Currency	Nominal value	Nominal interest	31 Dec 2011 €'000	31 Dec 2010 €'000
2010–2017	EUR	87,500	2.564%	87,500	87,500
2010–2020	EUR	87,500	3.007%	87,500	87,500
Debenture loans				**175,000**	**175,000**

(28) Trade payables

Trade payables can be broken down as follows:

	31 Dec 2011 Total €'000	31 Dec 2011 Remaining term more than 1 year €'000	31 Dec 2010 Total €'000	31 Dec 2010 Remaining term more than 1 year €'000
Germany	35,968	0	25,296	0
Abroad	4,816	0	4,437	0
Creditors with debit balances	266	0	4,211	0
Amounts withheld	1,543	1,123	2,042	1,163
Maastricht unit	1	0	1	0
Trade payables	**42,594**	**1,123**	**35,987**	**1,163**

(29) Other liabilities

Other liabilities comprise the following:

	31 Dec 2011 Total €'000	31 Dec 2011 Remaining term more than 1 year €'000	31 Dec 2010 Total €'000	31 Dec 2010 Remaining term more than 1 year €'000
Staff costs	18,182	0	21,313	0
Amounts owed to affiliated companies	10,881	0	9,193	0
Outstanding invoices	8,756	0	7,756	0
Derivative financial instruments	4,287	4,287	4,507	4,507
Interest payables	4,119	0	4,203	0
Reimbursements to German Meteorological Service (en-route)	2,174	0	2,217	0
Remaining financial liabilities	395	0	342	0
Other financial liabilities	48,794	4,287	49,531	4,507
QTE cross-border transaction	50,550	45,229	55,870	50,549
Staff costs	31,775	1,017	40,387	2,033
Amounts owed to the tax authorities	17,184	0	13,121	0
Remaining non-financial liabilities	15,009	0	11,414	0
Other non-financial liabilities	114,518	46,246	120,792	52,582
Other liabilities	**163,312**	**50,533**	**170,323**	**57,089**

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. 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 is 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). A net present value benefit arose from the payment of the discounted lease instalments and of the present value for the exercise of the purchase option. The resulting 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. Since the end of 2011, DFS has been conducting negotiations with an investor with the aim of reaching a mutually agreed termination ahead of schedule of the QTE transaction. A declaration of intent and an offer for the termination was signed by both negotiating parties. Based on an evaluation of the equity deposits no additional payments were required. DFS therefore assumes that there will be a significantly lower liquidity and default risk stemming from this transaction.

Additional disclosures

(30) Notes to segment reporting

Segment reporting is oriented towards the line items of the statement of comprehensive income and is derived from the internal management and reporting systems. From the viewpoint of levying charges, the internal management report only differs from the segment reporting as regards the consolidation of Energy. The Board of Managing Directors receives reports both from the perspective of earnings as well as based on cost units and contribution margins. 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 within the scope of segment reporting.

The core tasks of DFS (see Management Report for more information) are air navigation services and the directly associated support activities. DFS defines these activities as the "Segment financed by air navigation charges". The category "All other segments" encompasses all other business activities. They are not reportable as they are below 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 determination of segment data is based on the following premises:

- 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
2011	**€'000**	**€'000**	**€'000**	**€'000**
External revenues	1,047,506	22,747	0	1,070,253
Intersegment revenues	10,780	0	-10,780	0
Other income	25,841	14,446	0	40,287
Total operating revenues and income	**1,084,127**	**37,193**	**-10,780**	**1,110,540**
Cost of materials and services	3,278	4,192	0	7,470
Employee expenses	699,120	2,755	0	701,875
Depreciation and amortisation	102,478	0	0	102,478
Other operating expenses	152,053	2,908	0	154,961
Intersegment costs	0	10,780	-10,780	0
Total costs	**956,929**	**20,635**	**-10,780**	**966,784**
Segment result before interest and income taxes (EBIT)	**127,198**	**16,558**	**0**	**143,756**
2010	**€'000**	**€'000**	**€'000**	**€'000**
External revenues	958,703	18,974	0	977,677
Intersegment revenues	9,167	0	-9,167	0
Other income	27,691	6,951	0	34,642
Total operating revenues and income	**995,561**	**25,925**	**-9,167**	**1,012,319**
Cost of materials and services	3,035	1,600	0	4,635
Employee expenses	623,515	2,324	0	625,839
Depreciation and amortisation	100,791	0	0	100,791
Other operating expenses	139,162	5,709	0	144,871
Intersegment costs	0	9,167	-9,167	0
Total costs	**866,503**	**18,800**	**-9,167**	**876,136**
Segment EBIT	**129,058**	**7,125**	**0**	**136,183**

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	2011 €'000	2011 in %	2010 €'000	2010 in %
DFS total revenues*	1,019,665	100.00	932,496	100.00
Lufthansa	211,611	20.76	185,180	19.86
Air Berlin	76,488	7.50	76,670	8.22
Federal Ministry of Defence	64,086	6.29	62,121	6.66
Ryanair	35,931	3.52	37,020	3.97
KLM	29,165	2.86	25,088	2.69
British Airways	27,081	2.66	24,338	2.61

* Comprising terminal and en-route revenues as well as revenues from military operational air traffic

(31) Additional disclosures on the cash flow statement

The cash flow statement shows the change in liquid funds between two balance sheet dates and the movements in cash and cash equivalents. Cash inflows and outflows are divided into operating, investing and financing activities and only show cash flows from continuing operations. There are no discontinued operations.

Bank overdrafts are deducted from liquid funds when drawing up the cash flow statement. A reconciliation of the stock of cash and cash equivalents is as follows:

	31 Dec 2011 €'000	31 Dec 2010 €'000
Cash in hand and cheques	29	26
Cash at bank	84,634	85,126
Current overdraft	0	0
Cash and cash equivalents	**84,663**	**85,152**

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.

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 is oriented towards 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 air navigation 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.

Cash flows from operating activities using the direct method	2011 €'000	2010 €'000
Terminal charges received	208,894	196,256
En-route charges received	730,987	660,655
Reimbursement OAT/Maastricht/VFR flights	85,797	74,919
Reimbursements paid	-9,712	-10,100
Staff costs	-782,120	-743,423
Non-staff and project costs	-149,324	-153,787
Other payments	30,200	53,429
Interest paid	-8,178	-6,845
Netting of tax refunds (+) / overpayment (-) (Income taxes, VAT, withholding taxes)	14,700	-11,560
Value accruals	181	-1,334
Cash inflow from operating activities	**121,425**	**58,210**

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

(32) Financial instruments

Financial assets are classified as follows:

	Carrying amount	Recognised at fair value through profit or loss	Loans and receivables	Available for sale	Fair value
31 Dec 2011	**€'000**	**€'000**	**€'000**	**€'000**	**€'000**
Shares in affiliated companies	27,172			27,172	27,172
Investments	748			748	748
Securities	7,112			7,112	7,112
Derivative financial instruments	10,812	10,812			10,812
Trade receivables	147,268		147,268		147,268
Future receivables from construction contracts	3,998		3,998		3,998
Receivables from Shareholder	7,107		7,107		7,107
Receivables from affiliated companies*	0		0		0
Receivables from investments	18		18		18
Interest receivables	1,600		1,600		1,600
Under-recovery	39,672		39,672		39,672
Remaining financial assets	1,273		1,273		1,273
Liquid funds	84,663		84,663		84,663
	331,443	**10,812**	**285,599**	**35,032**	**331,443**
31 Dec 2010	**€'000**	**€'000**	**€'000**	**€'000**	**€'000**
Shares in affiliated companies	27,172			27,172	27,172
Investments	362			362	362
Securities	7,265			7,265	7,265
Derivative financial instruments	9,088	9,088			9,088
Trade receivables	130,612		130,612		130,612
Future receivables from construction contracts	1,244		1,244		1,244
Receivables from Shareholder	13,529		13,529		13,529
Receivables from affiliated companies	19		19		19
Receivables from investments	46		46		46
Interest receivables	1,664		1,664		1,664
Under-recovery	7,250		7,250		7,250
Remaining financial assets	4,665		4,665		4,665
Liquid funds	85,152		85,152		85,152
	288,068	9,088	244,181	34,799	288,068

* Receivables under €1 thousand

Financial liabilities are classified as follows:

31 Dec 2011	Carrying amount €'000	At fair value through profit or loss €'000	Amortised costs €'000	Fair value €'000
Bonds	54,940		54,940	61,094
Debenture loans	175,000		175,000	183,876
Derivative financial instruments	4,287	4,287		4,287
Trade payables	42,594		42,594	42,594
Staff costs	18,182		18,182	18,182
Amounts owed to affiliated companies	10,881		10,881	10,881
Reimbursements to German Meteorological Service (en-route)	2,174		2,174	2,174
Interest payables	4,119		4,119	4,119
Outstanding invoices	8,756		8,756	8,756
Remaining financial liabilities	395		395	395
	321,328	**4,287**	**317,041**	**336,358**
31 Dec 2010	**€'000**	**€'000**	**€'000**	**€'000**
Bonds	52,612		52,612	57,610
Debenture loans	175,000		175,000	171,765
Derivative financial instruments	4,507	4,507		4,507
Trade payables	35,987		35,987	35,987
Staff costs	21,313		21,313	21,313
Amounts owed to affiliated companies	9,193		9,193	9,193
Reimbursements to German Meteorological Service (en-route)	2,217		2,217	2,217
Interest payables	4,203		4,203	4,203
Outstanding invoices	7,756		7,756	7,756
Remaining financial liabilities	342		342	342
	313,130	**4,507**	**308,623**	**314,893**

Financial assets at fair value developed as follows:

	Change in value 2011 €'000	Change in value Cumulative €'000	Status: 31 Dec 2011 €'000	Status: 31 Dec 2010 €'000
Interest rate swap 647659 no. 45	-549	909	909	1,458
Interest rate swap 918388L no. 49	2,273	9,903	9,903	7,630
	1,724	10,812	10,812	9,088

Financial liabilities at fair value developed as follows:

	Change in value 2011 €'000	Change in value Cumulative €'000	Status: 31 Dec 2011 €'000	Status: 31 Dec 2010 €'000
Interest rate swap 653604L no. 46	166	-247	-247	-413
Interest rate swap 918135L no. 50	-492	-3,298	-3,298	-2,806
Interest rate swap LEES2089U0 no. 51	546	-742	-742	-1,288
	220	-4,287	-4,287	-4,507

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

31 Dec 2011	Category 1 €'000	Category 2 €'000	Category 3 €'000
Financial assets			
Derivative financial instruments		10,812	
Financial liabilities			
Derivative financial instruments		4,287	
31 Dec 2010	**€'000**	**€'000**	**€'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:

Category 1	Financial instruments traded in active markets whose quoted prices can be used unchanged for measurement.
Category 2	Measurement is carried out using measurement processes whose input factors can be derived directly or indirectly from observed market data.
Category 3	Measurement is carried out using measurement processes whose input factors cannot exclusively be derived from observed market data.

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

	Assets			Liabilities
	Recognised at fair value through profit or loss	Loans and receivables	Available-for-sale	Amortised cost
31 Dec 2011	**€'000**	**€'000**	**€'000**	**€'000**
Result component			462	
Currency effect				-2,322
Changes in market value	1,944			
Impairment losses		-3,158	-4	
Interest result	-789	1,566	368	-7,468
Other operating expenses		-464		-197
Net result	**1,155**	**-2,056**	**826**	**-9,987**
31 Dec 2010	**€'000**	**€'000**	**€'000**	**€'000**
Result component			1,533	
Currency effect				-5,080
Changes in market value	6,370			
Impairment losses		-2,029	-71	
Interest result	-1,526	786	406	-5,260
Other operating expenses		-873		-228
Net result	**4,844**	**-2,116**	**1,868**	**-10,568**

The net result of financial assets is made up of profit transfers of affiliated companies, changes in market value of derivatives, write-downs and write-offs of receivables, interest income and expenses as well as incidental costs of monetary transactions. The net result of financial liabilities encompasses expenses from foreign currency translation, interest income and expenses as well as incidental costs of monetary transactions.

(33) Derivative financial instruments

On the balance sheet date, the derivatives on hand at DFS comprised interest rate swaps and interest and cross-currency swaps. The breakdown of derivative financial instruments is as follows:

Description	**Remaining term**	**Fair value**		**Nominal volume**	
		31 Dec 2011	**31 Dec 2010**	**31 Dec 2011**	**31 Dec 2010**
		in € millions	**in € millions**	**in € millions**	**in € millions**
Payer interest rate swaps	1 - 5 years	-0.989	-1.701	32.000	32.000
Payer interest rate swaps	> 5 years	-3.298	-2.806	22.200	22.200
Receiver interest rate swaps	> 5 years	0.910	1.459	25.000	25.000
Interest and cross-currency swaps	> 5 years	9.903	7.630	22.200	22.200
CER/EUA swap		0.000	-0.027	0.000	0.118
		6.526	**4.555**	**101.400**	**101.518**

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 and cross currency 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 good credit ratings. Counterparty risks exist for transactions with a positive fair value.

■ 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 as well as 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 effect a change of fixed interest rate positions and variable interest rate positions. 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 as well as 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.

(34) 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 in the form of credit risks, liquidity risks and market price risks. The value-at-risk concept quantifies the market price risks.

■ 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:

	31 Dec 2011 €'000	31 Dec 2010 €'000
Securities	7,112	7,265
Trade receivables	147,268	130,612
Future receivables from construction contracts	3,998	1,244
Other financial receivables and assets	60,482	36,261

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

As regards financial investing, transactions are only entered into with counterparties who either have a long-term rating of at least A+/Aa3, short-term A-1/P-1 or a correspondingly high creditworthiness or other form of collateral. Securities relate to long-term bonds with level of creditworthiness of risk class 3. 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. Appropriate allowances for individual doubtful debts are only made in the case that the customer is insolvent or bankrupt. An age structure of overdue trade receivables can be found in Note 20.

■ 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.

From 2012, DFS is subject to a cost recovery risk. Regulation means that the respective national supervisory authority lays down the unit rates for the en-route cost unit Europe-wide. The change from full cost recovery to a performance-oriented charges structure brings with it significant changes in the revenue and cost positions. DFS is sharing within certain boundaries in the chances and risks of the traffic development. Therefore, the general economic development will be reflected in the group result (see information in the group management report).

The following aged-list shows 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.

31 Dec 2011	Total €'000	Due in less than 4 months €'000	Due in 4–12 months €'000	Due in 1–5 years €'000	Due in more than 5 years €'000
Non-derivative financial liabilities					
Bonds	47,200	0	0	22,200	25,000
Debenture loans	175,000	0	0	0	175,000
Interest	54,120	1,210	5,278	25,955	21,677
Trade payables	42,594	41,373	98	1,034	89
Other liabilities	44,507	37,838	6,669	0	0
Derivative financial liabilities					
Derivatives	2,890	167	329	2,562	-168
31 Dec 2010	**€'000**	**€'000**	**€'000**	**€'000**	**€'000**
Non-derivative financial liabilities					
Bonds	47,200	0	0	0	47,200
Debenture loans	175,000	0	0	0	175,000
Interest	54,120	1,210	5,278	25,955	21,677
Trade payables	35,987	34,638	186	1,163	0
Other liabilities	45,024	37,247	7,777	0	0
Derivative financial liabilities					
Derivatives	2,899	167	334	2,566	-168

■ Market risks

Market risk is defined as 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 is 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 2011 Nominal value €'000	31 Dec 2010 Nominal value €'000
Securities		
Fixed interest rate	7,000	7,000
Bonds		
Fixed interest rate	47,200	47,200

The following table shows the net risk by currency:

	31 Dec 2011 Nominal value JPY'000	Rate	31 Dec 2010 Nominal value JPY'000	Rate
Primary transactions	-3,000,000	100.20	-3,000,000	108.89
Derivative financial instruments	3,000,000	100.20	3,000,000	108.89
Planned hedges	0		0	
Net risk	**0**		**0**	
	USD'000		**USD'000**	
Primary transactions	5,585	1.29390	5,585	1.33920
Derivative financial instruments	0		0	
Planned hedges	0		0	
Net risk	**5,585**	**1.29390**	**5,585**	**1.33920**

The value-at-risk analysis conducted determines the currency and interest risk, which is based on a sensitivity model used for internal planning and control. Using historical simulations for the year 2011 and 2010, the value-at-risk shows the decline which will not be exceeded with a probability of 95.00 percent when the holding period is 10 days.

Value-at-risk	31 Dec 2011 Foreign exchange risk	31 Dec 2011 Interest rate risk	31 Dec 2010 Foreign exchange risk	31 Dec 2010 Interest rate risk
by currency	**€'000**	**€'000**	**€'000**	**€'000**
USD	269		169	
EUR		2,913		4,284
by line item	**€'000**	**€'000**	**€'000**	**€'000**
Money market	0	6	0	4
Capital market	1,515	3,087	1,829	4,516
Hedge	1,084	118	887	254

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.

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 risks are limited by the use of derivative financial instruments, such as interest rate swaps 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. This secures a fixed rate. The changes in interest rates therefore 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.

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

Value-at-risk Overall risk	2011 €'000	2010 €'000
At year-end	3,074	4,309
High	4,636	4,535
Low	1,857	291
Average	3,379	1,093

(35) Contingent liabilities and other financial commitments

Contingent liabilities

The nominal values of contingent liabilities comprise the following:

Contingent liabilities	2011 up to 1 year €'000	2011 1-5 years €'000	2011 more than 5 years €'000	2011 Total €'000	2010 Total €'000
Sureties	94	100	1,059	1,253	930

No provisions were recognised for the commitments shown because the risk of use was deemed to have a low probability. There exist no uncertainties as regards the amount or maturity of the contingent liabilities.

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:

	2011 up to 1 year €'000	2011 1-5 years €'000	2011 more than 5 years €'000	2011 Total €'000	2010 Total €'000
Loan commitments	1,500	0	50,000	51,500	1,500
Intercompany credit lines with affiliated companies	14,900	0	0	14,900	14,900
Capital expenditure commitments for the acquisition of					
- intangible assets	26,254	24,234	0	50,488	39,664
- property, plant and equipment	37,949	19,195	2,422	59,566	29,580
- other	54,047	18,087	152	72,286	74,618
Total	**134,650**	**61,516**	**52,574**	**248,740**	**160,262**

No provisions were recognised for the commitments shown because the risk of use was deemed to have a low probability. There exist no uncertainties as regards the amount or maturity of the other financial obligations.

A loan commitment was agreed with Energy for a loan of €50,000 thousand in the business year. The loan was taken up as of 1 January 2012 and staggered payments are to be made between 1 January 2012 and 1 January 2014. The term of the loan ends on 31 December 2031. The loan is subject to an effective interest of 3.45 percent from the day it is paid out. Interest payments are due in arrears at the end of every quarter starting from the 31 March 2012.

In order to cover their liquidity needs, the following affiliated companies were granted an intercompany 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.

(36) 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 Hawker Beechcraft Super King 350 (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 ESSP and FCS for the aircraft (serial number FL-473, identification D-CFMD) of €5,500 thousand and for the flight inspection system (type Aerodata AeroFIS) of €3,000 thousand. The loan for the aircraft matures on 31 December 2022 and for the flight inspection system on 31 December 2016. 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 a charge in favour of DFS on a Hawker Beechcraft Super King 350 (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 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 dated September and October 2008 between ESSP and FCS for the aircraft (serial number FL-626, identification D-CFME) of €4,300 thousand and for 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 collateralised 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.

(37) Post-balance sheet events

On 31 January 2012, the Supervisory Board of DFS discussed the future structure of the Board of Managing Directors and its staffing. It was decided not to extend the contracts of the three Managing Directors beyond 2012. In addition, it is planned to change the current allocation of responsibilities of the directors from when the new board is appointed.

The evaluation process begun in the previous business year on the possible purchase of a significant stake in the British air navigation service provider NATS will continue to be pursued.

(38) Auditors' fees

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

	2011 €'000	2010 €'000
Audit of the annual financial statements	154	167
Other assurance services	34	22
Tax advice	0	0
Other services	0	0
Total	**188**	**189**

(39) Service concession arrangements

The group management report contains more information on the activities of DFS.

Charges levied are the main source of revenues at DFS and they should cover the costs incurred. Each year, the Federal Ministry of Transport, Building and Urban Development determines the terminal charges for the use of terminal services and facilities based on the German Ordinance on Terminal Charges of the Air Navigation Services (FSAAKV). Charges for en-route services, on the other hand, 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 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.

(40) Related party disclosures

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 found in the list of shares:

Company	Registered seat	Shareholding in %	Equity €'000	Net income €'000
Affiliated companies				
DFS European Satellite Services Provider Beteiligungsgesellschaft mbH	Langen, Germany	100.00	24,649	2,201
DFS Unterstützungskasse GmbH	Langen, Germany	100.00	24	-1
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*	Braunschweig, Germany	55.00	3,127	884
Investments				
GroupEAD Europe S.L.*	Madrid, Spain	36.00	1,517	283
BILSODA GmbH & Co. KG*	Pullach, Germany	24.90	7	-3
Investments through affiliated companies				
Investment through DFS European Satellite Services Provider Beteiligungsgesellschaft mbH:				
European Satellite Services Provider European Economic Interest Grouping i. L.* (Liquidated on 23 December 2011)	Brussels, Belgium	16.67	0	214
European Satellite Services Provider Sociéte par Action Simplifiée*	Toulouse, France	16.67	2,775	1,129
Investment through The Tower Company GmbH:				
Tower Air Traffic Services S.L. (since 27 January 2011)	Madrid, Spain	50.00	1,000	0

*Equity and net income as at 31 December 2010

More information on affiliated companies and investment can be found in Notes 3 and 18.

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
2011	**€'000**	**€'000**	**€'000**
Revenues	71,248	810	76
Other operating income	290	1,464	93
Purchased services		3,277	
Employee expenses	21,277		
Other operating expenses		9,180	45
Interest income		0	0
Interest expense		70	0
Profit transfers	0	853	167
Loss adjustment		558	
2010	**€'000**	**€'000**	**€'000**
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
2011	**€'000**	**€'000**	**€'000**
Financial assets		27,172	748
Other assets	10,900	1,029	35
Other liabilities	3,794	11,909	17
2010	**€'000**	**€'000**	**€'000**
Financial assets		27,172	362
Other assets	15,158	1,810	46
Other liabilities	1,628	10,985	0

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 41.

(41) 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:

	Fixed components (including benefits in kind)	Performance-related component	Total emoluments
2011	**€'000**	**€'000**	**€'000**
Dieter Kaden (Chairman)	322	112	434
Ralph Riedle	247	90	337
Jens Bergmann	258	90	348
	827	**292**	**1,119**
2010	**€'000**	**€'000**	**€'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, DFS paid no remuneration for consultancy or service contracts.

Termination benefits were as follows:

2011	Pension benefits €'000	Pension payments €'000	Expenses for pension benefits earned in the current year* €'000
Dieter Kaden (Chairman)	2,872	0	257
Ralph Riedle	2,122	0	92
Jens Bergmann	924	0	80
Former Managing Directors	4,345	298	192
	10,263	**298**	**621**
2010	**€'000**	**€'000**	**€'000**
Dieter Kaden (Chairman)	2,494		224
Ralph Riedle	1,892		138
Jens Bergmann	697		67
Former Managing Directors	4,068	293	213
	9,151	**293**	**643**

*Service cost and interest cost

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

Supervisory Board

The Supervisory Board comprises the following voting members:

Shareholder representatives

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

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

Dr Angelika Kreppein
Regierungsdirektorin
Federal Ministry of Finance

Dr Reinhard Kuhn
Ministerialrat
Referatsleiter R II 5
Federal Ministry of Defence
until 30 April 2011

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

Hans-Dieter Poth
Oberst i.G.
Referatsleiter FüL III 4
Bundesministerium der Verteidigung

Martin Walber
Regierungsdirektor
Referatsleiter R II 5
Federal Ministry of Defence
from 1 May 2011

Staff representatives

Michael Schäfer
Deputy Chairman
Watch supervisor in flight data handling

Otto Fischer
Director Corporate Development

Holger Müller
Air traffic controller

Petra Reinecke
Air traffic controller

Peter Schaaf
Air traffic controller/
Chairman Central Staff Council

Dirk Wendland
Systems engineer

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

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

	2011 €'000	2010 €'000
Otto Fischer	0.5	0.6
Dr Norbert Kloppenburg	0.7	0.9
Dr Angelika Kreppein	1.0	0.5
Dr Reinhard Kuhn	0.2	0.6
Holger Müller	0.5	0.6
Rainer Münz	1.0	0.7
Hans-Dieter Poth	0.4	0.7
Petra Reinecke	0.9	0.5
Peter Schaaf	0.6	0.6
Michael Schäfer	0.9	0.9
Prof Klaus-Dieter Scheurle	0.6	0.4
Robert Scholl	0.0	0.3
Martin Walber	0.4	0.0
Dirk Wendland	1.0	0.9
Christiane Wietgrefe-Peckmann	0.0	0.4
	8.7	**8.6**

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.

(42) Disclosures on the public corporate governance code

The Board of Managing Directors has drawn up a corporate governance report for the business year 2011 in accordance with the regulations of the public corporate governance code of the Federation. The Board of Managing Directors and the Supervisory Board have jointly issued a compliance statement. The corporate governance report is 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 net assets, financial position and results of operation 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, 8 March 2012

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 2011. 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, 8 March 2012

RBS RoeverBroennerSusat GmbH & Co. KG
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Graf von Kanitz
Auditor

Schorse
Auditor

Acronyms and abbreviations

AIS	Aeronautical Information Service
A-SMGCS	Advanced Surface Movement and Guidance System
ATCAS	Air Traffic Control Automation System
ATM	Air Traffic Management
AUSTRO CONTROL	Austro Control Österreichische Gesellschaft für Zivilluftfahrt mbH, Vienna/ Austria
BAF	Federal Supervisory Authority for Air Navigation Services – Bundesaufsichtsamt für Flugsicherung
BFS	Federal Administration of Air Navigation Services – Bundesanstalt für Flugsicherung
BilMoG	German Accounting Law Modernisation Act – Bilanzrechtsmodernisierungsgesetz
BILSODA	BILSODA GmbH & Co. KG
BMVBS	Federal Ministry of Transport, Building and Urban Development – Bundesministerium für Verkehr, Bau und Stadtentwicklung
CDA	Continuous Descent Approach
CHF	Swiss Franc
DCF	Discounted Cash Flow
de	(Top-level Domain for) Germany
DFS	DFS Deutsche Flugsicherung GmbH
DM	German Mark – Deutsche Mark
DWD	German Meteorological Service – Deutscher Wetterdienst
EAD	European AIS Database
EANPG	European Air Navigation Planning Group
EBIT	Earnings Before Interest and Taxes
EEIG	European Economic Interest Grouping
Energy	DFS Energy GmbH
ERP	Enterprise Resource Planning
ESSP	European Satellite Services Provider
EU	European Union
EUR	Euro
EUROCONTROL	European Organisation for the Safety of Air Navigation
e.V.	Registered Association – Eingetragener Verein
FABEC	Functional Airspace Block Europe Central
FCS	Flight Calibration Services GmbH
GBP	Pound Sterling
GdF	Air Navigation Services Union – Gewerkschaft der Flugsicherung
GmbH	Limited Liability Company – Gesellschaft mit beschränkter Haftung
GroupEAD	GroupEAD Europe S.L., Madrid/Spanien
HGB	German Commercial Code – Handelsgesetzbuch
HRB	Commercial Register B – Handelsregister Abteilung B
IAS	International Accounting Standards
IASB	International Accounting Standards Board

Acronyms and abbreviations

IATA	International Air Transport Association
ICAO	International Civil Aviation Organisation
iCAS	iTEC Center Automation System
IFR	Instrument Flight Rules
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
ILS	Instrument Landing System
IMC	Instrument Meteorological Conditions
ISIS-XM	Improved Speech Integrated System
ISO	International Organisation for Standardisation
iTEC	interoperability Through European Collaboration
JPY	Japanese Yen
KARLDAP	Karlsruhe Automatic Data Processing and Display System
KG	Partnership – Kommanditgesellschaft
LASER	Langen replacement of the voice switching system – Langen Sprachvermittlung Erneuerung
LBA	Federal Aviation Office – Luftfahrt-Bundesamt
LuftfzgG	Law on Rights Regarding Aircraft – Gesetze über Rechte an Flugzeugen
LuftVG	German Aviation Act – Luftverkehrsgesetz
MLAT	Multilateration
Mode-S	Mode Select
MUSE	Replacement of the voice switching system in Munich – München Sprachvermittlung Erneuerung
NATS	National Air Traffic Services
P1	Project 1
QTE	Qualified Technological Equipment
RASUM	Radio Site Upgrade and Modernisation
RBS	RoeverBroennerSusat GmbH & Co. KG
S.A.	Société Anonyme
SAS	Société par Action Simplifiée
SDR	Surveillance Data Recording
SES	Single European Sky
SESAR	Single European Sky ATM Research
SJU	SESAR Joint Undertaking
S.L.	Sociedad Limitada
SPC	Special Purpose Company
TATS	Tower Air Traffic Services S.L.
TTC	The Tower Company GmbH
USD	United States Dollar
VAFORIT	Very Advanced Flight Data Processing Operational Requirements Implementation
VAG	German Insurance Supervision Act – Versicherungsaufsichtsgesetz
VaR	Value at Risk

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