

## Advanced Inflight Alliance AG

### Interim report by the Management

in the 2nd half-year 2010

in accordance with Section 37x German Securities Trading Act (WpHG)

#### General conditions in the reporting period

The positive development of the international airline industry has continued in the second half of 2010. Following a slightly weaker August, passenger numbers rose in September 2010 by 10.5% year-on-year. According to the International Air Transport Association (IATA), capacity utilization at 78.9% in September 2010 was almost at the record level of the year of 79% that was recorded in February 2010. On the North American market, the number of passengers climbed 11.1% in September to reach the level at the onset of the economic crisis in early 2008. At 84.1%, capacity utilization on the North American market is the highest in the world in September 2010. Europe registered growth of 8.4% in September 2010 compared with the previous year. Average capacity utilization with 82.6% was higher than the pre-crisis level. Passenger growth was strongest in the Middle East, where the number of passengers was up 23.9% in September 2010. Owing to a significant increase in capacity, the utilization rate in this region is just 76.8%, however. Africa is in second place with a 16% increase in passenger numbers. Asia-Pacific saw its passenger figures rise by around 8.6% as against the prior-year period. Latin America recorded the weakest growth rate in the world of merely 6.6% in September 2010.

In the second half of 2010, the Euro in some cases has gained significant ground against all currencies relevant for the Advanced Inflight Alliance Group. The relevant development of exchange rates in the reporting period is shown below:

|                 | 01.01.2010 | 31.03.2010 | 30.06.2010 | 30.09.2010 | 12.11.2010 |
|-----------------|------------|------------|------------|------------|------------|
| <b>USD/Euro</b> | 1.44       | 1.35       | 1.22       | 1.36       | 1.37       |
| <b>CAD/Euro</b> | 1.51       | 1.37       | 1.28       | 1.40       | 1.38       |
| <b>GBP/Euro</b> | 0.89       | 0.89       | 0.81       | 0.86       | 0.85       |

The Euro's recovery in the third quarter of 2010 generated positive effects among the foreign currency effects reported, which will be discussed in more detail in the section on business development below.

### **Important events in the reporting period**

The conciliation proceedings in the legal dispute with the former CEO Otto Dauer took place on October 14, 2010. A settlement was not reached. The court pointed out that, if accurate, the reasons put forward by the company may justify the Supervisory Board's dismissal of Otto Dauer. As the former CEO has not yet been able to state his position on all charges, the further hearing has been adjourned until early 2011.

By decision of 28<sup>th</sup> October 2010 the Supervisory Board of the company appointed Mr. Louis Bélanger-Martin as member of the Board of the company with immediate effect. Within the Board Mr. Bélanger-Martin will operate as Chief Operating Officer (COO).

Mr. Bélanger-Martin is 40 years old, founder and CEO of DTI Software Inc., the world market leader in Games and Applications in the field of Inflight Entertainment. Since Advanced Inflight Alliance AG purchased DTI Software Inc. beginning of 2008, Mr. Bélanger-Martin is a permanent member of the Executive Management Committee of the group.

Mr. Bélanger-Martin has 15 years of experience in the business of Inflight Entertainment and deposes of the best contacts to the most important airlines worldwide. The emphasis of his work as member of the Board, besides the position as Head of Customer Relations, is focused on optimizing operational processes and structures within the international subsidiaries of the group as well as realizing synergy potentials within and between the companies of the group.

### **Business development in the first nine months of 2010**

Consolidated revenue of the Advanced Inflight Alliance Group in the first nine months of 2010 amounted to EUR 84.3 million, only a slight decrease on the prior-year figure of EUR 85 million. Already when the 2010 half-yearly financial report was being prepared, it was discovered that in the 2009 financial year there had been a shift in sales at one subsidiary with adverse effects for the current financial year, though this did not have a negative impact on earnings. Not including this sales shift, revenue in the Advanced Inflight Alliance Group in the first nine months of 2010 came to EUR 85.2 million, up slightly on the figure of EUR 83.8 million for the prior-year period.

Earnings before interest, taxes, depreciation and amortization (EBITDA) of the Advanced Inflight Alliance Group in the first nine months of 2010 surged year-on-year to EUR 9 million (prior-year period: EUR 8.4 million). In the 2010 financial year,

earnings have nevertheless been reduced by one-time charges of around EUR 0.3 million incurred in connection with the change in the company's Management Board (severance payment, legal advice) as well as by expenses in connection with the introduction of new accounting and consolidation software totaling around EUR 0.2 million from the first quarter 2010. Adjusted for these one-time effects, EBITDA in the first nine months of 2010 would amount to EUR 9.5 million. EBITDA adjusted for reported foreign currency effects stood at EUR 9.2 million in the first nine months of 2010, an increase on the prior-year figure of EUR 8.8 million, which was also adjusted for foreign currency effects.

Earnings before interest and taxes (EBIT) climbed to EUR 6.2 million in the first nine months of 2010 from EUR 5.2 million in the same period in 2009. After adjusting for reported foreign currency effects, EBIT increased to EUR 6.4 million in the first nine months of 2010 compared with EUR 5.6 million in the prior-year period.

In the first half of 2010, the Advanced Inflight Alliance Group's earnings had been impacted by reported negative foreign currency effects of EUR 1.2 million. In particular, the Euro's recovery against the US dollar in the third quarter of 2010 significantly reduced these negative foreign currency effects to EUR 0.2 million. The positive effect of EUR 1 million this had on earnings in the third quarter of 2010 as of September 30, 2010 largely offset the negative foreign currency effect that had existed as of June 30, 2010.

In the reporting period, the cash flow of the Advanced Inflight Alliance Group was dominated by scheduled and unscheduled repayments of bank loans as well as by the payment of the existing earn-out liability to the sellers of DTI. By the end of October 2010, the Advanced Inflight Alliance Group had therefore recorded cash outflows of EUR 2 million for repayments of bank loans as well as of approximately EUR 3.8 million for earn-out payments. In addition, there was a cash outflow of EUR 1.45 million for the dividend resolved by the Annual General Meeting.

The earnings figures for the first nine months of 2010 reflect the stability and sustainability of the Advanced Inflight Alliance Group's operations. In spite of the substantial addition of over 60 new staff to the workforce in connection with the development of new strategic business areas, which involves higher staff costs, earnings were up on the first nine months of 2009.

## **Risk situation**

There was no significant change in the overall risk situation compared with the risk reporting as of December 31, 2009. The risk that materialized in the first half of the year associated with the interruption of air traffic caused by volcanic ash was merely temporary.

## **Outlook**

The sustainability of the airline industry's recovery is also having a positive effect on business development of the Advanced Inflight Alliance Group. Although the inflight entertainment industry is continuing to experience persistent cost pressure from the carriers, the renewed increase in the number of flights provides opportunities for growth. The Advanced Inflight Alliance Group has used recent months to identify existing potential for synergies within the Group, push ahead with the integration process, and analyze cost structures in detail. The execution of the resolved measures will start in the 4<sup>th</sup> quarter and will show noticeable effects in 2011. For the 4<sup>th</sup> quarter 2010 the company expects a stable trend in business.

Munich, Germany, November 15, 2010

Advanced Inflight Alliance AG

The Board of Directors