Munich Airport International

Annual Report 2005

Foreword

Fiscal 2005 can best be summarized as follows: Munich Airport is still growing – not just in terms of business and traffic but also as a facility.

Traffic figures again hit new all-time highs in every category. At 28.6 million, passenger numbers were up by 1.8 million in comparison with 2004. No other airport in Germany saw passenger traffic expand as quickly in 2005, and among Europe's ten busiest commercial airports, only Madrid and Barcelona reported higher rates of growth in this segment. So among European airports, Munich remained a reliable force for growth in international aviation.

Takeoffs and landings also set a new record last year: Munich registered some 387,000 movements, an increase of more than 4 percent compared to a year earlier. And the cargo sector, too, expanded enormously, handling 350,000 tons of freight, a 15 percent increase, year on year.

Our prime growth driver at Munich Airport remains the constant rise in the volume of hub traffic – a trend reflected in steadily increasing numbers of transfer passengers, who in 2005 accounted for 34 percent of our total passenger traffic.

Increasingly, low-cost traffic, too, is making its mark on Munich, with passenger numbers growing 28 percent last year, to 3.5 million.

These traffic-sector gains were, of course, reflected in our business performance, with total earnings growing by around 5 percent (the same rate as in 2004) and the airport making a return to positive earnings two years sooner than originally planned.

Our strong business figures were not solely the result of outstanding traffic growth: M-Power, the program for strategy development and higher earnings launched in 2003, also made a difference. Thanks to wide-ranging, ongoing profitability initiatives and major Group restructuring, we now expect to clearly exceed the targets we set for 2007.

But it's not just business and traffic that are expanding: the airport is, too. When our shareholders sanctioned the initiation of planning procedures for a third runway last year, paving the way for expansion, they created a crucial prerequisite for Munich Airport's long-term success. Equipped with a third runway, we'll be able to handle 120 aircraft movements an hour, up from 90 at present. This additional capacity will allow us to grow our hub traffic in years ahead and boost our offering of long-haul services to a level typical for a major European hub airport.

Dr. Michael Kerkloh
President and CEO,
Flughafen München GmbH

Chronicle

January 1, 2005
Flughafen München GmbH (FMG) begins 2005 by rolling out a new organizational structure aligned with the company's M-Power strategy and earnings growth project. The reorganization of the FMG Group has a number of goals: to achieve greater customer focus, deliver greater customer benefit, build a stronger competitive position, promote sustained, profitable growth, greatly increase earnings power, and boost the value of the company. The new organizational structure divides all of the company's functions into strategic, market-aligned divisions, supporting service divisions, and overarching central divisions.

January 13, 2005
Munich Airport and the towns of Erding and Freising and their surrounding districts launch a common internet platform for the business community in the airport's surrounding region. Located under the URL www.umlandportal.de, the site provides a virtual classified directory with which businesses in the airport's local area and the more than 500 companies located on the airport campus can register. The site helps to improve collaboration between businesses and eases locating and contacting possible clients and suppliers.

March 16, 2005
Twelve years and ten months after Munich Airport moved to its current location, it welcomes its 250 millionth passenger.

March 23, 2005
Flughafen München GmbH sets up a new subsidiary, mucground Services Flughafen München GmbH, to improve the efficiency and productivity of the airport's ramp services. The move is a response to the tougher competitive situation facing FMG in the ramp handling sector.

March 27, 2005
Munich's summer timetable includes a number of additions to the airport's network of long-haul routes. Lufthansa launches a daily service to Washington, and Star Alliance partner United Airlines begins flying daily to Chicago. With the existing flights operated by Lufthansa to Chicago and by United to Washington, both US cities are each now serviced by two daily nonstops from Munich. LTU and Condor offer once-weekly services for holidaymakers to Mauritius and the Seychelles; Air China begins flying to Beijing five times a week; and Air Transat starts operating a service to Vancouver via Calgary. Airlines had previously coordinated in excess of 252,000 flights – 5 percent more than a year earlier.

April 2005
In a survey of more than 5 million passengers from 90 nations conducted by Skytrax, an independent aviation research organization, Munich Airport was chosen as the best airport in Europe. In the worldwide rankings, Munich was placed fourth, after Hong Kong International Airport, Singapore Changi Airport und Seoul Incheon Airport.

July 26, 2005
At the annual shareholders' meeting, FMG shareholders grant the company permission to begin planning a third runway and instruct executive management to initiate planning approval proceedings as soon as possible. The third runway is needed to create the right conditions to sustain growth at Munich Airport. Due to the rapid expansion in traffic in recent years, the airport's two runways have already reached their capacity limits during peak busy periods.

September 23, 2005
Munich Airport opens a new building in the cargo area to create capacity to handle the substantial increase in the volume of air freight. The 4,400-square-meter facility is used exclusively by express carriers FedEx, DHL and UPS.

October 11, 2005
For the fourth time in succession, Munich Airport hosts Inter Airport Europe, the world's foremost industry show for airport equipment, technology and services. In Hangar 4 and the surrounding open-air lot, 550 exhibitors from 31 countries present cutting-edge airport technology for industry visitors.

October 30, 2005
The start of the winter season. Airlines had coordinated some 156,000 takeoffs and landings at Munich Airport for the new timetable – 2 percent more than for the winter of 2004/2005. Brazilian carrier Varig begins operating a nonstop service to Sao Paolo three times a week, code-shared with Lufthansa. Aerolinas Argentinas offers five flights a week to Buenos Aires via Madrid, and Royal Air Maroc flies twice weekly to Casablanca. Deutsche Lufthansa flies daily to Delhi and five times a week to Hong Kong. Lufthansa subsidiary Condor flies once a week to Cayo Coco in Cuba, via Varadero.

November 21, 2005
Flughafen München GmbH receives the official EU Eco-Management and Audit Scheme (EMAS) seal of approval, certifying the successful deployment and documentation of an environmental management system to conserve and utilize resources efficiently at Munich Airport.

Executive board

Dr. Michael Kerkloh
President and Chief Executive Officer
Personnel Industrial Relations Director
Walter Vill
Vice President and Chief Financial Officer
Peter Trautmann
Chief Operating Officer

Directors

Rainer Beeck
Senior Vice President Corporate Real Estate Management and Development
(from August 1, 2005)
Johann Bernhard
Senior Vice President Engineering and Facilities
Dr. Brigitte Englert
Corporate Representative for Government Affairs
Florian Fischer
Senior Vice President Corporate Development and Environment
Wolfgang Hammerstädt
Senior Vice President Ground Handling
Andreas von Puttkamer
Senior Vice President Aviation
Thomas Ross
Senior Vice President Legal Affairs and Security
Thomas Scheidler
Senior Vice President Human Resources
Dr. Karl Heinz Schwarzmeier
Senior Vice President Terminal 2

Key figures

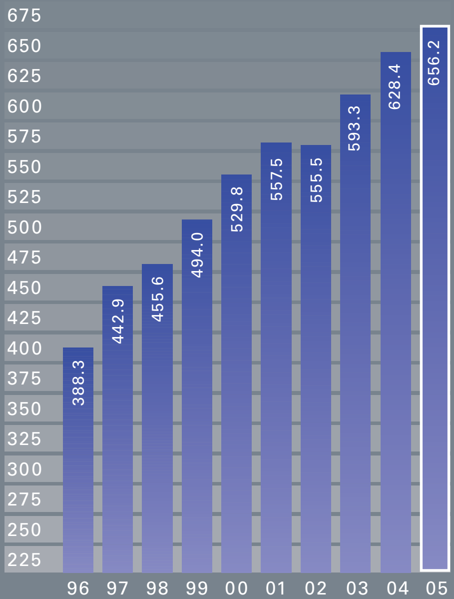
Air traffic	2005	2004	2005 / 2004
Passenger movements (total)	28,639,104	26,835,231	+ 6.7 %
– Commercial traffic	28,619,427	26,814,505	+ 6.7 %
– Scheduled and charter traffic	28,591,429	26,789,187	+ 6.7 %
Aircraft movements (total)	398,838	383,110	+ 4.1 %
– Commercial traffic	386,841	370,534	+ 4.4 %
– Scheduled and charter traffic	374,626	359,568	+ 4.2 %
Air freight handled (total, t)	356,844	309,828	+ 15.2 %
– Carried by air (t)	202,844	170,828	+ 18.7 %
– Carried by truck (t)	154,000	139,000	+ 10.8 %
Air mail handled (t)	15,205	21,339	- 28.7 %
Maximum takeoff mass (MTOM) in commercial and non-commercial traffic (t)	11,319,219	10,654,311	+ 6.2 %

Net sales (€ million)	2005	2004	2005 / 2004
Flughafen München GmbH (FMG)	656.2	628.4	+ 4.4 %
FMG Group	844.3	788.0	+ 7.1 %

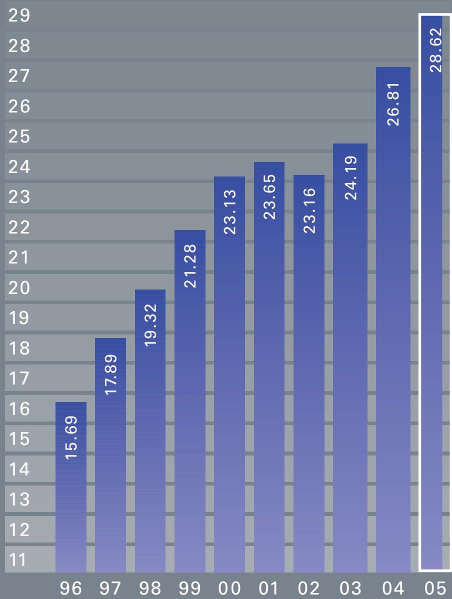
Personnel	2005	2004	2005 / 2004
Personnel costs (€ million)			
FMG	226.0	220.9	+ 2.3 %
Group	285.8	279.8	+ 2.1 %
Employees (at Dec. 31, 2005)			
FMG	4,789	4,946	- 3.2 %
Group	6,775	6,876	- 1.5 %
Average employee capacity			
FMG	4,278	4,371	- 2.1 %
Group	6,120	6,242	- 2.0 %

Ten-year overview

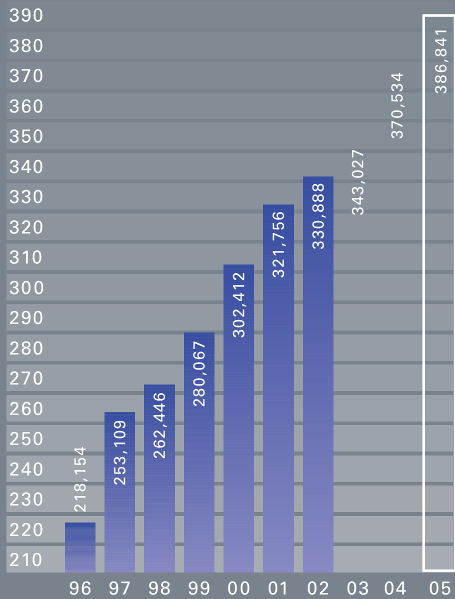
Flughafen München GmbH's sales
(€ million)



Passengers (in + out + transit)
commercial traffic (million)



Aircraft movements
commercial traffic* (thousand)



* excluding ferry flights

Munich in comparison

Traffic figures for German airports in 2005 (commercial sector)

	Passengers (in + out + transit)	Aircraft movements	Air freight (t)	Air mail (t)
Frankfurt	52,219,412	482,125	1,864,612	98,528
Munich	28,619,427	386,841	202,844	15,205
Berlin (total)	17,153,074	215,800	20,648	7,419
Düsseldorf	15,510,990	189,508	56,547	135
Hamburg	10,676,016	133,989	24,216	7,687
Cologne / Bonn	9,452,185	140,775	636,887	6,720
Stuttgart	9,405,887	140,353	16,681	9,351
Hanover	5,637,385	76,585	6,056	10,323
Nuremberg	3,843,710	59,325	10,250	2
Hahn	3,076,823	33,377	101,194	0
Leipzig / Halle	2,122,233	30,287	11,006	838
Dresden	1,782,901	29,186	436	0
Dortmund	1,742,911	30,672	58	0
Bremen	1,739,797	34,022	775	13
Münster / Osnabrück	1,540,656	30,901	64	2
Saarbrücken	486,230	10,744	54	0
Erfurt	438,912	9,732	4,855	0
Total	165,448,549	2,034,222	2,957,183	156,223

Source: German Airports Association (ADV)

Passenger figures for Europe's top ten airports in 2005 (commercial sector)

	Ranking	Passengers (million)	2005 / 2004
London-Heathrow	1	67.9	+ 0.8 %
Paris Charles de Gaulle	2	53.8	+ 4.9 %
Frankfurt / Main	3	52.2	+ 2.2 %
Amsterdam	4	44.2	+ 3.8 %
Madrid	5	41.9	+ 8.4 %
London Gatwick	6	32.8	+ 4.2 %
Rome Fiumicino	7	28.6	+ 2.0 %
Munich	8	28.6	+ 6.7 %
Barcelona	9	27.1	+ 10.5 %
Paris Orly	10	24.9	+ 3.3 %

Source: Airports Council International (ACI)
Status: March 2006

The FMG Group's new structure

Strategic realignment

With M-Power, our Group project for strategy development and earnings growth, Flughafen München GmbH has realigned the FMG Group both strategically and organizationally with the goal of sharpening its customer focus, creating greater benefits for customers, building a stronger competitive position, achieving sustained growth and profitability, and bringing about both a significant improvement in its earnings power and a marked increase in the value of the company.

Our strategic goal for the aviation sector is to firmly establish Munich Airport as a leading European hub. Our main focuses here are on servicing additional attractive long-haul and point-to-point routes and on strengthening our offering of flights for the vacation market. We are building on Lufthansa and its partner airlines in Terminal 2 and on new and existing customers in Terminal 1 to help us achieve this strategic goal.

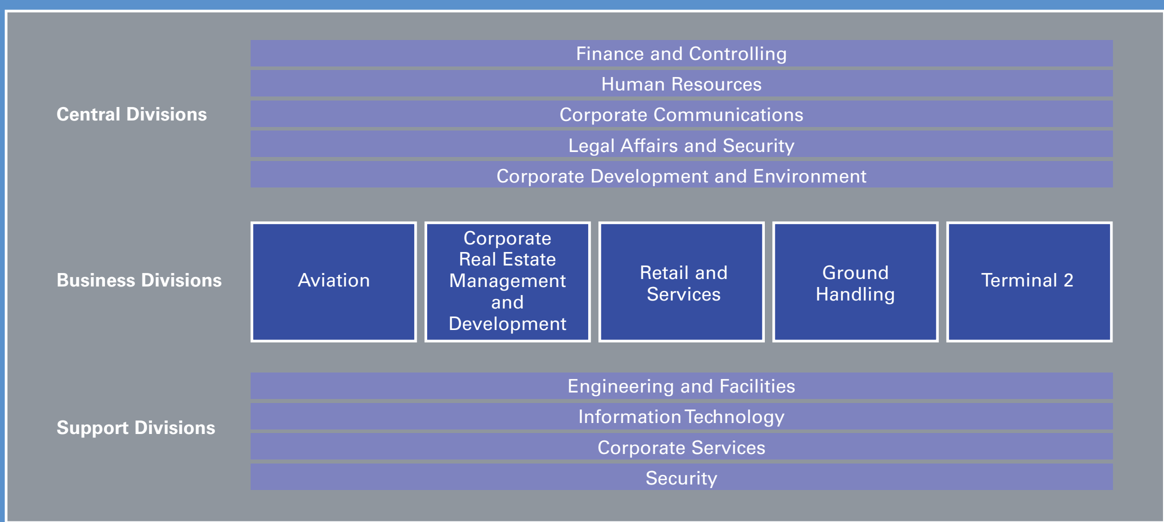
To leverage the airport's earnings potential, FMG is widening its non-aviation business substantially. The company is working to create an attractive offering of goods and services for all its key customer groups, both in the "city center" (the space between the two terminal buildings) and in adjacent areas. At the same time, the airport sees itself as a driver and facilitator for the onward development of the airport region as a whole, and is engaging in a growing number of initiatives to foster greater collaboration with organizations in its surrounding area.

Three types of divisions

On January 1, 2005, Flughafen München GmbH rolled out a new Group structure, devised as part of the M-Power strategy development and earnings growth project. The new organizational structure spreads company functions and tasking across a number of strategic business divisions, supporting service divisions, and overarching central divisions.

- Our strategic core business is handled by five business divisions: Aviation, Ground Handling, Corporate Real Estate Management and Development, Retail and Services, and Terminal 2.
- The service divisions are Engineering and Facilities, Information Technology, Corporate Services and Security.
- The overarching central divisions are Finance and Controlling, Human Resources, Corporate Communications, Legal Affairs and Security, and Corporate Development and Environment.

The new Group structure



Clearly defined responsibilities, modern management

Whereas the business divisions operate independently within their markets, the support divisions primarily operate internally and provide the business divisions with professional expertise and specialized services. The central divisions are responsible for the overall control of the FMG Group of companies.

The Group's new structure clearly assigns responsibilities and affords greater flexibility and adaptability. It also allows the Group to be managed according to modern corporate leadership principles, and with a target-oriented system of management in each of the divisions.

Integration of subsidiaries

In addition, from January 1, 2005, Flughafen München GmbH's subsidiaries and affiliates became an integral part of the new organizational structure.

Allresto and eurotrade were assigned to the Retail and Services division, MediCare to the Aviation division, and EFM, mucground, aerogate and Cargogate to Ground Handling. Likewise part of this division is AeroGround Flughafen München Aviation Support GmbH, which recruits students and other casual workers and hires them out to FMG's ramp services to assist with aircraft handling. AeroGround reported sales of almost €900,000 in fiscal 2005.

Flughafen München GmbH's subsidiaries and associated companies

	Share
Cargogate Flughafen München	100%
aerogate München	100%
Allresto Flughafen München	100%
AeroGround Flughafen München Aviation Support GmbH	100%
MGS – mucground Services Flughafen München GmbH	100%
Flughafen München Versicherungsvermittlungsgesellschaft mbH (FMV)	100%
T2 Holding	100%
Flughafen München Sicherheitsgesellschaft (CAP)	76.1%
eurotrade Flughafen München Handelsgesellschaft mbH	74%
Terminal 2 Betriebsgesellschaft mbH & Co. oHG	60%
FM Terminal 2 Immobilien-Verwaltungsgesellschaft mbH & Co. oHG	60%
MediCare Flughafen München Medizinisches Zentrum GmbH	51%
Augsburger Flughafen Betriebs-GmbH	50%
Gesellschaft für Enteisen und Flugzeugschleppen (EFM)	49%
Bayern Facility Management GmbH	49%

The T2 operating company and the Terminal 2 division form a single unit. For information on our divisions and the subsidiaries assigned to them, see the sections "Aviation," "Non-aviation business," and "Terminal 2."

Bayern Facility Management GmbH is part of our Engineering and Facilities support division. The company runs all of Bayerische Landesbank's real estate, provides facility management services at the airport, and engages in other activities, including the development of third-market business outside the local region. In fiscal 2005, the company reported sales of €15.4 million. It is co-owned by Bayerische Landesbank (51 percent) and Flughafen München GmbH (49 percent).

The Security support division includes FMG subsidiary CAP Flughafen München Sicherheits-GmbH, which provides guard and security services at Munich Airport and specializes in implementing the special security measures required under aviation law. CAP reported sales of €14.6 million in 2005. The company is owned jointly by Flughafen München GmbH (76.1 percent) and SECURITAS GmbH Aviation Service (23.9 percent).

The Legal Affairs and Security central division includes the subsidiary Flughafen München Versicherungsvermittlungsgesellschaft mbH (FMV). FMV not only brokers and manages insurance of all kinds, it also provides consulting and advisory services to Düsseldorf, Hamburg, Cologne, Stuttgart, Nuremberg, Leipzig, Dresden, Bremen and Münster airports. It reported sales of almost €900,000 in 2005.

AFBG Augsburger Flughafen Betriebs-GmbH was no longer able to continue operating. Due to the discontinuation of scheduled flights into Augsburg Airport, the company had to hand back the management of the airport to Augsburger Flughafen GmbH and file for insolvency.

Aviation

Aviation

New records in air traffic

In 2005, the FMG Group moved a major step closer toward achieving its strategic goal of firmly establishing Munich Airport as one of Europe's foremost aviation hubs: With more than 28.6 million air travelers – 1.8 million or close to 7 percent more than a year earlier – the airport registered a record number of passenger movements, successfully underscoring its standing as one of the highest-growth passenger airports among the ten busiest in Europe. Although Munich remained in the number eight slot ranked on passenger movements, the gap to seventh-ranked Rome Fiumicino shrank to almost nothing. In terms of aircraft movements, too, 2005 was a strong year for Munich, with almost 387,000 takeoffs and landings in the commercial segment, an increase of more than 4 percent year on year.

More transfers as hub traffic grows
This performance has built a stronger competitive position for Munich Airport in comparison with rival European hubs. The number one growth driver for Munich remains the hub traffic generated by Lufthansa and its fellow Star Alliance members, which has played a substantial role in boosting the overall volume of transfer passengers from 33 percent to 34 percent.

Low-fare traffic expands
Low-cost, low-fare traffic was a significant factor in the year's outstanding traffic figures. With 3.5 million air travelers – 12.2 percent of the overall traffic volume and 28 percent more than a year earlier – growth in this segment was exceptionally strong. The driving force and the biggest player by a wide margin among the low-cost airlines operating in Munich was home carrier dba.

Strong growth in intercontinental traffic
Intercontinental traffic to and from Munich Airport expanded rapidly, growing 12.8 percent on the previous year. With a 23.1 percent increase in aircraft movements, traffic to Asia experienced a huge upsurge; North American traffic, in comparison, grew less rapidly at 6.9 percent. In stark contrast, traffic to and from Africa was down 7.9 percent on its year-earlier figures.

Continental traffic, consisting of traffic to and from other European countries and North African and Asian states on the Mediterranean, increased by 5.5 percent. The number of aircraft movements on routes within the EU was up 5.2 percent in comparison with 2004, and growth in other continental traffic was even higher at 6.5 percent. Domestic traffic, by contrast, remained more or less flat, edging up just 0.5 percent year on year.

Just as a year earlier, the greatest number of flights in 2005 was registered on routes to and from Italy, followed by France and Spain.

More records, more carriers, more destinations
Air traffic in Munich reached new all-time highs on a number of days in 2005: The busiest day ever, with 112,355 passengers, was September 30, 2005, beating the previous record of 105,040 passengers recorded in 2004. The number of aircraft movements in one day also reached a new high of 1,257 on April 14, 2005, beating the old record, set in 2004, of 1,232 takeoffs and landings. On average, the airport registered 78,409 passengers per day (2004: 73,264) and 1,060 aircraft movements (2004: 1,012).

The number of destinations served from Munich Airport also increased: In 2005, 113 airlines operated services on a regular basis to a total of 250 destinations (22 domestic and 228 international) in 67 countries. That's 13 more destinations than in 2004.

The maximum takeoff mass (MTOM) – the total permitted takeoff masses in scheduled and charter traffic – also increased, rising by 6.1 percent to 11,060,685 metric tons in 2005 as carriers began operating widebody jets on a larger scale. The mean MTOM grew by 1.1 tons to 59.1 tons.

Rapid growth in passenger traffic
With more than 28.6 million passenger movements in 2005, Munich is one of the fastest-growing airports in Germany and in Europe. Just as with the number of aircraft movements, passenger growth was most spectacular on intercontinental routes.

Traffic expands on Asian and North American routes
Munich saw passenger numbers on long-haul services expand 12.6 percent in comparison with 2004, with Asia routes – above all, to and from Delhi, Teheran, Abu Dhabi and Bangkok – showing the highest growth at 20.6 percent.

North Atlantic services saw the number of passengers jump 8.0 percent, largely thanks to the two double daily services to Chicago and to Washington, as well as an extended offering of flights to Canada. At the same time, passenger numbers on services to and from Africa slipped 2.9 percent.

More Eastern European traffic
Continental traffic, too, expanded, growing 7.8 percent overall in comparison with a year earlier. Passenger growth on routes between Munich and the Scandinavian countries Norway, Sweden, Denmark and Finland was truly exceptional, averaging 25 percent in 2005.

Traffic to and from new EU member states also increased sharply, by 17 percent. In Eastern European traffic as a whole – on EU and non-EU routes alike – passenger numbers surged 15 percent year on year, with Poland, Ukraine, and new destinations Armenia and Georgia showing the highest growth.

Domestic traffic, by contrast, rose by just 3.3 percent. As in 2004, passenger numbers were highest on services to and from Berlin, followed by Hamburg and Düsseldorf.

In 2005, the rankings of the busiest foreign destinations served from Munich remained unchanged: Almost 900,000 passengers were registered on services to and from London Heathrow, followed by Paris Charles de Gaulle with over 655,000, and Palma de Mallorca with almost 540,000. In the intercontinental segment, the greatest number of passengers was recorded on services between Munich and Dubai; Bangkok and Chicago were also exceptionally popular destinations.

Surge in landing-fee revenue
Revenue from landing and parking fees was considerably higher in 2005 than a year earlier, rising 9.7 percent to €246 million. The increase was driven by price adjustments in October 2004 and October 2005, a 6.7 percent increase in the number of passengers, and a 4.4 percent increase in the number of commercial aircraft movements. To meet the costs associated with security checks on personnel, security charges were also raised in July 2005.

Revenue from passenger-dependent landing fees grew faster than revenue from weight-dependent landing fees, rising 20.2 percent. This was due to an ongoing shift in the fee structure, away from fixed landing charges in favor of variable landing charges. In spite of the increase in passenger numbers, revenue generated by central infrastructure in Terminal 2 – the baggage transportation system, for example – remained flat year on year due to a marginal drop in the number of movements in Terminal 1. Revenue from central infrastructure is booked to FMG subsidiary Terminal 2 Betriebsgesellschaft, which operates the terminal building, and is not reported in Flughafen München GmbH's own yearend accounts.

Growth factor marketing
Marketing played a key role in securing and sustaining strong growth in 2005 by engaging in a range of measures and activities. The department supported airlines and event organizers with direct marketing, sales blitz and promotion campaigns designed to inform domestic and foreign tourist agencies about new routes and additional frequencies and to spark interest in new services to and from Munich. These services included recently introduced flights operated by Air Transat to Calgary and Vancouver, by Condor to Mahé in the Seychelles and to Barcelona, by LTU to Mauritius, and by Royal Air Maroc to Casablanca.

Support for airlines
Advertisements were run in the U.S. to help Lufthansa promote its new daily service between Munich and Washington and to help United do the same with its new daily frequency to Chicago. FMG also assisted Air China with the creation of its German web site, TAP Portugal with the addition of a second daily frequency, Cirrus with a new daily service to Brno, Air Baltic with new flights to Riga, and Fly Nordic with its new Stockholm route. The company also helped Russian carrier Polet to make its market entry.

Promoting the airport as a hub
FMG worked with Lufthansa to organize two large-scale events to promote acceptance of Munich as Germany's second-ranked hub and to further improve its standing as a European airport. Both events garnered plenty of positive feedback from attendees.

In mid-June, Lufthansa invited more than 1,600 employees from major business travel chains in Germany and Austria to a spectacular one-day party event at Munich Airport bannered "A journey through time: 50 years of Lufthansa," which featured sports, games and music.

In early December, around 200 people, including top Lufthansa salespeople and journalists, from ten destination regions in Asia-Pacific came to Munich for a tour titled "Seeing is Believing" to learn more about the advantages of Munich Airport. The high point of the extensive program was an airport rally through Terminal 2 and a big closing party. The rally's victors and the winners of the Munich Airport Agents Award 2005 were the team from Vietnam.

MediCare: High-tech health care at the airport
FMG subsidiary MediCare Flughafen München Medizinisches Zentrum GmbH is part of the Group's Aviation business unit. MediCare operates Munich Airport's medical center and is responsible for providing emergency care to airport employees, passengers and visitors. The company additionally delivers occupational healthcare services and serves as a contact and intermediation point for foreign patients at the airport.

In fiscal 2005, MediCare had around 40 employees and reported total sales of €3.3 million. The company is co-owned by Flughafen München GmbH with 51 percent and by MAHM GmbH, a group of doctors, some of whom are based at Munich Airport, with 49 percent.

Ground Handling

Putting customers first

The services provided by the Ground Handling division encompass aircraft handling, baggage and cargo handling, and passenger transports on the airport's aprons. Munich Airport's ground handling, which has been DIN EN ISO 2001 certified since 1994 and IATA AHM 804 certified since 2003, is focused on serving the needs of customer airlines, and the division works to remain a strong innovator, providing quality service through continuous process optimization, an extensive Total Quality Management System, and the demand-driven development of new service products.

Innovation and reliability

In 2005, for example, we designed and deployed Eagle, a full-coverage electronic baggage reconciliation system, at Munich Airport. The system ensures that items of luggage are only ever loaded onto a plane if the luggage owner is actually on board. Other innovations in the area of service include the "two pairs of eyes" principle with safety and security services, the Terminal Direct passenger transportation service, and the exclusive HON limousine service for high-status Deutsche Lufthansa AG customers.

The Ground Handling division's core competency lies in the reliable and on-time delivery of complex, time-critical handling services. Besides providing the ramp services needed to safeguard Terminal 2's hub functionality and hub-and-spoke and point-to-point tourist traffic for Hapagfly, LTU and Air Berlin, the division also services traffic for major long-haul carriers like Emirates, Etihad and Delta Air Lines in Terminal 1. Ground Handling's long-standing customers also include high-volume, low-fare airlines like dba and Hapag-Lloyd Express, and well-known scheduled carriers like Turkish Airlines, Aeroflot and El Al.

Training for ground handlers

We operate a range of training programs to ensure that we continue to serve our customers well. In Ground Handling, 667 seminars were conducted for 2,502 attendees in 2005, and a total of 6,754 attendee days of training were delivered. Covering a wide range of fields, the programs included instruction on using equipment, courses for ramp agents, training on the Eagle baggage identification system, and training on the handling of air stairs. There were also special seminars for foremen, as well as courses to prepare personnel for chamber of industry and commerce aircraft handler exams and level 1 and 2 operations exams (internal FMG qualifications that provide a foundation for CIC examinations).

Sustaining a strong position

In spite of liberalization of the market for ground services in 1999 and the market entry of third-party service providers at Munich Airport, FMG's ground handling business has remained strongly competitive. In 2005, the Ground Handling division had a market share of 91 percent, performing more than 181,000 handling operations during the course of the year. The workforce of more than 2,100 ground services employees handled almost 12 million items of baggage and more than 200,000 tons of air cargo.

The boom enjoyed by low-cost airlines offering cheap tickets, the airlines' excess capacity, and rising kerosene prices have all caused cost pressure within the aviation industry to increase substantially in recent years. This pressure was also felt by airport ground services, and competition in this business is becoming increasingly tough for FMG.

Staying competitive

To enable FMG's ground handling to remain competitive in the longer term and to continue to provide services at marketable prices, a restructuring process was initiated in 2005. This partly involved optimizing existing production structures through more efficient use of resources and personnel and the exploitation of potential cost savings. It also resulted in the formation of a subsidiary, mucground Services Flughafen München GmbH, and the creation of a new, cost-efficient production platform.

mucground Services: The new subsidiary

This wholly owned FMG subsidiary began operating in March 2005. Its role is to ease the load on FMG's ground services during peak traffic periods and to provide capacity as an FMG subcontractor to accommodate the anticipated growth in handling orders.

With a core workforce of 35 employees and, by yearend, 214 employees on loan from partner organizations, the company generated sales of almost €5.0 million in the 2005 short fiscal year.

Other ground services are provided by the FMG subsidiaries aerogate, Cargogate, and EFM, all of which were assigned to the Ground Handling division at the beginning of 2005 during the Group's restructuring. Since then, FMG has operated as a full handler, presenting one face to the customer.

aerogate: Handling and ticketing

The purpose of aerogate München - Gesellschaft für Luftverkehrsabfertigungen mbH is to provide passenger and aircraft handling services in those sectors not already covered by ground services. The company also operates a baggage delivery service and, with growing importance from a revenue point of view, a ticketing service.

Although four competing companies stepped up their activities, as did airlines that do their own ground handling, and in spite of a continued decline in handling prices and the overall poor economic situation, the company succeeded in generating proceeds on sales of €10.6 million.

Cargogate: Competency in air cargo operations

Cargogate Flughafen München Gesellschaft für Luftverkehrsabfertigungen mbH provides air cargo handling services at Munich Airport. Besides the transshipment of cargo, these services include the storage and documentation of freight goods. In spite of growing competition, Cargogate remained the largest independent cargo handler at Munich Airport in 2005. The company handled almost 95,000 metric tons of freight for 45 customer airlines – around 15,000 tons more than a year earlier. The reason for the sizeable increase was the acquisition of new airlines with attractive long-haul routes. In fiscal 2005, Cargogate reported total earnings of €11.4 million.

EFM: De-icing and pushback
Co-owned by GlobeGround GmbH (51 percent) and Flughafen München GmbH (49 percent), EFM - Gesellschaft für Enteisen und Flugzeugschleppen am Flughafen München mbH is responsible for de-icing aircraft at Munich Airport. Its services also include aircraft pushback and maneuvering on the apron and in the maintenance area. In fiscal 2005, the company again reported record sales – of almost €23.8 million – partly due to the exceptionally hard winter and partly to the increase in the number of aircraft movements.

Air freight: Outstanding growth
Freight traffic has grown substantially at Munich Airport. In 2005, the airport handled in excess of 356,000 tons of cargo, an increase of around 47,000 tons or 15.2 percent year on year. More than 202,000 tons of freight carried by air were registered (18.7 percent more than a year earlier), while the amount of trucked freight grew 10.8 percent on 2004 to 154,000 tons. On average, the airport handled 556 tons of flown freight a day in 2005, compared to 467 tons in 2004.

Hub traffic is driving the freight boom
As the vast majority of air cargo handled in Munich, some 75 percent, is still transported as bellyhold freight on passenger services, the rapid growth in freight is indicative of the expansion in hub-and-spoke traffic, especially on long-haul tourist routes, because 70 percent of the air cargo is carried on intercontinental services.

Growth in the quantity of freight transported to and from Asia was spectacular at 49.1 percent and strong on services to and from the U.S. (11.6 percent). Thus, the U.S. and Asia remained the most important freight regions in 2005 with respective shares of 25 percent and 41 percent of the total freight volume.

Freight-only aircraft carried 25 percent of the total cargo handled, 5 percent more than a year earlier. The increase was due to a large degree to the introduction of a new dedicated freight service by Qatar Airways.

Air mail: The decline continues
The volume of air mail handled at Munich Airport dropped again in 2005, this time by a sharp 28.7 percent year on year. This was consistent with the overall picture at airports across Germany. In 2005, Munich handled 15,205 tons of air mail – a good 6,000 tons less than in 2004.

The causes behind this ongoing trend remain, in part, the continuing advance of new communications media, changes in Deutsche Post AG's distribution system, and competition from express carriers. However, the air mail carried by the latter appears in the statistics as air cargo.

Non-aviation business

Real Estate Management and Development

Optimizing our offering

To unlock earnings potential at Munich Airport, the company embarked on an large-scale drive to develop its non-aviation business. This created an attractive spread of offerings designed to appeal to travelers, visitors and airport employees in both of the terminal buildings and the neighboring areas. By better aligning the retail and hospitality offerings in Terminal 2 with the needs of target groups, we engaged with them more effectively and, in the process, underscored Munich Airport's leadership position in non-aviation business. Central to this drive were new stores selling electronics, watches and jewelry that were chosen specifically for the areas beyond security checkpoints in Terminal 2 on the basis of market research.

The restructuring work in Terminal 1 that commenced in 2004 was completed in 2005. Terminal modules A through D now have high-quality shops carrying well-known brands, several newsagents, and classic souvenir stores. The hospitality areas were also remodeled, a step that was well received by passengers because seating areas now overlook the apron.

Events in the MAC Forum

The Forum of the München Airport Center (MAC), a location unparalleled anywhere in Europe, proved hugely popular as a venue for major events, exhibitions and the now traditional Christmas market. One of the highlights in 2005 was the exhibition of an original BMW racing yacht from the America's Cup. There were also vehicle presentations by other automakers and several events for dealers, key accounts, and the press in the Audi Forum.

Soccer, too, featured prominently at the airport, with Flughafen München GmbH and MAC advertisers sponsoring Munich's storied football club TSV 1860 München in 2005. A number of soccer-related events took place at the airport, including autograph sessions with top players, prize draws for tickets to games in the Allianz Arena, and a friendly match between the professionals and a team of players from the local region. In 2005, we also began sponsoring the top team in the women's volleyball league, Rote Raben, based in the town of Vilsbiburg. In the future, the company plans to hold high-profile regional and international beach volleyball tournaments in the MAC Forum.

Tenancy remains high in the MAC

In spite of the generally slow market for commercial building leases in Munich and, even more so, in the airport's surrounding area, tenancy in the MAC remained stable at 90 percent in 2005. In addition, one building on the airport campus had to extended. Due to the high demand for logistics capacity, cargo halls used by a number of internal express carrier services and by the postal services to handle night mail were extended by around 4,400 square meters.

SMS service and web advertising

The airport's popular SMS flight information service for passengers was upgraded in October 2005 to allow users to sign up directly from the timetable on the airport's web site. All users need to do to receive text messages on changes to arrival and departure times is to click on a flight number listed in the timetable. The text messaging service is operated by an external company and is funded by an outside advertising partner.

Due to high demand, online advertising capacity in the airport portal had to be extended to support additional forms of advertising and to provide more space. For details, see www.munich-airport.de -> Media data.

Networking local businesses

In 2005, Munich Airport and the towns of Erding and Freising and their rural districts created a common internet platform for the business community in the airport's surrounding region. Located under the URL www.umlandportal.de, the site provides a virtual classified directory with which businesses in the airport's local area and the more than 500 companies located on the airport campus can register, showcase themselves, and connect with possible clients and suppliers.

Advertising and the Munich Airport Award

Additional advertising space at the airport was well-received by the advertising community. In Terminal 2 in particular, efforts to market ad space were highly successful, even though the national economy and business in the advertising industry remained sluggish. Advertisers showed a strong interest in adaptable spaces, above all in custom-designed lounges, and we are looking to feed this demand in the future. For the eighth time, the company held the Munich Airport Award competition, always a highlight for the advertising community. In 2004, the competition attracted an enormous response, with 140 entries from Austria, Switzerland and Germany. The success of the award presentation and the extensive press coverage it received underscore the considerable interest in the airport within the advertising industry.

Retail and Services

Everything for customers
FMG's Retail and Services division is responsible for end-customer business activities focused on passengers, visitors and airport employees; it is also in charge of running the airport's retail and hospitality operations, the "municon" conference center, the Hotel Kempinski Airport München, and the airport parking facilities.

Parking and customer services
Although our parking and services primarily profit from originating passengers (up 5.3 percent year on year) and passenger movements overall were 6.7 percent higher, revenue generated by these business areas grew 11 percent on 2004, an exceptional increase. In 2005 around 5.5 million vehicles were parked at the airport, with the parking utilization rate reaching 82 percent.

Retail and Services manages all of the open-air and multistory car parks at Munich Airport. These car parks have the capacity for 32,000 vehicles and are used not just by passengers but also by tenants and airport workers. Related services include convenience and secure parking, and DLH's valet parking which includes washing, valeting and refueling if required.

In mid-2005, we launched a new service, so-called online parking, that allows travelers to reserve a parking space at the airport at a considerable discount through the airport web site. This has proved exceptionally popular with passengers, as has a new service desk in the Central Building where travelers can inquire about parking facilities at the airport.

Two FMG subsidiaries, Allresto and eurotrade, belong to the Retail and Services division.

Remodeling and expansion for Allresto
Allresto Flughafen München Hotel und Gaststätten GmbH and its workforce of more than 413 people generated total sales of €58 million in fiscal 2005, making the company Flughafen München GmbH's third-highest-earning subsidiary. Allresto operates the restaurants and bars in both of Munich Airport's terminals, plus four employee canteens, a Burger King fast-food restaurant, the "municon" congress center, and the airport hotel (managed by the Kempinski Group). Allresto manages its hospitality operations itself, but its hotel and casino activities are run by third-party operators.

In Terminal 1, with its decentralized structure, the company operates bars in each of the modules in the arrival and departure areas. In addition, there are six snack bars, plus several restaurants, including Airbräu, Käfer, and Il Mondo. In Terminal 2, Allresto runs the Airbräu and Käfer restaurants, an Italian piazza, and a number of bars in the pier area.

Following the remodeling of the central departure area bars in Terminal 1's C and D modules in 2004, the remaining departure area bars in modules A and B were redesigned and moved to more central locations. Since 2005, the popular Airbräu restaurant in the central area, having been extended in late 2004 through the addition of a new room, provides the ideal venue for a variety of events, in particular cabaret shows. In 2005, the Segafredo bar in the central area was also extended and now operates as an ice cream and coffee bar. All of the rooms in the Hotel Kempinski were renovated "on the fly" without the need for significant closures.

eurotrade: Attractive stores and an extensive product range
In spite of Germany's generally slow economy in 2005, eurotrade and its workforce of 592 people succeeded in bucking the wider national economic trend to boost sales by €15.5 million to €110.5 million, making the company Flughafen München GmbH's second-highest-earning subsidiary. Eurotrade runs a range of retail outlets at Munich Airport, such as duty free and Travel-Value shops, newsagents, and stores selling travel goods, souvenirs, cosmetics, clothing and toys. The company also operates cafés and snackbars embedded in retail units. Flughafen München GmbH owns 74 percent of eurotrade; Mr. Herbert Wolter holds the remaining 26 percent.

In Terminal 1, the company has to operate duty free, Travel Value, and newsagent outlets in every module because of the building's decentralized structure, but in Terminal 2, these stores are all located centrally. In 2005, eurotrade remodeled and renovated several retail units in Terminal 1; in Terminal 2, due to a clearer understanding of market needs gained during the two years the building has been service, the original mix of a businesses has be adjusted and optimized. Due to tougher aviation security requirements that have meant changing passenger routing in both terminals (more extensively in T2 than in T1), the company has closed some of the stores and partly realigned its retail strategy.

Terminal 2

The operating company: Coordinating services

The Terminal 2 division consists of two joint ventures formed by Flughafen München GmbH and Deutsche Lufthansa to set up and operate Munich Airport's new passenger terminal. The company FM Terminal 2 Immobilien-Verwaltungsgesellschaft mbH & Co. oHG managed the construction and financing of Terminal 2, which went into service in 2003. The terminal is operated by Terminal 2 Betriebsgesellschaft mbH & Co. oHG, which in 2005 generated sales of almost €259 million. FMG and Lufthansa have respective stakes of 60 percent and 40 percent in the two companies, partly through investments in other companies.

FMG and LH as partners

FMG and Lufthansa both stepped into new territory with the T2 partnership. This is the first time anywhere in the world that an airport operator and an airline company have teamed up to share the entrepreneurial responsibility for the creation and operation of a piece of airport infrastructure. Terminal 2 Betriebsgesellschaft does not operate in a production capacity as such; instead, its two corporate parents provide services, especially classic landside and airside handling services. Other services needed in connection with marketing and operating the building are bought in, above all from FMG. The jointly held company has a core workforce of 30 employees, including its two executives, who, like the majority of the workers, have been seconded from the parent companies. The terminal operating company's role is to coordinate services, to integrate operations, to optimize services, and to encourage and implement new advancements.

Partnering to build and operate the new terminal, used exclusively by Lufthansa, its group companies, other partners, and fellow Star Alliance members, has created a win-win situation. Lufthansa has had the opportunity to co-develop a terminal building tailored to its customers' needs and its own handling processes, and can continue to shape the facility's future development. Lufthansa, Star Alliance members and other partners enjoy the benefits of a modern passenger-handling building designed specifically to meet the needs of international hub traffic. And FMG now has substantial additional aircraft and passenger-handling capacity and a long-term commitment to its airport from Germany's largest carrier that is helping to drive future growth.

More carriers in Terminal 2

Terminal 2 is a unique success story. When this advanced, highly efficient handling facility began operating, it instantly doubled Munich Airport's capacity to 50 million passengers a year, and at just 30 minutes, Terminal 2's minimum connecting time is one of the shortest in the world. The building is renowned for its outstanding architecture, is clearly structured and user-friendly. It has a rich retail and hospitality offering, and is extremely popular with airlines and passengers alike – factors that have contributed to the rapid growth in the traffic figures.

In 2005 the number of flights handled by Terminal 2 continued to grow, reaching almost 270,000 (6.4 percent more than a year earlier). The increase in passenger numbers was even greater: More than 19 million air travelers used Terminal 2, a 9.3 percent increase on 2004.

New to Munich Airport in 2005, Star Alliance member Varig began operating out of Terminal 2, and new Lufthansa partners Aegean Airlines, Carpatair and Swiss moved across from Terminal 1, bringing the number of carriers at Terminal 2 up to 27. Together, these airlines operated services from Munich to 169 destinations around the world, including 21 airports in Germany, 104 in European and Mediterranean countries, and 44 on other continents.

Shops, restaurants and lounges

There were 82 retail and service outlets and 18 restaurants in Terminal 2 in 2005. Seven new units opened in the public and restricted areas, including stores selling sporting goods, fan merchandise, and electronics. Two hospitality businesses, Spazio Italia, a café and bar in the waiting area for flights to Italy, and Airport Pizza, opened in the public area in the arrivals section of the building. Several more retail and hospitality units were either extended to provide more space or had their product ranges modified. Lufthansa also opened a new lounge for first-class travelers and other key customers.

Although in service for just two years, the new terminal building already needed its first major remodeling work. New aviation security requirements issued by the European Union regarding checks on transfer passengers called for changes to internal routing, the installation of additional equipment for security checks, and modifications to the building to clearly separate different passenger groups. The building work was completed on schedule on November 1, 2005.

Personnel

A slight drop in the headcount

At December 31, 2005, Flughafen München GmbH (FMG) had 4,789 employees – 157 (3.17 percent) fewer than a year earlier. The workforce comprised 2,153 salaried employees and 2,636 wage employees. Of the salaried employees, 2,037 had unlimited contracts and 12 had fixed-term contracts. Ten employees were temporary workers, four were business trainees, and 90 were business apprentices. Of the 2,636 wage employees, 2,076 were on unlimited contracts, two had limited-term contracts, 512 were part-time or temporary workers, and 46 were trade apprentices. In 2005, FMG hired 35 business and 15 trade apprentices.

Of the total workforce of 4,789 employees, 727 or 15.18 percent were foreign nationals. The majority of these foreign workers, 443, were from Turkey, 50 were from Austria, and 46 were from Italy.

Implementing M-Power

In fiscal 2005, efforts centered on implementing the M-Power restructuring project, launched to cut costs and increase Group profitability. A number of the M-Power initiatives focused on streamlining our human resources capacity. One outcome of these initiatives was that we only hired a limited number of additional workers to cope with the increase in the volume of flights and passengers. In 2005, FMG had an HR capacity of 4,278 employee-years, down 2.1 percent or 93 employee-years in comparison with a year earlier. Nonetheless, FMG's divisions succeeded in optimizing their internal structures and workflows to accomplish their tasks and meet the challenges arising from the growth in air traffic.

Personnel expense increased by €5.1 million year on year. This was due to the transition from the federal civil service pay scale (BAT/BMTG) to the German collective labor agreement for public service (TVöD), adjustments to non-tariff salary structures, and increased workforce retirement-plan contributions.

Breakdown of personnel costs
(€ million)

	2005	2004
Wages and salaries (including subsidies for travel and meals)	176.9	172.0
Social security levies, costs of retirement plans and related benefits	49.1	48.9
Total personnel expense	**226.0**	**220.9**

More vocational trainees

Flughafen München GmbH is committed to upholding the voluntary apprenticeship pact between government and industry in Germany, and in 2005 took on 50 young people as apprentices (10 percent more than a year earlier).

In total, 144 young people trained with FMG in 2005 – in business administration, office communications, and aviation services vocational programs, as well as in university-level degree programs in commercial informatics, business and airport management, general mechatronics, and mobile airport system mechatronics. Since September 1, 2005, people can now train for two new career tracks: in protection and security and in real estate. Also, as of October 2005, FMG employees are able to attend aviation services vocational programs on a part-time basis.

The EQJ program and internships
In 2005, FMG once again took part in the EQJ program, set up to help school-leavers who have not succeeded in finding a place on a vocational program to find an entry-level job. Since December 2005, 19 young people who signed up for the program have been working as interns for FMG and its subsidiaries Cargogate and Allresto and now have a realistic chance of finding an apprenticeship or job opportunity later.

We again provided a large number of places for students to spend an internship in the company to experience jobs “live” and to get a behind-the-scenes look at the airport. Our divisions also offered attractive internship opportunities in a wide range of fields for undergraduate and doctoral students as well as retrainees. In particular, students from local schools, colleges and universities had the chance to gain valuable hands-on experience in a wide variety of fields in a real-life work environment.

Information on apprenticeship opportunities
In 2005, Munich Airport again took part in the nationwide Girls’ Day program, opening its door to young women interested in learning about careers in mechatronics, a field of engineering still largely dominated by men.

For the fourth time, the airport hosted Berufsfit, a regional careers orientation event, as part of FMG’s involvement in a local education and business working group set up in collaboration with the towns of Freising and Erding. The goal of the event, which attracted almost 8,000 visitors interested in learning about training opportunities in the region from more than 60 businesses, schools and colleges, was to help students make a career choice and to involve parents and teachers in the decision-making process. At Berufsfit 2005, FMG and its subsidiaries CAP, Allresto, Cargogate and aerogate for the first time presented the entire gamut of training and apprenticeship opportunities available within the FMG Group.

FMG also helped to support young scientists, hosting the Munich West regional “Jugend forscht” and “Schüler experimentieren” competitions for the third time in February 2005. Fifty projects in a range of fields, including mathematics, the work environment, chemistry, information technology, and physics, were exhibited and adjudicated. FMG has also begun to support child and youth research projects in the airport’s surrounding area by offering mentorship programs.

International exchange programs
As part of its program to promote collaboration with international partners, FMG further intensified its relations with China (see the section “Gateway to China” elsewhere in this report). For an international commercial airport like Munich, a globally focused education and professional training program for employees is invaluable, and in 2005 we again gave many of our employees the opportunity to take part in exchange programs with partner airports in Europe.

Through the EU-sponsored Leonardo da Vinci education program, 15 vocational trainees completed three-week internships in foreign countries. In September, apprentices in business communications visited Lisbon and Faro airports; in October mechatronics apprentices worked at Vienna Airport, and aviation services and business administration apprentices spent time at Malta Airport.

Likewise as part of the Leonardo da Vinci program, apprentices in technical operations from Flughafen Wien AG visited Munich Airport to learn about their German colleagues’ approaches to training and work.

In addition, a visit by executives from Munich’s partner airport, Denver International, in September 2005 provided a valuable opportunity for a high-level exchange of ideas and experience.

Workshops and intermediation

One important area of the company's personnel and organizational development activities in 2005 centered on helping company divisions to implement target and development dialogue processes and to set team objectives based on balanced score card criteria.

The company also created the Parity Commission, an intermediation body in which executives and works council members discuss issues surrounding the new organizational structure. At the same time, we held a series on workshops designed to promote team building and ensure that the new processes and internal structures functioned smoothly.

One important highlight was a workshop at the end of 2005 at which FMG's management team presented the newly formulated company values in a highly informative and creative presentation. Our HR development activities also encompassed initiatives to help executives select and groom employees for future leadership roles and to lay the foundations for a leadership development group due to be set up in 2006.

Broad-based training programs

The company provided a wide variety of training services to external as well as internal clients. Besides training programs, these services included the design of custom training initiatives, complete with need assessments and success tracking. We also operated a program known as the Aviation Academy, which offers special courses in a number of areas, including training on how to handle hazardous materials and training on the apron simulator. We delivered 5,850 attendee-days of training in these areas.

To make greater use of the training center and to generate additional revenue streams, the company hired out its modern seminar and conference facilities to third parties, including prominent companies located in Munich and in the airport's surrounding area, parallel to operating its own training programs.

In appreciation of their services and with sorrow we remember the following colleagues who passed away in 2005. They will be sadly missed by their fellow employees.

Edeltraud Klepsch-Erlmeier	† January 3, 2005
Maximilian Liebl	† March 19, 2005
Franz Nikolaus	† May 6, 2005
Guido Spiegelberger	† May 10, 2005
Rudolf Weber	† September 20, 2005

Corporate Development and Environment

Minimizing environmental impact

In spite of a 4 percent increase in the number of takeoffs and landings in comparison with a year earlier, noise levels at Munich Airport remained low. As in previous years, none of the measuring stations in our aviation noise monitoring system showed a continuous sound pressure level of more than 60 dB(A) in 2005. More widespread use of long-haul jets was evident recently from the incidence of noise events with levels in excess of 75 dB(A), which increased 11 percent; however, levels of more than 85 dB(A) were only recorded three times a day on average.

Mobile measurements
The number of night flights was up 15 percent on the prior year. However, the 20,585 nighttime movements only amounted to 45 percent of the allotted maximum noise quota (Neq). The nighttime continuous sound pressure level never reached the permitted maximum of 50 dB(A) at the perimeter of the daytime and nighttime noise protection zones.

As in previous years, night flights accounted for roughly 5 percent of aircraft movements. Night flights are subject to surcharges and must comply with special noise restrictions: carriers may only operate aircraft specified in the so-called bonus list.

In 2005, we conducted our hundredth mobile noise measurement since the airport opened at its current location in Erdinger Moos. Mobile measurements are taken in response to requests from local communities and individuals wishing for an assessment of actual noise levels in specific places. The results of all the readings taken in 2004 and 2005 have been published on the Internet for access by the general public.

Airborne pollutants remain at non-critical levels
Continuous measurements of levels of airborne pollutants in 2005 again showed that the environmental burden remains below critical levels. Concentrations of nitrogen dioxide, the crucial pollutant, remained more or less unchanged at 30 micrograms per cubic meter, averaged out over the year. The annual limit set for 2005 was 50 micrograms. However, the limit is being lowered successively every year, and will reach just 40 micrograms in 2010.

From the general public's point of view, particulates became an important concern in 2005. This was because regulations required, for the first time, that the daily mean level of 50 micrograms per cubic meter should not be exceeded more than 35 times in a calendar year. The airport remained well within this limit, recording concentrations of more than 50 micrograms per cubic meter on just 22 days.

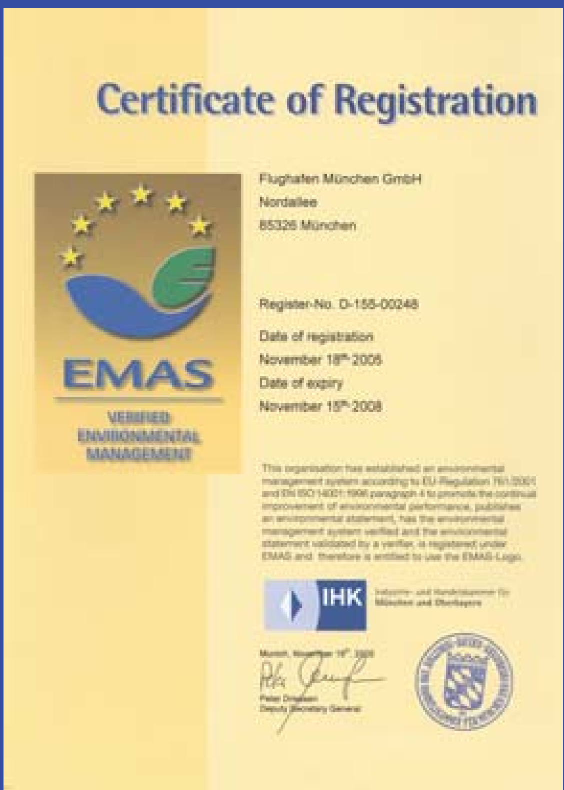
Environmental management system gains certification

Flughafen München GmbH's environmental management system successfully obtained accreditation to DIN ISO 14001 under the EU's Eco-Management and Audit Scheme (EMAS) II in 2005. The purpose of the system is to conserve and use resources efficiently at Munich Airport. The system documents and assesses all of Munich Airport's direct and indirect environmental impact. It tracks the energy, fuel and water consumed as well as the environmental impact from aircraft and road-traffic noise and pollutant emissions.

All of the internal processes are described and documented in an environmental management manual. EMAS also requires the publication of an environmental statement describing company environmental policy. To reduce environmental impact, the airport operator has defined specific environmental goals and initiatives for Munich Airport. The environmental statement has been published in brochure form in English and German and is available for download on the airport web site.

Regional relations: Dialogue with airport neighbors

Flughafen München GmbH works to collaborate closely with neighboring communities and is keen to network and communicate with stakeholders in its surrounding region on a number of different levels. Our aim is to identify common interests that unite the airport and its region, to pursue win-win policies, and to engage in joint projects – in the area of regional traffic infrastructure, for example. Our long-term vision is to ensure that Munich Airport is a well-integrated and valuable asset for its region.


Certificate of Registration

Flughafen München GmbH
Nordallee
85326 München

Register-No. D-155-00248

Date of registration
November 18th 2005
Date of expiry
November 15th 2008

This organisation has established an environmental management system according to EU-Regulation 761/2001 and DIN ISO 14001:1996 paragraph 4 to promote the continual improvement of environmental performance, publishes an environmental statement, has the environmental management system verified and the environmental statement validated by a verifier, is registered under EMAS and therefore is entitled to use the EMAS-Logo.

The new Communities Council

One key area of our regional relations work in 2005 consisted of preparing for a political dialogue with the surrounding region in connection with the planned construction of a third runway. Aware that this project could be a difficult test for relations between the airport operator and the airport's region, we focused on cultivating a culture of clear communication with the airport region and on initiating a timely, open and forthright dialogue with stakeholders. To facilitate this process, we formed the Communities Council, which began its work in September 2005, and has since accompanied the planning process for the third runway. Our goal is to take suggestions and requests received from individuals and organizations in the surrounding region into account to the greatest extent possible as planning processes go forward.

Regional sponsorship activities

Our regional relations office, which liaises between the airport and the surrounding region, also contributed substantially to better integration of the airport with its surrounding region in 2005. The regional relations office now engages regularly in dialogue with members of the business community, society, politics, and administrators in the airport region. Since early 2005, the office has also been responsible for sponsoring local cultural, sports and social organizations and events in the Erding and Freising districts.

Regional marketing

Flughafen München GmbH has sought to promote greater networking across the region by engaging with the community through a number of projects, including an exemplary regional marketing initiative: In August 2005, FMG set up a working group with the cities and districts of Erding and Freising. Supervised by outside consultants since November 2005, the initiative aims to prepare and implement a professional regional marketing project in the airport region financed by the group’s five members.

The regional marketing project is intended as a long-term, active and collaborative campaign in which the airport and its partners work together to promote and sustain growth in the airport region.

A virtual classified directory for the region

In 2005, a web-based classified directory was set up under the URL www.umlandportal.de. This is a portal site in which companies located at Munich Airport and in the surrounding Erding and Freising area can register their details, and allows users to find local businesses quickly and easily. The site also provides useful and interesting information, including lists of job vacancies in the region and links to business organizations’ and associations’ web sites.

Regional transport infrastructure

Once again in 2005, one of Flughafen München GmbH’s major concerns was to improve the regional transport infrastructure serving the airport and its surrounding area. The company took part in supraregional transportation initiatives launched with goal of improving rail access to Munich Airport, not least because southeast and northeast Bavaria today are important catchment areas for employees and air travelers, and these areas will acquire even greater significance for the airport as it continues to develop.

With regard to the road infrastructure, the airport and the Erding district commissioned a traffic survey on the B 388 trunk highway. Current planning and expert opinions are to be coordinated so as to create a reliable foundation for an improvement in the traffic situation on the B 388 and in access to the airport and the A 92 autobahn.

Corporate Communications

Communicating the need for airport expansion
Munich Airport once again generated strong and consistently positive feedback from the public at large in 2005 through its intensive media relations work. Numerous members of the national and international media reported on our annual press conference, on Munich's selection as the best airport in Europe, and on scores of other important airport-related topics. In more than 130 news releases and reports, the airport operator published information on key events and advancements at Munich Airport during the course of the year.

In the latter half of 2005, much of our media relations work centered on the airport's expansion. By delivering comprehensive information to the media, we ensured that the public were supplied with timely information on the planning processes underway. We communicated the reasons for extending the airport's capacity and described the planning situation clearly and transparently. Effective communications work in connection with the expansion project led to serious and positive reporting on plans for the third runway, especially in local and regional media.

Information updates and a publication relaunch
Our role is also to provide the general public with current and comprehensive information on Munich Airport, and we accomplished this by producing a variety of publications in 2005. These included flyers on the future third runway, intended specifically to inform airport neighbors and airport employees in detail about the plans.

The FMG Group's new strategic alignment and the values and principles binding on our employees and executives were covered in a brochure titled *Our new Strategy 2010*, published in English and German and produced for FMG Group employees and customers.

Internal communications centered on publicizing the structural changes in the Group as an outcome of the M-Power optimization project and, against the background of the difficult market environment, on keeping employees thoroughly up-to-date, especially those working in ramp services.

To improve the legibility and readability of *Flughafen Report*, our German-language monthly employee newsletter, we relaunched it with a new look and with more engaging, clearly structured, modern content. This, in combination with supplements, posters, flyers, and intranet reports, kept employees up-to-date on current and important topics.

Much of the column space in *M terminal*, the newsletter published for airport customers and neighbors six times a year, was devoted to initial activities in connection with the expansion of Munich Airport's runway system.

ACI conference and much more
The airport played host to a large number of events, congresses, trade shows and exhibitions during the course of 2005, including the 15th anniversary conference of the Airports Council International Europe, attended by 500 high-ranking guests, which took place in Germany for the first time in June at Munich Airport.

Key events during 2005 included Munich's selection as the best airport in Europe, the subsequent award ceremony, and the big thank-you party held for FMG employees. The airport information stand at trade shows and exhibitions in the region attracted large numbers of visitors, many of whom were interested in the employment opportunities at the airport.

Art also featured prominently at the airport, with an exhibition of caricatures by Dieter Hanitzsch, works by Wilhelm Holderied bannered "Ten years of the Earth Symbol," sculptures and reliefs by Michael Kragler, and photos by Catherina Hess taken following the tsunami disaster.

Expansion plans

Munich Airport is booming

Between 1992, the year in which the airport moved to its current location, and 2005, the number of aircraft movements annually has grown from 175,000 to around 400,000. Over the same period, passenger numbers have more than doubled, from 12 million to 28.6 million. And the growth is set to continue: According to forecasts by Intraplan Consult GmbH, an independent firm of consultants, aircraft movements could increase to 610,000 and passenger movements to almost 56 million by 2020.

A problem: Capacity limits
But the outstanding traffic growth in recent years has a downside: It has already pushed Munich Airport's two runways to the limits of the traffic that they can handle during peak periods. Effectively, this means that the two-runway system, currently able to schedule 90 aircraft movements an hour, is working at maximum capacity for seven hours of every day. Even with steps to further optimize runway utilization, it won't be possible to achieve any significant capacity increase.

By 2008, the runway system's scant capacity reserves will be exhausted, causing long waits and sizeable delays in the not-so-distant future. And from 2010, the airport's ability to accommodate traffic growth in line with real-life demand will doubtless be compromised.

The solution: A third runway
To avoid impeding its own future growth as an international hub and regional job engine and economic driver, Munich Airport needs to be able to process more takeoffs and landings, and that means it urgently needs a third runway.

Building a new runway is the only way to provide the requisite capacity to handle 120 takeoffs and landings an hour and to meet the needs and challenges of tomorrow's air traffic.

A beginning: The project gets the go-ahead
On July 26, 2005, Flughafen München GmbH's executives informed the supervisory board and shareholders about the foreseeable capacity bottlenecks and explained the need to expand the runway system. Pending the approval of Bavaria's Council of Ministers and Munich city council, FMG shareholders provisionally authorized FMG executives to begin planning the expansion of the current runway system and to quickly prepare and set in motion the necessary regional planning procedure.

A day later, on July 27, Munich's city council approved the move, and was soon followed by Bavaria's Council of Ministers on August 2, 2005. Plans to expand the airport had been given the green light.

The search: A choice of possible locations
In advance of the detailed planning work on the third runway, FMG had already begun looking for and assessing a number of potential runway sites on the airport campus. The search identified 25 possible locations, each of which was assessed and weighted according to its ability to deliver the desired capacity increase.

A runway configuration analysis by the German Center for Aerospace (DLR) showed that just six of the locations considered, all of which lay parallel to the current north and south runways, would be capable of increasing the capacity to the targeted 120 scheduled takeoffs and landings per hour.

Although the final assessment of the locations was not yet complete, the shortlist of candidates shrank again in fall 2005, when Flughafen München GmbH announced that four of the locations examined to date were no longer an option due clearly conflicting space requirements.

This left just two options, both to the north of the existing runway system. In relation to the north runway, one of the two locations was 1,180 meters away, center to center, and offset by 2,100 meters, the other 1,035 meters away and offset by 1,350 meters. Final selection will ultimately be based on the need for the smallest possible impact on local communities and the environment. From FMG's point of view, this is currently the location 1,180 meters from today's north runway.

As the planning progressed, outside experts assessed the locations' merits carefully using simulations of operations, including taxiing, based on projected flight timetables. They also examined in detail the possible noise impact of each variant in a special report.

The road ahead: Studies, reports, procedures
In the weeks and months ahead, a number of independent expert opinions are to be prepared in connection with the regional planning procedure. Besides an air traffic forecast, these include a capacity analysis, an environmental compatibility study, assessments of the technical planning, water management, and landscaping, and expert reports on the potential noise nuisance and the impact on air quality and climate.

The goal of all of these studies is to identify the runway location that represents the best possible solution, not just in terms of cost and capacity, but also with regard to negative effects on the airport region.

The projected impacts of building a new runway will then be analyzed and presented in a public zoning procedure and environmental compatibility review. This will culminate in the setting of binding requirements by the zoning authority that will include measures to protect the local population from aviation noise and preserve the environment (through remedial and mitigative landscaping, for example).

Dialogue: Working with local communities
As the expansion project goes forward, FMG places considerable emphasis on fostering an open and constructive dialogue with local communities. To take their legitimate interests into account, the Communities Council was formed when the project began; this body offers a platform through which FMG can meet at intervals with local councilors, mayors, and stakeholders, as well as aviation industry representatives and members of the local business community and hear their concerns.

This dialogue with airport neighbors began on July 27, 2005, just one day after FMG's governing bodies decided to proceed with planning the new runway. At a meeting of the Airport Forum, representatives of the local region and Flughafen München GmbH executives decided to set up a body to oversee the planning and construction work on Munich Airport's third runway, and the idea for the Communities Council was born.

Chaired by Edda Huther, a former president of the Bavarian Constitutional Court and Munich's Regional Court of Appeal, the Communities Council enables an intensive dialogue between representatives of local communities and the airport operating company. Parallel to the statutory approval proceedings and the extensive scope for active involvement that they offer airport neighbors, the council provides a forum in which local community leaders and other stakeholder representatives can find out about the current planning status and voice their interests and any concerns they may have about the new runway.

The aim: To be in operation by 2011
As the dialogue process with local communities continues, FMG hopes, among other things, to map out operating strategies that will minimize any impact on the airport's surrounding area. The company also intends to set up a fund associated with the expansion work to benefit individuals and communities who are subjected to a particular burden through the construction of the third runway; the fund's resources are to be used solely for projects that entail no legal obligation for FMG.

According to current scheduling, FMG hopes to initiate a regional planning procedure before the end of the summer of 2006, and if the process goes ahead as planned, the third runway, a factor crucial both to Munich Airport's future and to its ability to compete as a center of aviation, could go into operation in 2011.

Gateway to China

Support and consulting

Munich has long since established itself as a commercial airport in the international aviation arena and enjoys a strong reputation among aviation organizations in countries all over the world, including China.

China is booming. Its unprecedented economic growth and the sharp rise in the number of air travelers on services to and from China are creating many new challenges for the country's airports. Given that Beijing is to host the 2008 Summer Olympics, new strategies and initiatives need to be implemented quickly in order to deliver the levels of service expected of today's international passenger airports.

China's airports need competent support and assistance. Munich Airport enjoys an outstanding reputation as an expert in international airport management programs, and the demand for opportunities to attend programs designed by Flughafen München GmbH (FMG) and hosted at Munich Airport is high among China's airport managers. The unit that manages these programs within FMG is the department responsible for Group-wide training, remuneration systems and HR marketing.

Collaboration between FMG and the CAAC

Links between Munich Airport and China now have something of a tradition: In 2002, FMG began delivering training programs for the Civil Aviation Administration of China (CAAC), and, to date, FMG has held management trainings on safety, security and operations for executives from airports in every region in China. The company has also organized and operated training programs on de-icing and winter services for the Civil Aviation University of China (CAUC), a CAAC affiliate.

Ties between FMG and the CAAC have grown stronger and stronger over the years. In May 2004, Yang Guoqing, deputy director general of the CAAC, visited Munich Airport and met with FMG president and CEO Michael Kerkloh to arrange a long-term training partnership. This partnership was officially sealed in Beijing in April 2005 with the signing of a memorandum of understanding.

Partners in China have since asked for additional training support, and FMG will extend its current training curriculum to include new management programs centering on commercial and retail areas and on environmental management in 2006.

Classroom theory and practical training

The success of FMG's custom management programs lies in providing the right balance of classroom theory and practical training. The trainings are delivered for the most part by Munich Airport's specialists, but outside companies whose products and systems are in service at Munich Airport are also called upon to hold courses. These Bavarian companies' trainings are coordinated by the Association of Bavarian Industry (vbw) working in collaboration with Bavaria's economics ministry. By involving other companies in this way, the airport operator plays a facilitating role by enabling businesses in Bavaria to make initial contacts with potential customers.

We are continuing to develop our ties with China: With a partnership agreement inked in April 2005, we laid the foundations for closer collaboration in the future between Munich Airport and Qingdao Liuting International Airport. The activities in this bilateral partnership are controlled by Aviation Strategies International, a strategic management consultancy for the aviation industry based in Montreal, Canada. It is hoped that the collaboration between the two airports will lead to a strategic partnership to develop Qingdao Liuting International Airport in the intermediate term.

An exchange between experts

Parallel to the initial activities on the road toward a strategic partnership, executives from a number of divisions at Qingdao Liuting International Airport are taking part in management programs at Munich Airport. These programs give attendees the opportunity to take a look at airport operations behind the scenes and gain a better understanding of their fellow executives' roles within the FMG Group. This high-level exchange between professionals is helping to pave the way toward a long-term partnership between the two airports.

Successful collaboration between Bavaria's foremost commercial airport and its Chinese partners today is creating a win-win relationship for both sides and underscores the importance of Munich Airport's role as a gateway to China.

Awards

Munich is chosen as Europe's best airport
In a survey conducted among 5 million passengers from 90 nations by Skytrax, an independent aviation research organization, Munich was chosen as the best airport in Europe. Munich also ranked fourth worldwide after Hong Kong International Airport, Singapore Changi Airport und Seoul Incheon Airport. The World Airport Award is presented annually and is based on the most extensive global customer survey of standards at international airports.

The most recent Skytrax survey took place between June 2004 and March 2005 and covered more than 150 international airports. It assessed 31 criteria in total, including the quality of handling services, friendliness and competency of airport staff, retail and entertainment offerings, safety and security standards, and the speed and ease of transfers.

Besides Munich, just two other European airports, Amsterdam and Copenhagen (ranked eighth and ninth respectively), made it into the world's top ten. In comparison with a year earlier, Munich succeeded in improving its ranking from tenth to fourth to be chosen for the first time as the World Airport Award's best European airport.

ERA Airport of the Year 2005/2006
The European Regional Airline Association (ERA) chose Munich Airport from 12 candidates as the ERA Airport of the Year 2005/2006. Munich had already been honored with the coveted award once before in 2002, the year in which the title was first awarded.

With the Airport of the Year award, the ERA honors efforts by airports to create favorable operating conditions for regional air traffic. At Munich Airport, regional air traffic plays an important feeder role for carriers serving European and intercontinental destinations.

Airport Marketing Award
At the Routes 2005 international airports and airlines conference in Copenhagen, Flughafen München GmbH was chosen for the seventh time in eight years as the winner of the highly coveted Airport Marketing Award for the best marketing. FMG, competing for the first time in the category of airports with more than 25 million passengers, beat major airports like London Heathrow, Amsterdam and Madrid to take the top award.

Two hundred eighty airlines rated the quality of airports' initiatives to acquire new business, to deliver quality customer care and support, and to sustain and promote traffic growth.

Above all, Routes serves to introduce new routes in international aviation, and rates as the industry's foremost contact and information sharing event for airports and airlines.

European Chinese Tourists Welcoming Award
FMG was chosen by Germany's National Tourist Board (DZT) to receive the European Chinese Tourists Welcoming Gold Award 2005 for the best marketing in China. The award honored the company's broad-based and successful incoming initiatives, which have helped to increase the number of Chinese tourist air travelers bound for Munich almost fourfold in the space of five years.

Excellence in idea management
Outstanding initiatives by Flughafen München GmbH employees won the company first place by a wide margin in the annual idea management competition held by the German Institute of Business Management (DIB). Of the 903 suggestions for improvements submitted by FMG employees in the prior year, 451 in total were rated as a valuable and, together, helped the company to boost earnings by more than €78.4 million. FMG succeeded in beating illustrious rivals like Deutsche Lufthansa AG and Frankfurt Airport's operator, Fraport, to take first place in the competition.

FMG also ranked fourth Germany-wide and across all sectors of industry among companies with between 1,000 and 5,000 workers, making it into the top ten for the fist time. In total, the DIB assessed 365 companies and public organizations around the country in 18 sectors of industry.

The FMG Group's business performance

High proportion of transfer passengers

Our foremost priority in fiscal 2005 was Munich Airport's continued development as an aviation hub, something underscored by the high proportion of transfer passengers, who now account for around one-third of the overall passenger volume. Traffic growth was strongest on routes served by Lufthansa and Star Alliance partner flights operating out of Terminal 2. Munich Airport grew the third-fastest among Europe's busiest commercial airports, recording a 6.7 percent increase in passenger movements in comparison with a year earlier.

Group sales

In fiscal 2005, FMG Group sales totaled €844.3 million, up €56.3 million or 7.1 percent on 2004. More than half of Group sales were generated by the servicing of air traffic, with aviation revenue 6.8 percent higher year on year, reflecting the positive growth in traffic. Non-aviation earnings, consisting for the most part of leases, concessions, hospitality and retail revenue, grew 7.5 percent on 2004, rising to €408.2 million.

Operating costs

Operating costs in fiscal 2005 totaled €812.0 million, an increase of almost €40 million or 5.2 percent year on year. Although the headcount was lower than in 2004, personnel costs increased following a switch from the federal civil service pay scale (BAT) to the German collective labor agreement for public service (TVöD) for Flughafen München GmbH employees, effective October 1, 2006.

Earnings after tax

In the review year, the FMG Group reported a surplus of €3.6 million, compared to a loss of €50.1 million in fiscal 2004. This was due not just to operating earnings but also to stronger financial earnings, which improved as a result of better interest management and higher income from investments.

2005 year-end accounts

Management's review of fiscal 2005

General economic environment and situation in the industry

During 2005, the global economy continued to expand rapidly. In particular, growth in the United States and in Asia provided a powerful impetus to business worldwide.

For German industry, the foreign trade environment remained favorable and exports continued to boom, whereas, by contrast, the domestic economy remained lackluster, showing little in the way of growth.

World aviation saw a steady increase in the numbers of aircraft and passenger movements on all continents in 2005, but the gains failed to have a positive impact on carriers' bottom lines as rising oil prices effectively canceled out efforts to cut costs and streamline business operations. The foremost growth drivers in 2005 were again the low-cost carriers.

In 2005, the German Airports Association (ADV) and its member airports reported passenger movements totaling 165.5 million, a solid 6.3 percent increase on the previous year.

Business trends

The biggest growth factor at Munich Airport remained the continuous expansion in Lufthansa and its fellow Star Alliance members' hub traffic. The steadily increasing number of transfer passengers – which reached 34 percent of the total number of passengers in 2005 – underscores the solid decision-making behind the initiatives to develop Munich Airport into a high-performance aviation hub serving a worldwide network of routes.

Barring Spain's Madrid and Barcelona airports, Munich recorded the highest year-on-year growth among Europe's ten busiest passenger airports.

With more than 28.6 million passengers, the volume increased by 1.8 million or 6.7 percent.

Aircraft movements in all traffic segments were 4.1 percent higher compared to a year earlier, with a total of 398,838 takeoffs and landings.

In 2005, Munich Airport recorded its highest rates of growth in the cargo sector, where the volume of flown air freight increased by 18.7 percent to 202,844 metric tons.

Flughafen München GmbH's sales rose 4.4 percent year on year to €656.2 million.

Thanks to the growth in traffic, aviation earnings went up by €24.4 million, or 6.9 percent, to €379.6 million.

Landing and parking fee revenue showed solid growth, rising by €21.7 million to €246.0 million.

Although a competing ramp services operator at the airport succeeded in acquiring a greater share of business, FMG's earnings from ramp services increased marginally by €2.7 million or 2.1 percent to €133.6 million.

Non-aviation earnings in fiscal 2005 increased €3.4 million to €276.6 million, a rise of 1.3 percent, and contributed 42.2 percent of total earnings.

Non-aviation revenue from parking fees, utilities and other services rose in line with expanding aviation revenue, increasing a sharp €8.3 million to €180.8 million. Rents were lower year on year, dropping by €5.3 million overall. This was due primarily to a drop in demand for Hangar 4 as an event venue and an attendant €1.8 million decline in revenue, a €1.2 million reduction in rents on account of remodeling and renovation work carried out in the airport hotel in 2005, and a €0.5 million reduction in rent in the FOC. Revenue from concessions dropped by €0.7 million in comparison with 2004.

Materials expense was up €21.5 on its prior-year figure at €212.4 million, an increase of 11.3 percent.

The rise was largely due to first-time invoicing in 2005 of ground services provided by the newly formed subsidiary MUCGround Services GmbH, to higher winter services costs, and to a €7.2 million increase in the variable landing fees transferred to Terminal 2 Betriebsgesellschaft for handling Terminal 2 passengers. Other increases in expenses came about through work on the Terminal 1 building, which was the primary cause for remodeling and optimization costs increasing by €5.1 million to €12.1 million.

Intensive efforts to cut costs in procurement and purchasing succeeded in reducing expense for inspection and third-party maintenance and for third-party cleaning services by €5.6 million in comparison with fiscal 2004. In spite of the substantial year-on-year growth in sales, personnel expense increased just moderately in 2005, rising by €5.1 million, or 2.3 percent, to €226.0 million.

Interest, leasing and writedowns – all key factors affecting the company's cost situation – totaled €156.3 million, or 22.8 percent of total costs, not taking into account the net result before transfers and income tax. This marks a drop of €8.3 million or 5.0 percent, year on year. The financing of the Terminal 2 building and related movables is mostly managed by the subsidiaries FM Terminal 2 Immobilienverwaltungsgesellschaft mbH & Co. oHG and Terminal 2 Betriebsgesellschaft mbH & Co. oHG, in each of which FMG and Lufthansa have respective stakes of 60 percent and 40 percent.

Having reported a loss of €54.1 million in 2004, largely due to the formation of a €28.4 million reserve for deferred trade tax and a €10.1 million reserve for trade tax owed from the years 2000 to 2003, FMG in 2005 reported a profit of €5.2 million, its first since 2002.

The change was due primarily to a reduction in startup losses at the Terminal 2 companies, from €11.8 million in 2004 to €5.2 million in 2005. In addition, profits transferred from subsidiaries increased substantially in 2005, to €7.1 million from €4.8 million a year earlier, and interest expense was reduced by €3.3 million, or 16.6 percent, year on year to €16.6 million.

Subsidiaries

The €16.9 million rise in the company's income from subsidiaries reflects the positive growth in air traffic at Munich Airport, and the shared profit from subsidiaries of €2.6 million in 2005 was the first since 2003.

Subsidiaries eurotrade and Allresto, having made a successful return to positive earnings territory in 2004 after initial losses from the start-up of Terminal 2 in 2003, substantially increased their contribution through profit transfers in 2005 to €5.4 million and €0.6 million respectively.

Other Group companies showing positive earnings in fiscal 2005 were Cargogate with €0.6 million and FMV – Flughafen München Versicherungsvermittlungsgesellschaft mbH with €0.4 million.

EFM – Gesellschaft für Enteisen und Flugzeugschleppen am Flughafen München mbH paid €0.6 million to Flughafen München GmbH in 2005 from its prior-year earnings. FMG also received €0.1 million in profits from its minority stake in Bayern Facility Management GmbH. CAP Flughafen München Sicherheits-GmbH, too, shared €0.1 million in profits with FMG in 2005.

Publication of the year-end financial statement

The year-end financial statement for the 2004 fiscal year was published in issue number 21 of the Federal Gazette on January 31, 2006.

Financial position and capital structure

Compared to a year earlier, the balance-sheet total at December 31, 2005, was down 2.5 percent at €2.161 billion. This was largely due to fixed-asset writedowns of €91.4 million. Additions to tangible assets totaled €25.9 million, compared to disposals of €126.2 million (including €106.5 million resulting from conciliation proceedings with the City of Munich).

Financial assets increased slightly by €1.0 million in 2005 through the formation of MUC-Ground Services, a new ground handling subsidiary.

At €309.6 million, equity was higher by €5.2 million, the net profit for fiscal 2005. Shareholder loans remained unchanged year on year at €1.28 billion. In 2005, the shareholders decided that €784.3 million of these loans were to be paid back to shareholders at the end of fiscal 2006. These loans were originally made to Flughafen München GmbH to finance the new airport.

The €784.3 million repayable at the end of 2006 were reclassified in the 2005 balance sheet from conditionally repayable shareholder loans to liabilities.

Provisions were down €15.7 million on the prior year at €157.6 million. For the most part, this was the result of the reversal of provisions for €13.0 million in Terminal 2 construction work not yet invoiced and utilization of a €10.1 million provision made in 2004 for trade tax. The opposite was the case with provisions for phased retirement programs, marketing and other purposes in fiscal 2005, all of which were higher than a year earlier.

Liabilities reported in 2005 were €737.9 million higher than in 2004. The main cause for the increase was the reporting of €784.3 million in loans due for repayment to shareholders as liabilities. At the same time, amounts owed to banks were lower in 2005 following the repayment of €53.7 million in loans and term money.

Capital investments

Additions of €25.9 million to tangible assets consisted primarily of €2.7 million spent on extending a cargo building for FMG subsidiary Cargogate and €2.7 million for the creation of de-icing areas on taxiways. Most of the additions, amounting to €11.4 million, were for construction in progress.

This essentially comprised €4.2 million invested in new access control points (for so-called critical parts) and €1.1 million for a new positioning system for aircraft docking.

Construction in progress also included €3.5 million for an economic asset for a multistage hold baggage screening (HBS) system.

Risks and opportunities

Flughafen München GmbH's system of risk management is designed to identify and gauge potential risk facing its companies and covers all of the company's operative and strategic business processes. Risks are assessed based on the likelihood of occurrence and on quantification of the scale of impact in the event of an occurrence. The primary goal of risk management is to take a controlled approach to risk and to define preventive measures to avoid it.

All risk information is processed internally on a quarterly basis to enable executive management to respond swiftly and effectively to shifts in risk scenarios. When the need arises, management responds immediately to new or changing risk situations. The latest risk reports are also made available to the members of the supervisory board.

To minimize possible financial damage, Flughafen München GmbH has insurance for appropriate amounts covering key areas of potential loss and liability.

One risk reported by the company is the possible loss of its ground handling license in 2010. Due to EU guidelines, airport-owned handling companies may be required to be legally separated from airport operating companies and, subsequently, to apply for a license to provide ground handling services. The risk encompasses the complete loss of revenue from the provision of open-market handling services.

To counter this risk and to increase the cost efficiency and productivity of the Ground Handling division, we formed a new subsidiary in 2005.

External risks identified in 2005 as having a low likelihood but potentially severe economic impact included flooding as a result of record high-water levels in the river Isar and acts of terror.

Risks issuing from the additional burden of fulfilling requirements tied to aviation security law enacted on January 15, 2005, possible cessation of business or the scaling back of services by carriers, economic cycle risk (particularly as a result of the impact of continued high oil prices) and the loss of market share to rival ground services operators were also addressed in our system of risk management.

Financial instruments – financial assets, receivables, liabilities and derivatives – are assessed at regular intervals with regard to price, default and liquidity risks. Derivative financial instruments are employed with the approval of executive management to hedge and optimize interest rates. The relevant hedge amount is set by FMG shareholders.

In the review period, risk provisions were made as appropriate, and no risks have been identified as posing a threat to the current situation.

Favorable developments in the traffic sector and utilization of growth opportunities in connection with the planned expansion of airport capacity offer sizeable future business potential for Flughafen München GmbH.

Continued expansion of hub operations by Lufthansa and its Star Alliance partners is the most important growth driver for Munich Airport and in years ahead will help to increase the volume of intercontinental traffic (which accounted for just over 12 percent of traffic overall in 2005). Besides the exceptional rates of growth in our cargo business (the volume of freight handled grew 15 percent in 2005, to more than 350,000 tons), additional and valuable growth is expected from new routes being served by low-fare carriers. Condor, for example, has announced plans to begin operating inexpensive services from Munich to ten more city services.

Increasing capacity by building a third runway will underpin Munich Airport's business growth in the longer term and create the right conditions for more hub traffic and a broader offering of long-haul services similar to that at other major European hub airports.

Outlook

We continue to rigorously pursue plans to develop Munich Airport systematically as one of Europe's foremost aviation hubs. At their meeting on July 26, 2005, shareholders authorized FMG's executive management to begin planning the addition of a third runway and to prepare and set in motion the requisite planning procedures. At present, studies are being conducted in-house to select possible locations, and three have been identified in the northern area of the airport campus.

A third runway at Munich Airport will mean additional aviation noise in the area near the new runway and along the new arrival and departure routes. To ensure that the local population was involved in the planning process from the very beginning, we founded the Communities Council, a body staffed for the most part by municipal officers and representatives of interest groups from within the airport's surrounding area. Parallel to the statutory approval proceedings and the extensive scope for active involvement that they offer airport neighbors, the council provides a platform for an open dialogue between the airport operator and local communities in which the latter can voice their interests and concerns in good time and shape the planning processes. An application for the initiation of a regional planning procedure is to be submitted to the regional government of Upper Bavaria in the middle of 2006, and the procedure is expected to be completed by yearend. The next milestone will be the application for zoning permission, due for submission in 2007. From today's perspective, the third runway might be able to go into service in 2011.

We have achieved our goal of a return to positive earnings at Munich Airport two years sooner than originally expected. In fiscal 2005, Flughafen München GmbH made a profit of €5.2 million. Our M-Power program, launched in 2003 to pursue new strategies and promote earnings growth, will help us to improve our performance in the years ahead. The program has sparked a large number of initiatives in our company divisions that will be implemented in 2006 and beyond. One of the cornerstones of M-Power was the restructuring of the company to create five business divisions, five central divisions and four support divisions. Our core business operations are handled by five business divisions, Aviation, Ground Handling, Corporate Real Estate Management and Development, Retail and Services, and Terminal 2.

Management's review of fiscal 2005

Competitive pressure, something which Ground Handling faces more than any other division at the moment, prompted us to form a new subsidiary, MUCGround Services, in March 2005 with the goal of improving earnings in this sector. MUCGround's primary task is to provide backup capacity to cover peak traffic loads. To ensure that our ground handling business remains efficient and competitive, we have planned a raft of measures for the future, including new work schedule models, a tighter organizational structure, and changes to pay scales and agreements.

At an extraordinary meeting of the supervisory board on April 26, 2006, we presented a restructuring strategy architected to steer our Ground Handling division out of its current loss-making situation and break even by 2011. In part, this goal is to be achieved through new pay scale agreements, company-employee agreements, shift work and phased retirement models and other working hour agreements. The supervisory board instructed executive management to continue negotiations based on this restructuring strategy and to present legally binding agreements at the supervisory board's summer 2006 meeting that effectively address the issues at stake and can put Ground Handling on the solid competitive footing it needs in order to break even again.

In 2005, our shareholders decided that Flughafen München GmbH should repay €784.3 million of the €1.28 billion in loans granted for the financing of the new airport. As repayment is not due until the end of fiscal 2006, earnings will not be affected by replacement funding procured in the money market or related interests payments until fiscal 2007.

The rates of growth predicted for the traffic sector and the favorable outlook for Germany's economy mean that we have a solid foundation on which to continue to build and grow our business successfully in the future.

Flughafen München GmbH expects to report an even higher net income before tax in fiscal 2006.

Munich, April 28, 2006

Dr. Michael Kerkloh

Walter Vill

Peter Trautmann

Annex

I. General notes and information on the year-end accounts

1 Accounting and valuation principles

The year-end accounts as at December 31, 2005, were prepared in accordance with statutory financial reporting requirements for large corporations and for limited liability companies. The income statement was prepared according to the total cost method. The accounting and valuation principles are essentially the same as in the prior year.

2 Tangible and intangible assets

Tangible and intangible assets are valuated at their original cost or at their mandatory capitalized cost of production in accordance with statutory fiscal requirements. Assets with a limited useful life are written down over their anticipated overall service life as per the write-down tables for airport operating companies. Movable items of plant and office equipment, which until December 31, 2003, were generally written down according to the declining balance method, are now written down as per the straight-line method, effective January 1, 2004. Due to sales of land in fiscal 2005, €0.3 million were booked as a special reserve item as per Section 6b of the German Income Tax Code (EStG). At the same time, €0.9 million were withdrawn from the prior reserve and assigned to newly purchased plots of land.

In 2005, the difference between the additional depreciation reported in the accounts prepared for tax purposes and the additional depreciation reported in the accounts prepared for financial reporting purposes totaled €17.6 million. For the most part, this concerns buildings belonging to the passenger handling facilities. As per Section 7, Paragraph 4, Item 1 of the Income Tax Code, this pertains to buildings which constitute operating business assets but which are non-residential in character.

Minor-value assets are written off in full in the year in which they are added.

3 Investments

Long-term investments are stated at the lower of cost or fair value.

Low-interest employee loans are stated at their nominal value at the balance-sheet date.

4 Current assets

Inventories are mostly stated at their weighted average cost for the past three months and are written down at the lower of cost or fair value to cover risks arising from slow-moving items and drops in price.

Substitute plots of land reported as inventories are capitalized at the lower of cost or fair value.

Receivables, other current assets, and liquid assets are stated at the lower of nominal or fair value. Identifiable risks are accounted for in valuation adjustments. Appropriate provisions are made to cover general credit risk.

5 Provisions

Provisions for pensions are valuated according to their actuarial value at a 6% rate of interest and, for the first time, according to 2005 tables (prior year: 1998) produced by Prof. Klaus Heubeck.

Taxation provisions remained unchanged in 2005.

Other significant provisions include €26.7 million for possible claims, €14.2 million as a contingency for rental losses, €16.4 million for marketing activities, and €14.8 million for settlement backlogs and future obligations in connection with partial retirement arrangements.

In addition, provisions of €6.8 million were made to cover residual vacation, overtime and flextime compensation. Provisions for neglected maintenance obligations in connection with various projects were increased by €2.1 million to €4.6 million in total.

Other key provisions include €4.6 million for cleanup and remedial work following water damage that occurred in the central area in 2003, €4.3 million for the possible reclamation of permission fees, and €3.7 million for outstanding invoices.

6 Liabilities

Liabilities are valuated at the respective amounts repayable. Liabilities for annuity payments are stated at their cash values.

II. Notes and information on the balance sheet

1 Changes in non-current assets

	Acquisition and production costs				
	Jan. 1, 2005	Additions	Retirements	Reclassifications	Dec. 31, 2005
	€	€	€	€	€
Intangible assets					
1. Franchises, intellectual property and similar rights and assets	17,429,198.72	718,861.79	-48,082.91	29,764.58	18,129,742.18
	17,429,198.72	**718,861.79**	**-48,082.91**	**29,764.58**	**18,129,742.18**
Tangible assets					
1. Land and buildings	2,554,467,444.67	8,121,355.52	-116,303,814.03	4,811,649.84	2,451,096,636.00
2. Technical equipment and machinery	1,049,521,728.35	3,571,985.57	-4,434,358.57	615,926.53	1,049,275,281.88
3. Other equipment, plant and office equipment	169,652,399.29	2,833,381.51	-5,125,408.37	531,675.61	167,892,048.04
4. Construction in progress and advances on fixed assets	16,018,611.95	11,378,355.42	-373,572.63	-5,989,016.56	21,034,378.18
	3,789,660,184.26	**25,905,078.02**	**-126,237,153.60**	**-29,764.58**	**3,689,298,344.10**
Financial assets					
1. Investments in subsidiaries	19,550,124.38	1,000,000.00	0.00	0.00	20,550,124.38
2. Investments	925,199.07	0.00	0.00	0.00	925,199.07
3. Non-current marketable assets	0.00	0.00	0.00	0.00	0.00
4. Other loans	798,888.55	34,000.00	-121,255.76	0.00	711,632.79
	21,274,212.00	**1,034,000.00**	**-121,255.76**	**0.00**	**22,186,956.24**
	3,828,363,594.98	**27,657,939.81**	**-126,406,492.27**	**0.00**	**3,729,615,042.52**

Accumulated depreciations					Book values	
Jan. 1, 2005	Additions	Retirements	Reclassifications	Dec. 31, 2005	Dec. 31, 2005	Dec. 31, 2004
€	€	€	€	€	€	€
15,578,037.24	1,231,384.73	-48,082.91	0.00	16,761,339.06	1,368,403.12	1,851,161.48
15,578,037.24	**1,231,384.73**	**-48,082.91**	**0.00**	**16,761,339.06**	**1,368,403.12**	**1,851,161.48**
819,312,521.04	43,943,649.55	-4,802,119.85	26,065.15	858,480,115.89	1,592,616,520.11	1,735,154,923.63
781,179,693.34	37,807,914.56	-1,610,758.82	-26,112.42	817,350,736.66	231,924,545.22	268,342,035.01
150,380,254.76	8,321,126.37	-5,087,348.23	47.27	153,614,080.17	14,277,967.87	19,272,144.53
0.00	0.00	0.00	0.00	0.00	21,034,378.18	16,018,611.95
1,750,872,469.14	**90,072,690.48**	**-11,500,226.90**	**0.00**	**1,829,444,932.72**	**1,859,853,411.38**	**2,038,787,715.12**
0.00	0.00	0.00	0.00	0.00	20,550,124.38	19,550,124.38
0.00	51,100.00	0.00	0.00	51,100.00	874,099.07	925,199.07
0.00	0.00	0.00	0.00	0.00	0.00	0.00
0.00	0.00	0.00	0.00	0.00	711,632.79	798,888.55
0.00	**51,100.00**	**0.00**	**0.00**	**51,100.00**	**22,135,856.24**	**21,274,212.00**
1,766,450,506.38	**91,355,175.21**	**-11,548,309.81**	**0.00**	**1,846,257,371.78**	**1,883,357,670.74**	**2,061,913,088.60**

2 Currency conversion

Foreign-currency receivables and liabilities are booked at the respective buying or selling rate and converted to the less favorable rate on the balance-sheet date.

3 Share ownership

(see table facing)

4 Liabilities

(see table facing)

In fiscal 2005, €29.4 million in liabilities to banks were reclassified as other liabilities. The figures quoted for the prior year have been adjusted to reflect this.

5 Net sales/earnings/expenses

Net sales of €656.2 million comprise €379.6 million from the servicing of air traffic (including €246.0 million in airport fees, €106.3 million in ramp service fees, and €27.3 million in revenue from central infrastructure) and €276.6 million from licenses, rents, leases, and other sources. The latter include €10.7 million from the sale of power (2004: €10.1 million). Power sales accounted for 1.6% (2004: 1.6%) of total net sales and are of just minor significance.

For the first time, own work capitalized included planning expenses of €2.6 million in 2005 (2004: €0.6 million), because the volume of planning work by Flughafen München GmbH for goods for which capitalization is mandatory is increasing.

Other operating income includes €7.1 million from the reversal of provisions. Additional operating income items include €6.2 million in transferred charges for vacant capacity in Terminal 1, €3.7 million for the provision of the utility infrastructure for Terminal 2, and €1.1 million from long-term building rights.

In fiscal 2005, Flughafen München GmbH's materials costs included a charge of €75.3 million for capacity provisioning from the operation of Terminal 2.

In the prior-year figures reported in connection with profit transfer agreements and expenses from transferred losses, €115 thousand were reassigned.

6 Contingencies

To cover and secure all claims in connection with MediCare Flughafen München Medizinisches Zentrum GmbH's current and future liabilities to the Kreis- und Stadtsparkasse Erding-Dorfen bank, the limited surety of €250 thousand posted by Flughafen München GmbH in 2004 is still in place.

In 2005, Flughafen München GmbH posted additional sureties with the Kreis- und Stadtsparkasse Erding-Dorfen bank of €2.2 million for the subsidiary eurotrade and of €1.1 million for the newly formed company MUCGround Services.

7 Other financial obligations

Existing real-estate lease contracts are expected to incur costs of around €47.1 million in 2006. The burden through to the end of the basic lease term in 2020 will amount to €471.7 million.

Existing construction, supply and service contracts and agreements with planners, architects and engineers pertain essentially to ongoing business operations and are of a scope consistent with such operations. There are also additional obligations for environmental protection measures and the honoring of public-law requirements.

8 Derivative financial instruments

Following are derivative financial instruments employed by Flughafen München GmbH in 2005:

- 1 payer swap with a volume of €29 million and a negative market value of €4.2 million at December 31, 2005
- 3 receiver swaps with a volume of €80 million and a positive market value of €2.2 million at December 31, 2005
- 3 caps with a volume of €80 million and a negative market value of €0.9 million at December 31, 2005
- 2 constant maturity swaps (CMS) with a volume of €50 million and a negative market value of €1.2 million at December 31, 2005

Valuation units were formed for the payer swap, the three receiver swaps, and the caps so that they need not be included in the balance sheet.

A provision of €1.2 million was formed for the two CMSs as a contingency against losses.

Moreover, three loans in existence at the balance sheet date that were originally taken out in Japanese yen were transferred into euros by means of cross-currency swaps (total volume: €43.5 million).

9 Net result

Net income in 2005 reduced the loss of €105.261 million carried forward from 2004 by €5.220 million.

The executive board proposes carrying forward the balance-sheet loss of €100.041 million.

Details of share ownership

	Seat	Share of capital	Capital stock	Result for the year
		%	€ thousand	€ thousand
eurotrade Flughafen München Handelsgesellschaft mbH	Munich	74.0	2,926	5,475[1]
Allresto Flughafen München Hotel und Gaststätten GmbH	Munich	100.0	3,126	663[1]
Bayern Facility Management GmbH	Munich	49.0	748	372
aerogate München Gesellschaft für Luftverkehrsabfertigungen mbH	Munich	100.0	699	(79)
Cargogate Flughafen München Gesellschaft für Luftverkehrsabfertigung mbH	Munich	100.0	511	556[1]
CAP Flughafen München Sicherheits-GmbH	Freising	76.1	264	62
EFM – Gesellschaft für Enteisen und Flugzeugschleppen am Flughafen München mbH	Freising	49.0	3,630	2,021
FMV – Flughafen München Versicherungsvermittlungsgesellschaft mbH	Freising	100.0	26	424[1]
FM Terminal 2 Immobilienverwaltungsgesellschaft mbH & Co. oHG	Oberding	60.0	25,000	(469)[2]
AeroGround Flughafen München Aviation Support GmbH	Munich	100.00	250	55[1]
MediCare Flughafen München Medizinisches Zentrum GmbH	Oberding	51.0	./. 160	8
MUC Ground Services Flughafen München GmbH	Freising	100.0	1,000	(91)[1,3]
Radiologisches Diagnostikzentrum München Airport GmbH	Oberding	20.0	195	259[4]
Augsburger Flughafen Betriebs-GmbH	Augsburg	50.0	52	--[5]
Terminal 2 Betriebsgesellschaft mbH & Co. oHG	Oberding	60.0	3,025	(8,019)[2]
Terminal 2 Holding GmbH	Freising	100.0	15,025	(319)[1]

[1] Profit transfer agreement (pre-transfer)
[2] Losses transferred on account of shareholders' agreement
[3] Short fiscal year from March 23 to December 31, 2005
[4] Indirect investment through MediCare, final annual accounts in 2004
[5] Final annual accounts in 2003

Liabilities table

	December 31, 2005				December 31, 2004	
		Residual term				
		Up to 1 year	1 to 5 years	Over 5 years		Up to 1 year
	€	€	€	€	€	€
Liabilities to shareholders	784,313,725.48	784,313,725.48	0.00	0.00	0.00	0.00
Liabilities to banks	233,644,987.84	61,043,261.10	122,717,132.68	49,884,594.06	287,354,109.72	62,343,194.86
Trade accounts payable	27,661,316.06	25,616,736.64	2,044,579.42	0.00	20,562,676.51	18,825,665.15
Liabilities to associated companies and subsidiaries	21,400,984.00	21,098,734.00	302,250.00	0.00	29,161,023.28	28,849,314.38
Other liabilities	65,609,270.71	33,644,720.16	2,062,003.98	29,902,546.57	57,690,446.59	12,224,727.10
of which to insurance companies	(43,757,040.40)	(14,313,040.40)	(0.00)	(29,444,000.00)	(43,747,088.33)	(273,239.11)
of which in taxes	(10,805,917.56)	(10,805,917.56)	(0.00)	(0.00)	(3,759,056.60)	(3,759,056.60)
of which in social welfare	(5,115,988.78)	(5,115,988.78)	(0.00)	(0.00)	(4,949,597.39)	(4,949,597.39)
	1,132,630,284.09	**925,717,177.38**	**127,125,966.08**	**79,787,140.63**	**394,768,256.10**	**122,242,901.49**

Annex

III. Additional information

10 Executive board

Members of the executive board:

Dr. Michael Kerkloh
President and Chief Executive Officer
Walter Vill
Vice President and Chief Financial Officer
Peter Trautmann
Chief Operating Officer

11 Supervisory board

Members of the supervisory board:

Prof. Kurt Faltlhauser
Minister of State,
Bavarian State Ministry of Finance, Munich
Chairman

Free State of Bavaria

Josef Poxleitner
Director-General,
Board of Building and Public Works in the
Bavarian State Ministry of Home Affairs

Hans Spitzner
Undersecretary,
Bavarian State Ministry for Economic Affairs,
Transport and Technology

Klaus Weigert
Director-General,
Bavarian State Ministry of Finance,
Munich

Federal Republic of Germany

Dr. Dieter Knoll
Ministerial councilor,
Federal Ministry of Finance,
Bonn

Robert Scholl
Director-General,
Federal Ministry of Transport, Building and
Housing

City of Munich

Christian Ude
Chief Mayor, City of Munich

Dr. Reinhard Wieczorek
Councilor, City of Munich

Employee representatives

Thomas Bihler
Clerical employee

Heinrich Birner
Director of the ver.di labor union,
Munich region

Hans-Joachim Bues
Head of Corporate Communications,
executive employees' representative

Willy Graßl
Certified aircraft handler
Full-time works councilor

Ralf Krüger
Works council chairman
Full-time works councilor

Orhan Kurtulan
Certified aircraft handler
Full-time works councilor

Anna Müller
Clerical employee
Full-time works councilor

Otto Siegl
Clerical employee

12 Executive board remuneration and loans

Remuneration of executive board members consists of a fixed salary and a variable, performance-based amount:

Executive board remuneration in 2005	Fixed € thousand	Variable € thousand	Total € thousand
Dr. Michael Kerkloh	211.7	79.7	291.4
Walter Vill	166.2	66.5	232.7
Peter Trautmann	164.0	66.5	230.5
Total	**541.9**	**212.7**	**754.6**

In addition to this remuneration, executive board members received emoluments in kind and contractually agreed fringe benefits totaling €41.4 thousand. Provisions totaling €1.759 million were also formed at December 31, 2005, to cover future pension obligations.

Former members of company management and their surviving dependants received remuneration totaling €543.1 thousand in 2005. Provisions of €4.691 million were formed for future pension payments and accrued pension rights of surviving dependants.

13 Employees

As per Section 267, Paragraph 5 of the German Commercial Code, the workforce comprised, on average, 2,047 salaried employees, 11 casual employees, 2,101 wage employees, and 554 casual workers in fiscal 2005. In addition, 114 apprentices were undergoing vocational training with the company.

14 General

Section 9 of Germany's Energy Industry Act (EnGW), which passed into law on April 29, 1998, requires public utility companies to draw up separate balance sheets and income statements for their power generation, transmission and distribution activities and for their non-power activities.

Given that revenue from power business accounted for just 1.6 percent of total sales (2004: 1.6 percent), we have chosen once again not to report separately on our power activities as these are deemed not to be significant.

Munich, April 28, 2006

Dr. Michael Kerkloh

Walter Vill

Peter Trautmann

Supervisory board's report

The supervisory board was informed regularly and in detail by executive management through written reports and at meetings about the company's situation, its development, and important business events. On the basis of the reports and the information received, the supervisory board monitored the management of the company's business and made such decisions as it was called upon to make in accordance with its statutory responsibilities.

The yearend accounts as per December 31, 2005, and the report on the economic development and position of Flughafen München GmbH and its group of companies presented by executive management have been audited and approved by Deloitte & Touche GmbH, the appointed auditors. Having conducted its own review, the supervisory board accepts the auditors' findings and raises no objections. In accordance with Section 42a, Paragraphs 2 and 4 of the Limited Liability Companies Act (GmbHG) and Section 171, Paragraph 2 of the Stock Corporations Act (AktG), the board approves the yearend accounts of Flughafen München GmbH and the FMG Group. The supervisory board proposes that the shareholders endorse the yearend accounts of Flughafen München GmbH and the FMG Group.

There were no changes to the membership of the supervisory board in fiscal 2005.

The supervisory board wishes to express its gratitude and respect for the work carried out and the successes achieved by the company's executive management and employees in fiscal 2005.

Munich, July 27, 2006

Flughafen München GmbH
The supervisory board

Prof. Kurt Faltlhauser
Chairman

Flughafen München GmbH, Munich
Balance sheet as at December 31, 2005

Assets		Dec. 31, 2005	2004
	€	€	€ thousand
A. Fixed assets			
I. Intangible assets			
Franchises, intellectual property, and similar rights and assets	1,368,403.12		1,851
		1,368,403.12	1,851
II. Tangible assets			
1. Land, rights similar to land, and buildings, including buildings on property owned by others	1,592,616,520.11		1,735,155
2. Technical equipment and machinery	231,924,545.22		268,342
3. Other equipment, plant and office equipment	14,277,967.87		19,272
4. Construction in progress and advances on fixed assets	21,034,378.18		16,019
		1,859,853,411.38	2,038,788
III. Financial assets			
1. Investments in subsidiaries	20,550,124.38		19,550
2. Investments	874,099.07		925
3. Other loans	711,632.79		799
		22,135,856.24	21,274
		1,883,357,670.74	2,061,913
B. Current assets			
I. Inventories			
1. Substitute plots of land	28,951,908.73		28,298
2. Raw materials and supplies	4,243,667.84		4,398
		33,195,576.57	32,696
II. Receivables and other current assets			
1. Accounts receivable	16,437,618.25		17,400
2. Amounts due from subsidiaries	65,059,103.99		79,261
3. Amounts due from associated companies	505,746.84		1,872
4. Other current assets of which €1,255,680.54 with a residual term of more than one year (2004: €271 thousand)	54,077,488.01		9,783
		136,079,957.09	108,316
III. Liquid funds		107,831,309.34	13,004
		277,106,843.00	154,016
C. Prepaid expenses		510,273.45	584
Total assets		**2,160,974,787.19**	**2,216,513**

Liabilities

	€	Dec. 31, 2005 €	2004 € thousand
A. Capital stock			
I. Subscribed capital	306,776,000.00		306,776
II. Capital reserves	102,258,376.24		102,258
III. Earnings reserves Other reserves	596,812.29		597
IV. Balance-sheet loss	- 100,040,663.10		- 105,261
		309,590,525.43	304,370
B. Conditionally repayable shareholder loans		491,912,735.89	1,276,227
C. Special reserve items (Section 6b, Income Tax Code)		9,618,161.51	9,558
D. Accrued liabilities			
1. Provisions for pensions	10,656,773.00		10,290
2. Provisions for taxes	28,400,000.00		38,547
3. Other provisions	118,528,502.00		124,418
		157,585,275.00	173,255
E. Liabilities			
1. Liabilities to banks	233,644,987.84		287,354
2. Trade accounts payable	27,661,316.06		20,563
3. Liabilities to shareholders	784,313,725.48		0
4. Liabilities to subsidiaries	18,783,897.10		26,453
5. Liabilities to associated companies	2,617,086.90		2,708
6. Other liabilities of which €10,805,917.56 in taxes (2004: €3.759 million) of which €5,115,988.78 in social welfare (2004: €4.950 million)	65,609,270.71		57,691
		1,132,630,284.09	394,769
F. Deferred income		59,637,805.27	58,334
Total liabilities		**2,160,974,787.19**	**2,216,513**

Flughafen München GmbH, Munich
Income statement for the fiscal year from January 1 to December 31, 2005

		2005	2004
	€	€	€ thousand
1. Net sales		656,182,066.27	628,386
2. Other capitalized labor, overheads and material		2,616,175.32	618
3. Other operating income		25,839,929.88	26,130
		684,638,171.47	655,134
4. Materials costs			
a) Supplies, raw materials and merchandise	-35.272.002,71		-33,304
b) Purchased services	-177.134.791,02		-157,589
		-212,406,793.73	-190,893
5. Personnel costs			
a) Wages and salaries	-176.934.559,84		-171,925
b) Social security, pension costs and support of which €14,311,329.98 for pension plans (2004: €12.92 million)	-49.032.386,91		-48,949
		-225,966,946.75	-220,874
6. Depreciation and amortization on intangible and tangible assets		-91,304,075.21	-97,260
7. Other operating expense		-139,490,535.06	-129,551
		-669,168,350.75	-638,577
		15,469,820.72	16,557
8. Income for investments of which €30,440.00 from associated companies (2004: €140 thousand)	667.440,00		434
9. Income from profit transfer agreements	7.058.432,62		2,210
10. Expense from loss transfers	-5.222.123,51		-16,949
11. Income from financial assets	29.527,32		33
12. Other interest and similar income of which €1,099,739.46 from associated companies (2004: €1.625 million)	4.273.681,73		3,103
13. Writedowns on financial assets	-51.100,00		0
14. Interest and similar expense of which €163,677.15 from associated companies (2004: €216 thousand)	-16.621.224,76		-19,934
		-9,865,366.60	-31,103
15. Results of ordinary operations		5,604,454.12	-14,546
16. Taxes on earnings		467,854.84	-38,547
17. Other taxes		-852,186.83	-1,016
18. Net profit for the year (2004: net loss)		5,220,122.13	-54,109
19. Loss carried forward from the previous year		-105,260,785.23	-51,152
20. Balance-sheet loss		**-100,040,663.10**	**-105,261**

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