Annual Report 2005

OPEN

Fraport

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Fraport

Vision

We develop mobility professionally and make it an experience for our customers. As an airport group, we are the most capable industry player in all segments.

We consider airports to be activity centers and intermodal hubs. We link transport networks systematically.

We stand for efficient management of complex processes and innovations, maintain our position by providing competitive integrated services and respond flexibly to our customers' requests.

Safety is our top priority.

By carrying out our vision, we create sustained value in the interests of our shareholders, our employees and the regions in which we operate.

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Key Group figures of Fraport AG

Revenue and earnings

€ million	2002	2003	2004	2005
Revenue	1,803.6	1,834.3	1,998.1	2,089.8
Total revenue	1,851.8	1,887.7	2,043.7	2,141.7
EBITDA	260.3	461.8	516.2	547.5
EBIT	46.2	203.7	281.1	311.6
Result from ordinary operations	–35.1	215.1	265.1	290.4
Group profit/loss for the year	–119.5	116.2	137.6	161.5

Key figures from the balance sheet and cash flow statement

€ million	2002	2003	2004	2005
Shareholders' equity	1,816.3	1,931.7	2,041.6	2,157.9
Equity ratio (%)	50.2	52.0	54.1	52.5
Total assets	3,620.7	3,636.4	3,650.2	3,951.6
Gearing (%)	18.0	12.1	–0.3	9.1
Capital employed	2,140.9	2,119.2	1,967.9	2,264.1
Fraport assets	2,613.2	2,496.5	2,329.0	2,310.7
Net assets	2,823.9	2,864.2	2,842.8	2,848.3
Operating cash flow	395.6	447.2	518.6	493.7
Capital expenditures	290.5	256.9	279.4	682.4

Key profitability ratios

%	2002	2003	2004	2005
Return on revenue	–2.2	11.4	13.3	13.9
EBITDA margin	14.4	25.2	25.8	26.2
EBIT margin	2.6	11.1	14.1	14.9
ROCE	2.2	9.6	14.3	13.7
ROFRA	1.6	7.1	9.9	10.9
RONA	1.8	8.2	12.1	13.5

The Fraport share

€	2002	2003	2004	2005
Year-end price	17.00	22.80	31.39	44.90
Earnings per share (basic)	–1.34	1.28	1.51	1.78
Dividend per share	–	0.44	0.75	0.90

Frankfurt Airport traffic figures

	2002	2003	2004	2005
Passengers (million)	48.5	48.4	51.1	52.2
Cargo (thousand tonnes)	1,631.5	1,650.6	1,839.1	1,963.1
Aircraft movements (thousand)	458.4	458.9	477.5	490.1
MTOWs*	24,926.9	25,398.9	27,229.6	28,160.3
Seat load factor (%)	69.8	69.4	71.0	71.7
Passengers per passenger flight	115	115	117	117

Employees

	2002	2003	2004	2005
Average number of employees	21,395	23,353	24,182	25,781

* Maximum take-off weights.

Key figures of the Fraport AG segments

Aviation

€ million	2004	2005
Revenue	626.2	688.9
EBITDA	144.8	158.1
EBIT	90.8	94.2
Fraport assets	908.8	937.4
ROFRA (%)	10.0	10.0
Net assets	856.4	874.4
RONA (%)	10.6	10.8
Employees	3,311	3,508

Retail & Properties

€ million	2004	2005
Revenue	373.9	374.0
EBITDA	285.8	292.1
EBIT	174.5	182.2
Fraport assets	1,260.6	1,241.2
ROFRA (%)	13.8	14.7
Net assets	918.7	888.2
RONA (%)	19.0	20.5
Employees	3,050	2,996

Ground Handling

€ million	2004	2005
Revenue	608.1	632.1
EBITDA	53.3	74.9
EBIT	31.1	52.1
Fraport assets	374.4	366.7
ROFRA (%)	8.3	14.2
Net assets	232.8	225.5
RONA (%)	13.4	23.1
Employees	7,042	7,111

External Activities

€ million	2004	2005
Revenue	389.9	394.8
EBITDA	32.3	22.4
EBIT	–15.3	–16.9
Fraport assets	345.1	355.7
ROFRA (%)	–0.4	–1.0
Net assets	367.1	375.3
RONA (%)	–0.4	–1.0
Employees	10,779	12,166

Aviation

Success factor intermodality

The Aviation segment is responsible for the business operations in Frankfurt relating to flight and terminal management, airport and aviation security and the planned airport expansion program. We generate revenue primarily by airport fees for using the infrastructure of Frankfurt Airport. Linking the different air, rail and road carriers is one of our success factors.

Highlights
- *Airbus A380 visited Frankfurt*
- *Approval of the A380 maintenance facility*
- *Renovation of the north runway completed*

Professor Manfred Schölch

Retail & Properties

Airport as real estate

The Retail & Properties segment is responsible for the renting of shops and offices, for parking facility management and for the development and marketing of existing and new commercial space. Innovative concepts and marketing strategies as well as the modernization and expansion of the commercial space available have made this the most profitable area of the company's business. We intend to exploit this potential as effectively as possible in future as well.

Highlights
- *Further increase in retail business revenue*
- *Acquisition of the Mönchhof site*
- *Substantial expansion of retail space planned*

Herbert Mai

Ground Handling

Trademark professionality

In Frankfurt, we offer all the ground handling services – from aircraft handling to passenger and cargo services. The large international airlines appreciate our performance as a reliable partner that maintains consistent quality standards and punctuality rates. Every second passenger is taking a connecting flight in Frankfurt and we move the largest cargo volume in Europe. The challenge: cost awareness in spite of complexity.

Highlights
- *New aircraft handling contract with Lufthansa*
- *Considerable improvement in productivity*
- *Increase of 40.5% in EBITDA*

Dr Wilhelm Bender

External Activities

Involvement in growing markets

All the investments that are not confined to the Frankfurt location are combined in this segment. We focus on growing international markets. The increasing privatization of airports and the demand for airport management, ground handling and aviation security services are creating opportunities for us that we are exploiting systematically. We are European market leader for aviation security.

Highlights
- *Improvement in earnings at almost all investments*
- *Frankfurt-Hahn: conclusion of Ryanair contract*
- *ICTS Europe records further steady growth and opens new locations*

Dr Stefan Schulte

"Calmly and consistently – that is how we intend to exploit growth potential"

Interview with the Chairman of the Executive Board, Dr Wilhelm Bender

Dr Bender, how did 2005 go?
2005 was a good year for Fraport. We are more than satisfied – and proud, too: the business figures are slightly better than we expected, so we performed successfully.

What does this mean in figures?
We exceeded all of our own forecasts slightly. Revenue increased by 4.6%, EBITDA by 6.1% and the profit for the year by as much as 17.4%. We therefore plan to propose to the Annual General Meeting that the dividend is increased from € 0.75 to € 0.90.

The good development is having a positive impact on our share price, too, which increased by 45.4% last year and reached its highest level since our IPO at € 66.77 in February. We outperformed the DAX and the MDAX again in 2005.

Our shareholders are evidently responding to the fact that we have focussed on doing our job well in an increasingly tough competitive environment, too.

Could you give us a specific example to explain this?
We have established the cost-cutting campaign "We are making Fraport fit" successfully together with the company's employees and the works council, for example. We liaised on the development of measures that maintain our profitability while safeguarding jobs at the same time. This is a good example of a culture that is based on dialog and co-operation.

Does that mean the company's employees are paying for the record profits?
No, the entire organism needs to be in balance and we are required to create value for all of our partners: customers, shareholders, employees, financial backers and neighbours. In this context, it is essential to reduce costs so that we can improve our competitive position. "We are making Fraport fit" is what made the new five-year contract with Lufthansa about aircraft handling in Frankfurt possible in the first place. As a result of this contract, Fraport is safeguarding 5,000 jobs in the ground handling services and has a reliable basis for future planning.

And in view of the plans to expand Frankfurt Airport, it has to be emphasized that we need a sustained increase in earnings so that we can afford the high level of capital expenditures.

Please tell us what the highlight of 2005 was!
To me, it was most definitely the premiere landing of the Airbus A380 in Frankfurt – a truly historical event for the international aviation business. The first test visit to an international commercial airport anywhere in the world went smoothly and is impressive proof that our hub really is fit for the future. Not only appropriate handling systems but also a maintenance facility for the Lufthansa fleet are essential to equip Frankfurt Airport for the new generation of aircraft. Everything is going according to plan here. We took the necessary action to obtain planning permission for the A380 building and transferred the site to Lufthansa for construction purposes at the end of October.

So everything came out rosy?
No, where there is light, there is also shade – as generally known. In spite of the record figures, passenger growth in Frankfurt was slightly lower than we expected. The passenger mix is improving all the time; almost all of our growth is coming from lucrative intercontinental and Eastern European traffic. We could, however, grow considerably faster if we did not have the restrictions of the current runway system. We are unable to satisfy the demand for take-off and landing slots during peak periods any more even now. And that is an unfortunate fact, because it means that we are not exploiting our market potential to the full.

Talking about airport expansion – does everything have to take so long?
One needs to be persistent here, but airport operators like us do not have the tendency to take action without careful planning anyway. We have at least already reached the crucial stage in the process, which is known as the zon-

ing procedure. The hearing phase for the north-west runway and Terminal 3 began on schedule, so we are keeping up with the timetable.

Wouldn't things go much better without the expansion program? No risk, high capacity utilization and less to worry about. What more could you want?
Our take-off and landing runway capacity has to keep pace with global traffic growth if we are to remain the Star Alliance's European hub. The expansion program is therefore a key issue for our future: if no more growth is possible in Frankfurt, we will start to fall behind. Stagnation is in actual fact decline. That is why I am looking ahead.

Airlines are going through a very turbulent period at the moment, aren't they?
Competition in our industry is becoming fiercer and fiercer. It is no longer taking place between the individual airlines alone; quality on the ground is playing a decisive role, too. Viable system partnerships will be essential in future. We are in an excellent position here with Frankfurt Airport and the Star Alliance headed by Lufthansa. The fact that Lufthansa has acquired a 5% interest in Fraport is clear evidence of the company's commitment to Frankfurt as its home base.

There is no question that aviation is and remains a growth industry, but it is just as clear that the process of structural change which other industries have already gone through in the last thirty years will be continuing. The air traffic industry used to be dominated and protected by government monopolies; now the buzzwords are liberalization, privatization and consolidation.

How are you coping with this change?
I think that the major secret to our success is that we act calmly, consistently and systematically. And I would not by any means want to attribute these qualities to the Executive Board alone; this way of doing things can be found throughout the company. Rather a small step in the right direction today than major restructuring in a crisis. "We are making Fraport fit" is a good example of this, too. You have already drawn attention to the fact that we are tackling the challenges of the future in spite of record profits. It makes me proud of our employees that we are capable of doing this.

What action needs to be taken to safeguard the company's future?
We know where we need to get even better. Our aim is to exploit growth potential. This is why we are working on increasing earnings from the retail and property business. In September 2005, we presented a detailed plan for the retail business which involves an expansion of the shopping space in Terminal 1 and Terminal 2 from 14,200 square meters today to 27,000 square meters by 2011. Including Terminal 3, we would then have even more than 42,000 square meters.

All in all, a considerable amount of construction work lies ahead of us, not just with the expansion program but also with the modernization of the existing terminals, which has already begun. We are implementing the biggest private investment project in Germany. For this reason alone, we need to make the processes at the company more simple, more direct and more purposeful. We need to become leaner at all levels and respond to the challenges by improving our performance throughout the company. Efficiency is not only the basis for all we plan and do in the airport operations; it must have top priority in the construction projects, too.

What specific activities lie ahead of Fraport in 2006?
2006 will be as exciting as it will be challenging. The new ground handling contract with Lufthansa took effect right at the beginning of the year; it specifies discounts in the double-digit percentage range – this means revenue shortfalls that we have to find ways to absorb first of all. In addition to this, military traffic in Frankfurt is being discontinued entirely with the relocation of the US air base: a reduction of almost € 20 million in earnings before tax compared with the previous year. The introduction of increasingly exacting security requirements is leading to more complex processes and higher costs, too. As was already the case in the last few years, we have to start by taking action to compensate for the additional burdens.

On the other hand, we are expecting another good year at our investments outside Frankfurt as well as a further boost from the retail and property business. We are still at an early stage in the development of a property strategy; this will be one of our focal points in 2006. The trend at Frankfurt Airport is, after all, very definitely towards an "airport city" concept, i.e. evolution from being a pure infrastructure provider to being a first-rate office, conference and shopping location.

Can you indicate the prospects for 2006?
We have ambitious plans for 2006. As we do every year, really. And we intend to carry them out calmly and effectively this time again.

Expressed in key figures: we anticipate passenger growth of about 2% in Frankfurt, Group revenue and EBITDA should increase. The profit for the year is likely to be considerably higher.

This means: rolling up our sleeves and getting down to work - with plenty of self-confidence! Together with my colleagues on the Executive Board and all the company's employees, I intend to work hard to make sure Fraport stays on the successful course it has followed in recent years.

The Fraport Executive Board

Professor Manfred Schölch
Vice Chairman,
infrastructure and legal affairs

Professor Schölch studied law at Johann Wolfgang Goethe University in Frankfurt. He is a lecturer at Darmstadt Technical University. He obtained a PhD at Miskolc University in 1997. He was appointed a commercial judge at Frankfurt district court in 1988.

He joined Fraport AG in 1971. He has been a member of the Executive Board since 1986 and Vice Chairman of the Management Board since 1989. He is currently responsible for "traffic and terminal management, airport expansion, security" and "legal affairs".

He is involved in the international airport organization Airports Council International as a member of the ACI Governing Board and President of ACI Europe.

Dr Wilhelm Bender
Chairman

Dr Bender is responsible for "ground services", "marketing, strategy, boards and committees", "corporate communications", "central purchasing and construction contracts".

He studied law and economics at Gießen University, obtaining a doctorate (Dr. jur.) there. Dr Bender started his career in staff functions at the Deutsche Bundesbahn railway company and was then director of the railway industry association "Verkehrsforum Bahn". After this, Dr Bender was Managing Director of the major forwarding company Schenker, later becoming a member of the Executive Board of Schenker-Rhenus AG and Chairman of the Executive Board of Schenker Waggon- und Beteiligungs AG. He has headed Fraport AG since 1993.

Dr Stefan Schulte
Finance and constructions

Dr Schulte is responsible for "global investments and management", "controlling, finance, accounting", "information and telecommunications", "real estate and facility management".

Following an apprenticeship at a bank and university studies that he completed with a doctorate (Dr. rer. pol.) in 1991, he began his career in the corporate development department at Deutsche Bank AG. Dr Schulte then moved to Mannesmann Arcor to become head of the controlling division and then Chief Financial Officer at Infostrada S.p.A., which was at the time the Italian landline telephone network subsidiary of the Mannesmann/Vodafone Group. From 2001 to 2003, he was a member of the Executive Board of Deutz AG, where he was responsible for finance and human resources. He has been a member of the Fraport Executive Board since April 2003.

Herbert Mai
Labor relations

Herbert Mai has been a member of the Fraport Executive Board since April 2001 and is responsible for "human resources" as well as "retail and properties".

After completing his training for deployment in higher public service in the state of North Rhine-Westphalia, he took over the position of a supervisor on the staff of the chief executive officer of the Düsseldorf administrative authorities. This was followed by a position with the ÖTV trade union in Hesse. Herbert Mai became ÖTV chairman in 1995. Parallel to this, he completed training at the University of Applied Social Work in Frankfurt am Main. In 1996, Herbert Mai was elected President of the European trade union association for the civil service and President of the European organization of international civil services.

1

Consistent air traffic expansion

Pages 12–15

- **Growth market air traffic** – The past, current developments and forecasts for the future confirm: air traffic has been, still is and will remain a growth market.

- **New records set at Frankfurt Airport** – At its main location, Fraport achieved the highest passenger figures and largest cargo tonnage since the airport has been in existence.

- **Expansion as an issue of central importance for the future** – To keep pace with global traffic growth and to remain the most important German hub and the leading European hub, Frankfurt Airport needs to increase its capacities.

2

Air traffic today and tomorrow

Pages 16–21

- **Global competition** – Competition between airlines and airports is intensifying; rivalry between the alliances entered into by the "strong players" – airlines or hubs – is increasing; while new players from the Orient are trying to establish themselves on the market, too.

- **Outstanding hub skills** – Fraport is in a good position thanks to its know-how as a hub operator. Steps now need to be taken to ensure long-term success.

- **Low-cost carriers on the advance** – The low-cost business is continuing to boom. Fraport provides customized infrastructure and services for low-cost carriers and their passengers at Frankfurt-Hahn Airport.

Our challenge: constant change

3

Pages 22–29

- **Challenges in future** – The aviation industry is facing many different challenges, e.g. due to new technical developments like the Airbus A380, new security regulations and the ongoing process of market liberalization.

- **Travelers in future** – Travelers' behavior and consumption patterns are changing. Fraport is acting purposefully to take account of this development.

- **City with a future** – Frankfurt Airport City is taking advantage of growth potential by creating new commercial space.

Dynamic development of the hub

4

Pages 30–32

- **Frankfurt on its way to a mega-hub** – Frankfurt Airport has the potential to become the mega-hub of the future. Capacity expansion is the basis for future growth – not only for the airport but also for the region and the whole of Germany.

- **There is no alternative to the new runway** – The northwest runway is economically and environmentally the best solution for the necessary capacity expansion; this was the conclusion reached in the regional planning procedure.

- **The A380 maintenance facility** – Lufthansa is strengthening its home base by locating its A380 fleet and building the necessary maintenance facility in Frankfurt.

- *Air traffic is continuing to grow*
- *Passenger figures in Frankfurt reach record level*
- *Cargo business is booming*
- *CargoCity South – a success story*
- *Expansion of Frankfurt Airport is essential*

1

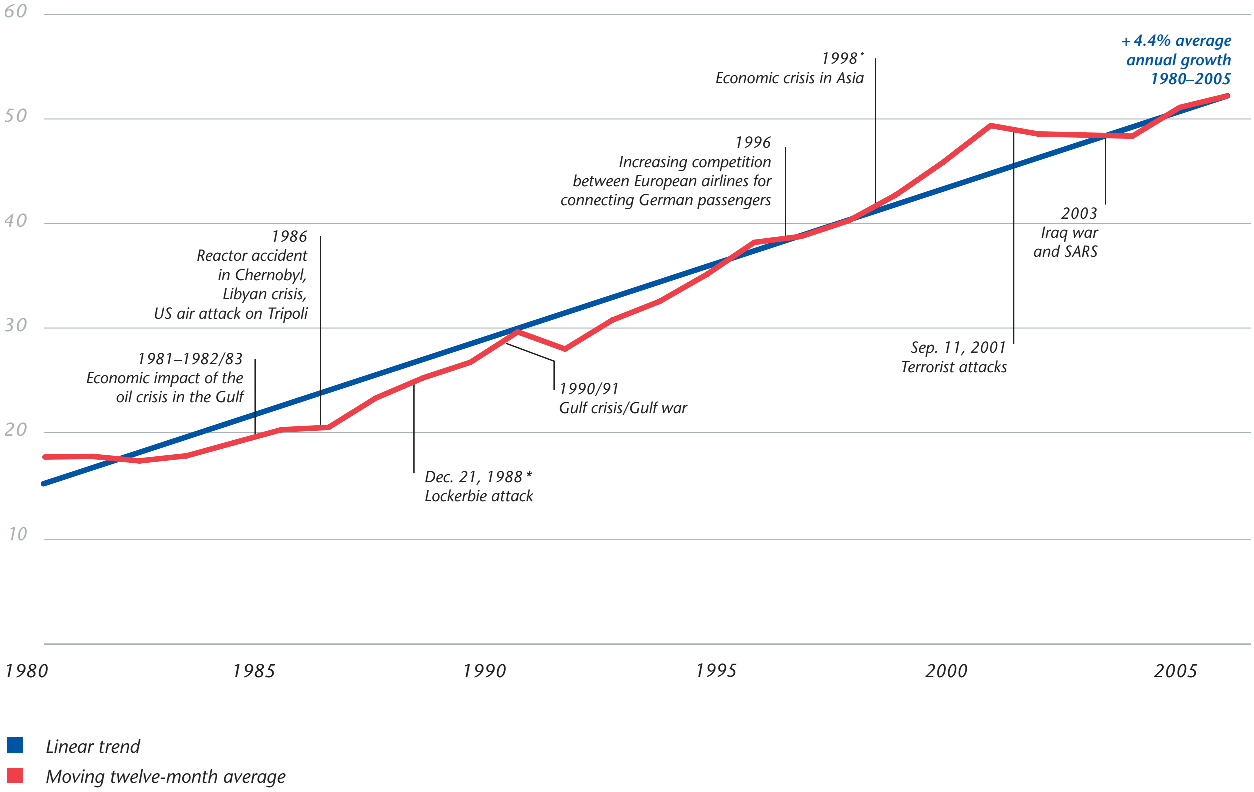
Consistent air traffic expansion

Flying is a growth market

A review of the history of aviation shows: international air traffic has grown steadily in the last few decades. More and more people from all over the world are traveling by plane; in the meantime, flying has become a quality feature of private life while often being a necessity in business life.

The number of passengers worldwide has more than doubled since 1985. Not even economic crises, wars and the terrorist attacks on September 11, 2001 have managed to stop aviation from continuing its long-term growth pattern. Although such events have regularly led to minor setbacks, aviation has been, still is and will remain a growth industry.

Development of traffic figures – long-term summary: passengers 1980–2005
million (rounded figures)



* Impact of the event not measurable/quantifiable. Source: Fraport

Good prospects

And in future? All the forecasts assume that the long-term growth trend will be continuing. Worldwide passenger figures can be expected to double again in the coming 15 years; by 2009, the International Air Transport Association IATA anticipates annual growth in global international passenger traffic of 5.6% and in annual cargo traffic of 6.3%; IATA's estimate for passenger growth in Germany is 5.5% per year.

Good prospects for the world economy and increasing globalization are supporting air traffic development; low-cost carriers in particular are also opening up what are in some cases completely new customer segments with their inexpensive offers.

Growth forecasts for international air traffic
%

	Passengers 2005–2009	Cargo in tonnes 2005–2009
Africa	5.7	4.8
Asia/Pacific	6.5	7.2
Europe	5.3	5.1
Germany	5.5	5.2
Latin America	4.9	5.8
Middle East	6.7	6.8
North America	5.2	5.4
World	**5.6**	**6.3**

Source: IATA (International Air Transport Association)

More passengers than ever before

Last year, Fraport registered 52.2 million passengers at its main location in Frankfurt, the largest number since the airport was established; all the records set in the past were exceeded in the holiday months of July and August, with more than five million passengers each. The traffic mix developed positively for us, too. A large proportion of our business is in the dynamically growing market segments of intercontinental and Eastern European traffic; since 1995, the proportion of passengers accounted for by intercontinental flights has increased from just under 35% to more than 39%. Intercontinental traffic is forecast to grow disproportionately fast in future as well. The airline alliances with their global networks and thus Frankfurt Airport, too, as the home hub of Lufthansa, will be benefitting from this development.

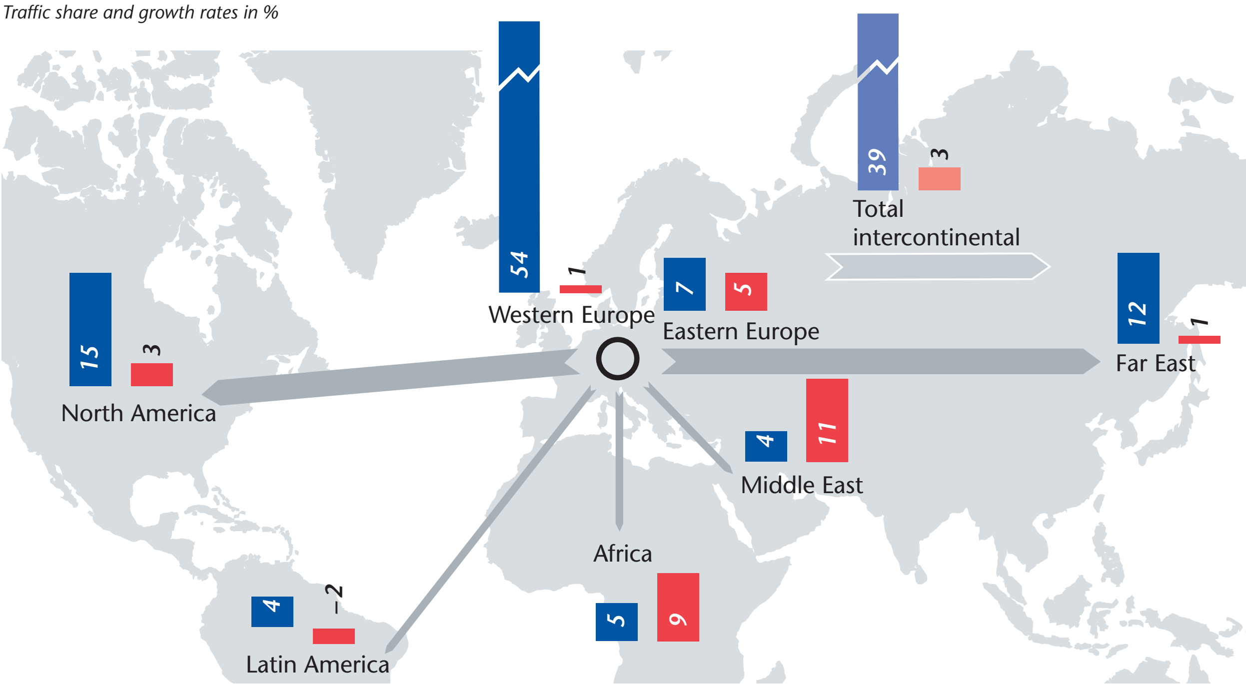
Expansion as an issue of central importance for the future

Frankfurt is, however, growing more slowly than the market as a whole in the meantime. This means that Frankfurt has participated to a comparatively smaller extent from the upward trend in passenger traffic. Why? Frankfurt Airport is reaching its capacity limits. Demand for take-off and landing slots is already about 15% higher than the resources available during the peak periods. The medium-term consequence: demand that we cannot satisfy goes somewhere else. And that is not all: if the routes in question cannot be flown to from Frankfurt for the foreseeable future, the airlines will also discontinue the relevant feeder flights, so that Frankfurt's hub function would be at risk. This is why expansion of the airport is of central importance for our future. In order to remain the most important German hub and the leading European hub – as far as transfer passengers are concerned – our take-off and landing capacity needs to keep pace with global traffic growth. Otherwise traffic will pass Frankfurt by in future.

Excellent view from the visitor platform in Terminal 2.

Air traffic in Frankfurt by geographical regions – shares and growth rates

Traffic share and growth rates in %



Passenger flows from Frankfurt   *Growth 2005*

Source: Fraport

Success as an air cargo hub

2005 – a boom year for the cargo business: cargo turnover increased by 8.1% over the previous year. In October, Frankfurt Airport set a historical monthly record of 180,857 tonnes. The airport succeeded in maintaining its leading position as the biggest European airfreight traffic airport.

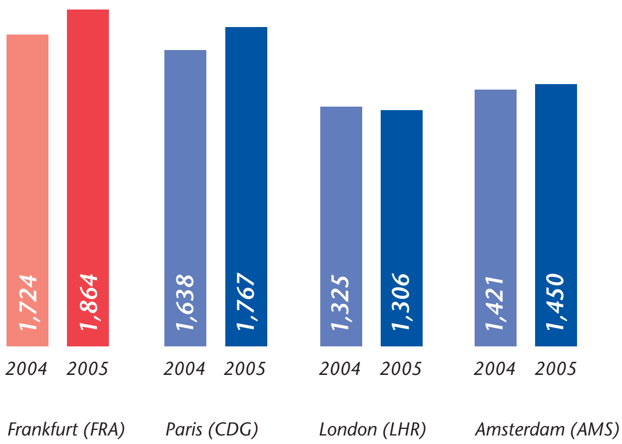
The boom in freight turnover is attributable to a large extent to CargoCity South. This model project pools the logistic service providers based there and makes a wide range of different cargo services available to customers directly on the site. Fraport recognized and responded to a global trend at an early stage: logistic companies are concentrating their cargo business at the major hub airports to an increasing extent. Result of the growing demand and our good property management: the capacity of CargoCity South is in the meantime almost completely utilized. We will be developing additional space, so that we are able to continue exploiting the potential that the Frankfurt Airport traffic hub has to offer.

Airmail is becoming less important

In contrast to airfreight, airmail is becoming less and less important. In the summer of 2005, the German mail company finally discontinued the overnight logistic airmail hub, because it is transferring the transport of domestic post to trucks to an increased extent. Domestic letter mail was delivered within one day even over large distances via the central collection and distribution facility offered by the overnight logistic airmail hub. Domestic mail volume at Frankfurt Airport will be decreasing considerably without the overnight logistic airmail hub: in spite of an increase of 4.7% in foreign mail volume, the total mail volume in 2005 was 15.6% lower than in the previous year.

Cargo turnover at European airports

million tonnes



Data supplied by the airports themselves. Source: Fraport

- *Fiercer competition in the air traffic industry*
- *New rivals from the Gulf region*
- *Fraport scores with hub skills*
- *Frankfurt Airport benefits from the Lufthansa partnership*
- *Low-cost carriers the growth driver*

2

Air traffic today and tomorrow

Competition in the sky and on the ground

Crowded arrival and departure buildings and runway congestion before take-off or terminals with no passengers at all – the future of international airports could differ this much, if one is to believe the studies made by such well-known consulting companies as Boston Consulting Group (BCG). The competition between airlines and airline alliances is now being followed by competition between the hubs. The concentration process will be continuing. One indication of this is that just twelve airports account for half of all Boeing 747 movements. The conclusion of the BCG study: each of the three airline alliances will have one central hub in Europe, America and Asia – nine mega-hubs among what are currently about 200 major airports all over the world.

The consolidation process on the airline market is considered to be the reason for this development. Competition has become increasingly intense: the growing industry has been dominated by airline takeovers and co-operation agreements in recent years. Lufthansa has taken over Swiss, Air France has taken over KLM and in the low-cost sector Germanwings is co-operating with bmibaby (subsidiary of British Midland) and Centralwings, the subsidiary of the Polish airline LOT. dba is co-operating with Germania and Air Berlin/Niki – to mention just a few examples.

The airlines are passing their cost pressure on to the airports to an increasing extent, which is reducing airport income from aviation operations. Excess capacities are inevitable at major airports that do not develop into intercontinental hubs. Some of them are already suffering from capacity utilization problems as well as high fixed costs.

Other airports, such as London-Heathrow or Frankfurt Airport, face capacity bottlenecks. Large capital expenditures are worthwhile for such international hubs.

Each of the three global airline alliances already has a central base: Skyteam headed by Air France in Paris, Oneworld with British Airways in London and the Star Alliance with Lufthansa in Frankfurt. The airlines and thus the airline alliances are likely to continue focussing their intercontinental flights on just a few hubs per continent in future. This means that the hubs in Europe will be in increasingly tough competition with each other. This trend is being accelerated by such new wide-body aircraft as the Airbus A380 as well as by co-operation agreements between airlines and further market consolidation. The emerging mega-hubs will be designed to meet the requirements of the international airline alliances. With its hub qualities and its current position as the central hub for Lufthansa and the Star Alliance, Frankfurt Airport is likely to be one of the few global mega-hubs in future.

The capacity of the European hubs

Amsterdam:	5 take-off/landing runways with up to 104 aircraft movements per hour
Frankfurt:	3 take-off/landing runways with up to 82 aircraft movements per hour (capacity needs to be increased, obvious capacity bottlenecks at the present time)
London-Heathrow:	2 take-off/landing runways with up to 84 aircraft movements per hour (capacity needs to be increased, obvious capacity bottlenecks at the present time)
Paris-Charles de Gaulle:	4 take-off/landing runways with up to 120 aircraft movements per hour

Source: Fraport

Alliances concentrate markets

The big airline alliances are taking over the responsibility for making location decisions to an increasing extent: they are concentrating the market at central hubs and select the "best airport" in accordance with their strategy. This is intensifying the competition between commercial airports. The airlines and their home airports are, on the other hand, developing closer and closer ties. This is true not only of the Fraport location in Frankfurt and Deutsche Lufthansa but also of Paris-Charles de Gaulle and Air France, for example.

The Star Alliance is continuing to dominate the market: it increased the proportion of connecting passengers from within the alliance substantially at the Frankfurt hub in the past two years. It has also succeeded in developing a disproportionately strong position at competitors' hubs; this is good for the Frankfurt location, which receives demand from these airports.

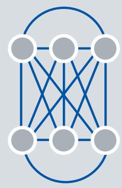
Hub skills: factors that count

Fraport AG can rely on its know-how as a hub operator; convincing features of the main airport in Frankfurt are its location, good accessibility, high punctuality and service quality, close ties to the strong home carrier Deutsche Lufthansa and – if and when the airport has been expanded – capacity growth potential. These success factors represent a sound foundation for safeguarding our position as an important link in the air traffic industry chain.

Air traffic systems

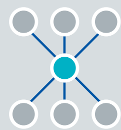
Direct traffic from "point to point" between all airports is very complicated, expensive and therefore inefficient. The "hub and spoke" air traffic system is therefore the dominant solution at international level – on long-distance routes in particular: the connection between two destinations is established via a central hub rather than directly. By comparison with the "point to point" system, this reduces the number of flights required substantially. Frankfurt needs roughly 300 flights to serve about 300 destinations, whereas 44,850 flights would theoretically be necessary to provide direct "point to point" connections to all the destinations.*

Point to point traffic



15 flights are needed to serve six destinations.

Hub and spokes system

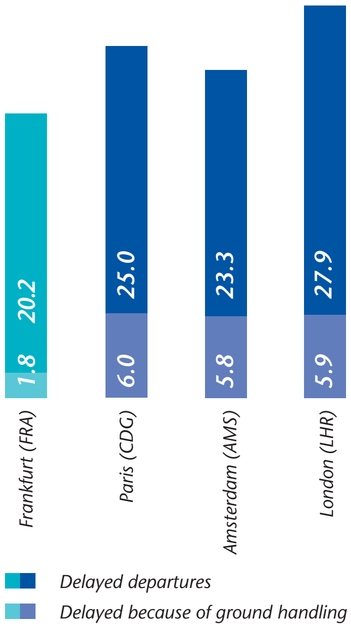


Six flights are needed to serve six destinations.

Hub

** Calculation:*
"Hub and spokes": n = x (one flight to the hub in each case);
"Point to point": n = x (x–1)/2 (connecting flights between all points).

Delays in European traffic
%



Source: Airports Council International World Headquarters, 2005

163 airlines flew to Frankfurt Airport in 2005, 134 of them operating scheduled flights. The latter enabled connections to be made to 317 destinations in 116 countries all over the world. With 54% of passengers changing to connecting flights, Frankfurt is the European leader. The punctuality rate is very good at 79.8%, too – in Frankfurt we even manage to catch up some of the delays of incoming flights, so that the aircraft can take off for their next destination on time. Statistics prove that Frankfurt is "European punctuality champion". The baggage handling system is very reliable, too. In spite of its size and the large proportion of connecting passengers, the airport has a comparatively low loss rate of 0.15%; other European hubs have higher baggage loss rates.

Easily accessible: the smart transport system network is one of the central success factors at the Frankfurt location. We play a leading role in the development of such concepts, in which air, rail and road traffic is linked to optimum effect, known to experts as intermodality. The long-distance railway station at Frankfurt Airport is the outstanding example of the networking of air and rail transport. Passengers arriving or departing have a direct connection to the long-distance network operated by the Deutsche Bahn railway company here. This link enlarges the airport's catchment area, increases the number of passengers and thus creates an important competitive edge. Frankfurt is the airport with the best air, rail or road connections in the world and is within easy reach of about 35 million people – 43% of the German population – within a radius of 200 km.

Fraport controls a complex logistic chain at Frankfurt Airport in which the processes are co-ordinated perfectly to operate like clockwork with absolute precision. Aircraft are back in the air faster in Frankfurt than at other hubs; the airport offers competitive turnaround and minimum connecting time (the time an aircraft spends on the ground and the minimum time the airport operator guarantees for passenger and baggage transfer to connecting flights). This guaranteed connecting time is only 45 minutes. A performance that impresses the main customer Lufthansa, too; in 2005, the airline signed a new five-year contract for aircraft handling in Frankfurt. The close partnership with Lufthansa, one of the strongest airlines in Europe, puts us in a favorable position for the future, too. By acquiring a good five percent interest in Fraport, Lufthansa has provided clear confirmation of its commitment to Frankfurt as its home base.

Steps to maintain success

We are in a good position – with our main location in Frankfurt and our key airport management skills. This is a sound strategic basis for playing an active part in shaping the future and for tackling the market challenges successfully. Constant work needs to be done on developing the hub skills: further fine-tuning of the processes, ongoing improvement in accessibility, development of the capacities as they are required and intensification of the relationships to the most important customers.

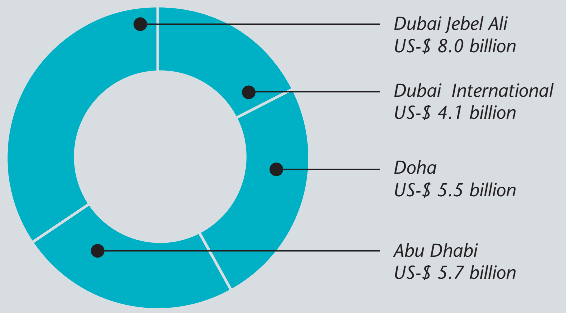
Competition from the Orient

The emirates of Dubai, Abu Dhabi and Qatar in the south of the Persian Gulf are forcing their way onto the air traffic market via the airlines based there. A fifth of the latest generation of long-distance jets (A380, A350, B 787) ordered worldwide are going to the airlines Emirates, Etihad Airways and Qatar Airways.

This is creating additional competition in the airport business, too. The emirates are making enormous investments to establish themselves as the interface between the Orient and the Occident and to expand tremendously. € 20 billion are the estimated costs of the expansion and construction of Dubai International, Abu Dhabi and Doha Airports – this corresponds to twice the capital expenditures of Fraport, AdP (Aéroports de Paris) and the Dutch airport operator Schiphol for their European locations together. The expansion of Dubai International Airport is already a major airport project costing € 3.4 billion, where the biggest A380 maintenance centre is being built, among other things. The new Jebel Ali International Airport is to be built 40 kilometers away from it. An investment volume of more than € 6.7 billion is earmarked for this project alone. Combined with the planned Dubai Logistics City, the free trade zone and the seaport, the biggest multimodal logistic platform in the world could be established here – this is the plan. Abu Dhabi and Qatar have ambitious plans, too and are investing billions in building new airports and expanding existing ones; this means that some of the biggest airport investment projects in the world are focussed on a very small area in the Gulf region. Their advantage is the generally favorable geostrategic location: all conurbations can be reached from here. The routes via the airports in the Orient are, however, often longer than routes close to the Pole, such as Frankfurt – Tokyo. On flights to the west, the connection times are unfavorable here, too, as they are sometimes in the middle of the night.

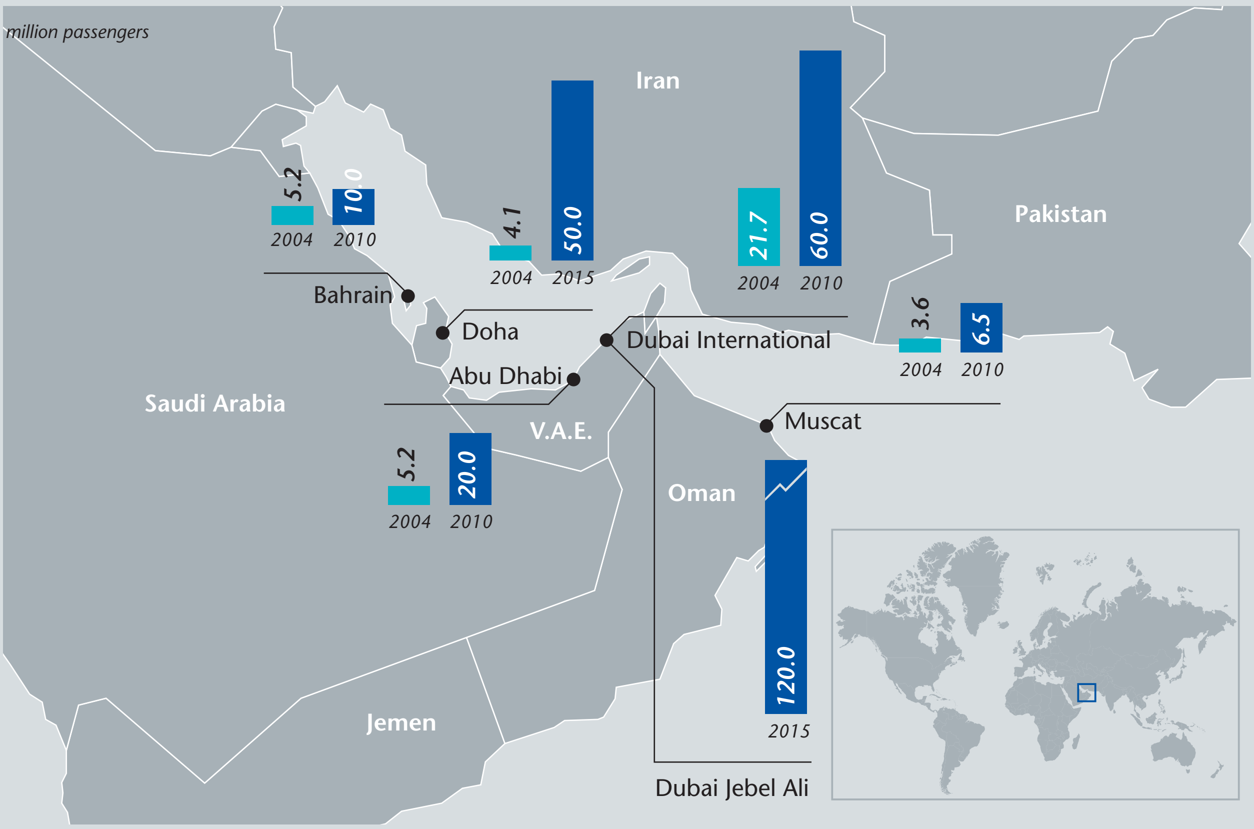
The European hubs need to respond to the growing competition not only by exploiting their logistic advantages but also by providing first-class service: when choosing routes, it is becoming more and more important to passengers how attractive it is to spend time at an airport. The aim of the current projects in Frankfurt to remodel the existing terminals is not least of all to make them a more pleasant experience for passengers and this aspect has been given particularly high priority in the planning of Terminal 3.

Expansion investments in the Middle East



Source: Information provided by the airports themselves; situation in 2005

Passenger traffic in the Middle East today and after the planned capacity expansion



High passenger growth is anticipated in the Middle East in the next few years.

Source: Information provided by the airports themselves (Muscat, Bahrain: Fraport estimate); situation in 2005

Passenger traffic *Passenger capacity*

Low-cost carriers on the advance

Flight tickets for one Euro or completely free of charge - the aggressive marketing campaigns by low-cost carriers are working, business is booming and travelling as inexpensively as possible is becoming the growth driver of an entire industry. The number of passengers on low-cost flights rose by about 38% in 2005 and now accounts for 19% of the total traffic in Germany. Market observers predict that the segment will account for 25% or more of the market in a few years' time.

Low-cost flights are a fiercely competitive business, with about 20 players in Germany and more than 60 airlines involved in Europe in the meantime. The low-cost sector is a global phenomenon rather than a purely European one, however, starting in the USA then moving on to Europe and currently in the process of conquering Asia: 14 low-cost carriers, who have ordered more than 330 aircraft together, will be entering the market in India by 2007.

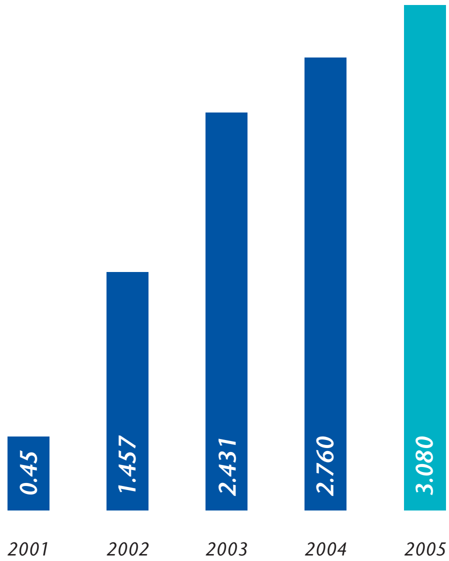
The concepts of the low-cost, scheduled and charter airlines have been clearly separated up to now. However, the products offered by the airlines in continental traffic are becoming more and more alike: charter and scheduled airlines are including inexpensive and more simple products in their programs, too.

Above-average growth continues to be forecast for the low-cost carriers in future. Fraport was quick to recognize the potential of the low-cost field and acquired a majority interest in Frankfurt-Hahn Airport as long ago as 1998. A good decision: Frankfurt-Hahn had almost 30,000 passengers in 1998; in 2005 the figure was already 3 million.

In November 2005, the main customer Ryanair announced that it would be increasing the number of its aircraft based in Hahn from six at present to 18 by 2012; this means that Frankfurt-Hahn has the prospect of up to ten million passengers in total.

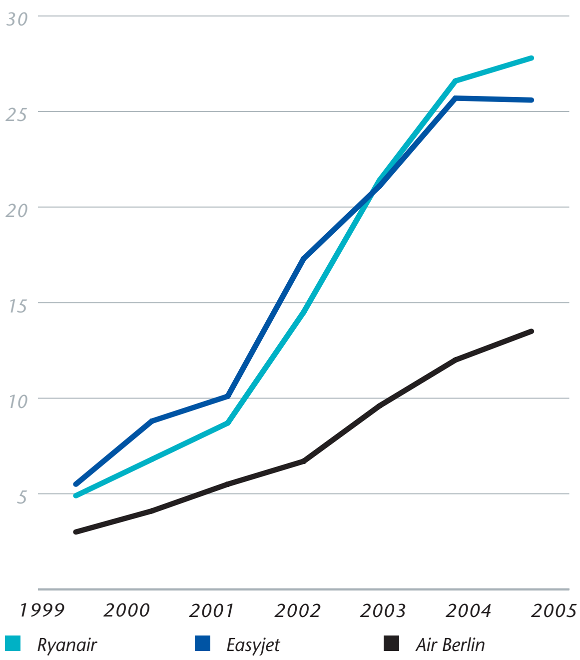
The Fraport Group is therefore following a dual strategy with clearly separated market segments: customized infrastructure and services for low-cost carriers and their passengers are provided at Frankfurt-Hahn Airport; Frankfurt Airport acts as an intercontinental air traffic hub.

Passengers at Frankfurt-Hahn
million



Source: Fraport

Passenger development in the low-cost segment
million



Source: Fraport

- *The Airbus A380: a new dimension in flying*
- *Stricter security regulations and more competition on the apron*
- *Travelers in future: homo aeroportis globalis*
- *Terminal 3 will give travelers a home in future*
- *Frankfurt Airport City: a city in its own right with global connections*

3

Our challenge: constant change

The new dimension in flying

Many different challenges lie ahead of the aviation industry. We consider these challenges to be an opportunity rather than a threat. Because: nothing is more constant than change and this is true of the aviation industry as well.

At 8.56 a.m. on October 29, 2005, Frankfurt Airport made history: the biggest passenger aircraft in the world, the Airbus A380, landed at a commercial airport for the first time. This widebody jet marks the beginning of a new era. It can transport 555 passengers, a figure that can even be increased to more than 850 in an absolute economy version. It only consumes about 3 liters of kerosine per 100 km for each passenger, however. With a larger passenger and cargo capacity, longer ranges for non-stop flights and lower noise levels, the A380 is considered to be THE mega-aircraft for mega-airports with an intercontinental hub function. Part of the aviation industry sees things this way, at least. Others, including the aircraft manufacturer Boeing, assume that there will be more direct flights (“point to point”) with smaller aircraft in future.

So what direction will the trend be going: will air traffic be focussing to an increasing extent on a few mega-hubs, to which mainly widebody jets fly? Or will the number and significance of smaller regional airports be growing? The answer: it will not be either – or! We are working on the assumption that there will be a market for both, direct flights and connections via hubs.

Experts are expecting more direct connections primarily in the European low-cost segment; there will be direct connections in intercontinental traffic, too, when a sufficiently large number of passengers want to fly between two towns or cities.

Hub function, a flight to Hong Kong shown as an example

Frankfurt

(Arrival without an aircraft)	**140**
Travelers from feeder flights	**224**

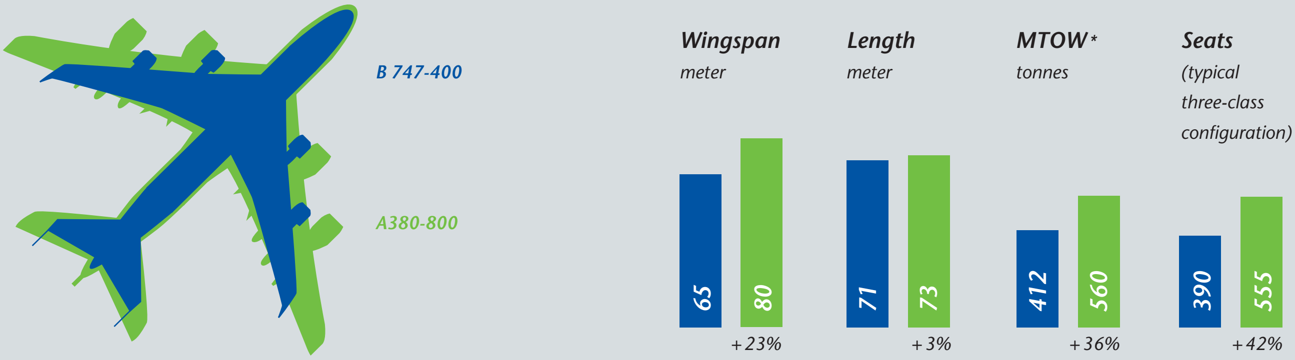
Hamburg	16	Manchester	8	Zurich	4	Malaga	1
Lisbon	15	Bologna	7	Barcelona	3	Cologne	1
Milan	13	Berlin	7	Birmingham	3	Buenos Aires	1
Munich	11	Paris	6	Basel	3	Florence	1
Düsseldorf	10	Rome	6	Budapest	3	Heidelberg	1
Madrid	9	London	6	Stuttgart	3	Helsinki	1
Oslo	9	St. Petersburg	5	Warsaw	3	Kiev	1
Bremen	8	Nuremberg	5	Zagreb	3	Oporto	1
Brussels	8	Amsterdam	4	Münster	2	Paderborn	1
Copenhagen	8	Athens	4	Göteborg	2	Salzburg	1
		Hanover	4	São Paulo	2	Strasbourg	1
		Venice	4	Leipzig	2	Vilnius	1
				Lyon	2	Vienna	1
				Valencia	3		

Sample flight FRA-HKG LH 738

360	passengers, consisting of
140	from Frankfurt (arrival without an aircraft) and
224	travelers from
49	feeder flights

Source: Lufthansa

Dimensions of the A380



** MTOW: Maximum take-off weight for aircraft; the basis for determining take-off and landing fees.*

Source: Simplified representation: Fraport; data: Airbus, Boeing

The growing amount of traffic on the "racetracks" between the biggest 20 airports in the world is also an indication of the huge market for the latest generation of aircraft like the Airbus A380. In addition to this, there will continue to be destinations outside Europe for which there are no direct flights from regional airports; passengers need to be pooled at a hub for flights to these destinations.

The decision taken by Boeing to launch a bigger version of the B 747 aircraft on the market is evidence of the fact that the company sees mega-hubs as the future in the meantime, too. Most of the B 747, a model which is already 35 years old, that have been sold in recent years have been cargo aircraft, but the new version is now competing with the A380. This advanced passenger version of the jumbo jet is supposed to be 3.6 meters longer than the current B 747-400, have additional seats and thus provide space for 450 passengers.

Frankfurt Airport will be benefitting from both developments – after all, it is in the process of becoming a mega-hub, but it also offers flights to more destinations than all the other European hubs.

Even more security

It is not just technical progress that is changing air traffic. Following the attacks on September 11, 2001, aviation security has become such a dynamic issue that airports and airlines alike are being forced to make constant changes. The EU has tightened up the regulations about security in civil aviation steadily since the attacks. One new regulation specifies checks on airport staff before they enter sensitive security areas called "critical parts". The relevant checks have to be made just as thoroughly as checks of passengers and their hand luggage.

Classification as "critical parts" is being expanded gradually to include larger and larger airport areas. From January 2006 onwards, for example, at least all the areas have to be included in the stricter checks that are entered by passengers, i.e. aircraft and passenger buses, too. From July 2009 onwards, all the areas in which checked baggage can be found will also be classified as "critical parts". As far as Frankfurt Airport is concerned, this means: all the staff who could come into contact with baggage or passengers that have already been screened after these checkpoints will have to be searched. Fraport will already be implementing the relevant directive in 2006.

Another challenge to airport logistics is the requirement that passengers who have been checked in accordance with EU standards are kept physically separate from passengers who have not been screened in accordance with EU standards. Which passengers need to go through a security check when they arrive? The national authorities decided this on their own in the past. If there were any misgivings, passengers were checked on arrival; most passengers were, however, able to change flights in Frankfurt without going through another check. Under the new EU regulation, all passengers – and thus considerably more than up to now – have to be checked again on arrival if they have flown from an airport that is outside the EU (except for Switzerland, Iceland and Norway). The same applies to transferred baggage.

Security check at Frankfurt Airport.

Introduction of the critical parts in stages

Terminal solution since January 19, 2004

- *In Germany, only the "sterile areas" in the terminals are defined as critical parts.*
- *Search before critical parts are entered.*
- *Random search before non-critical parts of the security areas are entered.*

Interim solution since January 1, 2006

- *Throughout the EU, all areas are classified as critical parts that can be entered by passengers who have been checked (in addition to the current critical parts: passenger bridges, passenger buses and aircraft).*

Permanent solution from July 1, 2009 onwards at the latest

- *Throughout the EU, all areas are classified as critical parts where checked baggage can be found, unless this baggage is physically protected (baggage transport system, gate baggage rooms, baggage transport vehicles and baggage provision areas in addition to areas covered in the second stage).*

Source: Fraport

The infrastructure and processes at Frankfurt Airport need to be adapted accordingly to make this possible. In a first stage, passengers changing flights who come from a country outside the EU and are flying on to another country outside the EU are being checked on a random basis. All passengers changing flights to destinations in the EU are already checked in Frankfurt and in the medium term this will be the case with all passengers from non-EU countries who are changing flights. Physical separation of arriving and departing passengers is planned for this purpose.

New competitors on the apron

Many airport operators in Europe provide ground handling services to the airlines themselves. It has only been possible for ground handling at European airports to be carried out by third parties or the airlines themselves since 1996 – in accordance with a EU directive. The EU has not succeeded in reaching all its goals with this liberalization of the market, however. As intended, the increase in competition has led at least to some extent to decreasing prices – but the quality of ground handling services has not improved. The proverb that "too many cooks spoil the broth" is true on the apron, too. Experience has shown that airports with a smaller number of different handling agents work more punctually. If their number is increased, quality generally decreases, because the processes become more complicated for everyone.

Another handling agent apart from Fraport AG has been operating at Frankfurt Airport since April 2000. This company works mainly on the apron, whereas the Fraport ground handling services provide a complete range of aircraft handling services to the airlines.

Up to now, it has been possible to maintain the high quality of ground handling in Frankfurt. Now the EU is planning another stage in liberalization, in which approval is granted for probably two additional competitors. Space in Frankfurt is so limited, however, that every further provider is likely to have a considerably negative impact on the complex ground handling process chains. The new EU regulation also specifies that airport operators have to apply for a license to carry out apron handling services in the same way as an external company. Our assumption is that such regulations cannot have a positive effect on the quality of the services provided. We are already responding to the probable price pressure by organizing our ground handling services to be increasingly efficient. The aim is to maintain the high quality of our services and to continue optimization of the cost-effectiveness of the processes.

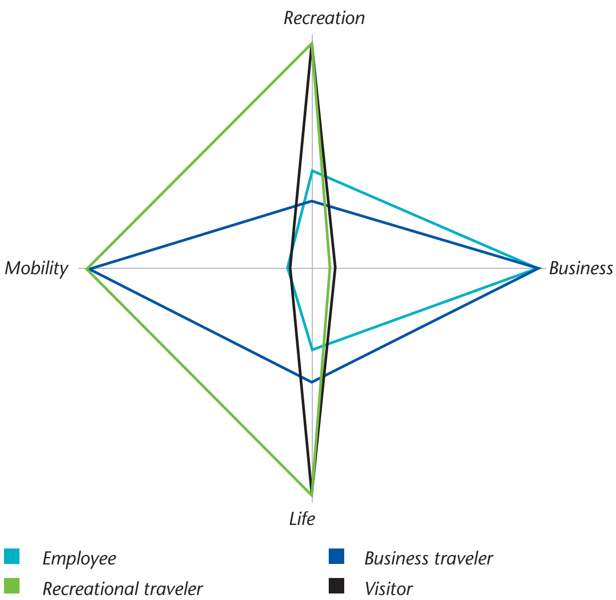
Specialization in security services

Security measures in international air transport have been intensified considerably since the terrorist attacks on September 11, 2001. Airports are using increasingly sophisticated technologies as well as more and more staff to check passengers, baggage and cargo. Fraport is in a good position as the leading service provider in the growing aviation security field. The Fraport subsidiary ICTS Europe that specializes in security services is European market leader for aviation security and can benefit from industry growth.

Single European Sky

With the "Single European Sky" project, the European Commission intends to create a transnational airspace and to certify the air traffic control organizations. At the present time, there are 68 different airspaces and 34 control organizations in the EU. The objective that has been set is in the interests of both passengers and airlines: to centralize air traffic control organization throughout the EU, so that air traffic operations are carried out more punctually and economically while at least maintaining the security level. The single European airspace is to be based in future on traffic flows rather than on national borders; the use of uniform state-of-the-art technology is to guarantee greater security and cost-effectiveness.

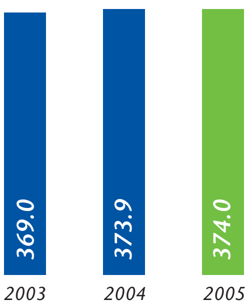
Interest profiles of the "homo aeroportis globalis"



Every individual passenger and visitor weights the above-mentioned criteria about a stay at the airport differently. Source: Fraport

Retail revenue

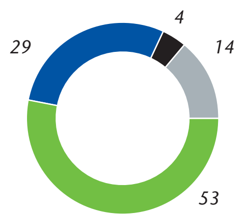
€ million



Source: Fraport

Segment contributions to Group EBITDA

%



Aviation

Retail & Properties

Ground Handling

External Activities

Source: Fraport

Travelers of the future

The "homo aeroportis globalis" is a new but by no means rare species. In Frankfurt alone, it appears in this form more than 55 million times a year, in addition to about 68,000 people who work at the airport. All of these people are consumers, whose behavior patterns are changing and are increasingly difficult to predict; marketing experts talk about hybrid, adaptable consumers who switch between luxuries and basics. This is apparent in the travel field, too: rucksack tourists with a laptop and surfboard are nothing unusual nowadays.

Frankfurt Airport adapted to this new species of consumers who are willing to spend long ago. Airport retailing is a growing market with a promising future. Frankfurt offers shopping facilities for every taste. Shops of many different kinds, restaurants, cafés, numerous service outlets as well as a casino are examples of what makes sure that passengers do not just rush quickly to their aircraft but enjoy spending even lengthy periods of time in the terminals. Frankfurt's hub function stimulates the retailing business even more, because international passengers who are changing flights are a clientele with particularly high purchasing power.

We are focussing on this source of income and aim to generate sustained growth in the non-aviation field. The retail facilities in the existing terminals are to be expanded and redesigned and the retail space available is to be increased from 14,200 to 27,000 square meters.

Terminal 3 will be setting new standards

The requirements of the "homo aeroportis globalis" have top priority in the planning of the new Terminal 3, too. New check-in concepts will make sure that passengers have to wait less long. All checks will take place at a central location. Following the smooth security check, travelers will then be able to spend a relaxed time in a shopping area with a marketplace character; with 15,500 square meters, Terminal 3 will provide more shopping space per passenger than the existing terminals.

The new terminal will have a clearly structured design; arriving passengers will reach the checkpoints and baggage return area without having to use any staircases, for example.

In the context of the airport expansion program, the terminal in the south of the airport site is to increase the current annual terminal capacity by about 25 million passengers. Construction will be carried out on a module basis in accordance with requirements, depending on passenger development.

After the final stage of construction has been completed, Terminal 3 will probably provide 75 aircraft parking positions at the building and on the apron. The airport will then be equipped to deal with a total of more than 80 million passengers a year and will therefore be able to exploit further growth potential.

Fraport is prepared for travelers in the future: a new shopping mall is being created in Frankfurt by 2015; an artist's impression is shown here. Source: Fraport

Frankfurt Airport City – a city in its own right with global connections

Development never stops here – Airport City is being created.

Frankfurt Airport is a lively city in its own right and a property address with the best possible connections. It is the biggest local place of work in Germany with more than 500 companies and about 68,000 employees. Together with the central geographical location, the flight connections, motorway and railway networks guarantee maximum mobility and thus ideal conditions for a corporate location.

We aim to exploit this potential. Which explains why excavators and cranes are just as much a permanent feature at Frankfurt Airport as aircraft or the control tower – construction work is going on pretty much all the time. At the present time, for example, the existing terminals are being modernized and updated to satisfy the latest security requirements, while the retail space available is in particular being expanded, too.

We are also expanding the Airport City by developing new commercial areas – not just on the airport site but also in the immediate vicinity. CargoCity South is a successful example of the commercial use that can be made of sites near the airport. Since a start was made on marketing the roughly 98-hectare site in the south of the airport site in 1996, more than 200 companies – mainly airlines, transport companies, express delivery services and other service providers – have settled here, employing more than 5,000 staff in total; together with CargoCity North, the figure is in fact more than 9,000 employees.

There is further space for expansion on the 84-hectare Mönchhof site at the motorway junction of the same name right next to the airport. A prime site in the Rhine-Main area: the land bought by Fraport is the biggest commercial estate in the region that has not been developed yet. As has already been the case with CargoCity South, development of the Tradelogistics Center "Mönchhof" also promises to become a success story, from which the entire region benefits. "Gateway Gardens" is one of our most important development projects at the present time, too. The site covers about 35 hectares to the north-east of Frankfurt Airport. Fraport and three other companies have joined with the city of Frankfurt in a public-private partnership company. Following the withdrawal of the US forces, the central position is to be used for the development of an attractive location; there are plans for high-quality office and service buildings, a trade center, conference rooms and hotel facilities. Preparations have started: construction work is to begin in 2006.

Another future project is the plan to construct a prestigious building on the roof of the airport long-distance railway station – the AIRRAIL center frankfurt: a modern, multifunctional service centre 660 meters long and 65 meters wide is to be created there. AIRRAIL would provide everything in the same building with some 120,000 square meters of space for a hotel, offices, catering outlets and shops.





A380 AIRBUS






F-WWDD


Lufthansa


Efficiency-oriented and sustainable: the test visit by the A380 went smoothly and demonstrates that Frankfurt Airport is already excellently equipped for the future.

- *Frankfurt Airport needs to increase its capacity*
- *Expansion would create about 100,000 new jobs*
- *Lufthansa is strengthening its home base by establishing the A380 maintenance facility in Frankfurt*
- *The airport of the future: Frankfurt Airport in 2015*

4

Dynamic development of the hub

This is where the airport of the future is being created

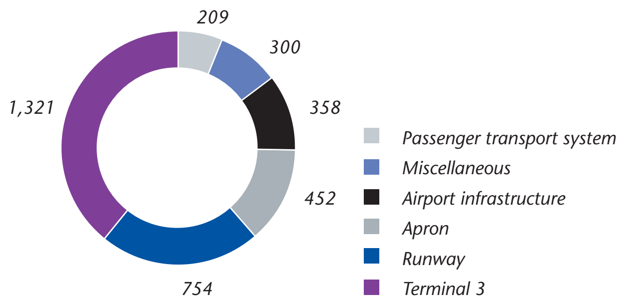
Frankfurt Airport is currently one of the most important international hubs in the world and is the home airport of Deutsche Lufthansa. However, demand for take-off and landing slots has exceeded the capacity available for years now. It is rarely possible to respond positively to inquiries from airlines about new slots during peak periods any more. The bottleneck cannot be eliminated by ongoing optimization of the infrastructure. If it is not expanded, Frankfurt Airport's competitive position and future as the central air traffic hub in Germany are at risk.

Expansion of the capacities of the airport is the key to future growth, not only for the airport itself but also for its role as economic growth driver for the state of Hesse and the whole of Germany.

With a budget of € 3.4 billion, the expansion project will be the biggest privately funded investment in Germany and will create about 100,000 new jobs by comparison with development without an expansion program. The general expansion plan has three main focal points: expansion of the capacities by building a new runway and the third terminal as well as the maintenance base for the new generation of large long-distance aircraft, the Airbus A380.

Breakdown of the capital expenditure volume

€ million



Budget (excluding inflation): € 3,394 million
plus an inflation fund of € 351 million

Source: Fraport

There is no alternative to the new runway

The planned north-west runway will increase the airport capacity to 120 take-offs and landings per hour instead of 82 co-ordinated hourly aircraft movements. This is the only way to make it possible to satisfy the anticipated passenger demand in 2015. The north-west runway is economically and environmentally the best way to expand capacity. This was the conclusion reached in the regional planning procedure, too, in which a comparison and evaluation was made of the three alternative runways to determine the optimum solution from the regional planning point of view.

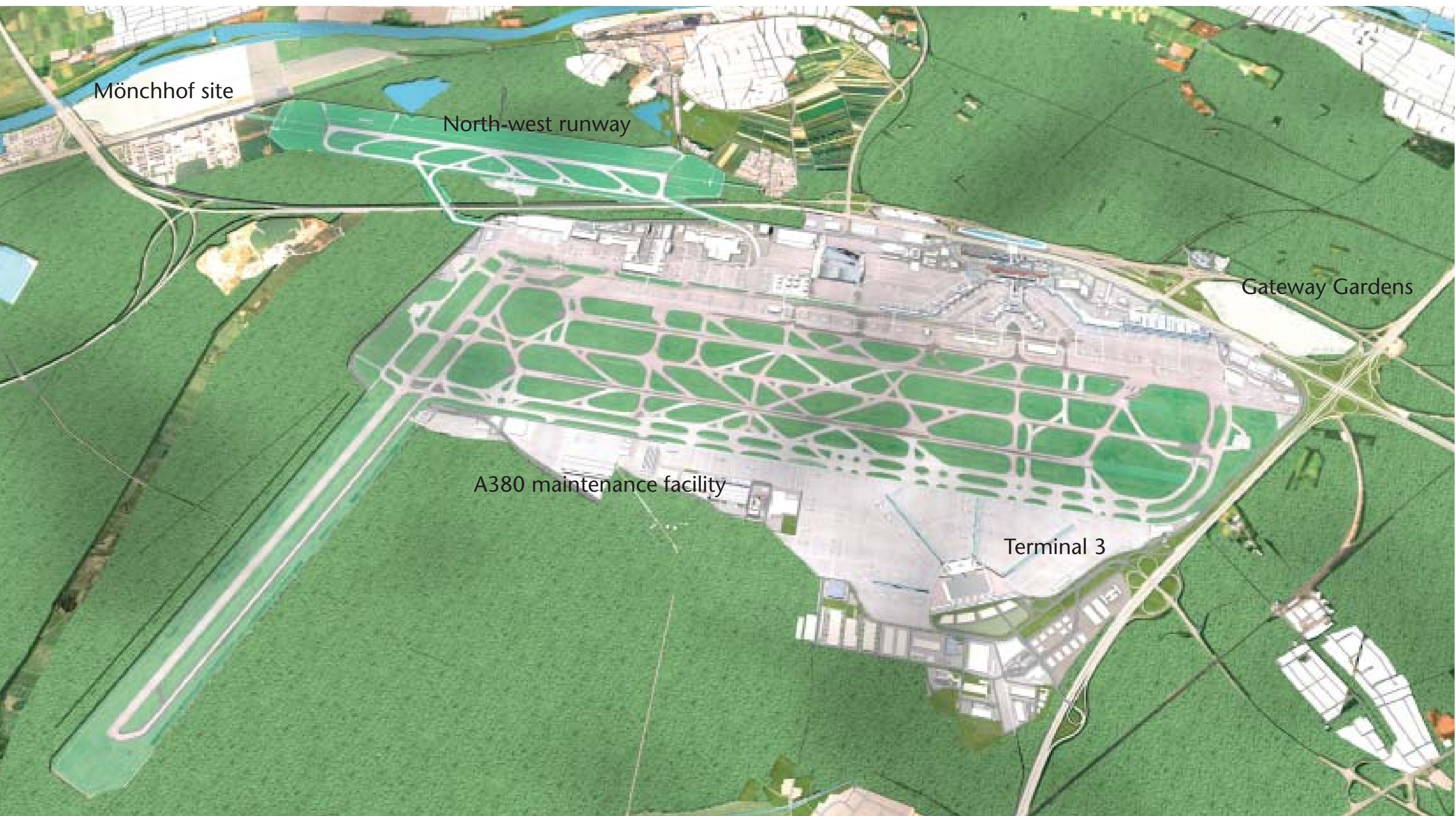
Fraport AG has compiled an ambitious ten-point plan, including noise abatement measures, so that the impact on people and the environment remains as low as possible when the traffic volume increases. Most of the measures have been implemented in the meantime. The staggered system of take-off and landing fees combined with noise and nighttime surcharges creates an economic incentive for the airlines to fly the latest generation of quieter aircraft to Frankfurt Airport, for example. Deployment of them is rewarded by fees that are up to ten times lower than flights with older, noisier jets. For owners of properties that aircraft will fly over at a height of less than 350 meters after the new runway has been built, Fraport AG has introduced the “Casa Program”, which offers financial settlements in the form of property purchases or compenzation payments. In the context of the approval procedure for expansion of the airport, Fraport AG has even in addition applied for a ban on nighttime flights scheduled between 11.00 p.m. and 5.00 a.m.

An artist’s impression of the outside of Terminal 3. Source: Fraport

The A380 maintenance facility – a home for the new generation of huge jumbo jets

Deutsche Lufthansa will be strengthening its home base considerably by concentrating the A380 at Frankfurt Airport. The A380, the new generation of widebody jets for long-distance routes, is the aircraft for international air traffic hubs. The constantly increasing flow of passengers on the main air traffic routes between America, Europe and Asia will be channeled via them. In order to satisfy the growing demand on the main intercontinental routes, the airlines are using widebody jets that can transport more people in greater comfort than ever before. From this year onwards, Airbus will be delivering the first A380 aircraft that Lufthansa and other airlines intend to use at the Frankfurt hub. The A380 is being introduced independently of the airport expansion program. Deployment of it will help to reduce the capacity bottlenecks until the airport has been expanded.

Frankfurt Airport in 2015



Financial Report

Group management report

Consolidated financial statements and Group notes

Miscellaneous notes

Group management report

Highlights and key figures

Dear Sir or Madam,

dear Shareholders,

2005 was a successful fiscal year for Fraport. In the context of the slight economic recovery and the growth rates achieved in air traffic volume, we generated considerably higher revenue than in the previous year. With a sustained cost management, we succeeded in making disproportionately large increases in EBITDA and the Group profit for the year by comparison with revenue.

Business highlights in 2005:

- *Passenger traffic in Frankfurt increased by 2.2%.*
- *More than 5 million passengers at Frankfurt in one month for the first time (July and August).*
- *Airfreight tonnage in Frankfurt grew by 8.2%.*
- *Increase of 4.6% in revenue to € 2,089.8 million.*
- *Improvement of 6.1% in EBITDA to € 547.5 million.*
- *Group profit for the year 17.4% higher than in the previous year at € 161.5 million.*

We will be proposing to the 2006 Annual General Meeting that about € 82.1 million are distributed in dividends. This would represent an increase in the dividend for fiscal 2005 to 90 cents per share; the dividend paid for 2004 amounted to 75 cents per share.

Key income statement figures[1]

	2004 in € million	2005 in € million	Change in %
Revenue	1,998.1	2,089.8	4.6
Total revenue	2,043.7	2,141.7	4.8
EBITDA	516.2	547.5	6.1
EBIT	281.1	311.6	10.9
EBT	265.1	290.4	9.5
Group profit for the year	137.6	161.5	17.4
Profit for the year attributable to shareholders of Fraport AG	136.4	161.2	18.2
Earnings per share in € (basic)	1.51	1.78	–

Key balance sheet and cash flow statement figures[1]

	2004 in € million	2005 in € million	Change in %
Shareholders' equity	2,041.6	2,157.9	5.7
Equity ratio[2] in %	54.1	52.5	–
Total assets	3,650.2	3,951.6	8.3
Capital employed[3]	1,967.9	2,264.1	15.1
Gearing in %[4]	n. a.	9.1	–
Operating cash flow	518.6	493.7	–4.8
Free cash flow[5]	281.5	58.3	–
Capital expenditures	279.4	682.4	>100

Key profitability ratios[1]

	2004 in %	2005 in %
Return on shareholders' equity[6]	6.7	7.5
Return on revenue[7]	13.3	13.9
EBITDA margin[8]	25.8	26.2
EBIT margin[9]	14.1	14.9
ROCE[10]	14.3	13.7

Employees

	2004	2005	Change in %
	24,182	25,781	6.6

[1] Some of the data for the previous year have been adjusted; cf. the notes for a more detailed explanation.

[2] Calculation: (shareholders' equity – retained earnings)/total assets.

[3] Calculation: net financial liabilities + shareholders' equity – retained earnings.

[4] Calculation: net financial liabilities/(shareholders' equity – retained earnings).

[5] Calculation: cash flow from operating activities – payments for capital expenditures on intangible assets and property, plant and equipment.

[6] Calculation: Group profit for the year/shareholders' equity.

[7] Calculation: EBT/revenue.

[8] Calculation: EBITDA/revenue.

[9] Calculation: EBIT/revenue.

[10] Calculation: EBIT/capital employed.

Strategy and value management

Strategy

The aviation industry faces many different challenges in a market environment that is going through a process of constant change. Our corporate vision forms the basis for successful operation in these general conditions.

We develop mobility professionally and make it an experience for our customers. As an airport group, we are the most capable industry player in all segments. We consider airports to be activity centers and intermodal hubs. We link transport networks systematically. We stand for efficient management of complex processes and innovations, maintain our position by providing competitive integrated services and responding flexibly to our customers' requests. Safety is our top priority. By carrying out our vision, we create sustained value in the interests of our shareholders, our employees and the regions in which we operate.

Our primary goals are based on this vision: value creation, capability and sustainability. There has been no change in the three pillars of our strategy: consolidation of the integrated business model at Frankfurt Airport as well as growth in Frankfurt and elsewhere.

The **Aviation** segment develops, controls and is responsible for the overall functionality of Frankfurt Airport. Value is created in this area in co-operation with the airlines by means of ongoing process improvement. The focus is on the function as the primary hub of Deutsche Lufthansa and the Star Alliance.

The **Retail & Properties** segment is responsible for real estate and space development as well as for all the retail activities at Frankfurt Airport and supports the concessionaires as airport partners. It optimizes the utilization and availability of all space. It has completed the strategic change from an infrastructure provider alone to a real estate manager and provider of associated services.

Fraport is the third-largest provider of ground handling services in the world. Due to the difficult situation the airlines are in, the **Ground Handling** segment is under strong market pressure. The creation of competitive cost structures while maintaining the high product quality for which Frankfurt is respected is the basic precondition for economic success.

The **External Activities** segment is responsible for controlling the development of the Group above and beyond the main location in Frankfurt. We aim to export our management and service provision skills to national and international markets with high growth potential. Service, management and consultancy contracts are our priority; we make flanking capital investments where this is necessary.

Human resources development and targeted improvement in staff qualification are central elements in the strategy pursued in all the segments.

Consolidation of the integrated business model in Frankfurt

In Frankfurt, we operate one of the most important air traffic hubs in Europe and the largest airport in Germany. To enable us to maintain this position in future as well, we work constantly on improving our competitive edges: intermodality, efficiency, reliability, punctuality. We will be expanding our hub skills and intensifying the business relationships to our key customers in particular. A competitive position in our product quality and prices has top priority for all business and service areas.

With this in mind, we initiated the Group-wide project “WM 2005 – creating value for the future” in 2001. The targets for 2005 were reached: we cut costs, strengthened our competitive position and increased customer satisfaction, helping to safeguard jobs as a result. Another program – “We are making Fraport fit” – was launched in 2005, which focusses on our biggest cost item, personnel expenses, to a more specific extent than “WM 2005”. The changes to the fringe benefits above and beyond the collective agreement that have been arranged between the company management and the works council are specified in the “Zukunftsvertrag 2010”. This contract, which was concluded in May, also includes a commitment by Fraport AG to avoid operational redundancies up to 2010. The company’s employees, works council and management demonstrated their ability to cope with the future by agreeing on this contract.

Growth at the Frankfurt location

Expansion of the capacity at Frankfurt Airport is essential in order to participate in global air traffic growth. At least 120 co-ordinated aircraft movements per hour are to be reached with the planned addition of a runway and a passenger terminal. Experts’ reports confirm that about 100,000 additional direct, indirect and catalytic jobs will be created by the expansion program. This is the biggest privately financed investment project in Germany, with a volume of about € 3.4 billion (adjusted for inflation; based on the price level in 2000).

It was proved in the regional planning procedure that the construction of a runway 2,800 meters long to the north-west of the airport site will have least impact on the environment and neighbours by comparison with other expansion alternatives. Implementation of this alternative requires the clearance of least forest and that the number of neighbours affected by air traffic noise is the smallest. This expansion project is to be approved in the context of the current zoning procedure.

The former US Air Base to the south of the airport site was taken over completely by Fraport AG on January 1, 2006. The new passenger terminal is to be built on this site. The terminal will have a total of 75 aircraft positions.

Lufthansa is planning to operate the Airbus A380 – probably from 2007 onwards – and to base its A380 fleet here. For this a new maintenance facility and the associated storage building will be needed for which the legal approval for the construction was granted in September 2005. The stationing of the A380 fleet in Frankfurt is a crucial contribution to safeguarding the airport’s market position as a traffic hub for Germany, Europe and the world in future.

We think that not only air traffic but also the non-aviation business at Frankfurt Airport has considerable growth potential. Our self-image as an airport operator has changed: airports are no longer infrastructure providers alone; instead of this, they are developing into cosmopolitan “airport cities” to an increasing extent. In view of this, we are expanding our retail business and improving the quality of the airport as a first-class retailing and real estate location.

The retail business in particular is becoming more and more important as a source of earnings. Business and leisure travelers who are keen to consume therefore find a wide range of different shops, restaurants and services at Frankfurt Airport that enable them to enjoy a pleasant time there. Passengers’ stay in Frankfurt is supposed to be a memorable experience – we make this our task.

External activities

Our aim in the “external activities” is to export our management and service provision skills to national and international markets with high growth potential. The emphasis is on airport management, ground handling and aviation security. Service, management and consultancy contracts are our priority; we make capital investments as well where this is necessary.

Value management at Fraport

Value orientation as the basis for action

Creating value is one of the central elements of our vision and our corporate strategy. The creation of sustained value is the only way to increase the long-term value of our company in the interests of our shareholders.

In order to reach this objective systematically, we have therefore implemented a value-oriented control system, with the help of which we bring all areas of the company and business units into line with this maxim.

Components of the Fraport value contribution as the fundamental concept

We use the “Fraport value contribution” as the central goal achievement and control indicator, in order to measure the creation of sustained value in the company.

The Fraport value contribution is our main financial indicator, which shows whether we are earning our cost of capital and have created additional value. The Fraport value contribution is calculated from the difference between the earnings before interest and tax and the cost of capital before tax:

Fraport value contribution (Group/segment/division) =
Earnings before interest and tax – WACC (before tax) * Fraport assets

Calculation of the weighted average cost of capital (WACC)

The weighted average cost of capital is the minimum interest rate required by the capital market and is deduced at Fraport as the weighted average cost of equity and debt capital. The cost of equity corresponds to the return on their investment expected by our shareholders and is determined using the “Capital Asset Pricing Model” (CAPM). The cost of debt capital is based on the interest rates agreed in commitments the company has entered into with debt investors. The cost of capital determined in this way on the basis of the capital market amounted to 10.0% before tax for Fraport in 2005. The WACC[11] level is reviewed annually and is adjusted if there has been a serious change in the interest rate and/or our risk and financing structure.

Determination of Fraport assets

The “Fraport assets” are the average assets employed at the company on which interest has to be paid, which consist of the fixed assets we need for our operations and our working capital.[12] Our fundamental rule is that assets which can be depreciated are included with half of the historical acquisition or production costs and not with residual book values.[13] We have chosen to adopt this procedure, because it – in contrast to the calculation systems for other key figures such as EVA™ – makes sure that “value creation” does not already occur simply when the asset basis decreases because of depreciation charges. We also avoid the misallocation of scarce funds, which would occur in the case of value-oriented control on the basis of residual book values (“net assets”) because of Fraport’s high property, plant and equipment intensity and the fact that the airport industry is heavily influenced by investment cycles.

Calculation of “Fraport assets”

	Intangible assets
+	Property, plant and equipment
–	On-account payments and construction in process
+	Trade accounts receivable
+	Inventories
–	Trade accounts payable

[11] Weighted Average Cost of Capital.

[12] We have changed the method used to calculate the Fraport assets slightly in that we have eliminated the inclusion of prepaid expenses and deferred income due to the complexity involved.

[13] In accordance with new IFRS accounting rules, we no longer depreciate goodwill on a scheduled basis but on the basis of impairment tests. In the context of our value management concept, goodwill is no longer included with half of the acquisition or production costs; instead of this, it is included with the current book values for the impairment test.

Contrary to the procedure outlined above, the EBIT in the External Activities segment is adjusted by the earnings of the equity and other investments assigned to this segment. The same applies to the asset basis, to which the appropriate assets shares are added. This means that minority investments, the earnings of which are shown in the Group financial result, are included in the value-oriented control system.

Determination of the return on Fraport assets (ROFRA)
In order to be able to compare divisions of different sizes with each other, we take the relative key ratio "return on Fraport assets" (ROFRA) into account in addition to the (absolute) value contribution. The ROFRA is determined by relating the operating result to the Fraport assets. The rule here is: if the ROFRA is higher than the WACC, the division is creating value.

Integration of value management at Fraport
Value-oriented targets were set for the company, Group companies and company divisions again last year.

The development of the Fraport value contribution is also included as a benchmark for determining the performance-based compensation paid to the top management.

The comprehensive integration of our value management approach was backed by additional qualification measures, in order to deepen the knowledge of the value management of our management staff.

Key figures in 2005

	Fraport Group		Aviation		Retail & Properties		Ground Handling		External Activities	
€ million	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005
EBIT	281.1	311.6	90.8	94.2	174.5	182.2	31.1	52.1	−1.3	−3.6
Fraport assets	2,842.8	2,848.3	908.8	937.4	1,260.6	1,241.2	374.4	366.7	345.1	355.7
Cost of capital before tax	284.3	284.8	90.9	93.7	126.1	124.1	37.4	36.7	34.5	35.6
Value contribution before tax	−3.2	26.8	−0.1	0.5	48.4	58.0	−6.3	15.5	−35.8	−39.2
ROFRA	9.9%	10.9%	10.0%	10.0%	13.8%	14.7%	8.3%	14.2%	−0.4%	−1.0%

The Group value contribution was increased by € 30.0 million to € 26.8 million in the current fiscal year. This was mainly attributable to the increase of € 30.5 million in our EBIT combined with a similar level in our Fraport assets.

The return on Fraport assets (ROFRA) generated by the Group was 10.9% in 2005 following 9.9% in the previous year. This means that we exceeded the relevant cost of Group capital of 10.0% substantially and succeeded in creating value.

The Group segments Retail & Properties and Ground Handling benefitted essentially from an increase in EBIT coupled with a small reduction in the Fraport assets. In the Aviation segment of the Group, the increase in EBIT was offset almost completely by an increase in Fraport assets because of the measures taken to modernize and expand the existing terminals, including fire protection systems for them. The performance of the External Activities segment of the Group was affected by a reduction in EBIT and an increase in Fraport assets because of full consolidation of Antalya.

Innovation management

Know-how and innovative skills are crucial success factors for Fraport in the global competitive environment and are the basis for sustained growth. As is normal in our industry, we do not carry out any "research and development" in the stricter sense; Fraport has, however, implemented innovation management in the company's vision. The objective is to develop trendsetting products to the point where they can be marketed successfully.

In this context, we also concentrate on maximizing utilization of the limited capacities at Frankfurt Airport and on innovative security concepts in goods and passenger traffic. 54 projects were carried out within the framework of the innovation management system in 2005. RASCargO and MobIS-L are among the most important.

RASCargO

Every year, 18 million containers are shipped around the world and five million tonnes of airfreight are transported in passenger aircraft. The necessary security control procedures make it difficult for the logistic processes to be carried out smoothly. Traditional security control procedures such as X-ray examinations or tomographies make complicated and time-consuming cargo transport and the use of examination equipment necessary. In addition to this, such technical screening processes are very time-consuming in themselves and cannot be carried out in parallel. A new process developed by our subsidiary ICTS Europe is making this transport redundant. At least 60% of the time needed is saved, while the statistical detection rate is higher than with the traditional process. Dogs that have been trained specially for this purpose sniff samples of air from cargo containers in analysis stations directly on the spot to find explosives. The air samples are taken from several containers at the same time by means of a vacuum process parallel to the standard cargo process and therefore speed up the procedure considerably as a result.

MobIS-L

MobIS-L is a mobile information system, which has been developed to optimize the apron processes in Frankfurt but also has potential for marketing to other major airports.

Loading and unloading throughout the process chain between the arrival and departure of the aircraft is a complex process, which is co-ordinated at the present time by one person in each case – the load master – with the help of clearance reports, loading plans and operating regulations in paper form and via radio telephone. Misinterpretations of handwriting and comprehension problems when using radio telephones are possible sources of mistakes here and have an adverse effect on the quality and speed of aircraft handling. All the relevant data have to be entered in the IT systems afterwards as well.

The plan in future is for the load master to be able to use a handheld PC for their work that has been developed in liaison with the company Texxmo.

Clearance reports will be compiled electronically with MobIS-L, while the necessary data will be exchanged online in real time between load master, airlines and administrative staff. Such an improvement in the use of data will increase process quality considerably.

Future for FRA

A further improvement in the processes on the land and air sides also has the potential to increase capacity productivity even more. Apron processes are to be improved with the joint project "Future for FRA" carried out by Lufthansa, Deutsche Flugsicherung and Fraport. This project includes innovations in approach and landing processes, improvements in taxying traffic on the apron and joint punctuality management. The success achieved in the course of this co-operation, which has in the meantime been going on for five years now, also helped to set traffic records in 2005 smoothly and with high punctuality levels despite the limited available space. The operations in front of and in the terminals are being optimized in the context of a joint project "Terminal Partners" – particularly involving Lufthansa and the German federal police force in addition to Fraport.

Organization

Changes to the Fraport organizational structure took effect on June 1, 2005. The main aims of them are to structure the company even more efficiently and to strengthen direct operational management by the Executive Board.

To this end, each of the strategic business divisions in which the business operations at Frankfurt Airport are organized was, first of all, assigned directly to a member of the Executive Board: The strategic business division “Ground Services” now reports to the Chairman of the Executive Board and is headed by a Senior Executive Vice President. The Labor Relations Director is responsible for the “Retail & Properties” division, which is headed by an Executive Vice President. The newly established strategic business division “Traffic and Terminal Management, Airport Expansion, Security” is allocated to the member of the Executive Board responsible for infrastructure and legal affairs. This new division includes what used to be “Traffic and Terminal Management” and the central “Airport Expansion Program” operations. It is headed by two Executive Vice Presidents. The service division “Real Estate and Facility Management” has also been controlled by an Executive Vice President since July 1, 2005. This division reports to the Financial Director.

Furthermore, the Executive Board has been reduced to four members.

*Fraport management organization since August 1, 2005 **

Dr Wilhelm Bender Chairman	**Professor Manfred Schölch** Vice Chairman	**Herbert Mai**	**Dr Stefan Schulte**
Ground Services	Traffic and Terminal Management, Airport Expansion, Security	Retail & Properties	Real Estate
Marketing, strategy, boards and committees *Corporate communications* *Central purchasing, construction contracts*	*Legal affairs*	*Human resources*	*Real estate and facility management* *Information and telecommunications* *Global investments and management* *Controlling, finance, accounting*

Segment responsibility

Ground Handling	Aviation	Retail & Properties	External Activities

* *Excluding staff positions.*

Business development in 2005

Business environment and development of air traffic

General economic conditions

World economy continues to develop positively

2005 was another good year for the world economy; according to calculations by Deka Bank, it grew by 4.4%[14]. Global trade growth of 7.3%[15] was again higher than the long-term average. The dynamic development of the world economy boosted the air transport industry and Frankfurt Airport benefitted from this as an international air traffic hub, too.

The world economy was hampered by high raw material prices. They were due to the large increase in demand from parts of Asia and several environmental catastrophes (tsunami, tornadoes and earthquakes). The increases in the price of crude oil were particularly large: on average over the year, the world market price per barrel (Brent oil) went up from US-$ 38 in 2004 to US-$ 54[16]. Most airlines responded to this by adding a fuel surcharge to the ticket prices. This surcharge did not have any obvious adverse effect on passenger growth last year.

Although many countries that export raw materials benefitted from the additional income, the higher purchase prices slowed overall world trade and industrial growth in the second half of the year. The association of German economic research institutes[17] estimates that the increase in the energy costs absorbed purchasing power amounting to about 1.5% of the gross domestic product in the major industrialized countries from 2003 to 2005.

In spite of this effect, the gross domestic product in China increased by about 9.4% in 2005 according to estimates made by Deka Bank, in India it was 7.3% higher than in the previous year. The economy also developed positively in Japan (2.6%) and most other Asian countries as well as in Latin America (4.1%) and many of the Central and Eastern European economies (5.2%). The US economy recorded sound growth of 3.5%, too. As an international hub, Frankfurt Airport benefits from the above-average growth in these regions as well.

Gross domestic product (GDP)/world trade

Real changes over the previous year in %	2004	2005
Germany	1.6	0.9
Eurozone	2.1	1.4
EU 25	2.4	1.7
Central and Eastern Europe	7.5	5.2
USA	4.2	3.5
Japan	2.7	2.6
China	9.5	9.4
India	7.2	7.3
World	5.1	4.4
World trade	10.5	7.3

Source: Deutsche Bank, January 2006, as well as OECD for world trade and Deka Bank for Central/Eastern Europe

[14] *Deka Bank, Deutsche Girozentrale Frankfurt, date: January 2006.*

[15] *OECD Economic Outlook No. 78, date: November 2005.*

[16] *Deka Bank, Deutsche Girozentrale Frankfurt, date: January 2006.*

[17] *Autumn report, date: October 2005.*

Following the slight recovery in the previous year (+1.6%), the German gross domestic product[18] only grew by 0.9% in 2005. German exporters succeeded in increasing their exports by a total of 6.2% in 2005, imports were 5.0% higher. Due to decreasing net household incomes, a high savings ratio and rising unemployment, consumer demand was once again lower than in the previous year, however.[19]

The good situation of the world economy is hardly reflected at all in the Eurozone, on the other hand: growth in this region was only 1.4%[20], growth in the 25 countries that form the extended European Union reached 1.7%[21]. As net importers of the considerably more expensive raw materials, these two sets of countries were hit particularly hard by the price increases.

General sociopolitical conditions
Air traffic is a crucial competitive edge for Germany. It connects the German sales and procurement markets to the world economy, creates incentives for technical enhancements and guarantees safe jobs.

Germany's position as an air traffic location is, however, impaired by high costs, by international competition from England and France in particular and by regional subvention policy. These general conditions in the industry need to be changed in such a way that the location costs of the market players decrease substantially. This is the goal that has been set for the "Air traffic for Germany" initiative. Fraport, Lufthansa, Munich Airport and Deutsche Flugsicherung (DFS) are working together here to remain competitive and to safeguard the jobs connected with that.

Together with the federal and state governments, the initiators of "Air traffic for Germany" have developed a master plan for optimization of the airport infrastructure in line with the requirements. It includes the expansion of central traffic hubs and the co-ordination of extension and new building projects by the federal government, with the aims of achieving sustained profitability and an integrated location policy. The representation of German interests in the European institutions is at the same time being intensified and co-operation between the air traffic industry, the political community, administrative authorities and associations is being strengthened. The focus in aviation security is on cost reduction through process innovations and the harmonization of international security standards.

In the context of the general liberalization of the European aviation industry, the planned privatization of DFS is a further contribution to improvement of the competitive position of the German air traffic industry.

Development of air traffic
Polarization in the air traffic market continues
In 2005, the trend among customers to book flights with low-cost airlines to an increasing extent instead of buying classic package tours including flights again contributed to the polarization of the air traffic market that has been apparent for a number of years now. On the one hand, there are big airlines and air traffic alliances like Lufthansa and Star Alliance, that maintain a global network of routes, and on the other hand there are the low-cost carriers, that have specialized in shorter direct connections.

Dynamic growth
According to estimates by IATA[22] (International Air Transport Association), global passenger volume on scheduled international flights increased by 6.7% in 2005, international airfreight tonnage was 6.8% higher. This means that the trend in air traffic followed the somewhat lower growth of the world economy compared with the previous year, however air transport remains a dynamic branch of the economy.

[18] *Federal Statistical Office Germany, January 12, 2006.*

[19] *Deutsche Bundesbank, monthly report for December 2005.*

[20] *OECD, November 2005.*

[21] *Deka Bank, Deutsche Girozentrale Frankfurt, date: January 2006.*

[22] *International Air Transport Association, date: October 2005.*

Passenger traffic in Germany grew by 6.3%[23] in the year under review, an increase rate that was again higher than the long-term growth pattern. The growth drivers apart from the low-cost segment in European traffic were the intercontinental connections provided at some other German airports in addition to the Frankfurt hub. Domestic traffic volume in Germany only increased moderately, on the other hand, in spite of the expansion of the services offered by low-cost airlines on routes inside Germany.

Airfreight growth at German airports was above the world level at 8.9%[23] in the year under review.

Development of the Group airports

With its central geographical location, a large catchment area and Lufthansa's use of Frankfurt as the base for its operations, the Frankfurt hub is well positioned. It is flown to by more international airlines and has more direct connections all over the world than any other European hub. Therewith, it participated in the continuing dynamic growth in air traffic again in 2005. The low-cost market is served mainly from Frankfurt-Hahn, a Group airport that specializes in this market segment.

The main factor that affected the traffic figures recorded by the Fraport Group outside Frankfurt in 2005 was the drop in passenger volume at the terminal we operate in Antalya, which was due to the opening of a rival terminal. Passenger volume decreased overall by 6.4% to 72.1 million passengers. Without Antalya, the Group would have achieved a substantial increase of 3.8%. With Frankfurt-Hahn Airport and, to an increasing extent, Hanover as well, the Group is benefitting from the ongoing boom in the low-cost market. The cargo volume handled within the Group increased by 7.6% to 2.4 million tonnes.

Traffic figures for the Fraport Group

Traffic figures for the Fraport Group

	Passengers[1]		Cargo (airfreight + airmail) in tonnes[2]		Movements	
in € million	2005	Change from 2004 in %	2005	Change from 2004 in %	2005	Change from 2004 in %
Frankfurt Main	52,219,412	2.2	1,963,142	6.7	490,147	2.7
Frankfurt-Hahn	3,075,561	11.9	101,196	53.1	37,283	18.4
Hanover	5,637,382	7.4	16,379	3.9	88,936	4.1
Saarbrücken	486,230	5.7	55	25.1	14,202	3.2
Antalya[3]	5,058,012	–59.2	n. a.	n. a.	32,929	–55.5
Lima[4]	5,662,288	11.6	177,062	3.2	73,284	1.3
Group	72,138,885	–6.4	2,257,833	7.9	736,781	–2.4

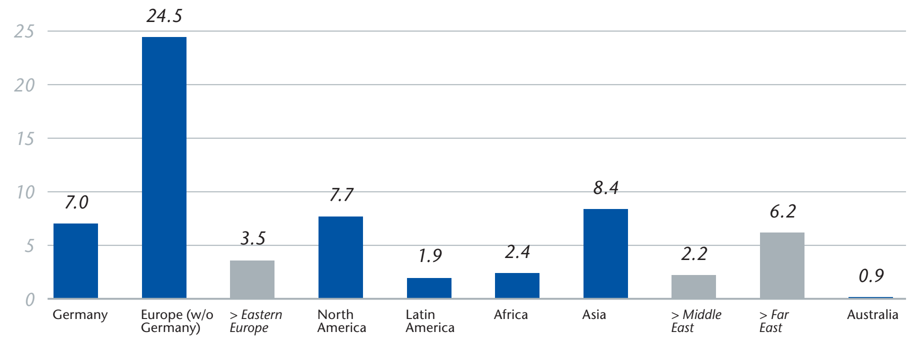
[1] Only commercial traffic in + out + transit.
[2] Only commercial traffic in + out.
[3] Only international terminal with Fraport involvement.
[4] Internal data from Lima.
Source: ACI reports

Overall, about 52.2 million passengers used Frankfurt Airport, which is an increase of 2.2% over the previous year. The growth was attributable exclusively to international traffic, where passenger volume was up 3.1%, including 3.3% higher intercontinental traffic. Asian traffic again developed at an above-average rate with an increase of 3.4%: the biggest growth was with China, India and Taiwan as well as the Middle East. Double-digit growth rates were achieved on some Eastern European routes, for example to Russia, Latvia, Estonia or Romania as well as to South and Central Africa. 3.7% fewer passengers flew on domestic routes. To this contributes among other factors our strategic intermo-

[23] Association of German commercial airports (ADV), January 2006.

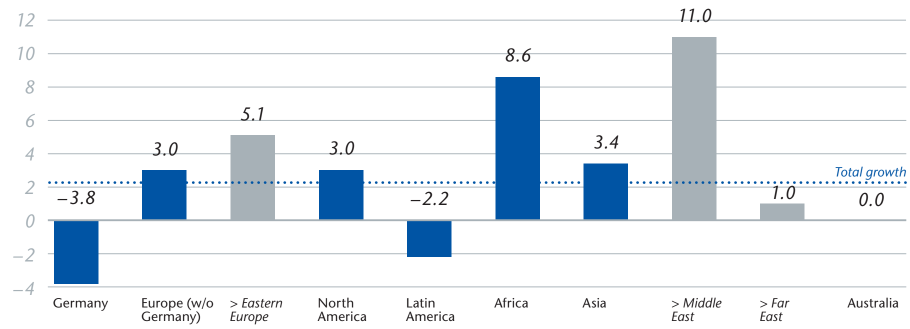
Passenger traffic

Passengers in 2005: by regions (million)



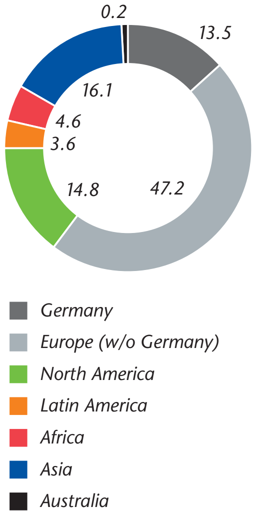
Passengers 2005/2004

% growth by regions



Passengers

Regional breakdown in %



Source: Fraport AG

dality concept: in cooperation with Lufthansa and the German railway company, we are trying to shift short-distance flights to the railway system. The proportion of passengers taking connecting flights in Frankfurt increased slightly in total to about 54%. Frankfurt benefitted here from the fact that the Star Alliance routed more traffic from abroad via the Frankfurt traffic hub.

In 2005, Frankfurt was the third-busiest European airport by passenger figures, after London-Heathrow and Paris Charles de Gaulle. Frankfurt Airport was in 8th position at the international level. [24]

Passengers at the locations outside Frankfurt in 2005

The number of passengers at the low-cost airport **Frankfurt-Hahn** increased by 11.9% to 3.1 million. Our main customer in Frankfurt-Hahn, Ryanair, stationed another aircraft there and increased the number of destinations and flight frequencies again substantially. The services were supplemented by new connections introduced by Wizz Air and Iceland Express.

Hanover-Langenhagen Airport is one of the most important German holiday airports and has been attracting low-cost traffic to an increasing extent since 2003 as well. It benefitted from the recovery of holiday travel and increased passenger figures by 7.4% to 5.6 million in the year under review.

The passenger figures in **Saarbrücken** increased by 5.7% to 0.5 million as well.

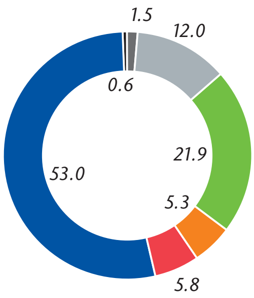
The passenger figures in **Antalya** fell drastically: following the opening of a new terminal in which Fraport is not involved, in April 2005 traffic was divided up between both terminals by the Turkish airport authorities, with the result that the passenger figures at the terminal we operate decreased by 7.4 million or 59.2% to 5.1 million passengers.

[24] *Airports Council International (ACI), January 2006, cumulative figures for January to October 2005.*

In **Lima,** both international and domestic passenger traffic proved to be growth drivers. The booming holiday traffic also led here to a considerable increase in passengers changing to connecting flights. With 5.7 million passengers in 2005, double-digit growth (11.6%) was again achieved over the previous year.

Airfreight

Regional breakdown in %

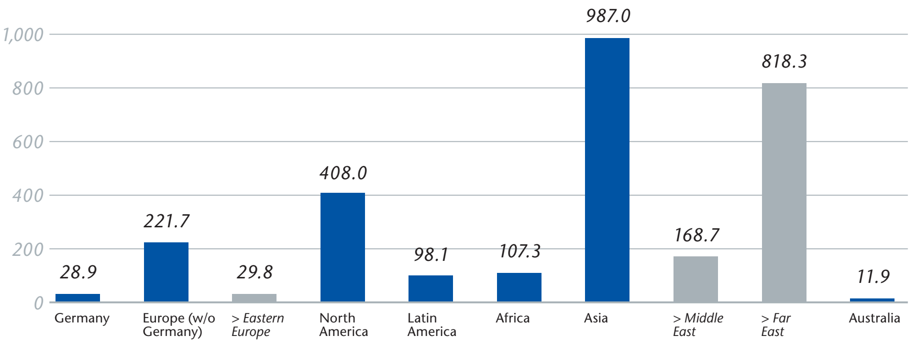


- Germany
- Europe (w/o Germany)
- North America
- Latin America
- Africa
- Asia
- Australia

Source: Fraport AG

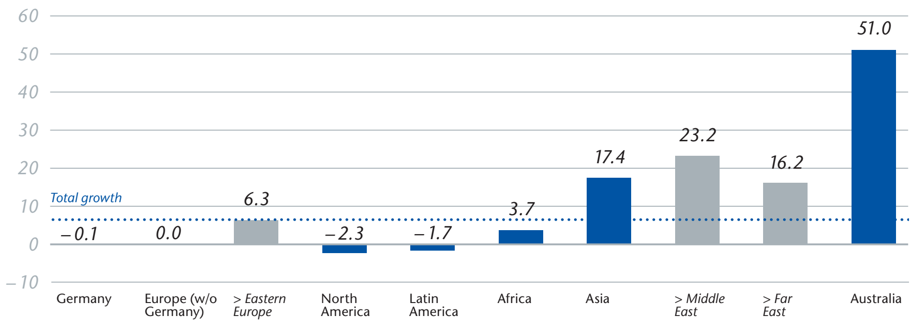
Cargo

Airfreight: tonnage by regions ('000 tonnes)



Airfreight in 2005/2004

% growth by regions



The ongoing expansion of the world economy, rising German export trade and a substantial increase in cargo traffic capacity boosted cargo volume (airfreight + airmail) at Frankfurt and Frankfurt-Hahn Airports in particular.

In **Frankfurt,** more cargo (airfreight + airmail) was handled than ever before in 2005 – 1,963,100 tonnes – in spite of a decline in overnight mail volume. The airfreight tonnage handled increased by as much as 8.2% to about 1,864,600 tonnes and therefore developed faster than the overall growth rates in global air traffic. A historic record for one day of 8,132 tonnes of airfreight was set on November 13.

More airfreight was transported from and to Asia in particular (+17%), so that the proportion of total volume in Frankfurt went up from 49% to 53%. In contrast, the proportion transported on North American routes declined slightly, traffic in Europe stagnated.

Airfreight at Frankfurt-Hahn Airport in 2005

The cargo volume flown at **Frankfurt-Hahn** increased by 53.1% to more than 100,000 tonnes. The growth was attributable to an expansion of capacities and more frequent flights by existing cargo service providers there as well as to new cargo flights on behalf of British Airways World Cargo until October 2005. The British Airways services switched back to Frankfurt in the winter of 2005, however.

Aircraft movements

Similar to the development in passenger traffic, the opening of the rival terminal in Antalya is having an adverse impact on the Group figures for aircraft movements, too. Without this special effect, movements within the Group as a whole would have been 3.4% higher, whereas there was a reduction of 2.4% when this effect is included.

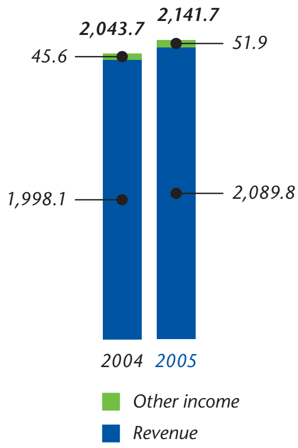
The number of cargo aircraft flights grew disproportionately fast by comparison with the total movements in Frankfurt (15.9%) and at Frankfurt-Hahn Airport (43.2%).

Revenue and earnings development

The Fraport Group increased its earnings again in fiscal 2005: EBITDA were 6.1% higher at € 547.5 million and the Group profit for the year of € 161.5 million was 17.4% above the figure in the previous year. This development was attributable to a major extent to revenue growth and strict cost management.

Revenue and total revenue

€ million



Revenue and earnings development

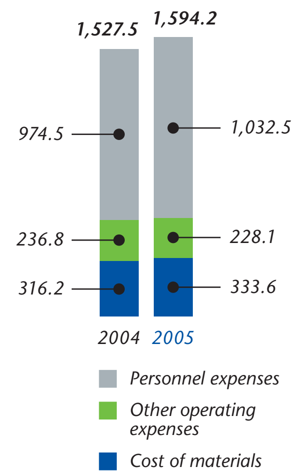
	2004 in € million	2005 in € million	Change in %
Revenue	1,998.1	2,089.8	4.6
EBITDA	516.2	547.5	6.1
EBIT	281.1	311.6	10.9
Result from ordinary operations	265.1	290.4	9.5
Group profit for the year	137.6	161.5	17.4
Profit for the year attributable to shareholders of Fraport AG	136.4	161.2	18.2

Revenue in fiscal 2005 was 4.6% higher at € 2,089.8 million. Traffic fees at the Frankfurt location in particular benefitted from an increase in air traffic volume. The proceeds from security services were higher, too, partly because of the positive development in traffic. Continuously increasing security requirements made at European airports and the expansion of ICTS Europe's business had a positive effect on revenue as well. Parking facility management and the retail business also increased at the Frankfurt location due to the traffic development, whereas revenue from the real estate business decreased considerably due to the switch from revenue-based airport access fees, especially those charged to fuelling companies, to cost-related compensation fees.

Substantially higher revenue was generated at the Group locations outside Frankfurt by Frankfurt-Hahn because of the growth in traffic and by TCR International due to a successful expansion of the business. Revenue at the location in Antalya decreased because of the substantial drop in passenger figures following the opening of the rival terminal.

Operating expenses

€ million

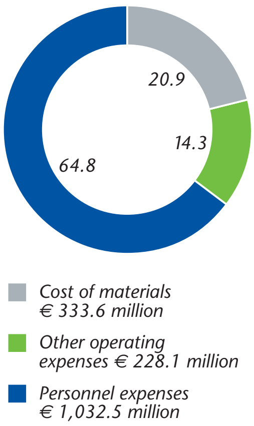


The **other income** increased by 13.8% to € 51.9 million. This was attributable essentially to the increase of € 7.4 million in **other operating income** to € 31.2 million because of the release of provisions and accruals. The **internal costs capitalized,** which were mainly incurred in Frankfurt in connection with the expansion planning and terminal modernization exercises, decreased slightly by € 1.2 million to € 20.6 million.

The **operating expenses** increased at the slightly disproportionately low rate of 4.4% (to € 1,594.2 million) when compared with revenue. The lower revenue-based payments at the location in Antalya because of the drop in passenger traffic were more than compensated for by other effects. The expenses in Frankfurt rose because of the traffic development, as well as because of the spin-off of the computer center operations. The consequence of the latter is, however, only a shift in the revenue and cost structure, so there is no overall effect on earnings. Expenses were higher at the Frankfurt-Hahn location because of traffic growth, too, and at TCR because of the expansion of the business operations.

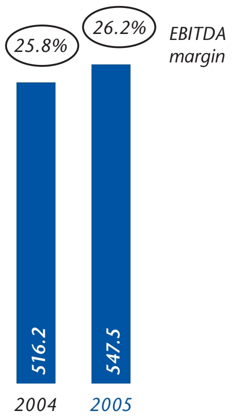
Operating expenses

%



EBITDA and EBITDA margin

€ million



Personnel expenses are the biggest cost item in the operating expenses, accounting for 64.8% of them in 2005. They increased by 6.0% to € 1,032.5 million, primarily because of the larger number of employees. In the year under review, the Fraport Group had an average of 25,781 employees, which represents growth of 6.6% or 1,599 employees. An average of 13% or 1,246 people more than in 2004 were deployed by ICTS Europe alone. In addition, expenses at the Frankfurt location were increased by a collectively agreed BAT pay rise of 1% from May 2004 onwards, as well as by one-off payments in 2005.

Group personnel expenses as a percentage of revenue increased by 0.6 percentage point to 49.4%.

As a consequence, **EBITDA** increased by 6.1% to € 547.5 million. **EBITDA margin** improved from 25.8% to 26.2%.

Depreciation and amortization of tangible and intangible non-current assets were slightly higher than in the previous year at € 235.9 million.

EBIT (operating profit) increased by 10.9% to € 311.6 million. The **EBIT margin** improved by 0.8 percentage points to 14.9%.

The **financial result** of € –21.2 million was € 5.2 million[25] lower than in the previous year.

The **income from investments** decreased by € 7.4 million to € 6.3 million. The **results from investments accounted for using the equity method** were € 6.4 million higher than in the previous year at € 8.2 million, mainly due to the reversing of impairment of the interest in Portway Holding because of the sale of the interest in January 2006.

The **impairments of financial assets** decreased by € 4.6 million to € 1.3 million, essentially due to an impairment made in the previous year of a loan to Tradeport Hong Kong Ltd., Hong Kong. The **other financial results** were € 8.8 million[25] lower at € –11.3 million, particularly because of the negative market valuation of securities held as financial assets and a smaller foreign currency result from the long-term US-$ financing for Antalya.

The **result from ordinary operations** reached the level of € 290.4 million and therefore exceeded the result of the previous year by 9.5%. With a decline in the tax rate from 46.8% to 43.4% thanks to the tax-optimized investment strategy, the **Group profit for the year** increased by 17.4% to € 161.5 million. The **earnings per share** (basic), calculated from the weighted average number of shares outstanding, went up from € 1.51 to € 1.78.

The profit for the year generated by Fraport AG (HGB) amounted to € 192.6 million in the year under review. Following a transfer of € 110.5 million from the Group profit to the revenue reserves, the **retained earnings** amounted to € 82.1 million.

We will therefore be proposing to the 2006 Annual General Meeting that about € 82.1 million are distributed in dividends. This would represent a **dividend** of 90 cents per share; the dividend payout ratio would in turn amount to 50.8% of the Group profit for the year. In fiscal 2004 75 cents per share or 49.9% of the Group profit for the year were paid.

Fraport AG key earnings figures (HGB)

	2004 in € million	2005 in € million	Change in %
EBITDA	457.2	485.6	6.2
EBIT	288.9	310.5	7.5
Result from ordinary operations	260.2	318.3	22.3
Profit for the year	137.0	192.6	40.6

[25] The data for the previous year have been adjusted; cf. the notes for a more detailed explanation.

Segment reporting

The business operations of the Fraport Group are presented in the four segments "Aviation", "Retail & Properties", "Ground Handling" and "External Activities".

The strategic business divisions of Fraport AG in Frankfurt – Traffic and Terminal Management, Airport Expansion, Security, Retail & Properties and Ground Services – are assigned clearly to the Aviation, Retail & Properties and Ground Handling segments. These segments also include investments that are integrated in the business processes at the Frankfurt location. The internal service departments information and telecommunications as well as real estate and facility management are assigned to the "Retail & Properties" segment.

All the investments outside Frankfurt are assigned to the central global investments and management division at Fraport AG, meaning they are included in the "External Activities" segment and are controlled centrally. The same applies to three companies based in Frankfurt which have business operations that do not fit in with any of the other segments.

The profit attributable to minority interest that are included in the investments accounted for using the equity method or with their acquisition costs are shown in the financial result.

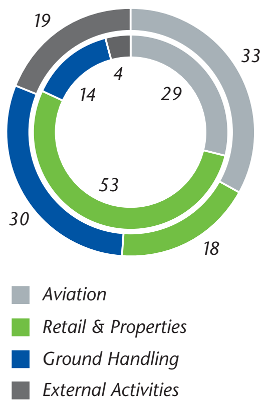
The Aviation segment of the Group made the largest contribution to Group revenue (about 33%), followed by Ground Handling (30%), External Activities (19%) and Retail & Properties (about 18%). These contributions were essentially the same as the comparable figures for the previous year.

The most profitable segment – Retail & Properties – accounted for about 53% of Group EBITDA. The Aviation segment increased its contribution to Group EBITDA by 1 percentage point to about 29%, while Ground Handling contributed 14% and therefore 4 percentage points more than in the previous year. The External Activities segment contributed 4%, representing a reduction of 2 percentage points.

Segment contributions to

Group revenue (outside) and EBITDA (inside)

%



Aviation

The Aviation segment of the Group is responsible for flight and terminal management as well as airport and aviation security at the Frankfurt location. It is also responsible for the airport expansion program.

Aviation

	2004 in € million	*2005 in € million*	*Change in %*
Revenue	626.2	688.9	10.0
EBITDA	144.8	158.1	9.2
EBIT	90.8	94.2	3.7
Employees	3,311	3,508	5.9

Aviation increased its **revenue** over the previous year by 10.0% to € 688.9 million in 2005. The airport fees – which are passenger, landing, take-off, security and slot fees in Frankfurt – were € 34.5 million higher than in the previous year. The increase was attributable to the positive traffic development and to an average increase of 2.6% in passenger fees in 2005. The proceeds from military traffic were lower than in the previous year due to the clearance of the US Air Base in mid-October 2005 and the discontinuation of military flights associated with this. The revenue from security services increased substantially by 22.5% to € 141.1 million. The security regulations, which were once again made considerably stricter, were the main reason for this.

Frankfurt Airport traffic figures			
	2004	2005	Change in %[1]
Passengers (million)	51.1	52.2	2.2
Cargo (thousand tonnes)[2]	1,839.1	1,963.1	6.7
Aircraft movements (thousand)[3]	477.5	490.1	2.7
Maximum take off weight (thousand tonnes)[3]	27,229.6	28,160.3	3.4

[1] Change rates are based on non-rounded figures.

[2] Airfreight + airmail, excluding transit.

[3] Excluding military flights.

The **operating expenses** were substantially higher than in the previous year. This was attributable in particular to the need for more security personnel, most of whom were provided by the second-tier subsidiary FIS, while the expenses were also increased by maintenance work in connection with the terminal modernization exercises and aircraft movement areas. The personnel expenses were 5.7% higher than in the previous year at € 178.9 million due to the larger number of employees and an increase in pay rates.

As a result, the segment **EBITDA** went up by 9.2% to € 158.1 million. Higher depreciation charges meant that EBIT increased to a disproportionately lower extent – by 3.7% to € 94.2 million.

Retail & Properties

The business operations in the areas of retailing, parking facility management, property rental and marketing at the Frankfurt location as well as CargoCity South are combined in the Retail & Properties segment of the Group.

Retail & Properties			
	2004 in € million	2005 in € million	Change in %
Revenue	373.9	374.0	0.0
EBITDA	285.8	292.1	2.2
EBIT	174.5	182.2	4.4
Employees	3,050	2,996	–1.8

Retail revenue

€ million

Segment **revenue** remained at the same level as in the previous year at € 374.0 million. The revenue generated in parking facility management were higher than in 2005 because of the increase in passenger volume as well as retail business revenue. In spite of the reduction in the shopping areas available temporarily because of the terminal remodelling and modernization activities, the "retail revenue per passenger" key figure could be increased from € 2.22[26] to € 2.26. The revenue recorded in the real estate business was considerably lower than in the previous year. The main reason for this was the switch from revenue-based airport access fees, especially those charged to fuelling companies, to cost-related compensation fees.

The **operating expenses** increased in the period under review, primarily because of the spin-off of the computer center operations, the only consequence of which is, however, a shift in the revenue and cost structure, so there is no overall effect on earnings.

EBITDA increased by 2.2% to € 292.1 million. Because of a reduction in depreciation, in particular due to the partial elimination of impairment from 2004, **EBIT** increased to a disproportionately large extent, by 4.4% to € 182.2 million.

[26] There has been a change in accounting advertising revenue by comparison with 2004. If this change is taken into account, the comparative figure for the previous year is € 2.18.

Ground Handling

The Ground Handling segment includes such ground services as aircraft handling, passenger and cargo services, the infrastructure for the ground services and the investments involved in these operations at the Frankfurt location.

Ground Handling	2004 in € million	2005 in € million	Change in %
Revenue	*608.1*	*632.1*	*3.9*
EBITDA	*53.3*	*74.9*	*40.5*
EBIT	*31.1*	*52.1*	*67.5*
Employees	*7,042*	*7,111*	*1.0*

The increase of 3.9% in **revenue** in the Ground Handling segment to € 632.1 million essentially reflects the traffic growth at Frankfurt Airport. Both the infrastructure and ground service fees are linked closely to the development of the maximum take off weights (MTOWs), which are based on the number and size of the aircraft handled in Frankfurt. This revenue growth more than made up for shortfalls attributable to the small market share loss of 0.2 percentage point to 88.6%.

The personnel expenses – the biggest item in the **operating expenses** of this labour-intensive segment – increased slightly because of traffic growth. Productivity was improved while maintaining the high quality of the services provided. A slightly larger number of employees managed to cope with the substantially higher traffic volume. The action taken to increase efficiency therefore continued to be successful.

The traffic growth and the improvement in productivity were the reasons for the increase in segment **EBITDA** of € 21.6 million to € 74.9 million. **EBIT** were € 21.0 million or 67.5% higher at € 52.1 million.

External Activities

The External Activities segment of the Group basically covers the investments that carry out their business operations outside Frankfurt or are not involved in the business processes at the Frankfurt location.

External Activities	2004 in € million	2005 in € million	Change in %
Revenue	*389.9*	*394.8*	*1.3*
EBITDA	*32.3*	*22.4*	*–30.7*
EBIT	*–15.3*	*–16.9*	*–10.5*
Employees	*10,779*	*12,166*	*12.9*

The **revenue** increase of 1.3% in the External Activities segment to € 394.8 million is attributable to different opposite developments. The revenue from airport fees at the Antalya location decreased because of the substantial reduction in the number of passengers allocated to the terminal operated by Fraport following the opening of a rival terminal. These revenue shortfalls were more than compensated for by positive developments at other investments: at ICTS Europe due to the increase in security services, at the Frankfurt-Hahn location due to the larger traffic volume and at TCR due to the increase in the rental business.

The expansion of the security business was the most important reason for the increase in the **operating expenses.** ICTS Europe deployed an average of 1,246 or 13% more employees in the year under review than in the previous year. In spite of higher non-staff costs at the Hahn location and at TCR due to business developments there, the total non-staff costs decreased because of lower revenue-based payments at the Antalya location.

EBITDA were down € 9.9 million at € 22.4 million. Since the depreciation and amortization charges decreased considerably – primarily because of the elimination of impaired goodwill at ICTS – **EBIT** only decreased by € 1.6 million to € –16.9 million.

Additionally to the earnings of the External Activities segment, also **income from investments** and some of the **results from investments accounting for using the equity method** were generated by the external business. These items are shown in the Group financial result. In 2005, they amounted to € 6.3 million and € 8.2 million respectively.

Investments

The Fraport Group consists of about 100 companies in Germany and abroad.

Internationalization creates additional opportunities for Fraport: we participate in fast-growing markets and reduce our dependence on the Frankfurt location. Our international presence also strengthens our relationships to the airlines with global operations that are our customers in Frankfurt. Our focus in operations outside Frankfurt is on airport management, ground handling and aviation security.

The airport investments, BOT projects (build, operate, transfer), other companies and co-operation ventures outlined below are of particular strategic importance and influence the financial position. The figures in the following summary are based on the financial statements of the individual companies before consolidation.

Consolidated Group companies
We held 73.07% of the shares in **Frankfurt-Hahn** Airport until the end of 2004. The shareholders' equity of the company was increased in the first half of 2005. The capital increase is being made in five annual tranches. In this context, the State of Hesse joined the company as a shareholder by acquiring 17.5% of the shares. The shareholders Fraport AG and the State of Rhineland-Palatinate now own 65.0% and 17.5% respectively. The strategic focus of what used to be a military airport in the Hunsrück region is on the low-cost market as well as on charter and cargo business. The main passenger transport customer is the Irish airline Ryanair. It flies to 29 destinations from Frankfurt-Hahn in the meantime. In addition to Wizz Air, Iceland Express has been offering regular flights from Frankfurt-Hahn since May 2005 now as well.

The number of passengers increased by 11.9% over 2004 to 3.1 million. Large growth rates were recorded in the airfreight business: the cargo volume flown increased by 53.1% to almost 100,000 tonnes.

Revenue in Frankfurt-Hahn was 24.7% higher than in 2004 at € 36.9 million; the EBITDA loss was reduced to € –2.4 million thanks to the considerably lower percentage increase in the operating expenses.

We hold a 51.0% interest in the company operating **Saarbrücken Airport**, which is the smallest airport in our portfolio. The airport primarily handles passenger traffic in the package tour field. The number of passengers increased by 5.7% over 2004 to 0.5 million. Revenue was 6.2% higher at € 10.3 million, while EBITDA decreased from € 0.8 million in the previous year to € 0.6 million in 2005.

We owned 50% of the company operating the international terminal in Turkish **Antalya** (Antalya Havalimanı Uluslararası Terminal Işletmeciliği Anonim Şirketi). Additionally, we held 30% of the dividend rights. In July, we agreed with our Turkish partner Bayindir to increase our interest in the terminal operating company from 50% to 100%. The terminal operating company has been consolidated to 100% within the Fraport Group since October 2005.

A second, rival terminal opened in Antalya in April, which led to a considerable reduction in the passenger figures in the terminal we operate. 5.1 million passengers were registered in total, 59.2% fewer than in the previous year. The revenue of € 52.6 million was significantly lower than in the previous year (2004: € 124.0 million). Nevertheless, positive EBITDA of € 20.0 million were achieved (2004: € 67.7 million).

Our wholly-owned subsidiary **ICTS Europe** Holdings B.V. continued to expand its business and thus its position as market leader in 2005. The ICTS Group (ICTS Europe) operates with about 40 subsidiaries all over the world at more than 50 airports, from Lisbon to Athens, from Oslo to Rome. The customers include American Airlines, Delta, Continental, US Airways and Northwest Airlines as well as Athens, Paris Charles de Gaulle and Amsterdam Schiphol Airports. Aviation security is the main area of ICTS Europe's operations. Furthermore, it develops integrated security concepts and provides its know-how outside the aviation industry, too, for example in the area of maritime security.

Due to additional business, for example in the Netherlands, Greece, Germany, Spain and Great Britain, and the expansion of existing contracts, ICTS Europe increased its revenue over 2004 substantially, by 13.4% to € 341.8 million. EBITDA were € 23.1 million and thus 2.7% higher than in the previous year.

The wholly-owned subsidiary Fraport Ground Services Austria GmbH (FGS Austria, known last year as **VAS** Flughafen Bodenverkehrsdienste GmbH) operates at Vienna Airport. The company provides aircraft handling, baggage and passenger services. Revenue increased by 6.8% to € 11.0 million, whereas EBITDA decreased from € 0.9 million to € 0.5 million.

The 50 percent subsidiary **TCR** rents ground handling equipment at airports in Belgium, Great Britain, France and the Netherlands. TCR succeeded in increasing revenue by 23.2% to € 48.9 million and EBITDA by 29.5% to € 18.9 million in fiscal 2005.

Our subsidiary **Fraport Ground Services USA,** Inc. in Jacksonville, Florida, which was established in 2004, is discontinuing its business operations at the beginning of 2006. An American company will continue to provide the services.

The need for innovative financing structures is becoming increasingly apparent in the international investment business. For this reason, Fraport AG has established **Fraport Malta Ltd.,** Malta, together with its subsidiary Airport Assekuranz Vermittlungs-GmbH.

Our corporate strategy specifies the objective of exploiting the growth potential that Frankfurt Airport has as an excellent retail and property location. We founded **Fraport Immobilienservice und -entwicklungsgesellschaft mbH & Co. KG,** Flörsheim am Main, for this purpose in 2005. It is to focus in the broadest sense on the development of new commercial space both on and off the airport site.

Investments accounted for using the equity method

Fraport holds a 30.0% interest in the company operating **Hanover Airport.** The airport is the home base of Hapag-Lloyd Flug GmbH and – since 2003 – of the low-cost carrier Hapag-Lloyd-Express GmbH, too. Hanover recorded higher traffic volumes, not least of all in the low-cost segment. The number of passengers was 7.4% higher than in 2004 at 5.6 million. Revenue was up 3.6% over the previous year at € 133.6 million, while the EBITDA of € 31.4 million were at the same level as in the previous year.

Fraport holds an interest of 42.75% in the company **Lima Airport Partners S.R.L.** (LAP), which is expanding, modernizing and operating Jorge Chavez Airport in Lima, Peru. LAP has a 30-year operating concession, with an option to extend it by a further ten years. The number of passengers was 11.6% higher than in the previous year at 5.7 million. The passenger growth was attributable to the international traffic, the development of which reflects the recovery of the tourist industry and the increasing importance of the Peruvian airport. Revenue increased by 18.6% to € 72.1 million and EBITDA were 30.4% higher than in the previous year at € 16.3 million. We are currently negotiating about the possibility of a majority shareholding.

Other investments

We operate at six airports in Spain via the 20 percent investment **Ineuropa Handling U.T.E.** The concessions expire in mid-2006. We owned 40% of **Portway-Handling** de Portugal S.A. in Portugal. We sold this interest in January 2006.

Since February 2005, we have had local management responsibility for **Cairo** International Airport. The contract is for eight years without a capital investment in the Egyptian airport company and without any commitments to invest in the airport infrastructure there.

In March 2005, Fraport and gedas deutschland GmbH, Berlin, established the company **gedas** operational services GmbH & Co. KG. Both companies took over 50% shares of the capital. The company is responsible for the computer center, the service desk and the network at Frankfurt Airport, which used to be operated within the company. In accordance with IFRS, this partnership is included in the financial statements under other loans.

Acquisition projects

Fraport took part in several tenders for the management and operation of airports in fiscal 2005.

The authorities responsible for the tender rated our bid for the Bulgarian airports in Varna and Burgas as the second-best offer. A protest was, however, filed against the tendering procedure. Following the ruling by the Bulgarian Supreme Court on January 27, 2006, the highest bidder was disqualified and the concession award procedure was returned to the council of ministers. A decision is expected by March 2006.

On January 31, 2006, we won the commission to operate the international airport in Delhi for at least 30 years as part of a syndicate.

Asset and financial situation

Capital expenditures

Capital expenditures by the Fraport Group increased by € 403.0 million to € 682.4 million in the year under review. € 441.0 million of the total were capital expenditures on property, plant and equipment, while intangible assets accounted for € 11.4 million and € 230.0 million were attributable to financial assets and investment property.

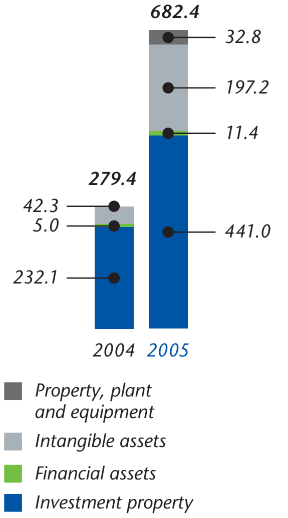
Most of the **capital expenditures on property, plant and equipment as well as on intangible assets** (€ 334.9 million) were accounted for by the Frankfurt location. € 112.3 million were spent on the modernization and expansion of the existing terminals, including the fire protection systems in them. € 21.8 million were invested in optimization of the aviation surface areas – with the emphasis on renovation of the north runway. € 94.5 million were required for services in connection with the zoning procedure and activities by means of which the technical basis is being created for the planned expansion of the airport. **Investment property** accounted for additions amounting to € 32.8 million; they involve the acquisition of two pieces of land that we intend to develop for commercial purposes in the coming years.

€ 36.2 million were invested in property, plant and equipment at the Frankfurt-Hahn location, primarily in the expansion of the runway and apron areas as well as the terminals. S.A. TCR International N.V., Brussels, accounted for a further € 8.6 million, essentially for ground handling equipment.

The capital expenditures on **investments accounted for using the equity method and other financial assets** increased by € 154.9 million to € 197.2 million. The main reasons for this were higher capital expenditures on securities and loans, particularly by moving short-term investments to structured investment products, the term of which corresponds to the planned capital expenditures on airport expansion.

Capital expenditures

€ million

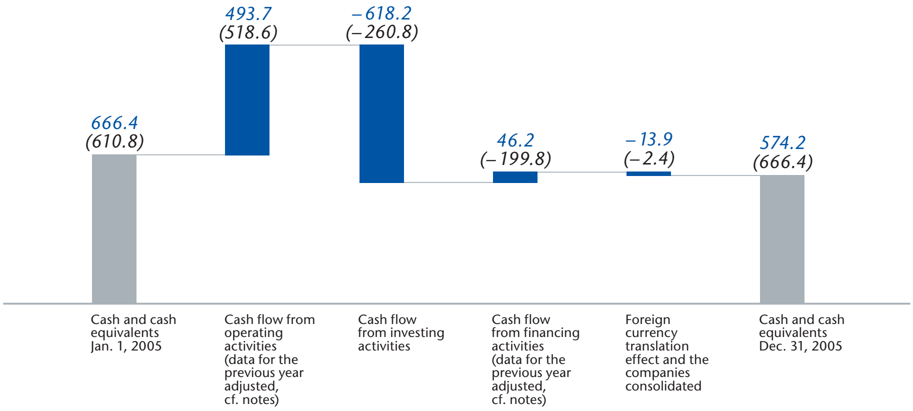


Cash flow statement

The **cash flow from operating activities** of € 493.7 million was the balance of cash inflows from operations of € 653.5 million (€ 632.9 million in the previous year[27]) and cash outflows mainly of € 143.0 million for taxes on income and of € 16.8 million in the financing activities. The balance of interest paid and received exceeded the dividend payments received here.

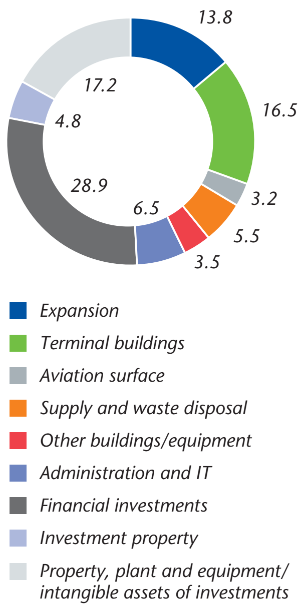
Change in cash and cash equivalents

€ million; in brackets: figure for the previous year



Capital expenditure

%



The **cash flow used in investing activities** amounted to € 618.2 million and was € 357.4 million higher than in the previous year. There were higher cash outflows primarily for capital expenditures on property, plant and equipment (€ 426.1 million in 2005 compared with € 232.1 million in 2004) and other financial investments (€ 191.7 million in 2005 compared with € 36.4 million in 2004[27]). The increase in capital expenditures on property, plant and equipment related in particular to the expansion of Frankfurt Airport and the modernization and extension of the terminals. The increase in the financial investments was attributable essentially to capital expenditures on securities and loans in the context of asset management operations.

[27] *The data for the previous year have been adjusted; cf. the notes for a more detailed explanation.*

On the other hand, the proceeds from disposals of non-current assets were higher than in the previous year at € 32.0 million in the year under review. Further particular cash outflows were due to land purchases.

The **free cash flow** available to the company is the balance of the cash flow from operating activities, the payments made for capital expenditures on intangible assets and property, plant and equipment and capital expenditures on investment property. It decreased by € 256.0 million to € 25.5 million.

The **cash flow used in financing activities** in the year under review was positive (€ 46.2 million). There was a cash outflow of € 199.8 million in the previous year because of the repayment of financial liabilities.

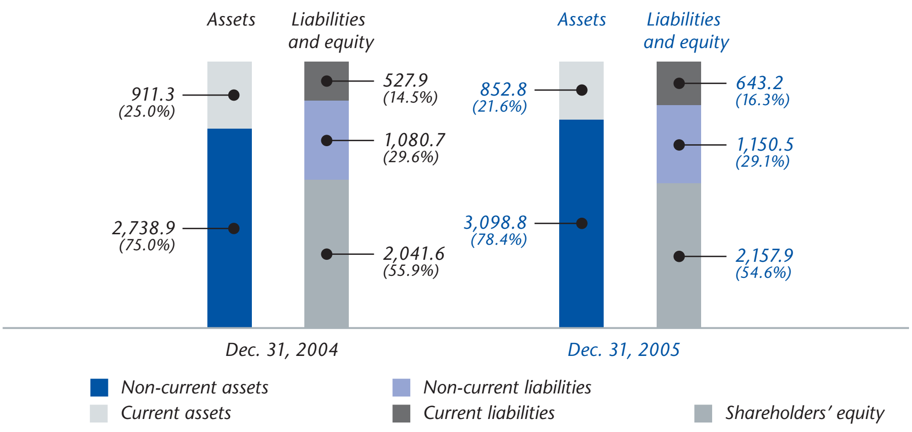
The cash flow used in financing activities was offset by the reduction in the cash flow from operating activities and the higher outflows for capital expenditures. The **cash and cash equivalents** therefore decreased by € 92.2 million to € 574.2 million in the period from January 1, 2005 to December 31, 2005.

Balance sheet structure

In accordance with IAS 1, the balance sheet of the Fraport Group is structured on the basis of remaining terms. The change is explained in the notes, the figures for the previous year have been adjusted.

Balance sheet structure

€ million (%)



The **total assets** were 8.3% higher than on December 31, 2004 at € 3,951.6 million. The **non-current assets** increased by 13.1% to € 3,098.8 million. This is attributable essentially to the additional capital expenditures on airport expansion and to the land and property purchases at the Frankfurt location. Construction work was done at the Frankfurt-Hahn location, too. A shift was also made between non-current and **current assets** in the context of asset management operations, which was the main reason for the reduction of 6.4% in current assets to € 852.8 million.

The **equity ratio**[28] was 52.5% on December 31, 2005, which meant that it remained almost stable by comparison with the balance sheet date in 2004. The **non-current and current liabilities** increased by 11.5%[29] to € 1,793.7 million. This is attributable in particular to the obtainment of larger loans because of the intensification of construction work and capital expenditures as well as to higher trade accounts payable.

The **net financial liabilities** amounted to € 188.3 million on December 31, 2005. Cash and cash equivalents were still € 5.7 million higher than the financial debt on the balance sheet date in 2004. This development is due to the simultaneous increase in non-current and current **financial liabilities** from € 660.7 million to € 762.5 million and reduction in cash and cash equivalents from € 666.4 million to € 574.2 million in the period under review.

Key balance sheet figures[1]

		Dec. 31, 2004	Dec. 31, 2005
Financial assets (2004)/net financial debt (2005) (financial debt – cash and cash equivalents)	€ million	5.7	188.3
Gearing (net financial debt/shareholders' equity[2])	%	–	9.1
Debt ratio (net financial debt/total assets)	%	–	4.8
Dynamic debt ratio (net financial debt/cash flow[3])	%	–	38.1
Working capital (current assets – trade accounts payable – other current liabilities)	€ million	699.2	571.7
Non-current asset coverage (shareholders' equity[2]/non-current assets)	%	74.1	67.6

[1] *Some of the data for the previous year have been adjusted; cf. the notes for a more detailed explanation.*

[2] *Without the (proposed) dividend.*

[3] *Cash flow from operating activities.*

[28] *Shareholders' equity before minority interests and the proposed dividend.*

[29] *The data for the previous year have been adjusted; cf. the notes for a more detailed explanation.*

The Fraport Share and Investor Relations

- *Fraport share again beats DAX and MDAX*
- *Share included in Dow Jones Stoxx 600 index*
- *Annual Report placed fourth among MDAX companies in Manager Magazin competition*

A steady increase in the German share index (DAX) and a boom on the raw material market were the main factors that influenced the development of the German stock market in 2005.

The DAX rose by 27.1% compared with the beginning of the year and reached its highest level since April 2002 at 5,458.6 points. The MDAX even reached a record high.

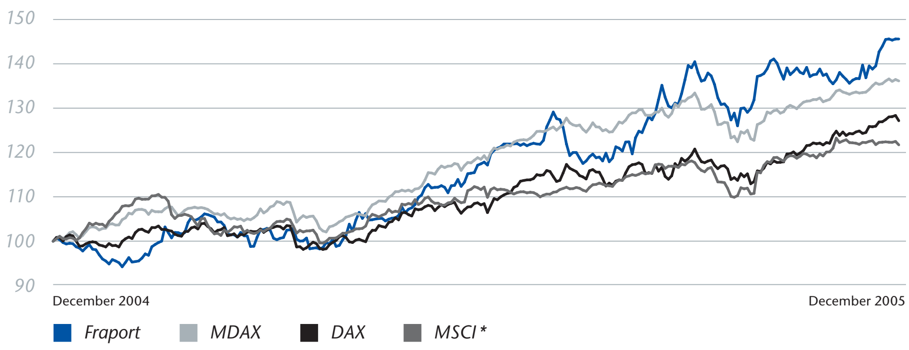
The price of the Fraport share was € 44.90 at the end of 2005. Investors who held Fraport shares throughout the year enjoyed an overall yield of 45.4%. The share therefore outperformed the DAX by 18.3 percentage points, the MDAX by 9.4 percentage points and the MSCI industry index by 23.8 percentage points.

Market capitalization at the end of the year was € 4,089 million. This means that the shareholders' investment increased by € 1,248 million. 106,898 shares changed hands on average every trading day in the period under review.

The volatility of the Fraport share decreased in 2005, the historical beta compared with the MDAX was 0.68 following 0.70 in the previous year. A figure of less than 1.00 means that Fraport reacts less strongly to fluctuations of the market as a whole.

Share price development

since December 30, 2004 (index = 100)



** MSCI Europe Transportation Infrastructure.*

The Fraport share is listed in the MDAX, the Deutsche Börse index for medium-sized companies, in the Prime Standard, the high-quality segment at Frankfurt Stock Exchange, in the FTSE World Europe and in the FTSE EuroMid.

The Fraport AG share was included in the Dow Jones Stoxx 600 index and the relevant industry index, Industrial Goods & Services, on December 19, 2005. This index is an important benchmark for many institutional investors. It makes the share attractive to additional investors, e.g. index funds. At the same time, the FTSE All-World Developed index and the Stoxx 600 form part of the basis for the most important sustainability indices FTSE4Good and Dow Jones Sustainability index. Fraport will be applying for inclusion for the first time in 2006.

Key figures about the Fraport share

ISIN	DE 000 577 330 3
Security identification number (WKN)	577330
Reuters ticker code	FRAG.DE
Bloomberg ticker code	FRA

		2004	2005
Fraport AG capital stock (acc. to IFRS)	€ million	905.2	910.8
Total number of shares on Dec. 31		90,638,708	91,192,355
Number of floating shares[1] on Dec. 31		90,515,040	91,078,430
Absolute share of capital stock	per share, €	10.00	10.00
Year-end price	€	31.39	44.90
Highest price[2]	€	31.39	44.90
Lowest price[3]	€	22.20	29.59
Annual performance[4]	%	40.3	45.4
Beta relative to the MDAX		0.70	0.68
Market capitalization[5]	€ million	2,841	4,089
Average trading volume per day		102,563	106,898
Earnings per share (basic)	€	1.51	1.78
Earnings per share (diluted)	€	1.48	1.75
Price-earnings ratio[6]		20.8	25.2
Dividend per share[7]	€	0.75	0.90
Total dividend payment	€ million	68.0	82.1
Dividend yield on Dec. 31[8]	%	2.4	2.0

[1] Total number of shares on the balance sheet date, minus treasury shares.
[2] Closing price on December 30, 2004 and December 30, 2005.
[3] Closing price on May 18, 2004 and January 31, 2005.
[4] Percentage increase in the overall yield in the period under review.
[5] Year-end price multiplied by the number of floating shares on the balance sheet date.
[6] Relating to the year-end price.
[7] Proposed dividend (2005).
[8] Dividend per share/year-end price.

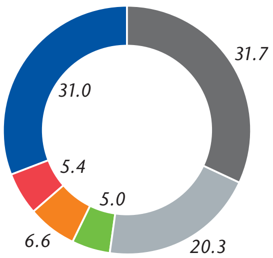
Shareholder structure

There was practically no change in the shareholder structure over the previous year in the first three quarters of 2005. The biggest individual shareholders continued to be the State of Hesse, followed by Stadtwerke Frankfurt am Main and the Federal Republic of Germany. The free float, including the treasury shares and those owned by employees, represented 29.8% of the total.

On October 26, 2005, the Federal Republic of Germany placed its shareholding of 18.16% with financial investors in two tranches. 11.58% were sold directly in the context of an accelerated bookbuilding exercise, as a result of which the free float immediately increased to 41.4%. The second tranche is a combination of call options and an exchangeable bond with a term of 17 months. The buyers of this tranche have the right to take over the remaining 6.58% of the Federal Republic of Germany's shares in March 2007.

Shareholder structure

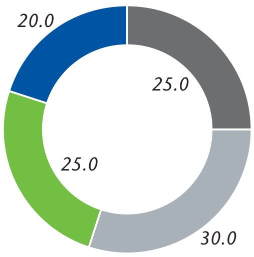
on December 31, 2005 in %



- State of Hesse
- Stadtwerke Frankfurt am Main Holding GmbH
- Deutsche Lufthansa AG
- Federal Republic of Germany (exchangeable bond)
- Julius Bär Investment Management LLC
- Free float

Free float shareholder structure

*on December 31, 2005**



- Private investors
- Institutional investors/USA
- Institutional investors/UK
- Institutional investors/Continental Europe

** Internal estimate.*

On October 28, 2005, Deutsche Lufthansa AG announced that it had bought 4.5 million shares and therefore held 4.95% of the subscribed capital of Fraport AG. On November 8, 2005, Lufthansa finally published an announcement that it had exceeded the level of 5.0% and that 5.01% voting rights were now held. The free float decreased from 41.4% to 36.4% due to the Lufthansa investment.

Julius Bär Investment Management LLC announced on February 10, 2006 that it had exceeded the level of 5% on November 3, 2005 with voting rights of 5.4%. The free float is reduced from 36.4% to 31.0% when this interest is taken into account.

Dividend policy

The Supervisory Board and Executive Board of Fraport AG will be proposing the Annual General Meeting that a resolution is passed to pay a dividend of € 0.90 per share (previous year: € 0.75). The dividend payout ratio would then be 42.6% of the Fraport AG profit for the year of € 192.6 million (HGB) and 50.8% of the Group profit for the year of € 161.5 million. The figures for the previous year were 49.6% and 49.4% respectively.

Investor Relations at Fraport

We support our corporate strategy, which focusses on making sustained increases in value, by communicating with all capital market players comprehensively, openly and promptly.

We intensified communication with analysts and investors again in 2005. We informed institutional investors about the current business situation and future prospects of our company at numerous personal meetings and at 63 roadshows in Germany and abroad. The main event apart from four conference calls about quarterly results and the Annual General Meeting was the investor day, which took place for the third time already. Institutional investors and analysts were given a detailed insight into our retail business which, together with the expansion of Frankfurt Airport, has considerable growth potential. The extensive documentation is available via our website.

More than 1,800 shareholders and shareholders' representatives accepted the invitation to the fourth Annual General Meeting that was held at the Jahrhunderthalle in Frankfurt-Höchst. 80.15% of the capital stock were represented by the shareholders who attended the Annual General Meeting. The conduct of the business by the Executive Board and the Supervisory Board was approved with almost 100 percent of the votes.

Private investors, customer advisory staff or investment clubs also had opportunities to inform themselves about Fraport in 2005 in the context of lectures, guided tours or conferences. We are planning to continue the intensive communication with our private shareholders in 2006, too. For the first time, we are providing an electronic newsletter for shareholders and an information brochure for airport guests, in addition to our monthly publications.

The Fraport Annual Report placed fourth among MDAX companies in "The Best Annual Reports", a competition held by Manager Magazin. The contents, language, presentation and efficiency of the reports published by about 200 companies are assessed by well-known scientists and a jury of experts in this competition.

We restructured and optimized the investor relations sections of our website (www.fraport.com) in 2005. In addition to information about the share, we also publish current news releases, dates, analysts' recommendations, information about the Annual General Meeting as well as financial and traffic figures there. At the same time as analysts and institutional investors, our private investors can follow conference calls in the Internet and access extensive information material on every publication date.

Employee investment plan

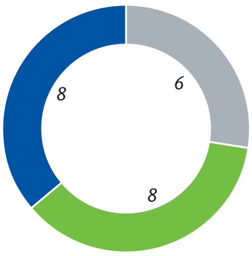
Since the IPO in 2001, Fraport employees have been able to subscribe shares once a year in the context of the performance- and success-based compensation program “LEA”. Fraport AG buys back the shares for this program, making use of some of the authorized capital following a capital increase in return for the injection of cash, and passes them on to its employees.

In the period under review, 5,964 employees opted for one of the share models offered and subscribed 126,022 new shares accounting for € 10.00 of the capital stock each. This means that the participation level rose from 41.5% in 2004 to 47.4%. The shares were issued in May 2005 at a price of € 30.68, which was calculated from the average final Xetra price in the period between April 11 and 22, 2005 minus a deduction of € 1.0. The capital stock of Fraport AG increased by € 1.3 million as a result of this transaction.

Fraport employees have therefore bought 845,758 shares since the employee investment plan started.

Analysts’ recommendations

on December 31, 2005



Employees

The Fraport Group had an average of 25,781 employees (without apprentices and staff exempted from their normal duties) in the past fiscal year, 6.6% more than in 2004. 13.6% of all the employees were in the Aviation segment, 11.6% in the Retail & Properties segment and 27.6% in the Ground Handling segment. With 47.1% , External Activities was the segment with the most employees.

Segments

	2004	2005	Change in %
Aviation	3,311	3,508	5.9
Retail & Properties	3,050	2,996	–1.8
Ground Handling	7,042	7,111	1.0
External Activities	10,779	12,166	12.9
Total	24,182	25,781	6.6

	2004	2005	Change in %
Fraport Group	24,182	25,781	6.6
of which in Frankfurt	15,482	16,390	5.9
Investments	11,978	13,611	13.6
of which ICTS	9,577	10,823	13.0

Family support and equal opportunities

The provision of support to combine family and career more effectively is essential so that all employees can exploit their potential to the full. The principle of equal opportunities is specified for Fraport in a company agreement and is taken into account in all personnel decisions. The purpose of this agreement is to give more women access to management positions. The aim is to make it easier for both women and men to combine career and family.

Fluggi-Land, the innovative service provided by Fraport to look after children, enjoyed increased popularity again in 2005. In the meantime, 17 companies are participating in the facility, which offers employees' children a varied and appropriate program seven days a week from 6 a.m. to 10 p.m. whenever the service is needed.

Development of potential

With our extensive program of advance training provided within the framework of the "Fraport College", we give our employees an opportunity to meet the increasingly exacting requirements of a knowledge based society on a long-term basis. More and more complex operating procedures and the use of new technologies are making growing demands on staff qualifications. The College helps to provide the necessary know-how, thus safeguarding our company's future, too.

We control the strategic development of our management via the "Fraport Academy". Potential candidates are identified and given appropriate challenges and encouragement. The Academy supports the management of internal processes of change as well. We also offer two Master of Business Administration (MBA) programs, which candidates can complete alongside working at the company and between which they can choose according to the emphases of the courses. The Fraport Academy co-operates here with two well-known business schools, Nottingham University Business School (UK) and Duke/Goethe Business School, which was established in 2005 as a joint project between Duke/Fuqua School of Business in Durham (USA) and Goethe Business School in Frankfurt.

Health promotion

Fraport considers its commitment to the health of its employees to be an important assignment from which both parties benefit. Healthy employees miss work more rarely and contribute to a performance-oriented corporate culture. For this reason, we are therefore continuing to expand our prizewinning health management system. The AOK health insurance fund therefore gave Fraport employees insured with it a premium bonus of 1.2% again in 2005. The employees and the company shared the total saving of € 2.2 million equally.

Our employees' ideas are welcome

Fraport depends on the creativity of its employees: their ideas help to improve processes and cut costs considerably. Many new products have already been filed as utility model or patent applications as well. A staff position established in 2004 is responsible for investigating suggestions submitted for improvements, for identifying new projects and for co-operating closely with universities and non-university research institutes.

Compensation systems

Fraport AG implements the civil service collective agreements as a member of the Hessian association of municipal employers. We have also concluded a number of company agreements with the works council that supplement tariff benefits.

The TVöD civil service collective agreement came into force with effect from October 1, 2005. Thanks to intensive preparations that had been made beforehand, the switch from the forty-year-old BAT and BMT-G collective agreements to the combined TVöD went smoothly at Fraport.

The new collective agreement takes account of the exacting demands of competition- and performance-oriented companies. It provides greater scope for the flexible arrangement of working times, which is a crucial factor when increasing the efficiency of processes and – linked to this – when reducing costs. The TVöD also enables compensation to be made on a performance basis to a larger extent. Such components as incentive payments and bonuses, the possibility of classification in higher pay groups and what is known as "trial management" are features that facilitate this.

Performance-oriented compensation components were already introduced at Fraport in 2001 with the company agreement "Performance, success, recognition" (LEA). This company agreement was terminated at the end of 2005. The company management and the works council have arranged an interim solution for 2006 on the basis of the conditions that have applied in the past. It is taken into account here that a collectively agreed incentive payment is being introduced in the TVöD from 2007 onwards alongside the monthly pay according to the official tables. The company will be making a guaranteed amount of at least one percent of the total annual pay of all the employees covered by the collective agreement available every year for this variable and performance-oriented pay component. Christmas pay has been reduced in the TVöD in return for this.

There are different collective agreement systems in the Fraport Group outside the parent company, depending on the location and the area of business in which the investment operates. Fraport AG advises the investments about issues relating to collective agreements and is involved in the development and negotiation of collective agreements. Our medium-term aim is the central control of all the collective agreement systems in the Group.

Company old-age pension scheme
Fraport AG covers the collectively agreed "additional old-age pension" commitment by means of insurance with Zusatzversorgungskasse Wiesbaden (ZVK). ZVK operates essentially on the basis of financing via contributions. The old-age pension scheme for senior executives and employees whose pay is not covered by collective agreements is also operated via ZVK to some extent. It is supplemented by a direct, employee-financed pension commitment from Fraport AG.

Corporate responsibility

We live in a world where division of labor has reached a very advanced stage – a world in which the mobility of people and goods is absolutely essential for economic success. Fraport's assignment as an airport operator is to guarantee this mobility by providing what the market requires. The long investment cycles make it necessary to manage the company on a sustained basis. The first reflection of this was our commitment to environmental protection. Sustainability is now expressed in other areas, too, such as human resources and social policy, corporate management and our dealings with our neighbours in the Rhine – Main region. Fraport is a corporate citizen, a responsible member of society.

Honest communication is corporate responsibility put into practice
The debate about expansion of the airport is the current focal point of our active dialog with all stakeholders both inside and outside the company. We are willing to maintain an open and purposeful exchange of opinions, particularly with critical partners.

Our environmental management system has been tested and validated
Fraport has had an environmental management system since 1999. We are aware of our special responsibility to the environment as airport operators. Environmental protection is an established corporate principle and is part of our corporate code of conduct. Avoidance of pollution is more important to us than the elimination of its consequences. Our environmental management system has been validated in accordance with EMAS (Eco-Management and Audit Scheme), which is based on European regulations, and has been certified on the basis of the ISO 14001 standard that applies all over the world.

Responsibility to society
We take our responsibility to society seriously, by supporting social involvement and promoting education, sport, culture, health and the environment. Since 1997, Fraport has contributed a total of € 18.6 million to the funding of about 370 environmental projects. An additional total amount of € 6.7 million was made available in donations and for sponsoring purposes in 2005.

Further information
Detailed information can be found in our sustainability report. This report can be obtained from Fraport directly and is also published on our website. Further information about environmental issues is available in the Internet, too (www.fraport.com).

Report on related party transactions

Due to the interests held by the Federal Republic of Germany (end of 2005: 6.58%/end of 2004: 18.27%), the State of Hesse (31.75%/31.94%) and Stadtwerke Frankfurt am Main Holding GmbH (20.27%/20.40%) and the consortium agreement concluded between these shareholders on April 18/23, 2001, Fraport AG Frankfurt Airport Services Worldwide, Frankfurt am Main (Fraport AG) is a dependent public enterprise. There is no control or profit transfer agreement.

On October 26, 2005, the Federal Republic of Germany placed its stake of 18.16% it had held up till then with financial investors in two tranches. 11.58% of the shares were sold directly. The second tranche is a combination of call options and an exchangeable note with a term of 17 months. The buyers of this tranche have the right to take over the remaining 6.58% of the Federal Republic of Germany's shares in March 2007. The voting rights for these shares are being exercised by the Federal Republic of Germany until then. Therefore a dependent relationship with respect to the Federal Republic of Germany continues to exist.

The Executive Board of Fraport AG therefore compiles a report on the relationships to affiliated companies in accordance with § 312 of the German Stock Companies Act (AktG). At the end of the report, the Executive Board of Fraport AG made the following statement: "The Executive Board declares that under the circumstances known to us at the time, we received fair and adequate compensation for each and every legal transaction conducted. No action was taken or not taken at the behest or in the interests of the Federal Republic of Germany, the State of Hesse and Stadtwerke Frankfurt am Main Holding GmbH and companies affiliated with them in the year under review."

Risks and opportunities

Fraport has a comprehensive risk management system. It makes sure that significant risks are identified, monitored constantly and limited to an acceptable level.

Risk policy principles

Fraport actively looks for opportunities and takes them when this is justified by the ratio of the size of the anticipated benefits to the risks involved. Controlled risk exposure is the primary objective of our risk management system.

This objective is the basis for the following risk policy principles:

- The risk strategy is co-ordinated with the corporate strategy and is required to be consistent with it, as the strategy specifies how strongly the company's operations are exposed to risks.
- Risk management is integrated in the ongoing business process.
- Risks are managed primarily by the organizational units that operate locally.
- The aim of the risk management process is to make sure that significant risks are identified, monitored constantly and limited to an acceptable level.
- Active and open communication of the risks is a major success factor in the risk management system.
- All the employees of Fraport AG are expected to participate actively in risk management in their area of responsibility.

The risk management system

The Executive Board approves the Fraport AG risk management system. It approves the risk policy principles and the risk strategy for the entire company, appoints the members of the risk management committee (RMC), approves the rules of procedure for the RMC and is the addressee for the quarterly reporting and ad hoc reports in the risk management system of relevance to the company as a whole.

The risk management committee is the top body in the risk management system below the Executive Board and its members are senior executives from the company divisions. It implements the central risk management system, develops it with reference to the business processes and reports to the Executive Board. The RMC has set up a committee office to help it to carry out its assignments.

Risks are managed primarily by the organizational units that operate locally. The division managements are responsible for the accuracy of the information from their divisions that is processed in the risk management system. They are obliged to monitor and control risk areas constantly and to present a report to the RMC about all the risks in their particular area of responsibility once a quarter. "Significant" new risks that arise outside the regular reporting rhythm must be notified to the RMC office immediately.

Risk transfer by means of the conclusion of insurance contracts is controlled by the subsidiary Airport Assekuranz Vermittlungs-GmbH (AAV).

The risk management system is documented in writing in a separate manual. It satisfies the requirements of the German legislation about corporate control and transparency (KonTraG) and its viability is checked by the auditors appointed in the context of the audit of the Fraport AG annual financial statements. The viability of the risk management system is checked regularly by the internal auditing department, too.

Evaluation of risks

Risk evaluation determines the scope of the risks that have been identified, i.e. it makes an assessment of the extent to which the individual risks may endanger achievement of Fraport AG's corporate objectives. The size of the risk and the probability of its occurrence are determined in this context. The risk evaluation is always conservative, i.e. the greatest possible damage is ascertained (worst-case scenario).

The RMC collects the detailed risk reports from the divisions and evaluates the risk situation Fraport AG faces at company level on the basis of a "risk map". Risks are reported to the Executive Board when they have to be classified as "significant" according to systematic evaluation standards that apply throughout the Group. Risks that endanger survival of the company and exceed defined thresholds in the potential damage they may cause and in the probability of their occurrence are considered to be "significant". A distinction is made here between gross evaluation – before the established countermeasures are taken – and net evaluation – after appropriate countermeasures have been taken.

Risk management at investments

The manual for the Fraport AG risk management system also includes rules for the Fraport AG investments, which are incorporated in the risk management system to varying extents depending on their importance. The separate guideline for investments specify the personnel and operational organization of the risk management system and commit the investments to ongoing reporting about significant risks.

Business risks

An explanation is given below of the risks that might have a significant impact on the business operations of the Fraport Group.

General economic risks

Economic fluctuations can have a considerable impact on Fraport's business development. According to calculations made by Deka Bank, the world economy grew by 4.4%[30] in 2005. This had a positive effect on the development of passenger and cargo traffic. Continuation of the economic recovery will create opportunities for ongoing future development.

In times of crisis and war, we face the direct threat of flight cancellations and route shutdowns. Restriction of the demand risk is only possible to a limited extent. As an international air traffic hub, Frankfurt Airport has benefitted in the past from the fact that the airlines concentrate their business on the hubs in times of crisis. This explains why we have been able to compensate for the effects of crises within a relatively short period of time up to now.

Exchange rate fluctuations that influence passengers' shopping patterns can change our earnings development in the retail business in particular.

The buildings and space we currently rent are used mainly by airlines or companies whose business depends to a large extent on the development of air traffic at Frankfurt Airport. This section of the real estate business is not therefore dependent directly on general property developments. If we develop and market commercial areas more in future, as we are planning, management of these areas will be based more closely on the general market conditions.

Market risks

The business relationship to our main customer Lufthansa and its Star Alliance partners makes a substantial contribution to revenue development. A deterioration of this business relationship would have significant adverse impact on Fraport AG.

The low-cost segment is continuing to increase the competitive and cost pressure on the traditional carriers and their hub systems with its above-average growth rates achieved in continental traffic. The creation of new hub systems in the Middle East may lead to a shift in the global flows of transfer passengers. If there is a further delay in the Frankfurt expansion program, there is a danger that the airlines will use alternative locations and routes outside Frankfurt.

The capacity bottleneck in Frankfurt is a major reason why Frankfurt is unable to participate to the maximum possible extent in traffic growth.

The economic situation of some airlines is difficult. Acute weaknesses could force individual airlines to discontinue their flight operations completely or partly. The slots that would then become free at the Frankfurt location could, however, be made available to other potential customers, for whom no capacities are free at the present time.

In recent Annual Reports, we already explained the risk of a possible restriction on revenue from airport concession fees charged to companies that operate at Frankfurt Airport in accordance with the German regulations about ground services at airports (BADV). According to a ruling by the European Court of Justice of October 16, 2003, an airport is not allowed to charge concession fees as specified in the BADV from a supplier of ground and other services above and beyond charges for using specific airport facilities. A ruling by the higher regional court of Frankfurt am Main of March 16, 2004 does not, however, contain any indication that the charging of a concession fee in return for providing access to the market must be considered illegal. If there is a change in court rulings about this

[30] Deka Bank, Deutsche Girozentrale Frankfurt, date: January 2006.

subject, it is possible that fees already paid might have to be reimbursed. In accordance with BADV, what is known as a "cost-based usage fee" was introduced for future charges for services on January 1, 2006.

In the course of the forthcoming revision of the German Aircraft Noise Act, it might become necessary to expand the current noise abatement program. There is the risk in this context that Fraport will have to participate in appropriate measures at the Frankfurt location.

Demand for the area that is to be built on at the high-speed train station could change negatively. If this was the case, there is a risk that earnings would be depressed in future.

At European Union level there are approaches to change the existing general legal conditions for the provision of airport-specific services at present. It cannot be assessed as yet what effects this would have.

The European Union is planning to revise the directive about liberalization of ground handling services. This could have an impact on the business model and economic development of the division of ground handling operations.

Aviation security services in accordance with § 5 of German aviation security legislation are provided at the Frankfurt location by employees of Fraport AG and ICTS Europe on behalf of the German Ministry of the Interior. It is possible in principle for this mission to be changed, which might lead to earnings shortfalls at both companies.

Risks in connection with the planned expansion of the airport

Frankfurt Airport has the opportunity to maintain and strengthen its status as an international hub airport in future with the planned construction of another runway and a third passenger terminal. Expansion of the airport is one of the main preconditions for Fraport's participation in the long-term growth of global air traffic. Failure to expand or further delays could mean that air traffic will bypass Frankfurt in future. It is not out of the question that airlines will then transfer some of their flights to other airports, which would endanger our hub function. The relocation of Lufthansa flights or operations to different airports would have a particularly negative impact on Fraport.

The expansion plans are meeting with considerable resistance from various pressure groups in the region. Local authorities and other groups have already taken or threatened legal action. In spite of the successful completion of the regional planning procedure in the summer of 2002 – the first stage of the necessary administrative process – and the hearing stage reached in the zoning procedure itself, the risk of a considerable delay or even complete blockage of the expansion project due to legal action cannot be ruled out. Additional financial expenses could be incurred in this context. In order to reach the broadest possible consensus among the local population and other groups affected by the airport expansion project, we have decided to comply with the results and recommendations of the mediation process – including a ban on night flights effective from the time when the new runway starts operation – in the implementation of the expansion project. They have been incorporated in the ten-point program compiled by Fraport AG. It includes passive noise mitigation measures on buildings and promotion of the use of such alternative means of transport as the railway system.

If the alternative we prefer cannot be implemented, the value of the capital expenditures already made could be impaired significantly.

Financial risks

We cover interest and foreign currency risks by establishing naturally hedged positions, in which the values or flows of funds of original financial instruments offset each other in their timing and amount, and/or by hedging the business transactions via derivative financial instruments. The scope, responsibilities and controls for the use of derivatives are specified in binding internal guidelines. The existence of a risk that needs to be hedged is the precondition for the use of derivatives. There can only be open derivative positions in connection with hedging transactions in which the relevant basic business transaction is cancelled or is not carried out contrary to planning. Interest derivatives are used exclusively to optimize loan conditions and to restrict risks of changes in interest rates in the context of financing strategies with the same deadlines. Derivatives are not used for trading or speculation purposes. Within the framework of our interest and foreign currency policy, we used derivatives at the end of 2004 to hedge interest positions, in order to take advantage of the historically low level of interest rates on the market at the present time with respect to the capital requirement that is becoming apparent in the medium term. Following the commitment to these interest rate hedging positions, there is now the risk that the market interest rate level will continue to decrease and that the negative market value of the interest rate hedging instruments will increase as a result. The consequence of this would be that the provisions for potential losses would have to be increased. The potential losses accumulated in the meantime will be realised if the derivatives are closed and /or if the planned funding requirements do not materialize. Fraport AG does not think that there are any further interest rate and foreign currency risks that are worth mentioning at the present time.

The difficult economic situation some airlines are in might lead to losses due to bad debts. We are taking account of this risk as far as is possible by means of active receivables management.

Legal risks

Manila project

The investment in Manila, the capital of the Philippines, to build and operate an airport terminal was written off completely in the financial statements for the year that ended on December 31, 2002. The main ongoing risks and legal disputes in connection with the project are outlined below.

In 2003, Fraport AG commenced arbitration proceedings against the Republic of the Philippines at the International Center for the Settlement of Investment Disputes (ICSID) on the basis of the German – Philippine investment protection treaty. In the framework of these arbitration proceedings Fraport is pursuing a conviction of the Republic of the Philippines to pay compensation.

The Philippine government disputes the responsibility of the arbitration court and the justification for the request for arbitration. It has also submitted a contingent counterclaim against Fraport AG that has not yet been quantified completely. It is Fraport’s conviction that its capital expenditures were made legally and that the demands of the Philippine government are unjustified.

The hearing at the ICSID arbitration court in Washington about fundamental questions relating to the responsibility of the arbitration court and the liability of the Republic of the Philippines took place at the beginning of January 2006. Following the ruling by the arbitration court about responsibility and liability, a decision may then have to be taken about the size of Fraport AG’s claim for damages. The outcome and the duration of the arbitration proceedings are open.

On December 21, 2004, the Philippine government initiated compulsory purchase proceedings against PIATCO at the Pasay City Court (RTC). On the same day, the court ordered that the plaintiffs had the right to take possession immediately, with the result that the latter took possession of the terminal – again on the same day. On January 4, 2005, the court ordered that an amount of about US-$ 62 million deposited at a Philippine bank in the context of the compensation proceedings was to be paid to PIATCO. The Supreme Court prohibited payment at the request of the government by means of a temporary injunction on January 14, 2005. On December 19, 2005, the Supreme Court confirmed that the Philippine government had to pay about 3 billion Philippine pesos (about € 47 million) as a part payment towards the compensation for PIATCO, before the right to take possession could be enforced and the government was allowed to start preparations for putting the terminal into operation. In response to an appeal by the Philippine government and other parties involved, the Supreme Court confirmed this decision on February 1, 2006. It is not yet known whether all the parties involved now accept the decision.

At the end of 2003, investigations were started against Fraport AG, divers individuals from the Fraport AG environment and others by the Philippine National Bureau of Investigation, because it was suspected that what is known as the "Anti-Dummy Law" had been violated. The aim of this law is to limit the influence of non-Philippine citizens on certain companies incorporated under Philippine law. Fraport AG is convinced that its capital expenditures on the Philippines were made legally. In the event that the outcome of criminal proceedings which may possibly follow is negative, Fraport AG's assets on the Philippines could be seized, while fines and jail sentences could in addition be imposed on the people involved. There is the risk that these proceedings might affect the ICSID arbitration proceedings and/or could question the legality of Fraport AG's capital expenditures on the Philippines.

In 2002, Fraport AG sued PIATCO for repayment of a loan of US-$ 28 million. PIATCO then in return sued Fraport AG for payment of damages of PHP 1.57 billion (about US-$ 30 million) plus costs. PIATCO and its shareholders agreed on a moratorium regarding their mutual claims in September 2003. This moratorium expired on January 31, 2006 and it is still uncertain whether another extension will be agreed.

At the beginning of 2003, the shareholders and directors of PIATCO decided – against the votes of Fraport AG and the PIATCO directors it appointed – to prepare legal action for damages against Fraport AG and its directors because of alleged improper and harmful action against the company. Fraport AG rejects these accusations. It is also disputed whether these resolutions are legally valid. The above-mentioned moratorium covers these alleged claims, too.

A Philippine law firm as well as a former minister have brought legal action for damages amounting in each case to PHP 100 million (about € 1.5 million) against Fraport AG, two board members and two Philippine lawyers of Fraport AG because of alleged defamation. A request for seizure of the assets of Fraport AG on the Philippines was granted. The two plaintiffs have initiated criminal proceedings about the same matter, too. Fraport AG rejects these accusations.

Further criminal proceedings and investigations have also been initiated against current and former board members and employees of Fraport AG on the Philippines, in which Fraport AG is not a directly involved or affected party. The outcome of these proceedings and investigations could influence the ICSID arbitration proceedings and/or question the legality of Fraport AG's capital expenditures on the Philippines and could, in the case of a conviction, serve as the basis for proceedings to seize the Fraport AG assets on the Philippines. With reference to the accusations made in the proceedings that the company is aware of, Fraport AG is working on the assumption that these accusations are being made wrongly.

Further legal risks

Fraport AG could be required to pay damages in a dispute between the new company owning the partial leasehold rights to the Sheraton building at Frankfurt Airport and the previous shareholder, which sold the rights. The former purchaser is now claiming that the building has faults that are attributable to inadequate building management by Fraport AG, suggesting that there are doubts about the value of the partial leasehold rights as a result. We consider the risk that Fraport could be required to pay compensation is minimal.

In the report we presented as at December 31, 2003, we already indicated that DB Station & Service AG is making claims on Fraport AG relating to services provided in connection with the project to build on the roof of the high-speed train station at Frankfurt Airport. In June 2004, DB Station & Service AG filed a suit about this matter concerning part of the claims submitted amounting to about € 30 million plus interest. To a large extent a consensus was reached about a settlement of this suit in December 2005. In August 2004, DB Station & Service AG filed another suit for payment of about € 52 million plus interest. We still consider that the claims are basically unjustified, especially with regard to the amount. It can not totally be excluded that Fraport AG will have to make payments relating to the costs incurred in connection with the building project following a composition.

Risks attributable to investments and projects

There are general political, economic and company-specific risks as well as market risks at individual locations outside Germany.

Our concession to operate the international terminal in Antalya expires on July 31, 2007. The opening of the second international terminal in April 2005 led to a substantial reduction in passengers for the company operating Terminal 1, in which Fraport holds an interest. According to oral information from the Turkish airport authority DHMI, traffic is to be divided up between both terminals more evenly in future. There is a risk that traffic is not divided up uniformly again in 2006 and that this will affect company revenue.

In view of the large number of tenders that are standard practice in the area in which ICTS Europe operates, there is a general risk that contracts will not be extended, which would lead to revenue shortfalls. Beyond that, defective performance could also hurt the company's image and result in claims for damages.

The business relationship to the Irish airline Ryanair makes a substantial contribution to the economic development of Flughafen Frankfurt-Hahn GmbH, Lautzenhausen. A deterioration of this business relationship would have significant adverse impact on Frankfurt-Hahn Airport.

Other risks

Our business operations in Frankfurt can be adversely affected by such events as accidents, terrorist attacks, fires or technical problems. Fraport AG's insurance coverage includes the standard risks airport companies face. It particularly involves events that lead to the loss or damage of property, including any consequent business interruption costs. Claims for damages by third parties arising from Fraport AG's corporate liability risks are covered, too. Since January 2003, the risk in connection with liability claims by third parties attributable to war and terrorist attacks have been covered by private insurance companies up to a maximum of US-$ 1 billion. This also applies to Fraport AG's majority-owned investments in Germany and abroad that are covered by the Fraport corporate liability insurance policy.

All the IT systems of critical importance to the company are designed on a redundant basis and are housed at separate locations as an optional additional feature. It goes without saying that residual risks resulting from the architecture and operation of the IT facilities cannot, however, be eliminated completely. No significant risks are known at the present time, on the other hand.

Due to the ongoing development of new technologies and the expansion program, there is a latent fundamental risk potential for IT systems. Fraport AG takes account of this situation by applying an active IT security management policy. The requirements on IT security throughout the Group are specified in the IT security policy and security guidelines. Observance of them is checked regularly. Insurance coverage is obtained for claims relating to residual risks to the extent that this is possible and appropriate.

Fraport AG's success depends to a large extent on the motivation, qualification and loyalty of its employees. It is vital to be an attractive employer that recruits good staff for the company, integrating them successfully and creating long-term staff loyalty when competing for highly qualified skilled and management staff. To make sure this is possible, we maintain close contact with selected universities and arrange for university graduates to go through intensive familiarization programs at the beginning of their careers. There is also an extensive qualification and advanced training program for Fraport AG employees at all levels. The human resources controlling function is being expanded steadily, so that the requirements of the employment market are satisfied. No specific management risks are apparent at the present time.

An outbreak of avian flu, particularly in Western Europe, could lead to considerable shortfalls in air traffic. An emergency plan has been prepared in order to guarantee the operating processes at Frankfurt Airport.

Overall risk evaluation

The overall evaluation of the risk situation revealed that survival of the Group as a going concern is not at risk as far as its assets and liquidity are concerned and that no risks which might endanger the company's survival as a going concern are apparent for the foreseeable future.

Failing to expand and writing off significant proportions of the capital expenditures that have already been made would, however, weaken the long-term market position of Frankfurt as an international air transport hub to a particularly serious extent.

Business opportunities

Overall economic developments and their impact on air traffic development, on the one hand, and exploitation of growth potential in the context of the airport expansion program and/or the development of non-aviation businesses, on the other hand, are major opportunities available to the company.

In Frankfurt, we operate one of the most important air traffic hubs in Europe and the largest airport in Germany. To enable us to maintain this position in future as well, we work constantly on improving our competitive edges: intermodality, efficiency, reliability, punctuality. We will be extending our hub skills and intensifying the business relationships to our key customers in particular. A competitive position in our product quality and prices has top priority for all business and service areas.

We will be participating in the air traffic development forecast by IATA via the planned expansion of the airport. 120 co-ordinated aircraft movements per hour are to be reached with the planned addition of a runway and a passenger terminal. Experts' reports confirm that about 100,000 additional direct and indirect jobs will be created by the expansion program, 80% of them in the region. With a volume of inflation-adjusted about € 3.4 billion, it is the biggest privately financed investment project in Germany (based on the price level in 2000).

In addition to this, retailing is a fast-growing market for future-oriented airports. The company will be making considerable investments in the expansion and redesign of its retail facilities at Frankfurt Airport in the next few years. Attractive new shops, restaurants and service outlets will thus be created, so that passengers have the choice of an even larger selection of appealing products.

Fraport AG is pursuing the arbitration proceedings that have been in progress against the Philippines since 2003 intensively at the International Center for the Settlement of Investment Disputes (ICSID) on the basis of the German – Philippine investment protection treaty. In this context, we have claimed damages of US-$ 425 million plus further items that have not been quantified yet. We are, however, also pursuing other routes to obtain compensation for our investments, which have already been written off completely.

We continue to be interested in expanding our international investment business, particularly in our core business of the management and operation of airports. We will be submitting further bids for projects that are in line with our strategy and that we expect to create value.

Significant events after the balance sheet date

The former US Air Base in the south of the airport site was taken over completely by Fraport AG on January 1, 2006.

The contracts about the sale of the 40% interest in Portway Handling de Portugal S. A. to ANA S. A., the Portuguese airport company, were signed on January 18, 2006. The purchase price is € 2.7 million.

On January 31, 2006, we won the commission to operate the international airport in Delhi as part of a consortium. One of the other bidders has in the meantime taken legal action against this decision.

Julius Bär Investment Management NY announced in February 2006 that it had exceeded the level of 5% on November 3, 2005 and now held 5.4% of the Fraport shares. Julius Bär sees this as a purely financial investment.

Outlook

Airport expansion

On November 10, 2004, the Darmstadt District President ruled that the zoning procedure documents for expansion of the capacity of Frankfurt Airport were complete and started to involve the public. Discussion of the numerous objections began on September 12, 2005 and will probably continue until the spring of 2006. The Darmstadt District President will then compile its report about the discussions. We are expecting the Hessian Ministry of Economics, Transport and Regional Development to issue its zoning decision in 2007.

Parallel to the ongoing zoning procedure, we have started to create the necessary technical basis for the planned expansion. We have bought about 17 hectares of land that we need to build the runway from RWE AG. We have also acquired about 44 hectares of wooded land, on which the western end of the new runway would be located, from Aventis Real Estate GmbH & Co. KG. In June 2005, we completed the competition for realization of the planned Terminal 3, too. In-depth planning is now being continued with the firm of architects that has been awarded the contract.

In the zoning procedure, we are committing ourselves to compensate for the disruptions to nature and the countryside by carrying out reforestation or renaturation. A total area of about 300 hectares is planned for this. By the end of 2005, we had already secured about 77 hectares for this purpose, partly by buying the land and partly by concluding licensing agreements. The negotiations about contracts with the owners of a further approximately 100 hectares have almost been completed.

A380

The construction and operation of a maintenance facility for the new wide-body aircraft Airbus A380 and further aircraft from the Lufthansa fleet (Boeing 747) were approved in the zoning decision issued on November 26, 2004. The site required was cleared and transferred to Lufthansa on October 31, 2005. Relocation of Okrifteler Street began at the same time. The maintenance hall is being completed by Lufthansa in accordance with the requirements. Up to four A380 or six B747 can be maintained in the planned hangar at the same time; workshops and a high-rise warehouse are to be built as well.

At 8.56 a.m. on October 29, 2005, the Airbus A380 landed in Frankfurt – the first time it had visited an international commercial airport anywhere in the world. This was the first handling test for the biggest passenger aircraft in the world. All the apron services, that have to be co-ordinated smoothly so that a jet can be handled quickly between landing and take-off, were tested with the mega-aircraft the whole day. All of the handling tests went excellently – yet another occasion on which everyone involved succeeded in demonstrating the efficiency of Frankfurt Airport.

Frankfurt Airport will become one of the world's leading hubs for the A380. Lufthansa, which has ordered 15 A380 so far, will be bringing four A380 into service from Frankfurt by the time the 2008 summer flight schedule begins. Emirates, Singapore Airlines, Thai Airways and Korean Air have also indicated that they plan to deploy the A380 in Frankfurt. We are expecting about 20 A380 take-offs and landings per day in 2010.

FRA North

To improve control, we combined the construction measures with which the existing terminals are being optimized not only for the A380 but also to satisfy the more exacting security requirements in the "FRA North" project at the beginning of 2005. This project also includes the activities to improve the retail portfolio in view of both quality and quantity. The retailing operations are organized in the Retail & Properties strategic business division.

Acquisition projects

The global trend towards the privatization of airports and the outsourcing of management services is continuing. Fraport will be participating in selected tenders on the basis of value creation with limited capital investment. Markets that are growing disproportionately fast, such as China or Eastern and South-Eastern Europe offer considerable market potential. There are plans for further airports to be privatized in China and India until 2010.

We are expecting the profitability of our investments to continue developing positively in 2006 and 2007.

With the expansion of its capacities and the increase in its efficiency, Frankfurt-Hahn Airport has the necessary basis to continue strengthening its position as a low-cost airport in Europe.

The concession contract for operating Terminal 1 at Antalya Airport is expiring in mid-2007. In 2006, we will be starting to specify our conditions for an extension of the contract and/or for participation in a new tender for the concession.

In view of increasing quality standards and more exacting demands on security services, we are working on the assumption that our subsidiary ICTS Europe will be expanding its business significantly.

Prospects for 2006 and 2007

Our forecast about developments in future is based on the assumption that international air traffic is not adversely affected by such external shocks as terrorist attacks, wars or epidemics.

Economic development and air traffic

The dynamic global economy will not be slowing down in 2006 either. Leading national and international economic institutes and banks[31] are forecasting that the world economy will record real gross domestic product growth of about 4.5%. This growth will again be driven by the fast-developing Asian countries (about 7%), particularly China (8.5%) and India (7.3%), Latin America (slightly lower at about 4%) and – again – Central and Eastern Europe (5%). The prospects for the major industrialized countries USA (about 3.5%), Japan (about 2.5%) but also the EU countries (about 2.3%) have been seen in a more and more positive light recently – in spite of the fact that the oil price continues to be high – and exceed the growth expectations for 2005 to some extent. The same applies to the German economy, which should grow at the substantial rate of 1.7%. It is being boosted primarily by the growth in world trade of 9.1%[32], the special effect of consumer expenditure brought forward in view of the VAT increase in 2007 and tourism in connection with the football World Cup in Germany. Economic growth in Germany will not reaching the European level even so.

According to the experts, the positive world economic cycle (almost 4%) will be continuing in 2007 as well – albeit at a slightly lower level. Global trade, which has stimulated the German export economy and the German economy as a whole up to now, could lose a little momentum. In connection with the purchasing power absorbed by the VAT increase and a change in the timing of public holidays so that there are fewer production days, the prospects for the German economy in 2007 will probably remain subdued.

In addition to raw material prices, exchange rate developments and reluctant consumer spending pattern, particularly in Europe and Germany, there continue to be latent risks for the economy and travel patterns, such as terrorism, epidemics or natural catastrophes.

General sociopolitical conditions

Fraport AG expects continuation of the “Air traffic for Germany” initiative to strengthen the position in the international competitive environment held not only by Germany as an air traffic location but also by Frankfurt as a hub, in 2006 and 2007. The main emphases in the initiative in future will include further implementation of the master plan to develop the airport infrastructure in Germany, continuing development of intermodal projects, coverage of specific security issues, optimization of environmental concepts and action against distortion of competition.

Air traffic has an important role to play in achievement of the objectives of the Lisbon Agenda, i.e. in the promotion of economic growth and the creation of jobs. In view of this, every additional burden placed on air transport, in the form of taxes, other charges or emission trading, therefore needs to be questioned critically and considered carefully. Due to the traffic structure at Frankfurt Airport, it can be assumed that the VAT increase on January 1, 2007 will only have an insignificant effect on traffic development at the airport. The prospect of the introduction of a tax on kerosene, which is the subject of regular debate, is considered to be on the improbable side in 2006 and 2007.

It can be assumed that the German government will amend the legislation about aircraft noise in the 2006/2007 period. The effects of this on Fraport AG cannot be foreseen at the present time.

[31] Deka Bank, January 2006.

[32] OECD, date: November 2005.

Further liberalization in the ground handling services field is still being debated. The impact of this cannot be assessed yet, since the outcome is not foreseeable. The European Commission intends to issue a directive about airport fees. This could have the effect that different general conditions are applied when airport fees are specified in future.

In response to the terrorist attacks on September 11, 2001, the EU has taken action to establish consistent security standards in the civil aviation field. Further construction measures need to be taken at Frankfurt Airport in order to implement EU regulations, with particular respect to security screening of passengers and company employees, these measures are to be completed by the end of 2008. The rules about charges associated with this still have to be negotiated. The EU Parliament passed a regulation in December 2005 to strengthen the rights of passengers with restricted mobility. Following a two-year transition period, responsibility for looking after these passengers will be passed from the airlines to the airport operators in future. An investigation is currently being made to determine what financial effects can be expected at Frankfurt Airport due to construction measures and personnel deployment. The proposal made by the EU to introduce a flight ticket tax to finance development aid by the EU continues to be the subject of controversial discussion among the member states. There is no sign of comprehensive introduction at the moment. Only France is planning to introduce the air ticket tax with the 2006 summer flight schedule.

Development of air traffic

IATA[33] is working on the assumption that passenger figures on international scheduled flights will be increasing by 5.7% in 2006 and 5.5% in 2007. Growth of 5.3% and 5.2% are expected for Europe and 5.5% in each case for Germany. The expectations for global airfreight are slightly higher. ICAO[34] has also published somewhat higher growth expectations for overall global scheduled air traffic (international plus domestic traffic) of 6.5% and 6.2% respectively.

In view of the improvement in the general conditions in Germany, an increase in the number of co-ordinated aircraft movements from the summer season onwards and ongoing high slot demand at the flight scheduling conference, we are expecting passenger traffic to increase again at Frankfurt Airport in 2006, combined with substantial airfreight growth. Intercontinental traffic remains a key growth driver in Frankfurt in this context.

At Group level, we anticipate passenger figures that should be higher than in the previous year in both 2006 and 2007. Like at the Frankfurt location, this is also attributable to better overall conditions. The increase will be attributable to growth in the low-cost market, from which our airports Frankfurt-Hahn and Hanover will benefit to a particularly large extent. We expect traffic in Antalya to be divided up evenly between the two terminals in 2006. The concession for operating Terminal 1 in Antalya expires in July 2007, so that there will be a drop here. We are expecting passenger figures to develop positively at our airport in Lima, too, because of the increase in intercontinental traffic. A positive development can be expected in the airfreight field as well.

Group segments in 2006

In the Aviation segment of the Group, the traffic growth and the average increase of 2.2% in airport fees in Frankfurt as well as the additional security charges should exceed the loss of revenue from military traffic considerably. The latter and the costs of additional security requirements made by the European Union, which cannot be passed on completely to the airlines, will have the effect that earnings in this segment will probably not be higher than the previous year's figures, however.

[33] *International Air Transport Association, October 2005.*

[34] *International Civil Aviation Organization, date: August 2005.*

The development anticipated in the Ground Handling segment is similar. The price reduction incorporated in the new ground handling contract with Deutsche Lufthansa AG is the main factor that has to be compensated for here. In connection with the small loss of market share that is expected, this ought lead to a slight shortfall in revenue over the previous year, in spite of the positive traffic development. The segment should reach a high earnings level again in 2006, although it will probably not achieve the record margins of the previous year.

There are likely to be opposite developments within the Retail & Properties segment. The expansion of the retail business will have a positive impact, on the one hand. In 2006, the retail space available will be increasing again for the first time since 2003 and should lead to an increase in the retail revenue per passenger. On the other hand, revenue from the sale of supply services will be decreasing, partly because of the relocation of the US Air Base. Due to the planned demolition of several buildings, capital expenditure will increase at the same time that revenue decreases. Together with a small drop in depreciation, we are expecting overall segment earnings slightly higher than the level reached in the previous year.

The main investments outside Frankfurt should develop positively in 2006. We therefore expect revenue and earnings in the External Activities segment to increase. In Antalya, we anticipate a more favourable division of traffic between the two rival international terminals and thus an improvement in the earnings situation with full consolidation for the whole year for the first time. At Frankfurt-Hahn, we are assuming further strong traffic growth coupled with positive EBITDA for the first time in 2006, while our security subsidiary ICTS Europe will continue to benefit from increasing security requirements at European airports.

Key Group figures in 2006

We are expecting Group revenue to increase in 2006. Our response to the negative factors outlined in the segment presentation is to maintain strict cost management.

The air traffic industry is going through a process of structural change, which is presenting the airlines and airport operators with new challenges. Our competitive edge in this consolidation process is the close system partnership with the Star Alliance headed by Lufthansa. It is essential for both partners to contribute to the maintenance of this market position on an ongoing basis.

In the WM 2005 program, we should reach the target of EBITDA amounting to at least € 150 million completely in 2006. At the end of 2005, we reached an EBITDA contribution of € 136 million. The program should therefore be completed by mid-2006.

We started the project “We are making Fraport fit” in 2005 as well. As a labour-intensive company, we can only remain competitive and safeguard the existing jobs in the coming years if we reduce not only the non-staff costs but also our biggest cost item: personnel expenses. The first result of this project is the agreement between the Executive Board and the works council about more flexible working times based on actual requirements, the deployment of more external personnel and a reduction in company fringe benefits. In return for this, Fraport has ruled out operational redundancies as well as wage and salary reductions. A second set of measures relates to collective agreement issues, with the aim of reaching preferably longer weekly working times and a lower collectively agreed entry pay level at Fraport.

The economy measures that have been arranged should compensate for the negative factors outlined above to a large extent in 2006, so that we are working on the assumption that total EBITDA will be increasing within the framework of a positive development in traffic. In view of the positive development of our minority investments, the profit for the year should increase even more strongly than EBITDA in 2006.

Preview of 2007
The relevant surveys of the industry assume that global air traffic will be increasing in the coming years, too. This should also be the case at our Group airports, taking the capacity limitations at Frankfurt Airport into account as well. As for Antalya, it should be mentioned that the existing concession contract will be expiring in mid-2007.

The 2006 trends in the Aviation segment will be continuing; the existing contract about airport fees expires in 2006 and therefore needs to be concluded again for the period after this.

The earnings margin in the Ground Handling segment should stabilize at a high level, i.e. the price concessions to customers and the effects of the economy measures should roughly cancel each other out.

Retail & Properties should benefit from a further increase in the retail space and retail revenue.

A positive development is expected at the present time in the External Activities. New investments and/or an increase or reduction in existing investments could have a major impact, however. As has already been mentioned, it can be expected that the positive development in global air traffic will have an effect on Fraport’s airport investments, too, while the concession that is expiring in Antalya needs to be borne in mind. The business volume at our biggest investment ICTS Europe should expand even more.

Capital expenditures
Fraport’s medium- and long-term capital expenditure program is dominated by the planned expansion of the capacity at Frankfurt Airport. The total volume estimated for building a new runway as well as passenger handling and other operating facilities is inflation-adjusted about € 3.4 billion, based on the price level in 2000.

All in all, we are expecting a considerable increase in **capital expenditures on property, plant and equipment** over the previous year in 2006 and 2007. Larger capital expenditures are planned, for example, for modernization and expansion of the terminals and aircraft movement areas at Frankfurt Airport. This includes the necessary remodelling exercises, as a result of which the terminals are being prepared to meet the requirements of the wide-body Airbus A380. Another focal point will be the economic and technical development of the existing handling buildings, including optimization of the fire protection systems as well as remodelling and expansion of the retail space.

The capital expenditures on the planned capacity expansion projects will probably be increasing moderately in 2006. Approval of the expansion program in 2007 would lead to a substantial increase in capital expenditures because of preparatory work in the form of demolition and replacement measures.

Financial capital expenditures could increase in the years 2006 and 2007 depending on the success of acquisition projects.

The global trend towards the privatization of airports and the outsourcing of management services is continuing. Fraport will be actively involved in this process. The strategic focus is on the creation of value with limited capital investment. In view of the particularly good growth prospects, we are mainly interested in projects in Eastern Europe, India and China.

Asset and financial situation
Fraport will have an extremely sound balance sheet in 2006 and 2007, too. Capital expenditure payments should be financed to a large extent out of the operating cash flow. Net financial debt will remain low. The cash and cash equivalents and credit lines available also enable us to be very flexible in financial planning. We are expecting shareholders' equity to increase again due to a positive profit for the year. No capital increases are planned above and beyond the employee investment plan and the stock option plan.

In the medium term, we will be borrowing additional funds to finance the airport expansion project. At the present time, there are no plans to increase shareholders' equity in connection with the expansion program.

Dividend
We intend to distribute about 50% of the Group profit for the year to the Fraport shareholders in future as well.

Where the statements made relate to the future rather than the past, these statements are based on a number of assumptions about future events and are subject to a number of uncertainties and other factors, many of which are outside the control of Fraport AG Frankfurt Airport Services Worldwide and could have the effect that the actual results differ materially from the statements. These factors include not only but among other things the competitive environment in liberalized markets, regulatory changes, the success of the business operations as well as considerably less favorable general economic conditions on the markets in which Fraport AG Frankfurt Airport Services Worldwide and its investments operate. Readers are cautioned not to rely to an inappropriately large extent on these statements about the future.

Consolidated financial statements of Fraport AG

Consolidated income statement

for the year 2005

€ million	Note	2004	2005
Revenue	(6)	**1,998.1**	**2,089.8**
Change in work-in-process	(7)	0.0	0.1
Other internal work capitalized	(8)	21.8	20.6
Other operating income	(9)	23.8	31.2
Total revenue		**2,043.7**	**2,141.7**
Cost of materials	(10)	–316.2	–333.6
Personnel expenses	(11)	–974.5	–1,032.5
Depreciation and amortization of tangible and intangible non-current assets and investment property	(12)	–235.1	–235.9
Other operating expenses	(13)	–236.8	–228.1
EBIT (Operating profit)		**281.1**	**311.6**
Interest result	(14)	–23.1	–23.1
Share of profit or loss of investments accounted for using the equity method	(15)	1.8	8.2
Income from investments	(16)	13.7	6.3
Write downs of financial assets	(17)	–5.9	–1.3
Other financial results	(18)	–2.5	–11.3
Financial result		**–16.0**	**–21.2**
EBT (Result from ordinary operations)		**265.1**	**290.4**
Taxes on income	(19)	–120.9	–123.9
Other taxes	(20)	–6.6	–5.0
Group profit		**137.6**	**161.5**
Profit attributable to minority interests		**1.2**	**0.3**
Profit attributable to equity holders of Fraport AG		**136.4**	**161.2**
Transfer to revenue reserves		–68.4	–79.1
Group retained earnings		**68.0**	**82.1**
Earnings per € 10 share in €	(21)		
basic		1.51	1.78
diluted		1.48	1.75
EBITDA		**516.2**	**547.5**
EBIT		**281.1**	**311.6**

Consolidated balance sheet

as of December 31, 2005

Assets

€ million	Note	Dec. 31, 2004*	Dec. 31, 2005
Non-current assets			
Goodwill	(22)	116.8	108.3
Other intangible assets	(23)	52.5	50.2
Property, plant and equipment	(24)	2,381.5	2,587.3
Investment property	(25)	0.0	37.4
Investments accounted for using the equity method	(26)	46.9	53.6
Other financial assets	(27)	52.6	209.5
Other receivables and other assets	(28)	75.2	33.2
Deferred tax assets	(29)	13.4	19.3
		2,738.9	**3,098.8**
Current assets			
Inventories	(30)	12.1	14.4
Trade accounts receivable	(31)	168.6	190.0
Other receivables and other assets	(28)	64.2	71.5
Cash and cash equivalents	(32)	666.4	574.2
		911.3	**850.1**
Non-current assets held for sale	(33)	0.0	2.7
		911.3	**852.8**
		3,650.2	**3,951.6**

Liabilities & Equity

€ million	Note	Dec. 31, 2004*	Dec. 31, 2005
Shareholders' equity			
Issued capital	(34)	905.1	910.7
Capital reserves	(34)	537.6	550.5
Revenue reserves	(34)	520.1	599.2
Group retained earnings	(34)	68.0	82.1
Issued capital and reserve attributable to equity holders of Fraport AG	(34)	2,030.8	2,142.5
Minority interests, presented within equity (net)	(35)	10.8	15.4
		2,041.6	**2,157.9**
Non-current liabilities			
Financial liabilities	(36)	574.1	622.4
Other liabilities	(37)	104.3	115.4
Deferred tax liablities	(38)	129.8	112.2
Provisions for pension and similar obligations	(39)	25.5	21.4
Provisions for income taxes	(40)	151.7	167.0
Other provisions and accruals	(41)	95.3	112.1
		1,080.7	**1,150.5**
Current liabilities			
Financial liabilities	(36)	86.6	140.1
Trade accounts payable	(42)	100.4	173.3
Other liabilities	(37)	111.7	105.1
Provisions for income taxes	(40)	43.5	18.5
Other provisions and accruals	(41)	185.7	206.2
		527.9	**643.2**
		3,650.2	**3,951.6**

* adjusted.

Consolidated cash flow statement

for the year 2005

€ million	Note	2004	2005
Profit attributable to equity holders of Fraport AG		**136.4**	**161.2**
Taxes on income		120.9	123.9
Profit attributable to minority interests		1.2	0.3
Adjustments for:			
Depreciation/write-ups (non-current assets)		240.8	241.3
Interest results		23.1	23.1
Income from investments		–13.7	–6.3
Gains/losses from disposals of non-current assets		4.6	4.7
Unrealized foreign currency results		0.3	8.0
Changes in investments accounted for using the equity method		–1.0	–6.7
Changes in inventories		5.0	–2.3
Changes in receivables and other assets		42.7	–12.1
Changes in provisions		52.8	51.5
Changes in liabilities (w/o financial liabilities and provisions)		19.8	66.9
Operational activities		**632.9**	**653.5**
Fiancial activities			
Interest paid		–43.0	–40.1
Interest received		19.9	17.0
Dividends received		13.7	6.3
Taxes on income paid		–104.9	–143.0
Cash flow from operating activities	(44)	**518.6**	**493.7**
Capital expenditure for intangible assets		–5.0	–9.3
Capital expenditure for property, plant and equipment		–232.1	–426.1
Capital expenditure for investments accounted for using the equity method		–1.3	0.0
Investment property		–	–32.8
Changes in consolidation		–	11.4
Acquisition of subsidiaries		–	–2.5
Disposal of subsidiaries		–	0.8
Other financial investments (long-term)		–36.4	–191.7
Proceeds from disposal of non-current assets		14.0	32.0
Cash flow used in investing activities	(44)	**–260.8**	**–618.2**
Dividends paid to shareholders of Fraport AG		–39.7	–67.9
Dividends paid to minority shareholders		–1.0	–1.2
Capital increase		6.6	20.8
Change in financial liabilities		–165.7	94.5
Cash inflow/outflow used in investing activities	(44)	**–199.8**	**46.2**
Changes in consolidation		–	–11.4
Foreign currency translation effect on cash and cash equivalents		–2.4	–2.5
Change in cash and cash equivalents		**55.6**	**–92.2**
Cash and cash equivalents at Jan. 1		610.8	666.4
Cash and cash equivalents at Dec. 31	(44)	**666.4**	**574.2**

Movements in consolidated shareholders' equity

€ million	Note	Issued capital	Capital reserves	Revenue reserves: Legal reserves	Revenue reserves: Revenue reserves	Revenue reserves: Foreign currency reserves	Revenue reserves: Revaluation reserves	Group retained earnings	Profit attributable to equity holders of Fraport AG	Profit attributable to minority interest	Total
Balance at Jan. 1, 2004		**902.2**	**533.2**	**36.5**	**429.4**	**–16.5**	**–4.4**	**39.7**	**1,920.1**	**11.0**	**1,931.1**
Foreign currency translation differences		–	–	–	–	1.9	–	–	1.9	–	1.9
Fair value of financial assets held for sale		–	–	–	–	–	0.2	–	0.2	–	0.2
Fair value changes of derivatives		–	–	–	–	–	1.0	–	1.0	–	1.0
Net gain (+)/Net costs (–) directy included in equity		0.0	0.0	0.0	0.0	1.9	1.2	0.0	3.1	0.0	3.1
Capital increase against deposits		2.8	3.8	–	–	–	–	–	6.6	–	6.6
Transfer of treasury shares		0.1	0.1	–	–	–	–	–	0.2	–	0.2
Distribution		–	–	–	–	–	–	–39.7	–39.7	–1.0	–40.7
Group profit for the year		–	–	–	68.4	–	–	68.0	136.4	1.2	137.6
Share options		–	0.5	–	2.9	–	–	–	3.4	–	3.4
Consolidation activity/ other changes		–	–	–	0.7	–	–	–	0.7	–0.4	0.3
Balance at Dec. 31, 2004	(34), (35)	**905.1**	**537.6**	**36.5**	**501.4**	**–14.6**	**–3.2**	**68.0**	**2,030.8**	**10.8**	**2,041.6**
First time application IFRS 2		–	1.7	–	–1.7	–	–	–	–	–	–
Balance at Jan. 1, 2005		**905.1**	**539.3**	**36.5**	**499.7**	**–14.6**	**–3.2**	**68.0**	**2,030.8**	**10.8**	**2,041.6**
Foreign currency translation differences		–	–	–	–	6.8	–	–	6.8	–	6.8
Fair value of financial assets held for sale		–	–	–	–	–	0.5	–	0.5	–	0.5
Fair value changes of derivatives		–	–	–	–	–	–4.6	–	–4.6	–0.5	–5.1
Net gain (+)/Net costs (–) directy included in equity		0.0	0.0	0.0	0.0	6.8	–4.1	0.0	2.7	–0.5	2.2
Capital increase Frankfurt-Hahn airport		–	–	–	–	–	–	–	0.0	6.4	6.4
Issue of shares for employee investment plan		1.2	2.6	–	–	–	–	–	3.8	–	3.8
Transfer of treasury shares		0.1	0.1	–	–	–	–	–	0.2	–	0.2
Management-Stock-Options-program		–	–	–	–	–	–	–	0.0	–	0.0
Capital increase for exercise of options		4.3	6.3	–	–	–	–	–	10.6	–	10.6
Value of performed services		–	2.2	–	–	–	–	–	2.2	–	2.2
Distribution		–	–	–	–	–	–	–67.9	–67.9	–1.2	–69.1
Group profit for the year		–	–	–	79.1	–	–	82.1	161.2	0.3	161.5
Consolidation activity/ other changes		–	–	–	–1.0	–	–	–0.1	–1.1	–0.4	–1.5
Balance at Dec. 31, 2005	(34), (35)	**910.7**	**550.5**	**36.5**	**577.8**	**–7.8**	**–7.3**	**82.1**	**2,142.5**	**15.4**	**2,157.9**

Consolidated statement of movements in non-current assets

€ million	Goodwill	Other intangible assets	Intangible assets (total)	Land, land rights and buildings including buildings on leased land	Technical equip-ment and machinery	Other equip-ment, operat-ing and office equipment	On-account payments and construction in process
Accumulated acquisition costs/ production costs							
As at Jan. 1, 2005	211.4	133.2	344.6	3,250.5	1,575.7	354.2	302.1
Changes due to foreign currency differences	0.0	0.1	0.1	0.0	0.0	0.1	0.3
Changes in consolidation	0.0	–36.2	–36.2	9.9	0.0	0.2	0.0
Additions	2.1	9.3	11.4	135.6	29.3	44.0	232.1
Disposals	–0.1	–7.2	–7.3	–12.8	–61.6	–18.3	–10.6
Reclassifications	0.0	12.2	12.2	–27.2	25.3	1.5	–57.7
As at Dec. 31, 2005	**213.4**	**111.4**	**324.8**	**3,356.0**	**1,568.7**	**381.7**	**466.2**
Accumulated depreciation							
As at Jan. 1, 2005	94.6	80.7	175.3	1,545.2	1,308.4	247.4	0.0
Changes in consolidation	0.0	–28.3	–28.3	0.0	0.0	0.0	0.0
Additions	10.5	14.9	25.4	113.5	58.8	27.4	0.0
Disposals	0.0	–6.1	–6.1	–7.6	–44.0	–18.1	0.0
Reclassifications	0.0	0.0	0.0	–45.7	0.0	0.0	0.0
Write-ups	0.0	0.0	0.0	0.0	0.0	0.0	0.0
As at Dec. 31, 2005	**105.1**	**61.2**	**166.3**	**1,605.4**	**1,323.2**	**256.7**	**0.0**
Net book value							
As at Dec. 31, 2005	**108.3**	**50.2**	**158.5**	**1,750.6**	**245.5**	**125.0**	**466.2**
Accumulated acquisition costs/ production costs							
As at Jan. 1, 2004	211.4	128.8	340.2	3,226.4	1,574.7	348.3	198.0
Changes due to foreign currency differences	0.0	0.0	0.0	0.0	0.0	0.2	0.0
Changes in consolidation	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Additions	0.0	5.0	5.0	30.6	27.9	34.8	138.8
Disposals	0.0	–3.8	–3.8	–12.4	–31.2	–30.5	–19.9
Reclassifications	0.0	3.2	3.2	5.9	4.3	1.4	–14.8
As at Dec. 31, 2004	**211.4**	**133.2**	**344.6**	**3,250.5**	**1,575.7**	**354.2**	**302.1**
Accumulated depreciation							
As at Jan. 1, 2004	72.4	69.5	141.9	1,442.7	1,277.4	250.5	0.0
Changes in consolidation	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Additions	22.2	14.9	37.1	111.6	60.4	26.0	0.0
Disposals	0.0	–3.7	–3.7	–9.0	–29.5	–29.1	0.0
Reclassifications	0.0	0.0	0.0	–0.1	0.1	0.0	0.0
Write-ups	0.0	0.0	0.0	0.0	0.0	0.0	0.0
As at Dec. 31, 2004	**94.6**	**80.7**	**175.3**	**1,545.2**	**1,308.4**	**247.4**	**0.0**
Net book value							
As at Dec. 31, 2004	**116.8**	**52.5**	**169.3**	**1,705.3**	**267.3**	**106.8**	**302.1**

	Property, plant and equipment (total)	Investment property	Investments accounted for using the equity method	Other investments	Securities held for sale	At fair value securities	Loan to investments*	Other loans	Other financial assets (total)
	5,482.5	0.0	105.6	15.3	30.7	0.0	78.2	14.1	138.3
	0.4	0.0	2.5	0.0	0.0	0.0	–0.3	0.0	–0.3
	10.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	441.0	32.8	5.5	0.0	10.3	180.0	0.0	1.4	191.7
	–103.3	0.0	–1.3	–0.1	0.0	0.0	–0.4	–2.5	–3.0
	–58.1	62.8	–3.7	0.0	–25.9	0.0	0.0	0.0	–25.9
	5,772.6	**95.6**	**108.6**	**15.2**	**15.1**	**180.0**	**77.5**	**13.0**	**300.8**
	3,101.0	0.0	58.7	14.0	–0.2	0.0	69.4	2.5	85.7
	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	199.7	10.8	0.0	0.0	0.0	5.2	0.0	1.3	6.5
	–69.7	0.0	0.0	0.0	0.0	0.0	–0.2	–0.2	–0.4
	–45.7	47.4	–1.0	0.0	0.6	0.0	0.0	0.0	0.6
	0.0	0.0	–2.7	–0.1	–1.0	0.0	0.0	0.0	–1.1
	3,185.3	**58.2**	**55.0**	**13.9**	**–0.6**	**5.2**	**69.2**	**3.6**	**91.3**
	2,587.3	**37.4**	**53.6**	**1.3**	**15.7**	**174.8**	**8.3**	**9.4**	**209.5**
	5,347.4	0.0	102.6	13.9	0.0	0.0	75.3	14.6	103.8
	0.2	0.0	–1.3	0.0	0.0	0.0	0.1	0.0	0.1
	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	232.1	0.0	5.9	1.2	30.7	0.0	3.2	1.3	36.4
	–94.0	0.0	–1.6	0.0	0.0	0.0	–0.2	–1.8	–2.0
	–3.2	0.0	0.0	0.2	0.0	0.0	–0.2	0.0	0.0
	5,482.5	**0.0**	**105.6**	**15.3**	**30.7**	**0.0**	**78.2**	**14.1**	**138.3**
	2,970.6	0.0	56.7	12.9	0.0	0.0	66.0	1.3	80.2
	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	198.0	0.0	2.0	0.9	0.0	0.0	3.6	1.4	5.9
	–67.6	0.0	0.0	0.0	0.0	0.0	0.0	–0.2	–0.2
	0.0	0.0	0.0	0.2	0.0	0.0	–0.2	0.0	0.0
	0.0	0.0	0.0	0.0	–0.2	0.0	0.0	0.0	–0.2
	3,101.0	**0.0**	**58.7**	**14.0**	**–0.2**	**0.0**	**69.4**	**2.5**	**85.7**
	2,381.5	**0.0**	**46.9**	**1.3**	**30.9**	**0.0**	**8.8**	**11.6**	**52.6**

* This relates to subsidiaries, joint ventures, associated companies and other investments.

Segment reporting
(Note 43)

Primary segment reporting

€ million		Aviation	Retail & Porperties	Ground Handling	External Activities	Adjust-ments	Group
Revenue	2005	688.9	374.0	632.1	394.8	–	2,089.8
	2004	626.2	373.9	608.1	389.9	–	1,998.1
Other operating income	2005	19.0	12.7	7.7	12.5	–	51.9
	2004	18.6	9.5	7.7	9.8	–	45.6
Third-party revenue	**2005**	**707.9**	**386.7**	**639.8**	**407.3**	**–**	**2,141.7**
	2004	**644.8**	**383.4**	**615.8**	**399.7**	**–**	**2,043.7**
Inter-segment revenue	2005	33.5	356.3	16.5	97.0	–503.3	–
	2004	30.4	343.5	15.9	75.7	–465.5	–
Total revenue	2005	741.4	743.0	656.3	504.3	–503.3	2,141.7
	2004	675.2	726.9	631.7	475.4	– 465.5	2,043.7
Segment profit (loss)/EBIT	2005	94.2	182.2	52.1	–16.9	0.0	311.6
	2004	90.8	174.5	31.1	–15.3	0.0	281.1
Depreciation and amortization of segment assets	2005	63.9	109.9	22.8	39.3	–	235.9
	2004	54.0	111.3	22.2	47.6	–	235.1
EBITDA	**2005**	**158.1**	**292.1**	**74.9**	**22.4**	**–**	**547.5**
	2004	**144.8**	**285.8**	**53.3**	**32.3**	**–**	**516.2**
Share of results of investments accounted for using the equity method	2005	0.0	0.0	1.3	6.9	–	8.2
	2004	0.0	0.0	1.5	0.3	–	1.8
Income from investments	2005	0.0	0.0	0.0	6.3	–	6.3
	2004	0.0	0.0	0.0	13.7	–	13.7
Book values of segment assets	2005	1,583.3	1,471.0	377.1	500.9	19.3	3,951.6
	2004	1,449.0	1,368.2	326.3	493.3	13.4	3,650.2
Segment liabilites	2005	443.6	620.2	145.2	287.0	297.7	1,793.7
	2004	457.9	494.5	94.9	236.3	325.0	1,608.6
Acquisition cost of additions to property, plant and equipment and intangible assets	2005	204.4	173.0	47.7	60.1	–	485.2
	2004	115.0	71.9	18.6	31.6	–	237.1
Other significant non-cash expenses	2005	42.3	54.8	13.1	31.8	–	142.0
	2004	27.4	42.0	33.2	17.3	–	119.9
Acquisitions of investments accounted for using the equity method	2005	0.0	0.1	2.1	51.4	–	53.6
	2004	0.0	0.1	2.0	44.8	–	46.9

Secondary segment reporting

€ million		Germany	Rest of Europe	Asia	Rest of world	Adjust-ments	Group
Revenue	2005	1,798.5	248.1	32.0	11.2	–	2,089.8
	2004	1,705.2	222.2	63.2	7.5	–	1,998.1
Other operating income	2005	48.3	–0.2	3.7	0.1	–	51.9
	2004	43.2	2.0	0.3	0.1	–	45.6
Third-party revenue	**2005**	**1,846.8**	**247.9**	**35.7**	**11.3**	**–**	**2,141.7**
	2004	**1,748.4**	**224.2**	**63.5**	**7.6**	**–**	**2,043.7**
Book values of segment assets	2005	3,631.1	210.8	63.0	27.4	19.3	3,951.6
	2004	3,324.5	209.2	82.0	21.1	13.4	3,650.2
Acquisition costs of additions to property, plant and equipment and intangible assets	2005	465.8	15.4	3.8	0.2	–	485.2
	2004	224.7	11.2	1.2	0.0	–	237.1

Group notes

Notes on consolidation and accounting policies

(1) Basic principles followed in preparation of the consolidated financial statements

The consolidated financial statements of Fraport AG Frankfurt Airport Services Worldwide, Frankfurt am Main (referred to hereinafter as Fraport AG), for the year that ended on December 31, 2005 have been prepared in accordance with the standards issued by the International Accounting Standards Board (IASB). The aims in preparing the consolidated financial statements on the basis of internationally recognized accounting standards are to improve international comparability and to increase the transparency of our company for external recipients.

We have applied the International Financial Reporting Standards (IFRS) for the consolidated financial statements and the interpretations about them issued by the International Financial Reporting Interpretations Committee (IFRIC) binding on the balance sheet date completely and without any restrictions in recognition, measurement and disclosure in the 2005 consolidated financial statements. In accordance with § 315 a paragraph 1 of the German Commercial Code (HGB), the supplementary information in the notes to the financial statements was provided pursuant to §§ 313, 314 of the German Commercial Code (HGB).

As a company geared to the capital markets, Fraport AG has to prepare its consolidated financial statements in accordance with IFRS pursuant to Directive (EC) No. 1606/2002 of the European Parliament and the Council dated July 19, 2002. The Auditing Reform Law (BilReG) incorporated the regulations of the EU directive in German commercial law within § 315 a of the German Commercial Code (HGB).

The consolidated financial statements have been prepared in Euros. All figures are in € million unless stated otherwise.

(2) Main differences in the accounting policies between IFRS and German law

The accounting policies applied in these consolidated financial statements differ from German law in the following areas:

Different accounting principles for share-based payment transactions (IFRS 2)
The effects of the reporting and valuation of share-based payment transactions – including expenditure on transactions in which stock options are granted to employees are reported in the income statement and in shareholders’ equity.

Separate reporting of non-current assets available for sale (IFRS 5)
Non-current assets held for sale are stated at the lower value of its carrying amount and fair value less costs to sell.

Different structure of the balance sheet (IAS 1)
The consolidated balance sheet is being structured with assets and liabilities reported on the basis of a current/non-current classification in accordance with IAS 1. Balance sheets structured on the basis of HGB show items based on the order of liquidity, remaining terms, and legal relationships.

Taxes on income (IAS 12)
IAS 12 stipulates that deferred tax items shall be recognized for all taxable temporary differences between items in the tax balance sheet and the IFRS balance sheet. In contrast to HGB, this rule applies to deferred tax assets as well. Corporation tax credits attributable to distributions are included in the fiscal year in which the resolution is passed. Deferred taxes on tax losses carried forward are capitalized as assets when it is probable that taxable profit will be available in future.

Different depreciation method (IAS 16)
For tax optimization purposes, property, plant and equipment are depreciated in the HGB financial statements as far as possible using the declining-balance method as well as by means of special depreciation charges in accordance with the tax regulations. The useful life is based on the tax depreciation tables. Depreciation in the IFRS consolidated financial statements is by the straight-line method according to the expected useful lives. The consequences are considerably higher non-current assets in IFRS accounts and, as contra items, higher revenue reserves and deferred tax liabilities.

Parts of property, plant and equipment with a cost that is significiant in relation to the total cost of the item are recognized and depreciated separately from other parts of property, plant and equipment (IAS 16.43 ff.) in relation to useful life and depreciation method. IFRS specifies that component-specific useful lives arise on the basis of “component approach”.

Finance lease (IAS 17)
Capitalization of the asset and inclusion of the present value of the minimum lease payments as a liability according to the recognition criteria specified in IAS 17 in the case of finance lease contracts.

Foreign currency translation (IAS 21)
IAS 21 specifies that monetary foreign currency receivables and payables are translated at the exchange rate on the balance sheet date. Translation differences are included in income.

Shares in trading partnerships (IAS 32)
Shares in trading partnerships are recognized as a financial instrument and measured in accordance with IAS 39. Shareholders’ equity and earnings attributable to minority shareholders of trading partnerships are correspondingly recognized in the balance sheet under financial liabilities and in the income statement under the financial result.

Treasury shares (IAS 32)
Treasury shares are not presented as assets; they are offset against shareholders’ equity (proportionately to subscribed capital and capital reserves).

Costs of equity transactions (IAS 32)
In accordance with IAS 32, the costs of the capital increase are charged to the capital reserves after deduction of the advantages relating to taxes on income.

Other provisions and accruals (IAS 37)
Long-term provisions and accruals are stated at their present value in accordance with IAS 37. IAS 37 does only allow provisions for obligations with third parties.

Measurement of financial instruments (IAS 39)
Derivative financial instruments are measured at fair value in accordance with IAS 39. Changes in the value of fair value hedges are included in income and changes in the value of cash flow hedges are included in shareholders’ equity. Under HGB rules, on the other hand, all changes in the fair value of closed positions (fair value and cash flow hedges) are not taken into account and negative fair values of positions that are not closed are included in income.

Measurement of financial assets (IAS 39)
In IFRS accounts, financial assets in the “held for sale” category are stated at fair value. Changes in values are included directly in shareholders’ equity. Financial investments in the category “at fair value” are also measured at fair value in accordance with IFRS. The changes in the fair value are included in income. Valuation is at amortized costs in accordance with the German Commercial Code (HGB).

Reporting and valuation of investment property (IAS 40)
Investment property that is not used in the course of ordinary business activities are recognized and reported separately in the balance sheet.

(3) Companies included in consolidation and balance sheet date

The consolidated financial statements include Fraport AG as well as all subsidiaries (in full) and joint ventures (on a proportionate basis). Major investments in associates are accounted for using the equity method in the consolidated financial statements.

The balance sheet date for the consolidated financial statements corresponds to the balance sheet date for the financial statements of the parent company. The balance sheet date for the financial statements of all the subsidiaries and joint ventures except the companies in the TCR sub-group is December 31.

The fiscal year of the companies in the TCR sub-group ends on June 30. TCR has been included on the basis of interim financial statements prepared as of December 31.

The consolidated financial statements of Fraport AG are dominated by the parent company. The companies included in the consolidated financial statements changed as follows in fiscal year 2005:

Changes in the companies included in the consolidated financial statements

	Germany	Other countries	Total
Fraport AG	**1**		**1**
Consolidated subsidiaries			
Dec. 31, 2004	14	29	43
Additions	6	17	23
Dec. 31, 2005	**20**	**46**	**66**
Joint ventures using the proportiante consolidation			
Dec. 31, 2004	6	11	17
Disposals		2	2
Dec. 31, 2005	**6**	**9**	**15**
Companies consolidated at Dec. 31, 2004	**21**	**40**	**61**
Companies consolidated at Dec. 31, 2005	**27**	**55**	**82**
Investments in associates using the equity method of accounting			
Dec. 31, 2004	4	2	6
Additions		1	1
Disposals		1	1
Dec. 31, 2005	**4**	**2**	**6**
Group companies including associates at Dec. 31, 2004	**25**	**42**	**67**
Group companies including associates at Dec. 31, 2005	**31**	**57**	**88**

The additions to the fully-consolidated subsidiaries are the newly established companies and acquisitions Fraport Real Estate Verwaltungs GmbH, Flörsheim am Main, Fraport Immobilienservice und -entwicklungs GmbH & Co. KG, Flörsheim am Main, Fraport Objekte 162 163 GmbH, Flörsheim am Main, Fraport Real Estate 162 163 GmbH & Co. KG, Flörsheim am Main, Fraport Objekt Mönchhof GmbH, Flörsheim am Main, Fraport Real Estate Mönchhof GmbH & Co. KG, Flörsheim am Main, Fraport Malta Ltd., Pieta, Fraport Malta Business Services Ltd., Pieta, New Age Aviation Security US Inc., Virginia, Diag-Nose Israel Ltd., Lod, ICTS Albania SH.P.K., Tirana, Security Partners Ltd., Moscow, Security Partners Ozel Guvenlik, Koruma, Egitim ve Danismanlik Hizmetleri A.S., Antalya, and the acquisition of nine (including the holding company) companies in the group Underwater Security Consultants UK Ltd., London. As a result of consolidation, Antalya was also reported as an addition with subsidiary companies and as a disposal under joint ventures.

A further disposal of joint ventures relates to a subsidiary of TCR, Trailer Construction Grobbendonk N.V., Turnhout (TCG). A gain on disposal amounting to € 0.8 million was achieved when TCG was deconsolidated. The total disposal price of € 1.0 million was paid with cash in the amount of € 0.8 million.

The addition for the investments in associates accounted for using the equity method relates to Tradeport Hong Kong Ltd., Hong Kong. The company Portway was reclassified as non-current assets held for sale on account of the intention to dispose of the company and reported as a disposal under companies measured at equity.

The share property (cf. pages 140–142) includes all the main subsidiaries, joint ventures and investments in associates with information about the last annual financial statements according to the IFRS rules (revenue, shareholders' equity, profit/loss for the year and number of employees). The complete list of the Group's shareholdings in accordance with § 313 paragraph 2 and paragraph 3 of the HGB and § 285 no. 11 and no. 11a is filed at the commercial register kept by Frankfurt am Main Court (Department B, No. 7042) as an appendix to the notes about the annual financial statements of Fraport AG.

Fraport AG holds 52% of the shares in the company NICE. However, the company is included in the Fraport Group on a proportionate basis due to the contractually agreed joint management. The exercise of control of commercial business activity and the existence of the company require in each case unanimous consent from both partners.

Two associates that have ceased business operations or are in the process of being liquidated and that have an insignificant impact on the asset situation and profitability are included in the Fraport Group at the lower of its carrying amount and net realizable value.

Fraport AG holds interests of more than 20% of the capital in various companies. These are purely financial investments. In view of the limited possibility of exercising rights, no significant influence can be exerted and the companies are not associates.

The **changes in the companies included in the consolidated financial statements** have the following impact on the consolidated balance sheet (before consolidation adjustments):

€ million	*Dec. 31, 2004*	*Dec. 31, 2005*
Non-current assets	*0.0*	*15.9*
Current assets	*0.0*	*3.9*
Cash and cash equivalents	*0.4*	*11.5*
Non-current liabilities	*–0.1*	*–11.1*
Current liabilities	*–0.5*	*–5.6*

The effect of the newly consolidated companies on the profit for the year before consolidation adjustments was a profit of € 1.3 million (previous year: a loss of € 0.1 million).

Revenue and other income generated by the merged companies during the reporting period, assuming that the time of acquisition for all the company mergers within this period was at the beginning of this reporting period, would correspondingly have amounted to € 25.3 million and € 2.4 million respectively.

The **joint ventures** have the following impact on the consolidated balance sheet and the consolidated income statement (before consolidation adjustments):

€ million	2004	2005
Non-current assets	54.5	42.3
Currents assets	48.8	20.4
Shareholders' equity	49.8	15.8
Non-current liabilities	36.9	35.3
Current liabilities	16.6	11.6
Income[1]	111.8	84.4
Expenses[1]	93.9	79.2

[1] Antalya included until September 30, 2005.

Interests acquired and new companies established

Fraport Real Estate Verwaltungs GmbH

On March 23, 2005, Fraport AG established the wholly owned subsidiary Fraport Real Estate Verwaltungs GmbH, Flörsheim am Main. The company was provided with ordinary capital of € 25,000 and included in the consolidated financial statements with the legal establishment on June 30, 2005. The purpose of the company is the acquisition of shareholdings, as well as the assumption of management and personal liability of trading companies.

Fraport Immobilienservice und -entwicklungs GmbH & Co. KG

On June 2, 2005, Fraport AG and Fraport Real Estate Verwaltungs GmbH established Fraport Immobilienservice und -entwicklungs GmbH & Co. KG, Flörsheim am Main. The capital payment amounting to € 225,000 was paid in full by Fraport AG. The company was initially included in the consolidated financial statements on June 30, 2005. The company was set up for the acquisition, support, development and marketing of its own or third-party commercial and private real estate within and outside Frankfurt Airport, the provision of services in connection with the relocation of the Rhine-Main Airbase Frankfurt, and the associated subsidiary business transactions for purposes of use and exploiting (rental/leasing/sale) of company assets.

Fraport Objekte 162 163 GmbH

On November 25, 2005, Fraport Immobilienservice und -entwicklungs GmbH & Co. KG established as sole shareholder the company Fraport Objekte 162 163 GmbH, Flörsheim am Main. The purpose of the company is the acquisition of shareholdings, as well as the assumption of management and personal liability of trading companies. The acquisition costs correspond to the paid-in shareholders' equity of € 25,000. The company was included in the Fraport consolidated financial statements on December 31, 2005.

Fraport Real Estate 162 163 GmbH & Co. KG

On December 6, 2005, Fraport Objekte 162 163 GmbH (personally liable partner) and Fraport Immobilienservice und -entwicklungs GmbH & Co. KG (partner), established the company Fraport Real Estate Objekte 162 163 GmbH & Co. KG, Flörsheim am Main. The capital contribution amounting to € 25,000 was provided solely by the partner. The company was established for purposes of acquisition, setting up, disposal, management, rental, and leasing of real estate held directly or indirectly, in particular the buildings 162 and 163 at Frankfurt Airport, Frankfurt am Main, and the active management of the in-house real estate portfolio. The acquisition costs correspond to the capital provided by the partner. The company was included in the Fraport consolidated financial statements on December 31, 2005.

Fraport Objekt Mönchhof GmbH

On November 25, 2005, Fraport Immobilienservice und -entwicklungs GmbH & Co. KG established the company Fraport Objekt Mönchhof GmbH, Flörsheim am Main, as the sole shareholder. The purpose of the company is the acquisition of shareholdings, as well as the assumption of management and personal liability of trading companies. The acquisition costs correspond to the paid-in capital amounting to € 25,000. The company was included in the Fraport consolidated financial statements on December 31, 2005.

Fraport Real Estate Mönchhof GmbH & Co. KG

On December 10, 2005, Fraport Objekt Mönchhof GmbH (personally liable partner) and Fraport Immobilienservice und -entwicklungs GmbH & Co. KG (partner), established the company Fraport Real Estate Mönchhof GmbH & Co. KG, Flörsheim am Main. The capital contribution amounting to € 25,000 was provided solely by the partner. The company was established for purposes of acquisition, setting up, disposal, management, rental, and leasing of real estate held directly or indirectly, in particular plots of land on the Mönchhof site in the districts of Raunheim and Kelsterbach, and the active management of the in-house real estate portfolio. The acquisition costs correspond to the capital provided by the partner. The company was included in the Fraport consolidated financial statements on December 31, 2005.

Fraport Malta Ltd.

On November 24, 2005, Fraport AG and Airport Assekuranz Vermittlungs-GmbH (AAV) established Gesellschaft Fraport Malta Ltd., Pieta (Malta). Fraport AG has 1,499 shares and AAV has 1 share in the shareholders' equity of the company amounting to nominally € 1,500. The company was set up for purposes of the acquisition, setting up, management and financial structuring of shareholdings. The company was included in the consolidated financial statements on December 31, 2005.

Fraport Malta Business Services Ltd.

On November 25, 2005, Fraport Malta Ltd. and Airport Assekuranz Vermittlungs-GmbH (AAV) established the company Fraport Malta Business Services Ltd., Pieta (Malta). Fraport Malta Ltd. has 1,499 shares and AAV has 1 share in the shareholder's equity of the company amounting to nominally € 1,500. The purpose of the new company is financial structuring of shareholdings. The company was included in the consolidated financial statements on December 31, 2005.

New Age Aviation Security US Inc.

On January 1, 2005, the company acquired the company New Age Aviation Security US Inc., Virginia (USA), as a subsidiary of ICTS Europe. The acquisition costs amounting to US-$ 73,500 (around € 54,000) correspond to the 75% of the shares acquired. The company was included in the ICTS sub-group on January 1, 2005. Goodwill amounting to € 0.1 million was transferred when the company merger was initially reported. The company provides advisory and training services in the area of security.

Company group Underwater Security Consultants Ltd.

At the beginning of the year, ICTS Europe Holdings B.V. purchased 50.1% of the shares in Underwater Security Consultants Ltd., London (Great Britain). Underwater Security Consultants Ltd. is a group of companies including the following consolidated companies: Underwater Security Consultants Nigeria Ltd., Port Harcourt Rivers State (Nigeria), Maritime and Underwater Security Consultants Singapore Pte Ltd., (Singapore), Maritime and Underwater Security Consultants Hellas Ltd., Piraeus (Greece), Maritime and Underwater Security Consultants USA LLC, Houston Texas (USA), GuardOne (UK) Ltd., London (Great Britain), Global Marine Cable Systems Ltd. Nigeria, Port Harcourt Rivers State (Nigeria), Wellington Offshore Ltd., London (Great Britain), MUSC Krogius Ltd, Tallinn (Estonia).

The group of companies is active in the area of maritime consulting. The advisory services relate in particular to the areas of maritime safety, marine insurance, laying underwater cables in shallow water areas, preparation of training manuals and security plans for ships and harbor areas. The acquisition costs of Underwater Security Consultants Ltd., London, amounted to GBP 1.8 million (around € 2.5 million). The group of companies was first-time consolidated at the time of acquisition, on January 1, 2005. Goodwill amounting to € 2.0 million was recognized when the company merger was initially reported.

Diag-Nose Israel Ltd.

The company Diag-Nose Israel Ltd., Lod (Israel), was established as a wholly-owned subsidiary of ICTS Europe on February 6, 2005 and included in the ICTS sub-group on March 31, 2005. The acquisition costs amounted to around € 18,000. The company is active in the area of security services.

ICTS Albania SH.P.K.

On March 19, 2005 ICTS Europe established the wholly-owned subsidiary ICTS Albania SH.P.K Tirana (Albania). The company was first included in the ICTS sub-group on March 31, 2005. The acquisition costs of the shareholders' equity, which was taken over in full, amounted to some € 32,000. The company provides surveillance and security services.

Security Partners Ltd.

On April 1, 2005, ICTS Europe acquired 100% of the shares in Security Partners Ltd., Moscow (Russia). The company was initially included in the ICTS sub-group on June 30, 2005. The acquisition costs amount to less than € 1,000. The company is active in the area of security services.

Security Partners Ozel Guvenlik, Koruma, Egitim ve Danismanlik Hizmetleri A.S.

On November 9, 2005, ICTS Europe established the wholly-owned subsidiary Security Partners Ozel Guvenlik, Koruma, Egitim ve Danismanlik Hizmetleri A.S., Antalya (Turkey). It was initially included in the ICTS sub-group on December 31, 2005. The acquisition costs of the shareholders' equity, which was taken over in full, amounted to some € 63,000. The company provides surveillance and security services.

Tradeport Hong Kong Ltd.

Tradeport Hong Kong Ltd. relates to a shareholding in Pantares Tradeport Asia Ltd., Hong Kong, in which Fraport AG is indirectly involved through a holding of 18.75%. The company was also reported in the Fraport Group as an investment in associates accounted for using the equity method on the basis of the first-time at-equity consolidation of Tradeport Hong Kong Ltd. in the financial statements of Pantares Tradeport on December 31, 2005.

Antalya

On July 26, 2005, the agreement relating to the acquisition of the residual 50% of the shares in Antalya was concluded between Fraport AG and Bayindir Insaat Turizm Ticaret ve Sanayi A.S. Acquisition of the shareholding is subject to the consent of the responsible Turkish committees and authorities. On October 1, 2005, Fraport AG took over full control of the company and included it in the Fraport Group. The acquisition price of the purchased shares was € 12.6 million.

Further changes

On March 17, 2005, Fraport AG and gedas deutschland GmbH, Berlin, established the company gedas operational services GmbH & Co. KG, Frankfurt am Main. The two partners each purchased 50% of the shares amounting to nominally € 125,000 in the company. gedas deutschland GmbH is responsible for managing the company. The company is responsible for operating the computer centre, the service desk and the network at Frankfurt Airport. Shares in the trading partnerships are reported in accordance with IAS 32 as a financial instrument.

At the extraordinary meeting of shareholders of Flughafen Frankfurt-Hahn GmbH, Lautzenhausen, on March 30, 2005, it was agreed that the state of Hesse should become a shareholder of Flughafen Frankfurt-Hahn GmbH. Within the scope of the shareholding of the state of Hesse, the ordinary capital of the company was increased to € 50.0 million. Fraport AG now has a 65% shareholding in the capital of Flughafen Frankfurt-Hahn GmbH. The states of Rhineland Palatinate and Hesse each have a 17.5% shareholding.

On January 1, 2005, the wholly-owned subsidiary of Fraport AG, VAS Flughafen Bodenverkehrsdienste GmbH, Vienna, was renamed Fraport Ground Services Austria GmbH, Vienna.

(4) Consolidation policies

Consolidation of subsidiaries and interests in joint ventures was carried out by the purchase method. In this context, the acquisition costs of shares in subsidiaries and joint ventures is offset against the carrying amount – measured in accordance with IFRS – of the relevant proportion of the shareholders' equity of the subsidiary or joint venture. Any differences are capitalized in assets of the companies included to the extent that they are measured lower than the fair value in relation to the Group interest. Any remaining differences are capitalized as goodwill. In fiscal 2004, goodwill was amortized over the useful life as scheduled for the last time. If impairment has occurred, write-downs are made to the recoverable amount.

The assets, liabilities and shareholders' equity (after consolidation) and the income and expense items of joint ventures using the proportionate consolidation are included in the consolidated financial statements with our proportion of the shares.

Initial measurement of associates is carried out at the time of acquisition, similar to the consolidation of subsidiaries and joint ventures. Later changes in the shareholders' equity of the associates and adjustment of the difference from the initial measurement change the at equity amount.

Intercompany profits and losses on deliveries between companies included in the consolidated financial statements are minimal. Elimination of them had only an insignificant impact on the asset situation and profitability of the Group.

Loans, receivables and liabilities, contingent liabilities and other financial commitments between companies included in the consolidated financial statements, internal expenses and income as well as income from Group investments are eliminated.

To the extent that there are temporary differences between the IFRS Group figure and the value indicated in the tax balance sheet due to values calculated in accordance with IFRS or due to consolidation methods used, deferred tax assets or liabilities are recognized or included in liabilities according to the liability method (IAS 12).

We refer to the statements in note 5 for changes in consolidation and accounting policies based on the new IFRS regulations.

Foreign currency translation

Annual financial statements of companies outside Germany denominated in foreign currencies are translated on the basis of the functional currency concept in accordance with IAS 21. A distinction has to be made in this context between economically independent and economically dependent companies.

The assets and liabilities of the companies consolidated are translated at the exchange rate on the balance sheet date, whereas the expenses and income are translated at average exchange rates for the year, since the companies are financially, economically and organizationally independent. Foreign currency translation differences are included directly in shareholders' equity.

The following exchange rates were used for currency translation purposes:

Unit/currency in €	Exchange rate on the Balance sheet date Dec. 31, 2004	Average exchange rate in 2004	Exchange rate on the balance sheet date Dec. 31, 2005	Average exchange rate in 2005
1 Turkish lira (TRY); In the previous year 1,000,000 Turkish lira (TRL)	0.5467	–	0.6299	–
100 Philippine pesos (PHP)	1.3071	1.4342	1.5944	1.4869
1 US dollar (USD)	0.7342	0.8043	0.8477	0.8380
1 Swedish crown (SEK)	0.1109	0.1096	0.1065	0.1077
1 pound sterling (GBP)	1.4108	1.4738	1.4592	1.4624
1 Hong Kong dollar (HKD)	0.0944	0.1033	0.1093	0.1033
1 new sol (PEN)	0.2233	0.2357	0.2465	0.2439
1 Swiss franc (CHF)	0.6477	0.6477	0.6430	0.6459
1 Norwegian crown (NOK)	0.1213	0.1195	0.1252	0.1249
1 yuan renminbi (CNY)	0.0884	0.0970	0.1050	0.0980

Financial reporting in hyperinflationary economies

The principles for financial reporting in hyperinflationary economies (IAS 29) have been applied for our joint venture in Antalya, Turkey. The criteria for classification of Turkey as a hyperinflationary economy were fulfilled in the year under review. The Antalya financial statements have been remeasured in accordance with the historical cost approach. The price index used as the basis (Turkish countrywide wholesale price index "WPI") amounted to 8,785.7 on December 31, 2005 (on December 31, 2004: 8,403.8) and the relevant conversion factor was 1.0454 (previous year: 1.1384). The Antalya financial statements have been translated at the exchange rates on the balance sheet date in the consolidated balance sheet and the consolidated income statement. The profit or loss from the balance of the monetary items is included in the interest results.

(5) Accounting policies

Consistent account and measurement policies

The financial statements of the Fraport Group are based on accounting and measurement policies that are applied consistently throughout the Group.

Realization of income and expenses

Revenue and other income are included in accordance with IAS 18, when the service has been provided, when it is probable that an economic benefit will be received and when this benefit can be quantified reliably. Income and expenses from the same transactions and/or events are included in the same period.

Goodwill

Goodwill is measured at its cost at the acquisition date (IFRS 3). After initial recognition, goodwill is measured at acquisition costs less any accumulated impairment losses. To this end, all goodwill items are therefore reviewed for impairments once a year in accordance with IAS 36.80-99.

Intangible assets

Intangible assets (IAS 38) are capitalized at acquisition costs and are amortized over their useful life by the straight-line method. Borrowing costs are recognized directly as an expense (IAS 23).

Property, plant and equipment
Property, plant and equipment (IAS 16) are initially measured at cost and subsequently at its cost less any accumulated depreciation and any accumulated impairment losses. The production costs essentially include all costs that can be allocated directly. Borrowing costs are recognized directly as an expense (IAS 23).

Each element of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item are recognized and depreciated.

Government grants related to assets are included in liabilities and are released by the straight-line method over the useful life of the asset for which the grant has been made. Grants related to income are included as other operating income (IAS 20).

Investment property
Investment property (IAS 40) is measured at the acquisition value or cost of construction. The cost model is applied for the subsequent measurement of the investment real estate.

Impairment
An impairment loss is recognized with respect to assets on the balance sheet date when the recoverable amount of the asset has decreased to below the carrying amount. The recoverable amount is defined as the higher of the net selling price and the value in use. The value in use is the present value of the estimated future cash flows of funds from the use and subsequent disposal of the asset.

Since it is not generally possible at Fraport AG to allocate cash flows to individual assets, what are known as cash-generating units are recognized. A cash-generating unit is defined as the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Formation of the cash-generating units at Fraport AG is based fundamentally on the segment structure. The Group companies and investments accounted for using the equity method allocated to the segments each form an independent cash-generating unit.

Finance lease
Economic ownership of leased assets is attributed to the lessee according to IAS 17 if the lessee has substantially all the risks and rewards incidental to ownership of leased assets. If economic ownership can be attributed to the Fraport Group as lessee, capitalization is carried out at the time when the contract is concluded with the present value of the leasing payments plus any incidental costs that are paid. The asset is depreciated over its useful life or the lease term, if this is shorter. If economic ownership cannot be attributed to the Fraport Group as lessor, a receivable equivalent to the present value of the leasing payments is included.

Investments accounted for using the equity method
Investments accounted for using the equity method are included in the accounts with the relevant proportion of the shareholders' equity plus goodwill.

Other financial assets
The other financial assets include securities in non-current assets, loans and other investments. Other financial assets are capitalized at acquisition costs on the date when the asset is created or transferred. Long-term low-interest or interest-free loans are included at their present value.

The loans are measured at amortized costs on the balance sheet date. Financial assets that are held for sale are measured at fair value. However, if the latter cannot be determined reliably, these assets are measured at their acquisition cost, too. Changes in value are initially included in shareholders' equity in the fiscal year (IAS 39).

Inventories
Inventories are measured at cost on the basis of the weighted average cost formula. The manufacturing costs include direct costs and appropriate production overheads. If necessary, the inventories are measured at the lower net realizable value. If a write-down made in previous periods is no longer necessary, the write-down is reversed (IAS 2).

Receivables and other assets
Receivables and other assets are initially measured with their acquisition costs on the date when economic ownership starts or is transferred. Long-term low-interest or interest-free receivables are posted with their present value at the time when they are issued or acquired.

In subsequent measurement, the receivables and other assets are measured at amortized costs, provided they are not kept for trading purposes. Write-downs that are necessary in view of the probable risk of default are made. Receivables in foreign currencies are translated at the exchange rate on the balance sheet date.

In the case of financial instruments, such as trade accounts receivable and other current assets, the fair value is not specified if the carrying amount is a reasonable approximate value for the fair value.

Cash and cash equivalents
This item is included at updated acquisition costs. Amounts in foreign currencies are translated at the exchange rate on the balance sheet date.

Shareholders' equity instruments
Treasury shares that are bought back are deducted from the subscribed capital and the capital reserves (IAS 32).

Deferred taxes
We determine deferred taxes by the liability method (IAS 12). According to this method, deferred tax assets or liabilities items are recognized for all taxable temporary differences between the IFRS values and the tax values, provided they cancel each other out in the course of time (temporary differences). If assets in IFRS accounts are measured more highly than in the tax balance sheet (non-current assets depreciated by the straight-line method, for example) and if temporary differences are involved, a deferred tax liability item is recognized. Deferred tax assets from balance sheet differences and benefits from the future use of tax losses carried forward are capitalized under IFRS rules, provided it is probable that taxable earnings will be generated in future.

Deferred taxes are measured on the basis of the current and/or announced tax rate of the country in question. A combined income tax rate of 40% has been applied in Germany, which is made up of the corporation tax rate plus solidarity surcharge and trade income tax.

Claims to corporation tax credits due to the appropriation of profits are not recognized until the year in which the profits are distributed in accordance with IAS 12. In view of the current moratorium in Germany, no corporation tax credits due to distribution can be recognized up to and including 2005.

Provisions for pensions and similar obligations
The provisions for pensions have been calculated in accordance with IAS 19, applying actuarial methods and a discount rate of 4.0% p.a. (previous year: 4.9% p.a.). The calculations did not include salary increases for the active members of the Executive Board. As far as former members of the Executive Board are concerned, pension increase assumptions are based on German legislation about the adjustment of salary and pension payments by the federal and state governments for 2003/2004 (BBVAnpG). The calculation of pension was initially based on the new 2005 mortality tables of Professor K. Heubeck.

Tax liabilities
Tax liabilities are recognized according to the risks anticipated.

Other provisions and accruals
Other provisions and accruals are recognized according to the amount to be paid. They are included to the extent that there is a current commitment to third parties. It is also required that they are the result of a past event and that an outflow of resources is more likely than not to be needed to meet the commitment (IAS 37).

Provisions for internal costs are not recognized.

Long-term provisions which are not due to be settled within twelve months after the balance sheet date are discounted to their present value at a capital market interest rate that is adequate in view of the term involved, taking future cost increases into account, provided that the effect of the time value of money is material.

Liabilities
Liabilities are included with the amount of the payment goods or service received. Subsequent measurement is at amortized costs. Liabilities in foreign currencies are translated at the exchange rate on the balance sheet date.

Finance lease liabilities are stated at the present value of the leasing payments.

In the case of financial instruments, such as trade accounts payable, the fair value is not specified if the carrying amount is a reasonable approximate value for the fair value.

Derivative financial instruments, hedging transactions
Fraport AG only uses derivative financial instruments to hedge existing and future interest and exchange rate risks. Derivative financial instruments with positive or negative fair values are measured at the fair value in accordance with IAS 39. Whereas changes in the value of fair value hedges are included in income, the changes in the value of cash flow hedges are included directly in a separate shareholders’ equity item. Corresponding to this, deferred taxes on the fair values of cash flow hedges are also included directly in shareholders’ equity.

Share options
The options issued on Fraport AG’s shares in connection with the restricted authorized capital have been reported and measured in accordance with IFRS 2 since January 1, 2005. The valuation of the share-based payments is based on fair value. The adjustment of the opening balance-sheet value for provisions amounts with no effect on income is around € 1.4 million. Fraport refrained from adjusting the comparative information in the income statement for reasons of materiality. Application of IFRS 2 resulted in a burden on earnings of € 1.2 million on December 31, 2005.

New standards
In December 2003, the IASB published the following modified standards within the framework of its project to improve the IFRS: IAS 1 (Presentation of Financial Statements), IAS 2 (Inventories), IAS 8 (Accounting Policies, Changes in Accounting Estimates and Errors), IAS 10 (Events After the Balance Sheet Date), IAS 16 (Property, Plant and Equipment), IAS 17 (Leases), IAS 21 (The Effects of Changes in Foreign Exchange Rates), IAS 24 (Related Party Disclosures), IAS 27 (Consolidated and Separate Financial Statements), IAS 28 (Investments in Associates), IAS 31 (Interest in Joint Ventures), IAS 33 (Earnings per Share) and IAS 40 (Investment Property). The revised standards replace the earlier versions of these standards and apply for fiscal years that begin on or after January 1 2005. Application of the revised standards does not have any major impact on the asset, financial and earnings situation of the Fraport Group.

The revised version of IAS 1 leads to a change in the structure of the consolidated balance sheet and consolidated income statement. In the consolidated income statement, there has been a change in the presentation of the Group profit for the year and the period; it now has to be shown a profit or loss attributable to minority interests.

From now on, the consolidated balance sheet will be classified in current and non-current assets and liabilities. Assets and liabilities are classified as current when the remaining term is less than one year or they are realized (or intended for sale or consumption) within the normal operating cycle.

Goodwill, other intangible assets and investment property are reported separately in the balance sheet under non-current assets. Trade accounts receivable and payable are always reported as current assets/liabilities. Pension obligations are shown under non-current liabilities in accordance with their character. Deferred taxes are classified as non-current in the balance sheet.

In December 2003, the IASB published the revised standards IAS 32 (Financial Instruments: Disclosure and Presentation) and IAS 39 (Financial Instruments: Recognition and Measurement). These standards replace IAS 32 (in the revised version of 2000) and IAS 39 (in the revised version of 2000) and apply in this form for fiscal years that begin on or after January 1, 2005. Application of the revised standards does not have any major impact on the asset, financial and earnings situation of the Fraport Group.

In February 2004, the IASB published the IFRS 2 (Share-based Payment). This standard covers accounting for such share-based payments systems as the granting of stock options to employees. IFRS 2 specifies the accounting and valuation principles for the share-based payments and commits companies to include the financial effects of such share-based payments – including expenditure on transactions in which stock options are granted to employees – in their income statement. IFRS 2 applies for fiscal years that begin on or after January 1, 2005 and must be applied retroactively. The effect of € 1.4 million relating to the previous year is included in the balance carried forward to revenue reserves.

In March 2004, the IASB issued IFRS 3 (Business Combinations). IFRS 3 specifies the method of accounting for business combinations at the acquisition date. All identifiable assets, liabilities, and contingent liabilities must be included in the financial statements with their market value (fair value) at the time of acquisition. Scheduled amortization of goodwill is no longer allowed; instead of this, goodwill must be subjected to an impairment test at least once a year.

The previous scheduled period amortization period for goodwill corresponded to the best possible estimate of the period in which the future economic benefit will be received. The useful life was between 8 and 15 years.

Since March 31, 2004, Fraport has applied IFRS 3 in connection with the latest versions of IAS 36 (Impairment of Assets) and IAS 38 (Intangible Assets) to business combinations with a contract date after this time. Since January 1, 2005, goodwill and intangible assets that were acquired before March 31, 2004 in the context of a business combination have been included in the financial statements accordingly.

The suspension of scheduled amortization of goodwill in fiscal 2005 increased earnings by € 16.3 million.

The standards IFRS 4 and 5 were also published in March 2004. Application of them does not have any major impact on the asset, financial and earnings situation of the Fraport Group.

In March 2004, the IASB published an amendment to IAS 39 (Financial Instruments: Recognition and Measurement). The amendment simplifies implementation of IAS 39 by specifying less strict conditions than in the past for companies to take advantage of the possibilities of hedge accounting in financial statements to provide portfolio protection against the risk of changes in interest rates. The changes to this standard apply for fiscal years that begin on or after January 1, 2005. Application of the standard does not have any major impact on the asset, financial and earnings situation of the Fraport Group.

In May 2004, the International Financial Reporting Interpretations Committee (IFRIC) published the IFRIC Interpretation 1 (Changes in Existing Decommissioning, Restoration and Similar Liabilities). IFRIC 1 applies for fiscal years that begin on or after September 1, 2004. Application of the interpretation does not have any major impact on the asset, financial and earnings situation of the Fraport Group.

In December 2004, the IASB initially published a limited amendment to the standard IAS 39 (Financial Instruments: Recognition and Measurement) concerning the statement of financial assets and liabilities. The amendment includes a transitional arrangement for the retroactive application of the rules for day one profit recognition. In contrast to the earlier version of IAS 39 (from March 31, 2004), the amended standard gives companies an option that facilitates the switch to day one profit recognition and reconciles the IASB standards to the US GAAP rules. The changes apply for fiscal years that begin on or after January 1, 2005 as well as for previous fiscal years if IAS 39 and IAS 32 (the versions March 31, 2004 in both cases) have been applied in these fiscal years. Application of the standards does not have any major impact on the asset, financial and earnings situation of the Fraport Group.

In November 2004, the IFRIC published an amendment to SIC-12 (Consolidation Special Purpose Entities). This amendment includes equity compensation plans in the area covered by SIC-12. This means that a company which outsources the establishment of a share-based compensation system to a trust fund (or a comparable company) is required to consolidate this fund / company if there is the possibility of control and if IFRS 2 (Share-based Payment) is being applied. Post-employment benefit plans and all other benefit plans due to employees in the long term are no longer covered by SIC-12 in future, on the other hand. The amendment applied for fiscal years that begin on or after January 1, 2005. Observance of the amended rules does not have any major impact on the asset, financial and earnings situation of the Fraport Group at the present time.

IFRIC 2 “Members Shares in Cooperative Entities and Similar Instruments” was published on November 25, 2004. This interpretation explains how to apply IAS 32 to shares in co-operatives entities or shares in trading partnerships, i.e. whether they should be classified as shareholders’ equity or financial liabilities. IFRIC 2 applies to fiscal years that commence on or after January 1, 2005. Due to the change in recognition of minority interests in shareholder’s equity and earnings of consolidated trading partnerships, appropriate amounts were reallocated in the balance sheet as € 1.7 million (previous year: € 1.4 million) in financial liabilities, and in the income statement as € 1.1 million (previous year: € 0.8 million) in the financial result. Shares in an unconsolidated trading partnership amounting to € 0.1 million were reported under other loans.

On December 2, 2004, the IFRIC published IFRIC 4 “Determining Whether an Arrangement Contains a Lease”. This determines the conditions under which a contractual agreement, such as supplier or outsourcing agreements, should be treated as leases in accordance with IAS 17. IFRIC 4 applies to fiscal years starting on or after January 1, 2006. Earlier adoption is recommended.

On December 16, 2004, the IFRIC published IFRIC 5 “Rights to Interests Arising from Decommissioning, Restoration and Environmental Funds”. IFRIC 5 specifies how to account for expected reimbursements from interets in a fund in which the companies obliged to carry out decommissioning or restoration collect assets in order to use the assets to finance subsequent applications incurred. IFRIC 5 applies to fiscal years that begin on or after January 1, 2006. Earlier adoption is recommended.

IFRIC 6 “Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment” was published on September 1, 2005. The interpretation defines whether and at what point manufacturers of this equipment have to recognize provisions. IFRIC 6 applies to fiscal years that begin on or after December 1, 2005.

IFRIC 4 and IFRIC 5 were not yet applied in the framework of these annual financial statements. Future application of the interpretations will not have any major impact on the asset, financial, and earnings situation of the Fraport Group. IFRIC 6 is not relevant within the framework of the area of business activity of the Fraport Group.

Amendments to IAS 19 were published on December 16, 2004. The IAS introduced the option of recognizing actuarial gains and losses. Actuarial gains and losses can now be recognized outside the income statement, directly in shareholders’ equity. In the Fraport Group, actuarial gains and losses are recognized directly under expenditure in accordance with the option provided in IAS 19.92 in conjunction with IAS 19.93.

On June 30, 2005, amendments to IFRS 1 “First-time adoption of IFRS” and IFRS 6 “Exploration and Evaluation of Mineral Resources” was published. The regulations are not relevant for the Fraport Group.

On August 18, 2005 the IASB published IFRS 7 “Financial Instruments; Disclosures”. IFRS 7 replaces IAS 30 and parts of IAS 32 and redefines the disclosure requirements for financial instruments. The standard has to be applied by companies in all sectors. The reporting necessary depends on the intensity of use of financial instruments and the contribution they make to risk. IFRS 7 comes into force for fiscal years that start on or after January 1, 2007. Earlier adoption is recommended. We have not yet applied IFRS 7 in the framework of these annual financial statements.

IASB adopted the following changes to IAS 39 during the course of 2005: “Currency Risk of Intragroup Transactions” on April 14, “Fair Value Option” on June 16, and “Financial Guarantees” on August 18. The amendments of August 18 relate to IAS 39 and IFRS 4 and provide for obligations relating to financial guarantees to be recognized under liabilities in the balance sheet of the liable company. The amendments to IAS 39 come into force for fiscal years that start on or after January 1, 2006. Earlier adoption is recommended. We have not yet applied the amendments in the framework of these annual financial statements. Application of the amended standard does not have any major impact on the asset, financial and earnings situation of the Fraport Group.

Explanatory notes about the consolidated income statement

(6) Revenue

€ million	2004	2005
Aviation		
Airport fees	491.1	525.6
Security services	115.2	141.1
Other revenue	19.9	22.2
	626.2	**688.9**
Retail & Properties		
Real estate	173.4	157.0
Retail	113.3	117.9
Parking	49.0	53.2
Other revenue	38.2	45.9
	373.9	**374.0**
Ground Handling		
Ground handling services	414.5	428.4
Infrastructure fees	183.8	192.3
Other revenue	9.8	11.4
	608.1	**632.1**
External Activities	**389.9**	**394.8**
	1,998.1	**2,089.8**

Further explanatory notes can be found in segment reporting (note 43).

The segment Retail & Properties includes proceeds from operating leases. The sum of contingent rental payments reported in the fiscal year amounts to € 101.3 million.

The operating leases mainly relate to the leasing of buildings and land. The term of the building lease contracts ends in 2009. Purchase options were not agreed. The residual term of partial leasehold rights is 49 years on average. There are no purchase options here.

The gross carrying amount of the leased buildings and land amounts to € 250.3 million. Accumulated depreciation amounting to € 193.9 million was carried out and the depreciation charges amounted to € 5.6 million for the fiscal year.

The total of future minimum lease payments arising from non-terminable leases is as follows:

	Remaining term			
€ million	< 1 year	1–5 years	> 5 years	**2005**
Minimum lease payments	71.2	141.0	487.8	700.0

(7) Change in finished goods and work-in-process

€ million	**2004**	**2005**
Change in finished goods and work-in-process	0.0	0.1

(8) Other internal work capitalized

€ million	**2004**	**2005**
Other internal work capitalized	21.8	20.6

The other internal work capitalized relates primarily to engineering, planning, construction and associated services. The other internal work capitalized at Fraport AG was incurred essentially in connection with the extension, remodeling and modernization of the terminal buildings and their fire protection systems. Other internal work also related to the expansion program, the expansion of the airport infrastructure and the optimization of the aircraft movement operations.

(9) Other operating income

€ million	2004	2005
Release of provisions and accruals	5.0	9.9
Gains from disposals of items in non-current assets (excluding financial assets)	3.0	2.3
Release of special items for investment grants	2.0	2.2
Release of write-downs	0.2	0.3
Income from compensation payments	1.3	2.9
Gains from disposals of financial assets	0.0	0.4
Other income relating to previous years	2.6	1.2
Other items	9.7	12.0
	23.8	**31.2**

(10) Cost of materials

€ million	2004	2005
Cost of raw materials, consumables, supplies and purchased merchandise	–72.2	–75.8
Cost of services	–244.0	–257.8
	–316.2	**–333.6**

(11) Personnel expenses and number of employees

€ million	2004	2005
Wages and salaries	–787.9	–835.2
Social security and welfare expenses	–152.9	–160.7
Pension expenses	–33.7	–36.6
	–974.5	**–1,032.5**

€ 38.3 million of the increase in personnel expenses relate to ICTS, which expanded its business in the security services field. On a yearly average basis, the companies in the ICTS Group deployed 1,246 more employees. The personnel expenses at Fraport AG were € 8.5 million higher than in the previous year. On October 1, 2005, the new Collective Agreement for Public Service Employees came into force. The new collective agreement no longer distinguishes between blue-collar and white-collar workers. The previous wage and salary tables have been replaced by a uniform payment table.

The transfers to pension provisions, part-time early retirement obligations and transfers to obligations arising from time-account models are included in personnel expenses. The proportion of the transfers to pension provisions accounted for by interest is included in the personnel expenses. Employer's contributions to statutory pension insurance are included in social-security deductions.

Average number of employees	2004	2005
Permanent staff	23,504	25,007
Temporary staff (interns, students)	678	774
	24,182	25,781

The average number of staff employed during the fiscal year (excluding apprentices) was 25,410 at the consolidated companies (previous year: 23,819) and 371 (previous year: 363) at the companies using the proportionate consolidation.

(12) Depreciation and amortization of tangible and intangible non-current assets and investment property

	2004	2005
Depreciation and amortization of tangible and intangible non-current assets and investment property	–235.1	–235.9

Depreciation

Depreciation is determined by the straight-line method on the basis of the following useful lives, which apply throughout the Group:

	years
Other intangible assets	3–25 years
Buildings, etc.	5–70 years
Technical equipment and machinery	3–33 years
Operating and office equipment	4–25 years
Investment property	3–30 years

Scheduled depreciation includes investment property amounting to € 0.8 million.

Impairment losses

The depreciation includes impairment losses of € 10.5 million for goodwill (previous year: € 5.9 million) and of € 10.0 million for investment property in accordance with IAS 36. In the previous year, impairment write-downs of € 14.6 million were included for property, plant and equipment.

Asset valuations reflect future income expectations. The recoverable amount corresponds to the value in use or the net selling price. Only the value in use was applied in the reporting year. Determination of the future cash flow is based on the medium-term planning figures. Basically that the planning period covers six years; irredeemables are generally calculated using the unchanged planning figures for the sixth period. A growth rate (between 0.0% and 1.5%) based on the planning assumptions is taken into account in the irredeemable. The discounting factor includes the weighted average cost of capital (WACC). Discounting rates after tax of 6.2% to 12.1% were used in the fiscal year.

The impairment of investment property relate to buildings and infrastructure allocated to them in the Retail & Properties segment. Further information about impairment write-downs on goodwill can be found in note 22.

(13) Other operating expenses

€ million	2004	2005
Rental and leasing expenses	–42.1	–34.9
Consulting, legal and auditing expenses	–24.9	–28.1
Insurance premiums	–23.9	–23.4
Advertising costs	–17.2	–16.4
Demolition costs	–4.5	0.0
Losses from disposals of items in non-current assets	–5.3	–7.4
Write-downs for trade accounts receivable	–3.3	–6.8
Other items	–115.6	–111.1
(of which relating to different accounting periods)	(–1.5)	(–1.1)
	–236.8	**–228.1**

The consultancy, legal and audit expenses include fees for the auditor amounting to € 2.3 million. They are comprised as follows:

€ million	Fraport AG	Consolidated companies
Audit	0.8	1.0
Other certification or valuation services	0.2	0.1
Tax advisory services	–	–
Other services	0.2	
	1.2	**1.1**

(14) Interest result

€ million	2004	2005
Other interest and similar income	19.9	17.0
Interest and similar expenses	–43.0	–40.1
	–23.1	**–23.1**

The interest expenses include a loss of € 3.8 million in the net monetary position of the monetary items in hyperinflationary economies (previous year: € 3.7 million).

(15) Results of investments accounted for using the equity method

The results from investments accounted for using the equity method can be broken down as follows:

€ million	2004	2005
Hanover Airport	1.0	2.0
LAP	1.8	2.2
Portway	–2.5	2.7
ACF	0.2	0.1
ASG	1.3	1.2
	1.8	**8.2**

The reversed impairment loss of € 2.7 million accounts to Portway. The company was reclassified under non-current assets held for sale in the light of the intention to dispose off the company.

The consolidation of Hanover Airport using the equity method of accounting was based on financial statements prepared in accordance with IFRS.

(16) Income from investments

The income from investments can be broken down as follows:

€ million	2004	2005
30% dividend rights/Antalya	8.0	0.0
Ineuropa Handling UTE	5.7	6.3
	13.7	**6.3**

(17) Impairment write-downs of financial assets

The impairment write-downs of financial assets relate to the following companies:

€ million	2004	2005
Tradeport Hong Kong Ltd. (loan)	–3.3	0.0
Hessische Flugplatz GmbH Egelsbach (loan)	–1.4	–1.3
ZIV – Zentrum für integrierte Verkehrssysteme GmbH (shares and loans)	–1.2	0.0
	–5.9	**–1.3**

(18) Other financial results

The other financial results can be broken down as follows:

€ million	2004	2005
Income		
Income from securities and loans	1.5	4.2
Foreign currency gains, unrealized	2.8	0.1
Foreign currency gains, realized	0.7	0.4
	5.0	**4.7**
Expenses		
Foreign currency losses, unrealized	–3.1	–8.1
Foreign currency losses, realized	–0.7	–1.1
Valuation of derivatives	–0.4	–0.5
Interests of minority shareholders in GCS	–0.8	–1.1
Fair valuation for securities of financial assets	–	–5.2
Risks associated with the investments (Air-Transport IT)	–2.5	0.0
	–7.5	**–16.0**
Other financial results total	**–2.5**	**–11.3**

The interests of minority shareholders in GCS were treated as a financial instrument on account of changed accounting methods of IAS 32 for trading partnerships. Minority interests in the result of GCS were reported under other financial results. The figures for the previous year were adjusted correspondingly in the amount of € 0.8 million.

(19) Taxes on income

The expenses incurred due to taxes on income can be broken down as follows:

€ million	2004	2005
Current taxes on income	–139.3	–143.6
Deferred taxes on income	18.4	19.7
	–120.9	**–123.9**

The tax expenses include the corporation and trade income taxes of the companies in Germany as well as comparable taxes on income at the companies outside Germany.

The deferred taxes result from temporary differences between assets and liabilities in the tax balance sheets of the companies and their values in the consolidated balance sheet, based on the liability method.

Deferred taxes are set up on all temporary differences between amounts recorded in the tax balance sheet and the IFRS balance sheet as well as on tax losses carried forward which will probably be used to offset against future taxable profits.

Deferred tax items result from consolidation adjustments, too. In accordance with IAS 12, however, no deferred taxes are calculated on goodwill.

The deferred taxes in the balance sheet relate to the following items:

€ million	2004 Assets	2004 Liabilities & equity	2005 Assets	2005 Liabilities & equity
Property, plant and equipment	1.3	–146.1	4.3	–142.0
Financial assets	0.5	–0.1	13.2	–
Inventories	–	–	–	–
Receivables and other assets	–	–0.1	1.2	–
Prepaid expenses	0.4	–	–	–3.6
Pension provisions	2.3	–	0.6	–
Other provisions and accruals	26.5	–	11.8	–
Liabilities	4.7	–10.0	13.7	–7.4
Other balance sheet items	2.0	–7.3	5.9	–3.4
Losses carried forward	1.8	–	2.5	–
Total individual financial statements	**39.5**	**–163.6**	**53.2**	**–156.4**
Offset	–34.0	34.0	–44.6	44.6
Consolidation adjustments	7.9	–0.2	10.7	–0.4
Consolidated balance sheet	**13.4**	**–129.8**	**19.3**	**–112.2**

Deferred taxes arising from tax losses carried forward amounting to € 1.2 million (previous year: € 0.0 million) are not recognized. The deferred tax items include deferred tax assets of € 4.6 million (previous year: € 1.7 million) relating to negative fair values of derivative financial instruments. The change of € 2.9 million from the previous year's figure has been treated with no effect on income, corresponding to the change in the market values.

The following reconciliation calculation shows the relationship between expected tax expenses and tax expenses in the income statement:

€ million	2004	2005
Result before taxes on income	258.5	285.4
Trade tax on income in Germany	–54.9	–62.5
Result after trade tax on income	**203.6**	**222.9**
Expected tax on income/expenses *	–53.8	–58.8
Tax effects of differences in tax rates outside Germany	–2.8	–2.3
Taxes on non-deductible expenses	–1.1	–1.1
Permanent differences, including non-deductible tax audit provisions	–13.7	–12.8
Tax effect of consolidation adjustments that affect earnings	–6.3	–4.6
Tax effect of tax-free income and taxable income of previous years	12.2	19.0
Other items	–0.5	–0.8
Trade tax on income in Germany	–54.9	–62.5
Taxes on income according to the income statement	**–120.9**	**–123.9**

* Expected corporation tax on income/expenses with corporation tax of 25.0% (in the previous year: 26.5%) plus solidarity surcharge of 5.5%.

(20) Other taxes

€ million	2004	2005
Other taxes	–6.6	–5.0

The other taxes consist mainly of property taxes.

(21) Earnings per share

	2004		2005	
	basic	diluted	basic	diluted
Profit for the year in € million attributable to shareholders of Fraport AG	136.4	136.4	161.2	161.2
Weighted average number of shares	90,333,347	92,030,263	90,800,771	92,110,740
Earnings per € 10 share in €	1.51	1.48	1.78	1.75

The basic earnings per share for fiscal 2005 are calculated using the weighted average number of issued shares with a share of capital of € 10 each. Due to the capital increase as well as the acquisition and transfer of treasury shares, the number of outstanding shares during the period changed from 90,515,040 to 91,078,430 on December 31, 2005. With a weighted average number of 90,800,771 outstanding shares, the basic earnings per € 10 share amounted to € 1.78.

As a result of the rights granted to staff to buy shares (authorized capital) within the framework of a company agreement (employee investment plan) and of the issue of subscription rights in connection with the 2005 share option plan (restricted authorized capital), the diluted number of shares is 92,110,740 and the diluted earnings per € 10 share are therefore € 1.75.

Explanatory notes about the consolidated balance sheet

A breakdown and the development of the individual non-current asset items can be found in the consolidated statement of movements in non-current assets.

(22) Goodwill

The goodwill arising from consolidation is as follows:

€ million	Book value Jan. 1, 2005	Additions	Disposals	Impairment losses in accordance with IAS 36	Book value Dec. 31, 2005
ICTS	92.6				92.6
Antalya	18.5			–10.4	8.1
Media	0.3				0.3
Sub-group ICTS	4.3	2.1	–0.1	–0.1	6.2
Sub-group TCR	1.1				1.1
	116.8	**2.1**	**–0.1**	**–10.5**	**108.3**

(23) Other intangible assets

€ million	Dec. 31, 2004	Dec. 31, 2005
Other intangible assets	52.5	50.2

Acquired intangible assets are measured at costs. The costs are reduced by any accumulated amortization using the straight line method over the useful lifes of the assets concerned. Other intangible assets essentially relate to IT programs.

(24) Property, plant and equipment

€ million	Dec. 31, 2004	Dec. 31, 2005
Land, land rights and buildings, including buildings on leased property	1,705.3	1,750.6
Technical equipment and machinery	267.3	245.5
Other equipment, operating and office equipment	106.8	125.0
Construction in process	302.1	466.2
	2,381.5	**2,587.3**

Property, plant and equipment are included in the accounts with the acquisition or production costs less scheduled depreciation by the straight-line method and less any impairment write-downs that are necessary in accordance with IAS 36. Subsequent acquisition costs are capitalized. In the case of internally produced property, plant and equipment, the cost comprise of any costs directly attributable to the assets. Financing costs are not capitalized.

Individual plots are subject to registered charges amounting to € 6.3 million.

Economic ownership of leased assets is attributed to the lessee according to IAS 17 if the lessee has substantially all the risks and rewards. Assets from finance lease contracts totaling € 24.4 million (previous year: € 17.7 million) are included in the other equipment, operating and office equipment in the year under review:

€ million	2004	2005
Capitalized leasing payments at the time of acquisition	23.1	34.5
Accumulated depreciation	–5.4	–10.1
Book value at Dec. 31, 2005	**17.7**	**24.4**

Leased assets primarily relate to special vehicles with a contractual term from 2004 to 2012. At the end of the contractual term, there is a purchase option at the residual value or at an agreed fixed price.

(25) Investment property

€ million	Dec. 31, 2004	Dec. 31, 2005
Investment property	–	37.4

Investment in real estate essentially relates to land acquired for the purpose of achieving rental income. According to internal valuations, the fair value of investment property corresponds to the carrying amount at the balance sheet date. A market value report was not available on December 31, 2005.

During the course of the fiscal year, only insignificant rental income and operating expenses were incurred from leased real estate. Costs totaling € 0.6 million were expended for maintenance of unleased real estate.

(26) Investments accounted for using the equity method

€ million	Dec. 31, 2004	Dec. 31, 2005
Hanover Airport	29.3	31.2
LAP	15.5	20.2
ASG	1.5	1.4
ACF	0.5	0.7
Gateway Gardens	0.1	0.1
Tradeport Hong Kong	0.0	0.0
Portway	0.0	0.0
	46.9	53.6

The additions include not only shareholdings acquired but also positive earnings, whereas the disposals include dividends and negative earnings.

The additions consist of 18.75% of the shares in Tradeport Hong Kong Ltd. and the changes in value using the equity method.

The disposals consist essentially of the ASG dividend payment (€ 1.3 million).

Impairment write-downs of € 2.7 million have been made at Portway. The company Portway was reclassified under non-current assets held for sale on account of the intention to dispose of the company.

IFRS financial statements of consolidation of Hanover Airport using the equity method of accounting was based on financial statements in accordance with IFRS (previous year German GAAP).

Other financial information on investments in associates includes the overview of significant subsidiary companies, joint ventures and associates and the following table.

	Assets		Shareholders' equity		Liabilities		Total income		Result for the accounting period	
€ million	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005
Hanover Airport	334.4	326.4	127.3	134.4	207.1	192.0	129.5	138.5	5.0	6.7
LAP	117.7	156.1	36.2	47.2	81.5	108.9	60.8	72.1	4.3	5.1
ASG	9.3	9.5	3.2	2.9	6.1	6.6	32.1	34.0	2.7	2.4
ACF	4.1	4.0	1.3	1.6	2.8	2.4	15.8	15.5	0.5	0.3
Gateway Gardens	48.4	51.8	0.3	0.3	48.1	51.5	0.8	5.2	0.0	0.0
Tradeport Hong Kong	36.5	40.6	9.3	9.2	27.2	31.4	3.0	5.4	–3.4	–1.7
Portway	12.6	–	5.0	–	7.6	–	18.6	–	–1.3	–

(27) Other financial assets

€ million	Dec. 31, 2004	Dec. 31, 2005
Financial assets held for sale		
Securities in non-current assets	30.9	15.7
Other investments	1.3	1.3
At fair value		
Securities	0.0	174.8
Loans		
Loans to investments	8.8	8.3
Other loans	11.6	9.4
	52.6	**209.5**

The additions to the securities in the category non-current assets held for sale involve the increase of the currency-fund shares by nominally € 5.0 million to € 15.0 million.

The additions to the securities in the category at fair value involve investments in four promissory note loans totaling € 160.0 million in each case with a term of 3 and 5 years, which were taken out in the period from March to October. A loan amounting to € 20.0 million with a term of 2 years was also acquired in October.

Two promissory note loans totaling € 100 million have an S&P rating of AAA and hence have a very low default risk. The two other promissory note loans (€ 60.0 million) and a bond (€ 20.0 million) have a contractually guaranteed capital repayment. The default risk is hence restricted to the contractor risk of the banks.

The credit balances of the fund open to the general public that have been acquired within the framework of the bankruptcy protection concept are reported as plan assets in the reporting years to the extent that the fair value was balanced with personnel-related provisions. Income totaling € 0.6 million was received and included as income.

(28) Non-current and current other receivables and financial assets

€ million	Remaining term up to 1 year	Remaining term more than 1 year	Total Dec. 31, 2004	Remaining term up to 1 year	Remaining term more than 1 year	Total Dec. 31, 2005
From joint ventures	0.2	–	0.2	0.2	–	0.2
From associated companies	1.8	–	1.8	2.2	–	2.2
From other investments	1.1	–	1.1	1.4	–	1.4
Other assets	51.1	48.7	99.8	55.7	8.8	64.5
Prepaid expenses	10.0	26.5	36.5	12.0	24.4	36.4
	64.2	**75.2**	**139.4**	**71.5**	**33.2**	**104.7**

The main item in the other assets relates to the accounts receivable totaling € 19.1 million in connection with the passive noise abatement program. The account receivable is based on the promise made by the airlines to assume responsibility for refinancing the passive noise abatement program. The measures that have to be carried out basically involve transitory items that do not affect Fraport AG's earnings. Appropriate accounts receivable and provisions are included in the Fraport AG balance sheet for this purpose.

Another major item in the other assets is an account receivable from the State of Hesse based on a contract concluded in 2001 in connection with the restoration of what used to be an ammunition disposal site covering an amount of € 9.7 million that Fraport AG has paid initially (the original amount according to the contract was € 23.0 million in 2002). The State of Hesse is making the repayments in annual installments until 2009.

Positive fair values of derivative financial instruments amounting to € 4.2 million are included in the other assets.

The other assets also include accounts receivable relating to current taxes that amount to € 11.6 million.

Prepaid expenses essentially involve grants towards building costs.

(29) Deferred tax assets

€ million	Dec. 31, 2004	Dec. 31, 2005
Deferred tax assets	13.4	19.3

Deferred tax assets are recognized in accordance with IAS 12. Further explanations are given in the "Taxes on income" section (note 19). Most of the deferred tax assets are long-term in nature.

(30) Inventories

€ million	Dec. 31, 2004	Dec. 31, 2005
Raw materials, consumables and supplies	10.0	12.5
Finished goods	1.7	1.8
Purchased merchandise	0.2	0.0
On-account payments	0.2	0.1
	12.1	**14.4**

Inventories are measured at acquisition or production costs on the basis of the weighted average cost method. The cost comprise of any costs and overheads directly attributable in accordance with IAS 2. The raw materials, consumables and supplies were written down by € 0.1 million (previous year: € 2.0 million).

(31) Trade accounts receivable

€ million	Dec. 31, 2004	Dec. 31, 2005
Third parties	168.6	190.0

Trade accounts receivable are stated at their nominal value. Adequate specific allowances have been made for potential bad debts.

(32) Cash and cash equivalents

€ million	Dec. 31, 2004	Dec. 31, 2005
Cash and cash equivalents	666.4	574.2

The bank balances mainly include short-term deposits. Most of this money came originally from the proceeds of the IPO.

The other credit balances are essentially overnight deposits.

Bank balances at Antalya are subject to a drawing restriction amounting to € 25.8 million.

(33) Non-current assets held for sale

€ million	Dec. 31, 2004	Dec. 31, 2005
Non-current assets held for sale	–	2.7

The non-current assets held for sale involve shares in Portway (note 15) that were sold on January 18, 2006. The shares must be attributed to the Segment External Activities.

(34) Shareholders' equity attributable to Fraport AG

€ million	Dec. 31, 2004	Dec. 31, 2005
Subscribed capital	905.1	910.7
Capital reserves	537.6	550.5
Revenue reserves	520.1	599.2
Group retained earnings	68.0	82.1
	2,030.8	**2,142.5**

Subscribed capital

The subscribed capital increased by € 5,536,470 in 2005 due to the use of some of the authorized capital after the capital increase in return for the injection of cash to issue shares in connection with the employee investment plan.

Shares have been created in the current fiscal year to satisfy the stock options within the framework of the restricted authorized capital of € 4,276,250. The conditions for exercising the subscription rights for the 1st and 3rd tranche were met in fiscal 2005.

The subscribed capital increased by a further € 0.1 million as a result of the transfer of treasury shares.

Number of shares in free float and treasury shares

The subscribed capital consists of 91,192,355 (previous year: 90,638,708) bearer shares with no par value, each of which accounts for € 10.00 of the capital stock.

Floating and treasury share movements in accordance with § 160 of the Stock Corporation Law (AktG):

	Subscribed capital	Floating shares	Treasury shares		
				Amount of capital stock	Share of capital stock
	Number	Number	Number	in €	in %
On Jan. 1, 2005	**90,638,708**	**90,515,040**	**123,668**	**1,236,680**	**0.136**
Employee investment plan: Capital increase	126,022	126,022			
Management stock option plan (MSOP): Capital increase	427,625	427,625			
Executive Board compensation: Transfer of shares to members of the Executive Board		9,743	–9,743	–97,430	0.011
On Dec. 31, 2005	**91,192,355**	**91,078,430**	**113,925**	**1,139,250**	**0.125**

The new shares issued on the basis of the employee investment plan were transferred to the employees at a price of € 30.68 on May 25, 2005.

The shares that form part of the compensation paid to the Executive Board were calculated on the basis of a value of € 31.68.

Authorized capital

€ 1,260,220 of the authorized capital of € 11.0 million available on December 31, 2004 (original amount: € 15.0 million) were used to issue new shares in return for the injection of cash for the purpose of issuing shares to employees of Fraport AG and companies controlled by it. The company's existing shareholders are not allowed to subscribe.

The remaining authorized capital of € 9.7 million was released and a resolution passed on new authorized capital of € 9.5 million.

Restricted authorized capital

The purpose of the restricted authorized capital was expanded at the Annual General Meeting held on June 1, 2005. In addition to satisfying subscription rights issued but not yet exercised arising from the Fraport Management Stock Options Plan (MSOP 2001) adopted at the Annual General Meeting held on March 14, 2001, the restricted capital increase also serves to satisfy subscription rights arising from the adopted Fraport Management Stock Options Plan 2005 (MSOP 2005). The Executive Board and the Supervisory Board are authorized to issue up to 1,515,000 stock options to beneficiaries entitled to subscribe until August 31, 2009 in accordance with the conditions regulating the allocation of stock options. The authorization to grant subscription rights in accordance with MSOP 2001 was cancelled at the Annual General Meeting held on June 1, 2005.

The restricted authorized capital amounted to € 8.3 million (original amount: € 13.9 million) on December 31, 2005. € 4.3 million (427,625 options) of the subscription rights already granted were exercised in 2005.

The capital increase to satisfy subscription rights within the framework of the 2001 stock option plan is only being made to the extent that the holders of subscription rights (members of the Executive Board and managers of Fraport AG deployed in Germany as well as the directors and managers of Fraport AG's affiliated companies) exercise their subscription rights and the company does not satisfy the share options with treasury shares or by transfer of shares by third parties.

The capital increase to satisfy subscription rights within the framework of the Management Stock Options Plan 2005 is only being carried to the extent that the holders of subscription rights exercised their subscription rights granted in the Management Stock Options Plan 2005 on the basis of the authorization referred to above, the company satisfied the stock options not using treasury shares, the transfer of shares by a third party or a cash payment, and the restricted capital for the Management Stock Options Plan 2001 was not already used up or is necessary to satisfy the Management Stock Options Plan 2001.

A total of 1,071,350 stock options were issued from the MSOP 2001 and 2005 by the balance sheet date.

Capital reserves
The change in the capital reserves is the result of an increase of € 2.6 million consisting of the excess issue amount (€ 20.68 per share) of the total of 126,022 new shares issued in the context of the employee investment plan and the excess issue amount of € 6.3 million (1st tranche: € 21.55/2nd tranche: € 15.64/3rd tranche € 8.69 per share) of the total of 427,625 shares issued within the framework of the restricted authorized capital to satisfy the stock options.

The capital reserves have increased by a further € 0.1 million by the acquisition and transfer of treasury shares.

€ 1.7 million was transferred from other revenue reserves to capital reserves on account of first-time adoption of IFRS 2.

Personnel expenses of € 2.2 million (previous year: € 3.4 million) were incurred in connection with the Management Stock Option Plan in the year under review. This amount was recorded in capital reserves.

Revenue reserves
The revenue reserves consist not only of the reserves of Fraport AG (including the statutory reserves of € 36.5 million) but also the revenue reserves and retained earnings of the subsidiaries incorporated in the consolidated financial statements as well as effects of consolidation measures. The currency translation differences amount in total to € –7.8 million (previous year: € –14.6 million). This figure includes currency translation differences of € –9.2 million from the at equity valuation of the Philippine companies, which are not charged to Group earnings until the companies are disposed of in accordance with IAS 21. The reserves for derivative valuation amount to € –7.8 million (previous year: € –3.2 million). The substantially higher value disclosed for the other revenue reserves compared to the financial statements of Fraport AG is due mainly to the higher valuation of property, plant and equipment.

Group retained earnings
The Group retained earnings correspond to the retained earnings of Fraport AG. The proposed dividend amounts to € 0.90 per share (previous year: € 0.75 per share).

According to the company statutes, the Executive Board and the Supervisory Board are entitled to transfer more than 50% of the profit for the year to the other revenue reserves of Fraport AG, until half of the subscribed capital has been reached.

(35) Minority interests in shareholders' equity

€ million	Dec. 31, 2004	Dec. 31, 2005
Minority interests in shareholders' equity (excluding the attributable profit for the year)	9.6	15.1
Minority interests in the attributable profit for the year	1.2	0.3
	10.8	**15.4**

The minority interests related to the interests in the shareholders' equity and earnings of Media, Saarbrücken Airport, Frankfurt-Hahn Airport, Hahn Campus, ARS and Fraport Peru as well as in the companies of the ICTS sub-group. The minority interests in GCS were treated as a financial instrument on account of the changed accounting methods of IAS 32 for trading companies and reported under outside capital. The figures for the previous year were correspondingly adjusted in the amount of € 1.4 million.

(36) Non-current and current financial liabilities

€ million	Remaining term				Remaining term			
	Up to 1 year	1–5 years	> 5 years	Total Dec. 31, 2004	Up to 1 year	1–5 years	> 5 years	Total Dec. 31, 2005
Liabilities to banks	86.6	288.5	280.4	655.5	140.1	344.3	272.9	757.3
Others	–	–	5.2	5.2	–	–	5.2	5.2
	86.6	**288.5**	**285.6**	**660.7**	**140.1**	**344.3**	**278.1**	**762.5**

There are the following **main individual assets:**

Term from–to	Currency	Interest rate %	On Dec. 31, 2004 € million	On Dec. 31, 2005 € million
Fixed-interest loans				
1999–2011	€	4.72	25.6	25.6
1998–2010	€	4.83	35.8	35.8
1999–2009	€	4.61	25.6	25.6
1999–2028	€	4.15	31.7	30.3
1999–2028	€	5.10	31.7	30.3
1996–2006	€	6.80	25.6	25.6
1998–2008	€	4.60	25.6	25.6
1998–2008	€	4.57	25.6	25.6
1999–2009	€	4.56	25.6	25.6
1998–2008	€	4.60	38.3	38.3
1998–2008	€	4.60	25.6	25.6
2004–2014	€	4.44	50.0	50.0

There is a general interest change risk for fixed-interest loans that are extended on expiry.

The main loans with variable interest rates are at Fraport AG and have interest rates of between 2.750% and 2.815%.

The financial liabilities include **leasing liabilities** of € 20.7 million (previous year: € 12.9 million) (note 24).

The following leasing payments are due from the leasing contracts:

€ million	Remaining term: Up to 1 year	1–5 years	> 5 years	Total Dec. 31, 2004	Remaining term: Up to 1 year	1–5 years	> 5 year	Total Dec. 31, 2005
Leasing payments	3.1	9.7	1.8	14.6	5.0	16.7	1.5	23.2
Discounting amounts	0.1	1.2	0.4	1.7	0.3	1.9	0.3	2.5
Present values	3.0	8.5	1.4	12.9	4.8	14.8	1.1	20.7

The discounting rates are about 4.0%. The term of the contract ends in 2012. The lease payments disclosed are minimum lease payments.

(37) Non-current and current liabilities

€ million	Remaining term up to 1 year	Remaining term > 1 year	Total Dec. 31, 2004	Remaining term up to 1 year	Remaining term > 1 year	Total Dec. 31, 2005
Prepayments for orders	0.3	–	0.3	0.1	–	0.1
To joint ventures	1.1	–	1.1	1.4	–	1.4
To associated companies	1.1	–	1.1	3.3	–	3.3
To investments	0.3	0.2	0.5	0.5	–	0.5
Grants released to assets	2.0	20.1	22.1	–	29.0	29.0
Other deferred income	8.9	57.6	66.5	8.6	55.8	64.4
Other liabilities	98.0	26.4	124.4	91.2	30.6	121.8
	111.7	**104.3**	**216.0**	**105.1**	**115.4**	**220.5**

The other liabilities consist essentially of wage and church tax, social security contributions that have not been transferred yet, liabilities from deferred interest in connection with interest rate caps, negative fair values of derivatives and liabilities to company employees.

Grants released to assets include grants from public authorities of € 10.6 million (previous year: € 12.2 million) and from other sources of € 18.4 million (previous year: € 9.9 million). The government grants relate in particular to capital expenditures at Frankfurt-Hahn Airport. The deferred investment grants are released in accordance with the straight-line method on the basis of the useful life of the assets for which the grants are made.

Deferred income involves revenue relating to income attributable to future accounting periods.

(38) Deferred tax liabilities

€ million	Dec. 31, 2004	Dec. 31, 2005
Deferred tax liabilities	129.8	112.2

Deferred tax liability items are included in accordance with the temporary concept stipulated in IAS 12. The tax rates that apply and/or have been decided and are known on the balance sheet date are applied. Further explanations about the deferred tax liabilities can be found in note 19 “Taxes on income”.

Most of the deferred tax liabilities have a remaining term of more than one year.

(39) Pension and similar obligations

€ million	Jan. 1, 2004	Amount used	Service costs	Interest	Actuarial gains and losses	Fair value of the plan assets IAS 19.102-104	Dec. 31, 2004
Post-employment benefit obligations (pensions)	21.8	–1.1	1.5	1.1	1.3	–	24.6
Employee-financed pension benefits	0.2	–	0.1	–	0.6	–	0.9
	22.0	**–1.1**	**1.6**	**1.1**	**1.9**	**0.0**	**25.5**

€ million	Jan. 1, 2005	Amount used	Service costs	Interest	Actuarial gains and losses	Fair value of the plan assets IAS 19.102-104	Dec. 31, 2005
Post-employment benefit obligations (pensions)	24.6	–1.1	2.0	1.1	2.3	–8.5	20.4
Employee-financed pension benefits	0.9	–0.1	0.1	0.1	–	–	1.0
	25.5	**–1.2**	**2.1**	**1.2**	**2.3**	**–8.5**	**21.4**

The pension obligations essentially include 17 vested rights relating to pension benefits promised in individual contracts to the members of the Fraport AG Executive Board and their dependants. 129 further pension rights (56 of them non-vested) are held by senior executives and employees not covered by collective agreements in connection with the Fraport AG company benefit plan.

The rules specified in IAS 19 are applied for valuation purposes. The pension obligation on December 31, 2005 have been calculated on the basis of actuarial reports of November 21 and 23, 2005. The calculations are based on Professor Dr. Klaus Heubeck's fundamental biometric data (RT 2005 G).

There are commitments to employee-financed pension benefits of € 1.1 million for senior executives (12 vested rights) of Fraport AG. The calculation is based on an actuarial report of November 23, 2005.

During fiscal 2005, a reinsurance policy was concluded to reduce actuarial risks and to protect pension obligations for the active members of the Executive Board against insolvency. The reinsurance claims were stated at the asset value of € 10.0 million registered by the insurance company; of which the cash value attributable to the active members of the Executive Board (DBO) was balanced with the asset items of the reinsurance policy. The anticipated return on the reinsurance claims for the next fiscal year amounts to approximately 4.5%.

A sensitivity analysis with variations in the discount rates of +/–0.5% on the pension obligation of Fraport AG demonstrates an increase in the obligation by € 1.5 million (3.5%) or a lower obligation of € 1.4 million (4.5%).

Fraport AG has insured its employees for purposes of granting a company pension under the statutory insurance scheme based on a collective agreement (Altersvorsorge-TV-Kommunal – (ATV-K)) with the Zusatzversorgungskasse (top-up provision insurance scheme) for local authority and municipal employers in Wiesbaden (ZVK). The contributions will be collected based on a pay-as-you-go model. The contribution rate of the ZVK Wiesbaden is 6.2%; of which the employer pays 5.7%, with the contribution paid by the employee amounting to 0.5%. In addition, a tax-free reorganization charge of 1.4% is levied by the employer in accordance with § 63 of the ZVK Bylaws (ZVKS). An additional contribution of 9% is also paid for a section of the statutory insured contributors (generally employees in phased retirement and managers) for the pay subject to ZVK that is above the BAT-I upper limit defined in the collective agreement. There is currently no indication that the reorganization charge will increase in 2006. However, it should be anticipated that there will be increases in contributions in the future. Pay subject to pay-as-you-go contributions is € 428.3 million.

This plan is a joint plan with several employers (IAS 19.7), since the companies involved share the risk of the investment and also the biometric risk.

The ZVK provision should be classified as a defined-benefit plan (IAS 19.27). However, in accordance with IAS 19.29, reporting as a defined-benefit plan requires precise details for the share of the pension obligations of the company in the overall obligation and the precise share in the total assets of the ZVK.

The provision should be reported as a defined contribution plan if only inadequate information is available and if a company also covers the risks of other insured companies with its contributions (IAS 19.32 b).

For this reason, Fraport AG has treated this plan as a defined contribution plan.

(40) Non-current and current income tax liabilities

The movements in **non-current and current income tax liabilities** are as follows:

€ million	Jan. 1, 2005	Amount used	Amount released	Additions	Dec. 31, 2005
Tax liabilities	195.2	–133.4		123.7	185.5
of which non-current	151.7				167.0
of which current	43.5				18.5

(41) Non-current and current other provisions and accruals

The movements in the non-current and current provisions and accruals are shown in the following tables.

€ million	Jan. 1, 2005	Amount used	Amount released	Additions	Fair value of plan assets IAS 19.102-104	Dec. 31, 2005
Personnel	98.7	–29.3	–5.0	49.3	–19.5	94.2
of which non-current	45.4					39.5
of which current	53.3					54.7

The personnel provisions and accruals contain obligations from the performance- and success-based compensation program LEA (German abbreviation for "Performance – Success – Recognition"), arrangements for part-time early retirement and early retirement in connection with premature termination of the employment contracts.

€ million	Jan. 1, 2005	Amount used	Amount released	Amount added	Dec. 31, 2005
Environment	20.5	–4.7	0.0	15.4	31.2
Other	161.8	–63.7	–4.9	99.7	192.9
	182.3	**–68.4**	**–4.9**	**115.1**	**224.1**
Of which non-current	49.9				72.6
Of which current	132.4				151.5

The environmental provisions and accruals have been formed essentially for probable restoration costs for the elimination of groundwater nitrate contamination on the Frankfurt Airport site as well as for environmental pollution in the southern section of the airport.

The other provisions and accruals include the provision of € 51.4 million formed in 2003 for the refinancing of the passive noise abatement program at Fraport AG (note 28). Commitments for unpaid invoices, discounts and reimbursements, consultancy services and legal affairs are shown here, too. The transfer to the other miscellaneous provisions and accruals includes interest of € 2.0 million.

(42) Trade accounts payable

€ million	Dec. 31, 2004	Dec. 31, 2005
To third parties	100.4	173.3

Explanatory notes about segment reporting

(43) Explanatory notes about segment reporting

Segment reporting in accordance with IAS 14 is based on the internal financial reporting system to the Executive Board of the parent company.

Since January 1, 2004, reports have been presented about the segments Aviation, Retail & Properties, Ground Handling and External Activities.

Corporate data at Fraport AG are divided up on the one hand into market-oriented business and service divisions and on the other hand into central divisions. All the business and service divisions are allocated clearly to one segment each. An appropriate key is used for the central divisions.

The data about the investments that are not integrated in the processes at the Frankfurt location and investments that carry out their business operations outside the Frankfurt location are allocated to the External Activities segment in primary reporting format. The investments that are integrated in the processes at the Frankfurt location are allocated to the relevant segment according to their business operations.

Inter-segment income is generated essentially by Fraport AG's internal charging of rent for land, buildings and space as well as of maintenance services, information technology and energy/associated services. The corresponding segment assets are allocated to the Retail & Properties segment. The relevant units are charged on the basis of the costs incurred, including imputed interest.

Inter-segment income also states income that has been generated between the companies included from different segments.

The goodwill from consolidation of subsidiaries and the appropriate depreciation and amortization charges have been allocated clearly to the segments on the basis of the new structure.

The reconciliation of the segment assets/segment liabilities column includes the income tax assets/liabilities (including the deferred tax assets/liabilities) of the Group.

Allocation in the secondary reporting format by regions is according to the current main areas of operation: Germany, the rest of Europe, Asia and the rest of the world. The figures shown under Asia relate mainly to Turkey and the People's Republic of China.

The figures shown under the rest of the world relate essentially to the USA and Peru.

The depreciation and amortization charges made in relation to the segment assets include impairment write-downs of goodwill and depreciation of property, plant and equipment totaling € 20.5 million in accordance with IAS 36. The goodwill write-downs of € 10.5 million were made in the External Activities segment. The write-downs of the property, plant and equipment of € 10.0 million were made in the Retail & Properties segment.

Segment assets include write-down reversals amounting to € 2.7 million for the company Portway. These are allocated to the segment External Activities.

The structure of the consolidated balance sheet (in accordance with IAS 1) has been changed in the fiscal year.

The minority interests are reported in shareholders' equity and no longer under liabilities. The comparative data for 2004 have been adjusted to the changes outlined.

Further explanations about segment reporting can be found in the management report.

Explanatory notes about the consolidated cash flow statement

(44) Explanatory notes about the consolidated cash flow statement

Cash flow from operating activities

The cash flow from operating activities (€ 493.7 million) is the balance of cash inflows of € 653.5 million (previous year: € 632.9 million) from operating activities and cash outflows of € 16.8 million (previous year: € 9.4 million) in financing activities and of € 143.0 million (previous year: € 104.9 million) for taxes on income. The cash inflow is therefore € 24.9 million lower from operating activities in total due to higher cash outflows in financing activities and for taxes.

Cash flow used in investing activities/cash flow used in financing activities

Capital expenditures on intangible assets and property, plant and equipment is € 198.3 million higher than in the previous year. This was attributable primarily to capital expenditure at Frankfurt Airport for the building program and the expansion of the terminal. Holdings in investment property essentially relate to land acquired for the purpose of achieving rental income.

The acquisition of subsidiary companies relates to the purchase of shares in Underwater Security Consultants Ltd. (50.1%) and New Age Aviation Security US Inc. (75%).

Other financial investments relate in particular to the cash investments in promissory notes (€ 160.0 million), bonds (€ 20.0 million) and currency funds (€ 5.0 million) made in the course of asset management.

The cash flow used in financing activities amounts to € 46.2 million, which is attributable primarily to the capital increase and taking out financial liabilities.

Long-term loans of about € 68.4 million were repaid in fiscal 2005. The inflow from taking out new loans and short-term money totals some € 165.8 million in the reporting period.

Notes about the acquisition of subsidiary companies

€ million	2005
Cash and cash equivalents	0.1
Net current assets	–0.3
Non-current assets	0.8
Acquired shareholders' equity	**0.6**
Total purchase price	2.6
Less acquired net cash	–0.1
Acquisition of consolidated subsidiary companies	**2.5**

Cash and cash equivalents

The cash and cash equivalents consist of the cash, bank balances and checks items on the balance sheet. These funds come originally from the proceeds of the IPO. There are restrictions on the availability of € 25.8 million of the bank balances.

Miscellaneous notes

(45) Contingent liabilities

There were contingent liabilities from guarantees of € 2.7 million (€ 1.1 million of which accounted for by subsidiary companies) and from warranty contracts of € 64.6 million on December 31, 2005. The latter consist essentially of contract fulfillment guarantees of € 54.6 million. The contract fulfillment guarantees include joint and several liability to the Hong Kong airport authority in connection with the Tradeport Hong Kong Limited investment project amounting to € 33.9 million, for which there is a recourse claim on the other guarantors of € 16.1 million.

Antalya has issued a guarantee to DHMI (Turkish concession authority) about hand over the terminal facilities when the concession expires in 2007 that amounts to 1% of the anticipated receipts plus the depreciation charges.

(46) Other financial commitments

Order commitments

€ million	Dec. 31, 2004	Dec. 31, 2005
Orders for capital expenditures on property, plant and equipment, intangible assets and investment properties	402.5	351.3
Orders for energy supply	462.2	461.5
	864.7	812.8

Operating Leases

€ million	Dec. 31, 2004	Dec. 31, 2005
Rental and leasing contracts		
Up to one year	39.4	8.2
More than one and up to five years	110.5	14.3
Longer than five years	69.4	27.8
	219.3	50.3

In view of their economic content, the rental and lease agreements concluded can be described essentially as operating lease agreements, so that the leased asset must be attributed to the lessor. What are mainly involved here are building rental contracts as well as the renting and leasing of software and hardware. The basic lease term in the rental contracts for building ends in 2007.

In fiscal 2005, the obligations arising out of rental and leasing contracts at Fraport AG were calculated taking into account the basic rental period defined in the individual rental contracts. In the previous year, the obligations were calculated on the basis of the total lease expenses incurred during the fiscal year. According to the new approach in 2005, in fiscal year 2004 liabilities amounting to € 4.0 million would have been due within the subsequent fiscal year, which would have given rise to liabilities of € 31.6 million over the subsequent five years.

Miscellaneous commitments

There are further financial commitments at Frankfurt-Hahn Airport attributable to a possible subsequent purchase price payment of € 3.8 million to the Federal Republic of Germany in connection with a property purchase. The valuation on the balance sheet date in accordance with the contract led to the calculation of a subsequent purchase price payment of € 1.5 million, which is included in the trade accounts payable, so that the remaining potential financial commitments in this context now amount to only € 1.2 million.

In connection with the Manila project:

€ million	Dec. 31, 2004	Dec. 31, 2005
Capital contribution in PIATCO (US-$ 40 million)	29.3	33.9
Conditional remaining purchase price payment/PAGS (US-$ 2.0 million)	1.5	1.7
	30.8	**35.6**

The above-mentioned capital contribution commitment of US-$ 40.0 million, which was promised in connection with the original long-term financing of July 27, 2001, could be demanded by PIATCO under certain conditions that Fraport cannot influence.

If this commitment has to be met, Fraport is working on the assumption that this payment commitment can be offset against existing claims from loans and accounts receivable if certain conditions are taken into account, so that no additional outflow of funds would be necessary.

(47) Stock Options

Management Stock Options Plan 2001

The Fraport AG Annual General Meeting passed a resolution about the main points of a stock option plan on March 14, 2001. We grant stock options to members of the Executive Board of Fraport AG, directors of affiliated companies and further Fraport AG managers employed in Germany on the basis of this plan.

The authorization to issue a total volume of 1,395,000 subscription rights covers the period until August 31, 2005 and the rights were issued in annual tranches of no more than 25% of the total volume. The approval of the Supervisory Board and the Executive Board was required before rights are issued. Every subscription right entitles the holder to subscribe one share representing € 10.00 of the capital stock.

In accordance with the above-mentioned resolution, the subscription rights can be satisfied either with shares issued on the basis of the restricted authorized capital from 2001 or with treasury shares or with shares bought from third parties.

New shares issued on the basis of the restricted authorized capital participate in the profits generated by the company from the beginning of the fiscal year for which the Annual General Meeting has not yet passed a resolution about the appropriation of retained earnings at the time when the subscription right is exercised.

The subscription rights can initially be exercised after a two-year vesting period has ended. The condition for exercising the rights is that the final price of the Fraport share has exceeded the exercise price by at least 15.0% on at least five trading days after the end of the vesting period. The stock options can be exercised during a period of three years after the end of the vesting period.

In the fiscal year, the conditions for exercising the subscription rights from the 1st tranche were initially met when the vesting period ended on June 11, 2003 and the exercise price of € 36.28 was exceeded and from the 3rd tranche when the vesting period ended on May 16, 2005 and the exercise price of € 21.49 was exceeded. The conditions for the 2nd tranche had already been met in the previous year. A total of 427,625 stock options were exercised during the fiscal year.

Fraport Management Stock Options Plan 2005

In order to meet the requirements for the structure of variable remuneration paid to managers, which have now been increased, the Supervisory Board and the Executive Board resolved during fiscal year 2005, to submit a proposal to the Annual General Meeting of Fraport AG for a new Fraport Management Stock Options Plan 2005 (MSOP 2005) with modified option conditions.

On June 1, 2005, the Annual General Meeting of Fraport AG passed a resolution to adopt the main points of the MSOP 2005 proposal and the necessary capital measures to implement the plan. Overall, a total volume of share options amounting to 1,515,000 share options will be issued to all beneficiaries up until August 31, 2009 during the course of Fraport MSOP 2005.

The regulations for issue and entitlement to a share in the profits essentially follow those defined in MSOP 2001.

The share options can be granted to beneficiaries once a year in up to five annual tranches.

In contrast to the previous plan, the new plan, not only includes an absolute exercise hurdle, but also a hurdle linked to the relative exercise that is linked to the performance of a specific stock basket. The level of the resulting profit attributable to the beneficiary arising from the exercise of stock options is also limited.

The option rights for the MSOP 2005 can only be exercised after a vesting period of three years within a further period of two years.

The share options arising from MSOP 2005 can only be exercised if the final price of the Fraport share on the trading day that immediately precedes that day of exercise ("measurement day") exceeds the original exercise price by at least 20%.

Fraport AG issued 198,300 option rights for the entire fiscal year 2005 in accordance with the regulations of the new share option plan.

Further explanations relating to restricted authorized capital are included in note 34.

Movements in the subscription rights issued:

€ million	Total	Executive Board	Directors of affiliated companies	Fraport AG managers
Subscription rights already issued on Jan. 1, 2005	656,100	240,050	64,750	351,300
Issued in 2005	198,300	50,000	22,000	126,300
Exercised in 2005	–427,625	–158,050	–41,250	–228,325
Expired in 2005	–7,000	0	0	–7,000
Subscription rights issued on Dec. 31, 2005	**419,775**	**132,000**	**45,500**	**242,275**

8,825 options can be exercised from the outstanding options (previous year: 55,150). The weighted average share price for the fiscal year is € 36.14 (previous year: € 25.63). The key framework conditions of the tranches issued in the years 2001 to 2005 are shown in the table below:

	Grant date	End of vesting period	End of exercise period	Exercise threshold in €	Exercise price in €
MSOP 2001:					
Tranche 2001	June 11, 2001	June 11, 2005	June 11, 2006	36.28	31.55
Tranche 2002	May 15, 2002	May 15, 2004	May 15, 2007	29.49	25.64
Tranche 2003	May 16, 2003	May 16, 2005	May 16, 2008	21.49	18.69
Tranche 2004	April 16, 2004	April 16, 2006	April 16, 2009	26.57	23.10
MSOP 2005:					
Tranche 2005	June 6, 2005	June 6, 2008	March 16, 2010	39.49	32.91 *

* Original exercise price at the grant date, subject to an adjustment by the relative performance goal.

Personnel expenditure amounting to € 2.2 million (previous year: € 3.4 million) was incurred in the year under review. This amount was reported in capital reserves.

(48) Notes about the existence of investments in accordance with German securities trading legislation

The total voting rights held by the Federal Republic of Germany, the State of Hesse, and Stadtwerke Frankfurt am Main Holding GmbH in Fraport AG Frankfurt Airport Services Worldwide calculated in accordance with § 22 paragraph 2 of German securities trading legislation (WpHG) amount to 58.60%. The breakdown is as follows: the Federal Republic of Germany 6.58%, State of Hesse 31.75%, and Stadtwerke Frankfurt am Main Holding GmbH 20.27%.

On October 26, 2005, the Federal Republic of Germany placed the shareholding of 18.16% it had held up to then with financial investors in two tranches. 11.58% of the shares were sold directly. The second tranche is a combination of purchase options and convertible bonds with a term of 17 months. The purchasers of this tranche have the right to purchase the remaining 6.58% of the federal shares in March 2007.

The voting rights in Fraport AG owned by Stadt Frankfurt am Main are held indirectly via the subsidiary Stadtwerke Frankfurt am Main Holding GmbH.

On November 8, 2005, Deutsche Lufthansa AG informed us that its shareholding in Fraport AG amounted to 5.01%.

On February 10, 2006, Julius Bär Investment Management NY informed us that it held 5.40% of Fraport shares.

(49) Derivative financial instruments

The derivative financial positions were as follows on the balance sheet date:

	Nominal volume		Fair value		Credit risk	
€ million	Dec. 31, 2004	Dec. 31, 2005	Dec. 31, 2004	Dec. 31, 2005	Dec. 31, 2004	Dec. 31, 2005
Interest rate swaps	296.4	350.7	–8.1	–19.3	–	0.0
CMS floors	50.0	50.0	2.1	4.2	2.1	4.2
Interest rate caps (beneficiary) – trading	102.2	102.2	0.0	0.0	–	0.0
Interest rate caps (obligor) – trading	102.2	102.2	0.0	0.0	–	0.0

The fair values of the derivative financial instruments are shown as follows in the balance sheet:

	Other assets		Other liabilities	
€ million	Dec. 31, 2004	Dec. 31, 2005	Dec. 31, 2004	Dec. 31, 2005
Interest rate swaps – cash flow hedges	0.0	0.0	–5.7	–14.2
Interest rate swaps – trading	0.0	0.0	–2.4	–5.1
CMS floor – trading	2.1	4.2	0.0	0.0
Interest rate caps (beneficiary) – trading	0.0	0.0	0.0	0.0
Interest rate caps (obligor) – trading	0.0	0.0	0.0	0

Transactions with derivative financial instruments are carried out essentially by Fraport AG. They are not used for speculative purposes in accordance with the interest rate and foreign currency risk management rules.

There were seventeen interest rate swaps on the balance sheet date. Two of these contracts were concluded in 2005, thirteen in 2004, one in 1996 and one in 2000. There are also two CMS floor contracts, which were also concluded in 2004.

Nine of the existing interest rate swaps were concluded for existing variable interest liabilities. Eight of the interest swaps were concluded to hedge the interest rate for part of the future cash requirements and thus to reduce the risk of changes in interest rates arising from these positions.

A total of fifteen interest rate swaps and forward interest rate swaps are treated as cash flow hedges in accordance with the rules of IAS 39. The changes in the fair values are recognized in equity. Two forward interest rate swaps and two CMS floors also relate to capital requirements planned in future. They do not represent a hedging relationship as defined by IAS 39 and are classified as “held for trading”. All the changes in value relating to contracts classified in this way are included in profit or loss. The fair values of the interest rate swaps and CMS floors are included as other assets or other liabilities.

All the swaps are denominated in euros, with the exception of a US-$ interest rate swap with a nominal volume of US-$ 32.0 million.

The interest rate swaps have a remaining term of less than one year and up to ten years. Interest rate swaps with a nominal value of € 52.7 million have a remaining term of up to two years, while the rest have a term of more than five years.

The fixed interest rates paid resulting from the interest swaps were between 3.66% and 6.71% during 2005. The variable interest rates received are based on EURIBOR and US-$-LIBOR. The fixings were between 2.14% and 3.43% during the reporting period. The variable interest rates received will be matched within the next year.

Regular reviews are made to check whether the interest rate swap contracts concluded are effective, which is the case.

Two interest rate caps from 1996 and 2001 were liquidated by buying two further interest rate caps (countertrades), because a funding requirement that was originally expected no longer exists. These derivative instruments neutralize each other completely in their effect on conclusion of the countertrade transactions.

A credit risk (contractor risk) arises from positive fair values of derivative transactions that have been concluded. The total of all the positive fair values of the derivatives also corresponds at the same time to the maximum default risk of these business transactions. In accordance with the interest rate and foreign currency risk management rules, derivative contracts are only concluded with banks that have an excellent credit rating, however, so that the default and contractor risk is minimized.

Hedging strategy and risk management
We cover interest rate and foreign currency risks by establishing naturally hedged positions, in which the cash flows financial instruments offset each other in their timing and amount, and/or by hedging the business transactions via derivative financial instruments. The scope, responsibilities and controls for the use of derivatives are specified in binding internal guidelines. The existence of a risk that needs to be hedged is the precondition for the use of derivatives. There can only be open derivative positions in connection with hedging transactions in which the hedged items are cancelled or are not carried out contrary to planning. Interest rate derivatives are used exclusively to optimize loan conditions and to restrict risks of changes in interest rates in the context of financing strategies with the same deadlines. Derivatives are not used for trading or speculation purposes. Within the framework of our interest rate and foreign currency policy, we used derivatives at the end of 2004 to hedge interest rate positions, in order to take advantage of the historically low level of interest rates on the market at the present time with respect to the capital requirement that is becoming apparent in the medium term. Following the commitment to these interest rate hedging positions, there is now the risk that the market interest rate level will continue to decrease and that the negative fair value of the interest rate hedging instruments will increase as a result. This would have had the effect having to increase the provision for anticipated losses. The provision for anticipated losses accumulated in the meantime will be realized if the derivatives are closed and/or if the planned funding requirements do not materialize. Fraport does not think that there are any further interest rate and foreign currency risks that are worth mentioning at the present time.

(50) Related party disclosures

On the basis of the new version of IAS 24 (related party disclosures) and with its coming into force effective January 1, 2005, profit-oriented state-controlled entities which apply IFRS are also obliged to publish information on transactions with other state-controlled entities in their financial statements. The previous exemption of state-controlled entities from this type of disclosure obligation is no longer applicable.

As far as Fraport is concerned, implementation of this change means that the relationship with related companies and persons who control the Fraport Group or which are controlled by the Group have to be disclosed, if they are not already included as consolidated companies in the consolidated financial statements of Fraport AG. Control is defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. This is assumed if one shareholder owns more than half of the voting rights in Fraport AG or has this possibility on account of the conditions defined in the statutes or as a result of contractual agreements.

The shareholdings of the Federal Republic of Germany, the State of Hesse and Stadtwerke Frankfurt am Main Holding GmbH and the consortium contract in place between these shareholders mean that Fraport AG is a company controlled by these shareholders.

Fraport AG has numerous business relationships with the Federal Republic of Germany, the State of Hesse and the city of Frankfurt, and their majority-owned investments. The related companies and authorities with material business relations include the Federal Police, Deutsche Telekom AG, DB Station&Service AG, Mainova AG, Messe Frankfurt Venue GmbH & Co. KG and the German Bank for Reconstruction.

The disclosure requirements under IAS 24 also extend to include business transactions with associates as well as transactions business with persons who exercise a significant influence on the financial and business policy decisions of Fraport AG, including close relations or intermediate companies.

All transactions between the related parties have been verifiably concluded at standard market conditions as in the case of third parties.

The following table shows the scope of the business relationships:

€ million	Majority shareholders: Federal Republic of Germany	Majority shareholders: State of Hesse	Majority shareholders: Stadtwerke Frankfurt am Main Holding GmbH	Joint ventures	Associated companies	Companies controlled by majority shareholders
Revenue						
2004	151.5	0.2	0.1	2.6	3.0	19.9
2005	196.6	0.2	0.1	3.2	8.1	16.5
Purchased goods and services						
2004	–	4.0	1.1	5.4	30.0	54.6
2005	–	0.8	0.9	5.0	43.2	92.0
Interest						
2004	–	0.8	–	–	–	–3.0
2005	–	0.5	–	–	–	–4.6
Accounts receivable						
2004	6.3	14.6	–	0.2	1.8	19.5 [1]
2005	18.6	9.7	–	0.2	2.2	5.0 [1]
Accounts payable						
2004	–	–	0.1	1.1	1.1	1.4
2005	–	–	0.4	1.4	3.3	21.7
Financial liabilities						
2004	–	–	–	–	–	69.3
2005	–	–	–	–	–	86.7

[1] *Of which € 2.2 million written off (previous year: € 1.8 million).*

The second tier managers (senior vice presidents and executive vice presidents) were granted total payments of € 807,000.

Information about relationships to members of the Executive Board and the Supervisory Board can be found in note 53.

(51) Service concessions

The following companies in the Fraport Group have been granted service concessions or similar permits which give the public access to important economic and social facilities:

Fraport AG

In agreement with the German Minister of Transport, the Hessian Minister of Labor, Economics and Transport approved passenger transport operations at Frankfurt Airport in accordance with § 7 of the version of August 21, 1936 of the German Air Transport Law on December 20, 1957 and charged a non-recurring fee for this. The permit does not expire at any specific time.

The right to operate the airport is linked to various obligations that are specified in the permit. Fraport AG is required, among other things, to keep the airport in good operating condition at all times, to provide and maintain the equipment and signs needed to monitor and control air traffic at the airport and to guarantee the availability of fire protection systems that take account of the special operating conditions. In a supplement added on July 16, 1999, the restrictions on night flights that were initially made in 1971 as a supplement to the airport permit were increased and restrictions on the operation of “chapter 2 aircraft” at Frankfurt Main Airport for civil aviation purposes during the daytime were introduced. The operating permit was restricted and specified in communications of April 26, 2001, September 24, 2001 and November 25, 2002 to the effect that Fraport AG is required to take not only active but also passive noise abatement measures.

The company charges the airlines that fly to Frankfurt Main Airport what are known as "traffic fees" for provision of the transport infrastructure. These traffic fees are divided up into airport fees that require approval and other fees that do not require approval.

- A distinction has to be made in the airport fees that require approval in accordance with § 43 paragraph 1 of the German air transport authorization regulations (LuftVZO) between landing and takeoff fees, passenger and slot fees, fees to finance noise abatement measures, and since 2005 security fees. The amount of the fees is specified in an appropriate fee table.

  The fee table applicable in 2005 and approved by the Hessian Ministry of Economics, Transport and Regional Development (HMWVL) was published in the Air Transport Bulletin (NfL) on December 9, 2004 and came into force on January 1, 2004. Fraport AG and the airlines concluded a "general agreement about airport fees" on April 30, 2002, in which the airport fees are initially specified on a longer-term basis until December 31, 2006. There is also a "public contract about the specification and adaptation of regulated airport fees" between the State of Hesse – represented by the HMWVL – and Fraport AG of October 29, 2002 that also applies until December 31, 2006. The airport fees accounted for 31.4% of Fraport AG's revenue in the year under review.

- A distinction has to be made in the other fees that do not require approval between fees for central ground handling service infrastructure facilities and fees for ground handling services. In accordance with EU regulations, ground services on the apron were opened up to competition on November 1, 1999 (opened up in practice on April 15, 2000) by issuing a permit to another external ground handling company alongside Fraport AG. There continues to be no competition (monopoly) where the services in the area of the central ground handling service infrastructure facilities are concerned. 33.7% of the revenue generated by Fraport AG in 2005 were accounted for by ground handling service and infrastructure fees.

Above and beyond the traffic fees, Fraport AG generates revenue essentially via revenue-based payments, renting, parking and security services. The proceeds of these operations – which do not require approval – accounted for 34.9% of Fraport AG's total revenue in the year under review.

Flughafen Frankfurt-Hahn GmbH
Flughafen Frankfurt-Hahn GmbH received approval to share use of the Hahn military airfield for civil aviation purposes in accordance with the relevant German aviation legislation on July 14, 1993 (with subsequent amendments). The permit was issued by the Ministry of Economics and Transport of the State of Rhineland-Palatinate. The permit does not expire at any specific time. The company was in particular required to take passive noise abatement measures.

The fee table on which the business operations at Frankfurt-Hahn Airport are based came into force on November 1, 2001. Approval to charge landing, takeoff, passenger and slot fees (airport fees) was issued by the Rhineland-Palatinate state road and transport authorities/air transport department in accordance with § 43 paragraph 1 of the German air transport authorization regulations (LuftVZO).

The airport fees accounted for 27.1% of the revenue generated in the fiscal year.

Revenue from ground handling services and provision of the infrastructure (16.1%) represented another part of the traffic fees for which no approval is required.

Apart from the traffic fees, other revenue is generated – mainly in rent and for security services – that make up 56.8% of the revenue.

Antalya Havalimanı Uluslararası Terminal Işletmeciliği A.Ş.
The international terminal at Antalya Airport is a BOT project (build, operate, transfer) that is based on a concession contract with the Turkish concession authorities DHMI. According to this contract, Antalya has the right to use all the assets listed in the concession contract in order to be able to operate the terminal up to September 14, 2007.

Antalya is obliged in this context to provide the terminal services in compliance with the international standards as well as the procedures and principles specified in the concession contract. With respect to the assets provided for use, Antalya is committed to carrying out maintenance and (major) repair work and to replace the assets by new ones when their useful life is over.

The company generates revenue not only from passenger fees but also in connection with retail outlets. The size of the passenger fees is specified by DHMI. Depending on the number of passengers, up to two thirds of the passenger fees have to be passed on to DHMI as regular concession charges. A charge of about one third is made on a certain part of the proceeds of the retail operations, too. If the passenger figures do not reach a guaranteed minimum level of about 2 million per year, DHMI reimburses the company appropriate compensation on the basis of the current passenger fee in US-$.

When the term of the contract ends, Antalya is required to return all the assets specified in the concession contract to DHMI in a proper, fully operative condition.

The concession contract specifies that Antalya has to issue an annual guarantee to DHMI for 1% of the revenue anticipated in the year in question, with reimbursement to Antalya one month after the complete surrender of the terminal facilities. Antalya is also obliged to give DHMI a guarantee covering the annual depreciation charge every year. Antalya is required to make payments to DHMI equivalent to the non-renewed production costs when the terminal is surrendered.

(52) Statement issued by the Executive Board and the Supervisory Board of Fraport AG in accordance with § 161 of the AktG

On October 6, 2005, the Executive Board and the Supervisory Board of Fraport AG issued the conformity statement about the Corporate Governance Code that is specified in accordance with § 161 of the AktG and made it available to the public on a permanent basis on the company website.

(53) Notes about the Executive Board and the Supervisory Board

The compensation paid to the members of the Executive Board consists not only of a fixed salary component but also of a variable performance-based component (bonus). The criteria for payment of the bonus are the achievement of the Group revenue target and the EBITDA (earnings before interest, tax, depreciation and amortization). Stock options that act as a long-term incentive are granted in addition to the bonus within the framework of the stock option plan (MSOP, cf. the information provided in note 45).

The expenses for the active members of the Executive Board in fiscal 2005 amounted to € 2,948,000. The fixed salary component accounted for € 1,297,500 of this, while the bonus (payments and changes in provisions and accruals) totaled € 1,489,000. The bonus payments include remaining payments for fiscal 2004, which were made in the form of Fraport shares, as well as downpayments for fiscal 2005. Amounts from the provision recognized for fiscal 2004, which have been released because they were not paid, are included in the change in the provision. The Supervisory Board decides about the final amount of the bonus for 2005 in fiscal 2006. Stock options were issued to the Executive Board as well. From the stock options granted to the Executive Board in 2005 and earlier, expenses were reported for the following option valuations in the fiscal year in accordance with IFRS 2: Dr Wilhelm Bender € 117,000, Professor Manfred Schölch € 66,000, Professor Barbara Jakubeit € 58,000, Herbert Mai € 88,000, Dr Stefan Schulte € 88,000.

The individual members of the Executive Board received the following amounts and/or the following number of stock options in the year under review:

Compensation paid to the Executive Board 2005

Compensation paid to the Executive Board 2005

	Fixed payment € '000	*Bonus payment € '000*	*Change in the bonus provision € '000*	*Total € '000*	*Stock options (number)*
Dr Wilhelm Bender Chairman	*350.0*	*426.8*	*–41.1*	*735.7*	*20,000*
Professor Manfred Schölch Vice Chairman	*300.0*	*367.5*	*–37.7*	*629.8*	*–*
Professor Barbara Jakubeit until Oct. 31, 2005	*162.5*	*199.1*	*–22.6*	*339.0*	*–*
Herbert Mai	*185.0*	*226.6*	*–21.4*	*390.2*	*15,000*
Dr Stefan Schulte	*300.0*	*367.5*	*24.3*	*691.8*	*15,000*
Total	***1,297.5***	***1,587.5***	***–98.5***	***2,786.5***	***50,000***

The members of the Executive Board received benefits in kind and other contractually agreed fringe benefits totaling € 161,500 in addition to this compensation.

Pension obligations

There are future pension obligations of € 24,986,600, too. A total provision of € 14,289,800 has been formed to cover pension obligations to former members of the Executive Board and their dependants. Pension payments amounted to € 1,127,400 in 2005.

The transactions carried out by the members of the Executive Board, their spouses and their first-degree relatives in 2005 with Fraport AG shares and options were published in accordance with § 15a of the WpHG.

Compensation paid to the Supervisory Board 2005

The compensation paid to the Supervisory Board was specified by the Annual General Meeting on the basis of § 12 of the Fraport AG company statutes. Every member of the Supervisory Board receives € 15,000 per complete meeting year and the Chairman receives twice this amount, while the Vice Chairman and the Committee Chairmen receive one-and-a-half times this amount. € 400 are also paid to each member per meeting and any expenses incurred are reimbursed (note 55).

(54) Executive Board

Members of the Executive Board	**Membership of mandatory supervisory boards and comparable control bodies**
Chairman **Dr Wilhelm Bender**	Chairman of the Supervisory Board: – Flughafen Hannover-Langenhagen GmbH Member of the Supervisory Board: – Lufthansa CityLine GmbH – NOVA Allgemeine Versicherung AG – Thyssen Krupp Services AG – FrankfurtRheinMain GmbH International Marketing of the Region – Techem AG (until March 3, 2005)
Vice Chairman *Infrastructure and legal affairs* **Professor Manfred Schölch**	Chairman of the Supervisory Board: – Flughafen Frankfurt-Hahn GmbH Vice Chairman of the Supervisory Board: – Deutsche VerkehrsBank AG Member of the Supervisory Board: – Gateway Gardens Projektentwicklungs GmbH – ZIV – Zentrum für integrierte Verkehrssysteme GmbH
Real estate development (up to October 31, 2005) **Professor Barbara Jakubeit**	
Labor relations **Herbert Mai**	Chairman of the Supervisory Board: – Fraport Cargo Services GmbH (FCS) Member of the Supervisory Board: – FIS Flug- und Industriesicherheit Service- und Beratungs-GmbH
Finance and construction **Dr Stefan Schulte**	Chairman of the Supervisory Board: – FIS Flug- und Industriesicherheit Service- und Beratungs-GmbH – ICTS Europe Holding B.V. Member of the Supervisory Board: – DELVAG Luftversicherungs AG – DELVAG Rückversicherungs AG – Flughafen Frankfurt-Hahn GmbH – Frankfurter Sparkasse AG (from Dec. 21, 2005) – Gateway Gardens Projektentwicklungs GmbH (up to July 11, 2005) Vice member of the Administrative Board: – Landesbank Hessen-Thüringen Girozentrale Member of corporate control bodies: – Shanghai Frankfurt Airport Consulting Services Co., Ltd. (Vice-Chairman des Board of Directors)

(55) Supervisory Board

Members of the Supervisory Board	Membership of mandatory supervisory boards and comparable control bodies
Chairman **Karlheinz Weimar** Minister of Finance of the State of Hesse (Compensation in 2005: € 33,400)	Chairman of the Supervisory Board: – Flughafen Kassel GmbH Vice Chairman of the Administrative Board: – Landesbank Hessen-Thüringen Girozentrale Member of the Administrative Board: – Investitionsbank Hessen Member of the Supervisory Board: – FIZ Frankfurter Innovationszentrum Biotechnologie GmbH – Future Capital AG – HA-Hessen-Agentur GmbH – Messe Frankfurt GmbH Advisory Board with the assignments of a Supervisory Board: – Höchster Porzellan-Manufaktur GmbH
Vice Chairman **Gerold Schaub** Vice Chairman ver.di union Hesse (Compensation in 2005: € 29,100)	Member of the Supervisory Board: – Lufthansa Systems Group GmbH, Kelsterbach
Dr Manfred Bischoff Chairman of the Board EADS N.V. Aerospace delegate of DaimlerChrysler AG (Compensation in 2005: € 17,400)	Chairman of the Supervisory Board: – DaimlerChrysler Aerospace AG (Group position) – DaimlerChrysler Luft- und Raumfahrt Holding AG (Group position) Member of the Supervisory Board: – Gerling Konzern Versicherungs-Beteiligungs-AG – J.M. Voith AG – SMS GmbH Member of corporate control bodies: – Royal KPN N.V. – EADS Participations B.V. (Group position) – European Aeronautic Defence and Space Company EADS N.V. (Chairman of the Board) (Group position) – Nortel Networks Corporation und Nortel Networks Limited
Jörg-Uwe Hahn FDP floor leader in the Hessian State Parliament (Compensation in 2005: € 28,100)	Member of the Supervisory Board: – Flughafen Frankfurt-Hahn GmbH – TaunusFilm GmbH Member of the Broadcasting Corporation Board: – Hessischer Rundfunk
Dr Joachim v. Harbou President of the Chamber of Industry and Commerce Frankfurt am Main (Compensation in 2005: € 26,500)	Chairman of the Supervisory Board: – equinet Corporate Finance AG, Frankfurt am Main Member of the Supervisory Board: – Nestlé Deutschland AG – Giessen and Marburg University Hospital – FIZ Frankfurter Innovationszentrum Biotechnologie GmbH – TechnologieStiftung Hessen GmbH – HA Hessen Agentur GmbH – Städtische Bühnen Frankfurt am Main GmbH Chairman of the Advisory Board: – Hebel Projektbau GmbH & Co. KG, Alzenau – Viessmann Werke, Allendorf (Eder) Member of the Advisory Board: – Corpus Immobiliengruppe GmbH & Co. KG, Köln – Member of the Broadcasting Corporation Board of the Hessischer Rundfunk

Lothar Herbst Chairman of the ver.di union District/Frankfurt and Region (Compensation in 2005: € 19,200)	Deputy Chairman of the Supervisory Board: – Stadtwerke Frankfurt am Main Holding GmbH Member of the Supervisory Board: – Mainova AG – Stadtwerke Verkehrsgesellschaft Frankfurt am Main mbH
Helmut Hofmann Member of the Works council (Compensation in 2005: € 20,400)	
Lothar Klemm Former Hessian Government Minister Member of the State Parliament (Compensation in 2005: € 18,200)	Chairman of the Supervisory Board: – MANIA Technologie AG – ZIV – Zentrum für integrierte Verkehrssysteme GmbH – FunkTicket AG
Zafer Memisoglu Member of the Works council (Compensation in 2005: € 19,800)	Member of the Supervisory Board: – Gesellschaft für Cleaning Service mbH & Co. Airport Frankfurt/Main KG
Ralf Nagel State secretary at the German Ministry of Transport, Building and Housing (Compensation in 2005: € 19,200)	Member of the Supervisory Board: – Deutsche Bahn AG – Chairman of the Advisory Council of DFS, Deutsche Flugsicherung GmbH
Gabriele Rieken Member of the Works Council (Compensation in 2005: € 19,000)	
Harald Rose Representative of the ver.di union (Compensation in 2005: € 19,400)	Vice Chairman of the Supervisory Board: – FIS Flug- und Industriesicherheit Service- und Beratungs-GmbH
Petra Rossbrey Member of divisional management of real estate and facility management (Compensation in 2005: € 19,200)	
Petra Roth Lord Mayor of Frankfurt am Main (Compensation in 2005: € 20,200)	Chairman of the Supervisory Board: – Frankfurter Aufbau AG – Mainova AG – ABG Frankfurt Holding Wohnungsbau- und Beteiligungsgesellschaft mbH – Messe Frankfurt GmbH – Stadtwerke Frankfurt am Main Holding GmbH – Stadtwerke Verkehrsgesellschaft Frankfurt am Main GmbH Member of corporate control bodies: – Alte Oper Frankfurt Konzert- und Kongreßzentrum GmbH – Gas-Union GmbH – Rhein-Main-Verkehrsverbund GmbH – Wirtschaftsförderung Frankfurt – Frankfurt Economic Development-GmbH – FIZ Frankfurter Innovationszentrum Biotechnologie GmbH – Städtische Bühnen Frankfurt am Main GmbH – Landesbank Hessen-Thüringen Girozentrale – Nassauische Sparkasse Member of the Advisory Board: – E.ON Ruhrgas AG – THÜGA AG – Advisory Council of the ING group (Netherlands)

Werner Schmidt Project Manager (Compensation in 2005: € 19,400)	Vice Chairman of the Executive Board: – Working group of independent airport employees (AUF e.V.) – Komba Gewerkschaft Kreisverband Flughafen Frankfurt/M. Member of the Supervisory Board: – SMW Abwasser GmbH Member of the Association Council of Riedwerke Kreis Groß-Gerau
Dr Jürgen Siewert Assistant State Secretary (Compensation in 2005: € 18,600)	Member of the Supervisory Board: – T-Systems International GmbH – Duisburger Hafen AG (from July 6, 2005) – T-Systems Business Services GmbH (from April 5, 2005) – DB Fernverkehr AG (from June 30, 2005)
Edgar Stejskal Chairman of the Group works council (Compensation in 2005: € 19,800)	Member of the Supervisory Board: – Airmail Center Frankfurt GmbH
Christian Strenger (Compensation in 2005: € 18,400)	Chairman of the Supervisory Board: – The Germany Funds (USA) Member of the Supervisory Board: – DWS Investment GmbH – Incepta plc (Great Britain, until May 13, 2005)
Achim Vandreike Mayor (Compensation in 2005: € 20,600)	Member of the Supervisory Board: – ABG Frankfurt Holding Wohnungsbau und Beteiligungsgesellschaft mbH – Messe Frankfurt GmbH – Frankfurter Aufbau AG – Eintracht Frankfurt Fußball AG Member of corporate control bodies: – Bäderbetriebe Frankfurt GmbH – Waldstadion Frankfurt am Main Gesellschaft für Projektentwicklungen mbH – Stadion GmbH – Wirtschaftsförderung Frankfurt – Frankfurt Economic Development-GmbH – Nassauische Heimstätte Wohnungsbau- und Entwicklungsgesellschaft mbH – Gateway Gardens Projektentwicklungs GmbH
Peter Wichtel Chairman of the Works council (Compensation in 2005: € 27,300)	Member of the Supervisory Board: – gedas operational services GmbH & Co. KG

Significant subsidiary companies, joint ventures and associated companies

		Place of Incorporation		Share of capital %	Share-holders' equity € '000	Profit after tax € '000	Revenue € '000	Average number of employees
Subsidiary companies								
Germany								
Airport Assekuranz Vermittlungs-GmbH	AAV	Frankfurt a. M.	2004	100.00	365	313	1,918	8
			2005	100.00	494	442	1,993	10
Airport Cater Service GmbH	ACS	Frankfurt a. M.	2004	100.00	26	0	16,778	124
			2005	100.00	26	0	17,099	139
Airport Retail Solutions GmbH	ARS	Frankfurt a. M.	2004 [1]	51.00	–8	0	0	0
			2005	51.00	–8	0	0	0
AirIT Airport IT Services Hahn AG	AirIT Hahn	Lautzenhausen	2004	100.00	717	127	1,616	9
			2005	100.00	836	119	1,774	10
APS Airport Personal Services GmbH	APS	Frankfurt a. M.	2004	100.00	944	399	15,358	519
			2005	100.00	1,462	912	21,223	716
Energy Air GmbH	Energy Air	Frankfurt a. M.	2004	100.00	2,035	1,983	73,365	0
			2005	100.00	2,483	2,431	82,967	0
Flughafen Frankfurt-Hahn GmbH	Flughafen Frankfurt-Hahn	Lautzenhausen	2004 [2]	73.07	31,823	–16,589	29,564	275
			2005 [2]	65.00	72,757	–15,940	36,859	288
Flughafen Saarbrücken Betriebsgesellschaft mbH	Flughafen Saarbrücken	Saarbrücken	2004	51.00	937	208	9,653	147
			2005	51.00	840	2	10,269	146
Fraport Cargo Services GmbH	FCS	Frankfurt a. M.	2004	100.00	7,441	6,265	26,480	98
			2005	100.00	10,456	3,015	53,704	159
Fraport Immobilienservice und -entwicklungs GmbH & Co. KG	Fraport Immo	Flörsheim a. M.	2005 [3]	100.00	7,285	259	842	4
Fraport Objekt Mönchhof GmbH	Fraport OGM	Flörsheim a. M.	2005 [3]	100.00	24	–1	0	0
Fraport Objekte 162 163 GmbH	Fraport OG 162	Flörsheim a. M.	2005 [3]	100.00	24	–1	0	0
Fraport Real Estate Mönchhof GmbH & Co. KG	Fraport Mönchhof	Flörsheim a. M.	2005 [3]	100.00	25	0	0	0
Fraport Real Estate Verwaltungs GmbH	Fraport RE	Flörsheim a. M.	2005 [3]	100.00	18	–7	1	0
Fraport Real Estate 162 163 GmbH & Co. KG	Fraport 162 163	Flörsheim a. M.	2005 [3]	100.00	6,825	–1	0	0
Gesellschaft für Cleaning Service mbH & Co. Airport Frankfurt/Main KG	GCS	Frankfurt a. M.	2004	40.00	2,431	1,406	23,633	611
			2005	40.00	2,828	1,803	24,188	596
Hahn Campus Management GmbH	Hahn Campus	Lautzenhausen	2004	73.07	25	0	460	7
			2005	65.00	25	0	420	7
Media Frankfurt GmbH	Media	Frankfurt a. M.	2004	51.00	1,565	940	20,874	24
			2005	51.00	2,035	1,464	21,083	24
Verwaltungsgesellschaft für Cleaning Service mbH	VCS	Frankfurt a. M.	2004	100.00	31	–2	234	1
			2005	100.00	31	0	364	1

n.a. = not available

[1] Inactive.

[2] IFRS-results before consolidation.

[3] Established in 2005.

[4] Company name changed to Fraport Ground Services Austria on January 1, 2005.

[5] Consolidated financial statement Air-Transport and DST.

[6] Purchase of residual shares at October 1, 2005.

		Place of Incorporation		Share of capital %	Share-holders' equity € '000	Profit after tax € '000	Revenue € '000	Average number of employees
Subsidiary companies								
Rest of Europe								
ICTS Europe Holdings B.V., Amstelveen (Teilkonzern)	ICTS	The Netherlands	2004	100.00	34,798	12,664	301,426	9,578
			2005	100.00	43,781	12,359	341,759	10,824
36 subsidiaries and 1 joint venture, in which Fraport AG has an indirect interest, are included in the ICTS sub-group financial statement, including but not limited to:								
FIS Flug- und Industriesicherheit Service- und Beratungs-GmbH, Kelsterbach	FIS	Germany						
ICTS (UK) Limited, London	ICTS UK	Great Britain						
ICTS France S. A., Paris	ICTS France	France						
Flughafen Frankfurt Main (Greece) Monoprosopi EPE, Athen	Hellas	Greece	2004	100.00	134	–26	357	0
			2005	100.00	132	31	148	0
Fraport Ground Services Austria GmbH	FGS Austria	Austria	2004[4]	100.00	1,369	259	10,297	169
			2005	100.00	483	–886	10,990	191
Fraport Malta Ltd.	Fraport Malta	Malta	2005[3]	100.00	2	0	0	0
Fraport Malta Business Services Ltd.	Malta Business	Malta	2005[3]	100.00	2	0	0	0
America								
Air-Transport IT Services, Inc., Delaware	Air-Transport IT	USA	2004[5]	100.00	–2,026	–4,713	5,377	41
			2005[5]	100.00	–1,412	–728	6,731	41
Decision Support Technologies, Inc., Florida	DST	USA	2004[5]	100.00				
			2005[5]	100.00				
Fraport Peru S. A. C., Lima	Fraport Peru	Peru	2004	99.99	198	208	1,625	5
			2005	99.99	345	328	1,758	6
Fraport Ground Services USA Inc., Jacksonville	Jacksonville	USA	2004	100.00	285	–49	0	0
			2005	100.00	137	–464	750	34
Asia								
Antalya Havalimanı Uluslararası Terminal işletmeciliği Anonim Şirketi, Istanbul	Antalya	Turkey	2004	50.00	71,645	31,684	124,039	389
			2005[6]	100.00	49,757	–924	52,590	365
Fraport (Philippines) Services Inc., Manila	Fraport Philippines	Philippines	2004[1]	99.99	–2,471	n.a.	0	0
			2005	99.99	–3,009	n.a.	0	0
Joint ventures								
Germany								
AirIT International GmbH	AirIT International	Frankfurt a. M.	2004	50.00	413	–208	2,112	2
			2005	50.00	556	143	1,700	2
AirITSystems Hannover GmbH	AirIT Hannover	Hanover	2004	50.00	2,660	612	10,462	53
			2005	50.00	3,568	907	11,785	58

		Place of Incorporation		Share of capital %	Share-holders' equity € '000	Profit after tax € '000	Revenue € '000	Average number of employees
Joint ventures								
Germany (continue)								
FSG Flughafen-Service GmbH	*FSG*	*Frankfurt a. M.*	*2004*	*33.33*	*229*	*65*	*3,902*	*0*
			2005	*33.33*	*161*	*85*	*4,161*	*0*
Medical Airport Service GmbH	*MAS*	*Kelsterbach*	*2004*	*50.00*	*1,078*	*356*	*4,497*	*52*
			2005	*50.00*	*1,365*	*465*	*5,301*	*55*
NICE Aircraft Services & Support GmbH	*NICE*	*Frankfurt a. M.*	*2004*	*52.00*	*7,585*	*2,047*	*13,274*	*10*
			2005	*52.00*	*9,833*	*2,905*	*17,722*	*10*
Joint ventures								
Rest of Europe								
S. A. TCR International N.V., Brüssel (Teilkonzern): 7 wholly-owned subsidiaries of TCR are included in the TCR sub group, in which Fraport AG indirectly holds 50%	*TCR*	*Belgium*	*2004*	*50.00*	*7,821*	*1,183*	*39,704*	*219*
			2005	*50.00*	*10,406*	*2,467*	*48,852*	*248*
Asia								
Pantares Tradeport Asia Ltd., Hong Kong	*Pantares Tradeport*	*China*	*2004*	*50.00*	*6,646*	*–240*	*0*	*0*
			2005	*50.00*	*3,344*	*–4,306*	*0*	*0*
Shanghai Frankfurt Airport Consulting Service Co. Ltd., Shanghai	*Shanghai*	*China*	*2004*	*50.00*	*91*	*–7*	*0*	*0*
			2005	*50.00*	*220*	*2*	*182*	*0*
Associated companies								
Germany								
Airmail Center Frankfurt GmbH	*ACF*	*Frankfurt a. M.*	*2004*	*40.00*	*1,284*	*460*	*15,665*	*25*
			2005	*40.00*	*1,613*	*329*	*15,368*	*25*
ASG Airport Service Gesellschaft mbH	*ASG*	*Frankfurt a. M.*	*2004*	*49.00*	*3,182*	*2,668*	*31,140*	*775*
			2005	*49.00*	*2,930*	*2,380*	*33,605*	*816*
Flughafen Hannover Langenhagen GmbH	*Flughafen Hannover*	*Hanover*	*2004*	*30.00*	*127,256*	*5,001*	*128,967*	*673*
			2005	*30.00*	*134,404*	*6,702*	*133,628*	*717*
Grundstücksgesellschaft Gateway Gardens GmbH	*Gateway Gardens*	*Frankfurt a. M.*	*2004*	*25.00*	*297*	*–3*	*0*	*0*
			2005	*25.00*	*269*	*–27*	*0*	*0*
America								
Lima Airport Partners S. R. L., Lima	*LAP*	*Peru*	*2004*	*42.75*	*36,236*	*4,314*	*60,753*	*262*
			2005	*42.75*	*47,253*	*5,134*	*72,063*	*283*
Asia								
Tradeport Hong Kong Ltd., Hong Kong	*Tradeport Hong Kong*	*China*	*2005 [7]*	*18.75*	*9,152*	*–1,732*	*5,401*	*83*

[7] *First time consolidation at equity on December 31, 2005.*

Frankfurt am Main, March 6, 2006

Fraport AG
Frankfurt Airport Services Worldwide
The Executive Board

Dr Bender **Professor Schölch** **Mai** **Dr Schulte**

Independent auditor's report

(Translation of the original German version)

We have audited the consolidated financial statements prepared by Fraport AG Frankfurt Airport Service Worldwide, Frankfurt am Main, comprising the balance sheet, the income statement, statement of changes in equity and the notes to the consolidated financial statements, together with the group management report for the business year from January 1, 2005, to December 31, 2005. The preparation and the content of the consolidated financial statements and the group management report in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a paragraph 1 HGB are the responsibility of the parent company's management Company's Board of Managing Directors. Our responsibility is to express an opinion on whether the consolidated financial statements are in accordance with IFRS based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer in Deutschland (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures.

The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by Board of Managing Directors, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

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

Frankfurt am Main, March 6, 2006

PwC Deutsche Revision
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Wagner	ppa. Hauptmann
German Public Auditor	German Public Auditor

Report of the Supervisory Board

During fiscal 2005, the Supervisory Board carried out the functions assigned to it in accordance with the law and the company's statutes and monitored the conduct of the company's business on an ongoing basis. It kept itself informed by the Executive Board regularly, promptly and comprehensively in the form of written and oral reports about the intended business policy, fundamental issues relating to the future business management and corporate planning, the situation and development of the company and the Group as well as important business transactions and consulted these subjects with the Executive Board. Furthermore, the Executive Board agreed the strategic alignment of the company with the Supervisory Board. The Chairman of the Executive Board also maintained regular contact with the Chairman of the Supervisory Board and informed him about current developments in the business situation as well as about major business transactions. Wherever it was necessary in accordance with the law, the company' s statutes or the rules of procedure, the Supervisory Board passed votes about the proposals made by the Executive Board following a thorough review and discussion of its own.

The Supervisory Board held a total of eight meetings in fiscal 2005. All members of the Supervisory Board attended at least half of the meetings of the Supervisory Board.

Principle focus of attention of the Supervisory Board

The development of the business of the Fraport Group and its investments, with particular emphasis on traffic and revenue development at Rhine/Main Airport, was the subject of regular discussion by the Supervisory Board.

Apart from the regular reports about this issue, the following subjects were discussed particularly intensively:

- Adaptation of the Frankfurt location to accommodate the new Airbus A380 was discussed extensively by the Supervisory Board. The zoning approval issued for the Lufthansa A380 maintenance facility was implemented insofar in the period under review that the site was cleared and transferred and that it was possible for DLH to submit the building application. The customer's requests about the positioning of the A380 at the existing terminals in Frankfurt were also specified. By this, it was possible to take important decisions about the building and capital expenditure volume and further progress was made in detailed planning. The Supervisory Board was delighted and proud to see that the practical tests in connection with the first landing of an A380 away from its home base went successfully in Frankfurt on October 29, 2005 and demonstrated that the airport is already equipped to a large extent to handle the biggest passenger aircraft in the world.

- The progress made in the zoning procedure about the planned extension of the take-off and landing runway system and about the construction of a third terminal in Frankfurt was monitored just as closely by the Supervisory Board as the plans for adaptation and extension of the existing terminals.

- The Supervisory Board also kept itself informed about the implementation of security measures at the terminals and in the apron area on the basis of relevant EU regulations.

- With particular interest, the Supervisory Board noted the conclusion of the new contract with Lufthansa about the provision of ground handling services. It discussed the cornerstones of the contract at its meeting on July 21, 2005 and in this context welcomed the fact that the Executive Board and the works council succeeded in supporting the sound planning basis created as a result by concluding a contract about greater flexibility in working time arrangements in future and about an improvement in the personnel cost rate, thus helping to safeguard jobs.

- By continuing the Groups internationalization strategy, the Supervisory Board agreed to participate in tenders for a number of privatization projects. Although these bids were not successful in all cases, the Supervisory Board explicitly welcomed the fact that the company managed to submit competitive bids for the airports of Varna and Bourgas in Bulgaria, Mumbai and Delhi in India and Budapest in Hungary, in cooperation with its respective syndicate partners.

- With respect to the investment in Manila, the Supervisory Board supported the further efforts made in court and out of court to agree on appropriate compensation arrangements with the Philippine government about the capital expenditures made in connection with the building of Terminal 3 at Manila Airport. At a special meeting on September 1, 2005, the Supervisory Board approved the attempt to reach an amicable agreement by the conditioned acceptance of the offer made by a Philippine company. Irrespective of this, it kept itself informed at regular intervals about the progress made in the ICSID[1] arbitration proceedings at the World Bank in Washington, which were continued intensively throughout the period under review.

- Regarding the company's investments, the Supervisory Board approved the increase in the investments at Frankfurt-Hahn and Lima Airports as well.

- At its meeting on May 31, 2005, the Supervisory Board also approved changes to the rules of procedure and schedule of responsibilities for the Executive Board, which became necessary because of the reduction in the size of the Executive Board to four members that was decided back in November 2004.

- In connection with the current 2001 management stock option plan, the Supervisory Board took a further decision to satisfy the rights of the participants with respect to the exercising of the 2001 and 2003 tranches from restricted authorized capital.

Work of the committees

The Supervisory Board has formed five committees to increase the efficiency of its operations and to prepare for meetings of the Supervisory Board. Decision-making authority held by the Supervisory Board has been transferred to the committees in isolated cases. The committee chairmen presented regular reports about the activities of the committees to the plenum of the Supervisory Board at the next meeting of the Supervisory Board.

The presidential committee held three meetings in the period under review. The issues it discussed included the Executive Board matters that arose in fiscal 2005, particularly the extension of the Executive Board members' contracts and the specification of the performance-based compensation components.

The finance and audit committee held four meetings in the period under review, at which it discussed the financial statements and consolidated financial statements, the proposal for appropriation of profits, the level of the dividend, risk management and – as required by the German Corporate Governance Code – the independent status of the auditor. It also discussed the specification of the audit procedures. It also commented on the business plan of Fraport AG for 2006 (prepared in accordance with the German Commercial Code/HGB) and the Group plan for 2006 (prepared in accordance with IFRS), too. Risk and asset management were further emphases in committee consultations.

The investments and capital expenditure committee discussed the economic development of existing investments as well as the adjustment and composition of the Fraport AG investment portfolio at its five meetings. In this context, it approved the increase in the investment in Antalya and passed resolutions in connection with the participation in tenders in India and Hungary. Apart from this, it dealt with the capital expenditures at the Frankfurt location and commented on the capital expenditure plan within the framework of the 2006 business plan.

[1] *International Center for the Settlement of Investment Disputes.*

The human resources committee held four meetings in the period under review. In preparation for resolutions in the human resources field, it commented on the human resources situation in the Group, on fundamental issues relating to tariff law, on the compensation systems and the employee investment plan as well as on issues relating to company training, health provision and company pensions.

In fiscal 2005 it was not necessary to convene the mediation committee formed in line with the regulations of the co-detemination act.

Corporate governance and statement of compliance

In view of the publication of a new version of the German Corporate Governance Code on June 2, 2005, the Supervisory Board decided at its meeting on October 6, 2005 to adapt the recommendations and suggestions and to adjust the Fraport Corporate Governance Code accordingly.

The Statement of Compliance relating to the German Corporate Governance Code required pursuant to § 161 AktG were submitted by the Executive Board and Supervisory Board on December 13, 2004 and was replaced on October 6, 2005.

The Supervisory Board used a detailed questionnaire that was compiled and evaluated with the help of an external consultant to review the efficiency of its operations during the period under review. The results were also discussed in depth at the meeting on October 6, 2005.

Further details about corporate governance at Fraport and the wording of the current compliance statement can be found on pages 148 and 149. The Fraport Corporate Governance Code and the current compliance statement can be downloaded from the Internet at www.fraport.com, too.

Annual and consolidated financial statements

PwC Deutsche Revision Aktiengesellschaft-Wirtschaftsprüfungsgesellschaft audited the annual financial statements of Fraport AG and the consolidated financial statements of the Group for the year that ended on December 31, 2005 as well as the management report of Fraport AG and the consolidated management report of the Group and issued an unqualified auditor`s certificate about them. The Supervisory Board had commissioned the audit in accordance with the resolution passed at the Annual General Meeting on June 1, 2005.

The consolidated financial statements were prepared in accordance with the International Financial Reporting Standards (IFRS) and were examined by the auditor. The auditor has confirmed that the consolidated financial statements and Group management report meet the necessary requirements for being exempt from making annual financial statements accourding to German law. The auditor has also confirmed that the Executive Board has introduced an efficient risk management system in accordance with the statutory regulations.

The Executive Board promptly dispatched to the Supervisory Board these documents and the Executive Board's proposal for appropriation of the profits. The finance and audit committee of the Supervisory Board studied these documents intensively; the Supervisory Board itself also examined these documents. The audit reports from PwC were made available to all members of the Supervisory Board and were discussed in detail at the audit meeting of the Supervisory Board in the presence of the auditor, who reported on the key findings of his audit. The Supervisory Board agreed with the findings of the audit. No objections were raised at the subsequent review of the audit by the finance and audit committee and the Supervisory Board's own assessment. The Supervisory Board approved the resolutions made by the Executive Board, and the annual financial statements have thus been approved.

The Supervisory Board agreed with the proposal of the Executive Board to use the retained earnings to pay a dividend of € 0.90 for each ordinary share entitled to a dividend payment. The report prepared by the Executive Board in accordance with § 312 AktG with regard to the relationships of the company with other Group companies was also made available to the Supervisory Board. The conclusion of the report contains the following declaration of the Executive Board, which was also included in the management report:

"The Executive Board declares that, in accordance with the circumstances known at the time of the respective legal transaction, we have received an appropriate payment for each legal transaction. During the year under review, measures were neither taken nor omitted at the request of or in the interest of the Federal Republic of Germany, the state of Hesse and the Stadtwerke Frankfurt am Main Holding GmbH and companies affiliated with these bodies." The auditor carefully examined the report regarding relationships with other Group companies and awarded it the following audit certificate:

"Based on an audit and assessment performed in accordance with professional standards, we hereby confirm that

1. the factual information in the report is correct,
2. the legal transactions listed in the report involved no unreasonably high expenses by the company and that disadvantages were compensated."

The auditor took part in the discussions of the Supervisory Board about the report regarding relationships with Group companies and reported on the material findings of his audit. After its own examination, the Supervisory Board is in agreement with the opinion of the auditor and has no objections to the Executive Board's declaration at the end of the report with regard to relationships with Group companies and its inclusion in the management report.

Composition of the Supervisory Board and the committees

The legal appointment of Dr Joachim v. Harbou to the Supervisory Board as the successor to Professor Karel Van Miert, who resigned in August 2004, was confirmed by his election at the Annual General Meeting that was held on June 1, 2005.

At its meeting on March 21, 2005, the Supervisory Board unanimously passed a resolution extending the appointments of Dr Bender and Professor Schölch as members of the Executive Board until August 31, 2009 and June 30, 2007 respectively. In addition to this, Dr Bender was re-elected Chairman of the Executive Board and Professor Schölch was re-elected Vice Chairman of the Executive Board. A decision to extend the appointment of Herbert Mai as the member of the Executive Board acting as the Labor Relations Director until March 31, 2011 was taken at the meeting of the Supervisory Board held on May 31, 2005.

Against the background of the successful fiscal year 2005, the Supervisory Board would like to express its particular thanks to the Executive Board and all the company's employees for their personal commitment to the interests of the company.

Frankfurt am Main, March 2006

Karlheinz Weimar
(Chairman of the Supervisory Board)

Corporate governance

The term "corporate governance" stands for responsible company management and control, the aim of which is the sustained creation of value. In this context, efficient co-operation between the Executive Board and the Supervisory Board is just as important as respect for shareholders' interests and open and transparent corporate communications. Corporate governance has high priority for Fraport. We therefore welcome the ongoing national and international action in this field and took further measures in 2005 that supplement our own Fraport code of conduct in accordance with the German Corporate Governance Code (GCGC).

The Executive Board and the Supervisory Board issued the latest conformity statement in accordance with § 161 of the German Stock Companies Act (AktG) on October 6, 2005.

The only point of the recommendations made by the Government Commission that compiled the German Corporate Governance Code (version dated June 2, 2005) that we had not yet implemented at the end of 2005 was as follows:

The compensation paid to the members of the Supervisory Board does not include a performance-related, variable component (section 5.4.7 paragraph 2 sentence 1 of the GCGC).

In accordance with § 12 of our articles of association, the members of the Supervisory Board continue to receive exclusively fixed compensation as well as a fee for attending meetings. The Supervisory Board still considers this to be appropriate. Total compensation in 2005 was as follows:

Member of the Supervisory Board	*Compensation in 2005 €*	*Member of the Supervisory Board*	*Compensation in 2005 €*
Karlheinz Weimar (state government minister)	*33,400*	*Gabriele Rieken*	*19,000*
Gerold Schaub	*29,100*	*Harald Rose*	*19,400*
Dr Manfred Bischoff	*17,400*	*Petra Rossbrey*	*19,200*
Jörg-Uwe Hahn	*28,100*	*Dr h.c. Petra Roth* (lord mayor)*	*20,200*
Dr Joachim v. Harbou	*26,500*	*Werner Schmidt**	*19,400*
Lothar Herbst	*19,200*	*Dr Jürgen Siewert*	*18,600*
Helmut Hofmann	*20,400*	*Edgar Stejskal*	*19,800*
Lothar Klemm	*18,200*	*Christian Strenger*	*18,400*
Zafer Memisoglu	*19,800*	*Joachim Vandreike* (mayor)*	*20,600*
Ralf Nagel (former state secretary)	*19,200*	*Peter Wichtel*	*27,300*

** Including voting messages.*

Since the last corporate governance report was published in the Annual Report 2004, the Annual General Meeting held on June 1, 2005 passed a resolution proposed by the Executive Board and the Supervisory Board about a restructuring of the stock option plan for the management, which corresponds to the recommendations of the German Corporate Governance Code (section 4.2.3).

In the context of the 2005 Management Stock Option Plan (MSOP), subscription rights can be issued to members of the Executive Board of Fraport AG, directors of affiliated companies and further selected managers of Fraport AG and the companies affiliated with it. In accordance with the rules of the new stock option plan, Fraport AG issued 198,300 subscription rights for the whole of the 2005 fiscal year. The stock options can be issued to managers who are eligible once a year in up to five annual tranches.

In contrast to the previous plan, the 2005 MSOP includes not only an absolute exercise restriction but also a relative one and requires personal financial investment. The size of the profit resulting from the exercising of the stock options by the managers who are eligible is limited, too.

The Executive Board is required to contribute € 1.00 to shares in Fraport AG as a personal financial investment for each subscription right, while the other managers who are eligible to participate need to contribute € 0.30 for each subscription right. The stock options can be exercised at the earliest after the end of a waiting period of three years starting on the relevant issue date and within a period of a further two years.

In accordance with section 6.6 of the Code and the provisions of the German Securities Trading Act (WpHG), we immediately disclose the business transactions carried out with Fraport shares and options by management staff and persons with whom they have close relationships.

The members of the Executive Board received shares as part of their compensation in 2005, the value of which was as follows: Dr Bender € 81,227.52, Professor Schölch € 69,632.64, Herbert Mai € 42,926.40, Dr Schulte € 69,632.64 and Professor Jakubeit € 45,239.04.

The members of the Supervisory Board Petra Rossbrey and her husband Andreas Helfer exercised options worth € 58,349.00 and € 63,345.00 respectively in 2005. The value of stock options exercised by the Executive Board was as follows: Dr Bender € 481,878.70, Professor Schölch € 367,140.80, Herbert Mai € 376,900.50, Dr Schulte € 228,750.50 and Professor Jakubeit € 322,913.53. The Executive Vice Presidents Peter Schmitz, Christian Häfner and Volker Zintel exercised options worth € 121,386.48, 145,324.16 and 49,448.38 respectively.

The proceeds of share sales in 2005 were as follows: Dr Bender € 115,652.00, Professor Schölch € 69,896.40, Professor Jakubeit € 26,363.52, Herbert Mai € 38,280.00, Dr Schulte € 55,123.16 and Peter Schmitz € 6,254.36.

The total number of shares held by all the members of the Executive Board and the Supervisory Board was less than 1% of the total number of shares issued by Fraport at the end of 2005.

The Supervisory Board reviewed the efficiency of its operations again in 2005. A questionnaire was developed for this purpose with the help of an external consultant. The results of the analysis were subsequently discussed in detail at a meeting.

Fraport does not implement four of the suggestions made in the German Corporate Governance Code:

• For first-time appointments of Executive Board members, the maximum possible appointment period of five years should not be the rule (section 5.1.2 paragraph 2 of the GCGC).

All the members of the Executive Board were already appointed for five years the first time they were appointed.

• The performance-related compensation paid to the members of the Supervisory Board should contain components based on the long-term performance of the company (section 5.4.7 paragraph 2 sentence 2 of the GCGC).

§ 12 of the articles of association stipulates exclusively fixed compensation and a fee for attending meetings.

• The company should make it possible for shareholders to follow the General Meeting using modern communication media (such as the Internet) (section 2.3.4 of the GCGC).

For security and cost reasons, Fraport only broadcast the welcome by the Chairman of the Supervisory Board and the complete speech by the Chairman of the Executive Board in the Internet.

• The representative arranged to exercise shareholders' voting rights should be reachable during the General Meeting, too (section 2.3.3 sentence 2 of the GCGC).

The shareholders were able to nominate a represent to exercise their voting rights up to the evening before the 2005 Annual General Meeting. Since the meeting was no longer being broadcast in the Internet after the speeches by the Chairmen of the Supervisory Board and the Executive Board, there was no need for the representative to be reachable by shareholders who did not attend the Annual General Meeting directly.

Economic Advisory Board

The purpose of the Economic Advisory Board is to provide the Executive Board of Fraport AG with advice and support relating to important issues concerning not only the development of the economy and the aviation industry but also business policy. The members are appointed by the Executive Board for three-year periods. The Executive Board attends the meetings of the Economic Advisory Board and the Chairman of the Supervisory Board is invited to take part in the sessions as a permanent guest.

Hilmar Kopper, Chairman
Chairman of the Supervisory Board
DaimlerChrysler AG

Dr Clemens Börsig
Member of the Executive Board
Deutsche Bank AG

Dr Werner Brandt
Member of the Executive Board
SAP AG

Dr Reiner Maria Gohlke
Member of the Shareholders' Committee
Bitburger Getränke-Verwaltungs GmbH

Klaus Herms
Chief Executive Officer
Kühne + Nagel International AG

Dieter Kaden
Managing Director
DFS Deutsche Flugsicherung GmbH

Hemjö Klein
Live Holding AG

Dr Peter E. Kruse
Member of the Executive Board
Deutsche Post AG

Professor Dr Rolf-Dieter Leister
Infra Beratung AG

Dr Bernd Malmström
Consultant Deutsche Bahn AG

Wolfgang Mayrhuber
Chairman of the Executive Board
Deutsche Lufthansa AG

Dr Günther Merl
Chairman of the Executive Board
Landesbank Hessen-Thüringen

Friedrich von Metzler
Bankhaus B. Metzler seel. Sohn & Co.
KGaA

Dr h.c. Klaus-Peter Müller
Chairman of the Executive Board
Commerzbank AG

Dr Lutz Raettig
Chairman of the Supervisory Board
Morgan Stanley Bank AG

Hans W. Reich
Chairman of the Executive Board
KfW Bankengruppe

Dr h.c. Nikolaus Schweickart
Chairman of the Executive Board
ALTANA AG

Holger Steltzner
Publisher Frankfurter
Allgemeine Zeitung

Dr Bernd Thiemann
Partner Drueker & Co. GmbH

Dr Gert Vogt
Sterling Invest AG

Ernst Welteke
Former President of Deutsche Bundesbank,
former Chairman of the Supervisory Board
of Flughafen Frankfurt/Main AG

Permanent Guest:
Karlheinz Weimar,
Finance Minister, State of Hesse
Chairman of the Supervisory Board of
Fraport AG

Seven-year overview

€ million	Balance at* Dec. 31, 1999	Balance at* Dec. 31, 2000	Balance at* Dec. 31, 2001	Balance at* Dec. 31, 2002	Balance at* Dec. 31, 2003	Balance at* Dec. 31, 2004	Balance at Dec. 31, 2005
Non-current assets	**2,659.9**	**2,778.8**	**3,295.0**	**2,778.1**	**2,773.8**	**2,738.9**	**3,098.8**
Goodwill	51.1	62.2	45.2	161.0	139.0	116.8	108.3
Other intangible assets	29.7	48.5	54.6	64.1	59.3	52.5	50.2
Property, plant and equipment	2,434.2	2,447.7	2,435.1	2,403.9	2,376.8	2,381.5	2,587.3
Investment property	0.0	0.0	0.0	0.0	0.0	0.0	37.4
Investments accounted for using the equity method	59.3	71.0	126.1	37.3	45.9	46.9	53.6
Other financial assets	34.7	99.8	561.8	32.3	23.6	52.6	209.5
Other receivables and other assets	46.4	43.6	66.0	71.0	114.7	75.2	33.2
Deferred tax assets	4.5	6.0	6.2	8.5	14.5	13.4	19.3
Current assets	**194.3**	**263.9**	**377.0**	**842.6**	**862.6**	**911.3**	**852.8**
Inventories	13.0	10.3	11.9	13.1	17.1	12.1	14.4
Trade accounts receivable	106.8	135.5	141.3	195.9	181.3	168.6	190.0
Other receivables and other assets	51.4	58.9	149.1	48.5	53.4	64.2	71.5
Cash and cash equivalents	23.1	59.2	74.7	585.1	610.8	666.4	574.2
Non-current assets held for sale							**2.7**
Shareholders' equity	**923.7**	**1,024.1**	**1,969.8**	**1,816.3**	**1,931.7**	**2,041.6**	**2,157.9**
Issued capital	511.3	640.0	900.9	900.6	902.2	905.1	910.7
Capital reserves	0.0	0.0	662.4	532.0	533.2	537.6	550.5
Revenue reserves	383.8	302.6	365.0	370.8	445.0	520.1	599.2
Group retained earnings	25.6	76.7	36.0	0.0	39.7	68.0	82.1
Issued capital and reserve attributable to equity holders of Fraport AG	920.7	1,019.3	1,964.3	1,803.4	1,920.1	2,030.8	2,142.5
Minority interests, presented within equity (net)	3.0	4.8	5.5	12.9	11.6	10.8	15.4
Non-current liabilities	**1,451.4**	**1,462.4**	**1,081.2**	**1,063.7**	**1,111.8**	**1,080.7**	**1,150.5**
Financial liabilities	967.3	1,014.3	671.8	665.4	591.4	574.1	622.4
Other liabilities	99.0	45.8	97.0	100.9	100.80	104.3	115.4
Deferred tax liablities	197.3	181.9	135.0	158.5	147.5	129.8	112.2
Provisions for pension and similar obligations	14.7	15.5	17.4	20.3	22.0	25.5	21.4
Provisions for income taxes	94.1	85.9	118.7	72.6	136.7	151.7	167.0
Other provisions and accruals	79.0	119.0	41.3	46.0	136.2	95.3	112.1
Current liabilities	**479.1**	**556.2**	**621.0**	**740.7**	**570.1**	**527.9**	**643.2**
Financial liabilities	203.3	253.6	298.3	244.3	246.6	86.6	140.1
Trade accounts payable	98.7	113.8	99.0	94.8	79.0	100.4	173.3
Other liabilities	100.2	122.8	116.5	115.3	85.1	111.7	105.1
Provisions for income taxes	0.0	0.0	0.0	14.1	36.8	43.5	18.5
Other provisions and accruals	76.9	66.0	107.2	272.2	122.6	185.7	206.2
Total assets	**2,854.2**	**3,042.7**	**3,672.0**	**3,620.7**	**3,636.4**	**3,650.2**	**3,951.6**

* Prepaid expenses and deferred income have been allocated to the respective non-current items. Allocation of provisions for taxes on income, other provisions and the deferred investment grants on items in non-current assets has been made in consideration of the respective documents.

		Balance at* Dec. 31, 1999	Balance at* Dec. 31, 2000	Balance at* Dec. 31, 2001	Balance at* Dec. 31, 2002	Balance at* Dec. 31, 2003	Balance at* Dec. 31, 2004	Balance at Dec. 31, 2005
Change over the previous year								
Non-current assets	%	–	4.5	18.6	–15.7	–0.2	–1.3	13.1
Shareholders' equity[1]	%	–	5.3	>100	–6.5	4.3	4.4	5.0
Share of total assets								
Non-current assets	%	93.2	91.3	89.7	76.7	76.3	75.0	78.4
Shareholders' equity[1] (equity ratio)	%	31.5	31.1	52.7	50.2	52.0	54.1	52.5
Key figures								
Net financial debt (Non-current and current liabilities – Cash and cash equivalents)	€ million	1,147.5	1,208.7	895.4	324.6	227.2	–5.7	188.3
Capital Employed (Net financial debt + Shareholders' equity[1] + Minority interests' share of equity)	€ million	2,045.6	2,156.1	2,829.2	2,140.9	2,119.2	1,967.9	2,264.1
Gearing (Net financial debt/Shareholders' equity[1])	%	128.2	128.2	46.4	18.0	12.1	–0.3	9.1
Debt ratio (Net financial debt/Total assets)	%	40.2	39.7	24.4	9.0	6.3	–0.2	4.8
Dynamic debt ratio (Net financial debt/Cash flow[2])	%	426.4	441.5	245.5	82.1	50.8	–1.1	38.1
Working Capital (Current assets – Trade accounts payable – other current liabilities)	€ million	–4.6	27.3	161.5	632.5	698.5	699.2	571.7

[1] W/o dividend proposed and minority interests' share of equity.

[2] Cash flow from operating activities.

Financial calendar

Press conference about the 2005 financial statements	Tuesday, March 7
2005 financial statements	Tuesday, March 28
Report on the 1st quarter of 2006	Wednesday, May 10
Annual General Meeting	Wednesday, May 31
Report on the 1st half of 2006	Tuesday, August 8
Report on the 1st nine months of 2006	Tuesday, November 7

Traffic calendar

Month	*All Group airports* [1]
December 2005	*Thursday, January 12, 2006*
January 2006	*Monday, February 13, 2006*
February 2006	*Monday, March 13, 2006*
March 2006	*Thursday, April 13, 2006*
April 2006	*Friday, May 12, 2006*
May 2006	*Tuesday, June 13, 2006*
June 2006	*Thursday, July 13, 2006*
July 2006	*Friday, August 11, 2006*
August 2006	*Wednesday, September 13, 2006*
September 2006	*Friday, October 13, 2006*
October 2006	*Monday, November 13, 2006*
November 2006	*Wednesday, December 13, 2006*

[1] *Frankfurt, Antalya, Hahn, Hanover, Lima, Saarbrücken.*

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