



INFLIGHT ENTERTAINMENT AT ITS BEST.

ANNUAL REPORT 2010

Non-binding voluntary translation

www.advanced-inflight-alliance.com

AI  ALLIANCE
Advanced Inflight Alliance AG

Advanced Inflight Alliance AG at a glance

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Telephone	0049-89-613805-0
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e-mail	info@aialliance.com
Website	www.advanced-inflight-alliance.com
Management Board	Dr. Rüdiger Berndt, CEO, Chairman Louis Bélanger-Martin, COO Wolfgang Brand, CFO
Supervisory Board	Dr. Andreas Beyer, Chairman Arne Christes, Vice Chairman Jörgen Chidekel
Trading segment	General Standard
Share capital	EUR 14,500,000.00
Shareholder structure (%)	Auctus sechszwanzigste Beteiligungsgesellschaft mbH, 16.167% Aristotelis Mistakidis, 7.342% Lars Tvede, 5.517% AXXION S.A., 4.030% Shareholder Value Beteiligungen AG, 3.457%
Other (%)	63.487%
ISINDE / Stock exchange symbol	ISINDE0001262186, symbol: DVN1
Industry	Media
Coverage	DZ Bank AG
Designated Sponsor	VEM Aktienbank AG DZ Bank AG
Strategy	Advanced Inflight Alliance AG focuses on expanding its global market leadership in the Inflight Entertainment business both through organic growth and acquisitions.
Employees (closing day)	Parent company: 8, Group total.: 476
Accounting	IFRS / German Commercial Code (HGB)

Short profile

Short profile

Advanced Inflight Alliance AG is the only listed company operating in the Inflight Entertainment sector. It acts as the holding company for its subsidiaries Atlas Air Film + Media Service GmbH, Duisburg, Inflight Productions Limited, London, UK, DTI Software Inc., Montreal, Canada, and Fairdeal Multimedia Pvt. Ltd., Mumbai, India, and their worldwide branch offices. The subsidiaries provide comprehensive Inflight Entertainment services (audio, video, games, engineering) for passenger airlines through the IFE Alliance platform. The core expertise of the Advanced Inflight Alliance Group comprises the composition and provision of inflight video and music programs and computer games, as well as integrating the control software for all Inflight Entertainment system content. The Group is able to serve more than 130 airlines in all time zones with its subsidiaries that are distributed around the globe. In 2010, it managed to further consolidate its global market leadership among the providers of airlines.

Advanced Inflight Alliance AG focuses on expanding its global market leadership in this niche sector both through organic growth and acquisitions.

Key figures for 2010 and comparison with the previous year

In EUR thousand	Jan. 1 - Dec. 31, 2010	Jan. 1 - Dec. 31, 2009
Revenue	111,114	108,051
Earnings before interest, taxes, depreciation and amortization (EBITDA)	12,631	11,735
Earnings before interest and taxes (EBIT)	8,413	6,818
Financial result	-824	-951
Earnings before taxes (EBT)	7,589	5,867
Consolidated net profit for the financial year (after non-controlling interests)	5,493	4,713
Earnings per share in EUR	0.38/0.38	0.33/0.32
Number of employees (average)	476	441

These annual financial statements were prepared in accordance with the International Financial Reporting Standards (IFRS). Differences from rounding may occur in tables when individual items are added.

Company calendar	
April 29, 2011	Publication of the 2010 annual financial statements
May 17, 2011	Interim management statement Q1 2011
Juni 10, 2011	Annual General Meeting, Munich
August 31, 2011	Half-year report 2011
November 17, 2011	Interim management statement Q3 2011

Forward-looking statements

Statements regarding the future development of the Advanced Inflight Alliance Group and its companies merely constitute forecasts and estimates and not established historical facts. Statements of this nature serve solely to provide information and are characterized by terms such as „believe“, „expect“, „predict“, „intend“, „forecast“, „plan“, „estimate“, „expect“ or „aim for“. These forward-looking statements are based on all identifiable information, facts and expectations currently available to us. Their validity thus is limited to the time of publication.

Actual events and the company's development might differ substantially from the relevant forecasts because forward-looking statements by nature entail uncertainties and risk factors with unpredictable ramifications – such as changes in the economic environment for instance – or if underlying assumptions do not occur at all or only in part. Advanced Inflight Alliance AG always endeavors to verify the data that it publishes and to keep it updated. However, the Company cannot be liable for adjusting forward-looking statements to events or developments occurring at a later date. Hence we will not assume any liability or warranty, whether express or implied, for the timeliness, accuracy and completeness of these data and information.

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Important Note:

This document represents a non binding English translation of parts of the official Group Accounts of Advanced Inflight Alliance AG 2010 based on IRFS.



Dr. Rüdiger Berndt, CEO, Chairman

Letter from the company's CEO to the shareholders

Our earnings in 2010 were excellent despite the challenging environment. Now we will work to shape our future based on our "Inflight Entertainment Excellence 2015" initiative.

Dear Shareholders,

Our company performed very well in the 2010 financial year despite the challenging economic environment. All key performance indicators improved in spite of extraordinary one-off expenses arising from the change in the Management Board at the start of 2010. We were able to implement the savings potentials that the carriers required from us in the course of the economic crisis and, at the same time, improve our earnings thanks to our long-term customer relationships, the excellent work of our staff and creative solutions. The recovery of the global economy, which was reflected in the substantial increase in the number of flights worldwide during the second half of 2010, will not be sufficient by itself to generate profits in the hotly contested flight market in the future. The political upheaval in the Middle East caused oil prices to jump at the start of 2011. According to IATA's estimates, compared to 2010 this price increase alone will cut the carriers' 2011 profits in half. That's precisely why we — a service provider to the world's largest carriers — are continuously exposed to the carriers' constant demands for cost efficiency and savings potentials.

We are meeting these challenges head on in many different ways. For one, we are working very hard to optimize our services and work flows in order to further increase their efficiency. For another, we are continuing to bundle our subsidiaries' services and products in order to leverage additional synergies. This also entails developing a conceptual approach to integrated Inflight Entertainment that is unique worldwide. No competitor possesses the options that we have at our disposal thanks to the range of our service portfolios in the areas of technical services, e-solutions, games and applications as well as video and audio programming. We launched the Inflight Entertainment Excellence 2015 initiative in 2011 to help us implement these goals in a consistent and targeted manner.

In 2010, the technical features of Inflight Entertainment continued to evolve in completely new ways. The latest generation of equipment offers not just unlimited storage capacity, it also costs and weighs far less. Applications are being expanded at the same time thanks to better displays and touch screens. While there is almost blanket coverage of Internet access — i.e. the ability to connect to the Internet during flights — throughout the world by now, the fairly high costs are a significant hurdle.

Technology also enables passengers to use their personal devices by way of WLAN in the cabin and access content either from a server in the cabin or from the Internet.

What does all this mean for our business? For one, we will continue to service thousands of tried and tested systems that are permanently installed in long-haul aircraft, which generally have a useful life of about 15 years. The new long-haul aircraft that will be delivered in the coming years are all equipped with fully installed state-of-the-art systems. The possibilities of WLAN and Internet connectivity complement our services and should not be perceived as competing with our services. Our core business thus rests on a solid foundation.

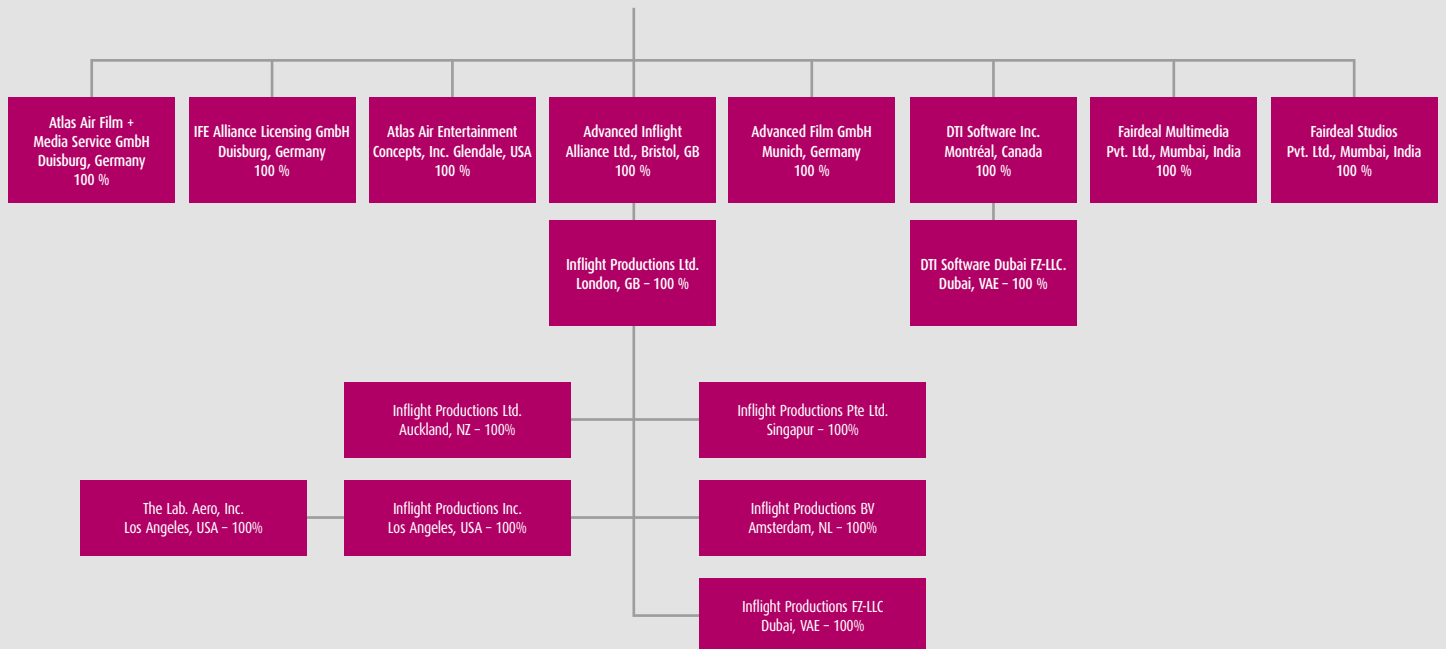
But Inflight Entertainment is about to take a quantum leap in the short and medium-haul business. Technical developments now make it possible to offer Inflight Entertainment on these routes too; it was not feasible until now to do so for economic reasons related to both weight and costs. The global market for Inflight Entertainment might double in the future as a result. Yet we cannot simply transfer existing Inflight Entertainment concepts that work on long-haul routes to the shorter ones. The challenge is to develop conceptual approaches that build on the particular circumstances of these routes in intelligent ways and offer value to passengers and carriers alike. This, too, is one of the objectives of our Inflight Entertainment Excellence 2015 initiative.

As a listed company, organic growth will not satisfy our aims. We will continue to pursue our buy & build strategy, in particular, with respect to acquisitions that will fit into our value chain. The plan is to substantially strengthen the Group with respect to inflight licensing in 2011. This will boost our leading market position in the industry not just for the benefit of our customers — the major carriers, which will profit from excellent services at even better prices — but also our shareholders, who will profit from a company that is aligned in ways more stable and lucrative.

Munich, April 2011

Dr. Rüdiger Berndt
Chief Executive Officer

Group structure



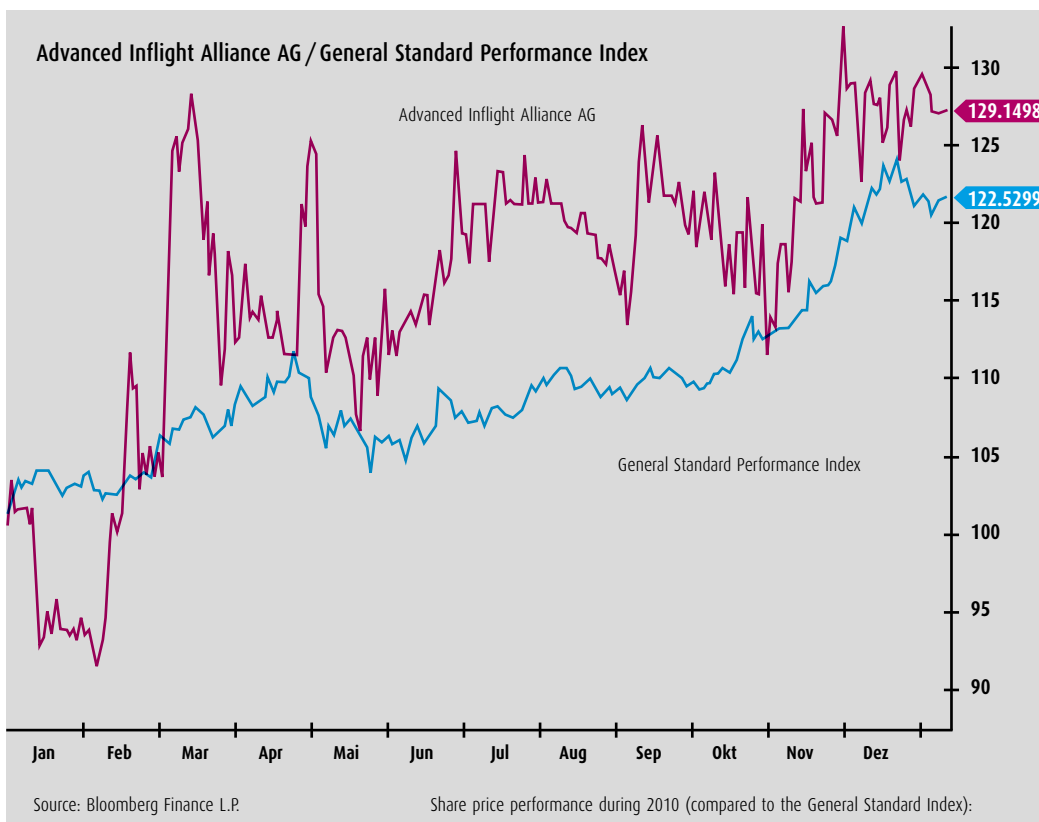
The share and investor relations

The share

The recovery trend in the international stock markets that had begun in 2009 continued in 2010. The German DAX (Deutscher Aktienindex) started the year at 5,957 points and closed 2010 at 6,914 points. While it did not breach the psychological threshold of 7,000 points, at an increase of 16 percent the DAX did perform exceedingly well in 2010. The General Standard Index even did slightly better in 2010. Starting the year at 2,318 points, it gained about 23 percent in 2010 and closed at 2,841 points.

On their first day of trading in 2010, the shares of Advanced Inflight Alliance AG were listed at EUR 2.50, subsequently rising to EUR 3.22 on March 12, 2010, the highest level in the first six months of 2010. The share price then retreated marginally once more, closing the period at EUR 3.00 on June 30, 2010. The shares thus gained a substantial 20 percent in the first half of 2010, significantly outperforming their benchmark index, the General Standard. In the second half of 2010, the share of Advanced Inflight Alliance AG moved laterally between EUR 2.85 and EUR 3.00 for quite some time. In December, it resumed its upward trajectory, ending the year at EUR 3.19 on December 30, 2010. This means that the share of Advanced Inflight Alliance AG climbed by about 29 percent in 2010, substantially outperforming their benchmark index, the General Standard.

	2010	2009
Opening price	2,50	1,50
Closing price	3,19	2,47
High	3,29	3,78
Low	2,24	1,18
Market capitalization	46,255,000,00	35,815,000,00

Share price performance during 2010 (compared to the General Standard Index):

Shareholder structure

The share capital of Advanced Inflight Alliance AG amounted to EUR 14,500,000.00 as of December 31, 2010, and was divided into the same amount of no-par value shares. The shares are quoted in the General Standard trading segment of the Frankfurt Stock Exchange. Roughly 60 percent of the shares were classified as free-floating shares at the end of period date. Based on the information available to the company and information provided through notices in accordance with the German Securities Trading Act, the remaining shares were distributed as follows as of the closing date (in %):

Significant shareholders as of December 31, 2010

Shareholder	% share
Auctus sechszwanzigste Beteiligungsgesellschaft mbH	16,167 %
Aristotelis Mistakidis	7,342 %
Lars Tvede	5,517 %
AXXION S.A.	4,030 %
Shareholder Value Beteiligungen AG	3,457 %
Free float	63,487 %

Directors' holdings as of December 31, 2010

Name	Function	held by	Number
Dr. Rüdiger Berndt	Chief Executive Officer	Himself	144,998
Dr. Rüdiger Berndt	Chief Executive Officer	Family members	114,691
Wolfgang Brand	Chief Financial Officer	Himself	10,000

Investor relations

The company's Management Board continued to cultivate its contacts to analysts, investors and the press in the 2010 financial year. It presented the company at a number of analyst and investor conferences in Germany. The financials press conference for the 2009 financial year took place on May 3, 2010. On November 22, 2010, the Management Board presented Advanced Inflight Alliance AG to analysts and investors at the German Equity Forum in Frankfurt/Main.

Dividend

Based on the company's performance, its Management Board and Supervisory Board will propose to the Annual General Meeting on June 10, 2011, that it pay a dividend of EUR 0,12 for the 2010 financial year. This corresponds to a dividend increase by 20 percent.

Advanced Inflight Alliance AG Corporate Governance Report for the 2010 financial year

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Advanced Inflight Alliance AG

Corporate Governance Report 2010

1. Corporate governance in the Advanced Inflight Alliance Group

Good corporate governance is the foundation of responsible and value-oriented corporate management, the efficient collaboration of Management Board and Supervisory Board, transparency in reporting as well as adequate risk management. Existing corporate governance structures thus must be reviewed on a continuous basis and refined as necessary. Particularly the new requirements resulting from the amendments of the German Corporate Governance Code as of May 26, 2010, gave rise to further changes in the 2010 financial year. The Management Board and the Supervisory Board have examined in detail to what extent the company can and should comply with these amendments.

Below, the Management Board reports - also on behalf of the Supervisory Board - on the corporate governance of Advanced Inflight Alliance AG in accordance with item 3.10 of the German Corporate Governance Code. This chapter also contains the statement on corporate governance pursuant to Section 289a German Commercial Code and the remuneration report.

2. Parameters and procedures of the Management Board

During the reporting year, the Management Board of Advanced Inflight Alliance AG initially had two members but was expanded to three members at the end of October. The Management Board has one chairman (hereinafter also referred to as the Chief Executive Officer or CEO). While he runs the company's business, all members of the Management Board are jointly accountable for the outcome. He determines the company's corporate goals, its basic strategic alignment, its corporate policies and the Group's organizational structure. The overall accountability of all members of the Management Board notwithstanding, each individual member of the Management Board acts autonomously within the area assigned to him but is required to subordinate the interests of his area to the interests properly understood of the company on the whole. The Management Board's rules of procedure specify the allocation of responsibilities among its members, as well as all transactions requiring the Supervisory Board's approval. The Supervisory Board determines the rules of procedure applicable to the Management Board. The Management Board regularly convenes Management Board meetings. It generally makes its decisions during the meetings or by circular memorandum. If possible, the Management Board shall adopt its decisions unanimously. The Chief Executive Officer decides if the Management Board cannot reach a consensus on a matter that needs to be resolved. In such cases, the Chairman of the Supervisory Board must be notified of the respective decision.

The Management Board also informs the Supervisory Board – in a regular, timely and comprehensive manner – of all issues relevant to the Company in terms of planning, performance, exposure to risk and risk management. It also submits both the business plan for the coming financial year as well as the mid-term planning to the Supervisory Board ahead of the latter's final meeting in the given financial year.

The Chairman of the Management Board shall inform the Chairman of the Supervisory Board without delay of important events that are essential for the assessment of the company's situation and development or for its management as well as of any defects in the monitoring systems. Transactions and measures requiring the Supervisory Board's approval are submitted to it in timely fashion.

3. Parameters and procedures of the Supervisory Board

Pursuant to the company's Articles of Association, the Supervisory Board of Advanced Inflight Alliance AG consists of three members. The Supervisory Board monitors and advises the Management Board in the management of the company's business. In particular, it is also tasked with appointing the members of the Management Board, fixing the total compensation of each individual Management Board member, reviewing and approving the annual financial statements of Advanced Inflight Alliance AG as well as reviewing and approving the consolidated financial statements of Advanced Inflight Alliance AG. The activities of the Supervisory Board in the 2010 financial year are disclosed in detail in the Report of the Supervisory Board.

The members of the Supervisory Board are elected for a term ending at the conclusion of the Annual General Meeting at which the actions of the Supervisory Board members during the fourth financial year following the commencement of their term of office are formally approved. The financial year in which their term of office begins is not included in this calculation. Any successor of a Supervisory Board member, who left the Supervisory Board prior to the end of his term of office, is elected for the remainder of the departed member's term. Substitute members may be elected for Supervisory Board members; they take the place of Supervisory Board members, who depart ahead of schedule or owing to a challenge to their election, in the order determined at the time they were elected. If a substitute member takes the place of a departed member, the substitute member's term of office shall expire at the end of the Annual General Meeting at which the election for a replacement takes place but no later than upon expiration of the departed Supervisory Board member's term of office.

The Management Board constitutes a quorum if more than one half of its members participate in the resolution. Furthermore, if the Supervisory Board has three members, it constitutes a quorum only if all its members participate in the resolution. The Supervisory Board's resolutions must be adopted with the majority of the votes cast. Abstentions are not considered votes cast. In the event of a tie, the vote of the Chairman or, if the Chairman does not participate in the resolution, the Vice Chairman's vote shall decide the matter.

The members of the Supervisory Board are obligated to inform the Supervisory Board of any conflicts of interest which may result from a consultant or directorship function with clients, suppliers, lenders or other business partners. In its report to the Annual General Meeting, the Supervisory Board discloses any conflicts of interest which have occurred together with their treatment.

The Supervisory Board established an Audit Committee for the purpose of facilitating its work. The Audit Committee comprises two members. The Chairman of the Audit Committee is an independent expert as defined by the German Corporate Governance Code and therefore has particular expertise and experience in the application of accounting principles and international control procedures. The Audit Committee deals mainly with issues pertaining to the company's financial reporting, compliance and risk management; the auditor's required independence; as well as the determination of the audit's focal points and the audit engagement fee agreed with the auditor. It also prepares the Supervisory Board's resolution approving the annual financial statements and the consolidated financial statements. The Audit Committee also examines the half-year financial statements and discusses the auditor's report on its review of said financial statements with the auditor. It also prepares the Supervisory Board's proposal to the Annual General Meeting on the auditor's election. In order to ensure the auditor's independence, the Audit Committee obtains a declaration from the intended auditor regarding grounds, if any, for exclusion or bias.

The Supervisory Board did not form any further committees.

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4. Annual General Meeting

The shareholders exercise their rights at the Annual General Meeting. One share confers one vote in any resolution. The shareholders have the option to exercise their voting right themselves at the Annual General Meeting or to commission an agent of their choice or a company-appointed proxy bound by instructions. Unless required otherwise by law, the resolutions of the Annual General Meeting shall be passed with a simple majority of the votes cast. In the event that the law stipulates a capital majority in addition to the majority vote, resolutions shall be passed with a simple majority of the share capital represented at the time the resolution was passed.

The members of the Supervisory Board are elected by the Annual General Meeting. The Annual General Meeting adopts a resolution to formally approve the actions of the Management Board and Supervisory Board. It also decides on the allocation of the net retained profits and capital measures, and approves corporate contracts; it also fixes the compensation of the Supervisory Board and resolves amendments of the Company's Articles of Association. The Management Board and the Supervisory Board account for their actions and the Company's performance in the prior financial year at the Annual General Meeting. The German Stock Corporation Act provides for the convening of an extraordinary General Meeting in special cases.

The convening of the Annual General Meeting including the agenda and an explanation of the terms and conditions for participating in it and shareholders' rights are published within the deadlines stipulated by law prior to the date of the Annual General Meeting. All documents and information referring to the Annual General Meeting are also available on the company's website.

5. Accounting and audits

The financial reporting of the Advanced Inflight Alliance Group is prepared in accordance with Section 315a of the German Commercial Code based on the International Financial Reporting Standards (IFRS) as applicable within the European Union. The single-entity financial statements of Advanced Inflight Alliance AG are prepared in accordance with the requirements of German law, in particular, the German Commercial Code.

The auditor of the annual financial statements and the auditor tasked with the review of the condensed financial statements and the interim management report contained in the half-year financial report are both appointed by the Annual General Meeting. The Supervisory Board's Audit Committee prepares these appointments. The audit of the annual financial statements covers the single-entity financial statements of Advanced Inflight Alliance AG as well as the consolidated financial statements of the Advanced Inflight Alliance Group.

In order to ensure the greatest possible transparency, the company furnishes regular and timely information on its position to its shareholders as well as to financial analysts, the media and the interested public. The annual financial statements of Advanced Inflight Alliance AG, as well as the consolidated financial statements of the Advanced Inflight Alliance Group, are published within four months of the close of the given financial year. In addition, shareholders and third parties are also informed by means of the half-year financial report and interim management statements. The half-year financial report is reviewed by the auditor.

Information pertaining to the company is also furnished at the Annual General Meeting, in press conferences and analysts' meetings, as well as on the website of Advanced Inflight Alliance AG. The website of Advanced Inflight Alliance AG also provides access to a financial calendar containing the dates of all important publications and events such as the annual report, interim reports and General Meetings.

6. Corporate governance practices

The Advanced Inflight Alliance Group is committed to responsible management focused on generating shareholder value in the long term and aligned with shareholders' rights. Openness and clarity in corporate communications are particularly important in that connection. This is key to maintaining and enhancing the trust and confidence that our investors, our employees and the public place in us.

The Advanced Inflight Alliance Group and its subsidiaries act in concert with each other as a global service provider headquartered in Munich, Germany. Hence German securities and capital market legislation, the company's Articles of Association as well as implementation of the German Corporate Governance Code provide the underpinnings of the Group's management and monitoring structure.

Boosting the enterprise value of the Advanced Inflight Alliance Group, systematically and continuously, is integral to the Group's corporate strategy and thus also its policies on opportunities and risks. The Management Board and the Supervisory Board use a groupwide risk management system to monitor and manage the company's exposure to risk. This risk management system is continuously refined, adjusted to changing parameters, and audited by the auditors of the financial statements. The Management Board regularly informs the Supervisory Board of any existing risks and their development. The Supervisory Board in particular monitors the accounting process, including the reporting system, as well as the effectiveness of the internal control system, the risk management system, the internal audit system, compliance and the audits of the annual accounts.

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7. German Corporate Governance Code and Declaration of Compliance

The German Corporate Governance Code applies as amended May 26, 2010. Besides descriptions of key legal requirements, it also contains recommendations and suggestions for good corporate governance. While there is no statutory requirement to abide by these standards, listed companies are required under Section 161 German Stock Corporation Act to issue an annual Declaration of Compliance with the Code's recommendations. All deviations from these recommendations shall be disclosed in that connection.

The Management Board and the Supervisory Board of Advanced Inflight Alliance AG issued the following Declaration of Compliance with the German Corporate Governance Code in December 2010:

1. Advanced Inflight Alliance AG will comply with the recommendations of the German Corporate Governance Code as amended May 26, 2010, with the following exceptions:
 - a) **Support for shareholders in connection with voting by post (item 2.3.3 sentence 2)**

For the time being, Advanced Inflight Alliance AG intends to dispense with the option of voting by post. The company is already offering its shareholders the option of instructing a company-appointed proxy to exercise their voting right. Shareholders thus already have the opportunity to vote before the day of the Annual General Meeting. Offering the additional option of voting by post thus would not substantially simplify shareholders' exercise of their rights.
 - b) **D&O insurance for the Supervisory Board (item 3.8 para 3)**

D&O insurance that does not provide for a deductible is in place for the members of the Supervisory Board. The company does not believe that stipulating a deductible is conducive to improving the attitude and sense of accountability that Supervisory Board members bring to bear on their tasks and functions. However, the statutory requirements regarding a deductible are complied with in the case of the Management Board.
 - c) **No appropriate consideration of women in the composition of the Management Board (item 5.1.2 para 1 sentence 2)**

As in the past, the Supervisory Board does not comply with this recommendation insofar as it focuses first and foremost on candidates' qualifications when appointing individuals to the Management Board and does not assign priority to gender in its decision making. The composition of the company's Management Board already reflects its international activities, now that Mr. Bélanger-Martin has been appointed to the Management Board. For the rest, the terms of office of the Management Board's current members will run for at least another two years each such that no new appointments are imminent at this time.
 - d) **Constitution of committees (item 5.3.1, 5.3.3)**

The company's Supervisory Board has established only one committee, an Audit Committee. For the rest, it sees no need to create additional committees, especially a nomination committee, given the Supervisory Board's size (three members).

e) **Specification of concrete objectives regarding the composition of the Supervisory Board (item 5.4.1 para 2 and 3)**

The Supervisory Board of Advanced Inflight Alliance AG will not specify any concrete objectives regarding its composition. Up to now, the Supervisory Board has exclusively based its proposals for the nomination of Supervisory Board members on the suitability of the male and female candidates with the aim of creating a Supervisory Board whose members as a group possess the knowledge, skills and professional experience required to properly complete its tasks. The Supervisory Board firmly believes that this approach works, which is why it does not see any need to change this practice. As a consequence, the recommendations in item 5.4.1 para 3 based on this can also not be followed. Furthermore, the current members of the Supervisory Board were elected at the company's Annual General Meeting on June 7, 2010, with terms of office running until the 2015 Annual General Meeting.

f) **Limiting applications for court-ordered appointments of Supervisory Board members until the next following Annual General Meeting (item 5.4.3 sentence 2)**

The Management Board and the Supervisory Board reserve the right not to limit applications for court-ordered appointments of Supervisory Board members until the next following Annual General Meeting. This is because the company wants to take the precaution of ensuring that the elections of all Supervisory Board members take place at the same time, keeping separate elections at different General Meetings to a minimum.

g) **Deadline for publishing financial statements (item 7.1.2 sentence 4)**

For organizational reasons, the consolidated financial statements are not made publicly accessible within 90 days of the end of the financial year and interim reports are not made publicly accessible within 45 days of the end of the reporting period. The consolidated financial statements and interim reports of Advanced Inflight Alliance AG are prepared and made available to the public within statutory deadlines. The Management Board and the Supervisory Board are of the view that this ensures sufficiently timely information of the public.

2. Since the publication of the previous Declaration of Compliance of the Management Board in December 2009 and of the Supervisory Board in March 2010, Advanced Inflight Alliance AG has generally been in compliance with the recommendations contained in the German Corporate Governance Code. Since July 2, 2010, the company has not observed the following recommendations contained in the Code as amended on May 26, 2010: items 3.8 para 3; 5.1.2 para 1 sentence 2; 5.3.1; 5.3.3; 5.4.1 para 2 and 3; 5.4.3 sentence 2; 7.1.2 sentence 4. From the date of issuing its most recent Declaration of Compliance in December 2009/March 2010 to July 2, 2010, the company has not observed the following recommendations contained in the Code as amended on June 18, 2009: items 3.8 para 3; 4.2.1 sentence 1; 5.1.2 para 1 sentence 2; 5.3.1; 5.3.3; 5.4.3 sentence 2 and 7.1.2 sentence 4.

After the previous CFO, Mr. Peter Biewald, had resigned from the Management Board on short notice, the Management Board of Advanced Inflight Alliance AG had only one member between February 2, 2010, and March 3, 2010, when new Management Board members were appointed. Since Mr. Biewald resigned from the Management Board for personal reasons with immediate effect, the Supervisory Board had to find a suitable successor during this period. For this short period of time, the company therefore was not in compliance with the recommendation of item 4.2.1 of the Code as amended on June 18, 2009.

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The Management Board of Advanced Inflight Alliance AG has comprised more than one person since March 3, 2010.

Please also see the explanations under no. 1 for the reasons for not observing the recommendations of the Code stated under no. 2.

8. Implementation of corporate governance during the financial year

Following the company's second interim management statement on November 13, 2009, and its subsequent letter to the shareholders dated November 26, 2009, the Chairman of the Supervisory Board requested that the Management Board furnish additional details on the events and circumstances reported in these documents. This led to a substantial disruption in communications between the Chief Executive Officer and the Chairman of the Supervisory Board.

Investigations by the Chairman of the Supervisory Board in early 2010 revealed that members of the Management Board had variously and repeatedly breached recommendations and suggestions of the German Corporate Governance Code and the statutory requirements set forth therein during the 2009 financial year and at the start of the 2010 financial year without disclosing any of it to the Supervisory Board. The Supervisory Board disclosed these matters in its March 2010 Declaration of Compliance. New personnel was appointed to the Management Board in March 2010.

However, breaches by individuals of statutory requirements, the rules and regulations of the German Corporate Governance Code and the company's established structures for ensuring responsible corporate management in the pursuit of shareholder value do not necessarily mean that the company's existing structures are inadequate. The new Management Board and the Supervisory Board have reviewed the structures described above, taking the given events into account, and have come to the conclusion that they provide a comprehensive and solid basis for responsible corporate management in the future and thus that there is no need for additional action.

9. Compensation report

The basic structure and the amount of the compensation paid to the members of the Management Board and the Supervisory Board of Advanced Inflight Alliance AG are discussed below. There were changes both on the Supervisory Board and the Management Board in the 2010 financial year. In addition, the Management Board was expanded from initially two members to three. The change on the Management Board also entailed a few adjustments of the compensation system that applies to it. As a result, the director's contracts closed in 2010 were structured in line with the requirements of the German Law on the Adequacy of the Management Board's Compensation; this law took effect on August 5, 2009, and its requirements were integrated into the German Corporate Governance Code and in part refined by it.

Basic features of the compensation system applicable to the Management Board

The compensation of the members of the company's Management Board residing in Germany — Dr. Rüdiger Berndt (Chief Executive Officer) and Mr. Wolfgang Brand (Chief Financial Officer) — consists of a fixed, monthly base salary and an annual variable component (bonus). The variable compensation consists of a share in consolidated IFRS earnings before taxes (hereinafter "consolidated IFRS EBT") for the given financial year. The variable compensation of the Chief Executive Officer is limited to a maximum of EUR 840 thousand per year and that of the Chief Financial Officer to EUR 240 thousand per year.

The following payment rules and clawback provisions apply to the bonus:

- ▶ Thirty percent of the bonus is not subject to a clawback provision and is paid within one month of adoption of the given consolidated financial statements.
- ▶ Seventy percent of the bonus is subject to a clawback provision. Fifty percent of the portion of the bonus subject to clawback is paid within one month of adoption of the given consolidated financial statements. The remaining 50 percent of the portion of the bonus subject to clawback is paid the following financial year within one month of adoption of the given consolidated financial statements.

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A member of the Management Board, who has already received the portion of the bonus subject to clawback, shall fully or partially pay it back to the company if it so requests, in writing, when the following events occur:

- ▶ If the company's approved consolidated financial statements show negative consolidated IFRS earnings before taxes in one or both of the two financial years following the financial year to which the respective variable compensation is attributable (hereinafter the "relevant financial year"), the given Management Board member shall pay back fifty percent of the portion of the bonus that is subject to clawback and has already been paid to it for each financial year in which consolidated IFRS EBT are negative.
- ▶ If consolidated IFRS earnings before taxes in one or both of the financial years following the relevant financial year are less than consolidated IFRS EBT in the relevant financial year, the Management Board member shall pay one half of the percentage by which consolidated IFRS EBT fell in the given financial year out of the portion of his bonus that is subject to clawback and was already paid to him.

Moreover, the two Management Board members residing in Germany are also paid miscellaneous compensation for health, home care, retirement, disability and accident insurance, as well as compensation in the form of a company car.

The Management Board members residing in Germany also receive additional payments for their pensions in the form of contributions to a pension fund. These contributions amount to EUR 11 thousand per month for the CEO and EUR 1 thousand per month for the CFO.

Furthermore, the members of the Management Board residing in Germany may be granted stock options as determined by the Supervisory Board as an additional variable element of compensation that serves as a long-term incentive. The fair value of the stock options is estimated at the time they are granted based on an accepted measurement model, taking the option conditions into account. No stock options were granted in the 2010 financial year.

In the event of early dismissal from their positions on the company's Management Board, the Management Board members resident in Germany shall be entitled to severance pay equivalent to the balance of their respective gross salaries until the expiration of their applicable director's contracts (fixed compensation plus variable compensation based on the average of their variable compensation for the most recent three financial years prior to the expiration of the respective contract, plus the cost of private health and long-term care insurance, the cost of leasing the company car and the cost of the premiums for direct insurance) but no more than severance pay equivalent to two annual gross salaries (fixed compensation plus variable compensation based on the preceding financial year and, possibly, the likely compensation for the current financial year plus the cost of private health and long-term care insurance, the cost of leasing the company car and the cost of the premiums for their direct insurance).

The Management Board member residing in Canada — Mr. Louis Bélanger-Martin (Chief Operating Officer) — was paid only variable compensation for his activities as a member of the Management Board of Advanced Inflight Alliance AG equivalent to a variable percentage of the consolidated profit after taxes for the given financial year, subject to the following calculation rules:

Mr. Bélanger-Martin's variable compensation, which compensates him for his activities as a member of the Management Board of Advanced Inflight Alliance AG, is limited to EUR 2,400 thousand per year.

The following disbursement rules and clawback provisions apply to the compensation of Mr. Bélanger-Martin:

- ▶ Seventy percent of his compensation for the 2010 financial year will be paid on April 30, 2011.
- ▶ Seventy percent of his compensation for the 2011 financial year will be paid on April 30, 2012.
- ▶ The 30 percent of his compensation for the 2010 and 2011 financial years that have not been disbursed will be paid on April 30, 2013, if average earnings per share of Advanced Inflight Alliance AG pursuant to IFRS in 2010, 2011 and 2012 were at least EUR 0.25.
- ▶ One hundred percent of his compensation for the 2012 financial year will be paid on April 30, 2013.

Besides serving on the Management Board of Advanced Inflight Alliance AG, Mr. Bélanger-Martin continues to be the managing director of DTI Software Inc., Montreal, a wholly-owned subsidiary of Advanced Inflight Alliance AG. For his activities as a managing director, DTI Software Inc., Montreal, pays Mr. Bélanger-Martin a fixed, monthly base salary; miscellaneous compensation for health, disability and accident insurance; as well as compensation in the form of a company car.

Total compensation paid to the Management Board in 2010 was EUR 1,801 thousand, comprising fixed compensation of EUR 633 thousand and variable compensation of EUR 553 thousand. Add to that other compensation for pension, direct, disability and accident insurance totaling EUR 162 thousand and noncash benefits for health insurance and the use of company cars totaling EUR 53 thousand. Furthermore, termination benefits totaling EUR 400 thousand were paid to former members of the Management Board in 2010 and 2011, which were recognized in profit or loss in 2010.

In addition, the company purchased D&O insurance for a policy amount of EUR 7,500 thousand, which covers the members of the Management Board and the Supervisory Board, among others. Pursuant to the provisions of the German Law on the Adequacy of the Management Board's Compensation, the deductible applicable to each member of the Management Board is ten percent of the loss per insured event but no more than one and one and half times the annual compensation of a Management Board member within an insurance period. The insurance premium for the 2010 financial year borne by the company was EUR 13 thousand.

Management Board members' individualized compensation in 2010

The Supervisory Board dismissed the company's former Chief Executive Officer, Mr. Otto Dauer, for cause on March 3, 2010; it also terminated his director's contract that ran until May 2014 for cause. In addition, the company did not pay his claims to bonuses for 2009 and 2010. Mr. Otto Dauer challenged the validity of his termination for cause and sued for payment of his claims to a full bonus for 2009 and a pro rated one for 2010. The parties reached a settlement in court on January 27, 2011, agreeing that Mr. Otto Dauer's director's contract was terminated effective March 31, 2010, and that he would be paid EUR 700 thousand; of this amount, EUR 450 thousand were paid as bonus payments outstanding for 2009 and 2010, and EUR 250 thousand were paid as severance pay. As a result, from January 1, to March 31, 2010, Mr. Otto Dauer was paid total compensation of EUR 353 thousand, comprising fixed compensation of EUR 50 thousand, variable compensation of EUR 25 thousand as well as severance pay of EUR 250 thousand. He was also paid other compensation of EUR 25 thousand for direct, retirement, disability and accident insurance, as well as non-cash benefits of EUR 3 thousand for health insurance and the use of his company car.

The Supervisory Board appointed Dr. Rüdiger Berndt the company's Chief Executive Officer effective March 3, 2010. From March 3, 2010, to December 31, 2010, Dr. Berndt was paid total compensation of EUR 774 thousand, comprising fixed compensation of EUR 298 thousand and variable compensation of EUR 353 thousand. He was also paid other compensation of EUR 110 thousand for direct, retirement, disability and accident insurance, as well as non-cash benefits of EUR 13 thousand for health insurance and the use of his company car.

The former CFO, Mr. Peter Biewald, resigned effective February 2, 2010. From January 1, 2010, to February 2, 2010, Mr. Biewald was paid total compensation of EUR 207 thousand, comprising fixed compensation of EUR 21 thousand, variable compensation of EUR 0 thousand and severance pay of EUR 150 thousand. He was also paid other compensation of EUR 17 thousand for direct, retirement, disability and accident insurance, and non-cash benefits of EUR 19 thousand for health insurance and the use of his company car.

The Supervisory Board appointed Mr. Wolfgang Brand the company's Chief Financial Officer effective March 3, 2010. From March 3, 2010, to December 31, 2010, Dr. Berndt was paid total compensation of EUR 387 thousand, comprising fixed compensation of EUR 199 thousand and variable compensation of EUR 162 thousand. He was also paid other compensation of EUR 7 thousand for direct, retirement, disability and accident insurance, as well as non-cash benefits of EUR 19 thousand for health insurance and the use of his company car.

The Supervisory Board appointed Mr. Louis Bélanger-Martin to the company's Management Board effective October 28, 2010. From October 28, 2010, to December 31, 2010, Mr. Bélanger-Martin was paid total compensation consisting of EUR 13 thousand in variable compensation for his activities as a member of the company's Management Board. Mr. Louis Bélanger-Martin was also paid fixed compensation of EUR 65 thousand, other compensation of EUR 1 thousand for direct, retirement, disability and accident insurance, as well as non-cash benefits of EUR 1 thousand for health insurance and the use of his company car for the period during which he was a member of the Management Board of AIA AG.

Basic features of the compensation system applicable to the Supervisory Board

The compensation payable to the Supervisory Board is determined by the Annual General Meeting and set forth in the Articles of Association of Advanced Inflight Alliance AG. Each member of the Supervisory Board is paid fixed compensation of EUR 15 thousand for each financial year, payable at the close of the given financial year. In addition, each Supervisory Board member is paid EUR 1 thousand per Supervisory Board meeting, also payable at the close of the financial year.

Furthermore, once the consolidated financial statements have been approved, each member of the Supervisory Board is paid performance-based compensation of EUR 1 thousand for each EUR 0.01 per share in net income for the year before taxes shown in the consolidated financial statements, provided this amount exceeds EUR 0.09 per share in the given consolidated financial statements. In numerical terms, the performance-based compensation is limited to twice the fixed compensation (excluding attendance fees) paid for the given financial year.

The Chairman of the Supervisory Board is paid twice the annual compensation and the aforementioned attendance fees, and the Vice Chairman one and a half times these amounts.

The company reimburses all out-of pocket expenses that the members of its Supervisory Board incur in connection with their activity as such, as well as the VAT payable on their compensation.

The members of the Supervisory Board are included in the insurance coverage provided by the D&O insurance with a policy amount of EUR 7,500 thousand that the company purchases for its corporate bodies and certain executives, as well as for its associates. The company pays all related insurance premiums. There is no deductible for members of the Supervisory Board.

In 2010, a total of EUR 260 thousand was paid to the Supervisory Board, specifically, fixed compensation of EUR 64 thousand, variable compensation of EUR 128 thousand and attendance fees of EUR 68 thousand.

Supervisory Board members' individualized compensation in 2010

Dr. Rüdiger Berndt served as the Chairman of the company's Supervisory Board from January 1, 2010, to March 3, 2010. During this time, Dr. Berndt was paid total compensation of EUR 29 thousand for his activities on the Supervisory Board, comprising fixed compensation of EUR 5 thousand, variable compensation of EUR 10 thousand and attendance fees of EUR 14 thousand.

Dr. Andreas Beyer was a member of the Supervisory Board from January 1, 2010, to April 12, 2010; the Vice Chairman of the Supervisory Board from April 12, 2010, to June 7, 2010; a member of the Supervisory Board from June 7, 2010, to June 10, 2010; and Chairman of the Supervisory Board from June 10, 2010, to December 31, 2010. During this time, Dr. Andreas Beyer was paid total compensation of EUR 95 thousand for his activities on the Supervisory Board, comprising fixed compensation of EUR 24 thousand, variable compensation of EUR 49 thousand and attendance fees of EUR 22 thousand. Dr. Andreas Beyer is a member of the Management Board of VEM Aktienbank AG. The company commissioned VEM Aktienbank AG, Munich, years ago to serve as its designated sponsor on Xetra and organize all relevant trading activities. In addition, VEM Aktienbank also acts as the company's paying agent. Its total net compensation in the 2010 financial year was EUR 28 thousand. Dr. Andreas Beyer has no equity interest in VEM Aktienbank AG, and the bank's compliance department is informed of his appointment to the company's Supervisory Board. The respective agreements were submitted to the Chairman or Vice Chairman of the Supervisory Board of Advanced Inflight Alliance AG in early 2010 for purposes of information. This is market-rate compensation.

Mr. Jürgen Chidekel served on the Supervisory Board from June 7, 2010, to December 31, 2010. During this time, Mr. Chidekel was paid total compensation of EUR 32 thousand for his activities on the Supervisory Board, comprising fixed compensation of EUR 9 thousand, variable compensation of EUR 17 thousand and attendance fees of EUR 6 thousand.

Mr. Arne Christes was a member of the Supervisory Board from June 7, 2010, to June 10, 2010; and Vice Chairman of the company's Supervisory Board from June 10, 2010, to December 31, 2010. During this time, Mr. Christes was paid total compensation of EUR 46 thousand for his activities on the Supervisory Board, comprising fixed compensation of EUR 13 thousand, variable compensation of EUR 25 thousand and attendance fees of EUR 9 thousand.

Dr. Dieter Lehner served on the company's Supervisory Board from April 8, 2010, to June 7, 2010. During this time, Dr. Lehner was paid total compensation of EUR 9 thousand for his activities on the Supervisory Board, comprising fixed compensation of EUR 2 thousand, variable compensation of EUR 5 thousand and attendance fees of EUR 2 thousand.

Mr. Rudolf Seidl served as Vice Chairman of the Supervisory Board from January 1, 2010, to April 12, 2010; and as Chairman of the company's Supervisory Board from April 12, 2010, to June 7, 2010. During this time, Mr. Seidl was paid total compensation of EUR 47 thousand for his activities on the Supervisory Board, comprising fixed compensation of EUR 11 thousand, variable compensation of EUR 22 thousand and attendance fees of EUR 15 thousand.

In addition, the company purchased D&O insurance for a policy amount of EUR 7,500 thousand, which also covers the members of the Supervisory Board. The insurance premium for the 2010 financial year borne by the company was EUR 13 thousand.

10. Other disclosures

Reportable directors' dealings

Members of the company's Management Board and Supervisory Board carried out the following reportable securities dealings in the 2010 financial year:

Member of the Management Board

Wolfgang Brand

Name	Date	Number	Prices in Euros
Purchase	May 19, 2010	10,000	2,73

Shareholdings of the Management Board and the Supervisory Board

The Management Board and the Supervisory Board together held a total of 279,689 shares as of December 31, 2010. This corresponds to 1.9289 percent of all shares issued by the company.

A total of 0 shares were held by the Supervisory Board as of 31 December 2010.

Individual disclosure

A total of 279,689 shares were held by Management Board as of 31 December. This corresponds to 1.9289 percent of all shares issued by the company.

Name	Function	Held by	Number
Dr. Rüdiger Berndt	Chief Executive Officer	Himself	144,998
Dr. Rüdiger Berndt	Chief Executive Officer	Family members	124,691
Wolfgang Brand	Chief Financial Officer	Himself	10,000

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Report of the Supervisory Board

Report of the Supervisory Board

The Supervisory Board carried out all of its duties for financial year 2010 as provided by law and the company's articles of association and carefully and regularly supervised the company's management. In this respect, the Supervisory Board ensured that it was kept comprehensively informed by the Management Board through Supervisory Board meetings as well as through additional written and oral reports concerning the company's and the Group's business development, business policy and corporate planning, its position and overall development and its shareholdings, as well as the company's and the Group's profitability. Such information also comprises the company's and the Group's financial, investment and personnel planning. Special attention was devoted to the reports on the company's risk situation, risk management, reporting and compliance guidelines.

The Chairman of the Supervisory Board also ensured that the Management Board provided him with regular updates on all current development and material business transactions and he shared this information with the full Supervisory Board.

The Supervisory Board was very active in the 2010 financial year. There were 19 meetings of the Supervisory Board, which were attended by all of its given members.

The work of the Supervisory Board can be divided into three time periods:

Dr. Rüdiger Berndt, Mr. Rudolf Seidl and Dr. Andreas Beyer constituted the Supervisory Board from January 1 to March 3, 2010. Dr. Berndt was Chairman of the Supervisory Board, and Mr. Seidl its Vice Chairman. After Dr. Berndt was appointed to the company's Management Board on March 3, 2010, simultaneously stepping down from his post as Chairman of the Supervisory Board, on April 8, 2010, Dr. Dieter Lehner was appointed to the Supervisory Board by order of the Munich District Court. The Supervisory Board convened and constituted itself on April 12, 2010, with Mr. Seidl as Chairman and Dr. Beyer as Vice Chairman. The term of office of the Supervisory Board constituted with these members ran until the Annual General Meeting on June 7, 2010, which was tasked with electing a new Supervisory Board for a new term of office. The Annual General Meeting subsequently elected Messrs. Dr. Andreas Beyer, Arne Christes and Jörgen Chidekel to the Supervisory Board. The Supervisory Board convened and constituted itself anew on June 16, 2010; Dr. Beyer was elected Chairman and Mr. Christes Vice Chairman.

Constituted with the members Dr. Rüdiger Berndt, Mr. Rudolf Seidl and Dr. Andreas Beyer, at its meetings on January 21, 2010; January 27, 2010; January 28, 2010; February 1, 2010; February 23, 2010; and February 26, 2010, the Supervisory Board extensively debated the Chairman's discovery of the events surrounding the then Management Board's failure to recognize provisions and potential consequences for the Management Board. The Supervisory Board commissioned legal opinions from two attorneys; asked the audit director of the company's auditor for information; requested statements from the members of the Management Board analyzed these statements. Aside from the failure to set up provisions, other aspects of the Management Board's activities — notably, its communications policy vis-à-vis the Supervisory Board and its cooperation with it — also were the topic of extensive deliberations.

On February 2, 2010, Mr. Peter Biewald offered to step down for personal reasons and rescind his director's contract. The Supervisory Board approved his request.

As time wore on, the Supervisory Board concluded that it was no longer possible to work with Mr. Otto Dauer — for many years the company's CEO — in a spirit of trust and cooperation and thus caused the appointment of Mr. Dauer to be revoked in connection with an extraordinary termination of his director's contract for conduct-related reasons. On March 3, 2010, the Supervisory Board adopted — in each case unanimously and without any abstentions — its resolutions to remove Mr. Otto Dauer, the sole member of the Management Board, with immediate effect and terminate his director's contract for cause. At the same meeting, the Supervisory Board appointed its then Chairman, Dr. Berndt, Chairman of the Management Board (CEO) until December 31, 2013, and Wolfgang Brand Chief Financial Officer (CFO) until March 2, 2013. Dr. Berndt abstained in connection with the Supervisory Board's resolution appointing him Chairman of the company's Management Board. After the aforesaid meeting of the Supervisory Board, he stepped down as Chairman of the company's Supervisory Board.

On March 11 and 12, 2010, the Supervisory Board members, Mr. Rudolf Seidl and Dr. Andreas Beyer, met with the new Management Board and the Group's executives for an executive-level retreat on Tegernsee lake.

Given that the Supervisory Board was no longer fully constituted and thus unable to constitute a quorum in the wake of Dr. Berndt's transfer to the Management Board, the latter initiated a court-ordered appointment of a new member to the Supervisory Board.

Following the appointment of Dr. Dieter Lehner to the company's Supervisory Board on April 08, 2010, the Supervisory Board convened and constituted itself by telephone on April 12, 2010, with Mr. Rudolf Seidl as its Chairman, Dr. Beyer as its Vice Chairman as well as Dr. Lehner; it also met on April 14, 2010, and April 27, 2010.

The Supervisory Board adopted and approved the company's annual financial statements during its financials meeting on April 27, 2010. It also declared its agreement with the management report, the group management report and the assessment of the company's anticipated development. The auditor informed the Supervisory Board of the result of its audit and was available to answer questions. After discussing the company's dividend policy, the Supervisory Board subsequently resolved the agenda for the Annual General Meeting.

Following its election by the Annual General Meeting on June 07, 2010, the Supervisory Board convened and constituted itself by telephone on June 16, 2010, as follows: Dr. Andreas Beyer was elected Chairman and Arne Christes Vice Chairman.

Constituted with these members, the Supervisory Board met for additional meetings on July 1, 2010; August 2, 2010; August 3, 2010; October 13, 2010; October 20, 2010; October 28, 2010; December 7, 2010; and December 14, 2010.

The newly elected Supervisory Board visited the company's subsidiaries to gain broad insight into their current and future business situation. Subsequently, it discussed its findings in detail with the Management Board, also deliberating ways to lay the ground for the company's strategic development, including potential acquisitions.

At its meetings, the Supervisory Board extensively discussed the company's financing strategy and reporting, as well as issues of corporate governance. The Chairman of the Supervisory Board and the Chairman of the Management Board kept the full Supervisory Board abreast of developments in the litigation with Mr. Otto Dauer, previously the member of its Management Board.

At its meeting on October 28, 2010, the Supervisory Board unanimously appointed Mr. Louis Bélanger-Martin to the company's Management Board as Chief Operating Officer (COO).

The Supervisory Board performed the efficiency review of its activities at its meeting by telephone on December 14, 2010.

In December 2010, the Management Board and the Supervisory Board jointly issued a declaration of compliance in accordance with Section 161 German Stock Corporation Act. This declaration is permanently accessible on the Company's Web site. For further details, we refer to the corporate governance report that is included in the 2010 annual report.

At its meetings during the 2010 financial year, the Supervisory Board discussed the Management Board's reports in detail and reviewed the latter's key management decisions. The Supervisory Board's monitoring and review activities included but were not limited to the following matters:

- ▶ the company's strategic alignment;
- ▶ the ongoing development of its reporting system;
- ▶ the composition of the Management Board;
- ▶ identifying suitable acquisitions in order to generate exogenous growth for the company;
- ▶ identifying cost savings; and
- ▶ negotiating/litigating with former Management Board members.

The following contains disclosures of potential conflicts of interest, as well as disclosures on Supervisory Board members' appointments to other corporate bodies or on companies where Supervisory Board members hold executive positions.

Dr. Rüdiger Berndt, who served as the company's Supervisory Board Chairman until March 3, 2010, had acted as its legal adviser in the past. He did not provide any legal services to it in the 2010 financial year. The Supervisory Board dealt extensively with the claims of the company's former Management Board member for restitution of compensation paid in the past and came to the conclusion, on the advice of its attorneys, that the claim for restitution had no merit.

The Supervisory Board member, Dr. Andreas Beyer, is a member of the Management Board of VEM Aktienbank AG. The company commissioned VEM Aktienbank AG, Munich, years ago to serve as its designated sponsor on Xetra and organize all relevant trading activities. In addition, VEM Aktienbank also acts as the company's paying agent. Dr. Beyer has no equity interest in VEM Aktienbank AG, and the bank's compliance department is informed of his appointment to the company's Supervisory Board. The fees paid to this entity were unchanged from the previous year; they conform to market rates.

There are no other board appointments or conflicts of interest involving the members of the company's Supervisory Board.

The Audit Committee, which is constituted of two members of the Supervisory Board, convened two meetings in the 2010 financial year. At the start of 2010, the Audit Committee was constituted with Mr. Rudolf Seidl as Chairman and Dr. Rüdiger Berndt as ordinary member. The Audit Committee had to be reconstituted when Mr. Seidl was elected Chairman of the Supervisory Board. At its meeting on April 14, 2010, the Supervisory Board elected Dr. Beyer Chairman of the Audit Committee and Mr. Seidl its ordinary member. On the same day, the auditor informed both the Audit Committee and the members of the Supervisory Board of the progress of its audit and made itself available for questions. Having elected Dr. Beyer the new Chairman of the company's Supervisory Board, at its meeting on July 1, 2010, the Supervisory Board elected its member, Arne Christes, Chairman of the Audit Committee. Mr. Christes works as an auditor and thus is particularly suited to chair the Audit Committee. Mr. Jörgen Chidekel was elected ordinary member of the Audit Committee. The Audit Committee met with the auditor on August 17, 2010, in connection with the auditor's review.

The Audit Committee established the following focal points for the audit of the company's 2010 annual financial statements:

- ▶ revenue recognition;
- ▶ capitalization of internally generated intangible assets; especially those of the company's subsidiary, DTI;
- ▶ impairment tests; and
- ▶ accounting for output deals.

In accordance with section 171 (2) of the German Stock Corporation Act, the report issued by the Supervisory Board on its own review shall also contain information regarding the committees set up by the Supervisory Board. However, since the company's Supervisory Board has only three members, no further committees were set up in the 2010 financial year.

Ernst & Young GmbH, Wirtschaftsprüfungsgesellschaft, Munich, which was appointed as the auditor at the company's annual general meeting, examined the annual financial statements of Advanced Inflight Alliance AG including the accounting and the management report as well as the consolidated financial statements and the Group management report and issued an unqualified auditor's report.

The auditor performed an audit in accordance with Section 317 (4) German Commercial Code and came to the conclusion that the Management Board established a monitoring system which fulfills the legal requirements for the early detection of risks jeopardizing the Company's existence as a going concern and that the Management Board took appropriate measures to detect developments at an early stage and avert risks.

The auditors stated their independence vis-à-vis the Supervisory Board as required by the German Corporate Governance Code and disclosed the audit and consulting fees received in the financial year.

The auditors issued an unqualified auditor's opinion for the annual financial statements and the consolidated financial statements. All papers submitted for examination as well as the auditors' audit reports were made available to all members of the Supervisory Board and were discussed in detail during the Supervisory Board's financials meeting on April 29, 2011. The examination was based on the report and the recommendations of the Audit Committee, among others. The auditor took part in the financials meeting and reported on the material results of their audit and comprehensively answered questions asked by members of the Supervisory Board.

The audit report complies with the requirements of Sections 317 and 321 German Commercial Code. The Supervisory Board, for its part, reviewed the annual financial statements, the management report, the proposal regarding the allocation of net retained profits as well as the consolidated financial statements and Group management report of Advanced Inflight Alliance AG for the 2010 financial year. The assessments of the Management Board correspond both to its reports to the Supervisory Board during the year and the Supervisory Board's own assessments. The Supervisory Board concurs with the Management Board's proposal regarding the allocation of net retained profits.

Given the conclusive findings of its own review, the Supervisory Board has no objections. It also sees no reason to object to the current Management Board's management activities and its preparation of the annual financial statements and the management report, as well as the consolidated financial statements and the Group management report, of Advanced Inflight Alliance AG. The Supervisory Board also concurs with the auditor's findings.

At its meeting on April 29, 2011, the Supervisory Board approved the annual financial statements as well as the consolidated financial statements of Advanced Inflight Alliance Ltd. for the 2010 financial year, as prepared by the Management Board. The annual financial statements of Advanced Inflight Alliance AG have thus been adopted.

The Supervisory Board recognizes and thanks the current Management Board and all employees for their dedication, commitment and work in the 2010 financial year.

Munich, April 29, 2011

The Supervisory Board
Dr. Andreas Beyer
Chairman

Advanced Inflight Alliance AG Group Management Report for the 2010 financial Year (IFRS)

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Advanced Inflight Alliance AG Group Management Report for the 2010 Financial Year (IFRS)

1. Business and economic environment

1.1. Group structure

The Advanced Inflight Alliance Group (hereinafter the „AIA Group“ or the „Group“) comprises Advanced Inflight Alliance AG, Munich, in its capacity as the Group parent, as well as the following wholly-owned, direct subsidiaries: Atlas Air Film + Media Service GmbH, Duisburg; Atlas Air Entertainment Concepts Incorporation (Inc.), Glendale, California, USA; IFE Alliance Licensing GmbH, Duisburg; DTI Software Incorporation (Inc.), Montreal, Canada; Fairdeal Multimedia Pvt. Limited (Ltd.), Mumbai, India; Fairdeal Studios Pvt. Limited (Ltd.), Mumbai, India; Advanced Inflight Alliance Limited (Ltd.), Bristol, UK; and Advanced Film GmbH, Munich. DTI Software Incorporation (Inc.), Montreal, Canada, and Advanced Inflight Alliance Limited (Ltd.), Bristol, UK, in turn have subsidiaries of their own, with the latter exclusively holding all of the shares in Inflight Productions Ltd., London, UK, in its capacity as a non-operating intermediate holding company. The operating activities of the AIA Group are focused on Inflight Entertainment in airplanes (Inflight Entertainment segment). The Group's subsidiary, IFE Alliance Licensing GmbH, Duisburg, also engages in the film licensing business (Other Licensing segment).

Advanced Inflight Alliance AG, Munich, Germany (hereinafter „AIA AG“)

AIA AG serves as the corporate parent of the AIA Group. As of December 31, 2010, the company had 8 employees (previous year: 9).

Atlas Air Film + Media Service GmbH, Duisburg, Germany (hereinafter „Atlas Air“)

Atlas Air is a content service provider with a focus on video programs (feature films, documentaries, cartoons etc.) that serves several international air carriers. As of December 31, 2010, the company had 36 employees (previous year: 36).

IFE Alliance Licensing GmbH, Duisburg, Germany (hereinafter „IFEL“)

IFEL serves as the AIA Group's centralized license purchasing organization for the Inflight Entertainment business. IFEL also manages the film assets of the company formerly known as Advanced Film GmbH that form part of its non-current assets. As of December 31, 2010, the company had no employees (previous year: 0).

Atlas Air Entertainment Concepts, Inc., Glendale, California, USA (hereinafter „AAEC“)

AAEC is a content service provider with a focus on video programs (feature films, documentaries, cartoons etc.) that serves more than half a dozen international air carriers. As of December 31, 2010, the company had 33 employees (previous year: 30).

Advanced Inflight Alliance Ltd., Bristol, UK (hereinafter „AIA Ltd.“)

AIA Ltd. serves as an intermediate holding company within the AIA Group and does not engage in any operating activities of its own. AIA Ltd. holds all shares in Inflight Productions Ltd., London, UK, As of December 31, 2010, the company had no employees (previous year: 0).

Inflight Productions Ltd., London, UK (hereinafter „IFP“)

IFP is headquartered in London, UK. The company and its subsidiaries in the United States, The Netherlands, Australia, New Zealand, Singapore and the United Arab Emirates serve as content service providers for more than 130 air carriers worldwide. IFP also focuses on the production and integration of audio programs. As of December 31, 2010, the IFP Group had 207 employees (previous year: 210).

Advanced Film GmbH, Munich, Germany (hereinafter „Film GmbH“)

The purpose of Film GmbH was to create and acquire films or partial film rights and utilize them through sales, licensing or any other form of commercial exploitation. The company's previous film inventory was contributed to its sister company, IFEL, towards the end of the 2007 financial year. The company is no longer operational and therefore did not have any employees as of December 31, 2010 (previous year: 0).

DTI Software Inc., Montreal, Canada (hereinafter „DTI“)

DTI is headquartered in Montreal, Canada, and has one subsidiary each in Montreal, Canada, and the United Arab Emirates. DTI is the market leader worldwide in the inflight electronic game business with a catalog of more than 150 games and applications. The company serves in excess of 100 air carriers worldwide. Other key activities of the company include the provision of services surrounding the development of graphical user interfaces (GUIs) and the development of various applications for use on board aircraft. As of December 31, 2010, the company had 171 employees (previous year: 137).

Fairdeal Multimedia Pvt. Ltd., Mumbai, Indien (nachfolgend: Fairdeal Multimedia)

Fairdeal Multimedia trades Inflight Entertainment film licenses worldwide, focusing mainly on Indian film productions commonly known as Bollywood. Fairdeal Multimedia also provides Indian TV programs and audio programs, as well as additional services related to Inflight Entertainment, to numerous customers. As of December 31, 2010, the company had 19 employees (previous year: 19).

Fairdeal Studios Pvt. Ltd., Mumbai, India (hereinafter „Fairdeal Studios“)

Fairdeal Studios focuses on the technical processing of films such that they may be used for Inflight Entertainment purposes. In that connection, the company acts as a service provider for other Group companies and external customers. Fairdeal Studios was acquired by AIA AG effective April 1, 2010. As of December 31, 2010, the company had 2 employees.

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1.2. Fields of business and business model

The main field of business of the AIA Group is Inflight Entertainment. This is the international term for onboard entertainment for passengers during a flight in the form of video and music programs, as well as electronic games. As a so-called content service provider (CSP), the AIA Group in concert with its subsidiaries focuses primarily on making content available for Inflight Entertainment systems and all associated activities. The AIA Group's services range from selection, purchase, production and technical adjustment of content all the way to customer support in connection with the integration and servicing of Inflight Entertainment programs. The content mainly comprises audio and video programs (feature films, TV programs, news, sports etc.), as well as electronic games. Our services also include the development of graphical user interfaces (GUI) for a variety of Inflight Entertainment applications; database management related to the overall management of Inflight Entertainment; as well as both technical integration and operation of the respective on-board systems. For quite some time now, the AIA Group has also been developing applications for the next generation of Inflight Entertainment systems — particularly through its Canadian subsidiary DTI — that carriers will use to offer their passengers additional services above and beyond "conventional" entertainment such as electronic menus and magazines, or even the option of purchasing all kinds of products.

The AIA Group targets all carriers worldwide. It generally acquires new customers through its participation in invitations to tender by which airlines select their Inflight Entertainment providers. In most cases, these tenders entail exclusive provider contracts with terms of two to three years. The AIA Group delivers a wide variety of content to the airlines such as feature films, TV programs, news programs, music programs and computer games under these provider contracts. It acquires limited and nonexclusive licenses to use a range of content from the owners of the respective rights of use (studios, broadcasters etc.), either specifically for the given carrier or for the AIA Group's entire customer base (so-called flat deals). Basically, the AIA Group's business model entails providing changing content to carriers based on multi-year provider contracts; purchasing, developing and utilizing such content as efficiently as possible; as well as providing additional technical and substantive services related to Inflight Entertainment to the airlines. The AIA Group's range of services does not include development, provision or maintenance of the hardware that the carriers use on board for Inflight Entertainment purposes.

It also engages in a segment entitled "other licensing" albeit only to a very limited extent. This activity entails marketing the Group's existent non-current film rights in connection with a portfolio of what are now older movies. As in the previous years, this traditional business of licensing international film rights for TV, DVD and the Internet, mainly for German-speaking territories, was of secondary importance for the Group in 2010. The Group's non-current film assets, which are managed by the Group company IFEL, date back to the time when it had not yet shifted its activities to the Inflight Entertainment business.

1.3. Overall economic situation

1.3.1. Global economic growth

The recovery of the global economy that had started in 2009 continued unabated in early 2010 but growth slowed somewhat by year's end. However, this development varies greatly across economic zones and countries. While the expansion in the emerging countries already began to level off at the start of 2010, the growth momentum in the industrialized countries did not begin to slow down until the middle of the year. But the emerging countries recovered rapidly, once again surpassing their longer-term trend in the summer. The current weakening of the economic momentum results from austere monetary and fiscal policies that are designed to dampen inflationary pressures as they arise. Aggregate economic output in the industrialized countries still falls far short of pre-crisis levels. Ongoing structural problems in the financial and real estate industry, as well as intense pressures to consolidate owing to high levels of personal and public debt, are having a negative impact on macroeconomic activity, thus preventing a rapid return to pre-crisis levels. This applies especially to the United States and the peripheral countries of the euro zone. On the whole, the experts of the Ifo Institute estimate that the global economy expanded by 4.7 percent in 2010, with the industrialized countries contributing growth of 2.6 percent and the emerging countries 7.9 percent.

1.3.2. Economic growth in the euro zone

While the extraordinary pace of economic expansion in the euro zone during the spring of 2010 slowed down toward the end of the year, the individual member states offer a highly heterogeneous picture. Germany's economy continued to improve throughout 2010 but some of the peripheral countries of the euro zone are stuck in a severe recession due, in particular, to governmental consolidation measures as well as ongoing problems in the real estate market. Both continued to act as a brake on economic activity in the year's second half. In 2010, euro zone GDP rose by 1.7 percent according to the experts of the Ifo Institute.

1.3.3. Domestic economic growth

The dynamic of Germany's economic upturn continued to build in 2010. While all the momentum had initially come from the robust export sector, in 2010 the country's domestic economy became increasingly central to continued growth. The incentive to invest that arose from the historically low interest rates was key to that development, and the additional investment activity substantially stimulated domestic demand. After many years of weak domestic demand, 2010 thus stood for a reawakened domestic economy. The experts of the Ifo Institute estimate that Germany's real gross domestic product grew by 3.6 percent on the annual average.

1.3.4. Oil prices

At the start of 2010, one barrel of Brent crude oil cost just under USD 80; it fell to less than USD 70 by mid-year but rose to over USD 90 by year's end. This development was sparked by the rising global demand for oil given prevailing economic conditions. The average world crude oil price in 2010 was about USD 80 per barrel. Hence it was much higher than the price of about USD 62 in 2009 but still far short of the record highs of USD 150 per barrel that prevailed for a time in 2008.

Initially, the Ifo Institute did not expect oil prices to rise significantly in 2011. These forecasts were rooted in its macroeconomic parameters for 2011. But the geopolitical problems in Northern Africa — especially in the oil-producing countries — have sparked fears regarding oil supplies, pushing prices well above USD 100. If the geopolitical situation improves in the coming weeks, oil prices are expected to decline again without the brief increase affecting the global economy on a broad scale and in the long term. Given the geopolitical situation in North Africa, however, the International Air Transport Association (IATA) has by now adjusted its forecast for 2011 and expects an average price of USD 96 per barrel of Brent crude.

1.3.5. Currency developments

The euro fluctuated widely against the US dollar in 2010. While one euro cost about USD 1.44 at the start of the year, the US dollar gained much ground in the wake of the sovereign debt crisis in a number of peripheral countries of the euro zone — notably, Greece and Ireland — and the resulting flight from the euro. In mid-2010, the euro was trading at 1.19 against the US dollar, its lowest level for the year. But it recovered by year's end following the implementation of a European rescue fund, closing at USD 1.34 at the end of 2010 or about 7 percent lower year on year. On April 18, 2011, the euro was trading at about 1.44 against the US dollar.

The euro's movement vis-à-vis the pound sterling was similar though not quite as pronounced. At the start of 2010, one euro cost 0.89 pound sterling, falling to 0.81 pound sterling by the middle of the year. By the end of the year, however, the euro had climbed back to 0.86 pound sterling — a year-on-year decline of about 3 percent against the pound sterling. On April 18, 2011, the euro was trading at about 0.88 against the British pound.

The euro cost 1.51 Canadian dollars on January 1, 2010, but fell to 1.33 Canadian dollars on December 31, 2010. This means that the Canadian dollar appreciated approximately 12% on the euro in the course of the year. On April 18, 2011, the euro cost about 1.38 Canadian dollars, continuing to lose ground against it just as vis-à-vis the US dollar in 2011.

1.4. Industry-specific business environment

In 2010, the entire aviation industry rebounded from the two crisis years, 2008 and 2009. International passenger demand in 2010 rose by 10.3 percent year on year. The Middle East took first place in 2010, with passenger growth of 20 percent and a capacity utilization of 76 percent, followed by Africa with passenger growth of 15.0 percent as well as Latin America and Asia Pacific, respectively, with 14.5 percent and 12.6 percent. North America reported passenger growth of 9.9 percent and high capacity utilization of 82.2 percent. Europe was at the bottom of the ranking, generating passenger demand of 5.0 percent year on year, which led to capacity utilization of 79.4 percent. The increase in global passenger demand for 2010 on the whole exceeded capacity growth, causing worldwide capacity utilization to grow by 2.7 percent to 78.4 percent. In December 2010, the number of international passengers surpassed the pre-crisis level at the start of 2008 by about 4 percent.

While the aviation industry on the whole achieved an extraordinary turnaround in 2010 with respect to the passenger volume, this development failed to impact the carriers' profitability, which still lags far behind pre-crisis levels. At any rate, IATA is estimating that the carriers will post after-tax profits of about USD 16 billion for 2010 — a substantial improvement compared to the loss of USD 9.9 billion the previous year.

1.5. Market volume and market share

Independent market research institutes or associations do not compile data on market volume or market share in the Inflight Entertainment market. Hence all figures contained in this management report are based on the estimates of the company, independent consultants and the carriers.

As far as the company knows, in 2010 there were no major changes in the structure of the market players. The Inflight Entertainment segment of the content service provider market has seen a consolidation in recent years. The market is currently dominated by two large, internationally positioned content service providers - the AIA Group and Spafax. At a market share of about 50 percent, the AIA Group is the largest player by far. There are also a few medium-sized providers as well as numerous smaller vendors, some of which are very small and serve just one or two mostly small carriers. A number of smaller service providers entered the Asian market in 2010 but they have barely made an impact to date.

The carriers' recovery in financial terms does not reflect the general economic recovery in 2010 nor the substantial increase in the air passenger volume. Cost pressures thus remain as high as ever. It is against this backdrop and the resulting need among content service providers to boost the efficiency of their services that the pressure toward consolidation will continue unabated in the company's view. Particularly small providers are likely to be exposed to stiffening competition and thus to continued consolidation. Moreover, the Inflight Entertainment industry will undergo sea changes in the coming years owing to fundamental technological changes. As part of this process, carriers are expected to turn increasingly to integrated service providers capable of mastering the industry's new challenges and making their services and products available both in the long term and at high levels of quality.

1.6. Corporate management

The Inflight Entertainment industry is changing, as before. This process is rooted mainly in the continued price pressure coming from the carriers, as well as in technological innovations and their impact on all market players. Content service providers such as the AIA Group must react rapidly to these changes in market parameters. Managing the AIA Group based on principles that apply across the board poses a challenge because it is an entity with an international alignment and subsidiaries in numerous countries. All Group companies are focused on the same target in order to secure and expand its existing market position and open up new markets.

Strategic goals	Operational goals	Performance indicators
<ul style="list-style-type: none"> ▶ Maintain and expand position in the inflight entertainment market ▶ Expand along the value chain 	<ul style="list-style-type: none"> ▶ Maintain and enhance relations to existing customers ▶ Step up efforts to acquire new customers ▶ Acquire companies 	<ul style="list-style-type: none"> ▶ Increase in customer satisfaction ▶ Contract renewals with existing customers ▶ Number of (successful) invitations to tender → acquisition of new customers
<ul style="list-style-type: none"> ▶ Utilize know-how and products outside the Inflight Entertainment segment by developing new markets 	<ul style="list-style-type: none"> ▶ Identify new markets ▶ Prepare and implement market entry 	<ul style="list-style-type: none"> ▶ Revenue in new market segments
<ul style="list-style-type: none"> ▶ Increase earnings 	<ul style="list-style-type: none"> ▶ Reduce costs ▶ Leverage synergies between subsidiaries ▶ Pursue integrated purchase and sales approach throughout the Group ▶ Share know-how within the Group 	<ul style="list-style-type: none"> ▶ Reduction of overhead costs ▶ Successful joint participation in invitations to tender ▶ Reduction of purchase and distribution costs

The following tools are being used to monitor and control the Group and establish clear aims for the management teams of the subsidiaries:

- ▶ specification of strategic goals for managing directors and division leaders
- ▶ evaluation of regular reports from managing directors
- ▶ involvement in specifying and approving budget and forecast figures for subsidiaries
- ▶ evaluation of financial performance of individual subsidiaries during the financial year through analysis of target and actual figures
- ▶ measures by the Management Board during the financial year in the event of deviation from target figures

Moreover, the members of the Management Board of the Group holding company are also represented in the management boards and executive management committees of key Group companies, which gives them insight into the respective entities' performance.

Earnings before interest, taxes, depreciation, amortization (EBITDA) are one of the AIA Group's key performance indicators (KPIs).

1.7. Employees

The Group's employees are the most important value-added factor besides its excellent relationships to customers and suppliers. We can only succeed in providing excellent services to our customers and thus generate a high degree of customer satisfaction if our employees are satisfied and motivated. Our success in the Inflight Entertainment segment is rooted in our employees' enormous industry know-how, which they have amassed through many years. It is their creativity and flexibility that provides the foundation necessary for successfully transferring this know-how to other sectors as well.

As of December 31, 2010, the AIA Group had 476 employees (previous year: 441 employees). This means that the number of employees rose by roughly 8% during the reporting period. AIA AG had 8 employees as of December 31, 2010 (previous year: 9 employees). As of the reporting date, the Group's German subsidiaries had a total of 36 employees (previous year: 36 employees) and our foreign subsidiaries had a total of 432 employees (previous year: 396 employees) as of December 31, 2010. The increase in the number of DTI's employees was the main reason for this development.

The Group did not employ any trainees in the 2010 financial year.

1.8. Course of business and key events in 2010

Course of business

The AIA Group did very well in the 2010 financial year despite the challenges it continues to face in both the macroeconomic sphere and the environment specific to the industry. Consolidated sales climbed from EUR 108,051 thousand in 2009 by about 3 percent to EUR 111,114 thousand in 2010. EBITDA also rose, from EUR 11,735 thousand to EUR 12,631 thousand. Basic earnings per share (EPS) were EUR 0.38, up substantially from EUR 0.33 the previous year.

We had already determined during the preparation of the 2010 half-year financial report that a shift in the sales of a Group company in the 2009 financial year affected its performance in 2010 but it did not impact earnings; for further disclosures, please see section 2.1. Absent this shift in sales, consolidated sales would have been about 5 percent higher year on year. Although consolidated sales as of the first half of 2010 still fell short year on year, the figure for the full year represents a year-on-year increase. This is reflected in the recovery of the aviation industry that continued into the second half of the year and the resulting positive effects for the AIA Group. The „other licensing“ segment has been relegated to a secondary role within the Group and continues to show flat sales owing to the extremely difficult market environment.

During the year under review, the company invested heavily in forward-looking developments and expanded its workforce at its Canadian subsidiary DTI in particular in connection with the development of new strategic business areas. Consequently, staff costs in the AIA Group at EUR 21,879 thousand in the reporting period were also substantially higher than in the prior-year period (EUR 18,986 thousand).

Earnings in 2010 were also impacted by one-time charges incurred in connection with the change in the company's Management Board as well as by increased expenses in connection with the introduction of new accounting and consolidation software totaling around EUR 800 thousand.

The AIA Group conducts its business worldwide and thus in numerous currencies. In the 2010 financial year, the Group's operating business generated positive net foreign currency effects of about EUR 9 thousand. This compares to negative net foreign currency effects of EUR 245 thousand in 2009.

Key events

On February 2, 2010, the Chief Financial Officer of AIA AG, Mr. Peter Biewald, resigned effective immediately for personal reasons.

On March 3, 2010, the company's Supervisory Board unanimously resolved to remove the company's CEO, Mr. Otto Dauer, for cause, effective immediately, and terminated his director's contract. Also effective March 3, 2010, the Supervisory Board appointed Dr. Rüdiger Berndt to serve as Chief Executive Officer (CEO) and Mr. Wolfgang Brand to serve as Chief Financial Officer (CFO). These changes were recorded in the Commercial Register on March 19, 2010.

Effective March 3, 2010, Dr. Rüdiger Berndt resigned from his position as Chairman of the Supervisory Board of AIA AG. The Munich District Court (Amtsgericht) appointed Dr. Dieter Lehner, Esq., domiciled in Munich, to the Supervisory Board of Advanced Inflight Alliance AG on April 8, 2010. This court-ordered appointment was made in accordance with Section 104 German Stock Corporation Act because the company's Supervisory Board no longer had the number of members required for a quorum in the wake of Dr. Rüdiger Berndt's resignation.

On April 12, 2010, the company's Supervisory Board — which had been brought back to full membership by the court-ordered appointment of Dr. Dieter Lehner — convened and constituted itself. Mr. Rudolf Seidl and Dr. Andreas Beyer, respectively, were appointed Chairman and Vice Chairman of the Supervisory Board at this meeting. The company announced all these changes in an ad hoc release dated April 12, 2010.

In April 2010, the former member of the company's Management Board, Mr. Otto Dauer, filed a suit against the company in Munich's Regional Court I (Landgericht München I), challenging the termination for cause of his director's contract and the company's decision to rescind the renewal of his contract in 2009. The lawsuit was concluded on January 27, 2011 (for more information please see section 3).

During the regular elections of new Supervisory Board members, the company's Annual General Meeting on June 7, 2010, elected Dr. Andreas Beyer, Mr. Jürgen Chidekel and Mr. Arne Christes to the company's Supervisory Board. Mr. Rudolf Seidl and Dr. Dieter Lehner stepped down from the company's Supervisory Board at the end of the Annual General Meeting. The Management Board and the company would like to thank Mr. Seidl and Dr. Lehner for their good and trusting cooperation.

On June 10, 2010, the Supervisory Board convened and constituted itself and elected Dr. Andreas Beyer as its Chairman and Mr. Arne Christes as Vice Chairman.

The company's Annual General Meeting on June 7, 2010, resolved a dividend of EUR 0.10 per share for the 2009 financial year. The total dividend of EUR 1,450,000 was distributed to the shareholders.

The AIA Group had already agreed in connection with the acquisition of Fairdeal Multimedia in August 2008 that it would acquire Fairdeal Studios at a later date. As agreed on March 31, 2010, Fairdeal Studios was acquired effective April 1, 2010.

AIA AG had obtained an acquisition loan from HypoVereinsbank AG in the 2008 financial year to finance its acquisition of DTI. Besides a planned loan payment of EUR 1,000 thousand every six months, the loan agreement also provides for a special loan payment if the company generates excess cash flow. This provision applied for the first time based on the company's figures as of December 31, 2009, and triggered a special loan payment of EUR 1,000 thousand, which was due and payable on March 7, 2010, and was made on time by the company. A special loan payment of EUR 1,000 thousand from excess cash flow will be due for 2010 as well; it is payable in early May 2011.

On April 12, 2010, the new Management Board signed an agreement with the previous shareholders of DTI on the gradual payment of the last purchase price installment as part of the earn-out totaling CAD 5,198 thousand. In the original agreements, the total earn-out payment of CAD 5,198 thousand had been due on or before February 8, 2010. However, the former Management Board had not taken adequate measures to ensure payment by the due date in February. In accordance with the agreement signed April 12, the first part payment of CAD 1,733 thousand was made in April 2010 and the second installment of CAD 1,733 thousand was paid in July 2010. The last payment was made in October 2010. This completed the earn-out deal in connection with the acquisition of DTI in 2010.

At the Annual General Meeting of AIA AG, Auctus Capital Partners Beteiligungs AG, Munich, announced plans to acquire a larger share of AIA AG. According to the last notification dated August 4, 2010, received by AIA AG under Section 26 (1) German Securities Trading Act, Auctus sechszwanzigste Beteiligungsgesellschaft mbH, an associate of Auctus Capital Partners Beteiligungs AG, holds 16.17 percent of the voting shares of AIA AG. In the notification pursuant to Section 27 (1) German Securities Trading Act, Auctus sechszwanzigste Beteiligungsgesellschaft mbH announced on August 4, 2010, that its investment in shares of AIA AG serves to implement strategic goals and that over the next twelve months it intends to acquire additional voting rights through acquisition or by other means. Auctus sechszwanzigste Beteiligungsgesellschaft mbH is also seeking to influence the composition of management and/or supervisory bodies of AIA AG. At this time, Auctus sechszwanzigste Beteiligungsgesellschaft mbH is not planning any major change in AIA AG's capital structure, particularly with respect to the ratio of equity and borrowings, and its dividend policies. The Management Board of AIA AG welcomes the fact that Auctus sechszwanzigste Beteiligungsgesellschaft mbH is coming on board as a strategic investor because this will considerably strengthen the shareholder structure for the good of the company, also vis-à-vis future growth.

By resolution dated October 28, 2010, the company's Supervisory Board appointed Mr. Louis Bélanger-Martin to the company's Management Board effective immediately. As a member of the Management Board, Mr. Louis Bélanger-Martin will be responsible for the operating business and thus serve as Chief Operating Officer (COO). Mr. Louis Bélanger-Martin is 40 years old and the founder and CEO of DTI, which is the world market leader for electronic games and applications in the Inflight Entertainment market. AIA AG had acquired DTI at the start of 2008, and Mr. Louis Bélanger-Martin has also been serving on the Group's Executive Management Committee since then. He has 15 years of industry experience in Inflight Entertainment and excellent contacts to the world's key carriers. Besides his position as Head of Customer Relations, his activities on the Management Board will focus on optimizing the operational processes and structures of the Group's international subsidiaries and on leveraging synergies both within and between Group companies.

2. Financial performance, cash flows and financial position

2.1. Financial performance

Sales

The AIA Group posted total sales of EUR 111,114 thousand in the 2010 financial year - an increase of about 3 percent over the previous year's sales of EUR 108,051 thousand. The Other Licensing segment remained insignificant in the 2010 financial year as well. The allocation of revenue in the Inflight Entertainment segment by geographic region remained largely unchanged in the 2010 financial year. In 2010, revenue in Europe was EUR 46,627 thousand (previous year: EUR 47,283 thousand) while revenue in the rest of the world was EUR 64,487 thousand (previous year: EUR 60,768 thousand).

We had already determined during the preparation of the 2010 half-year financial report that a shift in the sales at the Dutch subsidiary Inflight Productions BV, Amsterdam, The Netherlands, in the 2009 financial year affected its performance in 2010 but it did not impact earnings. Had this sales shift not taken place, consolidated sales in 2010 would have come to EUR 112,002 thousand, compared with EUR 106,864 thousand in the previous year. This would have corresponded to an increase in consolidated sales of five percent. In 2010, the AIA Group ceased supplying a few customers but gained new customers and obtained long-term renewals (by two to three years) of some of its contracts with current customers. In some cases, however, it was agreed in connection with the renewal of contracts with existing customers that the AIA Group would no longer provide components of services that it used to provide and that do not make a contribution to the Group's earnings. This is leading to an effective decline in sales with these customers but also, in addition to a reduction in administrative expense, to an increase in the reported profit margins because the sales basis is shrinking by the proportion of sales with no effect on margins. The Management Board welcomes this development as it leads to more meaningful sales and a more informative profit margin, and the foreign currency risks to which the margin-neutral items are exposed will also disappear.

EBITDA

The AIA Group generated earnings before interest, taxes, depreciation and amortization (EBITDA) of EUR 12,631 thousand in the 2010 financial year, an increase of about eight percent compared with the previous year (EUR 11,735 thousand).

However, the 2010 EBITDA of the AIA Group was also impacted by one-time charges incurred in connection with the change in the company's Management Board as well as by increased expenses in connection with the introduction of new accounting and consolidation software totaling around EUR 800 thousand.

The AIA Group reports positive foreign currency effects of EUR 9 thousand in 2010 (previous year: EUR -245 thousand). After eliminating these effects on earnings and adjusting for foreign currency effects, EBITDA was EUR 12,622 thousand in the 2010 financial year, up by about 5% over the EBITDA of EUR 11,980 thousand in the 2009 financial year.

EBIT

Earnings before interest and taxes (EBIT) in the 2010 financial year were EUR 8,413 thousand, an increase of about 23 percent compared with the previous year (EUR 6,818 thousand).

Adjusted for foreign currency effects, EBIT was EUR 8,404 thousand in the 2010 financial year, compared with EUR 7,063 in the 2009 financial year.

EBT

The AIA Group generated earnings before taxes (EBT) of EUR 7,589 thousand in the 2010 financial year, compared with EUR 5,867 thousand in the previous year. This represents an increase of about 29 percent.

Adjusted for foreign currency effects, EBT was EUR 7,580 thousand in the 2010 financial year, compared with EUR 6,112 in the 2009 financial year.

Net profit for the year

The AIA Group generated net profit of EUR 5,493 thousand in the 2010 financial year compared to EUR 4,713 in the previous year, representing a year-on-year increase of 17 percent.

Adjusted for foreign currency effects (after applying the corporate tax rate to the foreign currency effects in both 2009 and 2010), net profit for the period was EUR 5,487 thousand in 2010 compared to EUR 4,877 thousand in 2009.

Earnings per share

Basic earnings per share were EUR 0.38 in 2010. The previous year's figure was EUR 0.33.

Adjusted for foreign currency effects, basic earnings per share in 2010 were EUR 0.38 in and hence level with the previous year (EUR 0.34) after adjusting for foreign currency effects.

Depreciation, amortization and impairment losses

In 2010, depreciation, amortization and impairment losses in the AIA Group were EUR 4,218 thousand (previous year: EUR 4,917 thousand). The 2010 figure includes impairment losses of EUR 141 thousand (previous year: EUR 1,696 thousand) on the Group's non-current film assets in the Other Licensing segment. EUR 156 thousand in impairment losses were recognized on capitalized research and development costs for games (previous year: EUR 0 thousand). Following the expiration of a customer contract, impairment losses of EUR 195 thousand were recognized on miscellaneous intangible assets for customer databases that had been capitalized in connection with the acquisition of Atlas Air, a subsidiary.

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Other operating income

The AIA Group generated other operating income of EUR 349 thousand in 2010 (previous year: EUR 443 thousand). It contains positive effects on earnings from the reversal of provisions recognized in prior periods, as well as income from the disposal of non-current assets.

Staff costs

The staff costs of the AIA Group were EUR 21,879 thousand in 2010 compared to EUR 18,986 thousand the previous year, which corresponds to a year-on-year increase of approximately 15%. The employee expenses ratio thus rose from about 18% the previous year to about 20% in 2010. But the staff costs for the 2010 financial year contain one-time charges of EUR 500 thousand in severance payments related to the change in the company's Management Board at the start of 2010.

Other operating expenses

The other operating expenses in 2010 totaled EUR 9,938 thousand, which is slightly below the prior-year figure of EUR 10,041 thousand. This means that other operating expenses were not only down in absolute terms but also that the ratio of other operating expenses to sales also declined slightly. Other operating expenses for the 2010 financial year contain one-time charges of about EUR 300 thousand in connection with the change in the company's Management Board in early 2010 as well as the introduction of new accounting and consolidation software. In 2009, the other operating expenses included negative foreign currency effects of EUR 245 thousand.

Financial result

In 2010, the AIA Group generated finance income of EUR 137 thousand (previous year: EUR 100 thousand). Finance costs in the same period were EUR 962 thousand (previous year: EUR 1,051 thousand).

Income taxes

In 2010, the income taxes of the AIA Group were EUR 2,096 thousand compared to EUR 1,154 the previous year. This increase stems from the increase in pre-tax earnings. Furthermore, withholding tax was introduced in one customer's home country in 2010, for which appropriate provisions were recognized for the first time as of December 31, 2010.

Tax loss carryforwards

The corporate income tax loss carryforwards of the AIA Group as of December 31, 2010, were EUR 66.0 million (previous year: EUR 66.3 million). AIA AG's loss carryforwards from corporate income taxes as of December 31, 2010, were EUR 62.7 million (previous year: EUR 63.8 million). AIA AG's loss carryforwards from municipal trade taxes as of December 31, 2010, were EUR 62.0 million (previous year: EUR 63.8 million). Comprehensive tax audits of the company through the 2005 financial year have confirmed these tax loss carryforwards. In addition, the loss carryforwards of Advanced Film GmbH from both corporate income taxes and municipal trade taxes as of December 31, 2010, were EUR 1.2 million (previous year: EUR 1.2 million). As of December 31, 2010, the Group's foreign subsidiaries had total tax loss carryforwards of EUR 2.0 million (previous year: EUR 1.3 million).

2.2. Cash flows and financial position

Financial position

Total assets of the AIA Group as of December 31, 2010, were EUR 88,061 thousand, compared to EUR 84,522 thousand as of December 31, 2009.

Assets

As of December 31, 2010, the goodwill of the AIA Group recognized in the statement of financial position amounted to EUR 25,836 thousand (previous year: EUR 23,684 thousand). This year-on-year increase resulted from foreign currency effects.

As of the reporting date, other intangible assets were EUR 18,594 thousand (previous year: EUR 17,039 thousand). This increase stems, in particular, from the increase in DTI's capitalized development costs amounting to EUR 2,127 thousand (previous year: EUR 1,609 thousand) as well as from foreign currency effects.

Capitalized film assets as of December 31, 2010, were EUR 337 thousand (previous year: EUR 490 thousand). An impairment loss on the company's non-current film assets was recognized in the financial year just ended as well. At EUR 141 thousand, however, the amount of the impairment loss was down substantially on the previous year's level of EUR 1,696 thousand.

Overall, the intangible assets of the AIA Group as of December 31, 2010, were EUR 44,767 thousand (previous year: EUR 41,213 thousand).

As of the reporting date, property, plant and equipment had fallen slightly to EUR 2,214 thousand (previous year: EUR 2,444 thousand).

Non-current deferred tax assets as of December 31, 2010, were EUR 1,540 thousand, up slightly from the prior-year figure of EUR 1,480 thousand.

Trade receivables as of the reporting date were EUR 18,781 and thus moderately higher than the previous year's level of EUR 17,012 thousand.

Cash and cash equivalents as of December 31, 2010, were EUR 13,954 thousand (previous year: EUR 16,465 thousand).

As of the 2010 reporting date, other assets were EUR 2,405 thousand (previous year: EUR 2,829 thousand).

Equity and liabilities

Equity as of the reporting date was EUR 41,354 thousand and thus substantially higher than the previous year's level of EUR 33,299 thousand. As a result, the equity ratio as of December 31, 2010, was 47.0%, up substantially from 39.4% the previous year.

Non-current financial liabilities fell from EUR 6,441 thousand the previous year to EUR 2,315 thousand as of December 31, 2010. This was mainly due to EUR 3,000 thousand in both scheduled and unscheduled payments on the HypoVereinsbank loan in 2010, as well as the reclassification of the loan's current portion to current financial liabilities in the statement of financial position.

Other non-current financial liabilities were EUR 331 thousand as of the reporting date previous year: EUR 221 thousand).

Deferred tax liabilities as of December 31, 2010, were EUR 5,249 thousand, compared to EUR 6,064 thousand in the previous year.

Current income tax liabilities as of the reporting date were EUR 1,655 thousand (previous year: EUR 1,319 thousand).

Current financial liabilities as of December 31, 2010, amounted to EUR 3,937 thousand (previous year: EUR 2,650 thousand).

The trade payables of the AIA Group as of the reporting date totaled EUR 25,121 thousand (previous year: EUR 24,265 thousand).

Other liabilities as of December 31, 2010, were EUR 7,939 thousand (previous year: EUR 9,890 thousand).

Financial and liquidity management

Financing strategy

The AIA Group's financing strategy serves to ensure efficient use of the liquidity that the subsidiaries generate and thus exploit the company's internal funding potential to optimum effect. The aim is also to use the free cash flow that is available in the long term to discharge existing loans in a timely manner. In acquisitions, the funds not covered through the company's own cash flows shall be covered through a balanced combination of equity and borrowings.

Financial management

In operational terms, financial management is decentralized and carried out by each individual Group company. The Group holding company is tasked with Groupwide controlling and planning. This two-step approach ensures, for one, that the subsidiaries are always in a position to fulfill their obligations at all times and, for another, that free financial resources are put to effective use within the Group. Centralized financial management closely collaborates with the finance departments of the Group's subsidiaries to ensure the implementation of its financing strategy.

Statement of cash flows

Thanks to the introduction of new accounting and consolidation software — which we used for the first time in connection with the annual financial statements for the year ending December 31, 2009 — the company now has access to data for the statements of cash flows for the 2009 and the 2010 financial year that will enable an improved presentation of the fluctuations in foreign exchange rates. The company has thus shifted to the new, improved presentation of the statements of cash flows for 2010 and 2009 as part of the 2010 annual financial statements. Consequently, the statement of cash flows for 2009 presented in the 2010 annual financial statements differs from that for the 2009 financial year as presented in the 2009 annual financial statements. The differences stem primarily from the improved recognition of the effects of changes in foreign exchange rates on cash and cash equivalents. Please also see note 17 in the notes to the 2010 consolidated financial statements.

The net cash flow from operating activities in the 2010 financial year was EUR 10,143 thousand, up substantially from EUR 7,943 thousand the previous year due mainly to the increase in earnings before income taxes for 2010.

In the 2010 financial year, the AIA Group generated negative net cash flow of EUR 8,329 thousand from investing activities (prior-year period: EUR 5,082 thousand). Larger investments of EUR 4,161 thousand in intangible assets (prior-year period: EUR 2,014 thousand), particularly internally-generated software, accounted for a substantial portion of the net cash flow from investing activities in the 2010 financial year. There were also cash outflows of EUR 3,573 thousand (prior-year period: EUR 2,322 thousand) in retroactive purchase price payments (earn out), which were shown as payments under other financial liabilities.

Net cash flow from financing activities in the 2010 financial year was EUR minus 5,450 thousand (previous year: EUR minus 4,443 thousand). This contains the loan payments of EUR 3,000 thousand to HypoVereinsbank (prior-year period: EUR 2,000 thousand); a payment of EUR 2,607 thousand to HypoVereinsbank for interim financing obtained from it; as well as the partial conversion of the last earn-out installment of EUR 2,531 thousand owed to the sellers of DTI into a loan that was repaid in full in 2010. This item also includes the dividend payment of EUR 1,450 thousand for the 2009 financial year (dividend payment in 2009 for the 2008 financial year: EUR 1,160 thousand).

The effects of exchange rate fluctuations on cash and cash equivalents were EUR 1,124 thousand in the 2010 financial year, up from EUR 572 thousand in the same period the previous year.

As of December 31, 2010, cash and cash equivalents of the AIA Group were EUR 13,954 thousand (previous year: EUR 16,465 thousand).

Investments

The AIA Group spent EUR 4,762 thousand on investments in the 2010 financial year (previous year: EUR 2,859 thousand). The major investments were EUR 3,934 thousand (previous year: EUR 1,718 thousand) in software and technology; EUR 600 thousand (previous year: EUR 821 thousand) in operating and office equipment; EUR 227 thousand (previous year: EUR 296 thousand) in the film inventory of the Group's Indian subsidiary, Fairdeal; as well as EUR 0 thousand (previous year: EUR 24) in other financial assets.

Research and development

Just as in the 2009 financial year, only DTI incurred development costs in connection with the development of online games and applications in 2010; they were EUR 4,999 thousand (previous year: EUR 3,492 thousand). A total of EUR 2,127 thousand (previous year: EUR 1,609 thousand) of these development expenses were capitalized. The company received grants totaling EUR 1,522 thousand (previous year: EUR 931 thousand, less an adjustment of EUR 346 thousand concerning 2008). The remaining research and development costs of EUR 1,350 thousand (previous year: EUR 952 thousand) were recognized in profit or loss.

3. Events after the reporting period

On January 27, 2011, the company reached a settlement in court with its former Chief Executive Officer, Mr. Otto Dauer. The Supervisory Board had dismissed Mr. Otto Dauer for cause on March 3, 2010; it had also terminated his director's contract, which ran until May 2014, for cause. In addition, the company withheld payment of his claims to contractual bonuses for 2009 and 2010. Mr. Otto Dauer had challenged the validity of his termination for cause and sued for payment of his claims to a full bonus for 2009 and a pro rated one for 2010. Mr. Otto Dauer was paid total compensation of EUR 789 thousand in the 2009 financial year. The parties reached a settlement in court, agreeing that Mr. Otto Dauer's director's contract was terminated effective March 31, 2010, and that he would be paid EUR 700 thousand; of this amount, EUR 450 thousand were paid as bonus payments outstanding for 2009 and 2010, and EUR 250 thousand were paid as severance pay. Absolutely all of Mr. Otto Dauer's claims under his director's contract have thus been satisfied. Taking into account the provisions that were recognized in the 2009 annual financial statements as well as during the 2010 financial year for the 2009 and 2010 bonuses that had been withheld, the company incurred a one-time charge of about EUR 250 thousand under the termination agreement, which impacts earnings for the 2010 financial year.

AIA AG had obtained an acquisition loan from HypoVereinsbank AG in the 2008 financial year to finance its acquisition of DTI. Besides a planned loan payment of EUR 1,000 thousand every six months, the loan agreement also provides for a mandatory special loan payment if the company generates excess cash flow. This provision applied as of December 31, 2010, based company's figures, and triggers a mandatory special loan payment of EUR 1,000 thousand, which is due and payable to HypoVereinsbank AG within 10 days of the date on which the company's annual financial statements for 2010 are adopted.

4. Risk report

4.1. General risk management

The AIA Group uses a decentralized system to manage risk. This means that risks are identified and addressed wherever they occur within the Group. In its capacity as the Group parent, AIA AG is responsible for establishing, structuring and monitoring the Group's decentralized risk management. All subsidiaries report to the Group parent.

In the 2010 financial year, no major changes were made to the Corporate Risk Management Guideline that is applicable for the entire Group. The basic principles of the Group's risk management have not changed and comprise the following components:

- ▶ The company must always act in accord with applicable laws and regulations;
- ▶ Opportunities or risks that are identified must be assessed and addressed on the basis of standard approaches;
- ▶ No single decision or act may spark risks that could jeopardize the Group as a going concern;
- ▶ Significant Group risks may only be taken on actively with the approval of the Group parent's Management Board;
- ▶ Each and every executive must be informed of risks relevant to their sphere of responsibility;
- ▶ Each and every Group employee must be aware of the risks in their immediate work environment and contribute to identifying and addressing them;
- ▶ Internal controls are designed to ensure the efficiency and ongoing functionality of the Group's risk management and;
- ▶ Risks shall be communicated openly within the Group.

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Each and every executive is responsible for the risks in their sphere of responsibility. This responsibility comprises

- ▶ Identifying risks;
- ▶ Assessing risks,
- ▶ Initiating suitable measures for addressing the relevant risks;
- ▶ Monitoring both the risks so identified and the measures initiated, and;
- ▶ Reporting to AIA AG's Risk Manager

This responsibility may not be delegated.

The Management Board submits a report regarding material risk indicators for the Group's parent and its significant subsidiaries to the Supervisory Board as part of the Group's risk management. This report on risk indicators includes risk assessments, comments and outlooks for the categories Inflight Entertainment, film assets, finances, personnel, IT, investor and public relations, legal affairs, taxes, and M&A activities.

The company intends to revise its Groupwide Corporate Risk Management Guideline in 2011.

4.2. Internal control and risk management system for the financial reporting process

Section 315 (2) no. 5 of the German Commercial Code requires a description of the essential features of the internal control and risk management system as it pertains to the Group's financial reporting process — which also includes the financial reporting processes of all consolidated companies — because the parent company, AIA AG, is a listed corporation as defined in Section 264d German Commercial Code.

The internal control and risk management system relevant to the Group's financial reporting process is not defined by statute. In the company's view, the internal control and risk management system is a comprehensive system. The company's definition of this system essentially follows the definitions of the Institut der Wirtschaftsprüfer in Deutschland e. V., Düsseldorf, regarding the internal control system relevant to the financial reporting process (IDW PS 261, item 19 f.) and the risk management system (IDW PS 340, item 4). Accordingly, an internal control system comprises those principles, procedures and measures that the management employs in a company with the aim of implementing its organizational decisions for the purpose of:

- ▶ Ensuring the effectiveness and profitability of the company's business (which includes protecting its assets, as well as preventing and detecting any impairment of its assets);
- ▶ Ensuring that both the internal and the external financial reporting processes are proper and reliable; and
- ▶ Ensuring compliance with all statutory requirements applicable to the company.

The risk management system comprises the totality of all organizational regulations and measures serving to detect and handle risks arising from entrepreneurial activity.

The following basic structures, processes and controls have been put in place within the AIA Group in regards to its financial reporting process:

Overall responsibility for the internal control and risk management system pertaining to the Group's financial reporting process rests with the Management Board of the Group.

All consolidated Group companies are integrated into this system via a defined reporting structure. The Navision accounting system was introduced at all significant Group companies in 2009. Existent accounting guidelines were revised at the same time in 2009, and an updated IFRS Practice Manual was also prepared. This accounting manual, which has a modular structure, fixes the accounting treatment of all significant transactions related to the domestic and foreign companies that are consolidated in AIA's consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS). Hence the technical basis for ensuring a uniform accounting and financial reporting process throughout the Group was put in place already in 2009.

The standard chart of accounts used in the Group was revised and optimized in 2010. Furthermore, the monitoring activities aimed at ensuring proper and reliable accounting, which basically comprise analytical reviews of transactions posted in the Group companies' single-entity financial statements, were stepped up particularly in connection with the preparation of the monthly financial statements.

A centralized consolidation system was also implemented in 2009 for the purpose of preparing the consolidated financial statements. All Group companies prepare detailed, standardized reporting packages with the help of this system and furnish these packages to the centralized consolidation system. The data are subject to extensive monitoring activities at the Group level before they are entered into the consolidation system in order to ensure the propriety and reliability of both the Group companies' accounting and the Group's financial reporting process. For instance, the reporting packages are examined in a quality assurance process as to their compliance and plausibility, and adjustments are made as necessary in coordination with the respective Group companies. The 2009 consolidated financial statements were the first ones that were prepared using the newly implemented systems and processes. While the company still depended heavily on external advisers in connection with the consolidation of its 2009 annual financial statements, in 2010 the company built up the requisite know-how internally, substantially reducing its dependence on external resources. The company believes that those features of the internal control and risk management system that can have a significant impact on Group accounting and the overall tenor of the consolidated financial statements, including the Group management report, are material to the Group's financial reporting process.

The AIA Group's existent internal control and risk management system allows for comprehensive collection, processing and interpretation of transactions related to the Group, as well as the appropriate presentation of these transactions in the Group's financial reporting process. What is required, now that the requisite technical requirements have been put in place, is to continuously expand and refine the existent processes and procedures in order to fulfill the requirements defined above.

Qualifying statement

The company cannot fully preclude that especially personal judgment, defective controls, criminal acts of the acting individuals or other circumstances may limit the effectiveness and reliability of the internal control and risk management system such that even Groupwide application of the systems utilized cannot guarantee complete, accurate and timely recording of transactions as part of the financial reporting process.

4.3. Significant individual risks

4.3.1. External industry-specific risks

The services of the AIA Group are focused almost exclusively on customers in the aviation industry. As a result, risks to the aviation industry indirectly also constitute risks to the AIA Group. This concerns the following external risks that are defined as industry-specific risks:

The aviation industry was hit hard by the global financial and economic crisis in the 2008 and 2009 financial years, and a few carriers ran into serious financial trouble. While the aviation industry has clearly been on a rebound since the end of 2010, at least in terms of passenger volume, the carriers' earnings do not yet fully reflect this recovery. We cannot preclude, therefore, that some carriers might not recover in the long term and thus that their existence as going concerns might be jeopardized. Also, a repeat of the global economic crisis could catapult the entire industry into a financially difficult situation again.

Jet fuel costs are a material cost factor for all carriers and account for about one fourth of operating costs on the industry average. A substantial increase in jet fuel costs would thus have serious consequences for the entire industry. While crude oil prices rose in 2010, on average they fell far short of the USD 100 per barrel threshold. From a macroeconomic standpoint, economic research institutes do not anticipate dramatic increases in crude oil prices for the coming years. Yet the geopolitical risks related to oil supplies rose substantially at the start off 2011 owing to the political unrest in several North African countries, which either produce crude oil themselves or control supply routes. Consequently, crude oil prices soared to a level far above USD 100 for a short period of time. The aviation industry could suffer long-term consequences despite the increase in the passenger volume if the geopolitical situation does not improve in the near future and crude oil prices do not decline anew as a result. In March 2011, IATA already lowered its estimates for the aviation industry's profits this year from previously USD 9.1 billion to USD 8.6 billion.

The risk of terrorist attacks, as well as the ramifications of the ever-intensifying environmental debate, are material risk factors for the aviation industry. The aviation industry has had to contend with the risk of terrorist attacks just about permanently for a number of years. Steady improvement of safety measures has helped to continually improve preventive measures. The global economic crisis has somewhat muted the environmental debate; as a result, the aviation industry is not expected to take any measures in the near future that will have a sustained effect.

The first instance ever of volcanic ash impeding air traffic and thus posing a risk occurred in 2010. However, these air traffic disruptions in early 2010 did not materially affect the AIA Group. Such impediments to air traffic could also have a negative impact on the company's financial performance, however, if they were to occur more often in the future.

Because it is dependent on the aviation industry, any occurrence of the risks sketched out above would also have repercussions for the AIA Group. In the company's estimation, the external industry-specific risks have risen somewhat compared to recent years, especially on account of the geopolitical risks. The probability of the other risks occurring has not changed substantially in its view.

4.3.2. Internal industry-specific risks

Internal industry-specific risks comprise risks arising from competitive operations as well as from changes, especially changes at customers.

Cost pressures remain high in the aviation industry because some of the carriers are still mired in financial difficulties. This has also intensified consolidation pressures in the aviation industry. The merger of Continental Airlines and United Airlines in the United States is the most recent outgrowth of this trend. Continued consolidation may change the structure of the customer market in the long term. That this might have a negative impact on the Inflight Entertainment market cannot be precluded.

Inflight Entertainment is undergoing a sea change driven first and foremost by technical innovations. Recent years saw the emergence of numerous new vendors with new technologies and new approaches, especially for the hardware systems that are built into aircraft. It is impossible to say at this time which of these new technologies and approaches will gain a foothold in the market in the long term. As a content service provider, the AIA Group's services are contingent on the technological components used in aircraft because it is these components that define the parameters for both the content and the solutions that can be used in Inflight Entertainment. Over time, this will impose new technical requirements on the AIA Group. In turn, this will entail opportunities (e.g. an expansion of the company's own services portfolio thanks to broadened options for using the new systems) as well as risks (e.g. lowered technical barriers to market entry for competitors).

4.3.3. Financial risks

Liquidity risks

The company is faced with liquidity risks if its existing liquidity or corresponding credit lines do not cover its payment obligations. The company believes that the Group's available funds — comprising demand deposits at banks, interest-bearing monthly time deposits, as well as disposable credit lines — are sufficient to finance its operating activities. Based on the information currently available to it and against this backdrop, the liquidity risk is moderate in its view.

Currency risks

Within the Group, currency risks essentially arise from the fact that both sales to customers and purchasing are largely effected in US dollars while some of the operating companies' fixed costs are incurred in euros, British pounds and Canadian dollars. If necessary, the Group engages in hedging transactions to counteract direct currency risks. However, we cannot always guarantee that all currency risks have been hedged in full. Severe currency fluctuations could also cause the hedging transactions to fail if agreed thresholds (triggers) are not met or exceeded. Our management of foreign currency risks notwithstanding, we therefore cannot fully preclude negative foreign currency effects in the future — some of which might be substantial — due to unforeseen exchange rate fluctuations and/or inaccurate assessments of market developments.

There are also intragroup receivables and liabilities in the Group such as loans that can generate significant foreign currency effects. In the first half of 2010, the enormous changes in the exchange rates of a number of foreign currencies against the euro — the surge in the value of the US dollar and the Canadian dollar being one such example — led to the recognition of unrealized foreign exchange losses in some cases, particularly as a result of intragroup transactions. This clearly shows that the AIA Group is exposed to a heightened currency risk in connection with intragroup borrowing owing to the foreign currency sensitivity in severe and unforeseeable exchange rate movements that are consequently difficult to predict. The foreign currency losses that were reported in the income statement for the first half of 2010 have been absorbed almost in their entirety thanks to both the steps the company took in the second half of 2010 to reduce intragroup receivables and liabilities and the upward movement of the euro.

The company plans to carry out additional measures in 2011 with the aim of reducing foreign currency risks from internal borrowings. It also plans to establish more active foreign currency management.

Interest rate risks

Both the earnings and the operating cash flows of the Group are exposed to a low interest rate risk. Our financial assets are not exposed to significant interest rate risks. Cash and cash equivalents are invested on a current basis subject to customary fluctuations. Financial liabilities comprise both current and non-current liabilities. Of the EUR 2,315 thousand in non-current liabilities to banks as of the reporting date (previous year: EUR 6,436 thousand), a total of EUR 2,311 thousand (previous year: EUR 6,436 thousand) have a fixed interest rate or are protected against interest rate changes by means of interest rate hedges. Given the current interest rate curve and the maturity structure of these financial liabilities, in the company's view its interest rate risks are insignificant.

Default risks

There is a default risk when a debtor does not discharge a liability at all or not in timely fashion. The Group is exposed to default risks only in connection with trade receivables. Sufficient allowances have been recognized to make provisions for the estimated default risk. Receivables so far have not been insured against default. The maximum default risk is always equivalent to the nominal amount of the receivables less loss allowances. The trade receivables do not contain substantial concentrations of individual customers lacking creditworthiness. Customers' ability to abide by payment terms deteriorated in 2010, especially in Asia. The company thus slightly increased its risk provisions for such defaults in 2010. No major defaults have occurred to date and most invoices outstanding were settled once we contacted the customers in question. The other financial liabilities are not exposed to any default risks. Nonetheless, we cannot preclude that such defaults might occur in the future. The company keeps a very close eye on these developments.

Measurement risks

Non-current intangible assets and, in particular, capitalized goodwill, as well as the other intangible assets, account for a significant portion of the assets in the AIA Group's statement of financial position. An impairment test of the goodwill based on all available business forecasts as of December 31, 2010, did not indicate any need to write it down. We cannot preclude, however, that impairment losses might arise in the future if business forecasts were to change. An impairment test of the miscellaneous intangible assets resulted in an impairment loss of 195 EUR thousand as of December 31, 2010. We are also unable to preclude with respect to the measurement of the other intangible assets that changes in the underlying measurement parameters will lead to impairment losses.

Our Canadian subsidiary has been capitalizing a portion of its research and development costs for electronic toys and applications since 2008. Development costs that must be capitalized are allocated directly to the respective games and applications and amortized over their expected useful lives. They are regularly tested for impairment by comparing the given cost to the sales likely to be realized from the respective game or application. A minor impairment loss of EUR 156 thousand was recognized for electronic games (the development of which was discontinued in 2010 due to new market assessments) based on the impairment test of development costs that must be capitalized at DTI, which was carried out as of December 31, 2010. However, additional impairment losses in the event of changes in the parameters that govern the marketing of the respective games or applications cannot be precluded for the future.

4.3.4. Market risks

Price risks

The AIA Group's price risks are still significant, as before, thus constituting its key short-term risk. Cost pressures in the aviation industry remain high, creating a situation where pricing is increasingly becoming the most important criterion in bid decisions. While the AIA Group succeeded in renewing its contracts with a number of major customers by several years in 2010, not even the AIA Group can escape these price pressures. Some current customers will invite bids in 2011. While the company is confident that it will be able to submit competitive bids and bring about the contract renewals, there is an increased risk due to ongoing price pressures that it might not win the given bid or only at less attractive terms, which would affect the company's sales and earnings accordingly.

The company has responded to this scenario by broadening its offerings through additional services; making integrated offers that cover the entire range of the Group's services; adjusting the composition of the content offered; and optimizing its procurement strategy. Given the AIA Group's market share, it is generally well positioned relative to its competitors to cushion rising price pressures through appropriate countermeasures. We cannot preclude, however, that this will adversely effect the margins.

Risks from long-term procurement contracts

Aside from centralizing license procurement for the Inflight Entertainment segment to a greater extent, in some cases the AIA Group also closes multi-year, fixed-price delivery contracts with producers. These procurement contracts enable the AIA Group to purchase all of the movies that the given studio releases or markets during the term of the contract at a fixed purchase price (so-called flat deals). Adjustments of the stipulated purchase price might be necessary in certain circumstances if there are major changes in the customer base of the AIA Group during the term of the given contract. Profit margins can be generated through additional sales if the AIA Group succeeds in realizing the respective volume underlying the stipulated fixed purchase price through sales. Although such flat deals are based on diligently researched decision-making parameters and also offer a certain degree of flexibility, there is the risk that the flat fee might not be achieved through sales; in turn, this would negatively impact the AIA Group's earnings.

4.3.5. Strategic risks

Strategic risks are present if strategic decisions — past or present — turn out to be incorrect against the backdrop of current market developments and those to be expected in the future.

The AIA Group has no plans at present to embark on a fundamental change of its strategic alignment but it does react to the change processes affecting the industry, especially in terms of technology. Besides pursuing continued growth in its core business, the company plans to further expand its positioning along the value chain in terms of content, particularly film procurement. This might best be accomplished through appropriate strategic acquisitions. Strategic opportunities would be weighed judiciously against any risks as part of the process of assessing a potential acquisition. In addition, the company is planning to take its current offerings into markets other than Inflight Entertainment. Any related strategic risks will be moderate as long as this diversification is pursued organically.

The AIA Group has been investing for quite some time in the development of applications that can be used for Inflight Entertainment provided the aircraft are equipped with more powerful state-of-the-art hardware systems. It also developed a system for managing inflight Internet access. The company aims to broaden its portfolio of services and to complement its position as the largest content service provider by becoming a solution provider for advanced, interactive uses of inflight hardware systems. The new hardware systems provide the technological basis for turning the systems previously used only for the purpose of entertaining passengers into interactive passenger platforms that offer a host of possibilities. In the Inflight Entertainment industry, this strategic development entails changing Inflight Entertainment into a total “passenger experience.” The market positioning of the AIA Group, as well as the technological know-how it possesses through its Canadian subsidiary, provide an excellent starting point from which it can help shape this cutting-edge development in Inflight Entertainment. But this process gives rise to certain risks because it is still at an early stage for both the hardware manufacturers and the carriers. A dominant technological trend has yet to emerge, and only a few carriers have taken clear positions on the new trends. Often enough problems also arise from the delays in the delivery of the new generation of aircraft equipped with state-of-the-art hardware systems. The AIA Group thus is exposed to the risk that customers might substantially delay their use of solutions that are already in place or even cancel them outright, with the result that sales are shifted or eliminated in toto. Nor can we preclude that the market might not generate sufficient demand.

Due to the widening use of state-of-the-art, personal electronic devices such as Apple's iPad, ever-increasing numbers of passengers have their own portable devices, which they might use to bring their own content such as movies, music or games with them on a flight. Carriers now also have greater technical means at their disposal to offer passengers inflight access to the Internet. While both trends will give rise to risks as well as opportunities for the AIA Group, it is impossible to foresee at present whether and, if so, to what extent these trends will have lasting effects. Note, too, that the Inflight Entertainment systems currently in place are unable to support these developments. Given average useful lives of 15 to 20 years, the conventional systems will continue to dominate the Inflight Entertainment industry for the foreseeable future. As a result, possible changes will happen slowly, giving all market players sufficient time to adapt.

4.3.6. Litigation risks

No major litigation is pending.

4.3.7. Tax risks

Large loss carryforwards are available to AIA AG for both corporate income and municipal trade tax purposes. These tax loss carryforwards for annual periods up to and including 2005 were confirmed by the company's most recent comprehensive tax audit in 2008. A comprehensive tax audit of the Group companies domiciled in company for 2006 through 2009 is slated to begin in the first half of 2011. Even though the company assumes that all transactions relevant to taxes have been duly presented in its tax returns for the given years, we cannot preclude with certainty that the comprehensive tax audit will not lead to objections to the tax returns and consequent tax risks from demands for additional taxes and that its tax loss carryforwards might be cut.

The intensity and volume of both intragroup and transnational transactions have risen because collaboration among individual Group companies has increased. In the company's view, the structure of these transactions — and, in particular, the determination of intragroup pricing — have been in compliance with all tax rules and regulations. We cannot preclude, however, that national and international tax authorities performing comprehensive corporate tax audits might not concur with the company's tax assessment of certain transactions and thus might issue demands for additional taxes. The same applies to AIA AG's pass-through costs that it allocates to its subsidiaries in connection with the services it renders for them.

The AIA Group is active with numerous subsidiaries in several countries worldwide. Proactive management of the Group's corporate tax structure entails availing itself of tax optimization features internationally as well. All of its actions in this regard take existent tax requirements into account. Nonetheless, we cannot say with any certainty that national and international tax authorities will concur with the company's tax assessment of certain transactions and that this might have negative tax effects.

4.4. Overall appraisal of the risk situation and the probable development of opportunities and risks

The AIA Group and its international subsidiaries focus on the Inflight Entertainment niche segment; hence they are dependent on the developments both in the international entertainment industry and the aviation industry as such. Opportunities will arise especially in connection with the technological innovations that are coming to the fore, the industry's ongoing process of consolidation as well as the transfer of current know-how to other industries. Particularly the evolution of Inflight Entertainment from a system, where content was simply made available to a passive passenger into an integrated "passenger experience" approach, where both interaction with the passenger and the substantial broadening of the products and services offered will play a key role, offers the AIA Group tremendous opportunities for expanding its current business model. Additional potential is being evaluated continuously in all areas. Risks described in this report are contrasted by corresponding opportunities. The company aims to exploit all opportunities that arise as best as possible, taking all attendant risks into account. It also examines existent cost structures on an ongoing basis to ensure its earnings.

According to the company's assessments and knowledge, the risks described in this risk report are controllable and the continued existence of the AIA Group as a going concern was not in jeopardy at the time this report was prepared. This applies to all Group companies and the Group as a whole. The overall risk exposure arising from the aggregate of condensed individual risks has increased slightly year on year, particularly due to ever greater competitive pressures and looming changes in the market. Yet the individual risks mentioned in the foregoing will not trigger any negative deviations from the developments described in the report on anticipated developments, provided the market remains stable. From today's vantage point, the company does not expect the risk situation to change fundamentally.

5. Anticipated developments

5.1. Macroeconomic outlook

Following the slight decline in the fourth quarter of 2010, the Ifo Institute's World Economic Climate Survey (WES) rose substantially yet again in the first quarter of 2011 — even reaching its highest level since 2007. All signs thus point to global growth gaining momentum. The WES for North America even jumped to its highest level since the end of 2007. In Western Europe, the index accelerated again after slowing down in the second half of 2010 but not as pronounced as in North America. While the economic climate in Asia also improved, it fell short of the high level it had achieved in the third quarter of 2010. Economic experts are forecasting global economic growth of 3.6 percent in 2011, specifically, growth of 1.7 percent in the industrialized countries and 6.3 percent in the emerging countries. According to the experts, the euro zone will expand by 1.6 percent in 2011 and the German economy by 2.4 percent.

The risk of an economic setback is not negligible even though the economic climate has continued to stabilize. It remains to be seen in Europe whether the peripheral states that are in such dire financial straits will consistently implement the consolidation measures imposed on them and whether this will help to stabilize the market for European government bonds as hoped. Besides further weakening the euro, any failure of these measures would further increase the financing costs of all EU states and trigger negative effects for their economies. A correction in real estate prices poses a major risk in both the United States and China. In the United States, it could put a damper on personal consumption, triggering a downward spiral in the financial markets. In China, any correction of real estate prices would adversely affect the speed of the country's economic expansion and thus the global economy.

Seen separately from fundamental parameters, the geopolitical situation in North Africa that has been escalating since the start of 2011 poses a risk to the continued recovery of the global economy. Any scenario where oil prices remain at the high levels we have seen since the start of 2011 or even continue to climb owing to risk premiums that were added in the wake of the situation in Northern Africa could have negative consequences for the recovery of the global economy, which remains unstable.

Japan was hit by a major earthquake in March 2011; it triggered a tsunami that caused tremendous destruction in parts of the country. Japanese nuclear power plants also sustained enormous damage. It is impossible at present to predict the extent to which the major accident at these nuclear power plants, as well as the destruction of parts of the country, will impact the global economy. Limitations on air traffic are not anticipated at this time, however. We cannot conclusively assess the fallout for Japanese carriers, which are among the AIA Group's customers, but there is the risk that flight cancellations will have repercussions for them and thus for the AIA Group too.

5.2. Outlook for the industry

The International Air Transport Association (IATA) expects the aviation industry to continue recovering in 2011 albeit at a slower pace. It estimates that the passenger volume will rise in 2011 by 5.6 percent year on year. Its regional forecasts for 2011 remain largely unchanged. Emerging countries in Asia, Latin America and the Middle East will continue to be the drivers of economic growth. Growth rates in North America and Europe will be moderate at best. The development of the passenger volume in January and February 2011 mirrors this trend. It expanded by 8.2 percent in January 2011 and by 6.0 percent in February 2011, the latter having been affected by the unrest in North Africa. The largest growth rates by far were recorded in the Middle East.

Yet IATA expects a dramatic downturn in aviation industry earnings for 2011 even though the air traffic volume will continue to recover this year. After likely profits of about USD 16 billion in 2010, IATA expects the industry to post profits of only USD 8.6 billion in 2011. This means that cost pressures will remain high in 2011 as well. Not to mention that the aviation industry's forecast recovery depends largely on the recovery of the economy as a whole and the level of oil prices.

5.3. Outlook for the company's probable development

The AIA Group is embedded in a market environment characterized both by fundamental mid-term stability and long-term sea changes. Both of these market characteristics are materially affected by the technical parameters that are available in aircraft and will entail opportunities and risks for the AIA Group in the coming years.

Today, most aircraft that are equipped with Inflight Entertainment systems have technical platforms designed primarily for use as an entertainment vehicle that plays movies and music and offers electronic games. Technical innovations of these conventional systems in recent years consisted of equipping every seat with its own screen (introduction of video on demand), installing larger monitors including touch screens and the availability of greater storage capacity and thus broader selections of content. Inflight Entertainment systems of this generation will continue to shape the nature of Inflight Entertainment for the foreseeable future because the airplanes containing the respective equipment have very long useful lives of 20 or more years. The new generation of Inflight Entertainment systems will be much smaller and thus will cost less on acquisition and in operation, and they will fundamentally change both the technical and the conceptual parameters of Inflight Entertainment. However, this process will take place gradually as new aircraft equipped with the new systems are delivered. Retrofitting is also taking place here and there. It entails removing the current, conventional system from a plane and installing a system of the new generation in its stead. The new systems will offer much broader options and interactive communications for passengers. Inflight access to the Internet, as well as passengers' use of their own portable technical devices during flights, will also bring about lasting changes in Inflight Entertainment.

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The AIA Group has evolved into the market leader among content service providers in recent years. Its task in years to come is not just to defend this position but also expand it. In 2011, we will work intensely on optimizing all internal processes along the entire value chain given continued price and competitive pressures. Our focus will be to significantly enhance the efficiency of our services by integrating the company's divisions that so far were largely managed as separate entities. Greater centralization of purchasing, as well as implementation of an integrated procurement strategy, will both serve to optimize purchasing terms and conditions. The establishment of integrated marketing and customer management will help to better exploit up- and cross-selling potential and further improve our ability to serve customers from a single source. We aim to enable the AIA Group to offer a particularly competitive portfolio of services in a hotly contested market environment that is being characterized by price pressures. Appropriate strategic acquisitions along the value chain could also help us achieve these goals.

The AIA Group and its Canadian subsidiary DTI have been at the forefront of the development of applications since 2008. This concerns software solutions that are designed for the new generation of Inflight Entertainment systems. It is these applications that will make it possible to open exploit technological innovation in this field. The AIA Group will continue to push the development of these applications in the coming years with the aim of playing a central role in shaping this new market. The AIA Group will complement these activities jointly with the hardware manufacturers and the carriers by actively participating in the development of new, innovative approaches to Inflight Entertainment of the next generation.

The company expects a stable development of consolidated sales and an improvement of its operating profitability in 2011, given the parameters sketched out above for the Inflight Entertainment market and the resulting effects. Aside from the continued recovery of the global economy, the renewal of the company's contracts with existing customers in 2011 will be key to the development of its sales and earnings. The year 2011 will also offer opportunities for gaining new customers, given that a number of carriers to which the AIA Group does not yet supply comprehensive services have announced major invitations to tender. The measures that we plan to carry out in 2011 to integrate the entire AIA Group will generate efficiency gains in our services and thus already begin to have a positive effect on the earnings of the AIA Group in 2011. Investments we made in the past few years to develop new markets should also start to give new impetus to sales growth in 2011 and improve the net profit for the period. This positive growth momentum should build in 2012, particularly against the backdrop of the planned delivery of numerous next-generation aircraft.

6. Basic features of the compensation system

The basic structure and the amount of the compensation paid to the members of the Management Board and Supervisory Board of AIA AG are discussed below. There were changes both on the Supervisory Board and the Management Board in the 2010 financial year. In addition, the Management Board was expanded from initially two members to three. The change on the Management Board also entailed a few adjustments of the compensation system that applies to it. As a result, the director's contracts closed in 2010 were structured in line with the requirements of the German Law on the Adequacy of the Management Board's Compensation; this law took effect on August 5, 2009, and its requirements were integrated into the German Corporate Governance Code and in part refined by it.

6.1. Basic features of the compensation system applicable to the Management Board

The compensation of the members of the company's Management Board residing in Germany — Dr. Rüdiger Berndt (Chief Executive Officer) and Mr. Wolfgang Brand (Chief Financial Officer) — consists of a fixed, monthly base salary and an annual variable component (bonus). The variable compensation consists of a share in consolidated IFRS earnings before taxes (hereinafter "consolidated IFRS EBT") for the given financial year. The variable compensation of the Chief Executive Officer is limited to a maximum of EUR 840 thousand per year and that of the Chief Financial Officer to EUR 240 thousand per year.

The following payment rules and clawback provisions apply to the bonus:

- ▶ Thirty percent of the bonus is not subject to a clawback provision and is paid within one month of adoption of the given consolidated financial statements.
- ▶ Seventy percent of the bonus is subject to a clawback provision.

Fifty percent of the portion of the bonus subject to clawback is paid within one month of adoption of the given consolidated financial statements. The remaining fifty percent of the portion of the bonus subject to clawback is paid the following financial year within one month of adoption of the given consolidated financial statements.

A member of the Management Board, who has already received the portion of the bonus subject to clawback, shall fully or partially pay it back to the company if it so requests, in writing, when the following events occur:

- ▶ If the company's approved consolidated financial statements show negative consolidated IFRS earnings before taxes in one or both of the two financial years following the financial year to which the respective variable compensation is attributable (hereinafter the "relevant financial year"), the given Management Board member shall pay back fifty percent of the portion of the bonus that is subject to clawback and has already been paid to it for each financial year in which consolidated IFRS EBT are negative.

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- ▶ If consolidated IFRS earnings before taxes in one or both of the financial years following the relevant financial year are less than consolidated IFRS EBT in the relevant financial year, the Management Board member shall pay one half of the percentage by which consolidated IFRS EBT fell in the given financial year out of the portion of his bonus that is subject to clawback and was already paid to him.

Moreover, the two Management Board members residing in Germany are also paid miscellaneous compensation for health, home care, retirement, disability and accident insurance, as well as compensation in the form of a company car.

The Management Board members residing in Germany also receive additional payments for their pensions in the form of contributions to a pension fund. These contributions amount to EUR 11 thousand per month for the CEO and EUR 1 thousand per month for the CFO.

Furthermore, the members of the Management Board residing in Germany may be granted stock options as determined by the Supervisory Board as an additional variable element of compensation that serves as a long-term incentive. The fair value of the stock options is estimated at the time they are granted based on an accepted measurement model, taking the option conditions into account. No stock options were granted in the 2010 financial year.

The Management Board member residing in Canada — Mr. Louis Bélanger-Martin (Chief Operating Officer) — was paid only variable compensation for his activities as a member of the Management Board of AIA AG equivalent to a variable percentage of the consolidated profit after taxes for the given financial year, subject to the following calculation rules:

Mr. Louis Bélanger-Martin's variable compensation, which compensates him for his activities as a member of the Management Board of AIA AG, is limited to EUR 2,400 thousand per year.

The following disbursement rules and clawback provisions apply to the compensation of Mr. Louis Bélanger-Martin:

- ▶ Seventy percent of his compensation for the 2010 financial year will be paid on April 30, 2011.
- ▶ Seventy percent of his compensation for the 2011 financial year will be paid on April 30, 2012.
- ▶ The thirty percent of his compensation for the 2010 and 2011 financial years that have not been disbursed will be paid on April 30, 2013, if average earnings per share of AIA AG pursuant to IFRS in 2010, 2011 and 2012 were at least EUR 0.25.
- ▶ One hundred percent of his compensation for the 2012 financial year will be paid on April 30, 2013.

Besides serving on the Management Board of AIA AG, Mr. Louis Bélanger-Martin continues to be the managing director of DTI, a wholly-owned subsidiary of AIA AG. For his activities as a managing director,

DTI Software Inc., Montreal, Canada, pays Mr. Louis Bélanger-Martin a fixed, monthly base salary; miscellaneous compensation for health, disability and accident insurance; as well as compensation in the form of a company car.

Total compensation paid to the Management Board in 2010 was EUR 1,801 thousand, comprising fixed compensation of EUR 633 thousand and variable compensation of EUR 553 thousand. Add to that other compensation for pension, direct, disability and accident insurance totaling EUR 162 thousand and noncash benefits for health insurance and the use of company cars totaling EUR 53 thousand. Furthermore, termination benefits totaling EUR 400 thousand were paid to former members of the Management Board in 2010 and 2011, which were recognized in profit or loss in 2010.

In addition, the company purchased D&O insurance for a policy amount of EUR 7,500 thousand, which covers the members of the Management Board and the Supervisory Board, among others. Pursuant to the provisions of the German Law on the Adequacy of the Management Board's Compensation, the deductible applicable to each member of the Management Board is ten percent of the loss per insured event but no more than one and one and half times the annual compensation of a Management Board member within an insurance period. The insurance premium for the 2010 financial year borne by the company was EUR 13 thousand.

6.2. Basic features of the compensation system applicable to the Supervisory Board

The compensation payable to the Supervisory Board is determined by the Annual General Meeting and set forth in the Articles of Association of Advanced Inflight Alliance AG. Each member of the Supervisory Board is paid fixed compensation of EUR 15 thousand for each financial year, payable at the close of the given financial year. In addition, each Supervisory Board member is paid EUR 1 thousand per Supervisory Board meeting, also payable at the close of the financial year.

Furthermore, once the consolidated financial statements have been approved, each member of the Supervisory Board is paid performance-based compensation of EUR 1 thousand for each EUR 0.01 per share in net income for the year before taxes shown in the consolidated financial statements, provided this amount exceeds EUR 0.09 per share in the given consolidated financial statements. In numerical terms, the performance-based compensation is limited to twice the fixed compensation (excluding attendance fees) paid for the given financial year.

The Chairman of the Supervisory Board is paid twice the annual compensation and the aforementioned attendance fees, and the Vice Chairman one and a half times these amounts.

The company reimburses all out-of pocket expenses that the members of its Supervisory Board incur in connection with their activity as such, as well as the VAT payable on their compensation.

The members of the Supervisory Board are included in the insurance coverage provided by the D&O insurance with a policy amount of EUR 7,500 thousand that the company purchases for its corporate bodies and certain executives, as well as for its associates. The company pays all related insurance premiums. There is no deductible for members of the Supervisory Board.

In 2010, a total of EUR 260 thousand was paid to the Supervisory Board, specifically, fixed compensation of EUR 64 thousand, variable compensation of EUR 128 thousand and attendance fees of EUR 68 thousand.

7. Disclosures related to acquisitions

The share capital of AIA AG amounted to EUR 14,500,000 as of December 31, 2010, and was divided into the same amount of no-par value shares. Each share entitles the holder to one vote at the Annual General Meeting. There do not exist different share classes.

The company is not aware of any restrictions on voting rights or the transfer of shares.

On July 12, 2010, Auctus sechszwanzigste Beteiligungsgesellschaft mbH, Munich, an associate of Auctus Capital Partners Beteiligungs AG, Munich, notified the company that its holdings had surpassed the reporting threshold of 10% of the shares in AIA AG and that it now holds 1,451,050 shares in said company. This corresponds to 10.01% of the voting rights. Furthermore, on August 4, 2010, Auctus sechszwanzigste Beteiligungsgesellschaft mbH notified the company that its holdings had surpassed the reporting threshold of 15% of the shares in AIA AG and that it now holds 2,344,321 shares in said company. This corresponds to 16.17% of the voting rights. The company is unaware of any other direct or indirect investments in its capital that exceeded 10% of the voting rights as of December 31, 2010.

In its notification pursuant to Section 27 (1) German Securities Trading Act, Auctus sechszwanzigste Beteiligungsgesellschaft mbH on August 4, 2010, informed the company that its investment in shares of AIA AG serves to implement strategic goals and that over the next twelve months it intends to acquire additional voting rights through acquisition or by other means. Auctus sechszwanzigste Beteiligungsgesellschaft mbH is also seeking to influence the composition of management and/or supervisory bodies of AIA AG. At this time, Auctus sechszwanzigste Beteiligungsgesellschaft mbH is not planning any major change in AIA AG's capital structure, particularly with respect to the ratio of equity and borrowings, and its dividend policies. The Management Board of AIA AG welcomes the fact that Auctus sechszwanzigste Beteiligungsgesellschaft mbH is coming on board as a strategic investor because this will considerably strengthen the shareholder structure for the good of the company, also vis-à-vis future growth.

There are no shares with special rights conveying powers of control.

The company is unaware of any limitations on the voting rights of shares held by employees.

The statutory provisions of Section 84 and 85 of the German Stock Corporation Act apply to the appointment and discharge of members of the Management Board. Section 179 of the Stock Corporation Act applies to amendments of the Articles of Association. According to Art. 12 of the Articles of Association in conformity with Section 179 (1) sentence 2 of the Stock Corporation Act, the Supervisory Board is authorized to make amendments to the Articles of Association that affect only the wording.

In accordance with Art. 5 of the Articles of Association, there is authorized capital of EUR 7,400,000. The Management Board is authorized, subject to the approval of the Supervisory Board, to increase the company's share capital until June 30, 2013, once or repeatedly, by a total of up to EUR 7,400,000 by issuing up to 7,400,000 new no-par bearer shares in exchange for contributions in cash and/or in kind. The shareholders must be granted a subscription right. The Management Board is authorized by the Articles of Association to exclude shareholders' subscription rights in full or in part with the consent of the Supervisory Board and to determine the rights accruing to the shares in the future and the conditions for issuing shares. Shareholders' subscription rights may only be excluded for fractional shares, capital increases against non-cash contributions for the granting of shares for the acquisition of companies, business units and equity interests and for capital increases against cash contributions if the issue price of the shares issued with subscription rights excluded in accordance with Section 186 (3) sentence 4 of the Stock Corporation Act is not significantly lower than the market price of shares in the company of the same class and with the same rights that are already listed on the stock exchange at the time the issue price is finally determined and the shares issued with subscription rights excluded in accordance with Section 186 (3) sentence 4 of the Stock Corporation Act do not exceed a total of 10 percent of the share capital.

The Management Board was authorized by resolution of the Annual General Meeting dated July 2, 2007, to issue, until July 1, 2012, subject to the Supervisory Board's approval, up to 800,000 stock options with the right to subscribe to the company's shares to members of the company's Management Board and to members of the management of the company's associates. The terms and conditions of the 2007 Stock Option Plan shall govern the issuance of the stock options. The Annual General Meeting also approved EUR 800,000 in Contingent Capital I for fulfilling the stock options granted under the 2007 Stock Option Plan. In 2008, a total of 400,000 stock options were issued under the 2007 Stock Option Plan to the members of the company's Management Board and to the managing directors of its associates. In 2009, an additional 400,000 stock options were issued under the 2007 Stock Option Plan to the members of the company's Management Board and to the managing directors of its associates. The departure of the two Management Board members, Mr. Otto Dauer and Mr. Peter Biewald, at the start of 2010 caused their 200,000 stock options to lapse.

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The Management Board was authorized by resolution of the Annual General Meeting dated July 1, 2008, to issue, until June 30, 2013, subject to the Supervisory Board's approval, up to 340,000 stock options with the right to subscribe to the company's shares to members of the company's Management Board and to members of the management of the company's associates. The terms and conditions of the 2008 Stock Option Plan (SOP 2008) shall govern such issuing. The Annual General Meeting also approved up to EUR 340,000 in Contingent Capital 2008/I for fulfilling the stock options granted under the 2008 Stock Option Plan.

The Management Board was authorized by resolution of the Annual General Meeting dated June 12, 2009, to issue, until June 11, 2014, subject to the Supervisory Board's approval, up to 310,000 stock options with the right to subscribe to the company's shares to members of the company's Management Board and to members of the management of the company's associates. The terms and conditions of the 2009 Stock Option Plan (SOP 2009) shall govern such issuing. The Annual General Meeting also approved EUR 310,000 in Contingent Capital 2009/I for fulfilling the stock options granted under the 2009 Stock Option Plan.

There exist some change of control clauses in the customer agreements of the Group's operating subsidiaries. Both the content of these contracts and the names of the business partners are confidential, in keeping with the provisions of the relevant contracts. Any disclosure in breach of contract would expose the company or the members of its two boards to claims for damages or fines, thus posing considerable risks to the company; hence no disclosure is made.

The director's contracts extant as of December 31, 2010, contained no provisions applicable in the event of a change of control.

The company does not have any agreements with the employees to compensate them in the event of a takeover offer.

Advanced Inflight Alliance AG

Munich, April 28, 2011

Dr. Rüdiger Berndt
CEO

Wolfgang Brand
CFO

Louis Bélanger-Martin
COO

Advanced Inflight Alliance AG

Consolidated Statement of Income (IFRS)

Consolidated statement of income 2010 1. Januar until 31. December 2010 (IFRS)

	Notes	Jan. 1 - Dec. 31, 2010	Jan. 1 - Dec. 31, 2009
		EUR	EUR
Revenue	5.	111,113,923,56	108,050,821,95
Other operating income	6.1	348,710,59	442,758,41
Cost of materials	6.6	-67,014,503,79	-67,731,900,05
Staff costs	6.5	-21,879,142,86	-18,985,623,66
Depreciation, amortization and impairment losses	6.7	-4,217,943,65	-4,917,393,53
Other operating expenses	6.2	-9,938,199,66	-10,040,610,20
Net income from operating activities		8,412,844,19	6,818,052,92
Net income from financing and investment activities		-824,331,75	-950,971,03
Finance income	6.4	137,169,71	99,915,23
Finance costs	6.3	-961,501,46	-1,050,886,26
Earnings before income taxes		7,588,512,44	5,867,081,89
Income taxes	7.	-2,095,900,41	-1,154,246,99
Net income for the year		5,492,612,03	4,712,834,90
Basic EPS		0.38	0.33
Diluted EPS		0.38	0.32
Average number of shares (basic)		14,500,000	14,500,000
Average number of shares (diluted)		14,542,729	14,513,361
Number of weighted stock options		42,729	13,361

Advanced Inflight Alliance AG

Consolidated Statement of comprehensive income (IFRS)

Consolidated statement of comprehensive income 1. January until 31. December 2010 (IFRS)

EUR	01.01. – 31.12.2010	01.01. – 31.12.2009
	EUR	EUR
Net income for the year	5.492.612,03	4.712.834,90
Other comprehensive income		
Exchange differences on translation of foreign operations	3.847.738,50	3.559.904,77
Cash flow hedges		
Gains / (losses) from cash flow hedges for the period	0,00	11.733,52
Reclassification to profit or loss	131.356,29	0,00
Income tax effect	-43.363,34	-3.872,06
	87.992,95	7.861,46
Other comprehensive income for the year, net of tax	3.935.731,45	3.567.766,23
Total comprehensive income for the year, net of tax	9.428.343,48	8.280.601,13

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Consolidated balance sheet

as at December 31, 2010 (IFRS)

Assets

	Notes	31.12.2010	31.12.2009
		EUR	EUR
Non-current assets			
Intangible assets:			
- Goodwill	11./13.	25,835,771,59	23,684,488,96
- Film rights	11./13.	336,565,77	489,909,65
- Other intangible assets	11.	18,594,235,55	17,038,768,10
Property, plant and equipment			
- Land and buildings	10.	708,651,50	694,244,91
- Furniture, fixture and fittings	10.	1,505,464,90	1,749,942,83
Financial assets:			
- Other financial assets	12.	3,318,38	22,975,55
Deferred tax assets	7.	1,540,190,39	1,480,332,96
Total non-current assets		48,524,198,09	45,160,662,96
Current assets			
Inventories	14.	1,075,379,50	709,861,42
Trade receivables	15.	18,781,089,22	17,011,975,18
Other financial assets	7.	3,320,577,19	2,345,148,58
Cash and equivalents	16.	13,954,401,95	16,465,176,50
Other assets		2,405,497,78	2,829,077,54
Total current assets		39,536,945,64	39,361,239,22
TOTAL ASSETS		88,061,143,73	84,521,902,18

Equity and liabilities

	Notes	31.12.2010 EUR	31.12.2009 EUR
Equity attributable to equity holders of the parent			
Subscribed capital	18.	14,500,000,00	14,500,000,00
Capital reserves	18.	8,871,025,21	8,794,290,04
Retained earnings	18.	18,543,342,10	14,500,730,07
Other components of equity	18.	-560,278,52	-4,496,009,97
Total equity		41,354,088,79	33,299,010,14
Non-current liabilities			
Interest bearing loans and borrowings	12.	2,314,880,38	6,440,663,80
Other financial liabilities	12.	331,310,83	220,813,19
Deferred tax liabilities	7.	5,248,791,69	6,063,638,34
Total non-current liabilities		7,894,982,90	12,725,115,33
Current liabilities			
Interest bearing loans and borrowings	12.	3,937,030,55	2,649,685,64
Trade payables	22.	25,121,243,28	24,264,886,98
Income tax payable	7.	1,655,404,59	1,319,113,02
Other provisions	21.	159,837,06	373,916,75
Other liabilities	12./22.	7,938,556,56	9,890,174,32
Total current liabilities		38,812,072,04	38,497,776,71
TOTAL EQUITY AND LIABILITIES		88,061,143,73	84,521,902,18

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Statement of changes in net equity including minority interest (IFRS)

		Subscribed capital (No-par value shares)		Capital reserves	Retained earnings	
	Notes	Number	EUR	EUR	EUR	
Balance as of December 31, 2008		14,500,000	14,500,000.00	8,676,643.95	10,947,895.17	
Acquisition/collection of treasury shares	19.				-1,160,000.00	
Stock options	20.			117,646.09		
Net income/(loss)	18.				4,712,834.90	
Other group income	18.					
Total recognized results						
Balance as of December 31, 2009		14,500,000	14,500,000.00	8,794,290.04	14,500,730.07	
Balance as of December 31, 2009		14,500,000	14,500,000.00	8,794,290.04	14,500,730.07	
Dividend payments	19.				-1,450,000.00	
Stock Options	20.			76,735.17		
Net income/(loss)	18.				5,492,612.03	
Other group income	18.					
Total recognized results						
Balance as of December 31, 2010		14,500,000	14,500,000.00	8,871,025.21	18,543,342.10	

Other recognized gains and losses			Equity accordance with consolidated balance sheet		
Adjustments from foreign currency translation	Other neutral transactions	Total			
EUR	EUR	EUR	EUR	Notes	
-7,915,100.79	-148,675.41	-8,063,776.20	26,060,762.92		Balance as of December 31, 2008
			-1,160,000.00	19.	Acquisition/collection of treasury shares
			117,646.09	20.	Stock options
			4,712,834.90	18.	Net income/(loss)
3,599,904.77	7,861.46	3,567,766.23	3,567,766.23	18.	Other group income
			8,280,601.13		Total recognized results
-4,355,196.01	-140,813.95	-4,496,009.97	33,299,010.14		Balance as of December 31, 2009
-4,355,196.01	-140,813.95	-4,496,009.97	33,299,010.14		Balance as of December 31, 2009
			-1,450,000.00	19.	Dividend payments
			76,735.17	20.	Stock Options
			5,492,612.03	18.	Net income/(loss)
3,847,738.50	87,992.95	3,935,731.45	3,935,731.45	18.	Other group income
			9,428,343.48		Total recognized results
-507,457.51	-52,821.00	-560,278.52	41,354,088.79		Balance as of December 31, 2010

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Consolidated Cashflow Statement

1. January until 31. December 2010 (IFRS)

	Notes	Jan. 1 – Dec. 31, 2010	Jan. 1 – Dec. 31, 2009 ^a
		EUR thousands	EUR thousands
Operating activities			
		7,589	5,867
+ / -	Adjustments to reconcile net income to net cash flow:		
+	Depreciation and impairment of property, plant and equipment	6.7 1,018	911
+	Amortization and impairment of intangible assets	6.7 3,201	4,007
+	Share-based payments expense	20. 77	118
- / +	Gain on disposal of property, plant and equipment	-56	11
-	Finance income	6.4 -137	-97
+	Finance costs	6.3 962	1,051
+ / -	Movements in provisions	-34	245
+ / -	Other non-cash adjustments	0	-4
	Working capital adjustments:		
+ / -	Increase/decrease in trade payables and other liabilities not part of investing or financing activities	15. 217	1,639
- / +	Movements in inventories	14. -350	-323
+ / -	Increase/decrease in trade payables and other liabilities not part of investing or financing activities	22. -332	-3,235
-	Income tax paid	-2,010	-2,246
=	Net cash flows from operating activities	10,143	7,943
Investing activities			
-	Purchase of property, plant and equipment	-600	-821
-	Purchase of intangible assets	11. -4,162	-2,014
-	Acquisition of subsidiaries, net of cash	4. -3,710	-2,322
+ / -	Changes of other financial assets	143	76
=	Net cash flows from investing activities	-8,329	-5,082
Financing activities			
+	Proceeds from borrowings	12.2 5,293	6,036
-	Repayments of borrowings	12.2 -8,417	-8,323
-	Interest paid and transaction costs	6.3 -876	-995
-	Dividends paid	19. -1,450	-1,160
=	Net cash flows from financing activities	-5,450	-4,443
=	Net increase in cash and cash equivalents	-3,635	-1,581
+ / -	Changes in cash and cash equivalents	1,124	572
+	Cash and cash equivalents at 1st January	16. 16,465	17,474
+	Change in cash and cash equivalents due to basis of consolidation	1	0
=	Cash and cash equivalents at 31th December	16. 13,954	16,465

^a Due to an improved presentation, the statement of cash flows for 2009 deviates from the statement of cash flows shown in the 2009 annual financial statements (for details see note 17)

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Statement of changes in non-current assets for financial year 2010 (IFRS)

	At Cost of Acquisition or Production						Dec. 31, 2010
	Jan. 1, 2010	Changes of consol. Comp.	Additions	Disposals	Currency Differences		
	EUR	EUR	EUR	EUR	EUR	EUR	
INTANGIBLE ASSETS:							
Goodwill	23,697,990.62	0,00	0,00	0,00	2,151,282.62	25,849,273.24	
Film rights	8,421,796.39	0,00	227,333,06	0,00	46,744,60	8,695,874.05	
Other intangible assets	23,323,194.27	0,00	2,412,221.96	-25,334,73	2,455,178.39	28,165,259.89	
	55,442,981.28	0,00	2,639,555.02	-25,334,73	4,653,205.61	62,710,407.18	
PROPERTY, PLANT & EQUIPMENT:							
Land, similar rights and buildings	751,177,22	0,00	0,00	0,00	37,211,39	788,388,61	
Operating and office equipment	4,805,071.74	53,397,14	600,411,94	-310,807,85	652,922,38	5,800,995,35	
	5,556,248.96	53,397,14	600,411,94	-310,807,85	690,133,77	6,589,383.96	
FINANCIAL ASSETS:							
Other financial assets	22,975,55	0,00	3,318,38	-24,793,99	1,818,44	3,318,38	
	22,975,55	0,00	3,318,38	-24,793,99	1,818,44	3,318,38	
	61,022,205.80	53,397,14	3,243,285.34	-360,936,57	5,345,157.82	69,303,109.53	

Accumulated Depreciation					Net book value			
Jan. 1, 2010	Additions	Disposals	Currency Differences	Dec. 31, 2010	Dec. 31, 2010	Dec. 31, 2009		
EUR	EUR	EUR	EUR	EUR	EUR	EUR		
							INTANGIBLE ASSETS:	
13,501,66	0,00	0,00	0,00	13,501,66	25,835,771.59	23,684,488.96	Goodwill	
7,931,886.74	406,109,95	0,00	21,311,59	8,359,308.28	336,565,77	489,909,65	Film rights	
6,284,426.17	2,795,348.79	-25,334,73	516,584,11	9,571,024.34	18,594,235.55	17,038,768.10	Other intangible assets	
14,229,814.57	3,201,458.74	-25,334,73	537,895,70	17,943,834.28	44,766,572.31	41,213,166.71		
							PROPERTY, PLANT & EQUIPMENT:	
56,932,32	17,051,67	0,00	5,753,13	79,737,12	708,651,50	694,244,91	Land, similar rights and buildings	
3,055,128.92	1,000,888.97	-288,976,20	528,488,77	4,295,530.46	1,505,464.89	1,749,942.82	Operating and office equipment	
3,112,061.24	1,017,940.64	-288,976,20	534,241,90	4,375,267.58	2,214,116.40	2,444,187.74		
							FINANCIAL ASSETS:	
0,00	0,00	0,00	0,00	0,00	3,318,38	22,975,55	Other financial assets	
0,00	0,00	0,00	0,00	0,00	3,318,38	22,975,55		
17,341,875.81	4,219,399.38	-314,310,93	1,072,137.60	22,319,101.86	46,984,007.71	43,680,330.00		

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Statement of changes in non-current assets for financial year 2009 (IFRS)

	At Cost of Acquisition or Production						
	Jan. 1, 2009	Changes of consol. Comp.	Additions	Disposals	Currency Differences	Dec. 31, 2009	
	EUR	EUR	EUR	EUR	EUR	EUR	
INTANGIBLE ASSETS:							
Goodwill	21,459,122.07	0,00	0,00	0,00	2,238,868.55	23,697,990.62	
Film rights	8,121,694.49	0,00	296,213,12	0,00	3,888,78	8,421,796.39	
Other intangible assets	19,426,233.53	0,00	1,718,007.33	34,936,79	2,213,890.20	23,323,194.27	
	49,007,050.09	0,00	2,014,220.45	34,936,79	4,456,647.53	55,442,981.28	
PROPERTY, PLANT & EQUIPMENT:							
Land, similar rights and buildings	689,175,42	0,00	0,00	0,00	62,001,80	751,177,22	
Operating and office equipment	3,608,168.27	0,00	821,336,54	171,497,59	547,064,52	4,805,071.74	
	4,297,343.70	0,00	821,336,54	171,497,59	609,066,32	5,556,248.97	
FINANCIAL ASSETS:							
Other financial assets	19,341,13	0,00	23,681,22	19,341,13	-705,67	22,975,55	
	19,341,13	0,00	23,681,22	19,341,13	-705,67	22,975,55	
	53,323,734.92	0,00	2,859,238.21	225,775,51	5,065,008.18	61,022,205.80	

		Accumulated Depreciation				Net book value			
	Jan. 1, 2009	Additions	Disposals	Currency Differences	Dec. 31, 2009	Dec. 31, 2009	Dec. 31, 2008		
	EUR	EUR	EUR	EUR	EUR	EUR	EUR		
								INTANGIBLE ASSETS:	
	13,501,66	0,00	0,00	0,00	13,501,66	23,684,488.96	21,445,620.41	Goodwill	
	6,071,446.83	1,859,780.15	0,00	659,76	7,931,886.74	489,909,65	2,050,247.66	Film rights	
	3,854,236.29	2,147,112.04	34,936,79	318,014,63	6,284,426.17	17,038,768.10	15,571,997.23	Other intangible assets	
	9,939,184.78	4,006,892.19	34,936,79	318,674,39	14,229,814.57	41,213,166.71	39,067,865.30		
								PROPERTY, PLANT & EQUIPMENT:	
	32,331,34	16,556,00	0,00	8,044,98	56,932,32	694,244,91	656,844,09	Land, similar rights and buildings	
	1,819,695.43	893,945,46	146,708,43	488,196,46	3,055,128.92	1,749,942.82	1,788,472.85	Operating and office equipment	
	1,852,026.77	910,501.46	146,708,43	496,241,44	3,112,061.24	2,444,187.74	2,445,316.93		
								FINANCIAL ASSETS:	
	0,00	0,00	0,00	0,00	0,00	22,975,55	19,341,13	Other financial assets	
	0,00	0,00	0,00	0,00	0,00	22,975,55	19,341,13		
	11,791,211.55	4,917,393.65	181,645,22	814,915,83	17,341,875.81	43,680,330.00	41,532,523.37		

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1. General information

Advanced Inflight Alliance AG (hereinafter referred to as „AIA AG“) is domiciled in Munich, Germany, and is registered in the commercial register at Munich under number HRB 122000. The company's offices are located at Schellingstrasse 35, 80799 Munich. AIA AG is primarily involved in holding and actively managing investments in operating companies. Its shares are quoted in Deutsche Börse's General Standard trading segment. They are traded on an official stock exchange. The Management Board released the financial statements for publication/to the Supervisory Board on April 28, 2011.

The Advanced Inflight Alliance Group (hereinafter: „AIA Group“ or „Group“) operates in the Inflight Entertainment segment with its subsidiaries Atlas Air Film + Media Service GmbH, Duisburg (hereinafter: „Atlas Air“); IFE Alliance Licensing GmbH, Duisburg; DTI Software Inc., Montreal, Canada (hereinafter: „DTI“); Atlas Air Entertainment Concepts Inc., Los Angeles, USA; Fairdeal Multimedia Pvt. Ltd., Mumbai, India (hereinafter: „Fairdeal“); Fairdeal Studios Pvt. Ltd., Mumbai, India; and Advanced Inflight Alliance Ltd., Bristol, UK, along with their respective subsidiaries. The Other Licensing segment is mainly covered by IFE Alliance Licensing GmbH. Atlas Air Film + Media Service GmbH, Duisburg, and IFE Alliance Licensing GmbH, Duisburg; as well as Atlas Air Entertainment Concepts Inc., Los Angeles, USA, were combined in the Atlas Group for purposes of internal reporting and analysis. Advanced Inflight Alliance Ltd., Bristol, UK, and its subsidiaries constitute the IFP Group. DTI Software Inc., Montreal, Canada, DTI Solutions Inc., Montreal, Canada and DTI Software FZ-LLC, Dubai, United Arab Emirates, were combined in the DTI Group. The two Indian companies — Fairdeal Multimedia Pvt. Ltd., Mumbai, and Fairdeal Studios Pvt. Ltd., Mumbai, both India, constitute the Fairdeal Group. As the Group's ultimate parent company, AIA AG prepared its consolidated financial statements as of December 31, 2010, in accordance with the International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB) applicable as of that date and in the EU, and in accordance with the provisions applicable under German Commercial law as defined in Section 315a (1) German Commercial Code. The prior-year figures were determined according to the same principles.

The term IFRS also includes the applicable International Accounting Standards (IAS). The statements of the International Financial Reporting Interpretations Committee (IFRIC) - previously the Standing Interpretations Committee (SIC) - were also taken into account.

The application of the accounting, measurement and reporting methods is governed by the principle of consistency. Changes may be necessary as a result of new or revised IFRS. The company complied with all new or revised IFRS whose first-time application was mandatory as of January 1, 2010.

The closing date of all the annual financial statements of the companies included in consolidation is the closing date of the annual financial statements of AIA AG and the Group. The income statement is structured based on the nature of expense format.

2. Accounting policies

2.1. Preparation of the financial statements

The consolidated financial statements are generally prepared using the historical cost system.

This does not apply, however, to derivative financial instruments and the available-for-sale financial assets, which were measured at fair value. The carrying amounts of the assets and liabilities that are recognized in the statement of financial position and represent hedged items in fair value hedges and are otherwise recognized at amortized cost are adjusted to reflect fair value changes attributable to risks hedged in effective hedges. The consolidated financial statements are prepared in euros. Unless otherwise specified, all figures are rounded up or down to the nearest thousand (EUR thousand).

Statement on compliance with IFRSs

The consolidated financial statements of Advanced Inflight Alliance AG were prepared in accordance with the International Financial Reporting Standards (IFRSs) as published by the International Accounting Standards Board (IASB) and adopted by the European Union (EU).

2.2. Changes in the accounting policies

Change in the presentation of the statement of cash flows

Thanks to the introduction of new accounting and consolidation software — which we used for the first time in connection with the consolidated financial statements for the year ending December 31, 2009 — the Group now has access to data for the statements of cash flows for the 2009 and the 2010 financial year that will enable an improved presentation of the fluctuations in foreign exchange rates. The Group has thus shifted to the new, improved presentation of the statements of cash flows for 2010 and 2009 as part of the 2010 consolidated financial statements. Consequently, the statement of cash flows for 2009 presented in the 2010 consolidated financial statements differs from that for the 2009 financial year as presented in the 2009 consolidated financial statements. The differences stem primarily from the improved recognition of the effects of changes in foreign exchange rates on cash and cash equivalents. Please see note 17 in this respect.

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Adoption of new and revised accounting standards

Standards, Interpretations and revised Standards to be applied for the first time

With the exception of the new and revised standards and interpretations that took effect January 1, 2010, and are specified below, the Group's accounting policies basically conform to the policies it used the previous year:

- ▶ IFRS 2 Group Cash-settled Share-based Payment Transactions;
- ▶ IFRS 3 Business Combinations (revised) and IAS 27 Consolidated and Separate Financial Statements (revised), including subsequent amendments to IFRS 2, IFRS 5, IFRS 7, IAS 7, IAS 21, IAS 28, IAS 31 and IAS 39;
- ▶ IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items;
- ▶ IFRIC 12 Service Concession Arrangements;
- ▶ IFRIC 15 Agreements for the Construction of Real Estate;
- ▶ IFRIC 17 Distributions of Non-cash Assets to Owners;
- ▶ IFRIC 18 Transfers of Assets from Customers;
- ▶ Annual Improvements to IFRSs 2008 (May 2008); and
- ▶ Annual Improvements to IFRSs 2009 (April 2009).

The application of these Standards and Interpretations is explained in greater detail below:

IFRS 2 Group Cash-settled Share-based Payment Transactions

In June 2009, the IASB published an amendment to IFRS 2 regarding the scope and accounting for share-based payment transactions in the Group. The Group applied this amendment effective January 1, 2010. It does not affect the Group's financial position, cash flows and financial performance.

IFRS 3 Business Combinations (revised), and IAS 27 Consolidated and Separate Financial Statements (revised)

IFRS 3 (revised) introduces material changes in the accounting for business combinations. They affect the measurement of non-controlling interests, the accounting for transaction costs, the initial recognition and subsequent measurement of contingent consideration as well as step acquisitions. These new requirements did not affect the Group's financial position, cash flows and financial performance during the financial year. However, if the relevant criteria are met, they will affect the recognition of goodwill, the profit or loss for the reporting period in which a business combination occurs and the reporting of future earnings.

IAS 27 (revised) sets out that changes in a parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions (i.e., transactions with owners in their capacity as owners). Such a transaction thus cannot result in either a carrying amount of goodwill or a gain or loss. The revisions also affect the requirements related to the allocation of losses to the owners of the parent and the non-controlling interests, as well as the procedures used in accounting for transactions that result in a

loss of control. The new requirements of IFRS 3 and IAS 27 affect the acquisition of and loss of control over subsidiaries, as well as transactions with non-controlling interests, on or after January 1, 2010. This change in accounting policies is applied prospectively and did not affect earnings per share.

IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items

This Standard clarifies that it is possible to designate merely a portion of the fair value changes or the variability in the cash flows of a financial instrument as the hedged item. This also includes the designation of inflation as a hedged risk or a portion thereof in certain cases. The Group has determined that this amendment will not affect its financial position, cash flows and financial performance because the Group has not engaged in such transactions.

IFRIC 12 Service Concession Arrangements

This Interpretation sets out general principles on accounting for the obligations and related rights in service concession arrangements in the concession holder's financial statements. The first-time application of this new regulation does not affect the Group's financial position, cash flows or financial performance since there are no such service concession arrangements in place within the Group.

IFRIC 15 Agreements for the Construction of Real Estate

This Interpretation provides guidance on the time and scope of revenue recognition from projects for the construction of real estate. The first-time application of this new regulation does not affect the Group's financial position, cash flows or financial performance since the Group has not constructed any real estate nor does it intend to construct real estate.

IFRIC 17 Distributions of Non-cash Assets to Owners

This Interpretation gives guidance on the accounting for arrangements where an entity makes non-cash distributions from provisions reserves or as dividends. It does not affect the Group's financial position, cash flows and financial performance because it has not engaged in such transactions, nor does it plan to do so.

IFRIC 18 Transfers of Assets from Customers

This Interpretation provides guidance on the accounting for agreements under which an entity receives from a customer an item of property, plant and equipment or cash that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services, or to do both. The first-time application of this new guidance did not affect the consolidated financial statements since the Group has not entered into any such agreement with customers.

Improvements of IFRSs 2008 and 2009

In May 2008 and April 2009, the IASB issued two collections of amendments to various IFRSs with the primary goal of removing inconsistencies and clarifying the wording in some cases. The collections of amendments include a transitional provision for each amended IFRS. While the adoption of the following new guidance led to changes in the accounting policies, it did not have any impact on the Group's financial position, cash flows and financial performance:

Published in May 2008

- ▶ IFRS 5 Non-current Assets Held for Sale and Discontinued Operations: It is specified that all assets and liabilities of a subsidiary shall be classified as held for sale if the subsidiary is classified as held for sale, regardless of whether the entity will retain a non-controlling interest in the former subsidiary after the sale. This amendment is applied prospectively and does not affect the Group's financial position, cash flows or financial performance.

Published in April 2009

- ▶ IFRS 8 Operating Segments: The amendment clarifies that segment assets and segment liabilities shall only be reported if their amounts are regularly reported to the chief operating decision maker. As the Group's chief operating decision maker oversees the development of segment assets and segment liabilities, the Group continues to report this information in Note 5.
- ▶ IAS 7 Statement of Cash Flows: The amendment underlines that only expenditures that result in a recognized asset are eligible for classification as investing activities.
- ▶ IAS 36 Impairment of Assets: The amendment clarifies that a cash-generating unit to which goodwill acquired in a business combination is allocated may not be larger than an operating segment as defined by IFRS 8 before aggregation in accordance with the criteria specified therein. This amendment did not have any effect on the Group because the impairment test is conducted on a pre-aggregation basis.

The other new guidances in the amendments to IFRS listed below did not have any effect on the Group's accounting policies and presentation of its financial position, cash flows and financial performance.

- ▶ IFRS 2 Share-based Payment
- ▶ IFRS 5 Non-current Assets Held for Sale and Discontinued Operations
- ▶ IAS 1 Presentation of Financial Statements
- ▶ IAS 17 Leases
- ▶ IAS 38 Intangible Assets
- ▶ IAS 39 Financial Instruments: Recognition and Measurement
- ▶ IFRIC 9 Reassessment of Embedded Derivatives
- ▶ IFRIC 16 – Hedges of a Net Investment in a Foreign Operation

The following Standards were not applied:

a) EU endorsement completed

The IASB published the Standards and Interpretations enumerated below that have already been transposed into EU law using the comitology procedure but did not yet have to be applied in the 2010 financial year: The Group does not apply these Standards and Interpretations early.

Amendment to IFRS 1 - Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters

This amendment to IFRS 1 was published in January 2010 and shall be applied for the first time in the financial year beginning on or after July 1, 2010. The new requirement enables first-time adopters of the IFRSs to apply the transitional provisions applicable to the amendment to IFRS 7 Improving Disclosures that was published in March 2009. In the first year of application, there is no need to provide comparative information in the notes for the disclosures required. This new requirement does not apply to the Group and thus will not affect its financial position, cash flows and financial performance.

IAS 24 Related Party Disclosures

Revised IAS 24 was published in November 2009 and shall be applied for the first time in the financial year beginning on or after January 1, 2011. For one, it revises the definition of a related party in order to simplify identifying related party relationships and transactions and, for another, provides a partial exemption for government-related entities from the disclosure requirements regarding transactions with the given government entity and other entities related to it. This Standard shall be applied retrospectively. The broadening of the definition is unlikely to result in any additional disclosures on the Group's related parties. Application of the revised definition is currently being reviewed. However, this amendment will not affect the recognition and measurement of assets and liabilities in the consolidated financial statements and earnings in future financial years.

Amendment to IAS 32 - Classification of Rights Issues

The amendment to IAS 32 was published in October 2009 and shall be applied for the first time in the financial year beginning on or after February 1, 2010. The definition of a financial liability was amended in order to make it possible to designate certain rights (as well as certain options and warrants) as equity if the entity offers these rights to all existing owners of the same class of its own non-derivative equity instruments in order to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency. This Standard shall be applied retrospectively. This requirement will not affect the Group's financial position, cash flows and financial performance because it has not issued such rights.

Improvements to IFRSs 2010

The Improvements to IFRSs 2010 are an annual collection that was published in May 2010 and contains amendments to various IFRSs. The effective dates and transitional provisions are specified for each Standard. Unless otherwise specified below, individual requirements shall be applied for the first time in the financial year beginning on or after January 1, 2011. The Group has not yet applied the following amendments and presumes that they will not materially affect its financial statements:

IFRS 1 First-time Adoption of International Financial Reporting Standards

Amendment to accounting policies in the year of first-time adoption: The amendment clarifies that a first-time adopter that changes its accounting policies or application of the exceptions under IFRS 1 after publishing an interim financial report pursuant to IAS 34 Interim Financial Reporting shall disclose these changes and update the reconciliations between previous accounting principles and IFRSs. This amendment shall be applied prospectively.

Revaluation basis as deemed cost: This amendment enables first-time adopters to use a fair value determined by reference to an event as the basis for the deemed cost even if the event occurred after the date of transition to IFRSs but before publication of the first IFRS financial statements. If such revaluation is made after the date of transition to IFRSs but during the periods presented in the first IFRS financial statements, the adjustment shall be recognized directly in retained earnings (or another appropriate category of equity). Entities that transitioned to IFRSs in prior periods are permitted to apply this amendment retrospectively in the first financial year following its effective date.

Use of deemed cost for operations subject to rate regulation: The amendment extends the scope of the deemed cost of property, plant and equipment and intangible assets to assets used in operations subject to rate regulation. The exemptions shall be applied on a case-by-case basis. All of these assets shall be tested for impairment at the date of transition to IFRSs. This amendment enables entities with operations subject to rate regulation to use the carrying amounts of their property, plant and equipment and intangible assets that were determined under previous GAAP as the deemed cost at the transition to IFRSs.

These carrying amounts may contain amounts that should not have been capitalized pursuant to IAS 16 Property, Plant and Equipment, IAS 23 Borrowing Costs, and IAS 38 Intangible Assets. This amendment shall be applied prospectively.

These new requirements do not apply to the Group and thus will not affect its financial position, cash flows and financial performance.

IFRS 3 Business Combinations

Transition requirements for contingent consideration from a business combination that occurred before the effective date of the revised IFRS: This amendment clarifies that the amendments to IFRS 7 Financial Instruments: Disclosures, IAS 32 Financial Instruments: Presentation and IAS 39 Financial Instruments: Recognition and Measurement — which cancel the exclusion of the contingent consideration under these Standards — do not apply to contingent consideration from business combinations that occurred before the effective date of IFRS 3 (revised 2008). It shall be applied for the first time for financial years beginning on or after July 1, 2010. The amendment enables the Group to continue applying the accounting method it has used to date to the recognition of contingent consideration stipulated in prior years. Retrospective changes in contingent consideration thus will only affect goodwill. In contrast, the amendment is not expected to affect profit or loss.

Measurement of non-controlling interests: The amendment limits the scope of the selected measurement method insofar as only the components of non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership instruments' proportionate share in the acquiree's net identifiable assets. All other components of non-controlling interests shall be measured at their acquisition-date fair values unless another measurement basis is required by IFRSs (e.g. IFRS 2). The amendment shall be applied for the first time for financial years beginning on or after July 1, 2010. This new requirement does not apply to the Group and thus will not affect its financial position, cash flows and financial performance.

Unreplaced and voluntarily replaced share-based payment transactions: Under this amendment, in conjunction with a business combination an entity must recognize the replacement of share-based payment transactions (whether obligatory or voluntarily), i.e. allocate the consideration and the cost of the combination. If the entity replaces the acquiree awards that expire as a consequence of the business combination, the acquirer shall recognize these as cost in the post-combination financial statements. The amendment also clarifies the accounting for share-based payment transactions that the acquirer does not replace with its own share-based awards. If vested, those acquiree share-based payment transactions are part of the non-controlling interest in the acquiree and are measured at their market-based measure. If unvested, they are measured at their market-based measure as if the acquisition date were the grant date and allocated to the non-controlling interest and to post-combination service. This amendment shall be applied for the first time for financial years beginning on or after July 1, 2010. The Standard requires prospective application from the date of first-time application of IFRS 3 (2008). This new requirement does not apply to the Group and thus will not affect its financial position, cash flows and financial performance.

IFRS 7 Financial Instruments: Disclosures:

The amendment clarifies the interaction between qualitative and quantitative disclosures, as well as the nature and scope of risks from financial instruments; in particular, it contains amendments regarding quantitative disclosures on credit risks. This amendment shall be applied retrospectively. While it is likely to result in a slight reduction in the disclosures on financial instruments, it will not affect the recognition and measurement of assets and liabilities in the consolidated financial statements and consolidated profit.

IAS 1 Presentation of Financial Statements:

This amendment clarifies that the analysis of the comprehensive income for individual components of equity shall be presented either in the statement of changes in equity or in the notes. This amendment shall be applied retrospectively. As the Group will continue to present this analysis in the statement of changes in equity, this amendment will not affect the presentation in the consolidated financial statements.

IAS 27 Consolidated and Separate Financial Statements

The amendment clarifies that the subsequent amendments arising from IAS 27 in IAS 21 The Effects of Changes in Foreign Exchange Rates, IAS 28 Investments in Associates and IAS 31 Interests in Joint Ventures shall be applied prospectively for financial years beginning on or after July 1, 2009, or at an earlier date if the entity decides to apply IAS 27 to an earlier period. The amendment shall be applied for the first time for financial years beginning on or after July 1, 2010. The Standard requires retrospective application. Absent such transactions, the Group does not expect this amendment to affect its consolidated financial statements.

IAS 34 Interim Financial Reporting:

The amendment provides guidance on the application of disclosure principles in IAS 34 and expands the list of events and transactions for which disclosures are required, the following in particular: circumstances likely to affect the fair value of financial instruments and their classification; transfers between levels of the fair value hierarchy used in measuring the fair value of financial instruments; changes in the classification of financial assets; and changes in contingent liabilities or contingent assets. This amendment shall be applied retrospectively. While it might expand the reporting in an interim financial report, it will not affect the recognition and measurement of assets and liabilities in the consolidated financial statements and consolidated profit.

IFRIC 13 Customer Loyalty Programs:

The amendment clarifies that when the fair value of award credits is estimated by reference to the fair value of the awards for which they could be redeemed, the amount of the discounts or incentives offered to customers who have not earned award credits from an initial sale shall be taken into account. This amendment shall be applied retrospectively. This new requirement does not apply to the Group and thus will not affect its financial position, cash flows and financial performance.

Amendment to IFRIC 14 - Prepayments of a Minimum Funding Requirement

The amendment to IFRIC 14 was published in November 2009 and shall be applied for the first time in the financial year beginning on or after January 1, 2011. The application of IFRIC 14, which was published in July 2007 and was intended to limit an asset resulting from a defined benefit plan to its recoverable amount had a number of unintended consequences for entities in certain countries. The amendment shall enable entities to recognize an asset for prepayments on minimum funding requirements. It shall be applied retrospectively. This Interpretation is not expected to affect the Group's consolidated financial statements because the Group has not established any defined benefit plans.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

IFRIC 19 was published in November 2009 and shall be applied for the first time in the financial year beginning on or after July 1, 2010. This Interpretation clarifies that equity instruments issued to creditors for the purpose of extinguishing a financial liability shall be designated as consideration paid pursuant to IAS 39.41. The equity instruments issued are measured at fair value. If the fair value cannot be reliably determined, they shall be measured at the fair value of the liability extinguished. Any gains or losses are recognized directly in profit or loss. It shall be applied retrospectively. Absent corresponding transactions, application of this Interpretation is not expected to affect the Group's consolidated financial statements.

b) EU endorsement pending

The IASB published the following standards and interpretations that were not yet required to be applied in the 2010 financial year. These standards and interpretations have not yet been adopted by the EU and have not yet been applied by the Group.

Amendment to IFRS 1 - Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters

The amendment to IFRS 1 was published in December 2010 and shall be applied for the first time in the financial year beginning on or after July 1, 2011. It removes fixed dates on which derecognition requirements shall be applied, as well as the requirements regarding the "day 1" gain or loss recognition requirement under IFRS 1, and replaces them with "the date of transition to IFRSs." It also clarifies how to resume presenting IFRS financial statements after a period during which an entity was unable to comply with the IFRSs due to a functional currency that was the currency of a hyperinflationary economy. This new requirement does not apply to the Group and thus will not affect its financial position, cash flows and financial performance.

Amendment to IFRS 7 - Disclosures on Transfers of Financial Assets

The amendment to IFRS 7 was published in October 2010 and shall be applied for the first time in the financial year beginning on or after July 1, 2011. It requires extensive new qualitative and quantitative disclosures on transferred financial assets that do not qualify for derecognition and on the entity's continuing involvement in the transferred financial assets on the reporting date. This amendment is likely to further expand the scope of disclosures on financial instruments but it will not affect the recognition and measurement of assets and liabilities in the consolidated financial statements and earnings in future financial years.

IFRS 9 Financial Instruments: Classification and Measurement

The first part of Phase I of the preparation of IFRS 9 Financial Instruments was published in November 2009 and shall be applied for the first time in the financial year beginning on or after January 1, 2013. This Standard contains new requirements regarding the classification and measurement of financial assets. Accordingly, debt instruments shall be accounted for either at amortized cost or measured at fair value through profit or loss depending on their characteristics, taking the entity's business model into account. Equity instruments shall always be measured at fair value. Changes in the value of equity instruments may be recognized in other comprehensive income if the entity so elects on initial recognition of the financial instrument. In this case, only certain dividends from equity instruments would be recognized in profit or loss. Financial assets that are held for trading and must be measured at fair value through profit or loss are an exception. The IASB completed the second part of Phase I of the project in October 2010. This added requirements regarding financial liabilities and retains the existing classification and measurement requirements for financial liabilities, with the following exceptions: Effects from changes in an entity's own credit risk from financial liabilities designated as at fair value through profit or loss shall be recognized in equity, and derivative liabilities linked to unquoted equity instruments may no longer be recognized at cost. The effective date (January 1, 2013) was not changed. However, entities may apply the requirements under the 2009 amendment early and separately from the requirements related to financial liabilities. Early application of the requirements on financial liabilities is also permitted.

In that case, however, they shall be applied along with the version issued in 2009. The Standard provides for retrospective application. It is anticipated that this project will be completed by mid-2011. Application of the first part of Phase I will affect the classification and measurement of the Group's financial assets. The second part of this phase of the project is not expected to have any material effects on the Group's financial position, cash flows and financial performance. The Group will quantify the effects in connection with the other phases once they have been published in order to obtain a comprehensive picture of the potential impact.

Amendment to IAS 12 - Deferred Tax: Recovery of Underlying Assets

The amendment to IAS 12 was published in December 2010 and shall be applied for the first time in the financial year beginning on or after January 1, 2012. The amendment requires deferred tax assets and deferred tax liabilities for certain assets to be measured on the presumption that the carrying amount of these assets will be recovered entirely through sale. Application of this amendment in the German jurisdiction is not expected to affect the Group's financial position, cash flows and financial performance.

2.3. Principles of consolidation**Consolidation methods**

The consolidated financial statements comprise the financial statements of AIA AG and its subsidiaries as of December 31, 2010.

Subsidiaries are consolidated from the acquisition date, i.e., from the date on which the Group obtains control. Consolidation ends when the parent company relinquishes control.

The subsidiaries' financial statements are prepared as of the same reporting date as the parent company's financial statements using uniform accounting policies.

All intercompany balances, income and expenses as well as unrealized gains and losses from intercompany transactions are eliminated in full.

Basis of consolidation

At the reporting date, the AIA Group comprised the Group parent AIA AG as well as 22 subsidiaries included in the consolidated financial statements in accordance with IAS 27.12.

Fully consolidated companies

In addition to the parent company, the following subsidiaries are included as fully consolidated companies in the consolidated financial statements of AIA AG:

Company, registered office	Business activities	Percentage of capital owned
Atlas Air Film + Media Service GmbH, Duisburg	Inflight Entertainment	100
Atlas Air Entertainment Concepts, Inc., Glendale, USA	Inflight Entertainment	100
IFE Alliance Licensing GmbH, Duisburg	Inflight Entertainment, Other Licensing	100
Advanced Film GmbH, Munich	Other licensing	100
Advanced Inflight Alliance Limited, Bristol, UK	Holding	100
DTI Software Inc., Montreal, Canada	Inflight Entertainment	100
Fairdeal Multimedia Pvt., Mumbai, India	Inflight Entertainment	100
Fairdeal Studios Pvt., Mumbai, India	Inflight Entertainment	100
Inflight Productions Limited, London, UK	Inflight Entertainment	100 ¹⁾
Inflight Studios Limited, London, UK	No operating activities	100 ¹⁾
WMRS Studios Limited, London, UK	No operating activities	100 ¹⁾
28 Limited, London, UK	Inflight Entertainment	100 ¹⁾
Inflight Productions, Inc., Los Angeles, USA	Inflight Entertainment	100 ¹⁾
The LAB.AERO, Inc., Los Angeles, USA	Inflight Entertainment	100 ¹⁾
Inflight Productions BV, Amsterdam, Netherlands	Inflight Entertainment	100 ¹⁾
Inflight Productions Pty Limited, Melbourne, Australia	Inflight Entertainment	100 ¹⁾
Inflight Productions Limited, Auckland, New Zealand	Inflight Entertainment	100 ¹⁾
Inflight Productions Pte Limited, Singapore	Inflight Entertainment	100 ¹⁾
Inflight Productions FZ-LLC, Dubai, United Arab Emirates	Inflight Entertainment	100 ¹⁾
DTI Software FZ-LLC, Dubai, United Arab Emirates	Inflight Entertainment	100 ²⁾
DTI Solutions Inc., Montreal, Canada	Inflight Entertainment	100 ²⁾

¹⁾ indirect holding via Advanced Inflight Alliance Limited, Bristol, UK

²⁾ indirect holding via DTI Software Inc., Montreal, Canada

2.4. Summary of key accounting policies

2.4.1. Business combinations and goodwill

Business combinations from January 1, 2010

Business combinations are accounted for using the acquisition method. The cost of a business combination is the sum total of the consideration assigned, which is measured at the acquisition-date fair value, and the non-controlling interests in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree at either fair value or the proportionate share in the recognized amounts of the acquiree's identifiable net assets. Costs incurred in connection with a business combination are recognized as an expense and reported under administrative expenses.

Whenever the Group acquires an entity, it shall assess the appropriate classification and designation of the financial assets and the liabilities assumed in accordance with the terms of the agreement, the economic environment and conditions existing at the acquisition date. This also involves separating embedded derivatives from their host contracts.

In step acquisition, the acquirer remeasures its previously held equity interest in the acquiree at its acquisition-date fair value and recognizes the resulting gain or loss, if any, in profit or loss.

The contingent consideration agreed is recognized at the acquisition-date fair value. Subsequent changes to the fair value of contingent consideration classified as an asset or a liability are recognized either in profit or loss or in other comprehensive income in accordance with IAS 39. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity.

On initial recognition, goodwill is measured at cost, which is the excess of the total consideration assigned and the amount of the share in the non-controlling interest over the Group's identifiable assets acquired and liabilities assumed. If this consideration is less than the fair value of the net assets of the acquired subsidiary, the difference is recognized in profit or loss.

Following initial recognition, goodwill is measured at cost less accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is allocated, from the acquisition date, to each of the Group's cash-generating units that is expected to benefit from the business combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those cash-generating units.

If goodwill has been allocated to a cash-generating unit and an operation within that unit is sold, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal. The value of the portion of goodwill sold is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Business combinations prior to January 1, 2010

Compared to the aforementioned requirements, the following principles applied to the accounting for business combinations under the method used to date:

Business combinations were accounted for using the acquisition method. Transaction costs directly attributable to the business combination were accounted for as part of the acquisition cost. The non-controlling interest (previously referred to as minority interest) was measured at the proportionate share in the recognized amounts of the acquiree's identifiable net assets.

Individual investments related to step acquisitions were recognized separately. Any additional equity interest acquired did not affect the goodwill from the preceding investment.

When the Group acquired a company, the embedded derivatives that the acquired company had recognized separately from the host contract were remeasured only if the business combination resulted in a modification of the terms, in turn triggering substantial changes in the cash flows that would have otherwise arisen from the contract.

Contingent consideration was only recognized if the Group had a present obligation, if it was more probable than not that an outflow of resources embodying economic benefits would be required, and if a reliable estimate was possible. Retrospective adjustments of the contingent consideration were reported as part of the goodwill.

2.4.2. Foreign currency translation

The consolidated financial statements are prepared in euros, the parent company's functional currency. Every company in the Group defines its own functional currency, which is used to measure the items in this entity's financial statements. The Group has decided to reclassify profit or loss resulting from the simultaneous consolidation method, which the Group uses for consolidation purposes.

Foreign currency transactions and balances

Foreign currency transactions are initially translated by the Group companies into the functional currency using the spot exchange rate at the date of the transaction. Monetary assets and liabilities in a foreign currency are translated into the functional currency using the closing rate.

All exchange differences are recognized in profit or loss with the exception of exchange differences arising on a monetary item that forms part of an effective hedge of a net investment in a foreign operation. These are recognized in other comprehensive income up to the disposal of the net investment and only recognized in profit or loss on its disposal. Taxes resulting from the exchange differences arising on these monetary items are also reported as a component of equity.

Foreign currency non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction. Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rate at the date when the fair value was determined.

In the period prior to January 1, 2005, the Group treated the goodwill arising from the business combination and the fair-value adjustments of the carrying amounts of the assets acquired and liabilities assumed as assets and liabilities of the parent company. These assets and liabilities are therefore either already stated in the presentation currency or they are considered foreign currency non-monetary items on which no other exchange differences arise.

Translation of the financial statements of consolidated companies

The assets and liabilities of foreign operations are translated into euros at the exchange rate prevailing at the reporting date. Income and expenses are translated at the exchange rate at the date of the transaction. The resulting exchange differences are recognized in other comprehensive income. The amount reported in other comprehensive income for a foreign operation is reclassified to profit or loss on disposal of the foreign operation. Any goodwill arising on the acquisition of a foreign operation after January 1, 2005, and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of that foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

2.4.3. Revenue recognition

Revenue is recognized when it is probable that the economic benefits associated with the transaction will flow to the Group and the amount of revenue can be measured reliably. Revenue is measured at the fair value of the consideration received. Trade discounts, rebates, and value-added tax or other charges are not considered. The recognition of revenue is also contingent on the criteria listed below:

Revenue in the 'Inflight Entertainment' segment

In the 'Inflight Entertainment' segment, revenue is recognized for service arrangements associated with licenses after the service has been rendered and the customer can actually use the service in the form of an "Inflight Entertainment package." This is the case at the beginning of what is known as the "on-board cycle," i.e., at the inception of the license or from the time when the customer can use the services provided in the aircraft.

Revenue from pure service arrangements is recognized when the significant risks and rewards of ownership of the goods and products sold have transferred to the buyer. This usually occurs on delivery of the goods and products.

Revenue in the 'Other Licensing' segment

Revenue from the use and/or sublicensing of non-current film rights is recognized according to the type and stage of exploitation. Revenue from the sublicensing of so-called covermount rights (movie DVD supplements to magazines) is invoiced and realized as of the start of the licensing period; revenue from the sublicensing of rights related to video on demand (movies that may be downloaded from the Internet for private viewing) is invoiced and realized periodically, in most cases on a quarterly basis, in accordance with the number of downloads.

Revenue from claims under copyright laws is recognized once the agency responsible for collecting such revenue — VGF Verwertungsgesellschaft für Nutzungsrechte an Filmwerken mbH, Wiesbaden, Germany („VGF“) — submits its statements.

Interest income

Interest income and interest expense are recognized using the effective interest rate for all financial instruments measured at amortized cost as well as for interest-bearing financial assets and financial assets classified as held for sale. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. Interest income is presented in the income statement under finance income.

Rental income

Income from letting and sub-letting is recognized in profit or loss on a pro rata basis.

2.4.4. Taxes**Current taxes**

Current tax assets and liabilities for current and prior periods are measured in the amount expected to be refunded by the tax authorities or paid to the tax authorities. This amount is calculated based on the tax rates and tax laws applicable at the reporting date in the countries in which the Group is active and generates taxable profit.

Current taxes relating to items recognized outside profit or loss are recognized directly in equity rather than in profit or loss. Management regularly assesses individual tax issues to determine whether applicable tax provisions allow room for interpretation. Provisions for taxes are carried as required.

Deferred taxes

Deferred taxes are measured on the temporary differences existing at the reporting date between the carrying amount of an asset or liability in the statement of financial position and its tax base. The liability method is used for this.

A deferred tax liability is recognized for all taxable temporary differences, except to the extent that the deferred tax liability arises from:

- ▶ initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss),
- ▶ taxable temporary differences associated with investments in subsidiaries if the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

A deferred tax asset is recognized for all deductible temporary differences and the carryforward of unused tax losses and unused tax credits to the extent that it is probable that taxable income will be available against which a deductible temporary difference and the unused tax losses and tax credit can be utilized, unless the deferred tax asset arises from:

- ▶ the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss),
- ▶ investments in subsidiaries to the extent that it is probable that the temporary differences will not reverse in the foreseeable future or sufficient taxable profit will not be available against which the temporary differences can be utilized.

The carrying amount of the deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at the end of each reporting period and recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted by the end of the reporting period. Future changes in tax rates are taken into account to the extent that significant effectiveness requirements within the framework of a legislative procedure have been met at the end of the reporting period.

Deferred taxes relating to items recognized outside profit or loss are recognized either in other comprehensive income or directly in equity consistent with the underlying transaction. Deferred tax assets and liabilities are offset if the Group has a legally enforceable right to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on the same taxation entity.

Value-added tax

Income, expenses, and assets are recognized net of value-added tax. An exception is made in the following cases:

- ▶ If the value-added tax charged on the purchase of assets or the utilization of services cannot be reclaimed from the tax authorities, the tax is recognized as part of the cost of the asset or as a component of expense.
- ▶ Receivables and liabilities are carried together with the amounts of value-added tax included in these items.

The amount of value-added tax to be refunded by the tax authorities is presented in the statement of financial position under other assets, while the amount to be transferred to the tax authorities is reported under other liabilities.

2.4.5. Government grants

Government grants are recognized when there is reasonable assurance that the grants will be received and the entity will comply with the conditions associated with them. DTI Software Inc., Montreal, Canada, receives government grants for documented personnel costs incurred in connection with the development of software for the media industry — in our case software for games. As the grants are awarded subsequently for a period that has ended, payment is not subject to any reservations. The grants are deducted directly from the assets recognized. In the financial year, the Company received grants of EUR 1,522 thousand (previous year: EUR 931 thousand, less an adjustment of EUR 346 thousand concerning 2008).

2.4.6. Pensions and other post-employment benefits

The Group has not extended any defined benefit pension commitments or other commitments for post-employment benefits. Pension arrangements are made for the members of the Management Board through contributions to a pension fund.

2.4.7. Share-based payment

The Group's executives receive share-based payment in the form of equity instruments as part of their compensation package (equity-settled share-based payment transactions).

Equity-settled share-based payment transactions

Expenses from the award of the equity instruments to executives are measured by reference to the fair value of these equity instruments at grant date. The fair value is determined by an external expert by applying a suitable option pricing model. Please refer to note 20 for more information.

Expenses resulting from the award of equity instruments and the corresponding increase in equity are recognized in the period during which the service or performance conditions are required to be met (vesting period). This period ends on the day on which the equity instruments initially vest, i.e., the date on which the employee in question irrevocably becomes a beneficiary. The cumulative expense from the award of equity instruments that is presented at each reporting date up until the vesting date reflects the expired part of the vesting period as well as the number of equity instruments that, according to the Group's best

estimate, actually vest at the end of the vesting period. The income or expense reported in net profit or loss for the period corresponds to the development of the accumulated expense recognized at the beginning and end of the reporting period.

Expense is not recognized for rights to equity instruments that cannot be exercised, with the exception of rights for which certain market conditions need to be satisfied before these can be exercised. Irrespective of whether the market conditions are satisfied, these are considered exercisable providing all other performance conditions are satisfied.

If the terms and conditions of an equity-settled share-based payment arrangement are modified, expenses are recognized, at a minimum, in the amount in which they would be incurred if the terms and conditions of the arrangement had not changed. The company also recognizes the effects of modifications that increase the total fair value of the share-based payment arrangement or are otherwise beneficial to the employee, measured at the date of the modification.

If an equity-settled payment arrangement is cancelled, this is treated as if it had been exercised at the cancellation date. The unrecognized expense is recognized immediately. This applies to all payment arrangements when non-vesting conditions over which either the company or the counterparty has influence are not satisfied. However, if the canceled payment arrangement is replaced by a new payment arrangement and the new payment arrangement is declared a replacement for the canceled payment arrangement at grant date, the canceled and the new payment arrangements are accounted for as a modification to the original payment arrangement (see the section above).

The accounting treatment for all cancellations of payment arrangements for equity-settled transactions is the same.

Please refer to note 9 for information on the dilutive effect of the outstanding stock options in the calculation of (diluted) earnings per share.

2.4.8. Financial instruments – initial recognition and subsequent measurement

2.4.8.1. Financial assets

Initial recognition and measurement

Financial assets, as defined in IAS 39, are designated as financial assets at fair value through profit or loss; as loans and receivables; as financial investments held to maturity; as financial assets available for sale; or as derivatives that are designated and effective hedging instruments. The Group establishes the classification of its financial assets on initial recognition.

They are measured at fair value on initial recognition. Transaction costs directly attributable to the acquisition of a financial asset are also accounted for in cases where financial investments are not designated as at fair value through profit or loss.

Purchases or sales of financial assets requiring delivery of the assets within the time frame established by regulation or convention in the marketplace concerned (market purchases) are measured on the trading day, i.e. the day on which the Group entered into the obligation to purchase or sell the given financial asset.

The Group's financial assets comprise cash and short-term investments, as well as trade and other receivables. For further information on the financial assets, please see note 12.

Subsequent measurement

Subsequent measurements of financial assets are contingent on their classification, as follows:

Financial assets at fair value through profit or loss

The group of financial assets at fair value through profit or loss contains the financial assets held for trading, as well as financial assets designated on initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they were acquired for the purpose of selling or repurchasing them in the near term. This category comprises the Group's derivative financial instruments which, pursuant to IAS 39, are not designated hedging instruments in a hedge. Derivatives, including separately measured embedded derivatives, are also classified as held for trading unless they are designated and effective hedging instruments. Financial assets at fair value through profit or loss are recognized at fair value in the statement of financial position, and changes in their fair value are recognized in income statement under finance income or finance costs.

The Group has not designated any financial assets on initial recognition as at fair value through profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Upon initial recognition, such financial assets are subsequently measured at amortized cost using the effective interest method less any impairments. Amortized costs include premiums or discounts on acquisition, as well as all fees or points that are an integral part of the effective interest rate. Income from amortization resulting from the application of the effective interest method is reported in the income statement under finance income. Impairment losses are recognized in the profit or loss under finance costs.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are designated as financial investments held to maturity if the Group has the positive intention and ability to hold them to maturity. Upon initial recognition, held-to-maturity financial investments are recognized at amortized cost using the effective interest method. This method is based on the effective interest rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset. Gains and losses are recognized in the consolidated income statement if the financial investments are derecognized or impaired, as well as through the amortization process.

The Group did not have any held-to-maturity financial investments as of the financial years ending, respectively, on December 31, 2010, and December 31, 2009.

Available-for-sale financial investments

Available-for-sale (AFS) financial assets contain debt and equity instruments. Equity instruments designated as held for sale concern those not designated as held for trading nor as at fair value through profit or loss. The debt instruments in this category concern those that shall be held for an indefinite period and that may be sold in response to liquidity needs or changes in market rates or risks.

Upon initial measurement, held-for-sale financial assets are subsequently measured at fair value. Unrealized gains or losses are recognized as other comprehensive income in the provisions for available-for-sale financial assets. The cumulative gain or loss is reclassified to other operating income on derecognition of such an asset. If an asset is impaired, the cumulative loss is recognized through profit or loss under finance costs and removed from the provisions for available-for-sale financial assets.

The Group assessed whether its ability and intention to dispose of its available-for-sale financial assets in the near term still applies. If the Group cannot trade these financial assets because there is no active market for them and if there is a fundamental change in management's intention to sell them in the foreseeable future, the Group may decide to reclassify these financial assets in rare circumstances. Reclassification to the category, loans and receivables, is permitted if the financial asset meets the definition of loans and receivables and if the Group has the positive intention and the ability to hold the asset for the foreseeable future or until maturity. They may only be reclassified to the held-to-maturity category if the entity has the ability and the positive intention to hold the financial assets accordingly.

If a financial asset was reclassified out of the available-for-sale category, all earlier gains or losses on this asset that were recognized directly in equity shall be reversed through profit or loss over the term to maturity of the financial investment using the effective interest method. Any differences between the new amortized cost and the expected cash flows shall be reversed over the remaining life of the asset using the effective interest method. If the asset is subsequently impaired, any amount recognized in equity shall be reclassified to profit or loss.

The Group did not have any available-for-sale financial assets in the financial years ending, respectively, on December 31, 2010, and December 31, 2009.

Derecognition

A financial asset (or a part of a financial asset or a part of a group of similar financial assets) is derecognized if one of the following conditions have been met:

- ▶ The contractual rights to receive the cash flows of a financial asset have expired.
- ▶ The Group has transferred its contractual rights to receive the cash flows of the financial asset to third parties or has assumed a contractual obligation to pay the cash flows to a third party immediately under a contract that fulfills the requirements of IAS 39.19 (so-called transfer contract) and, in that connection, (a) has either transferred substantially all of the risks and rewards of ownership of the financial asset or (b) has neither transferred nor retained substantially all of the risks and rewards of ownership of the financial asset but has not retained control over the asset.

If the Group transfers its contractual rights to cash flows from an asset or enters into a transfer contract pursuant to which it neither transfers nor retains substantially all of the risks and rewards of ownership of this asset but retains control over the asset transferred, the Group shall recognize the asset to the extent of its continuing involvement.

In this case, the Group shall also recognize the associated liability. The transferred asset and the related liability are measured to reflect the rights and obligations that the Group retained. If the Group's continuing involvement takes the form of guaranteeing the transferred asset, the extent of its continuing involvement shall be the lower of the initial carrying amount of the asset and the maximum amount of the consideration received that the Group could have to repay.

2.4.8.2. Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is only considered impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Impairment may be indicated if there are indications that the debtor or a group of debtors are having significant financial difficulties; in case of a default or delinquency in interest or principal payments; if it is probable that the borrower will enter bankruptcy or other financial reorganization; and if observable data indicate that there is a measurable reduction in the expected future cash flows such as adverse changes in the payment status of borrowers or economic conditions that correlate with defaults.

Financial assets carried at amortized cost

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If there is objective evidence that impairment has occurred, the amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of estimated future cash flows (excluding future credit losses that have not been incurred). The present value of estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The asset's carrying amount is reduced by means of an allowance account and the impairment loss is recognized through profit or loss. Interest income is thereafter recognized on the carrying amount for which an impairment loss was recognized using the interest rate that was applied to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recognized through profit or loss in finance income. Receivables (including any impairment) are derecognized as soon as they are classified as uncollectible and all collateral has been used and sold. If, in a subsequent period, the amount of the estimated impairment loss increases or decreases due to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed either directly or by adjusting the allowance account. If a receivable that was written off is designated at a later date as being collectible, the corresponding amount is offset directly against the finance costs.

The present value of estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

Available-for-sale financial investments

The Group assesses at the end of each reporting period whether there is any objective evidence that an available-for-sale financial asset or a group of available-for-sale financial assets are impaired.

A significant or prolonged decline in the fair value of equity instruments designated as held for sale below their cost is also objective evidence of impairment. The criterion, "significant," is assessed based on the cost of the financial investment and the criterion, "prolonged," based on the period during which the fair value was below cost.

If there is evidence of impairment, the cumulative loss – which is defined as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is reclassified from equity to profit or loss. Impairment losses on equity instruments cannot be reversed through profit or loss; any subsequent increase in the fair value is recognized in other comprehensive income.

The same criteria that apply to financial assets recognized at amortized cost shall be used to measure any impairment of debt instruments classified as available for sale. However, the amount recognized as the impairment loss is the cumulative loss corresponding to the difference between the amortized cost and the current fair value, less any impairment loss on that instrument previously recognized in profit or loss.

Interest income is thereafter recognized on the carrying amount for which an impairment loss was recognized using the interest rate that was applied to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recognized in finance income. If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the amount of the reversal is recognized in profit or loss.

2.4.8.3. Financial liabilities

Initial recognition and measurement

Financial liabilities as defined in IAS 39 are designated as financial liabilities at fair value through profit or loss, as loans or as derivatives that are designated and effective hedging instruments. The Group establishes the classification of its financial liabilities on initial recognition.

Financial liabilities are measured at fair value on initial recognition; in the case of loans, transaction costs directly attributable to them are also accounted for on initial recognition.

The Group's financial liabilities comprise trade and other payables, bank overdrafts, loans and derivative financial instruments.

Subsequent measurement

Subsequent measurements of financial liabilities are contingent on their classification, as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss contain the financial liabilities held for trading, as well as other financial liabilities designated on initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they were acquired for the purpose of selling them in the near term. This category comprises the Group's derivative financial instruments which, pursuant to IAS 39, are not designated hedging instruments in a hedge.

Separately measured embedded derivatives are also classified as held for trading unless they are designated and effective hedging instruments.

Gains or losses from held-for-trading financial liabilities are recognized through profit or loss.

The Group has not designated any financial liabilities as at fair value through profit or loss.

Loans

Following initial recognition, interest-bearing loans are measured at amortized cost using the effective interest method. Gains and losses are recognized through profit or loss if the liabilities are derecognized as well as through the amortization process using the effective interest method.

Amortized costs include premiums or discounts on acquisition, as well as all fees or points that are an integral part of the effective interest rate. Amortization using the effective interest method is reported in the income statement under finance costs.

Derecognition

A financial liability is derecognized upon satisfaction, termination or expiration of the underlying obligation. Any exchange of a financial liability for another financial liability with substantially different terms involving the same lender, or any substantial modification of the terms of an existing liability, is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The difference between the respective carrying amounts is recognized through profit or loss.

2.4.8.4. Offsetting financial instruments

Financial assets and financial liabilities are offset against one another and the resulting net amount is shown in the consolidated statement of financial position if the entity has a currently enforceable legal right to set off the recognized amounts and if it intends to settle on a net basis or to realize the asset and settle the liability simultaneously.

2.4.8.5. Fair value of financial instruments

The fair value of financial instruments traded on active markets is measured using the quoted market price on the reporting date or a publicly quoted price (the bid price offered by the buyer for long positions and the asking price for short positions) without deducting the transaction costs.

The fair value of financial instruments for which no active market exists is determined by applying valuation techniques. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, the use of discounted cash flow methods and option valuation models.

Please see note 12.3 for an analysis of the fair values of financial instruments and further details on the measurement of financial instruments.

2.4.9. Derivative financial instruments and hedges

Initial recognition and subsequent measurement

The Group uses derivative financial instruments such as foreign exchange futures and interest rate swaps to hedge exchange rate and interest rate risks. These derivatives are recognized at fair value on the transaction date and subsequently remeasured at fair value. Derivatives are measured as financial assets when their fair value is positive and as financial liabilities when their fair value is negative.

Gains or losses on changes in the fair value of derivatives are recognized immediately in profit or loss, with the exception of the effective portion of a cash flow hedge, which is included in other comprehensive income.

Hedging instruments are classified as follows for hedge accounting purposes:

- ▶ as a fair value hedge if the purpose is to hedge the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment (excluding currency risk);
- ▶ as a cash flow hedge if the purpose is to hedge the exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset or liability, or a highly probable forecast transaction or the currency risk of an unrecognized firm commitment;
- ▶ as a hedge of a net investment in a foreign operation.

Both the hedging relationship and the Group's risk management objectives and strategies are formally designated and documented with respect to the hedge at its inception. The documentation contains the determination of the hedging instrument, the hedged item or the transaction being hedged as well as the type of risk hedged and a description of how the company determines the effectiveness of the change in the fair value of the hedging instrument when compensating for risks from changes in the fair value of or the cash flows from the hedged item caused by the hedged risk. Such hedging relationships are considered highly effective in compensating for risks from fair value or cash flow changes. Continuous assessments are made to determine whether or not they actually were highly effective during the entire reporting period for which the hedging relationship was designated.

Hedging transactions that meet the strict criteria to qualify for hedge accounting are accounted for as follows:

Fair value hedges

Any change in the fair value of the derivative interest rate hedging instrument is recognized in profit or loss under finance income. Changes in the fair value of the hedged item attributable to the hedged risk shall adjust the carrying amount of the hedged item and also be recognized in profit or loss under finance income.

When hedging the fair value of hedged items measured at cost, the adjustment of the carrying amount is recognized in profit or loss over its remaining life until maturity. Amortisation using the effective interest method may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged. If the hedged item is derecognized, the fair value not carried at cost is immediately recognized in profit or loss.

When an unrecognized firm commitment is classified as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognized as an asset or liability with a corresponding gain or loss recognized in profit or loss.

The Group did not use any fair value hedges in the the 2009 and 2010 financial years.

Cash flow hedges

The effective portion of the gain or loss on a hedging instrument is recognized in other comprehensive income under the provisions for cash flow hedges while the ineffective portion is recognized in profit or loss immediately.

The amounts recognized in other comprehensive income are reclassified to profit or loss in the period during which the hedged transaction has an impact on the profit or loss for the period, e.g. when hedged financial income or expenses are recognized or when an expected sale is executed. If a hedge results in the recognition of a non-financial asset or a non-financial liability, the amounts recognized in other comprehensive income are allocated to the acquisition-date cost of the non-financial asset or the non-financial liability.

However, if the forecast transaction or the firm commitment is no longer expected to occur, the cumulative gains or losses recognized in other comprehensive income shall be reclassified to profit or loss. If the hedging instrument expires or is sold, terminated or exercised without resulting in its replacement or rollover into another hedging instrument, or if the hedge no longer meets the criteria for hedge accounting, the cumulative gains or losses on the hedging instrument that have been recognized in other comprehensive income shall remain in other comprehensive income until the forecast transaction or the firm commitment has an impact on the profit or loss.

The Group has interest rate swaps that are used to hedge its exposure to changes in the interest expense associated with a variable interest rate loan. For further disclosures/details, please see note 12.4.

Hedges of a net investment

Hedges of a net investment in a foreign operation, including monetary items, that are recognized as a part of the net investment, are recognized like cash flow hedges. Gains or losses from the hedging instruments that are attributable to the hedging instrument's effective portion, are recognized in other comprehensive income while gains or losses attributable to the hedging instrument's ineffective portion are recognized in the income statement. The cumulative value of such gains or losses that have been recognized in equity are reclassified to profit or loss on the disposal of the foreign operation. The Group does not have such hedges.

Designation as current and non-current

Derivative financial instruments that are not designated and effective hedging instruments are classified as current or non-current or disaggregated into a current and a non-current portion based on an assessment of the facts and circumstances (i.e. the underlying contractual cash flows).

- ▶ If the Group holds a derivative for more than 12 months after the reporting date for hedging purposes (and does not account for it as a hedging relationship), the derivative is designated as non-current in accordance with the designation of the underlying position (or disaggregated into a current and a non-current portion).
- ▶ Embedded derivatives not closely related to their host contracts are designated in accordance with the cash flows of the host contract.
- ▶ The classification of derivative financial instruments that are designated and effective hedging instruments corresponds to that of the underlying hedged item. Derivative financial instruments are disaggregated into a current and a non-current portion only if they can be reliably classified.

2.4.10. Treasury shares

Treasury shares bought back by the Group are recognized at cost and deducted from equity. Acquisitions, sales, issues or retirements of treasury shares are not recognized in profit or loss. Differences, if any, between the carrying amount and the consideration are recognized in the capital reserve. The company did not hold any treasury shares as of December 31, 2010, and December 31, 2009.

2.4.11. Property, plant and equipment

Property, plant and equipment is measured at cost less cumulative depreciation and/or cumulative impairment losses.

Straight-line depreciation is based on the underlying assets' useful lives:

Buildings: 30 years

Technical, operating and office equipment: 3 to 10 years

Property, plant and equipment is derecognized either on disposal or when no economic benefit is expected from the continuing use or sale of the recognized asset. Gains or losses arising from the retirement or disposal of investment property shall be determined as the difference between the net disposal proceeds and the carrying amount of the asset and shall be recognized in profit or loss in the period in which the asset is derecognized.

The residual values, useful lives and depreciation methods applied to assets are reviewed at the end of each financial year and adjusted prospectively as necessary.

2.4.12. Leases

Determining whether an arrangement contains a lease is based on the substance of the arrangement at the time it is made and requires an assessment of whether fulfillment of the arrangement is dependent on the use of a specific asset or specific assets and whether the arrangement conveys a right to use the asset.

The Group as lessee

In finance leases where substantially all risks and rewards of ownership of the leased asset are transferred to the Group, the leased item is capitalized at the commencement of the lease term. The leased asset is measured at the lower of its fair value or the present value of the minimum lease payments. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability so as to produce a constant periodic rate of interest on the remaining balance of the lease liability over the term of the lease. Finance costs are recognized in profit or loss.

Leased assets are depreciated over their useful life. If there is no reasonable certainty that the Group will obtain ownership of the leased item by the end of the lease term, it is fully depreciated over the shorter of the expected useful life and the lease term.

Lease payments under operating leases are recognized as an expense in the income statement on a straight-line basis over the term of the lease.

2.4.13. Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective asset. All other borrowing costs are recognized as an expense in the period in which they are incurred. Borrowing costs are interest and other costs incurred by an entity in connection with the borrowing of funds.

As in the previous year, the Group did not capitalize any borrowing costs in the 2010 financial year because they were not directly attributable to the production of qualifying assets.

2.4.14. Intangible assets

Intangible assets that are not acquired in a business combination are measured at cost on initial recognition. The cost of intangible assets acquired in a business combination is its fair value at the acquisition date. In subsequent periods, the intangible assets are recognized at cost less cumulative amortization and cumulative impairment losses. With the exception of capitalized development costs, the costs of internally generated intangible assets are not capitalized and are recognized in profit or loss in the period in which they are incurred.

Intangible assets are divided into those with finite useful lives and those with indefinite useful lives.

Intangible assets with finite useful lives are amortized over their useful life and tested for impairment if there is any indication of impairment. Both the amortization period and the amortization method applied to intangible assets with finite useful lives are reviewed at least at the end of each financial year. Any changes in the amortization method or amortization period resulting from changes in the asset's expected useful life or the way in which the asset's economic benefits are expected to be consumed are treated as estimates. Amortization on intangible assets with finite useful lives are recognized in the income statement under amortization and impairment losses.

Intangible assets with indefinite useful lives are tested for impairment at least once a year either at the level of the individual asset or at the level of the cash-generating unit. These intangible assets are not amortized. The useful life of an intangible asset is reviewed once a year to determine whether events and circumstances continue to support an indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite is accounted for prospectively.

Gains or losses arising from the derecognition of an intangible asset shall be determined as the difference between the net disposal proceeds and the carrying amount of the asset and shall be recognized in profit or loss when the asset is derecognized.

Film rights

Capitalized film rights concern non-current licenses classified as fixed assets. The company owns the master tapes and may bar third parties from using them. The film rights are not exploited in the Inflight Entertainment segment.

The film rights assets are measured at cost less amortization and impairment losses. The useful life of film rights with finite useful lives corresponds to the respective licensing period. Amortization is recognized in line with the sales generated at the respective stage of exploitation in the respective period. Each film is tested for impairment at least once a year pursuant to IAS 36, accounting for the marketability of the given film right; an impairment loss is recognized as necessary. If the discounted surplus revenues from the forecast future benefit are lower than its carrying amount as of the reporting date, an impairment loss to the lower value is recognized. Impairment losses are also shown under the item, amortization and impairment losses. If the marketability test reveals that the discounted surplus revenues from the forecast future benefit of a film right exceed its carrying amount as of the reporting date, a write-up to no more than the amortized cost is recognized in the income statement.

Certain film rights in the company's portfolio may be used in perpetuity. These film rights with indefinite useful lives are tested for impairment at least once a year in accordance with the aforementioned criteria. For further disclosures, please see note 11.

Research and development costs

Research costs are recognized as an expense in the period in which they are incurred. Development costs associated with a single project are capitalized as an intangible asset only if the Group can demonstrate the following:

- ▶ the technical feasibility of completing the intangible asset so that it will be available for use internally or sale;
- ▶ the Group's intention to complete the intangible asset and to use or sell it;
- ▶ how the intangible asset will generate future economic benefits;
- ▶ the availability of resources to complete the asset; and
- ▶ the Group's ability to reliably measure the expenditure attributable to the intangible asset during its development.

After initial recognition, development costs are accounted for using the cost model less any accumulated amortization and any accumulated impairment losses. They are amortized upon completion of the development phase and from the date on which the asset can be used. The amortization is taken over the period for which future economic benefits are expected. An impairment test is conducted annually during the development phase.

2.4.15. Inventories

Inventories shall be measured at the lower of cost and net realizable value.

The measurement of work in progress is based on the directly attributable costs of materials and production as well as on appropriate portions of production overheads not including borrowing costs.

Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

2.4.16. Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that non-financial assets may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use. Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or a CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the expected future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset. A suitable valuation technique is used to determine the asset's fair value less costs to sell.

Impairment losses of continuing operations are recognized in profit or loss in those expense categories consistent with the function of the impaired asset in the Company. This does not apply to previously revalued assets where the revaluation surplus was recognized in other comprehensive income. In such cases, the impairment loss up to the amount in the revaluation surplus is also recognized in other comprehensive income.

Assets other than goodwill are assessed at each reporting date to determine whether there is any indication that a previously recognized impairment loss may no longer exist or may have decreased. If such indication exists, the Group estimates the recoverable amount of the asset or CGU. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss unless the asset is carried at the revalued amount, in which case the reversal is treated as a revaluation increase.

The following criteria must be also taken into account for specific assets:

Goodwill

Goodwill is tested for impairment once a year (as of December 31) and also if there is any indication that the asset may be impaired.

Impairment losses are calculated by determining the recoverable amount of the cash-generating unit (or group of cash-generating units) to which the goodwill is allocated. If the recoverable amount of the cash-generating unit is lower than this unit's carrying amount, an impairment loss is recognized. An impairment loss recognized for goodwill may not be reversed in a subsequent period.

Intangible assets

Intangible assets with indefinite useful lives are tested for impairment at least once a year as of December 31. This test is performed at the level of individual assets or the cash-generating unit and also if there is any indication that the asset may be impaired.

2.4.17. Cash and cash equivalents

The item, cash and cash equivalents, in the statement of financial position comprises cash on hand, bank balances, checks as well as short-term investments with an original term of less than three months.

For the purposes of the consolidated statement of cash flows, cash and cash equivalents comprise the cash defined above as well as short-term investments; overdraft credit lines used are not deducted.

2.4.18. Provisions

Provisions are recognized if the Group has a present obligation (legal or constructive) as a result of a past event; if it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and if a reliable estimate can be made of the amount of the obligation. If the Group expects to be reimbursed for some or all of the expenditure (e.g. under an insurance contract), the reimbursement is recognized as a separate asset only to the extent that it is virtually certain. The expense relating to the recognition of the provisions is recognized in the income statement net of the reimbursement. If the interest effect resulting from discounting is significant, provisions are discounted before taxes using an interest rate that reflects the risks specific to the liability. In case of discounting, the increase in the provisions over time is recognized in finance costs.

3. Decisions involving considerable judgment, estimates and assumptions

Judgments

The preparation of the consolidated financial statements requires the Management Board to make judgments and assumptions, as well as perform estimates, that have an impact on the Group's earnings, expenses, assets and liabilities as well as on the disclosure of its contingent liabilities. The uncertainty associated with these assumptions and estimates, however, may give rise to outcomes that might lead to substantial adjustments to the carrying amounts of the given assets or liabilities in future periods.

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Estimates and assumptions

The key assumptions concerning the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are disclosed below.

Impairment of non-financial assets

An impairment is the amount by which the carrying amount of an asset or a cash-generating unit exceeds its recoverable amount. The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use. The fair value less cost to sell is determined based on available data from binding sale agreements in arm's length transactions between independent partners involving similar assets or observable market prices less the costs directly attributable to the disposal of the asset.

The Group's impairment tests of goodwill and intangible assets with indefinite useful lives are based on calculations of their value in use applying the discounted cash flow method. The cash flows are derived from the financial plan for the next three years; they do not include restructuring measures the Group has not yet undertaken, nor material future investments that will boost the performance of the tested cash-generating unit. The recoverable amount largely depends on the discounting rate used when applying the discounted cash flow method as well as on the estimated future cash flows and the growth rate used for purposes of extrapolation. The basic assumptions underlying the determination of the recoverable amount of the different cash-generating units, including a sensitivity analysis, are disclosed in greater detail in note 13.

Share-based payment transactions

Groupwide, the costs of awards of equity instruments to employees are measured at the fair value of the given equity instruments at the time they are granted. The valuation technique most suitable to awards of equity instruments shall be used to estimate the fair value of share-based payment transactions; it is contingent on the conditions of the award. This also requires determining suitable data — including, in particular, probable maturity, volatility and dividend yield, as well as relevant assumptions — that flow into this valuation technique. The assumptions and procedures used to estimate the fair value of share-based payment transactions are disclosed in note 20.

Taxes

There are uncertainties regarding the interpretation of complex tax regulations as well as the amount of future taxable earnings and the date on which they may arise. Given the large range of international business relationships and both the long-term nature and the complexity of existing contractual arrangements, differences between actual results and the assumptions made, or future changes in such assumptions, might necessitate adjustments of the tax income and tax expense previously recognized. Using reasonable assumptions, the Group recognizes provisions for the potential effects of field audits in countries where it does business. The amount of these provisions is contingent on a variety of factors such as experiences from earlier field audits and the divergent interpretations of the tax regulations by the company liable for the taxes and the responsible tax authority. Such divergent interpretations may arise from a multitude of different factors depending on prevailing conditions in the given Group company's country of domicile.

Deferred tax assets are recognized for all tax loss carryforwards not utilized inasmuch as it is likely that taxable income will be available to that end so that the loss carryforwards can actually be used. Determining the amount of the deferred tax assets that can be recognized requires considerable judgments by management regarding the estimated date on which the future taxable income will be earned and its amount, as well as future tax planning strategies.

The Group has corporate income tax loss carryforwards of EUR 66,030 thousand (previous year: EUR 66,290 thousand). In determining deferred tax assets, the Group takes EUR 4,396 thousand in loss carryforwards that may be utilized for a period of three years into account. The difference of EUR 61,634 thousand was not considered as a precaution.

For further details on the deferred taxes, please see note 7.

Fair value of financial instruments

The fair value of the financial assets and financial liabilities recognized in the statement of financial position shall be determined using valuation techniques (including the discounted cash flow method) if it cannot be determined based on data from an active market. To the extent possible, the input parameters that go into the model are based on observable market data. Absent this option, determining the fair values will be a matter of judgment to a certain extent. These judgments concern input parameters such as liquidity risk, credit risk and volatility. Changes in the assumptions regarding these factors could have an impact on the fair values recognized for the financial instruments.

Development costs

Development costs are capitalized in accordance with the accounting policies described in note 2.4. Initial capitalization of the costs is based on management's assessment of the extent to which a project's technical and economic feasibility have been demonstrated; this is usually the case once a product development project has achieved a specific milestone in an existing project management model. Management makes assumptions about the amount of the estimated future cash flows from the project, the discounting rates to be used and the period during which the Group expects to receive the expected benefits in the future. The carrying amount of the capitalized development costs, which related solely to the proprietary development work of the Group companies, DTI Software Inc., Montreal, Canada, and DTI Software FZ-LLC., Dubai, United Arab Emirates, as of December 31, 2010, was EUR 4,292 thousand (previous year: EUR 2,489 thousand).

4. Business combinations and acquisition of non-controlling interests

Acquisitions in 2010

Acquisition of Fairdeal Studios Pvt. Ltd.

Effective April 1, 2010, AIA AG acquired 100 percent of the voting interests in Fairdeal Studios Pvt. Ltd. ("Fairdeal Studios"), Mumbai, India, an unlisted company that specializes in technical services for Inflight Entertainment. The agreement on the acquisition of Fairdeal Studios had already been concluded in August 2008 as part of the acquisition of Fairdeal Multimedia Pvt. Ltd., Mumbai, India ("Fairdeal Multimedia"). On March 31, 2010, the concrete acquisition date was specified as April 1, 2010, in an addendum to this agreement.

AIA AG acquired Fairdeal Studios because it enhances the Group's existing product portfolio. The deal also generates synergy effects in the Group, especially in the cooperation with Fairdeal Multimedia.

The transaction was accounted for using the acquisition method. The earnings of Fairdeal Studios for the period of nine months from the acquisition date are included in the consolidated financial statements.

The acquisition-date fair values of the identifiable assets and liabilities of Fairdeal Studios and the corresponding carrying amounts immediately before the acquisition date thus are as follows:

Items in the statement of financial position	Fair value as of the acquisition date:	Previous carrying amount
	EUR thousand	EUR thousand
Assets		
Property, plant and equipment	53,584	53,584
Trade receivables	115,310	115,310
Other assets	9,863	9,863
Cash and cash equivalents	1,205	1,205
Total assets	179,962	179,962
Liabilities		
Trade payables	-27,205	-27,205
Current income tax liabilities	-15,818	-15,818
Deferred tax liabilities	-323	-323
	-43,346	-43,346
Total identifiable net assets at fair value	136,616	
Difference	-62,472	
Total compensation	74,144	

The acquisition cost totaling USD 100 thousand (corresponding to EUR 74 thousand) was paid in cash.

Cash outflow due to the company acquisition	
	EUR
Cash acquired with the subsidiary	1,205
Cash outflow	-74,144
Actual cash outflow	-72,939

The fair value of trade receivables amounted to EUR 115 thousand. None of the trade receivables were impaired and the full contractual amount is likely to be recoverable.

The acquisition of Fairdeal Studios was recognized in accordance with the provisions of IFRS 3 and IAS 27.

The acquisition cost was EUR 74 thousand. The net assets acquired amount to EUR 137 thousand.

Since the cost of acquisition is about EUR 62 thousand less than the acquired net assets, this difference was recognized as other operating income as of the acquisition date. This difference results from the fact that the transaction itself as well as its terms and conditions were already fixed during the acquisition of Fairdeal Multimedia in August 2008. The changes in the net assets, which have resulted since that date, were not taken into consideration in the determination of the purchase price.

Between the acquisition date of April 1, 2010 and December 31, 2010, Fairdeal Studios did not make a significant contribution to sales and earnings compared with the Group on account of the company's size and the fact that most of the services were provided within the Group.

Acquisitions in 2009

No companies were acquired or established in the 2009 financial year.

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5. Segment reporting

The Group is divided into business units based on products and services for the purpose corporate management. The Group has the two reportable operating segments: Inflight Entertainment and Other Licensing. These two segments have been delineated based on internal reporting using the management approach. To this end, only those items that can be directly classified under a particular segment and/or reasonably divided among certain segments were taken into account. All disclosures related to segment reporting are based on identical reporting and measurement methods. Intragroup pricing between the operating segments is determined at market rates as if in arms' length transactions. In the 2010 and 2009 financial years, there were only sales to external customers but no intersegment sales.

Management monitors each unit's operating profit separately in order to make decisions concerning the allocation of resources and determine each unit's profitability. Each segment's development is assessed based on its operating profit. The Group's financing (including finance cost and income), as well as corporate income taxes, are managed groupwide; they are not allocated to individual operating segments.

No operating segments are combined to form the operating segments mentioned above.

The segments of the Group may be represented as follows:

The Inflight Entertainment segment comprises all services rendered to air carriers.

The Other Licensing segment serves to market non-current film rights. Other sellers of licenses, as well as private and public TV stations, movie theaters, and marketers of videos and DVDs, are the Group's principal customers. This segment also covers services rendered to cruise ships.

Key segment figures are:

Segments 2010	Inflight Entertainment	Other Licensing	Consolidation	Group
	EUR thousand	EUR thousand	EUR thousand	EUR thousand
Sales Revenue	110,929	185	0	111,114
Segment result	8,386	27	0	8,413
Carrying amount of segment assets	60,203	184	27,674 ¹⁾	88,061
Segment liabilities	41,067	94	5,547 ²⁾	46,707
Segment investments	4,762	0	0	4,762
Depreciation/ amortization of segment assets	3,708	17	0	3,725
Impairment losses on segment assets	352	141	0	493

¹⁾ The segment assets do not include deferred taxes (EUR 1,540 thousand), goodwill (EUR 25,836 thousand) and intrasegment set-offs (EUR 298 thousand) because these assets are controlled at the Group level.

²⁾ The segment liabilities do not include deferred taxes (EUR 5,249 thousand) and intrasegment set-offs (EUR 298 thousand) because these liabilities are controlled at the Group level.

Segments 2009	Inflight Entertainment	Other Licensing	Consolidation	Group
	EUR thousand	EUR thousand	EUR thousand	EUR thousand
Sales Revenue	107,860	191	0	108,051
Segment result	8,364	-1,546	0	6,818
Carrying amount of segment assets	58,655	397	25,470 ³⁾	84,522
Segment liabilities	44,761	92	6,370 ⁴⁾	51,223
Segment investments	2,859	0	0	2,859
Depreciation/ amortization of segment assets	3,197	24	0	3,221
Impairment losses on segment assets	0	1,696	0	1,696

³⁾ The segment assets do not include deferred taxes (EUR 1,480 thousand), goodwill (EUR 23,684 thousand) and intrasegment set-offs (EUR 306 thousand) because these assets are controlled at the Group level.

⁴⁾ The segment liabilities do not include deferred taxes (EUR 6,064 thousand) and intrasegment set-offs (EUR 306 thousand) because these liabilities are controlled at the Group level.

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Information about geographical areas - sales revenue	2010	2009
	EUR thousand	EUR thousand
Sales revenue		
Europa	46,627	47,283
Rest of world	64,487	60,768
Total	111,114	108,051

The foregoing disclosures on segment revenue are broken down by the companies' domicile. No sales revenue in excess of 10 percent was generated from a single customer in the Inflight Entertainment segment. In the previous year, sales revenue in excess of 10 percent totaling EUR 11,130 thousand was generated from a single customer.

Information about geographical areas - non-current assets	2010	2009
	EUR thousand	EUR thousand
Non-current assets:		
Europa	12,892	13,275
Rest of world	34,092	30,405
Total	46,984	43,680

The non-current assets shown here comprise intangible assets, property, plant and equipment, as well as other financial assets.

6. Other income and expenses as well as adjustments

6.1. Other operating income

Other operating income consists of the following items:

Other operating income	2010	2009
	EUR thousand	EUR thousand
Reversal of allowances on receivables	173	65
Income from the disposal of fixed assets	69	1
Income from non-cash benefits	47	60
Derecognition of liabilities	18	0
Currency gains	9	0
Rental income	6	21
Reversal of allowances on receivables	5	134
Others	22	162
	349	443

Just as in the 2009 financial year, in the 2010 financial year currency gains of EUR 7,137 thousand (previous year: EUR 7,887 thousand) and currency losses of EUR 7,128 thousand (previous year: EUR 8,133 thousand) were reported on a net basis. The net gain of EUR 9 thousand (previous year: net loss of EUR 245 thousand) is reported in other operating income.

6.2. Other operating expenses

Other operating expenses are comprised as follows:

Other operating expenses	2010	2009
	EUR thousands	EUR thousands
Rent, cleaning, heating and electricity, maintenance	2,511	2,459
Advertising, entertainment, representation, travel	1,831	1,965
Legal and consulting costs	1,690	1,569
IT costs	914	545
Annual financial statements and tax consultancy	675	649
Freight, post, telecommunication	554	495
Impairment losses on assets	368	122
Compensation of Supervisory Board members	260	230
Other staff costs	244	327
Office supplies	192	186
Insurance, levies	187	177
Bank fees	133	94
Investor relations, public relations	127	266
Annual General Meeting	80	80
Other taxes	46	159
Currency losses	0	245
Other	126	473
	9,938	10,041

The significant increase in IT costs from EUR 545 thousand to EUR 914 thousand is essentially due to the expenses incurred in connection with the introduction of the new accounting and consolidation software.

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6.3. Finance costs

The items included in finance costs are as follows:

Finance costs	2010	2009
	EUR thousands	EUR thousands
Interest on loans	805	1,006
Interest on bank overdrafts and other finance costs	157	45
	962	1,051

6.4. Finance income

The items included in finance income are as follows:

Finance income	2010	2009
	EUR thousands	EUR thousands
Income from the fair value measurement of derivatives	95	0
Interest income on bank balances	42	75
Other finance income	0	25
	137	100

6.5. Employee benefit expenses

Staff costs are comprised as follows:

Employee benefit expenses	2010	2009
	EUR thousands	EUR thousands
Wages and salaries	18,152	16,085
Social security contributions	2,846	2,406
Other post-employment benefits	804	377
Share-based payment costs	77	118
	21,879	18,986

Post-employment benefits include termination benefits amounting to EUR 489 thousand (previous year: EUR 10 thousand).

6.6. Cost of materials

Cost of materials are comprised as follows:

Cost of materials	2010	2009
	EUR thousands	EUR thousands
Expenses for the purchase of film and audio licenses	62,659	63,010
Production costs data media	2,305	1,882
Other cost of materials	2,145	2,706
Customs duties and freight	91	80
Change in inventories	-185	54
	67,015	67,732

6.7. Depreciation, amortization and impairment losses

Depreciation, amortization and impairment losses on intangible assets and on property, plant and equipment split up as follows:

Depreciation, amortization and impairment losses	2010	2009
	EUR thousands	EUR thousands
Amortization and impairment losses on film rights		
- Amortization	264	164
- Impairment losses	141	1,696
	405	1,860
Amortization and impairment losses on other intangible assets		
- Amortization		
- Customer base (4-20 years)	788	959
- Games library and technology (6-10 years)	859	747
- Capitalized development costs (10 years)	530	275
- Trademark rights and non-competition agreements (3-10 years)	124	110
- Software and similar rights	144	56
- Impairment losses		
- Customer base (4-20 years)	195	0
- Capitalized development costs (10 years)	156	0
	2,796	2,147
Depreciation and impairment losses on property, plant and equipment	1,017	910
	4,218	4,917

Impairment losses of EUR 141 thousand (previous year: EUR 1,696 thousand) on the film assets arise from the adjustments of the carrying amounts to the forecast discounted surplus revenues from the individual film rights.

An impairment loss of EUR 195 thousand was recognized for capitalized customer relationships as of December 31, 2010, because a long-term delivery contract with a customer will expire on June 30, 2011; this contract will not be renewed. The portion of the capitalized customer relationships attributable to this customer was written down accordingly.

An impairment loss of EUR 156 thousand was recognized for electronic games (the development of which was discontinued in 2010 due to new market assessments) based on the impairment test of development costs that must be capitalized at DTI, which was carried out as of December 31, 2010.

6.8. Research and development costs

Just as in the 2009 financial year, only DTI incurred development costs in 2010; they were EUR 4,999 thousand (previous year: EUR 3,492 thousand). A total of EUR 2,127 thousand (previous year: EUR 1,609 thousand) of these development expenses were capitalized. The company received grants totaling EUR 1,522 thousand (previous year: EUR 931 thousand, less an adjustment of EUR 346 thousand concerning 2008). The remaining research and development costs of EUR 1,350 thousand (previous year : EUR 952 thousand) were recognized in profit or loss.

7. Income taxes

Income tax expense for the 2010 and 2009 financial years comprises the following material elements:

Income tax expense	2010	2009
	EUR thousands	EUR thousands
Consolidated income statement		
Current income taxes:		
Current tax expense	-2,516	-1,948
Income taxes	-359	-3
Deferred income taxes:		
Origination and reversal of temporary differences	779	797
Tax expense shown	-2,096	-1,154
Consolidated statement of changes in equity		
Deferred income taxes on items recognized directly in equity:		
Net loss from from the remeasurement of cash flow hedges	-43	-4
Tax expense recognized in equity	-43	-4

The numerical reconciliation between the income tax expense shown and expected for the 2010 and 2009 financial years is as follows:

Tax reconciliation	2010	2009
	EUR thousands	EUR thousands
Earnings before taxes	7,589	5,867
Anticipated tax expense	-2,503	-1,936
Change in the valuation allowance on loss carryforwards	131	189
Effects from tax rate changes	930	407
Prior-period tax income/expense	-359	-3
Tax effect from expenses/income not affecting taxes	157	103
Ineligible foreign withholding tax	-485	0
Other	33	86
Current tax expense	-2,096	-1,154

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Deferred taxes

Deferred tax assets and liabilities as of December 31 of the given year are as follows:

Deferred taxes	2010	2009
	EUR thousands	EUR thousands
Deferred tax liabilities		
Non-current assets		
Intangible assets	4,670	5,055
Property, plant and equipment	110	202
Financial assets	183	78
Current assets		
Financial assets	6	55
Other assets	10	78
Non-current liabilities		
Financial liabilities	0	862
Current liabilities		
Financial liabilities	672	973
	5,651	7,303
Deferred tax assets		
From loss carryforwards	1,450	1,500
Non-current assets		
Property, plant and equipment	83	2
Financial assets	0	7
Current assets		
Financial assets	0	29
Other assets	139	22
Non-current liabilities		
Financial liabilities	117	198
Current liabilities		
Financial liabilities	4	691
Other liabilities	149	270
	1,942	2,719
Deferred tax liabilities, net	3,709	4,584
Shown in the statement of financial position		
Deferred tax assets	1,540	1,480
Deferred tax assets	5,249	6,064
Deferred tax liabilities, net	3,709	4,584

The Group had total corporate income tax loss carryforwards of EUR 66,030 thousand as of December 31, 2010 (previous year: EUR 66,290 thousand); of this amount, loss carryforwards of EUR 61,634 thousand were not accounted for or were adjusted. The remaining loss carryforwards of EUR 4,396 thousand were measured at the respective applicable tax rate and are shown in the statement of financial position.

As of December 31, 2010, the Group did not recognize deferred tax liabilities for untransferred profits of its subsidiaries. The Group has decided not to distribute the previously undistributed profits of its subsidiaries in the foreseeable future. The temporary differences in connection with equity interests in subsidiaries for which no deferred tax liabilities were recognized, amount to EUR 26,609 thousand.

Current tax liabilities	2010	2009
	EUR thousands	EUR thousands
Corporate income tax, municipal trade tax and solidarity surcharge	272	206
Foreign income tax liabilities	1,348	1,113
Withholding tax	35	0
	1,655	1,319

Current tax assets	2010	2009
	EUR thousands	EUR thousands
Corporate income tax, municipal trade tax and solidarity surcharge	6	23
Foreign income tax assets	3,288	2,322
Withholding tax	27	0
	3,321	2,345

Taxes paid or owed on income and earnings, as well as deferred and prepaid tax items, are reported in the income statement under "Income taxes."

In the 2010 financial year, the parent company's combined income tax rate was 33 percent (previous year: 33 percent).

The deferred tax rate for the domestic corporations was calculated based on the tax rates applicable to the period in which the relevant asset will be realized, taking into account the trade earnings tax, the corporate income tax, as well as the solidarity surcharge. These calculations resulted in on a combined tax rate of 33 percent (previous year: 33 percent). The tax rates customary for the respective country were used for the Group's foreign subsidiaries (17.0 - 39.8 percent).

8. Components of other comprehensive income

Please see the statement of comprehensive income for the components of other comprehensive income.

9. Earnings per share

Basic earnings per share are determined by dividing the profit for the year attributable to the owners of the parent's ordinary shares by the weighted average number of ordinary shares outstanding during the reporting year.

Diluted earnings per share are determined by dividing the profit for the year attributable to the owners of the parent's ordinary shares by the weighted average number of ordinary shares outstanding during the reporting year as well as by the weighted average number of ordinary shares that would arise from conversion of all potential ordinary shares with dilutive potential into ordinary shares.

The following table shows the amounts used to calculate the basic and diluted earnings per share:

Determination of the earnings per share	2010	2009
	EUR	EUR
Net profit	5,492,612,03	4,712,834,90
Average number of shares outstanding in the financial year	14,500,000	14,500,000
Basic earnings per share	0,38	0,33
Average number of shares outstanding taking into account dilution	14,542,729	14,513,361
Diluted earnings per share	0,38	0,32

Calculation of the weighted average number of shares outstanding	2010	2009
	EUR	EUR
Average number of shares outstanding in the financial year, weighted by days:	14,500,000	14,500,000
Effect of including options when calculating the average number of shares outstanding	42,729	13,361
Average number of shares outstanding in the financial year (diluted)	14,542,729	14,513,361

As of the reporting date, a total of 600,000 stock options had been issued to members of the company's Management Board and to members of the management of AIA AG's associates. Subsequently, the shares to be included were determined pursuant to IAS 33 by considering the respective exercise prices, holding periods and extrapolated share price performance as well as future staff costs.

10. Property, plant and equipment

Property, plant, and equipment encompasses land, rights equivalent to land, and buildings with a carrying amount of EUR 709 thousand (previous year: EUR 694 thousand), as well as operating and office equipment in the amount of EUR 1,505 thousand (previous year: EUR 1,750 thousand). Please see the separate consolidated statement of changes in non-current assets in regards to the development of property, plant and equipment and the relevant depreciation in the 2010 financial year.

11. Intangible assets

Film rights

The intangible assets include non-current film rights with a total carrying amount of EUR 337 thousand (previous year: EUR 490 thousand). By definition, the assumptions used to measure the film rights are subject to estimation uncertainty that are reflected in the currently expected discounted cash flows from the relevant film rights. The non-current film assets comprise film rights with finite and indefinite useful lives. In the 2010 financial year, total amortization of EUR 264 thousand (previous year: EUR 164 thousand), as well as impairment losses of EUR 141 thousand (previous year: EUR 1,696 thousand), were recognized on the non-current film assets. Of this amount, amortization of EUR 264 thousand (previous year: EUR 164 thousand) and impairment losses of EUR 141 thousand (previous year: EUR 1,610 thousand) were attributable to film rights with finite useful lives. No impairment losses were recognized on film rights with indefinite useful lives (previous year: EUR 86 thousand). Please see note 13.2 with respect to the impairment test for film rights with indefinite useful lives.

Goodwill

The goodwill shown in the statement of financial position as of December 31, 2010, was EUR 25,836 thousand (previous year: EUR 23,684 thousand). It was allocated to the cash-generating units, Atlas Group, IFFP Group, Fairdeal and DTI Group. The change in goodwill arises solely from currency translation effects.

The impairment tests to be conducted at least once a year did not trigger any impairment losses in regards to any of the cash-generating units. The impairment test was conducted by comparing the expected future discounted cash flows allocable to goodwill with the assets of the cash-generating unit as of the reporting date. Please see note 13.1 for additional disclosures.

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Other intangible assets

The other intangible assets comprise the value of the customer databases, non-current contracts and the catalog of games in the amount of EUR 12,759 thousand (previous year: EUR 12,991 thousand) that was determined at the time Atlas Air, IFP, DTI and Fairdeal were acquired, as well as the value of software, non-competition agreements, brands and similar rights in the amount of EUR 5,836 thousand (previous year: EUR 4,048 thousand). The customer databases, brands as well as DTI's catalog of games are amortized over a period of up to 20 years using the straight-line method, and the non-competition agreements over a period of three years using the same method. Contracts are also amortized using the straight-line method over different periods depending on the type of contract. An impairment loss was identified for the customer database and the capitalized development costs during the annual impairment test. For details, please see note 6.7.

Please see the separate consolidated statement of changes in non-current assets for changes in the intangible assets during the 2010 and 2009 financial years.

12. Other financial assets and financial liabilities

12.1. Other financial assets

Other financial assets consist of the following items:

Other financial assets	2010	2009
	EUR thousands	EUR thousands
Interest receivables	3	0
Prepayments made (non-current)	0	23
	3	23

12.2. Other financial liabilities

The Group uses futures to hedge a portion of its transaction risks, as well as to minimize the risk of increases in variable interest rates. Other liabilities of EUR 115 thousand (previous year: EUR 210 thousand) from interest rate swaps were recognized as of the reporting date.

The changes in other financial liabilities were as follows:

Sonstige finanzielle Verbindlichkeiten	2010	2009
	EUR thousands	EUR thousands
Non-current provisions	189	0
Derivatives (interest swaps)	115	210
Interest non-banks	27	11
	331	221

All other financial liabilities shown here are non-current.

Interest-bearing loans

Bank overdrafts

The bank overdrafts are secured by a portion of the current assets of the Group's local subsidiaries.

Bank loan with an initial nominal value of EUR 10,000,000

In February 2008, AIA AG took out an unsecured five-year loan of EUR 10,000 thousand from HypoVereinsbank AG, Munich, Germany (initial maturity: December 31, 2012). The loan agreement provides for regular semi-annual loan payments of EUR 1,000 thousand each, no prepayment penalties and variable interest payments based on the six-month Euribor plus 2.75 percent. In order to avoid any exposure to the risk from rising interest rates associated with variable interest obligations, in July 2008 the greater part of the variable interest payments was converted into fixed interest obligations by means of interest rate swaps over the term of the loan.

Under the terms of the loan agreement, mandatory special loan payments are agreed under certain conditions. The provision regarding mandatory special loan payments was applied for the first time as of December 31, 2009. Based on the consolidated financial statements for the year ended December 31, 2009, it led to a special loan payment of EUR 1,000 thousand that was due on May 7, 2010. The consolidated financial statements as of December 31, 2010, again trigger a mandatory special loan payment of EUR 1,000 thousand. As a result, the repayment period and thus the loan will now end 12 months earlier than originally stipulated.

As of the reporting date, the current liability arising from this loan was EUR 3,045 thousand, compared with a current portion of EUR 1,952 thousand and a non-current portion of EUR 3,967 thousand reported in the previous year.

Subordinated bank loan with an initial nominal value of EUR 2,000,000

The non-current financial liabilities include liabilities of nominally EUR 2,000 thousand from taking up mezzanine capital through a financing program of Capital Efficiency Group AG, Zug, Switzerland. This financing program has a term of seven years and runs until March 7, 2014. The interest is 8.8 percent per annum. A payment of 1 percent p.a. must be made each year and interest of 7.8 percent on the principal must be paid every quarter. The liability's carrying amount as of December 31, 2010, was EUR 1,953 thousand (previous year: EUR 1,937 thousand).

Mortgage with a nominal value of GBP 250,000

In 1999, Inflight Productions Limited, London, UK, obtained a mortgage for initially GBP 250,000 from HSBC, London, UK, to finance real property. The mortgage runs until December 31, 2014, and has an interest rate of 3 percent above the base rate of the Bank of England. The current mortgage amount outstanding is EUR 79 thousand (previous year: EUR 98 thousand).

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Annuity loan for originally EUR 727,524

In December 2007, AIA AG signed a loan agreement for up to EUR 800 thousand with HVB Investitionsbank GmbH, Munich, to finance investments in hardware for the technical services of The Lab.Aero, a subsidiary of Inflight Productions Inc., Los Angeles, USA. This loan has a term of five years, which started with the first installment payment once absolutely all purchase contracts for the individual pieces of equipment were closed in August 2008. The non-current portion of the loan outstanding is EUR 279 thousand (previous year: EUR 433 thousand), the current amount EUR 157 thousand (previous year: EUR 128 thousand).

12.3. Fair value

The following table shows both the carrying amounts and the fair values of all financial instruments recognized in the consolidated financial statements:

Fair value of financial instruments	Dec. 31, 2010		Dec. 31, 2009	
	Carrying amount	Fair value	Carrying amount	Fair value
	EUR thousands	EUR thousand	EUR thousands	EUR thousands
Financial assets:				
Other non-current financial assets	3	3	23	23
Trade receivables	18,781	18,781	17,012	17,012
Other current assets	2,405	2,405	2,829	2,829
Cash and cash equivalents	13,954	13,954	16,465	16,465
Financial liabilities:				
Trade payables	25,121	25,121	24,264	24,264
Non-current financial liabilities	2,646	2,646	6,661	6,661
Current financial liabilities	3,937	3,937	2,650	2,650
Other current liabilities	7,939	7,939	9,890	9,890

The fair values of the financial assets and financial liabilities are recognized at the price at which the respective instrument could be exchanged between knowledgeable, willing parties in a current arm's length transaction (excepting mandatory sale or liquidation).

The following methods and assumptions were used to determine the fair values:

- ▶ The fair values of cash and cash equivalents, trade receivables, trade payables and other current liabilities are very close to their carrying amounts because the maturities of these instruments are very short.
- ▶ The Group applies different yet relevant parameters to the measurement of non-current receivables and loans subject to fixed and variable interest rates. Allowances are recognized based on this measurement to account for any expected losses on these receivables. As of December 31, 2010, the carrying amounts of these receivables less allowances were not materially different from their computed fair values.
- ▶ The fair values of unquoted instruments, bank loans and other financial liabilities as well as other non-current financial liabilities is estimated by discounting the future cash flows using current market interest rates for borrowings or similar instruments with comparable maturities.

The Group enters into derivative financial instruments with banks with an investment grade (IG) rating. The determination of the fair values of derivative financial instruments depends on the type of the financial instrument:

- ▶ Derivative interest contracts: The fair values of derivative interest contracts (such as interest rate swaps) are determined by discounting the future expected cash flows using current market interest rates and interest yield curves over the remaining maturity of the instrument.
- ▶ Foreign exchange futures: The fair values of foreign exchange futures are based on forward exchange rates.

Net losses from loans payable

Total net losses of EUR 946 thousand (previous year: EUR 1,044 thousand) were generated from loans payable in 2010. They comprised the following:

Net losses from loans payable	Interest	Fees	Total
	EUR thousands	EUR thousands	EUR thousands
2010	-804	-142	-946
2009	-1,006	-38	-1,044

12.4. Hedge accounting and derivatives

Derivatives not designated as hedging instruments

The Group uses foreign exchange futures to hedge a portion of its transaction risks. These derivatives do not qualify for hedge accounting. Total net losses from USD foreign exchange futures that were recognized in profit or loss in 2010 were EUR 85 thousand.

Foreign exchange futures of this nature were also used during the 2009 financial year. The net gains recognized in profit or loss in 2009 were EUR 4 thousand.

Hedge of a net investment in a foreign operation

As in the previous year, in 2010 no foreign currency loans were obtained to hedge a net investment in a foreign operation.

Cash flow hedges

As of December 31, 2010, as well as December 31, 2009, the Group had interest rate swaps designated as hedges of interest payments under the loan agreement dated February 24, 2008.

In order to preclude the risk from future interest rate increases, on April 4, 2008, AIA AG entered into two fixed interest rate swaps with HypoVereinsbank AG, Munich. As of December 31, 2010, one interest rate swap was for EUR 1,778 thousand (previous year: EUR 2,667 thousand) at a fixed interest rate of 5.34 percent and the second one was for EUR 1,000 thousand (previous year: EUR 1,500 thousand) at a fixed interest rate of 3.675 percent.

Due to the mandatory special loan payment made in 2010, which shortened the term of the loan, the interest rate swaps no longer satisfy the conditions for hedge accounting set out in IAS 39, which meant this had to be abandoned. As a result, the unrealized losses previously recognized in equity had to be reclassified as profit or loss. In accordance with the expected cash flows from the hedged item, this reclassification will be made over the remainder of the loan term.

Of the hedging instruments, unrealized losses of EUR 131 thousand in the 2010 financial year were thus reclassified from equity to profit or loss in the income statement, taking deferred tax liabilities of EUR 43 thousand into account. In addition, the fair value changes resulted in gains of EUR 95 thousand (previous year: EUR 0 thousand) that were recognized in profit or loss.

The derivative was also designated as measured at fair value through profit or loss from the date on which the hedge accounting ended.

The following overview reflects the independent performance of the item under equity and of the derivative:

Cash flow hedge item in equity/derivative	Assets 2010	Liabilities 2010	Assets 2009	Liabilities 2009
	EUR thousands	EUR thousands	EUR thousands	EUR thousands
Equity item	26	79	69	210
Fair value of the derivative	-	115	-	210

13. Impairment tests on goodwill and intangible assets with indefinite useful lives

13.1. Impairment of goodwill

The goodwill with indefinite useful lives acquired as part of business combinations was allocated to the following cash-generating units for the purpose of testing it for impairment:

- ▶ Atlas Air Group
- ▶ IFP Group
- ▶ DTI Group
- ▶ Fairdeal Group

The cash-generating units were all allocated to the Inflight Entertainment segment.

The carrying amounts of the Goodwill allocated to the cash-generating units:

	Atlas Air Group		IFP Group		DTI Group		Fairdeal Group	
	2010	2009	2010	2009	2010	2009	2010	2009
	EUR thousands	EUR thousands	EUR thousands	EUR thousands	EUR thousands	EUR thousands	EUR thousands	EUR thousands
Carrying amount of goodwill	2,383	2,375	7,230	6,916	15,111	13,402	1,112	991
Impairment	-	-	-	-	-	-	-	-
Planning period	3 years	3 years	3 years	3 years	3 years	3 years	3 years	3 years
Discount rate	13,20 ¹⁾	10,27 ¹⁾						
	12,78 ²⁾	11,35 ²⁾	8,63	9,62	8,49	8,22	9,75	10,22

¹⁾ Discount rate Atlas Air Group Germany, Duisburg

²⁾ Discount rate Atlas Air Entertainment Concepts Inc., Glendale, USA

The increases in the carrying amounts of goodwill shown above result exclusively from foreign currency effects.

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Values in use of the cash-generating units

The recoverable amount of each individual cash-generating unit was determined by calculating its value in use based on the discounted cash flow method. Cash flow forecasts based on a three-year budgeting period authorized by management were applied. A discount rate before taxes pursuant to the foregoing table was used to compute the value in use. The weighted total capital cost rate that was utilized is based on a risk-free interest rate of 3.25 percent (base rate) as well as risk premiums of 5.0 percent for the equity (market risk premium). To determine the perpetual annuity, the discount rate was lowered by one percent for growth weighted by the equity ratio. A beta factor derived from the given peer group, as well as the capital structure of this peer group, were also taken into account. The interest rate on borrowing costs (after taxes) is 5.27 percent and was calculated based on a peer group average. The tax rate of 33 percent applicable to the Group was taken into account.

Key assumptions used in the determination of the values in use

The determination of the values in use is subject to estimation uncertainty regarding the following assumptions:

- ▶ gross profit margins;
- ▶ discounting rates;
- ▶ currency developments; and
- ▶ growth rates underlying the extrapolation of the cash flow forecasts above and beyond the three-year budgeting period.

Gross profit margins

The gross profit margins are determined based on historical values; they are forecast for the next three years taking into account macroeconomic developments and the specific forecasts for the aviation industry.

Discounting rates

The discounting rates reflect the current market assessments regarding the specific risks to be allocated to each cash-generating unit. The discounting rate was estimated using the average weighted total capital cost rate.

Currency developments

Analyses by banks and publicly available sources are used to estimate the development of foreign exchange rates.

Estimates of the growth rates

Industry-specific market surveys, as well as our own analyses, are used to estimate the potential growth rates. Allowing for the current economic situation and major uncertainties regarding the development of the global economy in the medium term — in particular, the development of air traffic — a growth rate of just one percent was assumed for the time after the end of the three-year planning period. This growth rate was taken into account in the calculation of the perpetual annuity.

Sensitivity of the assumptions made

In the company's view, no single change reasonably believed possible in any one of the basic assumptions underlying the determination of the value in use of the cash-generating units could cause the carrying amounts of the cash-generating units to exceed their values in use.

Results of the impairment tests

The impairment test performed as of December 31, 2010, of the goodwill acquired did not result in any need to recognize impairment losses on the cash generating units engaged in the Inflight Entertainment segment.

Nor did different measurement scenarios (using changed discounting rates or changed growth rates) that were applied show any need to recognize impairment losses on the goodwill.

13.2. Impairment of the intangible assets with indefinite useful lives

The Group's intangible assets include a portfolio of more than 750 film rights, among other things. Some of these film rights may be used in perpetuity. For purposes of impairment testing, the film rights were combined into a cash-generating unit and allocated to the „Other Licensing“ segment.

The annual impairment test pursuant to IAS 36 of the film rights that may be used in perpetuity showed that they were not impaired as of December 31, 2010 (previous year: impairment loss of EUR 86 thousand). As of December 31, 2010, the Group thus recognized a residual carrying amount of EUR 8 thousand (previous year: EUR 8 thousands) for film rights that may be used in perpetuity.

14. Inventories

Inventories as of December 31, 2010, contain goods valued at EUR 631 thousand (previous year: EUR 375 thousand), as well as EUR 444 thousand (previous year: EUR 335 thousand) in prepayments on goods.

15. Trade and other receivables (current)

Other financial assets	2010	2009
	EUR thousands	EUR thousands
Trade receivables	18,781	17,012

Please see note 23 regarding the terms of receivables from related parties.

Trade receivables do not bear interest and usually have a term of up to 90 days.

Trade receivables with a nominal value of EUR 943 thousand (previous year: EUR 765 thousand) were impaired as of December 31, 2010. The movement of the allowance account is as follows:

Tax offsetting and reconciliation	Individual value adjustment	Portfolio-based valuation allowances	Total
	EUR thousands	EUR thousands	EUR thousands
Balance on January 1, 2009	701	23	724
Additions through profit and loss	49	73	122
Reclassifications	52	-33	19
Foreign currency effects	11	43	54
Utilization	-20	0	-20
Reversal	-121	-13	-134
Balance on December 31, 2009	672	93	765
Balance on January 1, 2010	672	93	765
Additions through profit and loss	266	98	364
Reclassifications	102	-102	0
Foreign currency effects	31	4	35
Utilization	-203	-13	-216
Reversal	0	-5	-5
Balance on December 31, 2010	868	75	943

The aging structure of the trade receivables as of December 31, 2010, is as follows:

	Total	Neither past due nor impaired	Past due but not impaired				
			< 30 days	30 - 60 days	60 - 90 days	90 - 120 days	> 120 days
	EUR thousands	EUR thousands	EUR thousands	EUR thousands	EUR thousands	EUR thousands	EUR thousands
2010	18,781	9,997	4,952	2,732	398	171	531
2009	17,012	8,325	3,922	3,013	878	579	295

Trade receivables are written off in full groupwide if they are incollectible. If not, (indirect) individual write-downs or portfolio-based write-downs are made. They are subject to percentage-based valuation allowances depending on their aging structure.

A net loss of EUR 427 thousand (previous year: net gain of EUR 132 thousand) was generated from trade receivables in 2010. This net loss consists of the following:

	Currency gains/losses	Valuation allowances	Other	Total
	EUR thousands	EUR thousands	EUR thousands	EUR thousands
2010	-63	-364	0	-427
2009	121	-73	85	132

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16. Cash and cash equivalents

Bank balances have variable interest rates for on-demand deposits. Current investments are made for different time periods ranging from one day to three months depending on the Group's given cash flow needs. These current investments have market interest rates for short-term investments.

As of December 31, 2010, EUR 1,721 thousand (previous year: EUR 889 thousand) in unused credit lines were available to the Group; all conditions applicable to drawdowns from them had already been fulfilled.

Please see the statement of cash flows for disclosures on changes in cash and cash equivalents and the reasons for the changes. Cash and cash equivalents comprise the following:

Development of cash and cash equivalents	2010	2009
	EUR thousands	EUR thousands
Overdraft	13,658	16,390
Restricted bank accounts	225	0
Time deposits	56	63
Cash-in-hand	15	12
	13,954	16,465

The cash and cash equivalents generated a net loss of EUR 109 thousand (previous year: EUR 12 thousand) in 2010. This net loss consists of the following:

	Currency gains/losses	Bank fees	Interest	Total
	EUR thousands	EUR thousands	EUR thousands	EUR thousands
2010	-1	-133	25	-109
2009	-1	-94	83	-12

17. Statement of cash flows

The statement of cash flows shows the changes in the Group's cash and cash equivalents from cash inflows and outflows during the financial year. IAS 7 (Statement of Cash Flows) requires distinguishing between cash flows from operating, investing and financing activities.

The amounts of cash that are analyzed in the statement of cash flows comprise all cash and cash equivalents reported in the statement of financial position — i.e. cash on hand, checks and bank balances — to the extent that these funds are freely available within three months. Changes in the Group's cash and cash equivalents from foreign exchange rates were EUR 1,124 thousand (previous year: EUR 572 thousand).

The cash flows from investing and financing activities are determined based on payments. In contrast, the cash flows from operating activities are derived from the consolidated net profit for the year using the indirect method. Under the indirect method, changes in items in the statement of financial position related to operating activities are adjusted for effects from both currency translation and changes in the basis of consolidation. Such changes in the relevant items of the statement of financial position thus cannot be reconciled to the corresponding figures based on the published consolidated financial statements.

The newly introduced accounting and consolidation software makes more information available on the analysis of the effects of exchange rate fluctuations. This information has been used to improve the disclosures on the effects of exchange rate fluctuations on cash and cash equivalents. On account of this improved pool of data, the consolidated statement of cash flows in the consolidated financial statements for the year ended December 31, 2010, is comparable to that for the previous year only to a limited extent. The comparative information in the statement of cash flows for the period from January 1 to December 31, 2009, was restated accordingly based on these new, more detailed data.

18. Issued capital and reserves

18.1. Subscribed capital

The company's subscribed capital as of December 31, 2010, was EUR 14,500,000.00. It is denominated in 14,500,000 no-par bearer shares. These shares have been fully issued and paid in. There are no preferences or restrictions attached to the shares. The company's share capital was EUR 14,500,000.00. The number of shares outstanding did not change during the reporting period.

For the development of equity we refer to the separate statement of changes in equity.

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18.2. Reserves

Capital reserves

Capital reserves are recognized in accordance with requirements of the law, especially the German Stock Corporation Act. Capital reserves comprise the premium received from capital increases after deducting the costs for the capital increase. Changes resulting from capital decreases are also shown under capital reserves.

Capital reserves as of December 31, 2010, amounted to EUR 8,871 thousand (previous year: EUR 8,794 thousand).

Retained earnings

Retained earnings totaling EUR 18,543 thousand (previous year: EUR 14,501 thousand) are comprised as follows:

Development of retained earnings	
	EUR thousands
Brought forward as of Dec. 31, 2009	14,501
Dividend paid	-1,450
Net profit for 2010	5,492
Balance of Dec. 31, 2010	18,543

Accumulated other comprehensive income

The accumulated other comprehensive income as of December 31, 2010, was EUR 3,936 thousand (previous year: EUR 3,568 thousand).

Provisions for cash flow hedges

Until the 2009 financial year, the effective portion of the gains or losses on hedging instruments used to hedge cash flows were recognized under the provisions for cash flow hedges. Once the hedging relationship ends, this amount is reclassified to the income statement over the hedged item's term to maturity (see note 12.4). As of December 31, 2010, the remaining unrealized loss from interest rate swaps (cash flow hedge) of EUR 53 thousand (previous year: EUR 141 thousand) reduced the other equity.

Provisions for currency translation differences

Provisions for currency translation differences serve to recognize differences from the translation of foreign subsidiaries' financial statements. They also serve to recognize the effects from hedges of a net investment in a foreign operation. The provisions for currency translation differences were EUR 508 thousand (previous year: EUR 4,355 thousand) as of December 31, 2010.

18.3. Authorized Capital

Authorized Capital 2008/I

The Management Board was authorized by resolution of the Annual General Meeting on July 01, 2008, subject to the approval of the Supervisory Board, to increase the company's share capital until June 30, 2013, once or repeatedly, by a total of up to EUR 7,400,000.00 by issuing up to 7,400,000 new no-par bearer shares in exchange for contributions in cash and/or in kind. The shareholders must be granted a subscription right. Such subscription right may also be granted to shareholders such that the new shares may be purchased by a bank or another company working in the field under Section 53 (1) sentence 1, Section 53b (1) sentence 1, or Section 53b (7) of the German Banking Act, with the proviso that the shares must be offered to the shareholders for subscription. The Management Board is authorized to exclude shareholders' subscription rights in full or in part with the consent of the Supervisory Board and to determine the rights accruing to the shares in the future and the conditions for issuing shares.

18.4. Contingent Capital

18.4.1. Contingent Capital 2009/I - Stock Option Plan

The Annual General Meeting resolved on June 12, 2009, to authorize the Management Board, with the approval of the Supervisory Board, to establish an Employee Stock Option Plan 2009 that grants options on shares in Advanced Inflight Alliance AG to members of the company's Management Board and to senior management of AIA AG's affiliates, in addition to creating (new) Contingent Capital 2009 I and executing the corresponding amendment of the Articles of Association, subject to the following requirements:

Creation of Contingent Capital 2009/I

The company's share capital shall be contingently increased by up to EUR 310,000 (in words: three hundred and ten thousand euros) by issuing up to 310,000 (in words: three hundred and ten thousand) new no-par bearer shares („Contingent Capital 2009/I“). Contingent Capital 2009/I shall serve to issue stock options on shares issued by Advanced Inflight Alliance AG pursuant to the authorization of its Annual General Meeting on June 12, 2009, under the Stock Option Plan 2009 between the date on which Contingent Capital 2009/I is recorded in the Commercial Register and June 11, 2014. This contingent capital increase shall be executed only insofar as stock options are issued and the holders of these options exercise their right to subscribe to shares of the company. Shares from Contingent Capital 2009/I shall be issued at the exercise price fixed in item b) number 5 of agenda item 8 of the Annual General Meeting on June 12, 2009. The new no-par shares issued by Advanced Inflight Alliance AG upon exercise of the stock options shall participate in profits from the start of the financial year in which they are issued.

Authorization to issue stock options on shares of Advanced Inflight Alliance AG

The Management Board was hereby authorized, with the approval of the Supervisory Board, to issue up to 310,000 (in words: three hundred and ten thousand) stock options on shares of Advanced Inflight Alliance AG until June 11, 2014, having terms of up to five years, in one or several tranches, in accordance with the Stock Option Plan 2009 (hereinafter: „SOP 2009“) and subject to the additional requirements set forth below, with the proviso that each stock option grants the right to purchase one share in Advanced Inflight Alliance AG. Only members of the Management Board of Advanced Inflight Alliance AG, as well as senior management of Advanced Inflight Alliance AG’s affiliates, shall be entitled to purchase these stock options. This authorization shall be limited to the Supervisory Board inasmuch as stock options are granted to members of the Management Board of Advanced Inflight Alliance AG. There shall be no subscription right on the part of the company’s shareholders.

18.4.2. Contingent Capital 2008/I - Stock Option Plan

The Annual General Meeting resolved on July 01, 2008, to authorize the Management Board, with the approval of the Supervisory Board, to establish an Employee Stock Option Plan 2008 that grants options on shares in Advanced Inflight Alliance AG to members of the company’s Management Board and to senior management of AIA AG’s affiliates, in addition to creating (new) Contingent Capital 2008/I and executing the corresponding amendment of the Articles of Association, subject to the following requirements:

Creation of Contingent Capital 2008/I

The company’s share capital shall be contingently increased by up to EUR 340,000 (in words: three hundred and forty thousand euros) by issuing up to 340,000 (in words: three hundred and forty thousand) new no-par bearer shares („Contingent Capital 2008/I“). Contingent Capital 2008/I shall serve to issue stock options on shares issued by Advanced Inflight Alliance AG pursuant to the authorization of its Annual General Meeting on July 01, 2008, under the Stock Option Plan 2008 between the date on which Contingent Capital 2008/I is recorded in the Commercial Register and June 30, 2013. This contingent capital increase shall be executed only insofar as stock options are issued and the holders of these options exercise their right to subscribe to shares of the company. Shares from Contingent Capital 2008/I shall be issued at the exercise price fixed in item b) number 5 of agenda item 6 of the Annual General Meeting on July 01, 2008. The new no-par shares issued by Advanced Inflight Alliance AG upon exercise of the stock options shall participate in profits from the start of the financial year in which they are issued.

Authorization to issue stock options on shares of Advanced Inflight Alliance AG

The Management Board was hereby authorized, with the approval of the Supervisory Board, to issue up to 340,000 (in words: three hundred and forty thousand) stock options on shares of Advanced Inflight Alliance AG until June 30, 2013, having terms of up to seven years, in one or several tranches, in accordance with the Stock Option Plan 2008 (hereinafter „SOP 2008“ and subject to the additional requirements set forth below, with the proviso that each stock option grants the right to purchase one share in Advanced Inflight Alliance AG. Only members of the Management Board of Advanced Inflight Alliance AG, as well as senior management of Advanced Inflight Alliance AG’s affiliates, shall be entitled to purchase these stock options. This authorization shall be limited to the Supervisory Board inasmuch as stock options are granted to members of the Management Board of Advanced Inflight Alliance AG. There shall be no subscription right on the part of the company’s shareholders.

18.4.3. Contingent Capital 2007/I - Stock Option Plan

Based on a resolution of the Annual General Meeting on July 02, 2007 - and of the Annual General Meeting on July 01, 2008 regarding a change of the performance targets (item 6) - the Management Board was authorized, with the approval of the Supervisory Board, to establish a Stock Option Plan 2007 that grants options on shares in Advanced Inflight Alliance AG to members of the company's Management Board and to senior management of AIA AG's affiliates, in addition to creating (new) Contingent Capital I and executing the corresponding amendment of the Articles of Association, subject to the following requirements:

Creation of Contingent Capital I

The company's share capital shall be contingently increased by up to EUR 800,000 (in words: eight hundred thousand euros) by issuing up to 800,000 (in words: eight hundred thousand) new no-par bearer shares („Contingent Capital I"). Contingent Capital II shall serve to issue stock options on shares issued by Advanced Inflight Alliance AG pursuant to the authorization of its Annual General Meeting on July 02, 2007, under the Stock Option Plan 2007 between the date on which Contingent Capital I is recorded in the Commercial Register and July 01, 2012. This contingent capital increase shall be executed only insofar as stock options are issued, the holders of these options exercise their right to subscribe to shares of the company, and the company does not grant treasury shares in fulfillment of these options. Shares from Contingent Capital I shall be issued at the exercise price fixed in item b) number 5 of agenda item 7 of the Annual General Meeting on July 02, 2007. The new no-par shares issued by Advanced Inflight Alliance AG upon exercise of the stock options shall participate in profits from the start of the financial year in which they are issued.

Authorization to issue stock options on shares of Advanced Inflight Alliance AG:

The Management Board was hereby authorized, with the approval of the Supervisory Board, to issue up to 800,000 (in words: eight hundred thousand) stock options on shares of Advanced Inflight Alliance AG until July 01, 2012, having terms of up to seven years, in one or several tranches, in accordance with the Stock Option Plan 2007 (hereinafter „SOP 2007" and subject to the additional requirements set forth below, with the proviso that each stock option grants the right to purchase one share in Advanced Inflight Alliance AG. Only members of the Management Board of Advanced Inflight Alliance AG, as well as senior management of Advanced Inflight Alliance AG's affiliates, shall be entitled to purchase these stock options. This authorization shall be limited to the Supervisory Board inasmuch as stock options are granted to members of the Management Board of Advanced Inflight Alliance AG. The stock options may also be purchased by a bank, subject to the obligation to transfer them, pursuant to the instructions of Advanced Inflight Alliance AG and in accordance with the provisions of item 2 below, to those optionees who alone are entitled to exercise them. There shall be no subscription right on the part of the company's shareholders.

18.5. Own shares

Authorization to purchase own shares

The company and its Management Board were authorized by resolution of the Annual General Meeting on June 7, 2010, to purchase own shares in accordance with the following provisions:

- a) In accordance with Section 71 (1) no. 8 German Stock Corporation Act, the company is authorized to repurchase — until June 6, 2015 — own shares representing up to a total of ten percent of the company's share capital. This authorization may be exercised, in whole or in part, once or repeatedly, and in connection with one or several purposes. This authorization may not be used by the company for the purpose of trading treasury shares.
- b) Such purchases of own shares may be made on the stock exchange or by means of a public purchase offer to all of the company's shareholders, subject to the principle of equal treatment under Section 53a German Stock Corporation Act.
 - (1) If the shares are purchased on the stock exchange, the price per share paid by the company (excluding ancillary purchase costs) may not be more than ten percent above or below the share's price on the stock exchange as determined in the opening auction of the trading day in XETRA trading on the Frankfurt Stock Exchange (or any successor system that has taken its place).
 - (2) If the shares are purchased by way of a public offer to all of the company's shareholders, the share price offered or the upper and lower end of the offer spread per share (excluding ancillary purchase costs) may not be more than ten percent above or below the mean closing price of the share in XETRA trading on the Frankfurt Stock Exchange (or any successor system that has taken its place) on the ten trading days prior to publication of the offer. If the shares are oversubscribed, acceptance shall be based on quotas. In this case, provisions may be made for preferred acceptance of small lots of up to 100 shares per shareholder. The provisions of the German Securities Acquisition and Takeover Act must be complied with, inasmuch as and to the extent that they apply.
- c) The Management Board is authorized to resell the company's treasury shares that are purchased under the foregoing authorization by offering them to the shareholders or on the stock exchange, subject to compliance with the principle of equal treatment under Section 53a German Stock Corporation Act.
- d) The Management Board is authorized, with the approval of the Supervisory Board, to use own shares that are purchased under the foregoing authorization for the purpose of

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- (1) offering them to third parties as consideration in connection with business combinations; the acquisition of companies, equity interests in companies or business units; as well as the acquisition of receivables against the company;
 - (2) to sell them to third parties in return for contributions in cash. The price at which the company's treasury shares are sold to third parties may not be substantially lower than the stock market price of the shares on the date of sale. The exclusion of shareholders' subscription right under other authorizations pursuant to Section 186 (3) sentence 4 German Stock Corporation Act shall be taken into account when using the present authorization;
 - (3) to retire them such that neither the retirement nor its implementation require another resolution of the Annual General Meeting. The retirement may be limited to a portion of the treasury shares purchased. This retirement authorization may be utilized repeatedly. The retirement will reduce the share capital. In a deviation herefrom, the Management Board may determine, subject to the approval of the Supervisory Board, that such retirement of treasury shares shall not affect the share capital but instead shall raise the interest of all other shares in the share capital in accordance with Section 8 (3) German Stock Corporation Act. The Management Board is authorized in such cases to adjust the number of shares set forth in the Articles of Association.
- e) The foregoing authorizations may be utilized once or repeatedly, individually or in conjunction with each other, and in regards to all or portions of the own shares purchased. Shareholders' subscription right to such own shares purchased shall be excluded insofar as these shares are used in accordance with the authorization set forth above in items d) (1) and (2). The Management Board will inform the Annual General Meeting in each case of the reasons for and the purpose of the purchase of own shares, the number of shares purchased and their proportion of the share capital as well as the amount paid for the shares.
- f) The extant authorization that the Annual General Meeting granted to the company on June 12, 2009, until December 11, 2010, to purchase or use own shares is voided from the date on which the new authorization takes effect, to the extent that it has not yet been utilized.

19. Dividends paid and proposed

AIA AG paid a dividend for the 2009 financial year in 2010. The dividend of EUR 0.10 per share for an absolute distribution of EUR 1,450 thousand was resolved and paid during the financial year. The Management Board will propose to the Supervisory Board and the Annual General Meeting to pay a dividend of EUR 0.12 for the 2010 financial year. Based on the current portfolio of 14,500,000 shares, this corresponds to a total dividend payment of EUR 1,740 thousand (the dividend was not recognized as a liability as of December 31, 2010).

20. Share-based payment

Expenses recognized for services received during the financial year solely comprise EUR 77 thousand (previous year: EUR 117 thousand) in expenses from equity-settled share-based payment transactions.

The share-based payment arrangements are disclosed below.

Stock option plan for executives

On May 15, 2008, 400,000 stock options were granted to Management Board members and the managing directors of subsidiaries as well as its present or future affiliates, pursuant to the Stock Option Plan 2007. The options' exercise price of EUR 2.03 corresponded to the average of the opening and closing prices of the shares of Advanced Inflight Alliance AG in XETRA trading on the last five trading days before the relevant stock option was issued.

The stock options may be exercised only if the average of the opening and closing prices of the shares of AIA AG in XETRA trading (or a successor system that has taken its place) on the last five trading days prior to the onset of the given exercise period have risen by at least 20 percent over the exercise price for the first third (option terms and conditions, item 5.1 sentence 2) of the options granted in a tranche, by at least 30 percent over the exercise price for the second third (option terms and conditions, item 5.1 sentence 3) of the options granted in a tranche, and by at least 40 percent over the exercise price for the final third (option terms and conditions, item 5.1 sentence 4) of the options granted in a tranche.

On May 8, 2009, a further 400,000 stock options were granted to the members of the Management Board and to managing directors of subsidiaries under this stock option plan. The options' exercise price of EUR 2.32 corresponded to the average of the opening and closing prices of the shares of Advanced Inflight Alliance AG in XETRA trading on the last five trading days before the relevant stock option was issued. All other terms and conditions of the option plan remained unchanged.

When the Management Board members Mr. Peter Biewald and Mr. Otto Dauer left the Management Board on February 2, 2010 and March 3, 2010 respectively, the 200,000 stock options granted to the two Management Board members lapsed. The total equivalent value for these stock options of EUR 74 thousand reported under staff costs until the stock options lapsed was adjusted through profit or loss as of December 31, 2010. As of this date, staff costs of EUR 77 thousand were recognized for the stock options granted to the managing directors of subsidiaries.

Hence a total of 600,000 stock options (previous year: 800,000) were outstanding as of December 31, 2010.

No stock options outstanding were exercisable as of December 31, 2010, and December 31, 2009, because they were still subject to the stipulated holding period.

The stock options granted under Stock Option Plan 2007 may be exercised only if the average of the opening and closing prices of the shares of Advanced Inflight Alliance AG in XETRA trading (or a successor system that has taken its place) on the last five trading days prior to the onset of the given exercise period have risen by at least 20% p.a. over the exercise price for the first third (option terms and conditions, item 5.1 sentence 2) of the options granted in a tranche, by at least 30% p.a. over the exercise price for the second third (option terms and conditions, item 5.1 sentence 3) of the options granted in a tranche, and by at least 40% p.a. over the exercise price for the final third (option terms and conditions, item 5.1 sentence 4) of the options granted in a tranche.

The fair value of the stock options was estimated at the time they were granted using a binomial model and taking the conditions at which the options were granted into account.

The term of the options granted is governed by item 5.4 of the option terms and conditions. The term of a stock option shall begin on the date it is granted and end upon expiration of five years for the first third of the options granted in a tranche, upon expiration of six years for the second third of the options granted in a tranche, and upon expiration of seven years for the final third of the options granted in a tranche. There shall be no cash settlements. The Group has not executed any share-based payments entailing cash settlements in the past.

The following table contains the assumptions underlying the measurement of the plan for the 2010 and 2009 financial years:

Measurement parameters, stock options	Tranche 2009	Tranche 2008
Dividend yield	3.22 %	0.00 %
Expected volatility	60 %	64 %
Risk-free interest rate	1.230 %	4.021 %
Anticipated life of the option (year)	5.00	5.00
Weighted average share price (EUR)	2.370	2.030
Model applied		
for the distribution of share prices	Monte Carlo	Monte Carlo
for determining the option value	Binominal	Binominal

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The anticipated maturity of the stock options is based on historical data and does not necessarily correspond to the optionees' actual exercise behavior. The expected volatility is based on the assumption that future trends may be derived from the historical volatility over a period similar to that of the stock options; however, the actual volatility may deviate from the assumptions made.

The present stock option plan is an equity-settled plan such that the fair value is determined at the grant date.

21. Provisions

Provisions as of the reporting date were EUR 348 thousand (previous year: EUR 374 thousand). They developed as follows in the 2010 financial year:

	Provisions					
	Contingent losses	Dismantling obligation	Annual General Meeting	Annual report	Other	Total
	EUR thousands	EUR thousands	EUR thousands	EUR thousands	EUR thousands	EUR thousands
Balance on January 1, 2010	25	139	80	30	100	374
Addition	30	14	80	30	48	202
Utilization	-25	0	-80	-20	0	-125
Reversal	0	0	0	-10	-100	-110
Interest cost added back	0	0	0	0	0	0
Foreign currency effect	0	6	0	0	1	7
Balance on December 31, 2010	30	159	80	30	49	348
Of which in 2010						
Current	0	0	80	30	49	159
Non-Current	30	159	0	0	0	189
	30	159	80	30	49	348
Balance on January 1, 2009	0	0	100	20	0	120
Addition	25	139	80	30	100	374
Utilization	0	0	-82	-20	0	-102
Reversal	0	0	-18	0	0	-18
Interest cost added back	0	0	0	0	0	0
Balance on December 31, 2009	25	139	80	30	100	374
Of which in 2009						
Current	25	139	80	30	100	374
Non-current	0	0	0	0	0	0
	25	139	80	30	100	374

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The provisions are based on costs incurred in the past and will be used up during 2011.

Contingent losses

This concerns a provision for unoccupied rental property which will be used up over the remaining term of the lease (August 2014).

Dismantling obligation

One Group company is obligated to reconstruct a building at the end of the lease's term (March 2016). The amount is based on the estimate of the costs involved.

Other provisions

As of December 31, 2010, this item essentially comprises provisions for litigation costs.

22. Trade payables and other liabilities (current)

Liabilities	2010	2009
	EUR thousands	EUR thousands
Trade payables	25,121	24,265
Other liabilities	7,939	9,890
	33,060	34,155

Terms of the current liabilities enumerated above:

- ▶ Trade payables do not bear interest and usually have a term of up to 90 days.
- ▶ Other liabilities do not bear interest and have terms of six months on average. Interest is generally paid on a quarterly basis.
- ▶ Please see note 23 regarding the terms of liabilities to related parties.

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Net loss from trade payables

A net loss of EUR 236 thousand (previous year: EUR 70 thousand) was generated from trade payables in 2010. This net loss consists of the following:

	Exchange rate losses	Other	Total
	EUR thousands	EUR thousands	EUR thousands
2010	-236	0	-236
2009	-70	0	-70

Other liabilities

The other liabilities are due within less than one year. They comprise the following items:

Other current liabilities	2010	2009
	EUR thousands	EUR thousands
Prepayments received	3,599	1,454
Vacation pay and other staff costs	2,547	2,319
Costs for preparing the annual financial statements	486	430
Wage tax	324	378
Liabilities related to social security	173	183
Value-added tax	153	89
Liabilities related to wages and salaries	17	868
Earn-out payments	0	3,573
Other	640	596
	7,939	9,890

Financial liabilities

The AIA Group had the following current financial liabilities as of December 31, 2010:

Current financial liabilities	2010	2009
	EUR thousands	EUR thousands
Use of loans	3,227	2,104
Bank overdrafts	710	542
Other	0	4
	3,937	2,650

Current financial liabilities are due within one year.

IFP and DTI made the drawdowns from credit lines. The funds were used to finance property, plant and equipment for the purpose of offering technical services.

23. Related party disclosures

The following related party transactions were entered into in the reporting period:

The Group company Atlas Air Film + Media Service GmbH, Duisburg, purchased graphic design and advertising services from Logoseal GmbH, Duisburg, during the period under review for EUR 50 thousand (previous year: EUR 43 thousand). The owner of Logoseal GmbH is related to the managing director of Atlas Air Film + Media Service GmbH. As of December 31, 2010, there were no open positions vis-à-vis Logoseal GmbH - just as in the previous year.

During the reporting period, the Group company Inflight Productions Inc., Los Angeles, USA, occasionally rented an apartment from 13029 Mindanao #5 Inc., Los Angeles, USA, ("13029 Mindanao") to accommodate employees and customers, for which it paid rent equivalent to EUR 23 thousand (previous year: EUR 21 thousand). The owners of 13029 Mindanao are three managing directors of Inflight Productions Limited, London, United Kingdom. As of December 31, 2010, there were unpaid rent liabilities to 13029 Mindanao #5 Inc. equivalent to EUR 1 thousand (previous year: EUR 0 thousand).

In the reporting period, the Group company Fairdeal Multimedia rented office space belonging to the company's managing director, for which it paid rent equivalent to EUR 25 thousand (previous year: EUR 19 thousand). As of December 31, 2010, there were no unpaid rent liabilities - just as in the previous year.

In the reporting period, the Group company Fairdeal Studios rented office space belonging to the company's managing director, for which it paid rent equivalent to EUR 11 thousand. As of December 31, 2010, there were unpaid rent liabilities equivalent to EUR 2 thousand.

AIA AG entered into an agreement with Auctus Capital Partners AG, Munich, on the provision of consulting services related to potential acquisitions. Thereunder, Auctus Capital Partners shall be paid a success fee of 1% of any transaction value. Auctus Capital Partners Auctus is related to Auctus sechszwanzigste Beteiligungs GmbH, which as of December 31, 2010, was the company's single largest shareholder. There was no claim to the stipulated success fee during the reporting period.

Compensation of the Group's key management personnel

Please see item 27.4 and 27.5, „Further disclosures,“ for detailed disclosures on the compensation of the Group's key management personnel.

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24. Contingent liabilities and other financial obligations

The following other financial obligations existed as of December 31, 2010:

Other obligations	Due within one year	Due within one to five years	Due after more than five years
	EUR thousands	EUR thousands	EUR thousands
Medium-term purchasing contracts	10,729	22,656	0
Rent	1,735	4,571	177
Leasing	114	169	0
	12,578	27,396	177

The lease agreements concern the lease of office equipment and vehicles. These leases constitute operating leases because the economic risk thereunder was not transferred to the Group, with the result that the relevant items are not recognized as assets and liabilities of the Group but rather as current lease expenses.

There are also medium-term purchasing contracts in place with film studios, from which payment obligations of approximately EUR 33,385 thousand (previous year: EUR 9,040 thousand) result within the next years.

25. Objectives and methods of financial risk management

Financial risk management aims to enable the AIA Group to detect all substantial risks to which it might be exposed early on so that it can initiate suitable countermeasures.

The potential risks incurred by the AIA Group in connection with financial instruments include currency risks resulting from activities in different currency regions, default risks involving non-fulfillment of contractual obligations by contracting partners, interest rate risks, where fluctuations in the market interest rate lead to a change in the fair value of a financial instrument, interest-related cash flow risks, which lead to a change in the future cash flow of a financial instrument because of changes in market interest rates, and liquidity risks.

With the exception of derivative financial instruments, the main financial liabilities of the AIA Group comprise interest-bearing loans, trade payables and other liabilities. These financial liabilities are used primarily to fund the AIA Group's operating business. The AIA Group has trade and other receivables, as well as cash and current investments, that arise directly from its operating business. It also enters into derivative financial transactions. The Group is exposed to market, interest rate, credit and liquidity risks. Derivative financial instruments are used solely to minimize the AIA Group's risks. Any such transactions on the part of subsidiaries of Advanced Inflight Alliance AG must first be coordinated with and approved by the finance department of Advanced Inflight Alliance AG in accordance with groupwide guidelines on transactions requiring approval.

25.1. Market risks

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. It comprises three types of risk — foreign currency risks, interest rate risks as well as other price risks such as share price risks. Financial instruments exposed to market risk comprise interest-bearing loans, deposits, available-for-sale financial assets and derivative financial instruments, among other things.

Each of the sensitivity analyses discussed in the following sections concerns the status as of December 31, 2010, or December 31, 2009.

The sensitivity analyses were prepared based on both the existing hedges as of December 31, 2010, and the assumption that net liabilities, the ratio of fixed to variable interest rates on liabilities and derivatives as well as the share of financial instruments in foreign currencies remain constant. Effects of changes in market variables on the carrying amounts of the provisions, as well as the non-financial assets and liabilities of foreign operations, are not considered in the analyses.

The sensitivity analyses were made on the basis of the following assumptions:

- ▶ The sensitivity of the statement of financial position concerns derivatives, assets and debt instruments.
- ▶ The sensitivity of the given item in the income statement reflects the effect of the assumed changes in the respective market risks based on the financial assets and financial liabilities (including the effect of the hedges) held as of December 31, 2010, and December 31, 2009.
- ▶ The sensitivity of the equity is calculated by remeasuring the fixed-income financial assets held for sale (including the effect of any related hedges) and swaps designated as cash flow hedges, as of December 31, 2010, allowing for assumed changes in interest rates. The sensitivity of the equity is determined in the light of the remaining maturity of the asset or the swaps. It is based on the assumption that shifts in the interest rate curve run parallel while the analysis shows the sensitivity in connection with non-parallel changes, allowing for residual maturities.

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25.2. Interest rate risks

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The risk of fluctuations in market interest rates to which the AIA Group is exposed stems largely from the non-current loan subject to variable interest rates.

The AIA Group has entered into interest rate swaps to minimize its interest rate risk. Thereunder, the AIA Group swaps the difference between amounts subject to fixed interest rates and variable interest rates with its counterparty at fixed intervals; the difference is determined by reference to a nominal amount stipulated ahead of time. These interest rate swaps serve to hedge the underlying obligation. As of December 31, 2010, allowing for interest rate swaps about 95 percent (previous year: 70 percent) of the AIA Group's borrowings were at fixed interest rates.

Calculation of interest rate sensitivity

As of the reporting date, the AIA Group was exposed to interest rate risks because EUR 4 thousand (previous year: EUR 1,179 thousand) in non-current financial liabilities are subject to variable interest rates. The following table shows the sensitivity of consolidated earnings before taxes (because of the changes in the fair values of the non-current financial liabilities) relative to a change in the six-month Euribor by 100 basis points, all other variables remaining constant. The effect on equity corresponds to the effect on the earnings before taxes.

	Change in the 6-month-Euribors	Effects on earnings before taxes
EUR thousands		
2010	+1 %	0
	-1 %	0
2009	+1 %	12
	-1 %	-12

25.3. Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The AIA Group is always exposed to foreign currency risks, especially on account of both its operating activities — if sales revenue and/or expenses are in a currency other than the functional currency of the AIA Group — and net investments in foreign subsidiaries.

Most of the Group's operating business is settled in US dollars, with the balance being settled in euros, Canadian dollars or British pounds. Most other expenses are also incurred in US dollars, as well as in euros, Canadian dollars and British pounds. In sum, there is a slight US dollar surplus for structural reasons, which must be changed into euros, Canadian dollars and British pounds over the course of the year. The resulting latent currency risk is hedged whenever possible and appropriate using derivative hedging instruments.

Calculation of the sensitivity of changes in foreign exchange rates

The following table shows the sensitivity of consolidated earnings before taxes (because of the changes in the fair values of the financial assets and liabilities) relative to a change in the US dollar exchange rate deemed possible based on reasonable assumptions, all other variables remaining constant.

	Exchange rate development of USD	Effects on earnings before taxes
		EUR thousands
2010	+10 %	32
	-10 %	-32
2009	+10 %	1.282
	-10 %	-1.282

The change in earnings stems from a change in the fair value of financial assets and financial liabilities denominated in US dollars, to the extent that the US dollar is not the company's functional currency.

This has no effect on equity because no borrowings in foreign currencies were obtained to hedge net investments in foreign subsidiaries.

In contrast, foreign currency risks that do not affect the AIA Group's cash flows or income statement — i.e. risks arising from translation of foreign subsidiaries' assets and liabilities into the Group currency at consolidation — are not hedged.

The AIA Group's risk from changes in the foreign exchange rates of all other currencies is negligible.

25.4. Credit risk

Credit risk is the risk that a business partner does not fulfill its obligations under a financial instrument or a basic customer agreement, resulting in a loss. Given the nature of its operating business, the AIA Group is exposed to default risks, risks from financing activities (including risks from deposits with banks and financial institutions) as well as risks from foreign exchange transactions and other financial instruments.

The Group is exposed to default risks only in connection with trade receivables. Sufficient allowances have been recognized to make provisions for the estimated default risk. Receivables are not insured, given the generally good credit ratings of the Group's customers. The maximum default risk is always equivalent to the nominal amount of the receivables less loss allowances. Allowances on assets related to trade receivables amounting to EUR 364 thousand (previous year: EUR 122 thousand) had to be recognized in the reporting year. However, the trade receivables do not contain substantial concentrations of individual customers. The other financial liabilities are not exposed to any default risks.

25.5. Liquidity risk

The AIA Group is faced with liquidity risks if its existing liquidity or corresponding credit lines do not cover its payment obligations. The AIA Group aims to maintain a balance between covering its funding needs on an ongoing basis and ensuring its flexibility by recourse to bank overdraft credit lines and bank loans. It continuously monitors the risk of a potential liquidity bottleneck using an internal liquidity overview.

The financial liabilities of the AIA Group have the following maturities, as shown below. These disclosures are made based on the payments reported in the statement of financial position.

Financial year ended on December 31, 2010	daily	up to 3 months	3 to 12 months	1 to 5 Years	more than 5 Years	Total
	EUR thousands	EUR thousands	EUR thousands	EUR thousands	EUR thousands	EUR thousands
Interest-bearing loans	710	0	3,231	2,311	0	6,252
Trade payables and other payables	0	25,121	7,939	0	0	33,060
Financial derivatives	0	0	0	115	0	115
	710	25,121	11,170	2,426	0	39,427

Financial year ended on December 31, 2009	daily	up to 3 months	3 to 12 months	1 to 5 Years	more than 5 Years	Total
	EUR thousands	EUR thousands	EUR thousands	EUR thousands	EUR thousands	EUR thousands
Interest-bearing loans	543	2	2,104	6,441	0	9,090
Trade payables and other payables	0	24,265	6,317	11	0	30,593
Earn-out payments	0	3,573	0	0		3,573
Financial derivatives	0	0	105	105	0	210
	543	27,840	8,526	6,557	0	43,466

25.6. Capital management disclosures

Equity consists of the subscribed capital and provisions. The AIA Group's capital management aims, first and foremost, to maintain a high credit rating and a good equity ratio to support its operating business and maximize shareholder value.

The Group manages its capital structure and makes adjustments, allowing for changes in economic conditions. To maintain or adjust its capital structure, the AIA Group may adjust dividend payments to its shareholders, repurchase and retire treasury shares, make repayments of capital to its shareholders or issue new shares.

There were no changes in the objectives, guidelines and procedures as of December 31, 2010, and December 31, 2009. The AIA Group monitors its capital using, among other things, its gearing ratio (which corresponds to the ratio of net financial liabilities to the sum of equity and net financial liabilities) and its equity ratio (which indicates the ratio of equity to total assets). The equity ratio as of December 31, 2010, was 47.0 percent (previous year: 39.4 percent).

The loan agreement with HypoVereinsbank AG, Munich, contains two covenants; the AIA Group monitors compliance with them on an annual basis. For one, the free cash flow is considered relative to interest expense and regular loan payments. For another, adjusted EBIT (earnings before interest and taxes) are compared to gross revenue for the period.

Both of these key performance indicators are monitored as part of the monthly reporting. There was no risk of non-fulfillment of the covenants in the 2010 financial year.

26. Events after the reporting period

On January 27, 2011, the company reached a settlement in court with its former Chief Executive Officer, Mr. Otto Dauer. The Supervisory Board had dismissed Mr. Otto Dauer for cause on March 3, 2010; it had also terminated his director's contract, which ran until May 2014, for cause. In addition, the company withheld payment of his claims to contractual bonuses for 2009 and 2010. Mr. Otto Dauer had challenged the validity of his termination for cause and sued for payment of his claims to a full bonus for 2009 and a pro rated one for 2010. Mr. Otto Dauer was paid total compensation of EUR 789 thousand in the 2009 financial year. The parties reached a settlement in court, agreeing that Mr. Otto Dauer's director's contract was terminated effective March 31, 2010, and that he would be paid EUR 700 thousand; of this amount, EUR 450 thousand were paid as bonus payments outstanding for 2009 and 2010, and EUR 250 thousand were paid as severance pay. Absolutely all of Mr. Otto Dauer's claims under his director's contract have thus been satisfied. Taking into account the provisions that were recognized in the 2009 annual financial statements as well as during the 2010 financial year for the 2009 and 2010 bonuses that had been withheld, the company incurred a one-time charge of about EUR 250 thousand under the termination agreement, which impacts earnings for the 2010 financial year.

AIA AG had obtained an acquisition loan from HypoVereinsbank AG in the 2008 financial year to finance its acquisition of DTI. Besides a planned loan payment of EUR 1,000 thousand every six months, the loan agreement also provides for a mandatory special loan payment if the company generates excess cash flow. This provision applied as of December 31, 2010, based company's figures, and triggers a mandatory special loan payment of EUR 1,000 thousand, which is due and payable to HypoVereinsbank AG within 10 days of the date on which the company's annual financial statements for 2010 are adopted.

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27. Other disclosures

27.1. Employees

On average, 482 people were employed by the AIA Group in 2010 (previous year: 419). The employees are distributed as follows among the individual group companies:

Unternehmen, Sitz	2010	2009
AG	11	9
Atlas Air Film + Media Service GmbH	37	36
Atlas Air Entertainment Concepts, Inc.	34	31
DTI Group	166	121
IFP Group	210	206
Fairdeal	24	16
Total	482	419

No trainees were employed in 2010.

27.2. Exemption under Section 264 (3) German Commercial Code

At the shareholders' meetings of Atlas Air Film + Media Service GmbH, Duisburg, and IFE Alliance Licensing GmbH, Duisburg, on December 7, 2010, as well as that of Advanced Film GmbH, Munich, on December 13, 2010, AIA AG consented to the exemptions claimed by these three companies under Section 264 (3) German Commercial Code for the 2010 financial year.

27.3. Auditing fees

Auditing fees payable to Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft by the entire AIA Group in the 2010 financial year comprised EUR 191 thousand (previous year: EUR 210 thousand) for the audits of the financial statements; EUR 81 thousand (previous year: EUR 14 thousand) for tax consulting services; EUR 52 thousand (previous year: EUR 59 thousand) for other assessment and confirmation services; as well as EUR 16 thousand (previous year: EUR 213 thousand) for miscellaneous consulting services.

27.4. Member of the Management Board

The following persons served on the Management Board in the 2010 financial year::

Dr. Rüdiger Berndt, Munich

Chairman of the Management Board/Chief Executive Officer (CEO) from March 3, 2010

Wolfgang Brand, Munich

Chief Financial Officer (CFO) from March 3, 2010

Louis Bélanger-Martin, Montreal, Canada

Chief Operating Officer (COO) from October 28, 2010

Otto Dauer, Munich

Chairman of the Management Board/Chief Executive Officer (CEO) until March 3, 2010

Peter Biewald, Munich

Chief Financial Officer/CFO until February 2, 2010

Disclosures on the compensation paid to the Management Board

Total compensation paid to the Management Board in 2010 was EUR 1,801 thousand (previous year: EUR 1,322 thousand), comprising fixed compensation of EUR 633 thousand (previous year: EUR 486 thousand) and variable compensation (bonus) of EUR 553 thousand (previous year: EUR 548 thousand). The bonus payments include EUR 364 thousand that are of a long-term nature. Add to that other compensation for pension, direct, disability and accident insurance totaling EUR 162 thousand (previous year: EUR 224 thousand) and noncash benefits for health insurance and the use of company cars totaling EUR 53 thousand (previous year: EUR 35 thousand).

In addition, the company purchased D&O insurance for a policy amount of EUR 7,500 thousand, which covers the members of the Management Board and the Supervisory Board, among others. Pursuant to the provisions of the German Law on the Adequacy of the Management Board's Compensation, the deductible applicable to each member of the Management Board is ten percent of the loss per insured event but no more than one and one and half times the annual compensation of a Management Board member within an insurance period. The insurance premium for the 2010 financial year borne by the company was EUR 13 thousand (previous year: EUR 14 thousand).

The Supervisory Board dismissed the company's former Chief Executive Officer, Mr. Otto Dauer, for cause on March 3, 2010; it also terminated his director's contract that ran until May 2014 for cause. In addition, the company did not pay his claims to bonuses for 2009 and 2010. Mr. Otto Dauer challenged the validity of his termination for cause and sued for payment of his claims to a full bonus for 2009 and a pro rated one for 2010. The parties reached a settlement in court on January 27, 2011, agreeing that Mr. Otto Dauer's director's contract was terminated effective March 31, 2010, and that he would be paid EUR 700 thousand;

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of this amount, EUR 450 thousand were paid as bonus payments outstanding for 2009 and 2010, and EUR 250 thousand are paid as severance pay. As a result, from January 1, to March 31, 2010, Mr. Otto Dauer was paid total compensation of EUR 353 thousand, comprising fixed compensation of EUR 50 thousand, variable compensation of EUR 25 thousand as well as severance pay of EUR 250 thousand. He was also paid other compensation of EUR 25 thousand for direct, retirement, disability and accident insurance, as well as non-cash benefits of EUR 3 thousand for health insurance and the use of his company car.

The Supervisory Board appointed Dr. Rüdiger Berndt the company's Chief Executive Officer effective March 3, 2010. From March 3, 2010, to December 31, 2010, Dr. Berndt was paid total compensation of EUR 774 thousand, comprising fixed compensation of EUR 298 thousand and variable compensation of EUR 353 thousand. He was also paid other compensation of EUR 110 thousand for direct, retirement, disability and accident insurance, as well as non-cash benefits of EUR 13 thousand for health insurance and the use of his company car.

The former CFO, Mr. Peter Biewald, resigned effective February 2, 2010. From January 1, 2010, to February 2, 2010, Mr. Biewald was paid total compensation of EUR 207 thousand, comprising fixed compensation of EUR 21 thousand, variable compensation of EUR 0 thousand and severance pay of EUR 150 thousand. He was also paid other compensation of EUR 17 thousand for direct, retirement, disability and accident insurance, and non-cash benefits of EUR 19 thousand for health insurance and the use of his company car.

The Supervisory Board appointed Mr. Wolfgang Brand the company's Chief Financial Officer effective March 3, 2010. From March 3, 2010, to December 31, 2010, Mr. Brand was paid total compensation of EUR 387 thousand, comprising fixed compensation of EUR 199 thousand and variable compensation of EUR 162 thousand. He was also paid other compensation of EUR 7 thousand for direct, retirement, disability and accident insurance, as well as non-cash benefits of EUR 19 thousand for health insurance and the use of his company car.

The Supervisory Board appointed Mr. Louis Bélanger-Martin to the company's Management Board effective October 28, 2010. From October 28, 2010, to December 31, 2010, Mr. Bélanger-Martin was paid total compensation consisting of EUR 13 thousand in variable compensation for his activities as a member of the company's Management Board. Mr. Louis Bélanger-Martin was also paid fixed compensation of EUR 65 thousand, other compensation of EUR 1 thousand for direct, retirement, disability and accident insurance, as well as non-cash benefits of EUR 1 thousand for health insurance and the use of his company car for the period during which he was a member of the Management Board of AIA AG.

In the event of early dismissal from their positions on the company's Management Board, the Management Board members, Dr. Rüdiger Berndt and Mr. Wolfgang Brand, shall be entitled to severance pay equivalent to the balance of their respective gross salaries until the expiration of their applicable director's contracts (fixed compensation plus variable compensation based on the average of their variable compensation for the most recent three financial years prior to the expiration of the respective contract, plus the cost of private health and long-term care insurance, the cost of leasing the company car and the cost of the premiums for direct insurance) but no more than severance pay equivalent to two annual gross salaries (fixed compensation plus variable compensation based on the preceding financial year and, possibly, the likely compensation for the current financial year plus the cost of private health and long-term care insurance, the cost of leasing the company car and the cost of the premiums for their direct insurance).

27.5. The Supervisory Board

Members of the Supervisory Board in the 2010 financial year:

Dr. Andreas Beyer, Munich

(Holder of a degree in business studies, member of the Management Board of VEM Aktienbank AG)

Member of the Supervisory Board (until April 12, 2010)

Vice Chairman of the Supervisory Board (from April 12, 2010 to June 7, 2010)

Chairman of the Supervisory Board (from June 10, 2010)

Further Supervisory Board positions:

Fonterelli GmbH & Co. KGaA, Munich: Chairman of the Supervisory Board

Janosch Film & Medien AG, Berlin: Chairman of the Supervisory Board

Fimatrix AG, Munich: Member of the Supervisory Board

LeaseTrend AG, Oberhaching: Member of the Supervisory Board

Softship AG, Hamburg: Member of the Supervisory Board

Stern Immobilien AG, Grünwald: Member of the Supervisory Board

Arne Christes, Hamburg

(German public auditor and tax consultant)

Vice Chairman of the Supervisory Board (from June 7, 2010)

Further Supervisory Board position:

Flemming Dental AG, Hamburg: Member of the Supervisory Board

Jörgen Chidekel, Zug, Switzerland

(Managing Director)

Member of the Supervisory Board (from June 7, 2010)

Dr. Rüdiger Berndt, Munich

(Lawyer)

Chairman of the Supervisory Board (until March 3, 2010)

Rudolf Seidl, Munich

(Graduate economist, German public auditor)

Vice Chairman of the Supervisory Board (until April 12, 2010)

Chairman of the Supervisory Board (from April 12, 2010 to June 7, 2010)

Dr. Dieter Lehner, Munich

(Lawyer specializing in commercial law)

Member of the Supervisory Board (from April 8, 2010 to June 7, 2010)

Disclosures on the compensation paid to the Supervisory Board

In 2010, a total of EUR 260 thousand (previous year: EUR 230 thousand) was paid to the Supervisory Board, specifically, fixed compensation of EUR 64 thousand (previous year: EUR 68 thousand), variable compensation of EUR 128 thousand (previous year: EUR 135 thousand) and attendance fees of EUR 68 thousand (previous year: EUR 27 thousand).

Dr. Rüdiger Berndt served as the Chairman of the company's Supervisory Board from January 1, 2010, to March 3, 2010. During this time, Dr. Berndt was paid total compensation of EUR 29 thousand for his activities on the Supervisory Board, comprising fixed compensation of EUR 5 thousand, variable compensation of EUR 10 thousand and attendance fees of EUR 14 thousand.

Dr. Andreas Beyer was a member of the Supervisory Board from January 1, 2010, to April 12, 2010; the Vice Chairman of the Supervisory Board from April 12, 2010, to June 7, 2010; a member of the Supervisory Board from June 7, 2010, to June 10, 2010; and Chairman of the Supervisory Board from June 10, 2010, to December 31, 2010. During this time, Dr. Andreas Beyer was paid total compensation of EUR 95 thousand for his activities on the Supervisory Board, comprising fixed compensation of EUR 24 thousand, variable compensation of EUR 49 thousand and attendance fees of EUR 22 thousand. Dr. Andreas Beyer is a member of the Management Board of VEM Aktienbank AG. The company commissioned VEM Aktienbank AG, Munich, years ago to serve as its designated sponsor on Xetra and organize all relevant trading activities. In addition, VEM Aktienbank also acts as the company's paying agent. Its total net compensation in the 2010 financial year was EUR 28 thousand. Dr. Andreas Beyer has no equity interest in VEM Aktienbank AG, and the bank's compliance department is informed of his appointment to the company's Supervisory Board. The respective agreements were submitted to the Chairman or Vice Chairman of the Supervisory Board of Advanced Inflight Alliance AG in early 2010 for purposes of information. This is market-rate compensation.

Mr. Jürgen Chidekel served on the Supervisory Board from June 7, 2010, to December 31, 2010. During this time, Mr. Chidekel was paid total compensation of EUR 32 thousand for his activities on the Supervisory Board, comprising fixed compensation of EUR 9 thousand, variable compensation of EUR 17 thousand and attendance fees of EUR 6 thousand.

Mr. Arne Christes was a member of the Supervisory Board from June 7, 2010, to June 10, 2010; and Vice Chairman of the company's Supervisory Board from June 10, 2010, to December 31, 2010. During this time, Mr. Christes was paid total compensation of EUR 47 thousand for his activities on the Supervisory Board, comprising fixed compensation of EUR 13 thousand, variable compensation of EUR 25 thousand and attendance fees of EUR 9 thousand.

Dr. Dieter Lehner served on the company's Supervisory Board from April 8, 2010, to June 7, 2010. During this time, Dr. Lehner was paid total compensation of EUR 9 thousand for his activities on the Supervisory Board, comprising fixed compensation of EUR 2 thousand, variable compensation of EUR 5 thousand and attendance fees of EUR 2 thousand.

Mr. Rudolf Seidl served as Vice Chairman of the Supervisory Board from January 1, 2010, to April 12, 2010; and as Chairman of the company's Supervisory Board from April 12, 2010, to June 7, 2010. During this time, Mr. Seidl was paid total compensation of EUR 47 thousand for his activities on the Supervisory Board, comprising fixed compensation of EUR 11 thousand, variable compensation of EUR 22 thousand and attendance fees of EUR 15 thousand.

In addition, the company purchased D&O insurance for a policy amount of EUR 7,500 thousand, which also covers the members of the Supervisory Board. The insurance premium for the 2010 financial year borne by the company was EUR 13 thousand (previous year: EUR 14 thousand).

27.6. Shareholdings of the Management Board and the Supervisory Board

As of December 31, 2010, 279,689 shares were attributable to the Management Board on the whole. This corresponds to 1.9289 percent of all shares issued by the company. No shares were held by the Supervisory Board as of 31 December 2010.

The individual members of the Management Board

Name	Function	held by	Number
Dr. Rüdiger Berndt	Chairman of the Supervisory Board	Himself	144,998
Dr. Rüdiger Berndt	Chairman of the Supervisory Board	Family members	124,691
Wolfgang Brand	Chief Financial Officer	Himself	10,000

No stock options had been issued to members of the company's Management Board as of December 31, 2010, given the departure of both Mr. Dauer and Mr. Biewald.

Name	Function	December 31, 2010 Number	December 31, 2009 Number
Dr. Rüdiger Berndt	CEO	0	0
Wolfgang Brand	CFO	0	0
Louis Bélanger-Martin	COO	0	0
Otto Dauer	CEO until 03/2010	0	65,000
Peter Biewald	CFO until 02/2010	0	35,000

27.7. Notifications in accordance with the German Securities Trading Act

Under Section 15a German Securities Trading Act, individuals (who hold executive positions and are authorized to make the issuer's material corporate decisions) as well as natural and legal persons closely related to them must immediately disclose any purchase or sale of shares in AIA AG if the amount exceeds EUR 5,000 thousand within the given calendar year. AIA AG publishes all transactions in accordance with Section 3a (1) of the German Securities Trading Notification and Insider Register Ordinance. Details of these transactions are also contained in the corporate governance report.

The following notifications under Section 20 German Stock Corporation Act and Sections 21 and 25 German Securities Trading Act, which must be disclosed in accordance with Section 160 (1) no. 8 German Stock Corporation Act, were published in the Federal Gazette/company register during 2010:

Publication of a notification in accordance with Section 21 (1) German Securities Trading Act (share)

Shareholder Value Beteiligungen AG, 60596 Frankfurt/Main, Germany, notified us on March 12, 2010, in accordance with Section 21 (1) German Securities Trading Act that its interest in the voting shares of Advanced Inflight Alliance AG, Munich, Germany (ISIN: DE0001262186, securities identification number: 126218), had surpassed the threshold of 3 percent of the voting shares on March 5, 2010, and was 3.39 percent on that date (491,112 voting shares).

Publication of a notification in accordance with Section 21 (1) German Securities Trading Act (share)

Auctus sechszwanzigste Beteiligungsgesellschaft mbH, 80333 Munich, Germany, notified us on June 10, 2010, in accordance with Section 21 (1) German Securities Trading Act that its interest in the voting shares of Advanced Inflight Alliance AG, 80799 Munich, Germany (ISIN: DE0001262186, securities identification number: 126218), had surpassed the threshold of 3 percent of the voting shares on June 07, 2010, and now is 3.93 percent (570,400 voting shares).

Pursuant to Section 22 (1) sentence 1 no. 5 German Securities Trading Act, 3.93 percent (570,400 voting shares) of these are attributable to it in accordance with via Grand Haven Capital Fund Ltd., Grand Cayman KY1-1108, Cayman Islands.

Publication of a notification in accordance with Section 21 (1) German Securities Trading Act (share)

Dr. Ingo Krocke, Germany, notified us on June 16, 2010, in accordance with Section 21 (1) German Securities Trading Act that his interest in the voting shares of Advanced Inflight Alliance AG, 80799 Munich, Germany (ISIN: DE0001262186, securities identification number: 126218), had surpassed the threshold of 3 percent of the voting shares on June 07, 2010, and now is 3.93 percent (570,400 voting shares).

Pursuant to Section 22 (1) sentence 1 no. 5 in conjunction with sentence 2 German Securities Trading Act, 3.93 percent (570,400 voting shares) of these are attributable to him via Grand Haven Capital Fund Ltd., Grand Cayman KY1-1108, Cayman Islands.

Attegia GmbH, 82031 Grünwald, Germany, notified us on June 16, 2010, in accordance with Section 21 (1) German Securities Trading Act that its interest in the voting shares of Advanced Inflight Alliance AG, 80799 Munich, Germany (ISIN: DE0001262186, securities identification number: 126218), had surpassed the threshold of 3 percent of the voting shares on June 07, 2010, and now is 3.93 percent (570,400 voting shares).

Pursuant to Section 22 (1) sentence 1 no. 5 in conjunction with sentence 2 German Securities Trading Act, 3.93 percent (570,400 voting shares) of these are attributable to it via Grand Haven Capital Fund Ltd., Grand Cayman KY1-1108, Cayman Islands.

Auctus Management GmbH & Co. KG, 82031 Grünwald, Germany, notified us on June 16, 2010, in accordance with Section 21 (1) German Securities Trading Act that its interest in the voting shares of Advanced Inflight Alliance AG, 80799 Munich, Germany (ISIN: DE0001262186, securities identification number: 126218), had surpassed the threshold of 3 percent of the voting shares on June 07, 2010, and now is 3.93 percent (570,400 voting shares).

Pursuant to Section 22 (1) sentence 1 no. 5 in conjunction with sentence 2 German Securities Trading Act, 3.93 percent (570,400 voting shares) of these are attributable to it via Grand Haven Capital Fund Ltd., Grand Cayman KY1-1108, Cayman Islands.

Auctus Verwaltungs GmbH, 82031 Grünwald, Germany, notified us on June 16, 2010, in accordance with Section 21 (1) German Securities Trading Act that its interest in the voting shares of Advanced Inflight Alliance AG, 80799 Munich, Germany (ISIN: DE0001262186, securities identification number: 126218), had surpassed the threshold of 3 percent of the voting shares on June 07, 2010, and now is 3.93 percent (570,400 voting shares).

Pursuant to Section 22 (1) sentence 1 no. 5 in conjunction with sentence 2 German Securities Trading Act, 3.93 percent (570,400 voting shares) of these are attributable to it via Grand Haven Capital Fund Ltd., Grand Cayman KY1-1108, Cayman Islands.

Publication of a notification in accordance with Section 21 (1) German Securities Trading Act (share)

Mr. Aristotelis Mistakidis, Switzerland, notified us on June 25, 2010, in accordance with Section 21 (1) German Securities Trading Act that his interest in the voting shares of Advanced Inflight Alliance AG, Munich, Germany (ISIN: DE0001262186, securities identification number: DE126218), had surpassed the thresholds of 3 and 5 percent of the voting shares on June 10, 2010, and was 7.34 percent on that date (1,064,661 voting shares).

Publication of a notification in accordance with Section 21 (1) German Securities Trading Act (share)

Axxion S.A., Luxembourg-Munsbach, Luxembourg notified us on July 14, 2010, in accordance with Section 21 (1) German Securities Trading Act that its interest in the voting shares of Advanced Inflight Alliance AG, Munich, Germany (ISIN: DE0001262186, securities identification number: 126218), had fallen below the threshold of 5 percent of the voting shares on July 07, 2010, and was 4.03 percent on that date (584,896 voting shares).

Publication of a notification in accordance with Section 21 (1) German Securities Trading Act (share)

Shareholder Value Beteiligungen AG, 60596 Frankfurt/Main, Germany, notified us on July 14, 2010, in accordance with Section 21 (1) German Securities Trading Act that its interest in the voting shares of Advanced Inflight Alliance AG, Munich, Germany (ISIN: DE0001262186, securities identification number: 126218), had fallen below the threshold of 3 percent of the voting shares on July 08, 2010, and was 2.34 percent on that date (339,167 voting shares).

Publication of a notification in accordance with Section 21 (1) German Securities Trading Act (share)

Dr. Ingo Krocke, Germany, notified us on July 26, 2010, in accordance with Section 21 (1) German Securities Trading Act that his interest in the voting shares of Advanced Inflight Alliance AG, 80799 Munich, Germany (ISIN: DE0001262186, securities identification number: 126218), had fallen below the threshold of 3 percent of the voting shares on June 30, 2010, and now is 0 percent (0 voting shares).

Attegia GmbH, 82031 Grünwald, Germany, notified us on July 26, 2010, in accordance with Section 21 (1) German Securities Trading Act that its interest in the voting shares of Advanced Inflight Alliance AG, 80799 Munich, Germany (ISIN: DE0001262186, securities identification number: 126218), had fallen below the threshold of 3 percent of the voting shares on June 30, 2010, and now is 0 percent (0 voting shares).

Auctus Management GmbH & Co. KG, 82031 Grünwald, Germany, notified us on July 26, 2010, in accordance with Section 21 (1) German Securities Trading Act that its interest in the voting shares of Advanced Inflight Alliance AG, 80799 Munich, Germany (ISIN: DE0001262186, securities identification number: 126218), had fallen below the threshold of 3 percent of the voting shares on June 30, 2010, and now is 0 percent (0 voting shares).

Auctus Verwaltungs GmbH, 82031 Grünwald, Germany, notified us on July 26, 2010, in accordance with Section 21 (1) German Securities Trading Act that its interest in the voting shares of Advanced Inflight Alliance AG, 80799 Munich, Germany (ISIN: DE0001262186, securities identification number: 126218), had fallen below the threshold of 3 percent of the voting shares on June 30, 2010, and now is 0 percent (0 voting shares).

Publication of a notification in accordance with Section 21 (1) German Securities Trading Act (share)

Auctus sechszwanzigste Beteiligungsgesellschaft mbH, 80333 Munich, Germany, notified us on July 12, 2010, in accordance with Section 21 (1) German Securities Trading Act that its interest in the voting shares of Advanced Inflight Alliance AG, 80799 Munich, Germany (ISIN: DE0001262186, securities identification number: 126218), had surpassed the threshold of 5 percent of the voting shares on July 08, 2010, and now is 7.38 percent (1,070,400 voting shares).

Auctus sechszwanzigste Beteiligungsgesellschaft mbH, 80333 Munich, Germany, notified us on July 12, 2010, in accordance with Section 21 (1) German Securities Trading Act that its interest in the voting shares of Advanced Inflight Alliance AG, 80799 Munich, Germany (ISIN: DE0001262186, securities identification number: 126218), had surpassed the threshold of 10 percent of the voting shares on July 09, 2010, and now is 10.01 percent (1,451,050 voting shares).

Publication of a notification in accordance with Section 21 (1) German Securities Trading Act (share)

Grand Haven Capital AG, Zurich, Switzerland, notified Advanced Inflight Alliance AG on July 26, 2010, in accordance with Section 21 (1) German Securities Trading Act that its interest in the voting shares of Advanced Inflight Alliance AG, Munich, Germany (ISIN: DE0001262186, securities identification number: 126218), had fallen below the threshold of 3 percent of the voting shares on July 08, 2010, and now is 0 percent (0 voting shares).

Grand Haven Capital Master Fund Ltd., Grand Cayman, Cayman Island, notified Advanced Inflight Alliance AG on July 26, 2010, in accordance with Section 21 (1) German Securities Trading Act that its interest in the voting shares of Advanced Inflight Alliance AG, Munich, Germany (ISIN: DE0001262186, securities identification number: 126218), had fallen below the threshold of 3 percent of the voting shares on July 08, 2010, and now is 0 percent (0 voting shares).

Publication of a notification in accordance with Section 21 (1) German Securities Trading Act (Correction)

Auctus sechszwanzigste Beteiligungsgesellschaft mbH, 80333 Munich, Germany, notified us on July 27, 2010, in accordance with Section 21 (1) German Securities Trading Act that its interest in the voting shares of Advanced Inflight Alliance AG, 80799 Munich, Germany (ISIN: DE0001262186, securities identification number: 126218), had surpassed the threshold of 3 percent of the voting shares on June 07, 2010, and is 3.93 percent (570,400 voting shares).

Pursuant to Section 22 (1) sentence 1 no. 5 German Securities Trading Act, 3.93 percent (570,400 voting shares) of these are attributable to it in accordance with via Grand Haven Capital Master Fund Ltd., Grand Cayman KY1-1108, Cayman Islands.

Publication of a notification in accordance with Section 21 (1) German Securities Trading Act (Correction)

Dr. Ingo Krocke, Germany, notified us on July 27, 2010, in accordance with Section 21 (1) German Securities Trading Act that his interest in the voting shares of Advanced Inflight Alliance AG, 80799 Munich, Germany (ISIN: DE0001262186, securities identification number: 126218), had surpassed the threshold of 3 percent of the voting shares on June 07, 2010, and now is 3.93 percent (570,400 voting shares).

Pursuant to Section 22 (1) sentence 1 no. 5 in conjunction with sentence 2 German Securities Trading Act, 3.93 percent (570,400 voting shares) of these are attributable to him via Grand Haven Capital Master Fund Ltd., Grand Cayman KY1-1108, Cayman Islands.

Attegia GmbH, 82031 Grünwald, Germany, notified us on July 27, 2010, in accordance with Section 21 (1) German Securities Trading Act that its interest in the voting shares of Advanced Inflight Alliance AG, 80799 Munich, Germany (ISIN: DE0001262186, securities identification number: 126218), had surpassed the threshold of 3 percent of the voting shares on June 07, 2010, and now is 3.93 percent (570,400 voting shares).

Pursuant to Section 22 (1) sentence 1 no. 5 in conjunction with sentence 2 German Securities Trading Act, 3.93 percent (570,400 voting shares) of these are attributable to it via Grand Haven Capital Master Fund Ltd., Grand Cayman KY1-1108, Cayman Islands.

Auctus Management GmbH & Co. KG, 82031 Grünwald, Germany, notified us on July 27, 2010, in accordance with Section 21 (1) German Securities Trading Act that its interest in the voting shares of Advanced Inflight Alliance AG, 80799 Munich, Germany (ISIN: DE0001262186, securities identification number: 126218), had surpassed the threshold of 3 percent of the voting shares on June 07, 2010, and now is 3.93 percent (570,400 voting shares).

Pursuant to Section 22 (1) sentence 1 no. 5 in conjunction with sentence 2 German Securities Trading Act, 3.93 percent (570,400 voting shares) of these are attributable to it via Grand Haven Capital Master Fund Ltd., Grand Cayman KY1-1108, Cayman Islands.

Auctus Verwaltungs GmbH, 82031 Grünwald, Germany, notified us on July 27, 2010, in accordance with Section 21 (1) German Securities Trading Act that its interest in the voting shares of Advanced Inflight Alliance AG, 80799 Munich, Germany (ISIN: DE0001262186, securities identification number: 126218), had surpassed the threshold of 3 percent of the voting shares on June 07, 2010, and now is 3.93 percent (570,400 voting shares).

Pursuant to Section 22 (1) sentence 1 no. 5 in conjunction with sentence 2 German Securities Trading Act, 3.93 percent (570,400 voting shares) of these are attributable to it via Grand Haven Capital Master Fund Ltd., Grand Cayman KY1-1108, Cayman Islands.

Publication of a notification in accordance with Section 21 (1) German Securities Trading Act (share)

Otto Dauer, Munich, Germany, notified Advanced Inflight Alliance AG on July 24, 2010, in accordance with Section 21 (1) German Securities Trading Act that his interest in the voting shares of Advanced Inflight Alliance AG, Munich, Germany (ISIN: DE0001262186, securities identification number: 126218), had fallen below the threshold of 3 percent of the voting shares on July 21, 2010, and now is 2.207 percent (320,000 voting shares).

Publication of a notification in accordance with Section 21 (1) German Securities Trading Act (share)

Auctus sechszwanzigste Beteiligungsgesellschaft mbH, 80333 Munich, Germany, notified us on July 27, 2010, in accordance with Section 21 (1) German Securities Trading Act that its interest in the voting shares of Advanced Inflight Alliance AG, 80799 Munich, Germany (ISIN: DE0001262186, securities identification number: 126218), had surpassed the threshold of 15 percent of the voting shares on July 20, 2010, and now is 16.17 percent (2,344,321 voting shares).

Pursuant to Section 22 (2) German Securities Trading Act, 2.83 percent (409,952 voting shares) of these are attributable to it.

Publication of a notification in accordance with Section 21 (1) German Securities Trading Act (share)

PAR Investment Partners L.P., Boston, USA, notified us on August 09, 2010, in accordance with Section 21 (1) German Securities Trading Act that its interest in the voting shares of Advanced Inflight Alliance AG, Munich, Germany (ISIN: DE0001262186, securities identification number: 126218), had fallen below the threshold of 3 percent of the voting shares on July 08, 2010, and now is 0 percent (0 voting shares).

PAR Group L.P., Boston, USA, notified us on August 09, 2010, in accordance with Section 21 (1) German Securities Trading Act that its interest in the voting shares of Advanced Inflight Alliance AG, Munich, Germany (ISIN: DE0001262186, securities identification number: 126218), had fallen below the threshold of 3 percent of the voting shares on July 08, 2010, and now is 0 percent (0 voting shares).

PAR Capital Management Inc., Boston, USA, notified us on August 09, 2010, in accordance with Section 21 (1) German Securities Trading Act that its interest in the voting shares of Advanced Inflight Alliance AG, Munich, Germany (ISIN: DE0001262186, securities identification number: 126218), had fallen below the threshold of 3 percent of the voting shares on July 08, 2010, and now is 0 percent (0 voting shares).

Publication of a notification in accordance with Section 21 (1) German Securities Trading Act (share)

Lars Tvede, Switzerland, notified us on August 23, 2010, in accordance with Section 21 (1) German Securities Trading Act that his interest in the voting shares of Advanced Inflight Alliance AG, Munich, Germany (ISIN: DE0001262186, securities identification number: 126218), had fallen below the threshold of 10 percent of the voting shares on June 15, 2010, and now is 5.52 percent (800,000 voting shares).

Publication of a notification in accordance with Section 21 (1) German Securities Trading Act (Correction)

Mr. Aristotelis Mistakidis, Switzerland, notified us on September 08, 2010, in accordance with Section 21 (1) German Securities Trading Act that his interest in the voting shares of Advanced Inflight Alliance AG, Munich, Germany (ISIN: DE0001262186, securities identification number: DE126218), had surpassed the thresholds of 3 and 5 percent of the voting shares on June 15, 2010, and was 7.34 percent on that date (1,064,661 voting shares).

Publication of a notification in accordance with Section 21 (1) German Securities Trading Act (share)

Shareholder Value Beteiligungen AG, 60596 Frankfurt/Main, Germany, notified us on September 23, 2010, in accordance with Section 21 (1) German Securities Trading Act that its interest in the voting shares of Advanced Inflight Alliance AG, Munich, Germany (ISIN: DE0001262186, securities identification number: 126218), had surpassed the threshold of 3 percent of the voting shares on August 09, 2010, and was 3.46 percent on that date (501,267 voting shares).

27.8. Corporate governance

The Management Board and the Supervisory Board of AIA AG in December 2010 issued the declaration required by section 161 German Stock Corporation Act and made it accessible to its shareholders on the company's website (www.advanced-inflight-alliance.com/corporate.php)

Advanced Inflight Alliance AG

Munich, April 28, 2011

Dr. Rüdiger Berndt
CEO

Wolfgang Brand
CFO

Louis Bélanger-Martin
COO

Responsibility statement

Responsibility statement

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

Advanced Inflight Alliance AG

Munich, April 28, 2011

Dr. Rüdiger Berndt
CEO

Wolfgang Brand
CFO

Louis Bélanger-Martin
COO

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Auditor's Report

Auditor's Report

We have issued the following auditor's report on the consolidated financial statements and the Group management report:

„We have audited the consolidated financial statements - comprising the statement of financial position, income statement and statement of comprehensive income, statement of cash flows, statement of changes in equity and the notes - as well as the Group management report prepared by Advanced Inflight Alliance AG, Munich, for the financial year from January 1 to December 31, 2010. The preparation of the consolidated financial statements in accordance with IFRS as applicable in the EU and the supplementary provisions that are applicable under Section 315a (1) German Commercial Code (HGB) are the responsibility of the company's legal representatives. Our responsibility is to express an opinion on the consolidated financial statements and the Group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Section 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the financial position, cash flows and financial performance in the consolidated financial statements in accordance with the applicable financial reporting standards 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 evaluations of 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 consolidated 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 entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated 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 consolidated financial statements comply with IFRSs as adopted by the EU and the supplementary provisions of German commercial law required to be applied under section 315a (1) of the HGB and give a true and fair view of the financial position, cash flows and financial performance of the Group in accordance with these requirements. The Group management report is consistent with the consolidated financial statements, as a whole provides a suitable understanding of the Group's position and suitably presents the opportunities and risks of future development.“

Munich, April 29, 2011

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Müller
Wirtschaftsprüfer [German Public Auditor]

Urner-Hemmeter
Wirtschaftsprüfer [German Public Auditor]

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Advanced Inflight Alliance AG worldwide



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