

Prospectus dated 25 October 2011

## AIR BERLIN PLC

*(incorporated and registered in England and Wales as a public limited company)*



### **Up to €100,000,000 11.5% Fixed Rate Notes due 2014, subject to an increase of up to a further €50,000,000**

**Issue price: 100%**

The up to €100,000,000 (subject to an increase of up to a further €50,000,000) 11.5% Fixed Rate Notes due 2014 (the **Notes**) will be issued on 1 November 2011 by Air Berlin PLC (the **Issuer** or **Air Berlin**). The Issuer may, at its option, redeem all, but not some only, of the Notes at any time at par plus accrued interest to (but excluding) the date fixed for redemption in the event of certain tax changes as set out in § 5(2) of the Terms and Conditions.

This document constitutes a prospectus (the **Prospectus**) under the Prospectus Directive. **Prospectus Directive** means Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003 on the prospectus to be published when securities are offered to the public or admitted to trading. This Prospectus has been approved by the Central Bank of Ireland (the **Central Bank**), as competent authority under the Prospectus Directive. The Central Bank only approves this Prospectus as meeting the requirements imposed under Irish and EU law pursuant to the Prospectus Directive. Application has been made to the Irish Stock Exchange (the **Irish Stock Exchange**) for the Notes to be admitted to the Official List and trading on its regulated market (the **Main Securities Market**). The Main Securities Market is a regulated market for the purposes of the Directive 2004/39/EC (**MiFID**). Such approval relates only to the Notes which are to be admitted to trading on the regulated market of the Irish Stock Exchange or other regulated markets for the purposes of MiFID or which are to be offered to the public in any Member State of the European Economic Area.

The Issuer has requested the Central Bank to provide the competent authority in Germany, i.e. the *Bundesanstalt für Finanzdienstleistungsaufsicht* (**BaFin**), with a certificate of approval attesting that this Prospectus has been drawn up in accordance with the Prospectus Directive.

Application has also been made to include the Notes to trading on the Open Market (*Freiverkehr*) of the Frankfurt Stock Exchange and the Bondm trading segment of the open market (*Freiverkehr*) of the Baden-Württemberg Stock Exchange in Stuttgart. Both markets are not regulated markets for purposes of MiFID.

This Prospectus is drawn up in the English language. In case there is any discrepancy between the English text and the German text, the English text stands approved for the purposes of approval under the Prospectus (Directive 2003/71/EC) Regulations 2005. The Terms and Conditions of the Notes and the Summary are drawn up in both English and German language. The German language version of the Terms and Conditions shall be binding.

The Notes have been assigned the following security codes: ISIN DE000AB100C2, WKN AB100C.

**An investment in the Notes involves certain risks. Prospective investors should consider carefully the factors described under the heading "Risk Factors" beginning on page 14.**

Lead Manager

**quirin bank AG**

## RESPONSIBILITY STATEMENT

The Issuer accepts responsibility for the information contained in this Prospectus. To the best of its knowledge (having taken all reasonable care to ensure that such is the case) the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

The Issuer further confirms that (i) this Prospectus contains all information with respect to the Issuer and its subsidiaries and affiliates taken as a whole (the **Air Berlin Group**) and to the Notes which is material in the context of the issue and offering of the Notes, including all information which, according to the particular nature of the Issuer and of the Notes is necessary to enable investors and their investment advisers to make an informed assessment of the assets and liabilities, financial position, profits and losses, and prospects of the Issuer and the Air Berlin Group and of the rights attached to the Notes; (ii) the statements contained in this Prospectus relating to the Issuer, the Air Berlin Group and the Notes are in every material respect true and accurate and not misleading; (iii) there are no other facts in relation to the Issuer, the Air Berlin Group or the Notes the omission of which would, in the context of the issue and offering of the Notes, make any statement in this Prospectus misleading in any material respect; and (iv) reasonable enquiries have been made by the Issuer to ascertain such facts and to verify the accuracy of all such information and statements.

## NOTICE

The only persons authorised to use this Prospectus in connection with the offering of the Notes are the Issuer and the Lead Manager (as described under "*Subscription, Offer and Sale*" beginning on page 78).

The Lead Manager has not independently verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Lead Manager as to the accuracy or completeness of the information contained in this Prospectus.

No person is or has been authorised by the Issuer to give any information or to make any representation not contained in or not consistent with this Prospectus or any other information supplied in connection with the offering of the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer or the Lead Manager.

Neither this Prospectus nor any other information supplied in connection with the offering of the Notes (a) is intended to provide the basis of any credit or other evaluation or (b) should be considered as a recommendation by the Issuer or the Lead Manager that any recipient of this Prospectus or any other information supplied in connection with the offering of the Notes should purchase any Notes. Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer. Neither this Prospectus nor any other information supplied in connection with the offering of the Notes constitutes an offer or invitation by or on behalf of the Issuer or the Lead Manager to any person to subscribe for or to purchase any Notes.

Neither the delivery of this Prospectus nor the offering, sale or delivery of the Notes shall in any circumstances imply that the information contained herein concerning the Issuer is correct at any time subsequent to the date hereof or that any other information supplied in connection with the offering of the Notes is correct as of any time subsequent to the date indicated in the document containing the same. The Lead Manager expressly does not undertake to review the financial condition or affairs of the Issuer during the life of the Notes or to advise any investor in the Notes of any information coming to their attention.

The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the **US Securities Act**), and are subject to U.S. tax law requirements. In the absence of an available exemption from the registration requirements of the US Securities Act, the Notes may not be offered, sold or delivered within the United States. For a further description of certain restrictions on the offering and sale of the Notes and on distribution of this Prospectus, see "*Subscription, Offer and Sale*" beginning on page 78.

This Prospectus does not constitute an offer to sell or the solicitation of an offer to buy the Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Prospectus and the offer or sale of Notes may be restricted by law in certain jurisdictions. The Issuer and the Lead Manager do not represent that this Prospectus may be lawfully distributed, or that the Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, except as indicated in the "*Subscription, Offer and Sale*" section beginning on page 78, no action has been taken by the Issuer or the Lead Manager which is intended to permit a public offering of the Notes or the distribution of this Prospectus in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Prospectus or any Notes may come must inform themselves about, and observe, any such restrictions on the distribution of this Prospectus and the offering and sale of Notes. In particular, there are restrictions on the distribution of this Prospectus and the offer or sale of Notes in the United States, the United Kingdom and the European Economic Area, see "*Subscription, Offer and Sale*" beginning on page 78.

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## SUMMARY

This Summary must be read as an introduction to this Prospectus and any decision to invest in the Notes should be based on a consideration of this Prospectus as a whole. Following the implementation of the relevant provisions of the Prospectus Directive in each Member State of the European Economic Area, no civil liability will attach to the Responsible Persons in any such Member State in respect of this Summary, including any translation hereof, unless it is misleading, inaccurate or inconsistent when read together with the other parts of this Prospectus. Where a claim relating to information contained in this Prospectus is brought before a court in a Member State of the European Economic Area, the plaintiff may, under the national legislation of the Member State where the claim is brought, be required to bear the costs of translating this Prospectus before the legal proceedings are initiated.

Words and expressions defined in the Terms and Conditions of the Notes (the **Terms and Conditions**) beginning on page 26 shall have the same meanings in this Summary.

## SUMMARY OF THE TERMS AND CONDITIONS AND GENERAL INFORMATION

<b>Issuer:</b>	Air Berlin PLC
<b>Lead Manager:</b>	quirin bank AG
<b>Principal Paying Agent:</b>	quirin bank AG
<b>Description of Notes:</b>	The Notes will be issued by the Issuer on 1 November 2011 (the <b>Issue Date</b> ) in an aggregate principal amount of up to €100,000,000 (subject to an increase of up to a further €50,000,000). The Notes bear interest at a fixed rate of 11.5% p.a. and are due on 1 November 2014.
<b>Form and Clearing:</b>	The Notes will be issued in bearer form in denominations of €1,000. The Notes will initially be represented by a Temporary Global Note without interest coupons which will be deposited with Clearstream Banking AG, Frankfurt. Notes represented by a Temporary Global Note will be exchangeable for Notes represented by a Permanent Global Note without interest coupons not earlier than 40 days after the Issue Date and upon certification to the effect that the beneficial owner or owners of the Notes represented by the Temporary Global Note is/are not (a) U.S. person(s) who has (have) purchased the Notes for resale to any U.S. person as governed by the U.S. Treasury Regulations.
<b>Number of Notes to be issued:</b>	The number of Notes to be issued will be announced in a notice which will be published on the website of the Issuer ( <a href="http://www.airberlin.com">www.airberlin.com</a> ) on or prior to the Issue Date of the Notes.
<b>Interest:</b>	The Notes will bear interest from (and including) 1 November 2011 to (but excluding) 1 November 2014 at the rate of 11.5% per annum. Interest shall be payable

quarterly in arrears on 1 February, 1 May, 1 August and 1 November in each year, commencing on 1 February 2012.

**Optional Redemption by the Issuer for Tax Reasons:**

If, as a result of any change in, or amendment to, the tax laws or regulations applying to the Issuer, certain withholding taxes are levied on payments of principal or interest in respect of the Notes and the Issuer is obliged to pay Additional Amounts (as defined in § 7 of the Terms and Conditions), the Issuer may redeem the Notes in whole, but not in part (§ 5(2) of the Terms and Conditions).

**Events of Default:**

Events of Default under the Notes include non-payment of principal or interest for 15 days, breach of other obligations under the Notes (which breach is not remedied within 60 days), the Issuer or a Subsidiary defaults on certain other payment obligations and certain events related to insolvency or winding-up of the Issuer or a Subsidiary of the Issuer (§ 9 of the Terms and Conditions).

**Negative Pledge:**

The Terms and Conditions contain a negative pledge provision (§ 2(2) of the Terms and Conditions).

**Change of Control:**

The Terms and Conditions contain a change of control provision (§ 5(3) of the Terms and Conditions).

**Status of the Notes:**

The Notes will constitute direct, unconditional, unsubordinated and (subject to the negative pledge provision (§ 2(2) of the Terms and Conditions)) unsecured obligations of the Issuer and will rank *pari passu* among themselves and (save for certain obligations required to be preferred by law) equally with all other unsecured obligations (other than subordinated obligations, if any) of the Issuer, from time to time outstanding.

**Resolutions of Noteholders:**

The Terms and Conditions of the Notes contain provisions for resolutions of Noteholders in accordance with the German Bond Act (*Schuldverschreibungsgesetz*) (§ 13 of the Terms and Conditions). These provisions permit defined majorities to bind all Noteholders including Noteholders who did not vote and Noteholders who voted in a manner contrary to the majority.

**Withholding Tax and Additional Amounts:**

The Issuer will pay such Additional Amounts as may be necessary in order that the net payment received by each Noteholder in respect of the Notes, after withholding for any taxes imposed by the competent tax authorities upon payments made by or on behalf of the Issuer in respect of the Notes, will equal the amount which would have been received in the absence of any such

withholding taxes, subject to customary exceptions, as described in § 7 of the Terms and Conditions.

**Governing Law:**

The Notes will be governed by German law.

**Jurisdiction:**

The competent court in Berlin shall have jurisdiction for any action or other legal proceedings arising out of or in connection with the Notes, unless mandatory statutory provisions require otherwise.

**Listing and Admission to Trading:**

Application has been made to the Irish Stock Exchange (the **Irish Stock Exchange**) for the Notes to be admitted to the Official List and trading on its regulated market (the **Main Securities Market**). The Main Securities Market is a regulated market for the purposes of the Directive 2004/39/EC (**MiFID**). Application has also been made to include the Notes to trading on the Open Market (*Freiverkehr*) of the Frankfurt Stock Exchange and the Bondm segment of the open market (*Freiverkehr*) of the Baden-Württemberg Stock Exchange in Stuttgart. Both markets are not regulated markets for purposes of MiFID.

**Selling Restrictions:**

The Notes have not been and will not be registered under the US Securities Act and, subject to certain exceptions, may not be offered or sold within the United States. The Notes may be sold outside the United States only pursuant to Regulation S under the US Securities Act and in compliance with applicable laws and regulations. See "*Subscription, Offer and Sale*" beginning on page 78.

**Public Offer:**

The Notes may be offered to the public in Germany and Ireland. For provisions and restrictions relating to offers of Notes to the public in the European Economic Area, see "*Subscription, Offer and Sale*".

**Use of Proceeds:**

The Issuer intends to use the net proceeds to refinance its existing indebtedness.

## **SUMMARY OF THE RISK FACTORS**

### **Risks relating to the Notes**

There are certain factors which are material for the purpose of assessing the market risks associated with the Notes. These are set out under "*Risk Factors*" beginning on page 14 and include the fact that the Notes may not be a suitable investment for all investors as well as market price risks, interest rate risks, inflation risks, taxation risks, liquidity risks, the risk of early redemption for tax reasons, the risk of changes to the Terms and Conditions because of a noteholder resolution or a change in law.

### **Risks relating to the Issuer**

There are certain factors which are material for the purpose of assessing the risks associated with the airline industry in general and Air Berlin in particular. These are set out under "Risk Factors" beginning on page 14 and include, *inter alia*, risks relating to joining oneworld®, risks relating to the

imposition of air travel taxes, competitive risks, risks relating to extreme weather conditions, volcanic activity, disease, natural or man-made disasters, and terrorist or military activity, political conflicts, risks relating to air crashes, risks relating to high fixed costs and increased regulation, risks relating to suitable airports and increases in airport transit fees, landing fees and security charges, risks relating to the inclusion of aviation in the EU emissions trading scheme, dependency on third party providers and the ability to obtain financing, risks relating to employees and employee representatives as well as strikes and technology, and risks relating to route planning, seasonal fluctuations, the German market, fluctuations in aviation fuel supply and prices, interest rate and currency exchange rates.

## **SUMMARY OF THE DESCRIPTION OF THE ISSUER**

Air Berlin PLC is incorporated and registered in England and Wales as a public limited company. Air Berlin's registered office is The Hour House, 32 High Street, Rickmansworth, WD3 1ER, with the telephone number +49 (0)30 3434 1500. Air Berlin's registered number is 5643814.

Air Berlin's authorised share capital is comprised of 85,226,196 ordinary shares of €0.25 each and 50,000 A shares of £1.00 each which were issued and fully paid up as of 30 September 2011. Included in this amount are 177,600 treasury shares held by Air Berlin through the Air Berlin Employee Share Trust.

Air Berlin is the parent company of a group which comprises Germany's second-largest airline and Europe's sixth-largest airline in terms of passenger numbers. Air Berlin offers scheduled flights on a wide range of short-, medium- and long-haul routes. As of 30 June 2011, Air Berlin flew to 170 domestic German and international destinations in 45 countries. In total, Air Berlin flew to 132 destinations in Europe (including destinations in Turkey), 15 in North Africa along with a further 23 destinations overseas in Africa, North America, the Caribbean and Asia. As of 30 September 2011, Air Berlin flew to 185 domestic German and international destinations in 47 countries, of which 147 destinations in Europe (including destinations in Turkey), 15 destinations in North Africa and a further 23 destinations overseas in Africa, North America, the Caribbean and Asia. Air Berlin's European destinations are located primarily in, or in close proximity to, major European cities that are attractive to leisure and business travellers alike. In 2010, Air Berlin transported 33.6 million passengers (2009: 32.4 million) and generated revenue of €3,723.6 million (2009: €3,240.3 million). Air Berlin's major competitors are easyJet within Europe and in the German market, Lufthansa.



## SUMMARY (GERMAN TRANSLATION)

### ZUSAMMENFASSUNG

Diese Zusammenfassung ist als Einleitung zu diesem Prospekt zu lesen, und jede Entscheidung hinsichtlich einer Anlage in die Schuldverschreibungen sollte auf Grundlage des gesamten Prospekts getroffen werden. Im Anschluss an die Umsetzung der maßgeblichen Bestimmungen der Prospekttrichtlinie in allen Mitgliedstaaten des Europäischen Wirtschaftsraums können diejenigen Personen, die in einem dieser Mitgliedstaaten die Verantwortung für diese Zusammenfassung, einschließlich ihrer Übersetzung, übernommen haben, nur dann zivilrechtlich haftbar gemacht werden, wenn diese irreführend, unrichtig oder widersprüchlich ist, wenn sie zusammen mit den anderen Teilen dieses Prospekts gelesen wird. Für den Fall, dass vor einem Gericht in einem Mitgliedstaat des Europäischen Wirtschaftsraums Ansprüche aufgrund der in diesem Prospekt enthaltenen Angaben geltend gemacht werden, könnte der Kläger in Anwendung der Rechtsvorschriften des Mitgliedstaates, in dem die Ansprüche geltend gemacht werden, die Kosten für die Übersetzung dieses Prospekts vor Prozessbeginn zu tragen haben.

Die in den auf Seite 26 beginnenden Emissionsbedingungen der Schuldverschreibungen (die **Emissionsbedingungen**) definierten Begriffe und Ausdrücke haben in dieser Zusammenfassung jeweils die gleiche Bedeutung.

### ZUSAMMENFASSUNG DER BEDINGUNGEN UND ALLGEMEINE INFORMATIONEN

<b>Emittentin:</b>	Air Berlin PLC
<b>Lead Manager:</b>	quirin bank AG
<b>Hauptzahlstelle:</b>	quirin bank AG
<b>Beschreibung der Schuldverschreibungen:</b>	Die Schuldverschreibungen werden von der Emittentin am 1. November 2011 (der <b>Emissionstag</b> ) in einem Gesamtnennbetrag von bis zu €100.000.000 (vorbehaltlich einer Erhöhung um weitere bis zu €50.000.000) emittiert. Sie werden mit einem Festzinssatz von 11,5 % verzinst und sind zum 1. November 2014 fällig.
<b>Form und Clearing:</b>	Die Schuldverschreibungen lauten auf den Inhaber und werden in Stückelungen von €1.000 begeben. Die Schuldverschreibungen werden anfänglich durch eine vorläufige Globalurkunde ohne Zinsscheine verbrieft, welche bei Clearstream Banking AG, Frankfurt hinterlegt werden. Schuldverschreibungen, die durch eine vorläufige Globalurkunde verbrieft sind, können, nicht früher als 40 Tage nach dem Emissionstag, gegen eine Dauerglobalurkunde ohne Zinsscheine ausgetauscht werden, sofern eine Bescheinigung vorliegt, wonach der oder die wirtschaftliche(n) Eigentümer der durch die vorläufige Globalurkunde verbrieften Schuldverschreibungen keine U.S. Person(en) ist (sind), der (die) die Schuldverschreibungen zum Weiterverkauf an eine U.S. Person gemäß den U.S. Treasury Regulations erworben

hat (haben).

**Anzahl der zu emittierenden  
Schuldverschreibungen:**

Die Anzahl der zu emittierenden Schuldverschreibungen wird in einer Mitteilung bekanntgegeben, die auf der Internetseite der Emittentin ([www.airberlin.com](http://www.airberlin.com)) an oder vor dem Emissionstag der Schuldverschreibungen veröffentlicht wird.

**Zinsen:**

Die Schuldverschreibungen werden ab dem 1. November 2011 (einschließlich) bis zum 1. November 2014 (ausschließlich) zu einem Satz von 11,5 % per annum verzinst. Zinszahlungen erfolgen vierteljährlich nachträglich am 1. Februar, 1. Mai, 1. August und am 1. November eines jeden Jahres, beginnend am 1. Februar 2012.

**Wahlweise Rückzahlung durch die  
Emittentin aus steuerlichen Gründen:**

Falls infolge einer Änderung oder Ergänzung der auf die Emittentin anwendbaren Steuergesetze oder Vorschriften bestimmte Quellensteuern auf Zahlungen von Kapital- oder Zinsbeträgen in Bezug auf die Schuldverschreibungen erhoben werden und die Emittentin verpflichtet ist, Zusätzliche Beträge (wie in § 7 der Emissionsbedingungen definiert) zu zahlen, kann die Emittentin die Schuldverschreibungen ganz, aber nicht teilweise zurückzahlen (§ 5 Absatz 2 der Emissionsbedingungen).

**Kündigungsgründe:**

Kündigungsgründe im Rahmen der Schuldverschreibungen sind unter anderem 15 Tage andauernde Nichtzahlung von Kapital oder Zinsen, die Verletzung sonstiger Verpflichtungen aus den Schuldverschreibungen (sofern diese Verletzung nicht innerhalb von 60 Tagen geheilt wird), die Nichterfüllung bestimmter weiterer Zahlungsverpflichtungen durch die Emittentin oder eine Tochtergesellschaft sowie bestimmte Ereignisse im Zusammenhang mit einer Insolvenz oder Abwicklung der Emittentin oder einer Tochtergesellschaft (§ 9 der Emissionsbedingungen).

**Negativverpflichtung:**

Die Emissionsbedingungen enthalten Bestimmungen zu einer Negativverpflichtung (§ 2 Absatz 2 der Emissionsbedingungen).

**Kontrollwechsel:**

Die Emissionsbedingungen enthalten eine Kontrollwechselbestimmung (§ 5 Absatz 3 der Emissionsbedingungen).

**Status der Schuldverschreibungen:**

Die Schuldverschreibungen stellen direkte, unbedingte, nicht nachrangige und (vorbehaltlich der Bestimmungen der Negativverpflichtung (§ 2 Absatz 2 der Emissionsbedingungen)) unbesicherte Verbindlichkeiten der Emittentin dar und sind untereinander sowie (mit Ausnahme bestimmter Verpflichtungen, die kraft Gesetzes vorrangig zu bedienen sind) mit allen anderen, jeweils

ausstehenden unbesicherten Verbindlichkeiten (mit Ausnahme etwaiger nachrangiger Verbindlichkeiten) der Emittentin gleichrangig.

**Beschlüsse der  
Schuldverschreibungsgläubiger:**

Die Emissionsbedingungen der Schuldverschreibungen enthalten Bestimmungen zu Beschlüssen der Schuldverschreibungsgläubiger gemäß dem deutschen Schuldverschreibungsgesetz (§ 13 der Emissionsbedingungen). Gemäß diesen Bestimmungen kann ein Mehrheitsbeschluss für alle Schuldverschreibungsgläubiger bindend sein, auch für Schuldverschreibungsgläubiger, die ihr Stimmrecht nicht ausgeübt haben oder die nicht mit der Mehrheit gestimmt haben.

**Quellensteuer und Zusätzliche Beträge:**

Die Emittentin wird diejenigen Zusätzlichen Beträge zahlen, die erforderlich sind um sicherzustellen, dass die von jedem Schuldverschreibungsgläubiger in Bezug auf die Schuldverschreibungen vereinnahmte Nettozahlung nach Einbehalt für Steuern, die von den zuständigen Steuerbehörden auf Zahlungen erhoben werden, die von bzw. für die Emittentin in Bezug auf die Schuldverschreibungen geleistet werden, dem Betrag entspricht, der bei Nichterhebung dieser Quellensteuer vorbehaltlich der üblichen Ausnahmeregelungen gemäß Beschreibung unter § 7 der Emissionsbedingungen vom Schuldverschreibungsgläubiger vereinnahmt worden wäre.

**Anwendbares Recht:**

Die Schuldverschreibungen unterliegen deutschem Recht.

**Gerichtsstand:**

Das zuständige Gericht in Berlin ist zuständig für sämtliche im Zusammenhang mit den Schuldverschreibungen entstehenden Klagen oder sonstige Verfahren, soweit nicht gesetzlich zwingend etwas anderes bestimmt ist.

**Börsennotierung und Zulassung zum  
Handel:**

Die Zulassung der Schuldverschreibungen *Official List* und zum Handel am regulierten Markt (Main Securities Market) wurde bei der Irischen Börse (die **Irische Börse**) beantragt. Der Main Securities Market ist ein geregelter Markt im Sinne der Richtlinie 2004/39/EG (**MiFID**).

Es wurde zudem beantragt, die Schuldverschreibungen in den Handel am Freiverkehr der Frankfurter Wertpapierbörse und im Bondm Handelssegment des Freiverkehrs der Baden-Württembergischen Wertpapierbörse in Stuttgart einzubeziehen. Weder der Freiverkehr der Frankfurter Wertpapierbörse noch der Freiverkehr der Baden-Württembergischen Wertpapierbörse ist ein geregelter Markt im Sinne der MiFID.

**Verkaufsbeschränkungen:**

Die Schuldverschreibungen wurden und werden nicht gemäß dem US-Wertpapiergesetz (*US Securities Act*) registriert und dürfen vorbehaltlich bestimmter Ausnahmen, nicht innerhalb der Vereinigten Staaten von Amerika angeboten oder verkauft werden. Außerhalb der Vereinigten Staaten von Amerika dürfen die Schuldverschreibungen nur gemäß Regulation S unter dem US Securities Act und unter Einhaltung der geltenden Gesetze und Vorschriften verkauft werden. Siehe "Zeichnung, Angebot und Verkauf" (*Subscription, Offer and Sale*) ab Seite 78.

**Öffentliches Angebot:**

Die Schuldverschreibungen können in Deutschland und Irland im Rahmen eines öffentlichen Angebots vertrieben werden. Die Bestimmungen und Beschränkungen in Bezug auf Schuldverschreibungen, die im Rahmen eines öffentlichen Angebots im Europäischen Wirtschaftsraum vertrieben werden, können dem Abschnitt "Zeichnung, Angebot und Verkauf – Öffentliches Angebot" (*Subscription, Offer and Sale*) entnommen werden.

**Verwendung des Emissionserlöses:**

Die Emittentin beabsichtigt, den Nettoerlös der Emission der Schuldverschreibungen zur Refinanzierung ihrer bestehenden Verbindlichkeiten zu verwenden.

**ZUSAMMENFASSUNG DER RISIKOFAKTOREN****Schuldverschreibungsbezogene Risikofaktoren**

Bestimmte Faktoren sind für die Bewertung der mit den Schuldverschreibungen verbundenen Marktrisiken von wesentlicher Bedeutung. Diese sind unter „Risikofaktoren“ (*Risk Factors*) ab Seite 14 dargestellt und umfassen unter anderem die Tatsache, dass die Schuldverschreibungen eine möglicherweise nicht für alle Anleger geeignete Anlage darstellen, sowie Marktpreisrisiken, Zinsrisiken, Inflationsrisiken, steuerliche Risiken, Liquiditätsrisiken, das Risiko der vorzeitigen Rückzahlung aus steuerlichen Gründen und das Risiko von Änderungen der Emissionsbedingungen aufgrund eines Beschlusses der Schuldverschreibungsgläubiger oder einer Gesetzesänderung.

**Emittentenbezogene Risikofaktoren**

Bestimmte Faktoren sind für die Bewertung der Risiken, die mit der Luftfahrtbranche im Allgemeinen und insbesondere mit Air Berlin verbunden sind, wesentlich. Diese Risiken sind unter „Risikofaktoren“ (*Risk Factors*) ab Seite 14 beschrieben. Diese Risiken beziehen sich unter anderem auf Risiken im Zusammenhang mit dem Beitritt in die oneworld®-Allianz, Risiken im Zusammenhang mit der Erhebung von Steuern und Gebühren für Flugreiseaktivitäten, Wettbewerbsrisiken, Risiken im Zusammenhang mit extremen Wetterbedingungen und vulkanischen Aktivitäten, dem Ausbruch von Krankheiten, dem Auftreten von natürlichen oder von Menschen verursachten Katastrophen und terroristischen oder militärischen Aktivitäten, politischen Konflikten, Risiken im Zusammenhang mit Flugzeugunglücken, Risiken im Zusammenhang mit hohen Fixkosten und zunehmender Regulierung, Risiken in Verbindung mit angemessenen Flughäfen und dem Anstieg von Flughafen-, Transit- und Landegebühren sowie Sicherheitszuschlägen, Risiken in Verbindung mit der Aufnahme der Luftfahrt in das EU-Emissionshandelssystem, Risiken im Zusammenhang mit der Abhängigkeit von Dritten als Dienstleister und Risiken im Zusammenhang mit Finanzierungsmöglich-

keiten, Risiken im Zusammenhang mit Angestellten und Arbeitnehmervertretern sowie mit Streiks und erworbener Technologie sowie Risiken in Verbindung mit der Flugroutenplanung, mit saisonalen Schwankungen, dem deutschen Markt, Schwankungen des Angebots von sowie der Preisentwicklung bei Kerosin, Zinskursen und Wechselkursen.

## **ZUSAMMENFASSUNG DER BESCHREIBUNG DER EMITTENTIN**

Air Berlin PLC (**Air Berlin**) ist eine Aktiengesellschaft nach dem Recht von England und Wales und als solche unter der Nummer 5643814 im englischen Handelsregister eingetragen. Der Sitz der Air Berlin lautet The Hour House, 32 Hight Street, Rickmansworth, WD3 1ER, und die Telefonnummer lautet +49(0) 30 3434 1500.

Air Berlin hat ein genehmigtes Kapital von 85.226.196 Stammaktien mit einem Nominalwert von €0,25 pro Aktie und 50.000 Aktien der Klasse A mit einem Nominalwert von £ 1,00 pro Aktie, welche zum 31. Dezember 2010 ausgegeben und vollständig bezahlt waren. Dieser Betrag schließt 177.600 eigene Aktien ein, die die Air Berlin durch den Air Berlin Mitarbeiterbeteiligungsplan hält.

Air Berlin ist die Muttergesellschaft einer Unternehmensgruppe, die die zweitgrößte Fluggesellschaft Deutschlands und zugleich die sechstgrößte Fluggesellschaft Europas, jeweils in Bezug auf Passagierzahlen, bildet. Air Berlin bietet auf zahlreichen Kurz-, Mittel- und Langstrecken Linienflüge an. Zum 30. Juni 2011 bot Air Berlin 170 Inlandsflugziele und internationale Flugziele in 45 Ländern an. Insgesamt flog Air Berlin 132 Flughäfen in Europa (einschließlich der Flughäfen in der Türkei), 15 in Nordafrika und weitere 23 Flughäfen in Afrika, Nordamerika, der Karibik und Asien an. Zum 30. September 2011 flog Air Berlin zu 185 Flugzielen im In- und Ausland in 47 Ländern, davon 147 Flugziele in Europa (einschließlich der Flugziele in der Türkei), 15 in Nordafrika und weitere 23 Flugziele in Afrika, Nordamerika, der Karibik und Asien. Air Berlins europäische Ziele liegen hauptsächlich in oder in der Nähe von wichtigen europäischen Städten, die Ziele von Urlaubs- und Geschäftsreisenden zugleich sind. Im Jahre 2010 transportierte Air Berlin 33,6 Millionen Fluggäste (2009: 32,4 Millionen) und erwirtschaftete Umsatzerlöse in Höhe von €3.723,6 Millionen (2009: €3.240,3). Hauptwettbewerber von Air Berlin sind easyJet in Europa und im deutschen Markt Lufthansa.

## **RISK FACTORS**

*The Issuer believes that the following factors may affect its ability to fulfil its obligations under the Notes. All of these factors are contingencies which may or may not occur and the Issuer is not in a position to express a view on the likelihood of any such contingency occurring. In addition, factors which are material for the purpose of assessing the market risks associated with the Notes are described below.*

*The Issuer believes that the factors described below represent the principal risks inherent in investing in the Notes, but the inability of the Issuer to pay interest, principal or other amounts on or in connection with the Notes may occur for other reasons which may not be considered significant risks by the Issuer based on information currently available to the Issuer or which it may not currently be able to anticipate. Prospective investors should also read the detailed information set out elsewhere in this Prospectus and reach their own views prior to making any investment decision.*

### **RISKS RELATING TO THE NOTES**

#### **The Notes may not be a suitable investment for all investors**

Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- (i) have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained in this Prospectus or any applicable supplement;
- (ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;
- (iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including where the currency for principal or interest payments is different from the potential investor's currency;
- (iv) understand thoroughly the Terms and Conditions and be familiar with the behaviour of any relevant financial markets; and
- (v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

#### **Market price risks**

The market price of the Notes depends on various factors, such as changes of interest rate levels, the policy of central banks, overall economic developments, inflation rates or the supply and demand for the Notes. Disadvantageous changes to such factors may adversely affect the value of the Notes.

#### **Interest Rate risks**

An investment in the Notes involves the risk that subsequent changes in market interest rates may adversely affect the value of the Notes. The Notes entitle their holders to the payment of a fixed rate of interest on the specified interest payment dates. If the market interest rates rise the interest amounts the Noteholders receive could be less than the amount they would have received had they invested in a security with a floating rate of interest. The market value of fixed rate securities such as the Notes

can decrease if potential investors perceive that they can achieve a greater return on an investment by investing in alternative products.

### **Inflation**

An investment in the Notes is subject to inflation risk. This inflation risk is the risk of future money depreciation. The real yield from an investment is reduced by inflation. The higher the rate of inflation, the lower the real yield on the Notes. If the inflation rate is equal to or higher than the nominal yield, the real yield is zero or even negative.

### **EU Savings Directive**

Under Council Directive 2003/48/EC on the taxation of savings income, Member States are required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to or for an individual resident in that other Member State or certain limited types of entities established in that other Member State. However, for a transitional period, Austria and Luxembourg are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

The European Commission has proposed certain amendments to the Directive, which may, if implemented, amend or broaden the scope of the requirements described above.

If a payment were to be made or collected through a Member State which has opted for a withholding system, or through a non-EU country which has adopted similar measures and has opted for a withholding system, or through certain dependent or associated territories which have adopted similar measures and which have opted for a withholding system, and an amount of, or in respect of, tax were to be withheld from that payment, neither the Issuer nor any paying agent nor any other person would be obliged to pay additional amounts with respect to any Note as a result of the imposition of such withholding tax. The Issuer is required to maintain a paying agent in a Member State that is not obliged to withhold or deduct tax pursuant to the Directive.

### **Secondary market**

Application has been made to the Irish Stock Exchange for the Notes to be admitted to the Official List and trading on its regulated market, the Main Securities Market. Application has also been made to include the Notes to trading on the Open Market (*Freiverkehr*) of the Frankfurt Stock Exchange and the Bondm segment of the open market (*Freiverkehr*) of the Baden-Württemberg Stock Exchange in Stuttgart. However, there can be no assurance that a liquid market for the Notes will develop or, if it does develop, that it will continue. If a market does develop, it may not be liquid. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. Illiquidity may have a severely adverse effect on the market value of the Notes and investors wishing to sell the Notes might therefore suffer losses.

### **Early redemption for tax reasons**

In the event that the Issuer would be obliged to increase the amounts payable in respect of any Notes due to any withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed, the Issuer may redeem all outstanding Notes in accordance with the Terms and Conditions. Noteholders may be exposed to risks connected to the reinvestment of cash proceeds from the sale or early redemption of any Note. It may, in particular, not be possible for Noteholders to reinvest the

redemption proceeds in investments with a yield and risk structure similar to the yield and risk structure of the Notes.

### **Transaction costs**

When the Notes are purchased or sold, several types of incidental costs (including transaction fees and commissions) are incurred in addition to the purchase or sale price of the Notes. Credit institutions as a rule charge commissions which are either fixed minimum commissions or pro-rata commissions, depending on the order value. To the extent that additional – domestic or foreign – parties are involved in the execution of an order, including but not limited to domestic dealers or brokers in foreign markets, Noteholders may also be charged for the brokerage fees, commissions and other fees and expenses of such parties (i.e. third-party costs). These incidental costs may significantly reduce or eliminate any profit from holding the Notes.

### **Noteholder resolutions**

The Terms and Conditions provide that the Noteholders may agree to amendments to the Terms and Conditions by majority vote in accordance with the German Bond Act (*Schuldverschreibungsgesetz*). A Noteholder is therefore subject to the risk of being outvoted and of losing rights towards the Issuer against its will.

### **Substitution of Issuer**

The Terms and Conditions provide for a right of the Issuer to substitute the Issuer by a Substitute Debtor. If the Issuer exercises such substitution right, the substitution may, for German tax purposes, be treated as an exchange of the original Notes for new notes for Noteholders subject to German taxation. In this case, any gain from such exchange would be subject to tax and the Noteholders might not be able to enforce their right to indemnification against the Issuer and the Substitute Debtor.

### **Change of law**

The Terms and Conditions are based on German law in effect as at the date of this Prospectus. No assurance can be given as to the impact of any possible judicial decision or change to German law or administrative practice after the date of this Prospectus.

## **RISKS RELATING TO THE ISSUER**

### **Risks relating to Air Berlin joining the oneworld® alliance**

Air Berlin's ability to join the oneworld® alliance is subject to the fulfilment of certain conditions precedent, the non-fulfilment of which could endanger or delay the acceptance of Air Berlin as a oneworld® alliance member. Any such non-acceptance or delay in acceptance may in turn have a material adverse effect on Air Berlin's business and results of operations.

### **Risks relating to the airline industry**

Economic and industry conditions constantly change and continued or worsening negative economic conditions in Germany and elsewhere could result in overcapacity or increase existing overcapacity and may have a material adverse effect on Air Berlin's business and results of operations.

Air Berlin's business and results of operations are significantly impacted by general economic and industry conditions. Industry-wide passenger air travel varies from year to year. Robust demand for Air Berlin's air transportation services depends largely on favourable general economic conditions, including the strength of the global and local economies, low unemployment levels, strong consumer confidence levels and the availability of consumer and business credit. For leisure travellers, air transportation is often a discretionary purchase that they can eliminate from their spending in difficult economic times. In addition, during periods of poor economic conditions, businesses usually reduce the volume of their business travel, either due to cost-saving initiatives or as a result of decreased



business activity requiring travel. The growth prospects for the global economy have worsened considerably over the past months, which also affects Germany, and the overall demand for air transportation in Germany has been, and could be further, negatively impacted by deterioration in the health of the global economy.

In its September 2011 report, the International Air Transport Association (**IATA**) stated that the net profits of European airlines in 2011 are expected to decrease from 2010 levels: from US\$ 1.9 billion in 2010 to US\$ 1.4 billion in 2011, due to high oil prices and economic uncertainty. IATA noted that the global economic outlook has deteriorated and that the global economic growth projections have been downgraded from 3.2% to 2.5%. At a global economic growth rate of less than 2%, airlines are typically at risk of suffering losses as they may not be able to adequately cope with high costs, and in particular, high fuel prices. Accordingly, IATA forecasts that the net profits of airlines will further decrease in 2012 and that this will in particular affect the European airlines whose net profits are expected to decrease to US\$ 0.3 billion in 2012 due to the very weak economic outlook for Europe.<sup>1</sup>

Moreover, insolvencies among Air Berlin's customers or contracting parties, including financial institutions acting as hedge counterparties, could result in losses. In particular, the insolvency of one or more of Air Berlin's financing counterparties could make it more difficult or expensive for Air Berlin to obtain third-party financing for its aircraft acquisitions, or even cause such financing to fail entirely.

The impact of an economic downturn might also induce governments to unilaterally grant subsidies or other public aid to one or more of Air Berlin's competitors, which could distort the markets and deteriorate Air Berlin's competitive position.

#### **Air travel tax levied by German Federal Government**

On 15 September 2010 the German Air Travel Tax Act (*Luftverkehrsteuergesetz*, LuftVStG) entered into force, creating an air travel tax designed to raise €1 billion annually. The tax applies to all bookings from 1 September 2010 for flights departing from 1 January 2011. The tax amounts to €8, €25 or €45 per passenger depending on the destination of the flight. Since 5 September 2010 global flight reservation systems have been applying the air travel tax to Air Berlin flights. Air Berlin considers it necessary to pass on the resulting cost increase to passengers and/or restructure the network so that optimal passing through can be achieved. At a time when there is significant pressure on consumers' budgets, the increased cost of air travel may lead customers to reduce their use of air transportation further or where possible, to switch to nearby foreign airports, just as many travellers who had previously used German airports close to the border switched to airports outside of Germany in the first half of 2011.

In the first six months of 2011, the air travel tax costs of Air Berlin amounted to more than €74.4 million, resulting in decreases in revenue and cost distortions in the competitive environment. Price competition made passing on the costs of the air travel tax in the second quarter extremely difficult.

Other air carriers may choose to absorb, in whole or in part, the additional cost where Air Berlin may not be able to do the same. If, as a result of passing on such additional costs to passengers, Air Berlin becomes less competitive in an already intensely competitive market or if Air Berlin bears such costs because it is not able to fully pass on the cost increase resulting from the air travel tax to passengers, in either case this may have a material adverse effect on Air Berlin's revenues and results of operations.

#### **The airline industry is highly competitive**

Air Berlin operates in a highly competitive market and is in intense competition with a number of other air carriers for both leisure and business travellers. The primary competitive factors in the airline industry include prices, route networks, flight schedules, reputation, safety record, range of passenger

<sup>1</sup> Source: IATA "Financial Forecast" report dated September 2011.

services provided and type and age of aircraft. Air Berlin's competitors include low-cost carriers, legacy carriers, other established commercial and charter airlines, travel conglomerates with integrated airlines and new entrants. Air Berlin expects that there will be increasing market consolidation among air carriers in the future. This development would strengthen the market position of some carriers and further increase competition.

Some of Air Berlin's competitors have large home markets, traffic hubs with large catchment areas (i.e. the relevant surrounding areas from which passengers travel to use a given airport), extensive flight schedules and financial resources, economical cost structures and/or well-known brands. Air Berlin's competitors may seek to protect or gain market share through fare matching or price discounting or by offering more attractive flight schedules or services. Some competitors may be able to offer lower fares than Air Berlin by, for example, providing passengers with fewer services, or so-called frills, or by drawing upon sources of funding unavailable to Air Berlin, such as government subsidies or intra-group financial support. Should competitors increase their market share at Air Berlin's expense, Air Berlin's business prospects and profits could be materially adversely affected.

**Extreme weather conditions have had a material adverse effect on the airline industry in the past and may do so again**

Extreme weather conditions at the end of 2009 and start of 2010 as well as in the cold 2010/2011 winter resulted in substantial additional costs. Inclement weather can lead to flight cancellations, aircraft de-icing, increased waiting times, additional heating for cabins as well as increased fuel consumption due to cold weather. In December 2010 alone, approximately 800 Air Berlin flights were cancelled due to weather conditions. The recurrence of such extreme weather conditions or the existence of comparable conditions, especially in European airspace, could materially and adversely affect Air Berlin and the airline industry.

**Volcanic activity and other natural disasters have had a material adverse effect on the airline industry in the past and may do so again. The airline industry could also be adversely affected by an outbreak of disease or the occurrence of a natural or man-made disaster that affects travel behaviour**

Activity from volcanoes, or other natural or man-made disasters (such as the earthquake, the tsunami and the related nuclear catastrophe in Japan in March 2011), in particular if such disaster occurs in the European airspace and/or at, or in the region around any of Air Berlin's major flight destinations, could materially and adversely affect the business, financial condition and results of operations of Air Berlin and the airline industry. The relevant insurance is not available on the market at this time on economically viable terms.

An outbreak of a disease that affects travel demand or travel behaviour such as Severe Acute Respiratory Syndrome (SARS), avian flu, swine flu or other illness could have a material adverse impact on Air Berlin's business, financial condition and results of operations.

**Terrorist attacks, military, civil and political conflicts and their aftermath have had a material adverse effect on the airline industry in the past and may do so again**

The terrorist attacks of 11 September 2001 involving commercial aircraft severely and adversely impacted the prospects for the airline industry generally through reduced demand and higher security costs. In addition, for a certain period in the immediate aftermath of the terrorist attacks of 11 September 2001, insurers stopped providing coverage against certain risks relating to acts of war and other hostilities and/or substantially increased premiums for renewed coverage, while at the same time greatly reducing the amount of coverage provided. Furthermore, the political upheavals in North Africa since January 2011 adversely affected flight bookings to North Africa and Egypt in particular. Further terrorist attacks, acts of sabotage, new military, civil and political conflicts or the expansion of existing conflicts or similar events, especially if they are directed against air traffic or occur in markets that are significant to Air Berlin, or if they affect a relatively high proportion of the overall

volume of air traffic in Europe generally and/or the crude oil prices (and therefore the prices for aviation fuel), could materially and adversely affect Air Berlin and the airline industry.

#### **Air carriers are exposed to the risk of losses from air crashes or similar disasters**

An aircraft accident or incident could involve not only repair or replacement of a damaged aircraft and its consequent temporary or permanent loss from service, but also claims from injured passengers and dependents of deceased passengers. Air Berlin's insurance coverage might not be adequate to cover all losses suffered from an aircraft accident or incident. Even if Air Berlin's insurance coverage were adequate to cover all these losses in full, Air Berlin could be forced to bear substantial losses if, for example, its insurers were unwilling or unable to pay the agreed insurance benefits. Any such losses could have a material adverse effect on Air Berlin's business, financial condition and results of operation.

Moreover, any aircraft accident or incident, even if fully insured, could create a public perception that Air Berlin is less safe or reliable than other airlines, which could cause passengers to lose confidence in Air Berlin and switch to other airlines or other means of transportation. Passengers could also lose confidence in Air Berlin even if an airline other than Air Berlin were to suffer such loss or damage. A loss of passenger confidence in Air Berlin could have a material adverse effect on Air Berlin's business, financial condition and results of operations.

Regulation (EC) No. 2027/97, as amended by Regulation (EC) No. 889/2002, governs air carrier liability with respect to passengers. This regulation increased the potential exposure of air carriers to civil liability, such as Air Berlin, and although Air Berlin has extended its liability insurance to meet the requirements of the regulation, no assurance can be given that other laws, regulations or policies will not be applied, modified or amended in a manner that has a material adverse effect on Air Berlin's business, operating results and financial condition.

#### **The airline industry is characterised by high fixed costs**

The airline industry is generally characterised by high fixed costs and by revenues that generally exhibit substantially greater elasticity than costs. Each flight has certain fixed costs, including costs for the use of airport infrastructure and services; take-off, landing and air traffic charges; maintenance, financing, lease and fuel costs; depreciation expenses; and general labour costs. By contrast, the revenue generated by a flight is variable and is directly related to the number of passengers carried and the fare structure of the flight. Accordingly, a change in the number of passengers or in average fares could have a negative effect on Air Berlin's financial condition and results of operations. In addition, changes to the regulatory framework within which Air Berlin operates, particularly as regards safety regulations, could impose significantly greater costs on Air Berlin's business activities and could materially and adversely affect Air Berlin and the airline industry.

#### **Commercial passenger air transport and air traffic rights are heavily regulated**

Air Berlin is authorised to operate by virtue of an operating licence and an air operator certificate issued by the German Aviation Authority (*Luftfahrt-Bundesamt*). These authorisations are subject to Air Berlin's ongoing compliance with applicable statutes, rules and regulations pertaining to the airline industry, including any new rules or regulations that may be adopted in the future.

Air Berlin is subject to many different layers of regulation by governments and other authorities. National, EU and international regulations, as well as bilateral and multilateral treaties between Germany, other EU Member States and the EU, on the one hand, and other states, on the other, govern airline operations, impose requirements on air carriers and grant rights to service routes. These regulations and treaties have frequently been amended in the past. Air Berlin cannot predict what future changes will be made to German, EU and international air traffic regulations and treaties, or what the impact of such changes will be on the airline industry or Air Berlin's operations. In addition, bilateral agreements governing flights into and over non-EU member states and the associated landing rights also impose restrictions. These agreements grant air traffic rights only to companies controlled

primarily by the treaty states or their citizens. Amendments to existing treaties, the conclusion of new treaties or the break-down of treaty negotiations, as well as the introduction of new regulatory requirements or the expansion of existing requirements, could result in significant operational costs and may limit Air Berlin's flexibility to respond to market conditions, competition from other airlines or changes to its cost structure.

**Growth of air carriers, like Air Berlin, is dependent on access to suitable airports and on its meeting the requirements needed to serve these airports**

Air traffic is limited by the infrastructure of airports and the number of slots available for aircraft arrivals and departures. A slot represents the authorisation to take off and land at a particular time during a specified period. Slots are assigned to airlines according to procedures and criteria that may differ from one country or airport to another and that may be subject to change in the future. Established airlines at certain airports have been granted priority rights (known as grandfather rights) in relation to slot allocations. In addition, a number of major European airports and other major international airports are currently operating at close to or at full capacity, indicating that the capacity available for expansion at these airports is limited. Should slot coordinators not offer enough slots to Air Berlin at the times it needs them or on acceptable terms, Air Berlin may be unable to grow and may be forced to restrict the use of its aircraft. The provisions governing the use of slots generally specify that rights of use may lapse if the slots are unused either temporarily or in the long term. Should Air Berlin fail to use its slots, whether for technical or commercial reasons, this could result in the loss of slot rights.

Air Berlin anticipates that it will have access to a greater number of slots when construction of the new Berlin Brandenburg International Airport is complete. Should the airport experience delays in opening beyond the currently scheduled date, or difficulties in operating, Air Berlin's planned growth may be restricted which could materially and adversely affect its business.

Regulatory authorities may impose additional operating restrictions at airports, such as landing and take-off curfews, limits on aircraft noise and emission levels, mandatory flight paths, runway restrictions and limits on the number of average daily departures. These restrictions may limit the ability of Air Berlin to provide or increase services at such airports and may cause Air Berlin to incur additional costs. This could have a material adverse effect on its business, financial condition and results of operations.

**Airport, transit and landing fees and security charges, along with other costs airlines must pay to ensure air traffic security, may increase further**

Airport, transit and landing fees, along with security charges and costs, represent a significant portion of Air Berlin's operating costs and directly affect the fares that Air Berlin must charge its passengers in order to operate cost-effectively. There can be no assurance that such costs will not rise in the future or that Air Berlin will not incur additional new costs. New costs could arise if, for example, airports, noise or landing charges or fees were levied based on environmental criteria such as aircraft noise or emission levels, or if airlines were required to assume additional security responsibilities. Future events or developments, such as terrorist acts or other conflicts, could also result in heightened security regulations for air traffic. Any of these developments could cause Air Berlin's operating costs to increase. If Air Berlin is unable to pass on increases in fees, charges or other costs to its customers, these increases could have a material adverse effect on its business, financial condition and results of operations.

**Regulations on passenger compensation could significantly increase costs**

The European Union has passed legislation for compensating airline passengers who have been denied boarding on a flight for which they hold a valid ticket (Regulation (EC) No. 261/2004). This legislation, which came into force in February 2005, imposes fixed levels of compensation to be paid to passengers in the event of cancelled flights, except when the airline can prove that such a cancellation was caused by extraordinary circumstances, which could not have been avoided even if

all reasonable measures had been taken. In its Sturgeon judgment (Joined Cases C-402/07 and C-432/07), the European Court of Justice (ECJ) has extended this right of passengers to monetary compensation to cases where passengers reach their final destination three hours or more after the scheduled arrival time. Passengers subject to long delays (two hours or more for short-haul flights) are also entitled to “assistance” including meals, drinks and telephone calls, as well as hotel accommodations if the delay extends overnight. For delays of at least five hours, the airline is also required to offer the option of a refund of the cost of the ticket and, if the passenger has already completed part of the journey, a return flight to the initial point of departure.

There can be no assurance that Air Berlin will not incur a significant increase in costs in the future in connection with cancelled or delayed flights, which could have a material adverse effect on Air Berlin’s operating costs and in turn reduce its profitability.

### **Inclusion of aviation in the EU emissions trading scheme could increase costs**

On 2 February 2009, Directive 2008/101/EC entered into force. Pursuant to this Directive, from 1 January 2012 all flights that arrive or depart from an airport situated in the territory of an EU Member State will be included in the EU emissions trading scheme. This scheme, which has thus far applied mainly to energy producers, is a cap and trade system for carbon emissions to encourage industries to reduce their CO<sub>2</sub> emissions. The Directive has been implemented into German law by way of an amendment of the German Greenhouse Gas Emission Act (*Treibhausgas-Emissionshandelsgesetz*) on 21 July 2011. Under the legislation, airlines will be granted a certain number of allowances free of charge based on historical emissions and their shares of the total aviation market; further allowances are auctioned by Member States. The number of allowances to be allocated free of charge will be reduced in the second trading period starting on 1 January 2013.

Air Berlin anticipates that it will not be granted a sufficient number of free of charge allowances as will be necessary for the discharge of its duties under the Directive and relevant implementing legislation and will hence need to purchase additional allowances in the open market. The number and cost of such allowances that Air Berlin will have to buy on the free market or acquire through auctions is based on the difference between the allowances awarded free of charge and those to be surrendered in each year, and the price for those allowances. The inclusion of the aviation sector in the EU emissions trading scheme is likely to have a substantial negative impact on the European airline industry, including Air Berlin, despite the relatively young age of its aircraft fleet. There can be no assurance that Air Berlin will be able to obtain sufficient allowances, or that the cost of any additional allowances necessary will not have a material adverse effect on Air Berlin’s business, operating results and financial condition. Air Berlin’s hedging instruments do not fully protect it against the adverse effects of increases in the price of aviation allowances. In addition to the financial impact, inclusion in the EU emissions trading scheme imposes administrative burdens (monitoring and reporting obligations) on the participants.

### **Airlines are dependent on third-party service and facility providers**

In order to operate its business, Air Berlin is dependent on the provision of services by third parties, including air traffic controllers, security personnel, towing and push-back vehicles, passenger transporters, caterers, check-in staff and baggage-handling and fuel service providers. If any third-party services or facilities on which Air Berlin relies in conducting its business are restricted, temporarily halted (for example, as a result of technical problems or strikes), cease permanently or are not available at commercially acceptable terms, this could have a material adverse effect on Air Berlin’s business, financial condition and results of operations. This material adverse effect could also occur as a result of the loss or expiration of any of Air Berlin’s contracts with third-party service or facility providers and the inability to negotiate replacement contracts with other service or facility providers at comparable rates or to enter into such contracts in any new markets Air Berlin accesses. In addition, the efficiency, timeliness and quality of contract performance by third-party providers are largely beyond Air Berlin’s direct control.

## **Risks relating to Air Berlin**

### **Air Berlin relies on maintaining high aircraft utilisation rates to maximise its revenue, which makes Air Berlin vulnerable to delays**

A significant element of Air Berlin's business model is high utilisation of its aircraft to generate more revenue. High aircraft utilisation rates are achieved by keeping the number of "block hours", i.e. the hours from take-off to landing, including taxi time, as high as possible to enable Air Berlin to fly more hours on average each day. High block hours are achieved by reducing turnaround time at airports, including the amount of ground time for loading and unloading, cleaning, refuelling, crew changes and necessary maintenance. As a result of its high aircraft utilisation, Air Berlin is exposed to, and adversely affected by, delays and flight cancellations caused by various factors, many of which may be beyond Air Berlin's control, including air traffic congestion, processing delays on the ground, adverse weather conditions, industrial action by air traffic controllers, delays or non-performance by third-party service providers and unscheduled maintenance. A delay or cancellation of one flight could affect Air Berlin's other flight operations by resulting in delays or cancellations of other Air Berlin flights. If Air Berlin's flights become subject to regular or severe delays or cancellations, its reputation may suffer and its customers may choose to fly with other airlines in the future. These adverse effects may be further exacerbated to the extent Air Berlin is required to make refunds and provide assistance to passengers for flight delays. Lower aircraft utilisation rates could have a material adverse effect on Air Berlin's business, financial condition and results of operations.

### **Air Berlin will require future financing for payments of confirmed aircraft orders**

Air Berlin is dependent upon its ability to obtain financing to acquire additional aircraft to meet capacity needs and to replace existing aircraft as they age. Air Berlin is securing financing well in advance of the delivery dates taking into account the individual changes to the market. Whether Air Berlin will be successful in the longer term (i.e. during the period of 12 months or more after the date of this Prospectus) in obtaining the required financing for aircraft on commercially acceptable terms is dependent on a range of factors including the condition of capital and credit markets, the general availability of credit, prevailing interest rates and Air Berlin's perceived credit-worthiness. There can be no assurance that Air Berlin will be able to secure such financing on commercially acceptable terms, or at all. To the extent that Air Berlin cannot secure such financing, Air Berlin may be required to modify its aircraft acquisition plans or incur higher than anticipated financing costs.

In addition, the financing of new and existing aircraft has increased and may continue to significantly increase the total amount of Air Berlin's outstanding debt and the payments that it is obliged to pay to service such debt. The Air Berlin Group's ability to generate sufficient cash flow to service its indebtedness over the longer term will depend on its future financial performance, which will be affected by a range of economic, competitive and business factors, many of which are outside the control of Air Berlin.

The order of any additional aircraft in the future could further increase Air Berlin's indebtedness and may impact the terms on which Air Berlin is able to secure financing in the future.

All of the above factors could have a material adverse effect on Air Berlin's business, financial condition and results of operations.

### **Air Berlin is dependent on cooperative relations with its employees and employee representatives**

Air Berlin is dependent on qualified personnel, in particular pilots, cabin crew and employees with qualifications in aircraft maintenance, information technology and sales. There can be no assurance that Air Berlin will be able to retain employees in key positions or recruit a sufficient number of new employees with appropriate technical qualifications to compensate for the loss of employees or to accommodate its future growth.

In addition, Air Berlin's workforce is partially unionised and covered by several collective bargaining agreements that regulate work conditions and remuneration. These collective bargaining agreements are subject to renegotiation with the unions from time to time. Air Berlin may be subject to strikes by its own employees or strikes affecting the entire airline industry or other industrial action, and there can be no assurance that labour relations will not have a material adverse effect on Air Berlin's ability to remain competitive. This could have a material adverse effect on its business, financial condition and results of operations.

**Air Berlin depends on the uninterrupted operation of its own and third-party automated systems and technology**

Air Berlin's ability to manage ticket sales, receive and process reservations, manage its traffic network, perform flight operations and engage in other critical business tasks is dependent on the efficient and uninterrupted operation of its computer and communication systems and on the systems used by third parties in the course of their cooperation with Air Berlin. As computer and communication systems are vulnerable to disruptions, damage, power outages, acts of terrorism or sabotage, computer viruses, fires and other events, and programming errors can never be entirely avoided, there can be no assurance of efficient and uninterrupted operation of systems used by Air Berlin or third parties, including those used by Air Berlin's sales partners, such as reservation systems at travel agencies. Any disruption to computer and communication systems used by Air Berlin or third parties, particularly if the disruptions persist, could significantly impair Air Berlin's ability to conduct its business efficiently and could have a material adverse effect on Air Berlin's business, financial condition and results of operations.

**Air Berlin is subject to risks associated with fluctuations in aviation fuel supply and prices, interest rates and currency exchange rates. The existing tax exemption for aviation fuel could be repealed**

Air Berlin's operating results have been, and continue to be, significantly impacted by changes in the supply or price of aircraft fuel, interest rates and currency exchange rates, all of which are impossible to predict.

In 2010 and in the first half of 2011, fuel prices rose steadily. In addition to the general increase of the BRENT crude oil price in 2010, which is critical to Air Berlin's fuel purchasing, crude oil prices have further increased since the beginning of the year 2011. According to its June 2011 financial forecast,<sup>2</sup> IATA expects the price of Brent crude oil to rise by 38% over the previous year to US\$ 110 a barrel in 2011, which is significantly higher than their previous forecasts of US\$ 96 a barrel (in March 2011) and US\$84 a barrel (at the beginning of 2011). At the end of the third quarter of 2011 the crude oil price ranged from US\$ 100 to US\$ 110 a barrel. The sharp increase in crude oil prices and, therefore, the prices for aviation fuel since the beginning of 2011 have been closely connected to the political developments in Libya, the Maghreb countries and Egypt. If, due to these or similar political developments or for general economic reasons, the prices for aviation fuel increase, this would have a material adverse effect on Air Berlin's results of operations and financial condition.

Over the past few years there have been discussions at the EU level and within EU Member States about whether the existing tax exemptions for aviation fuel should be reviewed. There can be no assurance that the current tax exemptions for aviation fuel will not be repealed. The elimination of current tax exemptions for aviation fuel would lead to a substantial increase in Air Berlin's aviation fuel costs. If major reductions in the availability of aviation fuel or significant increases in aviation fuel costs occur, Air Berlin's business would be materially adversely affected.

To improve planning certainty, Air Berlin generally hedges a portion of the estimated cost of its future aviation fuel needs on a revolving basis for specified time periods in the financial markets using instruments known as commodity swaps and options with financial institutions as counterparties.

<sup>2</sup> Source: IATA "Financial Forecast" report dated June 2011.

Most of Air Berlin's revenue is generated in euro as its business operations are predominantly based in the Eurozone. Nevertheless, Air Berlin has regular payment obligations in other currencies, principally in US dollar. Air Berlin's aviation fuel payment obligations and a substantial portion of its aircraft operating lease and maintenance, repair and overhaul payment obligations, debt-service obligations and the underlying financial liabilities are denominated in US dollars. As a result, Air Berlin is particularly vulnerable to fluctuations in exchange rates for the euro against the US dollar and such fluctuations have had a material adverse effect on Air Berlin's results in certain years. As the exchange rate between the euro and the US dollar is likely to continue to fluctuate in the future, there can be no assurance that fluctuations in exchange rates will not materially adversely affect Air Berlin's results of operations and financial condition in the future. Air Berlin also uses cross-currency interest rate swaps to hedge its interest rate risk, which results from the sensitivity of financial assets and financial liabilities with variable interest rates to changes in the market interest rate. A change in these interest rates could have a material adverse effect on Air Berlin's financial condition and results.

Air Berlin's hedging instruments do not fully protect it against the adverse effects of fuel price increases or fluctuations in interest or currency exchange rates, largely because Air Berlin only hedges against a margin of fluctuation. Hedging also reduces Air Berlin's ability to benefit from fuel price decreases or otherwise advantageous exchange or interest rate developments. Air Berlin's assumptions and estimates regarding the future developments of aviation fuel prices, currency exchange rates and interest rates, and its chosen risk-avoidance or risk-tolerance criteria, have a substantial impact on the success of its hedging policy. Air Berlin's business, financial condition and results of operations could be materially adversely affected if its hedging policy is unsuccessful or if a hedging counterparty were not to perform its obligations.

#### **Route planning is subject to uncertainties**

Air Berlin is in the process of implementing the "Shape & Size" programme, which aims to increase its efficiency and productivity. As a part of the programme, Air Berlin plans to reduce the number of aircraft employed in its fleet from 170 to 152. It also plans to reduce frequencies of certain flights or cancel low-performing routes entirely. At the same time, it will, subject to availability of slots, introduce certain new routes and increase frequencies on better performing routes. Should Air Berlin be unable to implement fully the "Shape & Size" programme, or should the "Shape & Size" programme fail to meet Air Berlin's expectations, this could have a material adverse effect on its business, financial condition and results of operations.

When Air Berlin begins service on a new route, its passenger load factors initially tend to be lower than those on its established routes, and its advertising and other promotional costs tend to be higher. As a result, new routes may require a substantial amount of cash to fund and may result in initial losses. Customers may also make less use of new routes or additional capacity on existing routes than Air Berlin may have expected. In addition, new routes may experience more competition than current ones, or competition may exceed Air Berlin's expectations in other ways. Should Air Berlin be unable to assess demand, capacity and fares correctly on routes, this could have a material adverse effect on its business, financial condition and results of operations.

#### **Air Berlin's operations and investor confidence are dependent on its key management**

Air Berlin's success depends on the activities of the members of its Board, officers and key management. The departure of or significant change in Air Berlin's management could result in a significant loss of expertise and in investors losing confidence in Air Berlin and could have a material adverse effect on Air Berlin's business, financial condition and results of operations.

#### **Air Berlin's revenue and profits are subject to seasonal fluctuations**

Demand for Air Berlin's services fluctuates over the course of the year, which causes its quarterly results to fluctuate. Demand has historically been highest in the summer season from May through October and lowest in the winter season from November through April (except for the days around Christmas, New Year's and Easter). Therefore, the level of Air Berlin's aircraft utilisation and



profitability fluctuates during the year, with the majority of its profits being generated in the summer season. When flight cancellations and other factors that adversely affect aircraft utilisation occur during the summer season, they may have a particularly strong adverse effect on Air Berlin's business, financial condition and results of operations.

**Air Berlin is dependent on the German market**

Passengers originating (in relation to the seat-only business, i.e. the selling of seats on a per-seat basis as opposed to sales in bulk or charter sales) in Germany on Air Berlin's routes accounted for 69.5% of Air Berlin's total passenger volume in 2010. Air Berlin's business is likely to be adversely affected by any circumstance causing a reduction in general demand for air transportation services involving German destinations, including, but not limited to, adverse changes in local economic conditions.

**Air Berlin is dependent on a number of lessors for its leased aircraft and a limited number of financial institutions for its future aircraft financing commitments.**

As of 30 June 2011, approximately 79.76% (including dry leases (i.e. leasing an aircraft without personnel) and wet leases (i.e. leasing an aircraft with personnel) based on 168 operational aircraft as of 30 June 2011) of Air Berlin's aircraft fleet is leased from aircraft lessors. Should any internal or external events occur which affect an aircraft lessor's ability to perform its obligations under its leases, the availability of aircraft leased from such lessor, and consequently Air Berlin's operations, could be negatively affected.

Air Berlin is dependent on financing commitments from a limited number of financial institutions to finance aircraft purchases. Should any of these financial institutions fail to honour its commitment, this could have a material adverse effect on Air Berlin's operations and financial condition.

## TERMS AND CONDITIONS OF THE NOTES

### TERMS AND CONDITIONS OF THE NOTES GERMAN LANGUAGE VERSION (*DEUTSCHE FASSUNG DER EMISSIONSBEDINGUNGEN*)

#### § 1 WÄHRUNG, STÜCKELUNG, FORM, BESTIMMTE DEFINITIONEN

(1) *Währung, Stückelung.* Diese Emission von Schuldverschreibungen (die **Schuldverschreibungen**) der Air Berlin PLC (die **Emittentin**) wird in Euro (€ und die **festgelegte Währung**) im Gesamtnennbetrag von € ●\* (in Worten: ● Euro) in einer Stückelung von je €1.000 (die **festgelegte Stückelung** oder der **Nennbetrag**) begeben.

(2) *Form.* Die Schuldverschreibungen lauten auf den Inhaber und sind durch eine oder mehrere Globalurkunden verbrieft (jeweils eine **Globalurkunde**). Es werden keine effektiven Stücke begeben.

(3) *Vorläufige Globalurkunde – Austausch gegen Dauerglobalurkunde.*

(a) Die Schuldverschreibungen sind anfänglich durch eine vorläufige Globalurkunde (die **vorläufige Globalurkunde**) ohne Zinsscheine verbrieft. Die vorläufige Globalurkunde kann gegen Schuldverschreibungen in der festgelegten Stückelung, die durch eine Dauerglobalurkunde (die **Dauerglobalurkunde**) ohne Zinsscheine verbrieft sind, ausgetauscht werden. Die vorläufige Globalurkunde und die Dauerglobalurkunde tragen jeweils die eigenhändigen oder faksimilierten Unterschriften zweier ordnungsgemäß bevollmächtigter Vertreter der Emittentin und sind jeweils von der Hauptzahlstelle oder in deren Namen mit einer Kontrollunterschrift versehen.

### TERMS AND CONDITIONS OF THE NOTES ENGLISH LANGUAGE VERSION

#### § 1 CURRENCY, DENOMINATION, FORM, CERTAIN DEFINITIONS

(1) *Currency, Denomination.* This issue of Notes (the **Notes**) of Air Berlin PLC (the **Issuer**) is being issued in euro (€ and the **Specified Currency**) in the aggregate principal amount of € ●\*\* (in words: ● euro) in the denomination of €1,000 (the **Specified Denomination** or the **Principal Amount**) each.

(2) *Form.* The Notes are being issued in bearer form and represented by one or more global notes (each a **Global Note**). No definitive notes will be issued.

(3) *Temporary Global Note – Exchange against Permanent Global Note*

(a) The Notes are initially represented by a temporary global note (the **Temporary Global Note**) without coupons. The Temporary Global Note will be exchangeable for Notes in the Specified Denomination represented by a permanent global note (the **Permanent Global Note**) without coupons. The Temporary Global Note and the Permanent Global Note shall each be signed manually or in facsimile by two authorised signatories of the Issuer and shall each be authenticated by or on behalf of the Principal Paying Agent.

\* Der Gesamtnennbetrag wird nach Ende des Angebotszeitraums festgelegt und in den Emissionsbedingungen, die den Globalurkunden beigelegt werden, angegeben.

\*\* The aggregate principal amount will be determined after the end of the offer period and stated in the Terms and Conditions that will be attached to the Global Notes.

(b) Die vorläufige Globalurkunde wird an einem Tag (der **Austauschtag**) gegen die Dauerglobalurkunde ausgetauscht, der nicht mehr als 180 Tage nach dem Tag der Ausgabe der vorläufigen Globalurkunde liegt. Der Austauschtag für einen solchen Austausch darf nicht weniger als 40 Tage nach dem Tag der Ausgabe der vorläufigen Globalurkunde liegen. Ein solcher Austausch darf nur nach Vorlage von Bescheinigungen erfolgen, wonach der oder die wirtschaftliche(n) Eigentümer der durch die vorläufige Globalurkunde verbrieften Schuldverschreibungen keine U.S. Person(en) ist (sind), der (die) die Schuldverschreibungen zum Weiterverkauf an eine U.S. Person gemäß den U.S. Treasury Regulations erworben hat (haben). Zinszahlungen auf durch eine vorläufige Globalurkunde verbrieft Schuldverschreibungen erfolgen erst nach Vorlage solcher Bescheinigungen. Eine Bescheinigung, die am oder nach dem 40. Tag nach dem Tag der Ausgabe der vorläufigen Globalurkunde eingeht, wird als ein Ersuchen behandelt werden, diese vorläufige Globalurkunde gemäß Unterabsatz (b) dieses § 1 Absatz 3 auszutauschen. Wertpapiere, die im Austausch für die vorläufige Globalurkunde geliefert werden, sind nur außerhalb der Vereinigten Staaten (wie in § 4 Absatz 3 definiert) zu liefern.

(4) *Clearing System.* Die Vorläufige Globalurkunde und die Dauerglobalurkunde werden von Clearstream Banking AG, Eschborn (das **Clearing System**) oder einem Funktionsnachfolger verwahrt bis, im Fall einer Dauerglobalurkunde, sämtliche Verbindlichkeiten der Emittentin aus den Schuldverschreibungen erfüllt sind.

(5) *Schuldverschreibungsgläubiger.* **Schuldverschreibungsgläubiger** bezeichnet jeden Inhaber einer Schuldverschreibung.

## § 2 STATUS UND NEGATIVVERPFLICHTUNG

(1) *Status.* Die Schuldverschreibungen begründen unmittelbare, unbedingte, nicht nachrangige und (vorbehaltlich § 2 Absatz 2) nicht besicherte Verbindlichkeiten der Emittentin, die untereinander und mit allen anderen unmittelbaren, unbedingten, nicht nachrangigen und (vorbehaltlich § 2 Absatz 2) nicht besicherten ge-

(b) The Temporary Global Note shall be exchanged for the Permanent Global Note on a date (the **Exchange Date**) not later than 180 days after the date of issue of the Temporary Global Note. The Exchange Date shall not be earlier than 40 days after the date of issue of the Temporary Global Note. Such exchange shall only be made upon delivery of certifications to the effect that the beneficial owner or owners of the Notes represented by the Temporary Global Note is/are not (a) U.S. person(s) who has (have) purchased the Notes for resale to any U.S. person as governed by the U.S. Treasury Regulations. Payment of interest on Notes represented by a Temporary Global Note will be made only after delivery of such certifications. A certification received on or after the 40th day after the date of issue of the Temporary Global Note will be treated as a request to exchange such Temporary Global Note pursuant to subparagraph (b) of this § 1(3). Any securities delivered in exchange for the Temporary Global Note shall be delivered only outside of the United States (as defined in § 4(3)).

(4) *Clearing System.* The Temporary Global Note and the Permanent Global Note will be kept in custody by Clearstream Banking AG, Eschborn (the **Clearing System**) or a successor in such capacity until, in the case of the Permanent Global Note, all obligations of the Issuer under the Notes have been satisfied.

(5) *Noteholders.* **Noteholder** means any holder of a Note.

## § 2 STATUS AND NEGATIVE PLEDGE

(1) *Status.* The obligations under the Notes constitute direct, unconditional, unsubordinated and (subject to § 2(2)) unsecured obligations of the Issuer which rank *pari passu* among themselves and at least *pari passu* with all other direct, unconditional, unsubordinated and (subject to § 2(2)) unsecured existing and future

gegenwärtigen und zukünftigen Verbindlichkeiten der Emittentin wenigstens gleichrangig sind, soweit diesen Verbindlichkeiten nicht durch zwingende und allgemein anwendbare gesetzliche Bestimmungen ein Vorrang eingeräumt wird.

(2) *Negativverpflichtung.* Während der Laufzeit der Schuldverschreibungen wird die Emittentin

(a) keine Grund- und Mobiliarpfandrechte, sonstige Pfandrechte oder sonstige Sicherungsrechte (jedes ein **Sicherungsrecht**) in Bezug auf ihr gesamtes Vermögen oder Teile davon als Sicherheit für gegenwärtige oder zukünftige Relevante Verbindlichkeiten (wie nachfolgend definiert) und auch keine Garantie oder Freistellung bezüglich einer Relevanten Verbindlichkeit gewähren oder bestehen lassen, und

(b) sicherstellen, dass keine Wesentliche Tochtergesellschaft (wie nachfolgend definiert) ein Sicherungsrecht an ihrem gesamten Vermögen oder an Teilen davon als Sicherheit für gegenwärtige oder zukünftige Relevante Verbindlichkeiten und auch keine Garantie oder Freistellung bezüglich einer Relevanten Verbindlichkeit gewährt oder bestehen lässt,

es sei denn, die Schuldverschreibungsgläubiger haben zur gleichen Zeit und im gleichen Rang an solchen Sicherheiten teil.

**Relevante Verbindlichkeit** bezeichnet jede gegenwärtige oder künftige Verbindlichkeit in der Form von oder verbrieft durch Anleihen, Schuldverschreibungen oder andere Wertpapiere, die gegenwärtig an einer Wertpapierbörse, einem Over-the-Counter- oder einem anderen Wertpapiermarkt notiert sind, zugelassen sind oder gehandelt werden oder jeweils werden können sowie Schuldscheindarlehen nach deutschem Recht (d.h. Darlehen, über die ein Schuldschein oder eine Schuldurkunde ausgestellt wurde oder die in dem Darlehensvertrag als Schuldscheindarlehen, Schuldschein oder Schuldurkunde bezeichnet werden) mit Ausnahme von Genehmigten Verbindlichkeiten.

**Genehmigte Verbindlichkeiten** bezeichnet jede Relevante Verbindlichkeit, die durch Flugzeuge oder Flugzeugausrüstungen sowie Forderungen aus Flugzeugleasingverträgen über Flugzeuge oder Flugzeugausrüstungen der Emittentin oder einer ihrer Tochtergesellschaften

obligations of the Issuer, save for such obligations that may be preferred by the provisions of law that are mandatory and of general application.

(2) *Negative Pledge.* As long as any Notes are outstanding the Issuer will

(a) not create or permit to subsist any mortgage, charge, pledge, lien or other form of encumbrance or security interest (each a **Security Interest**) upon the whole or any part of its assets to secure any Relevant Indebtedness (as defined below), or any guarantee of or indemnity in respect of any Relevant Indebtedness, and

(b) ensure that no Material Subsidiary (as defined below) creates or permits to subsist any Security Interest upon the whole or any part of its assets to secure any present or future Relevant Indebtedness, or any guarantee of or indemnity in respect of any Relevant Indebtedness,

unless the Noteholders share at the same time and on a *pari passu* basis in such security.

**Relevant Indebtedness** means any present or future indebtedness in the form of, or represented by, bonds, notes, debentures, loan stock, or other securities which are for the time being, or are capable of being, quoted, listed or ordinarily dealt in on any stock exchange, over-the-counter or other securities market, and Schuldschein loans governed by German law (i.e. loans evidenced by a written instrument entitled Schuldschein or certificate of indebtedness or which is referred to in the loan agreement as Schuldschein loan, Schuldschein or certificate of indebtedness) other than Permitted Indebtedness.

**Permitted Indebtedness** means any Relevant Indebtedness which is directly or indirectly secured by aircraft, aircraft equipment or lease receivables in respect of aircraft or aircraft equipment of the Issuer or any subsidiary of the Issuer (e.g. by means of special purpose entities

ten direkt oder indirekt (z. B. gemittelt durch Zweckgesellschaften, welche Eigentümer der Flugzeuge oder Flugzeugausrüstung sind) besichert ist/wird.

**Wesentliche Tochtergesellschaft** bezeichnet jede nach den International Financial Reporting Standards (IFRS) oder anderen maßgeblichen, auf die Emittentin anwendbaren Rechnungslegungsstandards konsolidierte Tochtergesellschaft der Emittentin, (i) deren Nettoumsatz bzw. Bilanzsumme gemäß ihrem letzten geprüften Einzelabschluss (bzw., wenn die betreffende Tochtergesellschaft selbst Konzernabschlüsse aufstellt, deren Konzernumsatz bzw. Konzernbilanzsumme gemäß ihrem letzten geprüften Konzernabschluss), der für die Aufstellung des letzten geprüften Konzernabschlusses der Emittentin verwendet wurde, mindestens 5 % des gesamten Konzernumsatzes bzw. mindestens 5 % der gesamten Konzernbilanzsumme der Emittentin und ihrer konsolidierten Tochtergesellschaften betragen hat, und (ii) deren Anteile direkt oder indirekt mehrheitlich der Gesellschaft gehören.

### § 3 ZINSEN

(1) *Zinssatz und Zinszahlungstage.* Die Schuldverschreibungen werden bezogen auf ihren Nennbetrag verzinst, und zwar vom 1. November 2011 (einschließlich) bis zum Fälligkeitstag (wie in § 5 Absatz 1 definiert) (ausschließlich) mit jährlich 11,5 %. Die Zinsen sind vierteljährlich nachträglich am 1. Februar, 1. Mai, 1. August und 1. November eines jeden Jahres zahlbar (jeweils ein **Zinszahlungstag**). Die erste Zinszahlung erfolgt am 1. Februar 2012.

(2) *Zinslauf.* Der Zinslauf der Schuldverschreibungen endet mit Beginn des Tages, an dem sie zur Rückzahlung fällig werden. Falls die Emittentin die Schuldverschreibungen bei Fälligkeit nicht einlöst, endet die Verzinsung nicht am Tag der Fälligkeit, sondern erst mit Beginn des Tages der tatsächlichen Rückzahlung der Schuldverschreibungen (ausschließlich). Weitergehende Ansprüche der Schuldverschreibungsgläubiger bleiben unberührt.

(3) *Berechnung der Zinsen.* Die Berechnung der Zinsen erfolgt auf der Grundlage des Zinstagequotienten.

owning aircraft or aircraft equipment).

**Material Subsidiary** means any subsidiary of the Issuer consolidated in accordance with the International Financial Reporting Standards (IFRS) or any other relevant accounting standards applicable to the Issuer, (i) whose net revenues or total assets pursuant to its most recent audited non-consolidated financial statements (or, if the relevant subsidiary itself prepares consolidated financial statements, whose consolidated net revenues or consolidated total assets pursuant to its most recent audited consolidated financial statements), which were used for the preparation of the most recent audited consolidated financial statements of the Issuer, amounts to at least 5% of the consolidated total net revenues and/or 5% of the consolidated total assets of the Issuer and its consolidated subsidiaries, and (ii) which is directly or indirectly majority-owned by the Issuer.

### § 3 INTEREST

(1) *Rate of Interest and Interest Payment Dates.* The Notes shall bear interest on their Principal Amount at the rate of 11.5% per annum from (and including) 1 November 2011 to (but excluding) the Maturity Date (as defined in § 5(1)). Interest shall be payable quarterly in arrears on 1 February, 1 May, 1 August and 1 November of each year (each such date, an **Interest Payment Date**). The first payment of interest shall be made on 1 February 2012.

(2) *Accrual of Interest.* The Notes shall cease to bear interest from the beginning of their due date for redemption. If the Issuer shall fail to redeem the Notes when due, interest shall continue to accrue beyond the due date until and excluding the actual day of redemption of the Notes. This does not affect any additional rights that may be available to the Noteholders.

(3) *Calculation of Interest.* Interest shall be calculated on the basis of the Day Count Fraction.

**Zinstagequotient** bezeichnet im Hinblick auf die Berechnung eines Zinsbetrages auf eine Schuldverschreibung für einen beliebigen Zeitraum (der **Zinsberechnungszeitraum**) die tatsächliche Anzahl von Tagen im Zinsberechnungszeitraum dividiert durch 365 (oder, falls ein Teil dieses Zinsberechnungszeitraumes in ein Schaltjahr fällt, die Summe aus (A) der tatsächlichen Anzahl der in das Schaltjahr fallenden Tage des Zinsberechnungszeitraumes, dividiert durch 366, und (B) der tatsächlichen Anzahl der nicht in das Schaltjahr fallenden Tage des Zinsberechnungszeitraumes, dividiert durch 365).

#### § 4 ZAHLUNGEN

(1) (a) *Zahlungen von Kapital.* Zahlungen von Kapital auf die Schuldverschreibungen erfolgen nach Maßgabe des nachstehenden Absatzes 2 an das Clearing System oder dessen Order zur Gutschrift auf den Konten der jeweiligen Kontoinhaber des Clearing Systems gegen Vorlage und (außer im Fall von Teilzahlungen) Einreichung der die Schuldverschreibungen zum Zeitpunkt der Zahlung verbriefenden Globalurkunde bei der bezeichneten Geschäftsstelle der Hauptzahlstelle außerhalb der Vereinigten Staaten.

(b) *Zahlungen von Zinsen.* Die Zahlung von Zinsen auf Schuldverschreibungen erfolgt nach Maßgabe des nachstehenden Absatzes 2 an das Clearing System oder dessen Order zur Gutschrift auf den Konten der jeweiligen Kontoinhaber des Clearing Systems.

(2) *Zahlungsweise.* Vorbehaltlich geltender steuerlicher und sonstiger gesetzlicher Regelungen und Vorschriften erfolgen zu leistende Zahlungen auf die Schuldverschreibungen in Euro.

(3) *Vereinigte Staaten.* Für die Zwecke des § 1 Absatz 3 und des Absatzes 1 dieses § 4 bezeichnet **Vereinigte Staaten** die Vereinigten Staaten von Amerika (einschließlich deren Bundesstaaten und des "District of Columbia") sowie deren Territorien (einschließlich Puerto Rico, der U.S. Virgin Islands, Guam, American Samoa, Wake Island und Northern Mariana Islands).

**Day Count Fraction** means with regard to the calculation of interest on any Note for any period of time (the **Calculation Period**) the actual number of days in the Calculation Period divided by 365 (or, if any portion of that Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365).

#### § 4 PAYMENTS

(1) (a) *Payment of Principal.* Payment of principal in respect of Notes shall be made, subject to paragraph (2) below, to the Clearing System or to its order for credit to the accounts of the relevant account holders of the Clearing System upon presentation and (except in the case of partial payment) surrender of the Global Note representing the Notes at the time of payment at the specified office of the Principal Paying Agent outside the United States.

(b) *Payment of Interest.* Payment of interest on Notes shall be made, subject to paragraph (2) below, to the Clearing System or to its order for credit to the relevant accounts of the account holders of the Clearing System.

(2) *Manner of Payment.* Subject to applicable fiscal and other laws and regulations, payments of amounts due in respect of the Notes shall be made in Euro.

(3) *United States.* For purposes of § 1(3) and paragraph 1 of this § 4, **United States** means the United States of America (including the States thereof and the District of Columbia) and its possessions (including Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, Wake Island and Northern Mariana Islands).

(4) *Erfüllung.* Die Emittentin wird durch Leistung der Zahlung an das Clearing System oder dessen Order von ihrer Zahlungspflicht befreit.

(5) *Geschäftstag.* Fällt der Tag, an dem eine Zahlung in Bezug auf eine Schuldverschreibung fällig wird, auf einen Tag, der kein Geschäftstag ist, dann hat der Schuldverschreibungsgläubiger keinen Anspruch auf Zahlung vor dem nächsten Geschäftstag am jeweiligen Geschäftsort. Der Schuldverschreibungsgläubiger ist nicht berechtigt, weitere Zinsen oder sonstige Zahlungen aufgrund dieser Verschiebung zu verlangen. **Geschäftstag** bezeichnet einen Tag (außer einem Samstag oder Sonntag), an dem (i) das Clearing System und (ii) das Trans-European Automated Real-Time Gross Settlement Express Transfer System (TARGET 2) oder ein Nachfolgesystem davon Zahlungen abwickeln.

(6) *Bezugnahmen auf Zinsen.* Bezugnahmen in diesen Emissionsbedingungen auf Zinsen auf Schuldverschreibungen schließen, soweit anwendbar, sämtliche gemäß § 7 zahlbaren zusätzlichen Beträge ein.

(7) *Hinterlegung von Kapital und Zinsen.* Die Emittentin ist berechtigt, beim Amtsgericht Berlin Zins- oder Kapitalbeträge zu hinterlegen, die von Schuldverschreibungsgläubigern nicht innerhalb von zwölf Monaten nach dem Fälligkeitstag beansprucht worden sind, auch wenn die Schuldverschreibungsgläubiger sich nicht in Annahmeverzug befinden. Wenn und soweit eine solche Hinterlegung erfolgt, und auf das Recht der Rücknahme verzichtet wird, erlöschen die Ansprüche der betreffenden Schuldverschreibungsgläubiger gegen die Emittentin.

## **§ 5 RÜCKZAHLUNG**

(1) *Rückzahlung bei Endfälligkeit.* Soweit nicht zuvor bereits ganz oder teilweise zurückgezahlt oder angekauft und entwertet, werden die Schuldverschreibungen zu ihrem Rückzahlungsbetrag am 1. November 2014 (der **Fälligkeitstag**) zurückgezahlt. Der **Rückzahlungsbetrag** in Bezug auf jede Schuldverschreibung entspricht ihrem Nennbetrag.

(4) *Discharge.* The Issuer shall be discharged of its payment obligation by payment to, or to the order of, the Clearing System.

(5) *Business Day.* If the date for payment of any amount in respect of any Note is not a Business Day, then the Noteholder shall not be entitled to payment until the next Business Day in the relevant location and shall not be entitled to claim further interest or other payment in respect of such postponement. **Business Day** means a day (other than a Saturday or a Sunday) on which both (i) the Clearing System and (ii) the Trans-European Automated Real-Time Gross Settlement Express Transfer System (TARGET 2) or any successor system thereto settle payments.

(6) *References to Interest.* Reference in these Terms and Conditions to interest in respect of the Notes shall be deemed to include, as applicable, any Additional Amounts which may be payable under § 7.

(7) *Deposit of Principal and Interest.* The Issuer may deposit with the *Amtsgericht* in Berlin principal or interest not claimed by Noteholders within twelve months after the Maturity Date, even though such Noteholders may not be in default of acceptance of payment. If and to the extent that such deposit is effected and the right of withdrawal is waived, the respective claims of such Noteholders against the Issuer shall cease to exist.

## **§ 5 REDEMPTION**

(1) *Redemption at Maturity.* Unless previously redeemed in whole or in part or purchased and cancelled, the Notes shall be redeemed at their Redemption Amount on 1 November 2014 (the **Maturity Date**). The **Redemption Amount** in respect of each Note shall be its Principal Amount.

(2) *Vorzeitige Rückzahlung aus steuerlichen Gründen.* Die Schuldverschreibungen können insgesamt, jedoch nicht teilweise, nach Wahl der Emittentin mit einer Kündigungsfrist von nicht weniger als 30 und nicht mehr als 60 Tagen gegenüber der Hauptzahlstelle und gemäß § 12 gegenüber den Schuldverschreibungsgläubigern vorzeitig gekündigt und zum Nennbetrag zuzüglich bis zum für die Rückzahlung festgesetzten Tag (ausschließlich) aufgelaufener Zinsen zurückgezahlt werden, falls die Emittentin als Folge einer Änderung oder Ergänzung der für sie geltenden Steuer- oder Abgabengesetze und -vorschriften der Bundesrepublik Deutschland oder des Vereinigten Königreichs oder einer politischen Untergliederung oder einer zur Erhebung von Steuern befugten Behörde eines dieser Staaten oder in einem dieser Staaten oder als Folge einer Änderung oder Ergänzung der Anwendung oder der offiziellen Auslegung dieser Gesetze und Vorschriften (vorausgesetzt diese Änderung oder Ergänzung wird am oder nach dem Tag der Begebung der Schuldverschreibungen wirksam) am nächstfolgenden Zinszahlungstag (wie in § 3 Absatz 1 definiert) zur Zahlung von zusätzlichen Beträgen (wie in § 7 definiert) verpflichtet ist oder sein wird.

Eine solche Kündigung hat gemäß § 12 zu erfolgen. Sie ist unwiderruflich, muss den für die Rückzahlung festgelegten Termin nennen und eine zusammenfassende Erklärung enthalten, die die das Rückzahlungsrecht der Emittentin begründenden Umstände darlegt.

(3) *Vorzeitige Rückzahlung aufgrund eines Kontrollwechsels.* Tritt ein Kontrollwechsel (wie nachstehend definiert) ein, dann hat jeder Schuldverschreibungsgläubiger das Recht (sofern nicht die Emittentin, bevor die nachstehend beschriebene Kündigungsoptions-Mitteilung gemacht wird, die Rückzahlung der Schuldverschreibungen nach § 5 Absatz 2 angezeigt hat), die Rückzahlung seiner Schuldverschreibungen durch die Emittentin am Wahl-Rückzahlungstag zu ihrem Nennbetrag, zuzüglich bis zum Wahl-Rückzahlungstag (ausschließlich) aufgelaufener Zinsen, zu verlangen.

Die Emittentin wird den Schuldverschreibungsgläubigern unverzüglich, nachdem sie von dem Eintritt eines Kontrollwechsels Kenntnis erlangt hat, gemäß § 12 Mitteilung von einem solchen

(2) *Early Redemption for Reasons of Taxation.* If as a result of any change in, or amendment to, the tax laws or regulations of Germany or the United Kingdom, or any political subdivision or any authority of or in either jurisdiction having power to tax, or any change in, or amendment to, an official interpretation or application of such laws or regulations, which amendment or change becomes effective on or after the issue date of the Notes, the Issuer has or will become obliged to pay Additional Amounts (as defined in § 7) on the next succeeding Interest Payment Date (as defined in § 3(1)), the Notes may be redeemed, in whole but not in part, at the option of the Issuer, upon not more than 60 days' nor less than 30 days' prior notice of redemption given to the Principal Paying Agent and, pursuant to § 12, to the Noteholders, at their Principal Amount together with interest, if any, accrued to (but excluding) the date fixed for redemption.

Any such notice shall be given in accordance with § 12. It shall be irrevocable, must specify the date fixed for redemption and must set forth a statement in summary form of the facts constituting the basis for the right of the Issuer to redeem.

(3) *Early Redemption for Reasons of a Change of Control.* In the event that a Change of Control (as defined below) occurs, each Noteholder will have the option (unless, prior to the giving of the Put Event Notice referred to below, the Issuer gives notice to redeem the Notes in accordance with § 5(2)) to require the Issuer to redeem the Notes held by such noteholder on the Optional Redemption Date at its principal amount together with interest accrued to, but excluding, the Optional Redemption Date.

The Issuer shall give notice of a Change of Control (a **Put Event Notice**) to the Noteholders in accordance with § 12 without undue delay upon the Issuer becoming aware



Kontrollwechsel machen (eine **Kündigungsoptions-Mitteilung**). Die Kündigungsoptions-Mitteilung gibt die Umstände des Kontrollwechsels sowie das Verfahren für die Ausübung des in diesem § 5 Absatz 3 genannten Wahlrechts an.

Zur Ausübung dieses Wahlrechts muss der Schuldverschreibungsgläubiger während der üblichen Geschäftszeiten innerhalb eines Zeitraums (der **Rückzahlungszeitraum**) von 45 Tagen nach Vornahme der Kündigungsoptions-Mitteilung eine ordnungsgemäß ausgefüllte und unterzeichnete Ausübungserklärung bei der bezeichneten Geschäftsstelle der Hauptzahlstelle einreichen. In dieser Ausübungserklärung sind von dem jeweiligen ausübenden Schuldverschreibungsgläubiger (i) die Anzahl der Schuldverschreibungen, für die das Kündigungsrecht ausgeübt wird und (ii) die ISIN der Schuldverschreibungen anzugeben. Ein so ausgeübtes Wahlrecht kann nicht ohne vorherige Zustimmung der Emittentin widerrufen oder zurückgezogen werden

Für Zwecke dieses Wahlrechts gelten folgende Begriffsbestimmungen:

Ein **Kontrollwechsel** gilt immer dann als eingetreten, wenn eine Person oder mehrere Personen (die **Relevante(n) Person(en)**), die im Sinne von § 22 Absatz 2 WpHG abgestimmt handeln, oder ein oder mehrere Dritte(r), die im Auftrag der Relevanten Person(en) handeln, zu irgendeiner Zeit mittelbar oder unmittelbar (unabhängig davon, ob das Board of Directors der Emittentin seine Zustimmung erteilt hat) (i) mehr als 50 % der ausgegebenen Stammaktien der Emittentin oder (ii) eine solche Anzahl von Aktien der Emittentin, auf die mehr als 50 % der Stimmrechte entfallen, die unter normalen Umständen auf einer Hauptversammlung der Emittentin ausgeübt werden können, hält bzw. halten oder erworben hat bzw. haben, wobei ein Kontrollwechsel dann nicht als eingetreten gilt, wenn alle Gesellschafter der Relevanten Person oder ein wesentlicher Teil von ihnen Aktionäre der Emittentin sind oder unmittelbar vor dem Ereignis, welches ansonsten einen Kontrollwechsel darstellen würde, waren und dieselbe (oder im Wesentlichen dieselbe) Beteiligung am Stammkapital der Relevanten Person halten bzw. hielten wie am Stammkapital der Emittentin.

that a Change of Control has occurred. The Put Event Notice shall specify the nature of, and the circumstances giving rise to, the Change of Control and the procedure for exercising the option set out in this § 5(3).

In order to exercise such option, the Noteholder must submit during normal business hours at the specified office of the Principal Paying Agent a duly completed and signed option exercise notice within the period (the **Put Period**) of 45 days after a Put Event Notice is given. In such exercise notice the relevant exercising Noteholder must state (i) the number of Notes in respect of which the redemption right will be exercised and (ii) the ISIN of the Notes. No option so exercised may be revoked or withdrawn without the prior consent of the Issuer.

For the purposes of this option the following definitions shall apply:

A **Change of Control** shall be deemed to have occurred at any time (whether or not approved by the Board of Directors of the Issuer) at which any person or persons (**Relevant Person(s)**) acting in concert within the meaning of § 22(2) of the German Securities Trading Act (*Wertpapierhandelsgesetz*) or any person or persons acting on behalf of any such Relevant Person(s), at any time directly or indirectly acquire(s) or come(s) to own (i) more than 50 per cent. of the issued ordinary share capital of the Issuer or (ii) such number of the shares in the capital of the Issuer carrying more than 50 per cent. of the voting rights normally exercisable at a general meeting of the Issuer, provided that a Change of Control shall be deemed not to have occurred if all or substantially all of the shareholders of the Relevant Person are, or immediately prior to the event which would otherwise have constituted a Change of Control were, the shareholders of the Issuer with the same (or substantially the same) *pro rata* interest in the ordinary share capital of the Relevant Person as such shareholders have, or as the case may be, had in the ordinary share capital of the Issuer.

**Wahl-Rückzahlungstag** ist der siebte Tag nach dem letzten Tag des Rückzahlungszeitraums.

## § 6

### HAUPTZAHLSTELLE

(1) *Bestellung; bezeichnete Geschäftsstelle.* Die anfänglich bestellte Hauptzahlstelle und deren anfänglich bezeichnete Geschäftsstelle lautet wie folgt:

quirin bank AG  
Kurfürstendamm 119  
10711 Berlin  
Deutschland

Die Hauptzahlstelle behält sich das Recht vor, jederzeit die bezeichnete Geschäftsstelle durch eine andere bezeichnete Geschäftsstelle in derselben Stadt zu ersetzen.

(2) *Änderung der Bestellung oder Abberufung.* Die Emittentin behält sich das Recht vor, jederzeit die Bestellung der Hauptzahlstelle zu ändern oder zu beenden und eine andere Hauptzahlstelle oder eine oder mehrere zusätzliche Zahlstellen zu bestellen. Die Emittentin wird jederzeit (i) eine Hauptzahlstelle unterhalten, (ii) eine Zahlstelle (die die Hauptzahlstelle sein kann) mit bezeichneter Geschäftsstelle in einer kontinentaleuropäischen Stadt unterhalten, (iii) eine Zahlstelle (die die Hauptzahlstelle sein kann) in einem EU-Mitgliedstaat, die nicht aufgrund einer die Richtlinie 2003/48/EG im Bereich der Besteuerung von Zinserträgen des Rates der Europäischen Union umsetzenden Regelung zum Einbehalt oder Abzug von Steuern verpflichtet ist, und (iv) solange die Schuldverschreibungen im Open Market (*Freiverkehr*) der Frankfurter Wertpapierbörse und im Bondm Handelssegment des Freiverkehrs der Baden-Württembergischen Wertpapierbörse in Stuttgart notiert sind, eine Zahlstelle (die die Hauptzahlstelle sein kann) unterhalten, bei der es sich um ein Kredit- oder Finanzinstitut handelt, das Zahlungen bezüglich der Schuldverschreibungen in Deutschland abwickeln kann. Eine Änderung, Abberufung, Bestellung oder ein sonstiger Wechsel wird nur wirksam (außer im Insolvenzfall, in dem eine solche Änderung sofort wirksam wird), sofern die Schuldverschreibungsgläubiger hierüber gemäß § 12 vorab unter Einhaltung einer Frist von mindestens 30 und nicht mehr als 45 Tagen informiert

The **Optional Redemption Date** is the seventh day after the last day of the Put Period.

## § 6

### PRINCIPAL PAYING AGENT

(1) *Appointment; Specified Offices.* The initial Principal Paying Agent and its initial specified office are:

quirin bank AG  
Kurfürstendamm 119  
10711 Berlin  
Germany

The Principal Paying Agent reserves the right at any time to change its specified office to some other specified office in the same city.

(2) *Variation or Termination of Appointment.* The Issuer reserves the right at any time to vary or terminate the appointment of the Principal Paying Agent and to appoint another Principal Paying Agent or one or more other additional paying agents. The Issuer shall at all times maintain (i) a Principal Paying Agent, (ii) a paying agent (which may be the Principal Paying Agent) with a specified office in a continental European city, (iii) a paying agent (which may be the Principal Paying Agent) in an EU Member State that will not be obliged to withhold or deduct tax pursuant to any law implementing the Council Directive 2003/48/EC on the taxation of savings income and (iv) so long as the Notes are listed on the Open Market (*Freiverkehr*) of the Frankfurt Stock Exchange and the Bondm segment of the open market (*Freiverkehr*) of the Baden-Württemberg Stock Exchange in Stuttgart, a paying agent (which may be the Principal Paying Agent) which is a credit or financial institution that is able to settle payments on the Notes in Germany. Any variation, termination, appointment or change shall only take effect (other than in the case of insolvency, when it shall be of immediate effect) after not less than 30 nor more than 45 days' prior notice thereof shall have been given to the Noteholders in accordance with § 12.

wurden.

(3) *Beauftragte der Emittentin.* Die Hauptzahlstelle und jede etwaige Zahlstelle handeln ausschließlich als Beauftragte der Emittentin und übernehmen keinerlei Verpflichtungen gegenüber den Schuldverschreibungsgläubigern; es wird kein Auftrags- oder Treuhandverhältnis zwischen ihnen und den Schuldverschreibungsgläubigern begründet.

## § 7 STEUERN

Sämtliche auf die Schuldverschreibungen durch die Emittentin oder für die Emittentin zu zahlenden Beträge sind ohne Einbehalt oder Abzug von oder aufgrund von gegenwärtigen oder zukünftigen Steuern oder sonstigen Abgaben gleich welcher Art, die durch das oder im Vereinigte(n) Königreich oder durch die oder in der Bundesrepublik Deutschland oder durch eine politische Untergliederung oder durch eine zur Erhebung von Steuern befugte Behörde eines dieser Staaten oder in einem dieser Staaten an der Quelle auferlegt oder erhoben werden, zu leisten, es sei denn, die Emittentin ist gesetzlich zu einem solchen Einbehalt oder Abzug verpflichtet. In diesem Fall wird die Emittentin diejenigen zusätzlichen Beträge (die **zusätzlichen Beträge**) zahlen, die erforderlich sind, damit die den Schuldverschreibungsgläubigern zufließenden Nettobeträge nach einem solchen Einbehalt oder Abzug jeweils den Beträgen entsprechen, die ohne einen solchen Einbehalt oder Abzug von den Schuldverschreibungsgläubigern empfangen worden wären; eine Verpflichtung zur Zahlung zusätzlicher Beträge besteht jedoch nicht für solche Steuern oder Abgaben, die:

(a) von einer als Depotbank oder Inkassobeauftragter des Schuldverschreibungsgläubigers handelnden Person zu entrichten sind oder sonst auf andere Weise zu entrichten sind als dadurch, dass die Emittentin von den von ihr zu leistenden Zahlungen von Kapital oder Zinsen einen Abzug oder Einbehalt vornimmt, oder

(b) aufgrund (i) einer Richtlinie oder Verordnung der Europäischen Union bezüglich der Besteuerung von Zinserträgen (zur Klarstellung: einschließlich der Richtlinie 2003/48/EG im Bereich der Besteuerung von Zinserträgen

(3) *Agents of the Issuer.* The Principal Paying Agent and any paying agent act solely as agents of the Issuer and do not have any obligations towards or relationship of agency or trust with any Noteholder.

## § 7 TAXATION

All amounts payable by or on behalf of the Issuer in respect of the Notes shall be made without withholding or deduction for or on account of any present or future taxes or duties of whatever nature imposed or levied by way of withholding or deduction at source by or within the United Kingdom or Germany, or by any political subdivision or any authority of or in either jurisdiction having power to tax, unless the Issuer is required by law to make such withholding or deduction. In such event, the Issuer shall pay such additional amounts (the **Additional Amounts**) as shall be necessary in order that the net amounts received by the Noteholders after such withholding or deduction shall equal the respective amounts which would otherwise have been received in the absence of such withholding or deduction except that no such Additional Amounts shall be payable on account of any taxes or duties which:

(a) are payable by any person acting as custodian bank or collecting agent on behalf of a Noteholder, or otherwise in any manner which does not constitute a deduction or withholding by the Issuer from payments of principal or interest made by it; or

(b) are deducted or withheld pursuant to (i) any European Union Directive or Regulation concerning the taxation of interest income, including, for the avoidance of doubt, Council Directive 2003/48/EC on the taxation of savings

des Rates der Europäischen Union) oder (ii) einer zwischenstaatlichen Vereinbarung über deren Besteuerung, die auf die Emittentin anwendbar ist, oder (iii) einer gesetzlichen Vorschrift, die der Umsetzung dieser Richtlinie, Verordnung oder Vereinbarung dient, dieser entspricht oder zur Befolgung dieser Richtlinie, Verordnung oder Vereinbarung eingeführt wurde, abzuziehen oder einzubehalten sind, oder

(c) von einer Zahlstelle abgezogen oder einbehalten werden, wenn eine andere Zahlstelle die Zahlung ohne einen solchen Abzug oder Einbehalt hätte leisten können, oder

(d) nicht zu entrichten wären, wenn die Schuldverschreibungen bei einem Kreditinstitut verwahrt und die Zahlungen von diesem vereinbart worden wären, oder

(e) aufgrund einer Rechtsänderung oder einer Änderung in der Rechtsanwendung zahlbar sind, die später als 30 Tage nach Fälligkeit der betreffenden Zahlung von Kapital oder Zinsen oder, wenn dies später erfolgt, ordnungsgemäßer Bereitstellung aller fälligen Beträge und einer diesbezüglichen Mitteilung gemäß § 12 wirksam wird; oder

(f) wegen einer Verpflichtung eines Schuldverschreibungsgläubigers zur Zahlung von Steuern oder Abgaben in Bezug auf die Schuldverschreibungen zu zahlen sind, die aufgrund einer Beziehung dieses Schuldverschreibungsgläubigers zum Vereinigten Königreich oder zur Bundesrepublik Deutschland entstanden ist, die über das bloße Halten von Schuldverschreibungen hinausgeht; oder

(g) vermieden worden wären, wenn ein Schuldverschreibungsgläubiger (bspw. bei der maßgeblichen Finanzbehörde) eine Nichtansässigkeits-Erklärung abgegeben hätte oder eine vergleichbare Ausnahme oder Befreiung geltend gemacht hätte.

## **§ 8 VORLEGUNGSFRIST**

Die in § 801 Absatz 1 Satz 1 BGB bestimmte Vorlegungsfrist wird für die Schuldverschreibungen auf zehn Jahre abgekürzt.

income, or (ii) any international treaty or understanding relating to such taxation which applies to the Issuer, or (iii) any provision of law implementing, or complying with, or introduced to conform with, such Directive, Regulation, treaty or understanding; or

(c) are deducted or withheld by a paying agent from a payment if the payment could have been made by another Paying Agent without such deduction or withholding; or

(d) would not be payable if the Notes had been kept in safe custody with, and the payments had been collected by, a banking institution; or

(e) are payable by reason of a change in law or practice that becomes effective more than 30 days after the relevant payment of principal or interest becomes due, or is duly provided for and notice thereof is published in accordance with § 12, whichever occurs later; or

(f) are payable by reason of a Noteholder who is liable for such taxes or duties in respect of the Notes having some connection with the United Kingdom or with Germany other than the mere holding of the Note; or

(g) would not be payable, if a Noteholder had made a declaration of non-residence or other similar claim for exemption (e.g. to the relevant tax authority).

## **§ 8 PRESENTATION PERIOD**

The presentation period provided in § 801(1), sentence 1 of the German Civil Code (*Bürgerliches Gesetzbuch*, BGB) is reduced to ten years for the Notes.

## **§ 9 KÜNDIGUNG**

(1) *Kündigungsgründe.* Jeder Schuldverschreibungsgläubiger ist berechtigt, seine Schuldverschreibungen zu kündigen und deren sofortige Rückzahlung zum Nennbetrag, zuzüglich etwaiger bis zum Tage der Rückzahlung aufgelaufener Zinsen zu verlangen, falls:

(a) die Emittentin Kapital oder Zinsen nicht innerhalb von 15 Kalendertagen nach dem betreffenden Tag, an dem die jeweilige Zahlung zur Zahlung fällig ist, zahlt; oder

(b) die Emittentin die ordnungsgemäße Erfüllung irgendeiner anderen Verpflichtung aus den Schuldverschreibungen (bei der es sich nicht um eine Verpflichtung zur Zahlung von Kapital oder Zinsen auf die Schuldverschreibungen handelt) unterlässt und diese Unterlassung nicht geheilt werden kann oder, falls sie geheilt werden kann, länger als 60 Kalendertage fort dauert, nachdem die Hauptzahlstelle hierüber eine Benachrichtigung von einem Schuldverschreibungsgläubiger erhalten hat; oder

(c) die Emittentin oder eine Maßgebliche Tochtergesellschaft (wie in § 9 Absatz 3 definiert) eine Zahlungsverpflichtung in Höhe von mindestens €20.000.000 (oder ein entsprechender Betrag in einer anderen Währung) im Zusammenhang mit Geldern, die die Emittentin oder eine Maßgebliche Tochtergesellschaft in Form eines Kredits oder anderweitig aufgenommen hat oder garantiert hat oder für die die Emittentin oder eine Maßgebliche Tochtergesellschaft anderweitig die Haftung übernommen hat, oder im Zusammenhang mit einer anderen Relevanten Verbindlichkeit (wie in § 2 Absatz 2 definiert), die von der Emittentin oder einer Maßgeblichen Tochtergesellschaft begeben oder garantiert wurde, oder für die die Emittentin oder eine Maßgebliche Tochtergesellschaft anderweitig die Haftung übernommen hat, nicht bei Fälligkeit oder innerhalb einer gegebenenfalls gewährten Nachfrist erfüllt; oder

(d) die Emittentin oder eine Maßgebliche Tochtergesellschaft ihre Zahlungsunfähigkeit androht oder bekannt gibt oder ihre Zahlungen einstellt; oder

## **§ 9 TERMINATION**

(1) *Events of Default.* Each Noteholder shall be entitled to declare his Notes due and demand immediate redemption thereof at the Principal Amount, together with accrued interest (if any) to the date of repayment, in the event that:

(a) the Issuer fails to pay principal or interest within 15 calendar days from the relevant due date; or

(b) the Issuer fails to duly perform any other obligation arising from the Notes (other than an obligation for the payment of principal and interest in respect of the Notes) and such failure is not capable of remedy or, if such failure is capable of remedy, such failure continues for more than 60 calendar days after the Principal Paying Agent has received notice thereof from a Noteholder; or

(c) the Issuer or a Pertinent Subsidiary (as defined in § 9(3)) fails to fulfil any payment obligation equal to or exceeding €20,000,000 (or its equivalent in another currency) when due or, as the case may be, within an applicable grace period under any monies borrowed or raised or guaranteed by the Issuer or a Pertinent Subsidiary or for which the Issuer or a Pertinent Subsidiary has otherwise assumed liability or under any other Relevant Indebtedness (as defined in § 2(2)) issued or guaranteed by the Issuer or a Pertinent Subsidiary or for which the Issuer or a Pertinent Subsidiary has otherwise assumed liability; or

(d) the Issuer or a Pertinent Subsidiary threatens or announces its inability to meet its financial obligations or ceases its payments; or

(e) ein Gericht ein Insolvenzverfahren gegen die Emittentin oder eine Maßgebliche Tochtergesellschaft eröffnet, oder eine Aufsichts- oder sonstige Behörde, deren Zuständigkeit die Emittentin oder eine Maßgebliche Tochtergesellschaft unterliegt, ein solches Verfahren einleitet oder beantragt und das betreffende Verfahren nicht innerhalb von 60 Kalendertagen eingestellt oder ausgesetzt wird oder die Emittentin oder eine Maßgebliche Tochtergesellschaft eine allgemeine Schuldenregelung zugunsten ihrer Gläubiger anbietet oder trifft; oder

(f) die Emittentin aufgelöst oder liquidiert wird, es sei denn, dass die Auflösung oder Liquidation im Zusammenhang mit einer Verschmelzung oder einem sonstigen Zusammenschluss mit einem anderen Rechtsgebilde erfolgt, sofern, im Fall der Auflösung oder Liquidation der Emittentin, dieses andere Rechtsgebilde alle Verbindlichkeiten der Emittentin aus den Schuldverschreibungen übernimmt; oder

(g) die Emittentin ihren Geschäftsbetrieb einstellt oder damit droht, es sei denn, dies erfolgt im Zusammenhang mit einer Verschmelzung oder einem sonstigen Zusammenschluss mit einem anderen Rechtsgebilde, sofern dieses andere Rechtsgebilde alle Verbindlichkeiten der Emittentin aus den Schuldverschreibungen übernimmt; oder

(h) eine behördliche Anordnung, ein Erlass oder eine gesetzliche Bestimmung erlassen wird oder ergeht, aufgrund derer die Emittentin daran gehindert wird, die von ihr gemäß diesen Emissionsbedingungen übernommenen Verpflichtungen in vollem Umfang zu beachten und zu erfüllen und diese Lage nicht binnen 90 Tagen behoben ist.

Das Kündigungsrecht erlischt, falls der Kündigungsgrund vor Ausübung des Rechts geheilt wurde.

(2) *Benachrichtigung.* Jede Benachrichtigung, einschließlich einer Kündigung der Schuldverschreibungen gemäß Absatz 1 dieses § 9 ist schriftlich in deutscher oder englischer Sprache gegenüber der Hauptzahlstelle zu erklären und persönlich oder per Einschreiben an deren bezeichnete Geschäftsstelle zur Weiterleitung an die Emittentin zu übermitteln. Der Benachrichtigung ist ein Nachweis beizufügen, aus dem

(e) a court opens insolvency proceedings against the Issuer or a Pertinent Subsidiary, or a supervisory or other authority which has jurisdiction over the Issuer or a Pertinent Subsidiary institutes or applies for such proceedings and, in each case, such proceedings have not been discharged or stayed within 60 calendar days, or the Issuer or a Pertinent Subsidiary offers or makes an arrangement for the benefit of its creditors generally; or

(f) the Issuer is dissolved or liquidated, unless such dissolution or liquidation is made in connection with a merger, consolidation or other combination with any other entity, provided that, in the case of the dissolution or liquidation of the Issuer, such other entity assumes all obligations of the Issuer arising under the Notes; or

(g) the Issuer ceases or threatens to cease to carry on its business, unless such event occurs in connection with a merger, consolidation or other combination with any other entity, provided that such other entity assumes all obligations of the Issuer arising under the Notes; or

(h) any governmental order, decree or enactment is made which prevents the Issuer from observing and performing in full its obligations as set forth in these Terms and Conditions and this situation is not cured within 90 days.

The right to declare Notes due shall terminate if the situation giving rise to it has been cured before the right is exercised.

(2) *Notice.* Any notice, including any notice declaring Notes due in accordance with paragraph 1 of this § 9, shall be made by means of a written declaration in the German or English language delivered by hand or registered mail to the specified office of the Principal Paying Agent to be forwarded to the Issuer by the Principal Paying Agent together with proof that such Noteholder at the time of

sich ergibt, dass der betreffende Schuldverschreibungsgläubiger zum Zeitpunkt der Benachrichtigung Inhaber der betreffenden Schuldverschreibung ist. Der Nachweis kann durch eine Bescheinigung der Depotbank (wie in § 14 Absatz 3 definiert) oder auf andere geeignete Weise erbracht werden.

(3) **Maßgebliche Tochtergesellschaft** bezeichnet die Air Berlin PLC & Co. Luftverkehrsgesellschaft KG oder die Air Berlin Finance B.V.

## **§ 10 ERSETZUNG**

(1) *Ersetzung.* Die Emittentin ist jederzeit berechtigt, ohne Zustimmung der Schuldverschreibungsgläubiger an ihrer Stelle eine Tochtergesellschaft (ausgenommen eines Unternehmens mit Sitz in den Vereinigten Staaten von Amerika) als Hauptschuldnerin (die **Nachfolgeschuldnerin**) für alle Verpflichtungen aus und im Zusammenhang mit den Schuldverschreibungen einzusetzen, vorausgesetzt, dass:

(a) kein Verzug in Bezug auf die Zahlung von Kapital oder Zinsen auf die Schuldverschreibungen vorliegt;

(b) die Emittentin und die Nachfolgeschuldnerin einen Vertrag zugunsten jedes Schuldverschreibungsgläubigers als begünstigtem Dritten gemäß § 328 Absatz 1 BGB abgeschlossen haben, in dem sich die Nachfolgeschuldnerin verpflichtet hat, an die Regelungen dieser Emissionsbedingungen und des Agency Agreements als Schuldnerin in Bezug auf die Schuldverschreibungen gebunden zu sein;

(c) die Emittentin und die Nachfolgeschuldnerin alle erforderlichen Genehmigungen erhalten haben und berechtigt sind, an die Hauptzahlstelle alle zur Erfüllung der Zahlungsverpflichtungen aus den Schuldverschreibungen zahlbaren Beträge in der in diesen Emissionsbedingungen festgelegten Währung zu zahlen, ohne verpflichtet zu sein, jeweils in dem Land, in dem die Nachfolgeschuldnerin ihren Sitz hat oder steuerlich ansässig ist, erhobene Steuern oder andere Abgaben jeder Art abzuziehen oder einzubehalten;

such notice is a holder of the relevant Notes by means of a certificate of his Custodian (as defined in § 14(3)) or in another appropriate manner.

(3) **Pertinent Subsidiary** means Air Berlin PLC & Co. Luftverkehrsgesellschaft KG or Air Berlin Finance B.V.

## **§ 10 SUBSTITUTION**

(1) *Substitution.* The Issuer may, without the consent of the Noteholders at any time substitute for the Issuer any subsidiary (except for any subsidiary with a registered office in the United States of America) as principal debtor in respect of all obligations arising from or in connection with the Notes (the **Substitute Debtor**), provided that:

(a) no payment of principal of or interest on any of the Notes is in default;

(b) the Issuer and the Substitute Debtor have entered into an agreement in favour of each Noteholder as third-party beneficiary pursuant to § 328(1) of the German Civil Code (*Bürgerliches Gesetzbuch*, BGB) in which the Substituted Debtor has undertaken to be bound by these Terms and Conditions and the provisions of the Agency Agreement as the debtor in respect of the Notes;

(c) the Issuer and the Substitute Debtor have obtained all necessary authorisations and may transfer to the Principal Paying Agent, in the currency required under these Terms and Conditions and without being obligated to deduct or withhold any taxes or other duties of whatever nature levied by the country in which the Substitute Debtor has its domicile or tax residence, all amounts required for the fulfilment of the payment obligations arising under the Notes;

(d) die Nachfolgeschuldnerin sich verpflichtet hat, jeden Schuldverschreibungsgläubiger hinsichtlich solcher Steuern, Abgaben oder behördlichen Lasten freizustellen, die einem Schuldverschreibungsgläubiger in Folge der Ersetzung auferlegt werden;

(e) die Nachfolgeschuldnerin, falls sie ihren Sitz in einem anderen Land als Deutschland hat, einen Zustellungsbevollmächtigten mit Sitz in Deutschland für Rechtsstreitigkeiten vor deutschen Gerichten bestellt hat; und

(f) die Emittentin unbedingt und unwiderruflich die Verpflichtungen der Nachfolgeschuldnerin gegenüber den Schuldverschreibungsgläubigern garantiert.

(2) *Bekanntmachung.* Jede Ersetzung ist gemäß § 12 bekannt zu machen.

(3) *Änderung von Bezugnahmen.* Im Falle einer Ersetzung gilt jede Bezugnahme in diesen Emissionsbedingungen auf die Emittentin ab dem Zeitpunkt der Ersetzung als Bezugnahme auf die Nachfolgeschuldnerin.

## **§ 11 BEGEBUNG WEITERER SCHULDVERSCHREIBUNGEN, ANKAUF UND ENTWERTUNG**

(1) *Begebung weiterer Schuldverschreibungen.* Die Emittentin ist berechtigt, jederzeit ohne Zustimmung der Schuldverschreibungsgläubiger weitere Schuldverschreibungen mit in jeder Hinsicht gleicher Ausstattung (gegebenenfalls mit Ausnahme des Tags der Begebung, des Verzinsungsbeginns und/oder des Ausgabepreises) in der Weise zu begeben, dass sie mit diesen Schuldverschreibungen eine einheitliche Serie bilden.

(2) *Ankauf.* Die Emittentin ist berechtigt, Schuldverschreibungen im Markt oder anderweitig zu jedem beliebigen Preis zu kaufen. Die von der Emittentin erworbenen Schuldverschreibungen können nach Wahl der Emittentin von ihr gehalten, weiterverkauft oder bei der Hauptzahlstelle zwecks Entwertung eingereicht werden.

(d) the Substitute Debtor has agreed to indemnify and hold harmless each Noteholder against any tax, duty, assessment or governmental charge imposed on such Noteholder as a consequence of such substitution;

(e) the Substitute Debtor, if a foreign company, has appointed an authorised agent domiciled in Germany for accepting services of process (*Zustellungsbevollmächtigter*) for any legal disputes before German courts; and

(f) the Issuer irrevocably and unconditionally guarantees in favour of each Noteholder such obligations of the Substitute Debtor.

(2) *Notice.* Notice of any such substitution shall be published in accordance with § 12.

(3) *Change of References.* In the event of any such substitution, any reference in these Terms and Conditions to the Issuer shall from then on be deemed to refer to the Substitute Debtor.

## **§ 11 FURTHER ISSUES, PURCHASES AND CANCELLATION**

(1) *Further Issues.* The Issuer may from time to time, without the consent of the Noteholders, issue further Notes having the same terms and conditions as the Notes in all respects (or in all respects except for the issue date, interest commencement date and/or issue price) so as to form a single series with the Notes.

(2) *Purchases.* The Issuer may at any time purchase Notes in the open market or otherwise and at any price. Notes purchased by the Issuer may, at the option of the Issuer, be held, resold or surrendered to the Principal Paying Agent for cancellation.



(3) *Entwertung.* Sämtliche vollständig zurückgezahlten Schuldverschreibungen können unverzüglich entwertet werden. Falls die Schuldverschreibungen entwertet werden, können sie nicht wiederbegeben oder wiederverkauft werden.

## § 12 MITTEILUNGEN

*Bekanntmachung.* Die Emittentin wird alle die Schuldverschreibungen betreffenden Mitteilungen durch Mitteilung an das Clearing System zur Weiterleitung an die Schuldverschreibungsgläubiger bekannt machen. Jede derartige Mitteilung gilt am siebten Geschäftstag nach dem Tag der Mitteilung an das Clearing System als gegenüber den Schuldverschreibungsgläubigern wirksam erfolgt.

Sofern die Schuldverschreibungen an einer Börse notiert sind und die Regeln dieser Börse dies vorsehen, wird die Emittentin alle die Schuldverschreibungen betreffenden Mitteilungen gemäß den Regeln dieser Börse veröffentlichen. Die Wirksamkeit von Mitteilungen, die gemäß Satz 1 erfolgen, wird nicht dadurch beeinträchtigt, dass Mitteilungen nicht gemäß den Regeln einer Börse bekannt gemacht wurden.

## § 13 BESCHLÜSSE DER SCHULDVERSCHREIBUNGS- GLÄUBIGER

(1) *Beschlussgegenstände.* Die Schuldverschreibungsgläubiger können gemäß dem Schuldverschreibungsgesetz durch Mehrheitsbeschluss Änderungen der Emissionsbedingungen zustimmen.

(2) *Mehrheitserfordernisse für Änderungen der Emissionsbedingungen.* Die Schuldverschreibungsgläubiger beschließen mit einer Mehrheit von mindestens 75 % (**Qualifizierte Mehrheit**) der an der Abstimmung teilnehmenden Stimmrechte wesentliche Änderungen der Emissionsbedingungen, insbesondere die Zustimmung zu in § 5 Absatz 3 des Schuldverschreibungsgesetzes aufgeführten Maßnahmen. Beschlüsse, durch die der wesentliche Inhalt der Emissionsbedingungen nicht geändert wird, bedürfen zu ihrer Wirksamkeit einer einfachen Mehrheit von mindestens

(3) *Cancellation.* All Notes redeemed in full may be cancelled forthwith and, if cancelled, may not be reissued or resold.

## § 12 NOTICES

*Publication.* The Issuer shall deliver all notices concerning the Notes to the Clearing System for communication by the Clearing System to the Noteholders. Any such notice shall be deemed to have been given to the Noteholders on the seventh day after the day on which the said notice was given to the Clearing System.

If the Notes are listed on any stock exchange and the rules of that stock exchange so require, all notices of the Issuer concerning the Notes shall be published in accordance with the rules of this stock exchange. A failure to publish any notices in accordance with the rules of any stock exchange shall not affect the effectiveness of notices issued in accordance with sentence 1.

## § 13 RESOLUTIONS OF NOTEHOLDERS

(1) *Matters subject to resolutions.* The Noteholders may in accordance with the German Bond Act (*Schuldverschreibungsgesetz*) by majority resolution consent to amendments of the Terms and Conditions.

(2) *Majority requirements for amendments to the Terms and Conditions.* Resolutions relating to material amendments to the Terms and Conditions, in particular consents to the measures set out in § 5(3) of the German Bond Act (*Schuldverschreibungsgesetz*), shall be passed by a majority of not less than 75 per cent. of the votes cast (**Qualified Majority**). Resolutions relating to amendments to the Terms and Conditions which are not material require a simple majority of not less than 50 per cent. of the votes cast (**Simple Majority**). Each

50 % der teilnehmenden Stimmrechte (**Einfache Mehrheit**). Jeder Schuldverschreibungsgläubiger nimmt an Abstimmungen nach Maßgabe des Nennwerts oder des rechnerischen Anteils seiner Berechtigung an den ausstehenden Schuldverschreibungen teil. Jede Änderung der Emissionsbedingungen bedarf der Zustimmung der Emittentin.

(3) *Beschlussfassung.* Beschlüsse der Schuldverschreibungsgläubiger werden im Wege einer Abstimmung ohne Versammlung nach § 18 Schuldverschreibungsgesetz getroffen, es sei denn die Emittentin stimmt einer physischen Schuldverschreibungsgläubigerversammlung gemäß § 9 Schuldverschreibungsgesetz zu.

(4) *Nachweise.* Die Schuldverschreibungsgläubiger haben die Berechtigung zur Teilnahme an der Abstimmung zum Zeitpunkt der Stimmabgabe durch besonderen Nachweis der Depotbank gemäß § 14 Absatz 3 dieser Emissionsbedingungen und die Vorlage eines Sperrvermerks der Depotbank für den Abstimmungszeitraum nachzuweisen.

#### **§ 14 ANWENDBARES RECHT, ERFÜLLUNGORT, GERICHTSSTAND UND GERICHTLICHE GELTENDMACHUNG**

(1) *Anwendbares Recht.* Form und Inhalt der Schuldverschreibungen sowie die Rechte und Pflichten der Schuldverschreibungsgläubiger und der Emittentin bestimmen sich in jeder Hinsicht nach deutschem Recht.

(2) *Gerichtsstand.* Das zuständige Gericht in Berlin ist zuständig für sämtliche im Zusammenhang mit den Schuldverschreibungen entstehenden Klagen oder sonstige Verfahren, soweit nicht gesetzlich zwingend etwas anderes bestimmt ist.

(3) *Gerichtliche Geltendmachung.* Jeder Schuldverschreibungsgläubiger ist berechtigt, in jedem Rechtsstreit gegen die Emittentin oder in jedem Rechtsstreit, in dem der Schuldverschreibungsgläubiger und die Emittentin Partei sind, seine Rechte aus diesen Schuldverschreibungen im eigenen Namen auf der folgenden Grundlage geltend zu machen: (i) er bringt eine Bescheinigung der Depotbank bei, bei der er für

Noteholder participating in any vote shall cast votes in accordance with the nominal amount or the notional share of its entitlement to the outstanding Notes. Any amendment of the Terms and Conditions requires the consent of the Issuer.

(3) *Passing of resolutions.* Noteholders shall pass resolutions by vote taken without a physical meeting (*Abstimmung ohne Versammlung*) pursuant to § 18 of the German Bond Act unless the Issuer consents to a physical noteholder meeting pursuant to § 9 of the German Bond Act.

(4) *Proof of eligibility.* The Noteholders must demonstrate their eligibility to participate in the vote at the time of voting by means of a special confirmation of the Custodian in accordance with § 14(3) of these Terms and Conditions and by submission of a blocking instruction by the Custodian for the voting period.

#### **§ 14 APPLICABLE LAW, PLACE OF PERFORMANCE, PLACE OF JURISDICTION AND ENFORCEMENT**

(1) *Applicable Law.* The form and content of the Notes and all rights and obligations of the Noteholders and the Issuer shall be governed by German law.

(2) *Submission to Jurisdiction.* The competent court in Berlin shall have jurisdiction for any action or other legal proceedings arising out of or in connection with the Notes, unless mandatory statutory provisions require otherwise.

(3) *Enforcement.* Any Noteholder may in any proceedings against the Issuer, or to which such Noteholder and the Issuer are parties, in his own name enforce his rights arising under such Notes on the basis of (i) a statement issued by the Custodian with whom such Noteholder maintains a securities account in respect of Notes (a) stating the full name and address of the Noteholder, (b) specifying the aggregate

die Schuldverschreibungen ein Wertpapierdepot unterhält, welche (a) den vollständigen Namen und die vollständige Adresse des Schuldverschreibungsgläubigers enthält, (b) den Gesamtnennbetrag der Schuldverschreibungen bezeichnet, die unter dem Datum der Bestätigung auf dem Wertpapierdepot verbucht sind und (c) bestätigt, dass die Depotbank gegenüber dem Clearing System eine schriftliche Erklärung abgegeben hat, die die vorstehend unter (a) und (b) bezeichneten Informationen enthält, und (ii) er legt eine Kopie der die betreffenden Schuldverschreibungen verbriefenden Globalurkunde vor, deren Übereinstimmung mit dem Original eine vertretungsberechtigte Person des Clearing System oder des Verwahrers des Clearing System bestätigt hat, ohne dass eine Vorlage der Originalbelege oder der die Schuldverschreibungen verbriefenden Globalurkunde in einem solchen Verfahren erforderlich wäre oder (iii) auf jede andere Weise, die im Lande der Geltendmachung prozessual zulässig ist. Für die Zwecke des Vorstehenden bezeichnet **Depotbank** jede Bank oder ein sonstiges anerkanntes Finanzinstitut, das berechtigt ist, das Wertpapierverwahrungsgeschäft zu betreiben und bei der/dem der Schuldverschreibungsgläubiger ein Wertpapierdepot für die Schuldverschreibungen unterhält, einschließlich des Clearing Systems.

## § 15 TEILUNWIRKSAMKEIT

Sollte eine der Bestimmungen dieser Emissionsbedingungen unwirksam oder undurchführbar sein oder werden, so bleibt die Wirksamkeit oder die Durchführbarkeit der übrigen Bestimmungen hiervon unberührt. Anstelle der unwirksamen oder undurchführbaren Bestimmungen soll, soweit rechtlich möglich, eine dem Sinn und Zweck dieser Emissionsbedingungen entsprechende Regelung gelten.

## § 16 SPRACHE

Diese Emissionsbedingungen sind in deutscher Sprache abgefasst. Eine Übersetzung in die englische Sprache ist beigelegt. Der deutsche Text ist bindend und maßgeblich. Die Übersetzung in die englische Sprache ist unverbindlich.

principal amount of Notes credited to such securities account on the date of such statement and (c) confirming that the Custodian has given written notice to the Clearing System containing the information pursuant to (a) and (b) and (ii) a copy of the Global Note representing the relevant Notes certified as being a true copy by a duly authorised officer of the Clearing System or a depository of the Clearing System, without the need for production in such proceedings of the actual records or the Global Note representing the Notes or (iii) any other means of proof permitted in legal proceedings in the country of enforcement. For purposes of the foregoing, **Custodian** means any bank or other financial institution of recognised standing authorised to engage in securities custody business with which the Noteholder maintains a securities account in respect of the Notes, including the Clearing System.

## § 15 SEVERABILITY

Should any of the provisions of these Terms and Conditions be or become invalid or unenforceable, the validity or the enforceability of the remaining provisions shall not in any way be affected or impaired thereby. In that event, the invalid or unenforceable provision shall be replaced by a provision which, to the extent legally possible, provides for an interpretation in keeping with the meaning and economic purposes of these Terms and Conditions.

## § 16 LANGUAGE

These Terms and Conditions are written in the German language and provided with an English language translation. The German text shall be prevailing and binding. The English language translation is provided for convenience only.

## DESCRIPTION OF THE ISSUER

### Overview

Air Berlin PLC (**Air Berlin**) was incorporated and registered in England and Wales on 2 December 2005 under the Companies Act as a private company limited by shares with the name Air Berlin Limited. On 19 December 2005, it was re-registered as a public limited company under the name Air Berlin PLC. Air Berlin's registered office is The Hour House, 32 High Street, Rickmansworth, WD3 1ER, with the telephone number +49 (0)30 3434 1500. Air Berlin's registered number is 5643814.

On 1 October 2009, the Companies Act 2006 (the **2006 Act**) came into force in England and Wales. Pursuant to a provision of the 2006 Act, an English incorporated company's objects and purpose are unrestricted in scope unless that company's articles of association expressly provide otherwise. As a consequence of the 2006 Act, Air Berlin resolved to delete its former objects and purpose clause from its Memorandum of Association. As a result, Air Berlin's objects and purpose are unrestricted in scope.

Air Berlin's authorised share capital is comprised of 85,226,196 ordinary shares of €0.25 each and 50,000 A shares of £1.00 each which were issued and fully paid up as of 30 September 2011. Included in this amount are 177,600 treasury shares held by Air Berlin through the Air Berlin Employee Share Trust.

Air Berlin is the parent company of a group which comprises Germany's second-largest airline and Europe's sixth-largest airline in terms of passenger numbers.<sup>3</sup> Air Berlin offers scheduled flights on a wide range of short-, medium- and long-haul routes. As of 30 June 2011, Air Berlin flew to 170 domestic German and international destinations in 45 countries. In total, Air Berlin flew to 132 destinations in Europe (including destinations in Turkey), 15 in North Africa along with a further 23 destinations overseas in Africa, North America, the Caribbean and Asia. Air Berlin's European destinations are located primarily in, or in close proximity to, major European cities that are attractive to leisure and business travellers alike. In 2010, Air Berlin transported 33.6 million passengers (2009: 32.4 million) and generated revenue of €3,723.6 million (2009: €3,240.3 million). Air Berlin's major competitor in the European low-cost carrier market is easyJet and in the German market, Lufthansa.

Air Berlin sells seats on its flights through all major distribution channels and believes that it has one of the most comprehensive distribution networks of the major European low-cost carriers. Most seats are booked directly by customers through Air Berlin's website, its 24-hour service centre or third-party travel agencies. The remainder are generally sold up to a year in advance of the flight departure date under agreements with charter and package tour operators, who then resell the seats to their customers, generally as part of package tours.

The Air Berlin network combines both business and leisure travel destinations and is attractive to both leisure and business travellers through serving a balanced mix of airports in tourist destinations and airports in or in close proximity to major European cities and by offering customers a number of extra services, or so called frills, together with widely available value-for-money fares. Its business model and multi-channel distribution platform allow Air Berlin to target these core customer segments in order to balance demand and optimise yields. Air Berlin's low fares are made possible by the high utilisation of its young aircraft fleet, a cost-efficient infrastructure, simplified business and operating procedures and the well-focused application of modern information technology.

As of 30 June 2011, Air Berlin's fleet is comprised of 168 aircraft, and is one of the youngest fleets among the top ten carriers by passengers in Europe, with an average age of 5.0 years.

<sup>3</sup> Issuer's Directors' best estimates based upon information obtained from trade and business organisations and associations and other contacts within the industry in which it competes, as well as information published by its competitors.

The following table shows how Air Berlin's major operating data have developed over the periods indicated:

	Six months ended 30 June		Year ended 31 December	
	2011 (unaudited)	2010 (unaudited)	2010	2009
Aircraft	168	167	169	163
Flights	131,420	129,285	262,591	249,202
Destinations	170	163	163	134
Capacity (thousands of passengers)	21,819	21,492	43,744	41,787
Passengers (in thousands)	16,423	15,524	33,593	32,373
ASKs in billion	29.35	28.16	58.78	56.66
RPKs in billion	24.12	20.51	45.24	43.91
Passenger load factor	75.27%	72.23%	76.79%	77.47%
Number of block hours	259,162	251,810	520,948	489,971

- 
- (1) The data for the six months ended 30 June in the table above have been derived from Air Berlin's management accounts. For comparison purposes the TUI and NIKI aircraft have been included in the 2009 figures and the NIKI aircraft have been included in the six-month figures ended 30 June 2010.
  - (2) ASKs, or available seat kilometres, are the average number of seats available for sale per flight stage multiplied by the total number of kilometres flown.
  - (3) RPKs, or revenue passenger kilometres, are the average number of revenue sold seats per flight stage multiplied by the total number of kilometres flown.
  - (4) Passenger load factor is the ratio of passengers to capacity.

As of 30 September 2011, Air Berlin's fleet is comprised of 170 aircraft.

In the nine-month period ended 30 September 2011, the total number of passengers transported by Air Berlin increased to 27,675,491 (compared to 26,604,510 in first nine months of 2010), reflecting an increase of 4 per cent. For the same period, the passenger load factor improved from 76.1 to 78.6 per cent (an increase of 2.5 percentage points). Accumulated capacity for the first nine months of 2011 increased by 0.7 per cent as compared to the first nine months of 2010.

As of 30 September 2011, Air Berlin flew to 185 domestic German and international destinations in 47 countries, of which 147 destinations in Europe (including destinations in Turkey), 15 destinations in North Africa and a further 23 destinations overseas in Africa, North America, the Caribbean and Asia.

### **Important events since Air Berlin's initial public offering (IPO)**

Important events since Air Berlin's IPO in May 2006 include:

- |      |                                                                                                                                                                                                                    |
|------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 2006 | Air Berlin acquires dba Luftfahrtgesellschaft mbH, expanding its footprint in the business travel sector with additional slots at strategically important airports.                                                |
| 2007 | Air Berlin acquires LTU Lufttransport Unternehmen GmbH (LTU) and enters the long-haul market. LTU operated 16 medium- and twelve long-range aircraft and had approximately 2,200 employees as of 31 December 2006. |

	Air Berlin acquires 49% of the Swiss carrier Belair, with its strong base of tour operators and international traffic rights.
2008	Air Berlin launches the “Jump” cost-reduction programme to improve profitability throughout the Air Berlin Group. Starting with the winter flight schedule 2008/2009, Air Berlin implements measures to optimise capacity, flight schedules, route network and fleet and to streamline the organisation. Aircraft with high fuel consumption are taken out of service, while unprofitable routes are discontinued. At the same time, more flights are offered to destinations with high demand.
2009	<p>Air Berlin transfers its option to acquire the remaining 51% of Belair to a Swiss trust which exercises the option with Hotelplan Holding AG and becomes the new owner of 51% of Belair. Air Berlin retains its 49% holding and the Swiss trust grants Air Berlin the option to acquire its 51% holding of Belair. Belair remains fully consolidated in Air Berlin’s financial statements.</p> <p>Air Berlin enters into agreements with members of the TUI Travel group. As a result of the agreements, new shares representing 9.9% of Air Berlin’s issued share capital are issued to Leibniz, a subsidiary of TUI Travel, for cash consideration of €33.5 million. Leibniz agrees to undertake an orderly divestment of the shares in the years following their subscription and not to exercise any voting rights with respect to the shares. Air Berlin receives certain slots, customer contracts and other rights previously utilised by TUI Travel and leases 14 Air Berlin-branded aircraft through wet lease arrangements with a subsidiary of TUI Travel, TUIfly GmbH.</p> <p>Air Berlin becomes the first airline in the world with approval to use GLS (GPS landing system) for normal flight operations which greatly reduces time spent in holding patterns and on diversions.</p>
2010	<p>Air Berlin Group increases its interest in the Austrian carrier NIKI Luftfahrt GmbH (<b>NIKI</b>) by 25.9% from 24% to 49.9%. In addition, Air Berlin PLC &amp; Co. Luftverkehrs KG (<b>Air Berlin KG</b>) grants a €40.5 million loan to the private Lauda foundation (<i>Privatstiftung Lauda</i>) which is the ultimate indirect shareholder of the remaining 50.1% interest in NIKI. The maximum term of the loan granted in July 2010 is slightly less than three years and the private Lauda foundation has the option to repay the loan including interest in cash or transfer its entire indirect interest in NIKI to Air Berlin KG instead. NIKI has been fully consolidated in the financial statements of Air Berlin PLC since 5 July 2010.</p> <p>Air Berlin announces it is joining oneworld® and will begin flying as part of the alliance in spring 2012.</p>
2011	<p>Effective 1 April 2011, the wholly-owned subsidiary LTU is merged into Air Berlin PLC &amp; Co. Luftverkehrs KG. Furthermore, all maintenance activities previously conducted by three separate entities in Berlin, Düsseldorf and Cologne are consolidated by merger into airberlin technik GmbH.</p> <p>In reaction to various factors causing certain destinations to become unprofitable, including in particular high fuel prices, the newly introduced air travel tax, lower passenger numbers and the decrease of passenger demand as well as in order to increase its profitability, Air Berlin launches the comprehensive ‘Shape &amp; Size’ programme in August 2011. The programme is designed to achieve a significant contribution through network and fleet optimisation. As part of this programme, Air Berlin plans, <i>inter alia</i>, to reduce its fleet of 170 aircraft as of 30 September 2011 to 152 by the summer of 2012. With a reduction in flight hours of only 4%, productivity per aircraft is expected to increase by approximately 200 hours per year. On the basis of this package of measures and further cost cutting and revenue</p>

enhancing measures, Air Berlin intends to achieve an improvement of operating results of €200 million.

Effective 1 September 2011, Joachim Hunold resigns as CEO of Air Berlin PLC and is succeeded by Dr. Hartmut Mehdorn.

## **Trend information**

There has been no material adverse change in the prospects of Air Berlin since 31 December 2010.

## **Recent Developments**

According to IATA, profits of European airlines are expected to decrease from US\$ 1.9 billion in 2010 to US\$ 1.4 billion in 2011, due to the sharp increase in oil prices and the effects of economic uncertainty.<sup>4</sup> The economic recovery observed in the global aviation industry in 2010 and the beginning of 2011 is not expected to continue in the second half of 2011 and in 2012.

For Air Berlin the 2011 financial year started with a strain on both revenue and costs as a result of the political developments in its North African tourist destinations. Air Berlin was affected by flight cancellations to Tunisia and Egypt and the reduced number of bookings caused by the political turmoil in these countries. Such political developments also served as the catalyst for sharp increases in crude oil prices. Moreover, the imposition of the air travel tax resulted in additional costs and continuing pricing pressure in the competitive airline industry.

Air Berlin initially anticipated an increase of four to five per cent in passenger numbers as a result of the expansion of its intercontinental network in 2011, including new connections to San Francisco and Vancouver as well as an increased offer in its European network. However, due to a lower than anticipated demand, high fuel prices and the air travel tax, Air Berlin now expects that the passenger numbers will be lower than originally anticipated. The total number of passengers transported in the first six months of 2011 amounted to 16.42 million (compared to 15.52 million in the first six months of 2010). Air Berlin achieved revenue passenger kilometres in the amount of 24.12 billion in the first half of 2011 as compared to 20.51 billion in the first half of 2010. Revenue in the first half of 2011 amounted to €1.897 billion compared to €1.567 billion in the first half of 2010.

With respect to costs, the aviation tax amounted to €74.4 million in the first half of 2011. Price competition made passing on these costs to its customers extremely difficult. The sharp increase in fuel prices also has had a negative impact: in the first six months of 2011, fuel was approximately 18.23 per cent more expensive than in the prior-year period. As Air Berlin effectively limited the other expense items, the second quarter EBITDAR still increased almost 10% from €129.6 million in the second quarter of 2010 to €142.2 million in the second quarter of 2011. However, EBITDAR decreased from €169.8 million in the first half of 2010 to €116.6 million in the first half of 2011. Additionally, the operating loss at the EBIT level increased from €134.3 million in the first half of 2010 to €220.5 million in the first half of 2011.

In the first half of 2011, the net result, after tax income of €88.7 million (2010: €46.0 million), was €-164.5 million compared with €-150.5 million in the first half of 2010.

According to the preliminary results for the third quarter of 2011, Air Berlin PLC group's revenue increased by 10.8% in quarterly comparison of Q3 2010 to Q3 2011 from EUR 1,241.2 to EUR 1,375.5. EBITDAR decreased from EUR 336.4 million to EUR 269.3 million in the third quarter of 2011. The operating result (EBIT) decreased from EUR 171.7 million to EUR 96.8 million, whereas in the previous year positive one-time gains in the amount of EUR 26.8 million were

<sup>4</sup> Source: IATA "Financial Forecast" report dated September 2011.

recorded. The disparity is in particular attributable to the air travel tax which was introduced on 1 January 2011 and the continuing high oil prices. Due to the increased costs also the operating expenses increased by 16.8% from EUR 1,095.8 million in the third quarter of 2010 to EUR 1,280.3 million in the third quarter of 2011.

The unrest in North Africa, the high oil price and the air travel tax are continuing negative factors that have affected Air Berlin's competitive situation. Moreover, price-conscious customers in particular purchase fewer tickets when the air travel tax and increased costs result in increased ticket prices.

In reaction to these factors and in order to increase profitability, Air Berlin has implemented an extensive package of measures known as "Shape & Size" that will take effect in the short term. Nevertheless, Air Berlin will not be able to return to positive EBIT figures in the current financial year. In light of the current, volatile economic development, a further statement with respect to Air Berlin's performance in 2011 is currently difficult to make.

The "Shape & Size" programme aims to improve operating results by €200 million by, among others, optimising the route network, adjusting the fleet and implementing further cost reduction and top-line enhancement measures. In the second half of 2011, the route network will be adjusted by removing routes which are not profitable in the current environment and at the same time are no longer strategically relevant. This pertains mostly to connections between smaller airports, but also to other destinations such as those in North Africa. At the same time, Air Berlin will adjust the frequency of flights to destinations where utilisation is currently not satisfactory. Furthermore, Air Berlin plans to reduce its current fleet of 170 aircraft to 152 by the summer of 2012.

### **Core strengths**

Air Berlin's principal competitive strengths are:

**Business model.** Air Berlin's business model offers its customers primarily single-class travel at attractively priced fares, while providing a number of free services to its passengers which other carriers either charge for or do not offer. Air Berlin effectively combines a hub-and-spoke system with point-to-point scheduled flights, serving a balanced mix of airports in tourist destinations as well as airports in, or in close proximity to, major European cities. An important benefit of Air Berlin's business model is that it enables Air Berlin to focus on the following key customer segments: tour operators, individual leisure and business travellers, and corporate accounts.

Serving its core customer segments through a combination of scheduled and charter flights allows Air Berlin to achieve higher asset utilisation while optimising its offering based on each passenger's "willingness to pay". Air Berlin's passengers are attracted by its beneficial value-for-money proposition that offers, on average, lower fares than legacy carriers, while including selected premium services, such as ticket refunds and free meals.

Air Berlin's successful business model has allowed Air Berlin to strengthen its market position as Europe's sixth-largest carrier, and Germany's second-largest airline. Air Berlin believes that its size gives it a competitive advantage in the consolidating European airline market and in generating significant economies of scale.

**Extensive route network with high-density operations in Germany and an efficient route mix.** Air Berlin operates an extensive route network with attractive departure times and flight frequencies to satisfy both leisure and business travellers. Additionally, Air Berlin believes that its coverage of 26 airports and top-two market share at 17 airports throughout Germany affords it a competitive advantage over low-cost carriers for business and leisure destinations to and from Germany. Air Berlin's network focuses on airports with large, non-overlapping catchment areas (i.e. the relevant surrounding areas from which passengers travel to use a given airport) and good ground and air transport links, which provide Air Berlin with access to routes and airports with high passenger volumes and yields, thereby enabling Air Berlin to achieve high aircraft utilisation rates.



**Efficient cost structure.** Air Berlin believes that its efficient cost structure allows it to provide a premium service at low fares. Although Air Berlin offers passengers services partially exceeding those of low-cost carriers, its operating costs are low compared with other European airlines. In 2010, Air Berlin's operating expenses per ASK (excluding fuel costs) were €0.0403. Air Berlin's efficient cost structure is made possible by:

- standardisation of flight operations through the use of a single-class cabin on all short- and medium-haul routes, allowing for substantial operational efficiency;
- high aircraft utilisation, which allows fixed costs to be spread over a greater number of flights and ASKs to achieve lower costs per ASK; and
- efficient outsourcing of non-core services, such as ticketing, catering, baggage- and aircraft-handling and other ground operation services.

**Comprehensive and flexible multi-channel sales and distribution network.** Air Berlin believes that it has a more comprehensive sales and distribution network compared to mere low-cost carriers. Air Berlin sells its tickets through a large variety of distribution channels, including Air Berlin's website, which features online bookings and web check-in, its 24-hour telephone service centre, its airport ticket counters, charter and package tour operators, travel agencies and online travel websites. Air Berlin believes that its comprehensive sales and distribution network enables it to achieve maximum penetration of its targeted customer segments while keeping its distribution costs low, including the growing single-seat leisure travel segment, the cost-conscious business travel segment and the established German package holiday segment.

Air Berlin's integration of the sales and reservations systems of its distribution channels into its revenue management system provides Air Berlin with flexibility to quickly access each of its distribution channels and stimulate demand during low-demand travel periods, thereby enabling Air Berlin to optimise its passenger load factors and yields.

**Strong brand.** Air Berlin believes its strong brand recognition distinguishes it from its competitors by identifying Air Berlin as focused on providing premium customer service with an extensive flight network at value-for-money prices. Air Berlin's brand recognition rate in Germany has grown continuously over the past years from 45% in 2002 to 91% in 2010.<sup>5</sup> The number of Germans with a positive impression of Air Berlin increased by 30% from 2002 to 2010. The percentage of those willing to book a ticket with Air Berlin also increased by 30% during the same period. According to a travel survey conducted by "Stern" magazine, Air Berlin has the most satisfied customer base in Germany. Air Berlin was regarded as the most family-friendly airline in the current test in the "Clever reisen!" magazine (02/2011 issue).

Air Berlin has won a large number of awards. In 2010 alone, Air Berlin was awarded "Best Short-Haul Airline" by the Business Travel Awards, the "Loyalty Award" by Airline Business and Global Flight Magazine, "Short-Haul Airline of the Year" by "Reiseblick" magazine, the "Franz-von-Mendelssohn Medal" by the Berlin Chamber of Commerce and Industry, "Best Low Cost Airline" by the Danish Travel Awards and the Skytrax World Airline Award for "Best Low-Cost Airline Europe", among others. In February 2011, Air Berlin won the TravelPlus Airline Amenity Bag Award 2010 in two categories, the Gold Award in the "Best Business Class Unisex Kit" category and "Best Economy Class Amenity Kit". In April 2011, Air Berlin was awarded the Outdoor Advertising Award PlakaDiva 2011 in the 'Out of Home Media' sector by the German outdoor advertising association (*Fachverband Aussenwerbung e.V.*, FAW) and the "Best Exhibitor Award" by the Cologne Business School in co-operation with Messe Berlin. Furthermore, Air Berlin was the first airline to be awarded the "ÖkoGlobe 2011". This environmental award for pioneering innovations promoting sustainable mobility was conferred on Air Berlin for its corporate programme for "Eco-efficient Flying". In

<sup>5</sup> Source: Forschungsgemeinschaft Urlaub und Reisen e.V., Reiseanalyse (travel analysis) 2010.

October 2011, Air Berlin won the “Palma de Mallorca” award for its services in tourism and the economy in Mallorca from the Spanish magazine “Capital”.

## **Strategy**

Air Berlin aims to build on its strengths to deliver sustainable and profitable growth and to strengthen its competitive position. The key elements of Air Berlin’s strategy include:

**Service offering.** Air Berlin intends to maintain its position in the market by offering its customers value-for-money fares and a number of free services that other carriers do not provide. Air Berlin offers a simple booking process and fare structure and intends to continue to focus on providing cost-efficient in-flight services, including on-board premium food and beverage services, ground services and reservations and distribution, while retaining a primarily single-class, easy-to-understand flight service.

**Strategic mix of destinations served.** Air Berlin has differentiated itself by serving a balanced mix of airports in tourist destinations and airports in or in close proximity to major European cities to satisfy both leisure and business travellers. Air Berlin also intends to continue to review its network in order to opportunistically allocate capacity to more profitable routes. Air Berlin's future membership in the oneworld® alliance and the codeshare agreements entered into in connection with oneworld® membership will also increase the number of destinations in which Air Berlin has a presence.

**Leveraging efficient customer segmentation and multi-channel distribution platform.** Air Berlin believes that its business model allows for an advantageous combination of different customer segments. While tour operators and private travellers on scheduled flights have always been a focus point of Air Berlin, this has been complimented by growth in Air Berlin’s business passenger segment. Air Berlin intends to continue to expand the number of its corporate accounts and further capitalise on the increasing cost awareness of business customers.

Air Berlin intends to continue to expand its multi-channel distribution platform to target all of its customer segments and to provide a competitive advantage in balancing demand to optimise yields, and seeks to continue to expand this platform.

**Increasing acceptance among business travellers.** Air Berlin’s attention to business travellers, together with its premium value-for-money service, highly frequented German domestic route network and destinations in a number of major European cities outside Germany frequented by business travellers, have enabled Air Berlin to gain steadily increasing acceptance among business travellers over the past few years. The number of agreements with corporate customers increased by 286 in 2010 bringing the total number of such agreements to 1,441 as of 31 December 2010. As of 30 June 2011, the number of corporate customers amounted to 1,448.

In addition to the Air Berlin Corporate and Flex fare schemes, Air Berlin offers a loyalty reward scheme, business points, aimed at small- and medium-sized businesses. With this programme Air Berlin intends to further increase its percentage of business travellers, developing new and further strengthening existing corporate relationships. In 2010, Air Berlin entered into 5,942 new business point agreements under this scheme. In addition, on a number of long-haul flights Air Berlin offers a business-class service of the type usually provided by legacy carriers.

**Ongoing focus on a cost-efficient structure.** In addition to the “Shape & Size” programme, Air Berlin will continue to monitor its costs closely, with particular focus on:

- Aircraft operating expenses. Air Berlin’s aircraft fleet has a low average age, enabling Air Berlin to keep maintenance, repair and overhaul, or MRO, expenses low. Air Berlin expects to maintain the average age of its fleet at roughly the current level through the acceptance of new aircraft deliveries, the sale of older aircraft and the return of its older leased aircraft to their lessors.

- **Airport costs.** Airport costs, such as landing charges and ground-handling fees, represent a large proportion of Air Berlin's cost base. Air Berlin intends to continue to focus on airports with large catchment areas allowing for large passenger volume and aims to benefit from its scale by negotiating favourable terms with airport operators as well as with other providers of ground services.
- **Personnel costs.** Air Berlin intends to continue to closely monitor its personnel costs.
- **Customer service costs.** While focusing on providing its passengers with an attractively priced and comfortable travel experience, Air Berlin intends to continue to closely monitor the effect of costs incurred in providing additional services. Air Berlin intends to continue to provide additional services and to introduce new services where the costs of these services are more than outweighed by the higher demand for Air Berlin's flights and increased customer satisfaction.

## **Business operations**

### ***Route network***

#### *Overview*

As of 30 June 2011, Air Berlin flies to 170 destinations in, among other countries, Germany, Spain, Austria, the United Kingdom, Switzerland, Italy, Greece, Egypt, Portugal, Turkey, Hungary, Tunisia, the Netherlands, Morocco, France, Denmark, Finland, Sweden, Norway, Israel, the Russian Federation, the United States, Thailand and the United Arab Emirates. By connecting German airports, international holiday regions and major European cities, Air Berlin's flight network offers attractive flights for both leisure and business travellers. In addition, Air Berlin's comprehensive airport coverage at 21 airports throughout Germany as of 30 June 2011, makes its flights accessible for travellers throughout the country.

#### *Airports*

In choosing airports, Air Berlin concentrates on airports with large, non-overlapping catchment areas and good ground and air transport links. Air Berlin's destination airports include both primary and secondary airports. Primary airports are particularly attractive to business travellers and enable Air Berlin to access the higher-margin business travel segment. These airports also give Air Berlin a competitive advantage in attracting leisure as well as business travellers over its competitors that fly only to secondary airports located near, but not in or immediately adjacent to, major destination cities. Air Berlin primarily uses airports that have:

- reserve capacity available to accommodate Air Berlin's future growth;
- the ability to respond flexibly to Air Berlin's needs; and
- as few flight restrictions, such as night-time flight restrictions, as possible to maximise aircraft utilisation rates.

In 2010, Air Berlin transported 33.6 million passengers between 163 airports (including TUIfly routes from October 2010 onwards). The following table sets forth Air Berlin's ten most important destination airports in 2010 in terms of the number of passenger arrivals and departures, including for connecting flights, and the percentage growth in passenger numbers at these airports compared with 2009:

Passenger volumes at the ten most important Air Berlin destination airports (departures plus arrivals, including connecting flights)

Airport	Number of passengers carried in 2010	Increase/ Decrease 2010/2009
Berlin	7,083,944	9.8 %
Palma de Mallorca	6,766,764	3.5%
Dusseldorf	6,679,879	2.0%
Munich	4,242,766	1.4%
Hamburg	3,596,624	4.1%
Cologne	2,810,951	(9.5)%
Vienna	2,649,451	15.5%
Nuremberg	2,362,166	1.9%
Stuttgart	2,014,567	12.4%
Zurich	1,972,711	12.9%
Other	24,376,929	3.3 %
Total	64,556,752	4.1%

### *Hubs*

Air Berlin focusses on four hub airports, namely Palma de Mallorca International Airport, Dusseldorf International Airport, Berlin Tegel Airport and Vienna International Airport. Air Berlin believes one of its competitive strengths is its number one position at Palma de Mallorca International Airport which saw above-average performance in 2010, despite the economic downturn. With its partner airline NIKI, the hub city of Vienna has become a strategically important gateway to Eastern Europe and the Middle East. In addition, the new Berlin Brandenburg International Airport is being built as a major new hub for Europe and is expected to open in early 2012. Air Berlin is due to move into the airport in June 2012, which has an expected capacity of up to 45 million passengers a year.

### *Route management*

Air Berlin responds flexibly to changing demands for flights to the various regions it serves and adjusts its flight schedule, if needed, to add new flights to its existing route network or to alter the frequency of flights on specific routes. Air Berlin also closely monitors new routes to ensure that they remain commercially viable and profitable, comparing actual demand with projected demand. Air Berlin's prudent and continuous route management enables it to implement, in a timely fashion, measures to improve the performance of both new and older routes that are not performing up to expectations, including promotions to improve passenger load factors and scaling back or cancelling services. See "Revenue management" below.

In August 2011, Air Berlin launched "Shape & Size", a comprehensive programme to increase the Air Berlin Group's efficiency and productivity. The programme focuses mainly on marketing and distribution, cost reduction, flight routing and maintenance. It aims to reduce the average cost of asset ownership per block hour by 9% and to increase the average productivity calculated by dividing aircraft block hours by the number of aircraft days p.a. by 7%.

## ***Fleet***

Air Berlin is committed to the continuous modernisation of its fleet and places significant emphasis on low fuel consumption and noise emissions and minimising environmental impact.

### ***Fleet as at 30 June 2011***

With an average age of 5.0 years (decreased from 5.4 in 2009 due to the addition of younger NIKI aircraft), Air Berlin has one of the youngest fleets among the top ten carriers by passengers in Europe. Air Berlin's fleet comprised 169 aircraft as at 31 December 2010 and 168 aircraft as at 30 June 2011. Air Berlin continues to modernise the fleet with the newest aircraft with the lowest fuel consumption.

The following table provides an overview of Air Berlin Groups's aircraft fleet as of 30 September 2011 and 30 June 2011:

Aircraft model	As of 30 September 2011	As of 30 June 2011
A319	11	13
A320	47	47
A321	14	14
A330-200	12	10
A330-300	3	3
Boeing 737-700	26	26
Boeing 737-800	40	38
Q400	10	10
E-190	7	7
<b>Total</b>	<b>170</b>	<b>168</b>

Air Berlin is continuing with the implementation of its consolidation course and its "Shape & Size" programme. A significant contribution of this programme is to be achieved through network and fleet optimisation. Air Berlin plans, *inter alia*, to reduce its current fleet of 170 aircraft to 152 by the summer of 2012 which represents a reduction of 10%. Air Berlin is in discussions with the manufacturers with respect to changes of its delivery stream of aircraft by postponing certain of the new deliveries to the years 2015 and 2016 which would result in a decrease of delivery positions in 2012, 2013 and 2014.

## ***Ticket sales and distribution***

### ***Distribution channels***

Air Berlin sells seats on its flights through the major distribution channels and believes that it has one of the most comprehensive sales and distribution networks. Air Berlin's distribution channels include its internet website, its 24-hour service centre, its airport ticket counters, charter and package tour operators, travel agencies and online travel websites.

Air Berlin's comprehensive distribution network makes it less vulnerable to fluctuations in demand either for single-seat tickets or from charter and package tour operators, while ensuring that Air Berlin is able to benefit from any upside movement in demand from either of these categories of customers.

The following table shows the revenue generated by each of Air Berlin's distribution channels as a percentage of total ticket sales, for the periods indicated:

	Half year ended 30 June		Year ended 31 December	
Distribution channel	2011	2010	2010	2009
		(as a percentage of total ticket sales)		
Individual ticket sales	68.8%	67.1%	65.91%	64.18%
Air Berlin website	25.5%	26.4%	26.18%	26.91%
Air Berlin Service Centre / In-house sales	4.3%	4.5%	4.02%	4.36%
Air Berlin ticket counter	1.4%	1.5%	1.47%	1.42%
Travel agencies	37.5%	34.7%	34.24%	31.49%
Charter and tour organisers	31.2%	32.9%	34.09%	35.82%
Total ticket sales	100.0%	100.0%	100.0%	100.0%

#### *Single-seat ticket sales*

In 2010, Air Berlin generated €2,245.9 million, or 65.9%, of its total ticket sales from single-seat ticket sales. Single-seat tickets can be bought via Air Berlin's website, Air Berlin's 24-hour service centre, Air Berlin ticket counters and third-party travel agencies (including online travel websites).

#### *Charter and package tour operators*

Air Berlin's extensive relationships with charter and package tour operators secure a basic level of utilisation across its fleet prior to the commencement of single-seat ticket sales, as seats are generally sold to tour operators up to a year in advance of the departure date. Air Berlin negotiates fixed seat contingents and price schedules with tour operators. Generally, tour operators make a firm booking for a specified number of seats on particular flights at their own risk, along with an option for a specified number of additional seats. The tour operators in turn sell the tickets to their customers, generally as part of a package tour. As a result, Air Berlin does not engage in any direct sales and marketing activities with its charter passengers. Instead, these passengers buy their tickets from tour operators as part of a package tour or a custom-designed holiday.

#### ***Business travellers***

The following Air Berlin sales initiatives are targeted at and used primarily by business travellers:

- **Air Berlin Corporate.** Air Berlin Corporate is specifically marketed to companies that are seeking a flexible yet low-cost solution for their business travel needs. Companies participating in Air Berlin Corporate enter into a master agreement with Air Berlin under which the companies' employees are eligible to purchase tickets for business travel on any Air Berlin flight at fixed-rate fares for each of three different destination zones, irrespective of when the flight is booked. Air Berlin Corporate customers may change their flight reservations and pre-book reserved seats at no additional charge. In addition, Air Berlin Corporate fares are fully refundable and are not subject to any no-show penalties. Air Berlin Corporate customers that book at least 50 coupons per year are entitled to receive discounts on Flex fares within Germany domestic and European City Shuttle route networks, as well as intercontinental routes.
- **Flex fares.** Flex tickets are specifically aimed at business and other travellers seeking low fares combined with the flexibility of rebooking and cancelling their tickets without additional charge. Flex tickets entitle holders to pre-booked reserved seats, may be rebooked at no charge and are fully refundable. Flex tickets are sold at fixed rates, regardless of how far in advance the tickets are booked. As these are published fares, no special agreement is required and Flex tickets are available to both business and leisure passengers.

- **Business Points.** In addition to the Air Berlin Corporate and Flex fares schemes, Air Berlin has introduced its new loyalty reward scheme, business points, aimed at small and medium sized businesses.

### ***Ancillary revenue***

In addition to revenue generated from the sale of flight tickets, Air Berlin also generates revenue from the sale of products and services that are ancillary to its core flight operations. These include in-flight sales of alcoholic beverages, paid-for premium on-board meals and so-called duty free merchandise; commissions from the sale of travel insurance, car hire and accommodation services through Air Berlin's website and service centre; and sales of advertising space in the Air Berlin on-board magazine.

Air Berlin intends to grow its ancillary sales by leveraging its strong brand recognition and large and growing customer base and route network, by focusing on maximising sales from its existing products and services, by introducing new supplementary products and services, and by broadening its co-operations with third-party service providers, such as hotel, tourist attraction, event and car hire companies.

### ***Marketing***

Air Berlin's marketing strategy is focused on attracting new customers by widely communicating its low fares, premium service and extensive route network.

#### ***General marketing***

Air Berlin markets its services through a number of different forms of advertising media, including newspapers and magazines, television and billboards near airports. Air Berlin has added an iphone application. Additionally, Air Berlin has maintained its sport sponsorship for Hertha BSC and Fortuna Düsseldorf as further forms of promotional advertising. Air Berlin also relies on word of mouth advertising to promote its brand.

#### ***topbonus***

topbonus, the joint frequent flyer programme of Air Berlin, enables passengers on all Air Berlin flights to collect topbonus award and status miles. Membership in topbonus is free and award miles remain valid for three years and are transferable for worldwide flights. As soon as topbonus members have collected a minimum of 20,000 status miles or 24 flights within twelve months, they attain "Silver" status. After collecting 40,000 status miles a year, they become Gold members. Silver or Gold members are entitled to special privileges, including priority check-in, free seat reservations and additional free luggage benefits. In April 2009, Air Berlin re-launched topbonus with increased member benefits, including, among others, companion tickets for 50% of the regular mileage amount, business class upgrades and double award miles on certain routes. As a result of Air Berlin's future oneworld® membership, topbonus members will be able to collect points with oneworld's® 13 other quality carriers.

topbonus award miles can also be earned by purchasing products and services from a number of partner companies:

- Financial service partners, including the "airberlin VISA Card".
- Hotel partners, including most major international hotel brands such as Hilton, Marriott and Crowne Plaza hotels.
- Car hire partners, including Alamo, Avis, Europcar, Hertz, Holiday Autos, Sixt and Sunny Cars.

- Other partners, including American Express Membership Rewards, Binoli, comdirect, FAZ, Focus, Shell and Die Welt.

### ***Strategic growth***

#### ***oneworld®***

On 26 July 2010 Air Berlin and oneworld® signed a memorandum of understanding, according to which Air Berlin will join the global alliance. Full membership is envisaged for spring 2012.

As a result of oneworld® membership, Air Berlin passengers will have access to a global airline network. Once Air Berlin and Kingfisher Airlines join in 2012, the number of oneworld® gateways will increase to 75 and the number of destinations will increase to almost 900 in 150 countries. The total fleet will comprise more than 2,500 aircraft, providing approximately 9,500 flights per day. In 2010, the oneworld® alliance transported approximately 342 million passengers per year and had a total economic power of approximately US\$90 billion measured by revenue.

The oneworld® alliance currently serves approximately 900 airports in 150 countries with some 9,500 daily departures and offers its premium passengers access to more than 550 airport lounges.

Air Berlin has already entered into codeshare agreements with American Airlines, British Airways, Finnair, Iberia, Japan Airlines, LAN, Malév Hungarian Airlines, Royal Jordanian and S7 Airlines as part of the joining process. Bilateral agreements with other members of oneworld® are planned to follow. As a result of oneworld® membership, topbonus members will be able to collect points with oneworld's® other quality carriers while frequent flyer cardholders of oneworld's® established airlines will be able to earn and redeem rewards when flying with Air Berlin.

### ***Strategic co-operation***

On 5 July 2010, Air Berlin Group increased its interest in the Austrian carrier NIKI Luftfahrt GmbH (**NIKI**) by 25.9% from 24% to 49.9%. In connection therewith, Air Berlin PLC & Co. Luftverkehrs KG (**Air Berlin KG**) granted a €40.5 million loan to the private Lauda foundation (*Privatstiftung Lauda*) which is the ultimate indirect shareholder of the remaining 50.1% interest in NIKI. The maximum term of the loan granted in July 2010 is slightly less than three years and the private Lauda foundation has the option to repay the loan including interest in cash or transfer its entire indirect interest in NIKI to Air Berlin KG.

### ***Revenue management***

Air Berlin's revenue management is an integrated set of business processes that provides it with the ability to understand its markets, anticipate customer behaviour and respond quickly to new opportunities. Air Berlin uses revenue management in an effort to maximise passenger revenue by flight, by regions and across Air Berlin's entire route network while maintaining high passenger load factors. Air Berlin uses a computerised system to plan and monitor its revenue management, but the ultimate responsibility for revenue management decisions rests with the individual revenue managers, who are each responsible for specific routes or regions.

Air Berlin's revenue management process generally begins up to a year prior to a flight's scheduled departure date, following Air Berlin's initial sale of seats on the flight on a fixed-price wholesale basis to charter and package tour operators. Air Berlin believes that its extensive network of tour operator customers provides it with a competitive advantage in revenue management over many of its competitors by securing a basic level of utilisation across Air Berlin's fleet prior to the commencement of single-seat ticket sales. All seats not initially sold to or returned by tour operators are subject to Air Berlin's revenue management.

Air Berlin takes a flexible, dynamic approach to revenue management. Air Berlin adjusts its fares regularly, to reflect demand and to account for the time remaining until the flight departure date. An important factor in Air Berlin's revenue management is that, with the exception of long-haul flights, it



offers only a single class of service and comfort on all its flights, which provides for more efficient management of passenger loads compared with airlines that allocate their passenger loads between different classes of service and comfort. Another important factor is that each flight offered by Air Berlin is available on a one-way ticket basis. As a result, each flight is subject to its own price management, enabling Air Berlin to charge passengers different fares on outbound flights and return flights.

At the beginning of the booking phase for a flight, which may be up to a year in advance of the flight's departure date, Air Berlin makes a fixed contingent of seats available at a low one-way fare. The size of the contingent available at the headline fare depends on a variety of criteria, including departure airport, destination airport, departure date and time and the spare capacity of the aircraft.

As soon as the initial allotment has been sold at the lower price, the price for remaining unsold seats is increased in several stages. To maximise revenue on each flight, Air Berlin's revenue management system uses a number of standard profiles in setting the fares to be charged at, and the number of seats to be allocated to, each stage. These profiles utilise the extensive experience that Air Berlin has gathered in ticket sales over a number of years. The standard profiles, in the first instance, take account of the season when the flight takes place and the general popularity of the route. They also take account of the exact departure time. Most customers generally prefer to fly in the evening or morning, and mid-day flights often include a special incentive in the form of a lower fare. The standard profiles are modified to reflect local holiday schedules and upcoming events at the place of arrival or departure. The profiles also typically provide that the fares for a flight will rise slowly over the first few months of the booking period, followed by accelerated increases, generally in the 30 to 40 days prior to the departure date.

Air Berlin's revenue managers individually adjust the standard profiles for each flight as necessary, including, for example, setting earlier or later starting dates for the various price stages, adding additional price stages and adjusting prices for seats upward or downward to reflect, among others, current demand and fares being charged by competitors. Although these adjustments do not affect tickets that have already been sold, they help to maximise each flight's overall passenger utilisation capacity and average ticket price. They also help to maximise Air Berlin's revenue and thereby help offset the high proportion of fixed costs for each flight.

### ***Maintenance and safety***

Air Berlin's commitment to safety is its and its employees' primary priority. Aircraft maintenance, repair and overhaul are critical to the safety and comfort of Air Berlin's passengers, the efficient use of its aircraft and the optimisation of its fleet utilisation. All aircraft and engines undergo regular inspections and maintenance in accordance with the schedules recommended by manufacturers or approved by aviation authorities.

Effective 1 April 2011, the wholly-owned subsidiary LTU was merged into Air Berlin PLC & Co. Luftverkehrs KG. Furthermore, all maintenance activities previously conducted by three separate entities in Berlin, Düsseldorf and Cologne have been consolidated by merger into airberlin technik GmbH. airberlin technik not only services the Air Berlin Group's own fleet, but also provides services to other airlines, thus leveraging additional growth potential through economics of scale. As well as achieving greater capacity utilisation at individual locations, the amalgamation of these technical operations provides cost synergies.

Air Berlin's training programmes are oriented towards preventing accidents and cover all aspects of flight operations. Air Berlin crew members are required to undergo training programmes in air and ground safety when they are hired and are tested regularly over the course of their employment. The requirements for Air Berlin's training programmes and tests are set by Postholder Training, according to JAR/JAA-Standards, and compliance is monitored by the quality manager and Luftfahrt-Bundesamt, the German Federal Aviation Office.

All Air Berlin pilots and aircraft are licensed for flight in accordance with the CAT II/IIIA minimum landing criteria. This licensing requires special training and is subject to an oversight programme. Air Berlin carries out this special training as part of the simulator training programme that each Air Berlin pilot must complete twice a year. Air Berlin is also a licensed flight school under JAR-FCL guidelines (D-TRTO 1.059 acc. JAR-FCL 1) and offers a variety of training programmes for its own and outside professional pilots.

### ***Airport ground operations***

For a number of its airport ground operations, Air Berlin uses the third-party service providers available at airports or makes use of services provided by airport operators themselves. These services include check-in, catering, cleaning, baggage-handling and aircraft de-icing services. Third-party service providers are trained on Air Berlin's equipment, processes and procedures prior to providing services for Air Berlin. To ensure quality, Air Berlin conducts regular audits of its third-party service providers.

### ***Information and communication technology***

Air Berlin makes extensive use of information and communication technology systems and works together with third-party providers of information and communication technology and similar services, as well as using some internally developed software. Air Berlin's systems are used mainly for its revenue management and sales activities.

Pursuant to an agreement entered into in January 2007, Air Berlin uses the Amadeus IT platform and has committed itself to use, subject to completion of a migration phase, the Amadeus IT platform as its exclusive reservation system for booking channels other than tour operator allotment and, subject to availability, as its exclusive departure control system. In the event of system breakdowns or service outages, Air Berlin may not be able to recover lost revenues, as the agreement excludes liability for this and certain other types of damage.

Air Berlin has applied redundant design for those systems it regards as critical to its business operations. Redundancy extends not only to computers, applications, and the associated databases but also to connections with outside systems. Therefore, if one component fails, a functional replacement system is as a rule available immediately. Regular backups, uninterruptible power supplies and emergency power generators are intended to keep important data from being lost.

Air Berlin has never experienced an information technology system failure in the past that has had a material adverse effect on its business operations.

### ***Regulatory environment***

The air transport industry has historically been subject to significant governmental regulation both internationally and domestically. Air Berlin is an air carrier licensed by the Federal Republic of Germany. Therefore, the regulatory framework in Germany and the EU are of particular importance to Air Berlin's operations.

### ***The international regulatory framework***

The regulatory system for international air transport is based upon the general principle that each state has sovereignty over its air space and has the right to control the operation of air services over its territory. As a consequence, international air transport rights are based primarily on traffic rights, i.e. rights to overfly or to land at a specific destination, granted by individual states to other states in bilateral air service or air traffic agreements. The other states, in turn, grant the rights they have received in bilateral agreements to their local air carriers. In addition to bilateral air traffic rights, some air traffic rights are directly granted in horizontal and multilateral agreements.

Non-scheduled flights, such as charter flights, are subject to the restrictions imposed by individual states. Air carriers generally obtain traffic rights for non-scheduled flights from the relevant foreign states.

The International Civil Aviation Organization (**ICAO**), a specialised agency of the United Nations, has developed standards and recommended practices covering a wide range of matters, including aircraft operations, personnel licensing, security, accident investigations, navigation services, airport design and operation and environmental protection. Germany is a member of the ICAO.

The International Air Transport Association (**IATA**) provides a forum for the coordination of fares on international routes and for international cooperation in areas such as technical safety, security, navigation services, flight operations and the development of communication standards and administrative procedures.

#### ***Bilateral agreements and EU multilateral air transport agreements***

Germany is currently a party to approximately 140 bilateral air traffic agreements. These agreements govern the designation of airlines and airports for the operation of specified routes, airline capacity and fare-approval procedures. In addition, the EU and its Member States have concluded air transport agreements with the United States, Morocco, Jordan and the states of the European Common Aviation Area (**ECCA**).

On the basis of these agreements, contracting states give designated airlines the right to operate scheduled passenger and air-freight services on certain routes between those states. Most bilateral agreements, as well as the Air Transport Agreement between the EU, its Member States and the United States, require that airlines be able to demonstrate majority or substantial ownership and control by nationals of their home state, or a Member State of the European Union. If, at any time, Air Berlin were to become not majority owned or controlled by German citizens or corporations, or, where the relevant agreement requires majority ownership and control by EU nationals, EU citizens and corporations, the contracting states to the relevant bilateral or multilateral agreements could deny Air Berlin landing rights under such agreements.

Air Berlin's Articles of Association contain provisions allowing Air Berlin to obtain information from its shareholders, refuse to register transfers of its shares or interests in its shares and to force the sale of its shares or interests in its shares by non-EU persons or non-German persons (as applicable), should Air Berlin's air traffic rights be jeopardised.

Besides horizontal and multilateral air transport agreements, the bilateral agreements currently relevant to Air Berlin's operations are Germany's agreements with Canada, Chile, Cuba, Curacao, Costa Rica, the Dominican Republic, Egypt, India, Iraq, Israel, Jamaica, Jordan, Kenya, Kosovo, the Maldives, Morocco, Mexico, Namibia, Russia, Thailand, Tunisia, Turkey and the United Arab Emirates. However, most of Air Berlin's flights to destinations in Egypt, Tunisia and Turkey are not scheduled flights but charter flights, which are not subject to such bilateral agreements. See "Charter Flights outside the EEA". Belair operates scheduled flights to Egypt, Kosovo, Macedonia, Morocco, Tunisia and Turkey.

#### ***European Union***

Historically, air traffic between the EU Member States has been regulated by bilateral air traffic agreements. This bilateral regime was progressively liberalised through a series of measures aimed at establishing common rules for the licensing of air carriers within the European Union and permitting EU-licensed air carriers to operate services freely between points within the European Union. In order to qualify for an EU licence, Article 4 of Regulation (EC) No. 1008/2008 (**Regulation 1008/2008**) requires airlines, among other things, to have their principal place of business in a Member State, be principally engaged in air transport activities, be directly or indirectly owned at least as to 50% and effectively controlled by Member States and/or nationals of Member States and to have persons of good repute as managers. Pursuant to Article 8 Paragraph 1 of Regulation 1008/2008 airlines must be able to demonstrate to the competent licensing authority that they meet the requirements for a licence at all times. Air Berlin's Articles of Association allow Air Berlin to ensure compliance with these requirements at all times.

Access to traffic routes was liberalised by Council Regulation (EEC) No. 2408/92 and further by Regulation 1008/2008. According to Article 15 Paragraphs 1 and 2 of Regulation 1008/2008, no permit or authorisation by EU Member States is required for the operation of intra-Community air services by EU licensed air carriers. Air Berlin is, therefore, generally allowed to exercise traffic rights within the EEA to any potential destination both with regard to scheduled and chartered flights. According to Regulation 1008/2008 Member States may restrict capacity on air traffic routes to distribute traffic more evenly between airports, to respond to sudden unavoidable and unforeseeable problems or for environmental reasons. These restrictions must not be discriminatory and are subject to review by the European Commission prior to, or, in the case of sudden problems, immediately after their implementation. In 1995, by virtue of the European Economic Area Agreement, Norway, Iceland and Liechtenstein, although not members of the European Union, became subject to the air traffic regulation regime set up by the European Union, thus extending this regime to the European Economic Area (EEA). EU secondary aviation law also applies to a large extent in Switzerland pursuant to the EU-Switzerland Aviation Agreement of 2002 and by virtue of the decisions by the Joint Community/Switzerland Air Transport Committee set up under this agreement.

### ***Regulatory requirements***

The regulations relating to Air Berlin's operations are discussed below.

#### ***Operational aspects***

**Operating licence.** Air Berlin as a German air carrier is subject to the operational requirements set out in Regulation 1008/2008 and the German Air Traffic Act (*Luftverkehrsgesetz*). According to Article 3 of Regulation 1008/2008 and Section 20 Paragraph 4 of the German Air Traffic Act, air carriers that are subject to EU air traffic regulation rules require an operating licence for the transportation of passengers, mail or freight in commercial air traffic. The Luftfahrt-Bundesamt (German Aviation Office), the competent German air traffic authority, granted Air Berlin an operating licence under the number D-051 EG dated 1 November 2008. This licence is valid in every Member State of the European Union and is recognised in Air Berlin's non EU international operations. Belair holds operating licence (*Betriebsbewilligung*) CH.AOC BB.1032 under Swiss Law, granted by the Swiss Federal Office of Civil Aviation (*Bundesamt für die Zivilluftfahrt*) on 1 November 2007. NIKI holds operating licence (*Betriebsbewilligung*) AOC A 084 under Austrian Law, granted by Austro Control on 12 January 2011.

**Air operator certificate.** The operating licence is granted, and retains its validity, only if the air carrier holds an air operator certificate (AOC) according to Articles 4 (b) and 6 of Regulation 1008/2008. The AOC specifies the types of aircraft that can be operated by the air carrier as well as other operations and technical specifications.

Members of the Air Berlin Group hold the necessary operator certificates. Air Berlin holds AOC No. D-051 AOC dated 26 September 2011 and Belair holds AOC No. CH-1032 dated 11 September 2008. NIKI holds AOC No. A-084 dated 12 January 2011.

#### ***Traffic rights***

Air Berlin offers various types of flight services, each of which requires a different kind of traffic rights.

**Traffic rights within the EEA.** According to Article 15 Paragraphs 1 and 2 of Regulation 1008/2008, no permit or authorisation by EU Member States is required for the operation of intra-Community air services by EU licensed air carriers. Air Berlin is, therefore, generally allowed to exercise traffic rights within the EEA to any potential destination both with regard to scheduled and chartered flights.

**Scheduled flights outside the EEA.** Scheduled flights to destinations outside the EEA require an airline licence (*Flugliniengenehmigung*) under Section 21 Paragraph 1 of the German Air Traffic Act. The Luftfahrt-Bundesamt has granted Air Berlin such licences for destinations in Algeria, Canada, Croatia, Cuba, Curacao, Costa Rica, the Dominican Republic, Egypt, Iceland, Iraq, Israel, Jamaica, Kenya, Kosovo, Macedonia, the Maldives, Mexico, Montenegro, Morocco, Namibia, Russia,

Thailand, Tunisia, Turkey, the United Arab Emirates and the United States. Belair has been granted an airline licence (*Streckenkonzession*) by the Swiss Federal Civil Aviation Authority (*Bundesamt für Zivilluftfahrt*) for destinations in Egypt, Morocco, Tunisia, Turkey, and Macedonia. Austro Control has granted NIKI such licenses for destinations in Egypt, Iceland, Israel, Kosovo, Russia, Serbia, Tunisia and Turkey.

Charter flights outside the EEA. Charter flight services to destinations outside the EEA require a general flight authorisation (*Allgemeine Ausflugerlaubnis*) under Section 2 Paragraph 6 of the German Air Traffic Act. On 7 November 2007, the Luftfahrt-Bundesamt granted Air Berlin a general flight authorisation for all ICAO regions. This general authorisation covers all package holiday flights, charter flights and freight charter flights out of German airspace to any destination in these regions. Belair services charter flights to Egypt and Turkey.

Air Berlin operates all scheduled and charter flights to non-EEA countries in close coordination with the respective authorities in such countries and is not aware of any issue with regards to the legal requirements of such countries that might have an effect on the traffic rights of Air Berlin.

#### *Slot allocation*

In order to take off from and land at airports, air carriers need slots. A slot represents a general authorisation to take off and land at a specific airport at a particular time during a specified time period. Slot allocation at primary airports, including 16 German airports, is governed by Council Regulation (EEC) No. 95/93, as amended, among other things, by Regulation (EC) No. 793/2004.

Under EU regulations, an airport coordinator distributes slots for each flight schedule period. If the number of applications exceeds the number of available slots, priority is given to the carriers that held the relevant slots in the previous flight schedule period and used such slots at least 80% of the time. If a carrier fails to meet the usage threshold, it may lose the relevant slot and the slot may be allocated to a slot pool for assignment to other carriers. However, if an air carrier has failed to use a slot for exceptional reasons (e.g. due to unforeseen and unavoidable circumstances outside the air carrier's control), the air carrier may be entitled to retain the slot.

Amendments to the EU regulations that became effective in the summer of 2004 aimed to improve slot utilisation procedures, access to slots for new entrants and services to regional airports. The amended regulations also set forth criteria, including environmental criteria, to be used in allocating slots, and provide for independence of airport slot coordinators and judicial review of their decisions. Airport slot coordinators were given the right to revoke single slots or a series of slots for the remainder of a flight schedule period as a sanction against slots operators that engage in abusive market practices.

While air carriers may exchange slots with each other under certain conditions, it is still uncertain whether EU regulations permit the commercial trading of slots. However, in 2008, the European Commission indicated, in a communication on the application of Regulation (EEC) No 95/93, that it will at least not take action against the practice of exchanging slots for monetary and other consideration (so-called secondary trading), provided that such exchanges take place in a transparent manner.

The European Commission is currently working on another revision of the regulations related to slot allocation to improve optimal use of airport capacity and infrastructure, to enhance competitiveness of operators and to improve environmental performance of airports and air transport.

#### *Ownership and business requirements*

According to Article 4(a) of Regulation 1008/2008, EU airlines are required to have their principal place of business in an EU Member State to be granted an operating licence. Air Berlin's principal place of business is in Berlin, Germany, an EU Member State. EU regulations also require that EU airlines be principally engaged in air traffic activities, which is the case for Air Berlin.

According to Article 4(f) of Regulation 1008/2008, a European air carrier, such as Air Berlin, must be directly or indirectly owned as to at least 50% and effectively controlled by EU nationals, i.e. by EU Member States and/or their citizens. Air Berlin's Articles of Association allow Air Berlin to ensure compliance with these requirements at all times.

#### *Fares*

Subject to safeguards against predatory pricing or unreasonable prices, Article 22 Paragraph 1 of Regulation 1008/2008 gives EU airlines the right to freely set their passenger transport fares and air rates for intra-Community air services.

Germany introduced an Air Travel Tax Act (*Luftverkehrsteuergesetz*, LuftVStG) on 15 September 2010, designed to raise €1 billion annually. The tax applies to all bookings from 1 September 2010 for flights departing from 1 January 2011. The tax amounts to €8, €25 or €45 per passenger depending on the destination of the flight. The imposition of air travel tax is being challenged in court as it raises questions of EU and German constitutional law. The Air Travel Tax Act allows the Federal Ministry of Finance (*Bundesministerium der Finanzen*) to reduce the tax rate for the beginning of each calendar year, taking into account the income generated from the inclusion of aviation in the EU emissions trading scheme in the previous year, or, for the year 2012, from the income estimated to be generated in 2012.

#### *Airport and air traffic control charges*

Airport operators currently charge fees for incoming and outgoing flights based on a number of criteria. The European Union has passed Directive 2009/12/EC with a view to setting common principles for the levying of airport charges at European airports. It provides for non-discriminatory pricing while allowing for the structuring of airport charges for issues of public and general interest, including environmental issues. The directive must be fully implemented into national law of the Member States by 15 March 2011. Germany is currently in the process of implementing the Directive.

Moreover, the so-called Single European Sky Regulations set forth in Council Regulations (EC) No. 549/2004, 550/2004, 551/2004 and 552/2004 harmonised the legal framework for air traffic control services in Europe. The measures for the development of a common scheme for charges related to air navigation services was laid down in Commission Regulation (EC) No. 1794/2006, as amended by Commission Regulation (EU) No. 1191/2010 of 16 December 2010. Except for the charges of Eurocontrol, the services are still being charged on the basis of national legislation. The European Commission has promulgated Commission Regulation (EU) No. 691/2010 laying down a performance scheme for air navigation services and network functions. The Regulation obliges the European Commission and the national supervisory authorities to adopt EU-wide performance targets and performance plans, respectively. Performance plans drawn up by national authorities must contain targets consistent with the EU performance targets. These performance targets have been established by Commission Decision 2011/121/EU of 21 February 2011.

#### *Environmental issues*

The primary environmental issues Air Berlin faces are regulations concerning substance and noise emissions from its aircraft, which may become more stringent over time. Restrictions on aircraft noise emissions and any resulting restrictions on night flights may limit the possibility of airlines to use any relevant affected airports. Air Berlin is presently not aware of any environmental problems, whether caused by its aircraft or by any other of its operations that could have a material effect on its business.

#### *Inclusion of aviation in the EU emissions trading scheme*

Pursuant to Directive 2008/101/EC, from 1 January 2012 all flights that arrive at or depart from an airport situated in the territory of an EU Member State will be included in the EU emissions trading scheme. Under the Directive, the total quantity of allowances to be allocated to aircraft operators in the year 2012 will be equivalent to 97 % of the historical aviation emissions. For each year of the following trading period (2013-2020), this quantity is reduced to the equivalent of 95 % of the historical aviation emissions. As a consequence of the reduction of the total quantity of allowances,

the number of allowances to be allocated free of charge will be equally reduced. In addition, the percentage of allowances that will be auctioned (presently 15 %) may be increased in the future, leading to a further reduction in the number of allowances to be allocated free of charge. The Directive has been implemented into German law by way of an amendment of the German Greenhouse Gas Emission Act (*Treibhausgas-Emissionshandelsgesetz*) on 21 July 2011. Under the legislation, each aircraft operator must surrender a number of allowances equal to the total emissions during the preceding calendar year from its aviation activities by 30 April each year. This legislation is likely to have a substantial negative impact on the European airline industry, including Air Berlin, despite the relatively young age of Air Berlin's fleet. Air Berlin anticipates that it will not be granted a sufficient number of free of charge allowances as will be necessary for the discharge of its duties under the Directive and relevant implementing legislation and will hence need to purchase additional allowances for the first trading period in 2012 (and beyond) in an auction or in the open market. There can be no assurance that Air Berlin will be able to obtain sufficient carbon allowances or that the cost of the allowances will not have a material adverse effect on Air Berlin's business, operating results or financial condition. Air Berlin's hedging instruments do not fully protect it against the adverse effects of increases in the price of aviation allowances. The inclusion of the aviation business into the EU emissions trading scheme has recently been challenged before the High Court of Justice of England and Wales in London by the Air Transport Association of America. In July 2010, the case was referred to the European Court of Justice (ECJ) for a preliminary ruling (Case C-366/10). On 6 October 2011, the Advocate General concluded in her Opinion that the inclusion of international aviation industry in the EU emissions trading scheme is compatible with the provisions of international agreements and principles of international law invoked. The Advocate General's Opinion is not binding on the ECJ. However, the ECJ regularly follows the Opinion of the Advocate General. The timing and contents of the ECJ's decision and the outcome of further proceedings before the English courts cannot be predicted. Should the ECJ follow the Advocate General's Opinion, non-EU airlines will have to participate in the EU emissions trading scheme; as a consequence, no specific distortion of competition between Air Berlin and non-EU airlines would result from the inclusion of aviation in the EU emissions trading scheme. However, it cannot be excluded that the inclusion of international aviation in the EU emissions trading scheme will not be challenged in the ICAO framework. The outcome of such challenges can presently not be predicted.

### *Security*

According to Article 13 of Council Regulation (EC) No. 300/2008 of 11 March 2008 on common rules in the field of civil aviation security and repealing Regulation (EC) No 2320/2002 and Section 9 of the German Air Security Act (*Luftsicherheitsgesetz*), an air carrier is required to demonstrate specific security measures as set out in and in compliance with a security programme (*Luftsicherheitsplan*) approved by the German air traffic authority.

Air Berlin believes that it complies with the rules as set out in the security programme and as approved by the Luftfahrt-Bundesamt in 1997.

### *Passenger compensation and Montreal Convention liability regime*

The European Union has passed legislation for compensating airline passengers who have been denied boarding on a flight for which they hold a valid ticket (Regulation (EC) No. 261/2004). This legislation, which came into force in February 2005, imposes fixed levels of compensation to be paid to passengers in the event of cancelled flights, except where the airline can prove that such a cancellation is caused by extraordinary circumstances, such as weather, air-traffic control delays or safety issues. Passengers subject to long delays (two hours or more for short-haul flights) are also entitled to "assistance" including meals, drinks and telephone calls, as well as hotel accommodation if the delay extends overnight. For delays of at least five hours, the airline is also required to offer the option of a refund of the cost of the ticket and, if the passenger has already completed part of the journey, a return flight to the first point of departure. The Sturgeon judgment of the ECJ of 19 November 2009 in Joined Cases C-402/07 and C-432/07 reinterpreted Regulation (EC) No. 261/2004 so as to read into it an obligation on airlines to pay compensation of between €250 and €600 for

flight delays exceeding three hours. The financial consequences of the Sturgeon decision are significant.

The Montreal Convention on the Unification of Certain Rules for International Air Carriage was adopted in May 1999. The Convention consolidated, updated and has replaced all previous agreements on air carrier liability, including the 1929 Warsaw Convention vis-à-vis those countries that have also ratified the Montreal Convention, including Germany. The Montreal Convention came into force in all EU Member States on 28 June 2004, and was implemented into German law in 2004. Passengers may claim up to 1,131 Special Drawing Rights (**SDRs**) (as of 5 October 2011 approximately €1,316) for lost, damaged or delayed luggage. This compares with the previous weight-based compensation system under the 1929 Warsaw Convention, which continues to apply to cargo. Finally, in case of a passenger's death or bodily injury the Montreal Convention establishes strict carrier liability for damages of up to 113,100 SDRs (as of 5 October 2011 approximately €131,680) for each passenger while the carrier's liability for damages caused by delay in the carriage of persons is limited to 4,694 SDRs (as of 5 October 2011 approximately €5,465) for each passenger. Air Berlin maintains insurance at standard industry levels in relation to any compensation or damages it is required to pay pursuant to the Montreal Convention.

### **Intellectual property**

Air Berlin has registered the trademarks and brand names of "Air Berlin" and other marks and logos essential to Air Berlin's operations in Germany and other jurisdictions. The Directors believe the trademarks and logos of Air Berlin's business have significant value and are important to its business.

### **Insurance**

Air Berlin is exposed to the risk of losses that may be incurred in the event of an aircraft accident or terrorist incident. Any such accident or incident could involve not only repair or replacement of a damaged aircraft and its consequent temporary or permanent loss from service, but also significant potential claims of injured passengers and survivors of deceased passengers. Air Berlin currently maintains passenger liability insurance, employer liability insurance, aircraft insurance for aircraft loss or damage, insurance for pilots' loss of licence and other business insurance in amounts per occurrence that are consistent with industry standards and that meet the requirements, particularly with respect to its minimum coverage obligations, under German law and international air transport treaties. Although Air Berlin currently believes its insurance coverage is adequate, there can be no assurance that the amount of such coverage will not need to be increased, that insurance premiums will not increase significantly or that Air Berlin will not be forced to bear substantial losses from accidents. See "Risk Factors — Risks relating to the airline industry — Air carriers are exposed to the risks of losses from air crashes or similar disasters".

### **Real estate**

All business premises used by the Company and its subsidiaries are leased, other than an aircraft hangar at Dusseldorf Airport and an aircraft hangar at Munich Airport, both of which are treated as finance leases for accounting purposes.

## **SELECTED FINANCIAL INFORMATION**

The data for the six-month periods ended 30 June 2011 and 2010 and the financial years ended 31 December 2010 and 2009 set out below have been extracted without material adjustment from, and should be read together with, the Issuer's unaudited interim condensed consolidated financial statements as of and for the six months ended 30 June 2011 and its audited consolidated financial statements as of and for the years ended 31 December 2010 and 31 December 2009.

On 27 March 2009, Air Berlin PLC & Co. Luftverkehrs KG (**Air Berlin KG**) entered into agreements with TUI Travel PLC, under which 8,437,393 new shares were issued to Leibniz, a subsidiary of TUI,



for cash consideration of €33.5 million. On 5 July 2010, Air Berlin Group increased its interest in the Austrian carrier NIKI Luftfahrt GmbH (**NIKI**) by 25.9% from 24% to 49.9%. In addition, Air Berlin KG granted a €40.5 million loan to the private Lauda foundation (*Privatstiftung Lauda*) which is the ultimate indirect shareholder of the remaining 50.1% interest in NIKI. The maximum term of the loan is slightly less than three years and the private Lauda foundation may repay the loan including interest in cash or transfer its entire indirect interest in NIKI to Air Berlin KG instead. Largely as a result of these acquisitions, Air Berlin's results of operations and cash flows are not directly comparable across years.

On 16 March 2009, Air Berlin exercised its call option to acquire the remaining 51 per cent. of Belair for a purchase price of CHF 1,785,000. The acquisition was completed in October 2009.

#### **Selected consolidated financial data<sup>6</sup>**

	Six months ended 30 June		Year ended 31 December	
	2011	2010	2010	2009
	(unaudited)	(unaudited)	(audited)	(audited)
	€000	€000	€000	€000
Income statement data:				
Revenue	1,897,817	1,567,912	3,723,578	3,240,344
Other operating income	4,315	16,617	53,775	36,679
Expenses for materials and services	(1,548,491)	(1,180,477)	(2,677,515)	(2,193,173)
Personnel expenses	(230,958)	(229,792)	(471,771)	(440,722)
Depreciation and amortisation	(42,484)	(48,384)	(92,761)	(109,144)
Other operating expenses	(300,664)	(252,770)	(544,647)	(505,517)
Operating expenses	(2,122,597)	(1,711,423)	(3,786,694)	(3,248,556)
Result from operating activities	(220,465)	(126,894)	(9,341)	28,467
Financial expenses	(32,208)	(34,200)	(115,425)	(62,588)
Financial income	5,288	1,605	6,806	24,554
Losses on foreign exchange and derivatives, net	(5,825)	(40,015)	(24,720)	(12,938)
Net financing costs	(32,745)	(72,610)	(133,339)	(50,972)
Share of profit of associates, net of tax	97	3,059	1,057	808
Loss before tax	(253,113)	(196,445)	(141,623)	(21,697)
Income tax benefit	88,652	45,971	44,464	12,229
Loss for the period	(164,461)	(150,474)	(97,159)	(9,468)
– all attributable to the shareholders of the Company				

<sup>6</sup> References to the "Company" shall be construed as references to the Issuer.

	As of 30 June	As of 31 December	
	2011	2010	2009
	(unaudited)	(audited)	(audited)
	€000	€000	€000
Balance sheet data:			
Assets			
Non-current assets			
Intangible assets	389,248	387,420	318,060
Property, plant and equipment	913,658	887,664	1,209,743
Trade and other receivables	142,540	157,657	106,252
Deferred tax asset	156,246	51,283	0
Positive market value of derivatives	146	6,448	14
Deferred expenses	34,946	20,409	5,825
Investments in associates	184	405	3,183
Non-current assets	1,636,968	1,511,286	1,643,077
Current assets			
Inventories	44,781	42,890	38,724
Trade and other receivables	410,705	298,570	297,663
Positive market value of derivatives	46,325	53,662	23,720
Deferred expenses	62,814	52,618	35,120
Cash and cash equivalents	434,701	411,093	373,233
Current assets	999,326	858,833	768,460
Total assets	2,636,294	2,370,119	2,411,537
Equity and liabilities			
Shareholders' equity			
Share capital	21,379	21,379	21,379
Share premium	373,923	373,923	374,319
Equity component of convertible bond	21,220	21,220	51,598
Other capital reserves	217,056	217,056	217,056
Retained earnings	(317,703)	(153,242)	(62,323)
Hedge accounting reserve, net of tax	(10,694)	23,163	7,218
Foreign currency translation reserve	3,183	1,837	767
Total equity - all attributable to the shareholders of the Company	308,364	505,336	610,014
Non-current liabilities			
Liabilities due to bank from assignment of future lease payments	208,661	244,770	583,158
Interest-bearing liabilities	742,233	565,898	273,355
Provisions	7,038	8,090	10,298
Trade and other payables	81,748	73,261	36,401
Deferred tax liabilities	27,118	26,733	4,327
Negative market value of derivatives	33,999	25,913	70,853
Non-current liabilities	1,100,797	944,665	978,392

Current liabilities			
Liabilities due to bank from assignment of future lease payments	61,645	56,533	77,228
Interest-bearing liabilities	38,303	33,140	13,580
Tax liabilities	2,806	10,616	7,526
Provisions	1,622	3,282	11,177
Trade and other payables	455,717	394,635	334,926
Negative market value of derivatives	59,204	25,166	12,756
Deferred income	71,265	75,223	78,390
Advanced payments received	536,571	321,523	287,548
Current liabilities	1,227,133	920,118	823,131
Total equity and liabilities	2,636,294	2,370,119	2,411,537

## MANAGEMENT, CORPORATE GOVERNANCE AND SIGNIFICANT SHAREHOLDERS

### Board of Directors

#### *Executive Directors*

#### **Hartmut Mehdorn – Chief Executive Officer**

Hartmut Mehdorn was born on 31 July 1942. After studying mechanical engineering at the Technical University in Berlin, he joined the construction development section of Focke-Wulf in Bremen. Between 1966 and 1978, he worked at the Vereinigte Flugtechnische Werke-Fokker GmbH, in his last position as plant manager. From 1979 until 1984, he was a member of the senior management team at Airbus Industrie S.A. in Toulouse. From 1984 to 1989, Mr. Mehdorn was in charge of MBB's Transport and Commercial Aircraft Group in Hamburg and in 1985 joined the MBB management team in Munich. From 1989 until 1995, he was chairman of Deutsche Airbus GmbH in Hamburg and board member of Deutsche Aerospace AG in Munich responsible for the company's aviation business division. In 1995, Mr. Mehdorn was appointed the CEO of Heidelberger Druckmaschinen AG, taking the company public and, from 1997 until 1999, served on the board of RWE AG. In 1999 Mr. Mehdorn was appointed CEO of Deutsche Bahn AG, a position which he held until April 2009. Mr. Mehdorn has been a member of the Board of Directors since 1 July 2009. On 1 September 2011, he was appointed Chief Executive Officer (CEO) of Air Berlin PLC.

#### **Ulf Hüttmeyer – Chief Financial Officer**

Ulf Hüttmeyer was born on 9 July 1973 in Wildeshausen, Germany. Following studies in economics, concluding with a degree in business administration, Mr. Hüttmeyer began his career in 1996 as an analyst with Commerzbank in the credit and financing division, followed by various assignments in Germany and overseas (Singapore). Thereafter, Mr. Hüttmeyer served as a group manager for Corporate Client Services in Berlin and was promoted to director at the beginning of 2005. In February 2006, Mr. Hüttmeyer was appointed CFO of Air Berlin PLC.

#### **Jean Christoph Debus – Chief Operating Officer**

Jean Christoph Debus was born on 1 March 1971 in Herborn, Germany. Upon completion of studies in mechanical engineering and business administration, he began his career with Roland Berger Strategy Consultants and was elected partner in 2004. During his tenure, Mr. Debus advised numerous companies in the aviation, tourism and automotive sectors. From 2005 until 1 June 2009, Mr. Debus held the position of managing director and chief financial officer with the German airline Condor Flugdienst GmbH in Kelsterbach where he was responsible for finance, controlling, IT, procurement and human resources. From June 2009 through January 2011, Mr. Debus served as Air Berlin's Chief Commercial Officer (CCO). In January 2011 he was appointed Chief Operating Officer (COO) of Air Berlin PLC.

### **Paul Gregorowitsch – Chief Commercial Officer**

Paul Gregorowitsch was born on 24 May 1956 in The Hague, the Netherlands. After studying at the Dutch Scientific Institute for Tourism and Leisure and in the United States, he began his career as a management trainee with the Dutch airline KLM. There, he subsequently worked in different commercial positions in the Netherlands and abroad. In 2002, he became executive vice president Commercial and Member of the KLM Group Executive Board. He was first in charge of European operations and later of the Global Passenger Division. From 2004 until 2007 he was responsible for amalgamating the Passenger Divisions of Air France and KLM. Until 2007 he was a member of the Alliance Steering Committee of Northwest Airlines and KLM, and Co-Chairman from 2005. In 2007 Paul Gregorowitsch became President and CEO of Martinair Holland N.V. With effect from 1 September 2011, Paul Gregorowitsch was appointed as Chief Commercial Officer (CCO) at Air Berlin PLC.

### ***Non-Executive Directors***

### **Dr Hans-Joachim Körber – Chairman of the Board since 1 January 2011 and former chairman of the management board and chief executive officer of Metro AG**

Dr Körber was born on 9 July 1946 in Braunschweig, Germany. Dr Körber completed his university studies in brewery technology (graduate brewmaster) and business administration (graduate business administrator, doctorate) at the Technical University of Berlin. In 1985, after several years in executive positions within the R. A. Oetker Group, Dr Körber joined Metro SB-Grossmärkte (cash-and-carry markets and one of the legal predecessors of METRO AG) and until 1996 held various executive positions in Germany and abroad. From 1996, with the founding of METRO AG, he was a member of the management board and, from 1999 to 2007, chairman of the management board and chief executive officer. Mr. Körber joined the Board in May 2006 and, upon the retirement of Johannes Zurnieden, became its Chairman on 1 January 2011.

### **Barbara Cassani – Founder of Go Fly Limited and Former Chairman at Vueling Airlines**

Barbara Cassani was born on 22 July 1960 in Arlington, USA. After receiving a Bachelor of Arts in International Relations from Mount Holyoke College (magna cum laude) and a Master of Public and International Affairs from Princeton University, Ms Cassani began her career in 1984 as a management consultant with Coopers & Lybrand. Thereafter she held various positions with British Airways plc, including as general manager-USA. In 1997 she founded and was appointed Chief Executive Officer of Go Fly Limited, a position she held until 2002. Ms Cassani served as Chairman for London's successful bid to host the 2012 Olympic and Paralympic Games. In 2007 Ms Cassani served as Chairman at Vueling Airlines, and from 2008 through 2010 was Executive Chairman of Jurys Inns. Barbara Cassani was appointed to the Board of Directors effective 1 May 2011.

### **Saad H. Hammad – Managing Director at The Gores Group, LLC**

Saad H. Hammad, British and Lebanese, was born on 16 October 1962 in Safar, Lebanon. Following completion of a Bachelor (Hons) in Politics, Philosophy & Economics at Oxford University in 1984 and a Master of Business Administration at INSEAD, France in 1985, Mr Hammad held a number of senior and executive positions with various international companies, including brand manager with The Procter and Gamble Company, Chief Executive Officer of Autocascade Limited and managing director of Tibbett & Britten Group PLC's European business. From 2005 through 2009, Mr Hammad served as the Chief Commercial Officer of Easyjet plc. Mr Hammad currently is a managing director at The Gores Group, LLC where he is the operations lead for Europe. In addition, he served between 2007 and 2009 as a non-executive director with Optos plc. Saad H. Hammad was appointed to the Board of Directors effective 1 May 2011.

### **Joachim Hunold – Former CEO of Air Berlin PLC**

Joachim Hunold was born on 5 September 1949 in Dusseldorf, Germany. Mr. Hunold studied law and began his career in aviation in 1978 with Braathens Air Transport, Dusseldorf. From 1982 until 1990 he held the position of Sales and Marketing Director with the LTU Group. In April 1991, Mr. Hunold

was one of the founders of Air Berlin GmbH & Co. Luftverkehrs KG (as successor to Air Berlin Inc.) and headed the Air Berlin Group, initially as the Managing Partner and, with the creation of the new holding company structure, as its CEO, effective from 1 January 2006. On 1 September 2011, Joachim Hunold resigned as CEO of Air Berlin PLC but remains a non-executive member of its Board of Directors.

**Peter R. Oberegger – Former personally liable partner of Vorwerk & Co. KG**

Peter R. Oberegger was born on 21 January 1966 in Munich. Mr. Oberegger holds a degree in business administration. From 1989 to 1990 he held the position of regional sales manager at Hitachi Europe and from 1990 to 1993 he held the same position at Fujitsu Germany. From 1993 to 2000, he held various positions at the Nokia Corporation, most recently as director of Nokia Deutschland GmbH and general manager of Nokia Display Europe. From 2001 until the end of 2006, he was President and CEO of Vorwerk Thermomix division and, from 2006, Executive Vice President of Vorwerk & Co. KG. From January 2007 until the end of 2010, he was a personally liable partner of Vorwerk & Co. KG. Mr. Oberegger joined the Board in March 2010.

**Heinz-Peter Schlüter – Chairman of the Supervisory Board of TRIMET ALUMINUM AG, Dusseldorf**

Heinz-Peter Schlüter was born on 16 October 1949 in Rubenhorst/Ruppin, Germany. After training as a merchant in wholesale and foreign trade at W&O Bergmann, he began his career as a metal trader in 1971. Following positions in Hamburg, London and Paris, he assumed overall responsibility for trading in 1979 and joined the management in 1982. In 1985, he founded TRIMET Metallhandelsgesellschaft as sole proprietor. Mr. Schlüter joined the Board in April 2008.

**Nicholas Teller – Chief executive officer of E.R. Capital Holding GmbH & Cie. KG**

Nicholas Teller was born on 16 June 1959, in London, England. He studied at the University of Birmingham (Bachelor of Commerce). His career began in 1982 with Commerzbank in London. In 1994 he was appointed branch director of Commerzbank Prague and later to executive management with the Hamburg branch. From 2002 to 2003, Mr. Teller was a regional board member and was a member of the management board of Commerzbank AG between 1 April 2003 and 31 May 2008. On 1 August 2008, he was appointed chief executive officer of E.R. Capital Holding GmbH & Cie. KG in Hamburg. In addition, until June 2010 he was a member of the management board of Eurex Zürich AG and is currently a member of the board of directors of the American Chamber of Commerce in Germany e.V. Mr. Teller joined the Board in May 2006.

**Ali Sabanci – Member of the board of ESAS Holding and chairman of Pegasus Airlines**

Ali Sabanci was born in Adana, Turkey in 1969. After studying politics and economics at Tufts University in the United States, he worked for Morgan Stanley & Co. Inc. until 1993. He received his MBA degree with a major in International Finance at Columbia Business School in 1995. He then returned to Turkey and held various posts at Akbank. In 1997 Mr. Sabanci was appointed head of projects in Sabanci Holding, going on to become the Executive Vice President of Strategy and Business Development in 2001. In March 2004, Mr. Sabanci resigned from his duties at Sabanci Holding and joined ESAS Holding. He is a member of the board of ESAS Holding and chairman of Pegasus Airlines. Mr. Sabanci joined the Board in May 2009.

**Johannes Zurnieden – Managing Director of Phoenix Reisen GmbH, Bonn**

Johannes Zurnieden was born on 28 June 1950 in Bergisch-Gladbach, Germany. He studied law and psychology for several semesters at the Rheinische-Friedrich-Wilhelms University in Bonn. In 1973 he assumed the position of managing director at Phoenix Reisen GmbH. In 1994 he was appointed deputy chairman of the supervisory board of the German Fare Insurance Association (*Deutscher Reisepreissicherungsverein*) and in 1998 vice-president of the German Tourism Association (*Deutscher Reiseverband*). He also has accepted appointments to the advisory boards of Europäische Reiseversicherung AG, Commerzbank and Sparkasse Köln-Bonn. Mr. Zurnieden joined the Board as

Chairman in May 2006. Mr. Zurnieden stood down from that position, effective as of January 2011 but remains a non-executive member of the Board.

The details of those companies and partnerships outside Air Berlin of which Directors are currently directors or partners or have been directors or partners at any time during the previous five years prior to the date of this Prospectus, are as follows:

<b>Name of Director</b>	<b>Current directorships and partnerships</b>	<b>Previous directorships and partnerships</b>
Hartmut Mehdorn	SAP AG RZD Rossijskije schelesnyje Commerzbank Aktiengesellschaft FIEGE Stiftung & Co. KG	Deutsche Bahn AG Dresdner Bank AG EnBW AG DEVK Versicherungen
Ulf Hüttmeyer	Belair Airline AG	LTU Lufttransport Unternehmen GmbH
Jean Christoph Debus	None	Roland Berger Strategy Consultants Condor Flugdienst GmbH
Paul Gregorowitsch	None	Martinair Holland N.V. Northwest Airlines KLM
Hans-Joachim Körber	Esprit Holdings Limited Sysco Corporation WEPA Industrieholding SE	Metro AG Kaufhof Warenhaus AG Real Holding GmbH LP Holding GmbH Bertelsmann AG Skandinaviska Enskilda Banken AB
Barbara Cassani	None	Jurys Inns Vueling Airlines
Saad H. Hammad	The Gores Group, LLC	Easyjet plc Optos plc
Joachim Hunold	Belair Airline AG  Interseroh SE	LTU Lufttransport Unternehmen GmbH Neue Dorint GmbH Berliner Verkehrsbetriebe (BVG) dba Luftfahrtgesellschaft
Peter R. Oberegger	None	akf Leasing GmbH & Co. Personally liable partner Vorwerk & Co. KG

Ali Sabanci	ESAS Holding A.S. Pegasus Hava Tasimacigli A.S. Izmir Hava Yollari A.S. AFM Sinemalari	I-BiMSA Sabanci Telekom Dupont SA
Heinz-Peter Schlüter	Scheidt & Bachmann GmbH TRIMET AG TRIMET ALUMINIUM AG	None
Nicholas Teller	E.R. Capital Holding GmbH & CIE. KG Eurex Clearing AG Eurex Frankfurt AG American Chamber of Commerce in Germany e.V.	Deutsche Schiffsbank AG  BRE Bank Commerzbank AG Eurex Zürich AG
Johannes Zurnieden	Phoenix Reisen GmbH Avia Consult GmbH Quality Group GmbH DRS Deutscher Reisepreis- Sicherungsverein VvaG	None

The business address of each of the Directors is 42-43 Saatwinkler Damm, 13627 Berlin, Germany (telephone number +49 (0) 1805 737 800).

There are no potential conflicts of interest between the duties to Air Berlin of the persons listed in this section and their private interests or other duties.

### **Corporate governance**

Currently, the Board comprises the Chairman (who was considered independent on appointment), five independent non-executive directors, two non-independent non-executive directors and four executive directors. The Chairman is responsible for leading the Board, ensuring the effectiveness of the Board in all of its tasks, including communication with Shareholders, setting the Board's agenda and encouraging all Board members to participate fully in its activities and decision making.

In preparation of Air Berlin's full membership in oneworld<sup>®</sup>, which is planned for spring of 2012 and the integration of LTU, Air Berlin resolved to expand the executive management to four Executive Directors.

The Non-Executive Directors provide a wealth of experience and skills that are key to the formulation and development of the Air Berlin's strategy. The Board is satisfied that the Chairman and each of the Non-Executive Directors committed sufficient time during 2010 to fulfilling their duties as members of the Board. The Chairman's main external commitments did not change during the year.

As Air Berlin is not listed in the United Kingdom, it is not required to comply with the obligation under the UK Listing Rules to disclose in its annual audited financial statements the extent of its compliance with corporate governance standards set forth in the Combined Code, nor is it required to comply with German corporate governance standards. Air Berlin complies voluntarily with the provisions of the Combined Code. However, Air Berlin has not complied with certain provisions of the Combined Code that are not required by German corporate governance standards and are not customary in the German market. Specifically, the Executive Directors' service contracts have terms in excess of one year and, aside for cause or agreement, can be terminated only upon the provision of twenty four months' notice. The Directors are subject to re-election at periods which are customary in

the German market. Air Berlin continues to believe that more stringent requirements would place it at a disadvantage in the recruitment and retention of senior executives.

Air Berlin has established Audit, Nomination and Remuneration Committees, each of them meeting regularly under its own terms of reference.

#### *Audit Committee*

As at 31 December 2010, the Audit Committee comprised Dr. Hans-Joachim Körber (as chairman of the Audit Committee), Hartmut Mehdorn and Peter Oberegger. Mr. Körber resigned from the Audit Committee effective 1 January 2011 and Hartmut Mehdorn was appointed as chairman. Hartmut Mehdorn resigned from the Audit Committee when he was appointed as CEO of Air Berlin PLC. Following the appointment of Hartmut Mehdorn as CEO, various committee compositions were approved. As of 1 November 2011, the Audit Committee will comprise Heinz-Peter Schlüter (as chairman), Peter Oberegger and Johannes Zurnieden, all of whom are independent non-executive directors. A representative of the Air Berlin's external auditors and the Chief Financial Officer attend the meetings of the Audit Committee.

The Audit Committee met six times during 2010. The primary function of the Audit Committee is to assist the Board in fulfilling its oversight responsibilities in relation to internal and external audits and internal controls. The Audit Committee's tasks include reviewing the Air Berlin's annual financial statements and other financial information before their publication, determining the scope of the annual audit, and advising on the appointment of external auditors. Additionally, the Audit Committee is responsible for monitoring the effectiveness of the Air Berlin's internal control systems, including the work of internal audit. The Audit Committee reviews the scope of the non-audit work undertaken and the fees related to such work to ensure that the auditors' impartiality is not or may not become impaired. The Audit Committee also makes recommendations to the Board regarding the reappointment or the removal of external auditors, their terms of engagement and the level of their remuneration.

#### **Principal Shareholders**

The shareholdings of principal Shareholders of the Company as of 30 September 2011 are set out below:

Major Shareholders	Holdings in %
ESAS Holding A.S.	16.48
Hans-Joachim Knieps	7.51
Leibniz Service GmbH /TUI Travel PLC	6.85
Reidun Lundgren (Metolius Foundation, Ringerike GmbH & Co. Luftfahrtbeteiligungs KG)	5.74
Werner Huehn	3.82
JP Morgan Chase & Co.	3.70
Rudolf Schulte	2.93
Severin Schulte	2.93
Joachim Hunold (Non-Executive Director Air Berlin PLC)	2.67
Moab Investments Ltd.	2.39
Johannes Zurnieden (Non-Executive Director Air Berlin PLC)	1.58
Heinz-Peter Schlüter (Non-Executive Director Air Berlin PLC)	1.40



## TAXATION

### GERMANY

*This tax section deals with the deduction of withholding tax to be made under German law from the interest payments on the Notes or capital gains derived from the sale or redemption of the Notes. It is based on the laws in force on the date of this Prospectus, of general nature only and neither intended as, nor to be understood as, legal or tax advice. Any information given hereafter reflects the opinion of the Issuer and must not be misunderstood as a representation or guarantee. Further, the Issuer advises that the withholding tax consequences depend on the individual facts and circumstances at the level of the Noteholder and may be subject to future changes in law.*

For German resident Noteholders, interest payments on the Notes are subject to withholding tax, provided that the Notes are held in custody with a German custodian, who is required to deduct the withholding tax from such interest payments (the **Disbursing Agent**).

Disbursing Agents are German resident credit institutions, financial services institutions (including German permanent establishments of foreign institutions), German securities trading companies or German securities trading banks. The applicable withholding tax rate is 25% (plus 5.5% solidarity surcharge thereon and (if applicable) church tax).

The withholding tax regime also applies to any gains from the sale or redemption of Notes realised by private Noteholders holding the Notes as private (and not as business) assets in custody with a Disbursing Agent. The withholding tax is, as a rule, imposed on the excess of the proceeds from the sale or redemption after deduction of expenses directly connected to the sale/redemption over the acquisition costs of the Notes. If custody has changed since the acquisition and the acquisition data is not proved, the withholding tax at a rate of 25% (plus solidarity surcharge thereon and (if applicable) church tax) will be imposed on an amount equal to 30% of the proceeds from the sale or redemption of the Notes. If the Issuer exercises its right to substitute the debtor of the Notes (pursuant to Section 10, Substitution, of the Terms and Conditions of the Notes), the substitution might, for German tax purposes, be treated as an exchange of the original Notes for new notes issued by the Substitute Debtor (as defined in Section 10.1 of the Terms and Conditions of the Notes). If such treatment is applied, any gain realised from the exchange is subject to withholding tax at a rate of 25% (plus solidarity surcharge thereon and (if applicable) church tax) and a German resident Noteholder might be obliged to pay the respective withholding tax amount to the Disbursing Agent.

The withholding tax is as a rule not applied, if the total investment income of a private Noteholder is not exceeding the lump sum deduction (*Sparer-Pauschbetrag*) of €801 (€1,602 for married couples filing jointly). Expenses actually incurred are not deductible.

German corporate and other German business Noteholders are in essence not subject to the withholding tax on gains from the sale or redemption of the Notes, subject to certain formalities (i.e. for these Noteholders only interest payments, but not gains from the sale or redemption of the Notes are subject to the withholding tax regime).

Foreign resident Noteholders are in essence not subject to the German withholding tax regime with the interest payments on and the gains from the sale or redemption of the Notes. This also holds true, if the Notes are held in custody with a German custodian. Exceptions apply e.g. where the Notes are held as business assets of a German permanent establishment.

The Issuer of the Notes under German law is not required to deduct withholding tax from interest payments on the Notes or capital gains derived from the sale or redemption of the Notes.

## **IRELAND**

### **Introduction**

*The following is a summary of the principal Irish tax consequences of ownership of the Notes for individuals who are resident and ordinarily resident in Ireland for tax purposes and for companies that are resident in Ireland for tax purposes. It is based on the laws of Ireland and the practice of the Revenue Commissioners currently in force in Ireland and may be subject to change. The statements in this summary are based on the understanding that the Notes will be treated as debt for Irish tax purposes. It deals with Noteholders who beneficially own their Notes as an investment. Particular rules not discussed below may apply to certain classes of taxpayers holding Notes, including dealers in securities and trusts. The summary does not constitute tax or legal advice and the comments below are of a general nature only. Prospective investors in the Notes should consult their professional advisers on the tax implications of the purchase, holding, redemption or sale of the Notes and the receipt of payments thereon under any laws applicable to them.*

### **TAXATION OF NOTEHOLDERS**

#### **Withholding Tax from payments on the Notes**

Tax at the standard rate of income tax (currently 20 per cent.), is required to be withheld from payments of Irish source interest. The Issuer will not be obliged to withhold Irish income tax from payments on the Notes so long as such payments do not constitute Irish source income. Payments on the Notes should not be treated as having an Irish source unless:

- (a) the Issuer is resident in Ireland for tax purposes;
- (b) the Issuer has a branch or agency or a permanent establishment in Ireland, the assets or income of which is used to fund the payments on the Notes; or
- (c) the Issuer is not resident in Ireland for tax purposes but the register for the Notes is maintained in Ireland or (if the Notes are in bearer form) the Notes are physically located in Ireland.

It is anticipated that (i) the Issuer is not and will not be resident in Ireland for tax purposes, (ii) the Issuer will not have a branch or agency or a permanent establishment in Ireland, the assets or income of which is used to fund the payments on the Notes (iii) that bearer Notes will not be physically located in Ireland and (iv) the Issuer will not maintain a register of any registered Notes in Ireland.

#### **Tax on Income**

Notwithstanding that a Noteholder may receive payments of interest, premium or discount on the Notes free of Irish withholding tax, the Noteholder may still be liable to pay Irish income or corporation tax and levies on such interest if such interest has an Irish source, the Noteholder is resident or (in the case of a person other than a body corporate) ordinarily resident in Ireland for tax purposes or the Notes are attributed to a branch or agency in Ireland. Ireland operates a self-assessment system in respect of income and corporation tax, and each person must assess its own liability to Irish tax.

Relief from Irish income tax may also be available under the specific provisions of a double taxation agreement between Ireland and the country of residence of the recipient.

## **Encashment Tax**

In certain circumstances, Irish tax will be required to be withheld at the standard rate of income tax (currently 20 per cent.) from any interest paid on Notes issued by a company not resident in Ireland, where such interest is collected or realised by a bank or encashment agent in Ireland on behalf of any Noteholder who is Irish resident.

Encashment tax does not apply where the Noteholder is not resident in Ireland and has made a declaration in the prescribed form to the encashment agent or bank.

## **Capital Gains Tax**

A Noteholder will be subject to Irish tax on capital gains on a disposal of Notes unless such holder is neither resident nor ordinarily resident in Ireland and does not carry on a trade or business in Ireland through a permanent establishment, branch or agency in respect of which the Notes are or were held.

## **Capital Acquisitions Tax**

A gift or inheritance comprising of Notes will not be within the charge to capital acquisitions tax if either (i) the disponer or the donee/successor in relation to the gift or inheritance is resident or ordinarily resident in Ireland or (ii) if the Notes are regarded as property situate in Ireland. A foreign domiciled individual will not be regarded as being resident or ordinarily resident in Ireland at the date of the gift or inheritance unless that individual (i) has been resident in Ireland for the five consecutive tax years preceding that date, and (ii) is either resident or ordinarily resident in Ireland on that date.

Bearer notes are generally regarded as situated where they are physically located at any particular time. Notes in registered form are property situate in Ireland if the register is in Ireland. The Notes may, however, be regarded as situated in Ireland regardless of their physical location if they secure a debt due by an Irish resident debtor and/or are secured over Irish property. Accordingly, if such Notes are comprised in a gift or inheritance, the gift or inheritance may be within the charge to tax regardless of the residence status of the disponer or the donee/successor.

## **Stamp Duty on Transfer Of Notes**

No stamp duty or similar tax is imposed in Ireland on the transfer or redemption of the Notes unless (i) the Notes are regarded as property situate in Ireland; or (ii) a document of transfer of the Notes is executed in Ireland; or (iii) the transfer relates to Irish property or to any matter or thing done or to be done in Ireland.

**If you are in any doubt as to the consequences of your acquiring, holding or disposing of Notes you should consult an appropriate professional adviser.**

## UNITED KINGDOM

*The following, which applies only to persons who are beneficial owners of the Notes, is a summary of the Issuer's understanding of current law and HM Revenue and Customs practice in the United Kingdom as at the date of this Prospectus relating to: (i) the withholding tax treatment of interest paid on the Notes; (ii) the stamp duty and stamp duty reserve tax treatment of the issue and transfer of the Notes; and (iii) the possibility of interest on the Notes being subject to income tax by direct assessment. The following does not deal with any other United Kingdom taxation implications of acquiring, holding or disposing of the Notes. Some aspects of the following do not apply to certain classes of taxpayer (such as dealers). Prospective Noteholders who may be subject to tax in a jurisdiction other than the United Kingdom or who may be unsure as to their tax position should seek their own professional advice.*

### Interest on the Notes

The company has been advised that payments of interest on the Notes should be made without withholding on account of UK tax: although the Issuer is a company incorporated in the UK, the interest should not be treated as having a UK source for UK tax purposes.

In the alternative, if the interest is treated as having a UK source for UK tax purposes, the Notes will constitute "quoted Eurobonds" within the meaning of section 987 of the Income Tax Act 2007 (the Act) as long as they are and continue to be listed on a "recognised stock exchange" within the meaning of section 1005 of the Act. In the case of Notes to be traded on the Irish Stock Exchange, which is a recognised stock exchange, this condition will be satisfied if the Notes are: (i) officially listed by a 'competent authority' in Ireland for the purposes of Council Directive 2001/34/EC and any Irish legislation giving effect to that Directive on the Main Securities Market of the Irish Stock Exchange; and (ii) admitted to trading on the Main Securities Market of the Irish Stock Exchange. Accordingly, payments of interest on the Notes may be made without withholding on account of UK income tax provided the Notes remain so listed at the time of payment.

In the event that: (i) the interest is treated as having a UK source for UK tax purposes; and (ii) the Notes do not constitute "quoted Eurobonds" within the meaning of section 987 of the Act, an amount must be withheld on account of income tax at the basic rate (currently 20%), subject to any direction to the contrary by HM Revenue and Customs under an applicable double taxation treaty, and except that the withholding obligation is disappplied in respect of payments to Noteholders who the Issuer reasonably believes are either a UK resident company or a non-UK resident company carrying on a trade in the UK through a permanent establishment which is within the charge to corporation tax, or fall within various categories enjoying a special tax status (including charities and pension funds), or are partnerships consisting of such persons (unless HM Revenue and Customs direct otherwise).

### *Direct assessment*

Interest may be subject to UK income tax by way of direct assessment even where paid without withholding or deduction. However, in the case of a Noteholder not resident for tax purposes in the UK (except if such Noteholder carries on a trade, profession or vocation in the UK through a UK branch or agency or, in the case of a holder that is a company, through a UK permanent establishment, in connection with which the interest is received or to which the Notes are attributable), such direct assessment will only be applicable to the extent that the interest is treated as having a UK source for UK tax purposes.

The amount in respect of which a non-UK resident Noteholder may be liable to UK income tax by way of direct assessment for a tax year is limited to the sum of: (A)(i) any sums or amounts representing UK income tax deducted from that person's "disregarded income" or (in the case of a holder that is a company) "disregarded company income"; (ii) any sums or amounts representing UK

income tax treated as deducted from or paid in respect of such income; and (iii) any tax credits in respect of such income; and (B) the amount that would be the holder's liability to UK income tax for the tax year if the holder's disregarded income and certain other reliefs for the tax year, or (in the case of a holder that is a company) the holder's disregarded company income for the tax year, were left out of account.

"Disregarded income" and "disregarded company income" for this purpose include, among other items, certain savings and investment income (such as interest payable on the Notes), certain annual payments and income on certain transactions effected through brokers and investment managers in the UK.

A Noteholder will be a "non-UK resident Noteholder" for these purposes where it is not resident for tax purposes in the UK, unless it (i) carries on a trade, profession or vocation in the UK through a UK branch or agency or, in the case of a holder that is a company, through a UK permanent establishment, in connection with which the interest is received or to which the Notes are attributable, or (ii) is a trustee of a trust with certain classes of UK beneficiary. A permanent establishment may include a place of management, a branch or an office.

The provisions relating to additional payments referred to in § 7 of the Terms and Conditions of the Notes would not apply if HM Revenue and Customs sought to assess the person entitled to the relevant interest or (where applicable) profit on any Note directly to UK income tax. However, exemption from or reduction of such UK tax liability might be available under an applicable double taxation treaty.

#### *Provision of information*

Regardless of whether or not the interest is treated as having a UK source for UK tax purposes, any Paying Agent or other person through whom interest is paid to, or by whom interest is received on behalf of, an individual (whether resident in the UK or elsewhere) may be required to provide information in relation to the payment and the individual concerned to HM Revenue and Customs. HM Revenue and Customs may communicate information to the tax authorities of other jurisdictions. See also the paragraph entitled "EU Savings Directive" below which describes obligations to provide reports of or withhold tax from payments of savings income under Council Directive 2003/48/EC.

#### **Stamp Duty and SDRT**

No stamp duty or stamp duty reserve tax is payable on issue of the Notes or on a transfer of the Notes by delivery.

#### **EU SAVINGS DIRECTIVE**

Under Council Directive 2003/48/EC on the taxation of savings income, Member States are required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to or for an individual resident in that other Member State or certain limited types of entities established in that other Member State. However, for a transitional period, Austria and Luxembourg are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

The EU Commission has proposed certain amendments to the Directive, which may, if implemented, amend or broaden the scope of the requirements described above.

## SUBSCRIPTION, OFFER AND SALE

### GENERAL

quirin bank AG, Kurfürstendamm 119, 10711 Berlin, Germany (the **Lead Manager**) will, pursuant to a subscription agreement (the **Subscription Agreement**) dated 25 October 2011, agree to subscribe or procure subscribers for the Notes under a best efforts arrangement. The Lead Manager will be entitled, under certain circumstances, to terminate the agreement reached with the Issuer. In such event, no Notes will be delivered to investors. Furthermore, the Issuer will agree to indemnify the Lead Manager against certain liabilities in connection with the offer and sale of the Notes.

### OFFER OF THE NOTES

#### General

The up to 100,000 (subject to an increase of up to a further 50,000) Notes will be offered to investors during an offer period which will commence on 26 October 2011 and which will be open until 28 October 2011 subject to a shortening or extension of the offer period. The Notes may also be publicly offered after the end of the offer period subject to applicable laws and regulations. The issue price per Note is €1,000. The rate of interest is 11.5% p.a. The number of Notes to be issued will be determined on the basis of the orders received on the closing date which is expected to be on or about 1 November 2011 (the **Closing Date**). Such information will be announced in a notice which will be published on the website of the Issuer ([www.airberlin.com](http://www.airberlin.com))\* after the Closing Date. Any onsale of Notes will be subject to market conditions. Should the Issuer and the Lead Manager determine any shortening or extension of the offer period, which could be the result of changing market conditions, such changes will be notified in the same manner as the notice concerning the number of Notes to be issued will be published.

Subscription rights for the Notes will not be issued. Therefore, there are no procedures for the exercise of any right of pre-emption, the negotiability of subscription rights and the treatment of subscription rights not exercised.

The Notes will be offered to professional investors and retail investors in compliance with applicable public offer restrictions. The Notes may be offered to the public in Ireland and in Germany following the effectiveness of the notification of the Prospectus by the Central Bank of Ireland according to article 18 of the Prospectus Directive.

The offer consists of:

- (a) a public offer made to investors in Germany and Ireland (i) via the subscription system provided by the EUWAX Aktiengesellschaft, Stuttgart (**EUWAX**) within the XONTRO trading system (the **Subscription Box**) and (ii) through the Lead Manager; and
- (b) a private placement by the Lead Manager to selected professional investors in Ireland, Germany and other jurisdictions other than the United States.

\* The website does not constitute part of this Prospectus.

## **Public offer**

The Notes are being publicly offered via the Subscription Box and the Lead Manager.

Investors wishing to submit subscription applications via the Subscription Box need to submit those subscription applications for the Notes via their respective custodian bank during the offer period. This assumes that the custodian bank (i) is admitted as a trading participant at the Baden-Württemberg Stock Exchange or has access to the trade through an admitted trading participant of the Baden-Württemberg Stock Exchange, (ii) is connected to XONTRO and (iii) is entitled to use the Subscription Box based on the terms of business for the use of the XONTRO subscription box "Bondm Subscription" (the **Trading Participant**).

Upon the investor's request, the Trading Participant submits a subscription application on behalf of the investor via the Subscription Box. The Lead Manager may accept the subscription applications and informs the Issuer of the subscription applications received. The Issuer and/or the Lead Manager are entitled to curtail subscription applications or to reject individual subscriptions.

The allotment of Notes subscribed through the Subscription Box or directly placed with the Lead Manager will be decided after consultation between the Issuer and the Lead Manager. The ultimate decision rests with the Issuer. It is intended to allot the Notes by means of a specific quote. This means that the total number of Notes available is allotted proportionally, i.e. according to a fixed portion of the purchase offer, to all potential buyers or those of a specific minimum number. These allotment criteria may be amended by the Issuer and/or the Lead Manager.

## **Private Placement**

Under the Subscription Agreement the Lead Manager has also agreed to offer the Notes to selected professional investors in Ireland, Germany and other jurisdictions other than the United States. The Lead Manager will invite such investors to provide offers to purchase Notes using the information system Bloomberg or any other commonly used information systems. Upon such invitation investors may submit their offers to buy Notes, using the information system Bloomberg or any other commonly used information systems. Any offer made by investors will specify the number of Notes the relevant investor is willing to purchase. The allotment of Notes subscribed through the Subscription Box will be decided after consultation between the Issuer and the Lead Manager. The ultimate decision rests with the Issuer. Any investor who has submitted an order in relation to the Notes whose order is accepted will receive a confirmation by electronic mail, fax or through commonly used information systems relating to the respective allotment of Notes. Before an investor receives a confirmation from the Lead Manager that its purchase order for the Notes has been accepted, the investor may reduce or withdraw its purchase orders. Each investor will receive a confirmation of the results of the offer in relation to its respective allotment of the Notes. There is no minimum or maximum amount of Notes to be purchased. Investors may place offers to purchase Notes in any amount.

## **Delivery of the Notes**

Delivery and payment of the Notes will be made within five business days after the allotment of Notes has been confirmed to the relevant investor. The Notes will be delivered via book-entry through the Clearing System (see "*General Information – Clearing System*" on page 83) and their depository banks against payment of the Issue Price.

## **Charges and costs relating to the offer**

The Issuer will not charge any costs, expenses or taxes directly to any investor. Investors must inform themselves about any costs, expenses or taxes in connection with the Notes which are generally

applicable in their respective country of residence, including any charges their own depository banks charge them for purchasing or holding securities.

The expenses of the issue of the Notes and the commissions in connection with the offering of the Notes will be up to 3.5% of the aggregate principal amount of the Notes.

## **SELLING RESTRICTIONS**

### **General**

Neither the Issuer nor the Lead Manager have made any representation that any action will be taken in any jurisdiction by, the Issuer or the Lead Manager that would permit a public offering of the Notes, or possession or distribution of this Prospectus (in preliminary, proof or final form) or any other offering or publicity material relating to the Notes (including roadshow materials and investor presentations), in any country or jurisdiction where action for that purpose is required. The Lead Manager has agreed that it will comply to the best of its knowledge and belief in all material respects with all applicable laws and regulations in each jurisdiction in which it acquires, offers, sells or delivers Notes or has in its possession or distributes this Prospectus (in preliminary, proof or final form) or any such other material, in all cases at its own expense. It will also ensure that no obligations are imposed on the Issuer in any such jurisdiction as a result of any of the foregoing actions.

### **United States**

The Notes have not been and will not be registered under the US Securities Act and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the US Securities Act. The Lead Manager will represent that it has not offered or sold, and will agree that it will not offer or sell, any Notes within the United States and that it will only offer or sell Notes outside of the United States in accordance with Rule 903 of Regulation S under the US Securities Act. Accordingly, neither it, its affiliates, nor any persons acting on its or their behalf have engaged or will engage in any directed selling efforts with respect to the Notes. Terms used in this paragraph have the meanings given to them by Regulation S under the US Securities Act.

In addition, the Lead Manager will represent, warrant and agree that, except to the extent permitted under U.S. Treasury Regulations section 1.163-5(c)(2)(i)(D) (the **Tefra D Rules**):

- (a) it has not offered or sold Notes, and during the restricted period shall not offer or sell Notes, to a United States person or to a person who is within the United States or its possessions, and it has not delivered and shall not deliver within the United States or its possessions Notes that are sold during the restricted period;
- (b) it has and throughout the restricted period it shall have in effect procedures reasonably designed to ensure that its employees or agents who are directly engaged in selling Notes are aware that the Notes may not be offered or sold during the restricted period to a United States person or to a person who is within the United States or its possessions, except as permitted by the Tefra D Rules;
- (c) if it is a United States person, it is acquiring the Notes for purposes of resale in connection with their original issuance and if it retains Notes for its own account, it will only do so in accordance with the requirements of section 1.163-5(c)(2)(i)(D)(6) of the Tefra D Rules;
- (d) with respect to each affiliate that acquires Notes from it for the purpose of offering or selling such Notes during the restricted period, it either (i) repeats and confirms the representations



and agreements contained in clauses (a), (b) and (c) of this paragraph on behalf of such affiliate; and

- (e) it shall obtain from any distributor (within the meaning of section 1.163-5(c)(2)(i)(D)(4)(ii) of the TEFRA D Rules that purchases any Notes from it pursuant to a written contract with the Lead Manager (except as distributor that is one of its affiliates), for the benefit of the Issuer, the representations and agreements contained in clauses (a), (b), (c) and (d) of this paragraph, insofar as they related to the TEFRA D Rules, as if such distributor was the Lead Manager hereunder.

Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and the Treasury Regulations promulgated thereunder, including the Tefra D Rules.

### **Public Offer Selling Restriction under the Prospectus Directive**

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a **Relevant Member State**), the Lead Manager will represent and agree that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the **Relevant Implementation Date**) it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Prospectus to the public in that Relevant Member State other than in Germany and Ireland from the time the Prospectus has been approved by the competent authority in Ireland and published and notified to the relevant competent authorities in accordance with the Prospectus Directive and provided that the Issuer has consented in writing to the use of the Prospectus for any such offers, except that it may, with effect from and including the Relevant Implementation Date, make an offer of Notes to the public in that Relevant Member State:

- (a) to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- (b) to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive; or
- (c) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes shall require the Issuer or the Lead Manager to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an **offer of Notes to the public** in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression **Prospectus Directive** means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the relevant Member State), and includes any relevant implementing measure in the Relevant Member State and the expression **2010 PD Amending Directive** means Directive 2010/73/EU.

### **United Kingdom**

The Lead Manager will represent and agree that:

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the

meaning of Section 21 of the Financial Services and Markets Act 2000 (**FSMA**)) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and

- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

## GENERAL INFORMATION

### LISTING

Application has been made to the Irish Stock Exchange (the **Irish Stock Exchange**) for the Notes to be admitted to the Official List and trading on its regulated market (the **Main Securities Market**). The Main Securities Market is a regulated market for the purposes of the Directive 2004/39/EC (**MiFID**). Application has also been made to include the Notes to trading on the Open Market (*Freiverkehr*) of the Frankfurt Stock Exchange and the Bondm segment of the open market (*Freiverkehr*) of the Baden-Württemberg Stock Exchange in Stuttgart. Both markets are not regulated markets for purposes of MiFID.

### USE OF PROCEEDS

The Issuer intends to use the net proceeds to refinance its existing indebtedness.

### YIELD

The yield of the Notes is 12.0055% p.a. (rounded upwards to two decimal places). Such yield is calculated on the basis of the ICMA (International Capital Markets Association) method and the issue price of 100% of the principal amount of the Notes and does not take into account any transaction costs or other surcharges.

### RESOLUTION REGARDING THE ISSUE OF THE NOTES

On or before the Closing Date the board of directors of the Issuer (or a duly authorised committee thereof) shall resolve on the issue of the Notes.

### NOTEHOLDER RESOLUTIONS UNDER THE GERMAN BOND ACT

Pursuant to § 5(1) of the German Bond Act (*Schuldverschreibungsgesetz* – **SchVG**), the Terms and Conditions provide that § 5 through § 22 SchVG are applicable to the Notes. Pursuant to such provisions, Noteholders may consent to amendments of certain Terms and Conditions by voting on certain amendments on the Terms and Conditions in a meeting of Noteholders. Such meeting of Noteholders may, *inter alia*, be called by the Issuer. If, in accordance with §§ 5 et seqq. SchVG, the majority of the Noteholders participating in the relevant meeting of Noteholders agrees to amendments of the Terms and Conditions and the Issuer agrees to such amendments, such Terms and Conditions, as amended, are binding upon all Noteholders.

### CLEARING SYSTEM

The Notes have been accepted for clearance through Clearstream Banking AG, Mergenthalerallee 61, 65760 Eschborn. The ISIN for this issue is DE000AB100C2 and the German Securities Identification Number (WKN) is AB100C.

### U.S. TAX

The Notes will contain the following legend: "Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code."

### INTEREST OF NATURAL AND LEGAL PERSONS INVOLVED

The Lead Manager is entitled to customary fees, partly depending on the success of the issuance of the Notes. Furthermore, the auditors of the Issuer and legal advisors are entitled to customary fees. The Lead Manager and its affiliates have from time to time performed, and in the future may perform, various financial advisory, commercial banking (including lending) and investment banking services

for the Issuer and its affiliates, for which they have received and/or will receive fees and expenses. Besides the disclosed interests above, so far as the Issuer is aware, no person involved in the offer of the Notes has an interest material to the offer.

### **SIGNIFICANT OR MATERIAL CHANGE**

There has been no significant change in the financial or trading position of the Issuer or any of its subsidiaries (the **Group**) since 30 June 2011.

### **LITIGATION**

Neither the Issuer nor any other member of the Group is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) in the 12 months preceding the date of this Prospectus which may have or has in such period had a significant effect on the financial position or profitability of the Issuer or the Group.

### **AUDITORS**

The auditors of the Issuer are KPMG Audit Plc, Chartered Accountants, whose address is One Snowhill, Snow Hill Queensway, Birmingham B46GH, United Kingdom. KPMG Audit Plc are member of the Institute of Chartered Accountants of England and Wales. KPMG Audit Plc have audited the Issuer's accounts, without qualification, in accordance with International Financial Reporting Standards (**IFRS**) as adopted by the European Union for each of the two financial years ended on 31 December 2010 and on 31 December 2009.

KPMG Audit Plc audited the financial statements of the Issuer for the years ended 31 December 2010 and 2009.

The interim financial report for the second quarter and the first six months of the financial year 2011 is unaudited.

### **DOCUMENTS ON DISPLAY**

For so long as any Notes remain outstanding, physical copies of the following documents may be obtained free of charge upon request during normal business hours from the offices of the Issuer and the Principal Paying Agent as set out at the end of this Prospectus:

- (i) the Prospectus;
- (ii) memorandum and articles of association of the Issuer;
- (iii) the audited consolidated financial statements of the Issuer, including the notes to such financial statements and the auditor's report thereon, for the financial years ended 31 December 2010 and 31 December 2009; and
- (iv) the unaudited consolidated financial statements of the Issuer, including the notes to such financial statements, for the six months ended 30 June 2011.

## **HISTORICAL FINANCIAL INFORMATION**

**Excerpt from the Annual Report 2010, comprising the following:**

**Independent Auditor's Report**

**Financial Statements 2010**

**Notes to the Financial Statements**



- 01) Essentials
- 02) Evolving for success
- 03) The Share
- 04) Directors' Report
- 05) Corporate Governance
- 06) Responsibilities
- 07) Auditor's Report**
  - Independent Auditors' Report**
- 08) Financial Statements
- 09) Other Information

## INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF AIR BERLIN PLC

We have audited the financial statements of Air Berlin PLC for the year ended 31 December 2010 set out on pages 105 to 173. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

### **RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITOR**

As explained more fully in the Directors' Responsibilities Statement set out on page 101, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

### **SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS**

A description of the scope of an audit of financial statements is provided on the APB's website at [www.frc.org.uk/apb/scope/private.cfm](http://www.frc.org.uk/apb/scope/private.cfm).

### **OPINION ON FINANCIAL STATEMENTS**

In our opinion:

- ✈ the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2010 and of the group's loss for the year then ended;
- ✈ the group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- ✈ the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and

- ✈ the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

#### **OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006**

In our opinion:

- ✈ the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- ✈ the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

#### **MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION**

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- ✈ adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- ✈ the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- ✈ certain disclosures of directors' remuneration specified by law are not made; or
- ✈ we have not received all the information and explanations we require for our audit.

**Wayne Cox (Senior Statutory Auditor)**

**for and on behalf of KPMG Audit Plc, Statutory Auditor**

Chartered Accountants

One Snowhill

Snow Hill Queensway

Birmingham

B4 6GH

Great Britain

18 March 2011

# AIR BERLIN PLC FINANCIAL STATEMENTS 2010



## Air Berlin PLC

**CONSOLIDATED INCOME STATEMENT**

for the period ended 31 December 2010

	Note	2010 € 000	2009 € 000
<b>Revenue</b>	20	<b>3,723,578</b>	3,240,344
<b>Other operating income</b>	21	<b>53,775</b>	36,679
Expenses for materials and services	22	(2,677,515)	(2,193,173)
Personnel expenses	23	(471,771)	(440,722)
Depreciation and amortisation	6, 7	(92,761)	(109,144)
Other operating expenses	24	(544,647)	(505,517)
<b>Operating expenses</b>		<b>(3,786,694)</b>	(3,248,556)
<b>Result from operating activities</b>		<b>(9,341)</b>	28,467
Financial expenses	25	(115,425)	(62,588)
Financial income	25	6,806	24,554
Losses on foreign exchange and derivatives, net	25	(24,720)	(12,938)
<b>Net financing costs</b>		<b>(133,339)</b>	(50,972)
Share of profit of associates, net of tax	26	1,057	808
<b>Loss before tax</b>		<b>(141,623)</b>	(21,697)
Income tax benefit	27	44,464	12,229
<b>Loss for the period – all attributable to the shareholders of the Company</b>		<b>(97,159)</b>	(9,468)
<b>Basic earnings per share in €</b>	12	<b>(1.14)</b>	(0.13)
<b>Diluted earnings per share in €</b>	12	<b>(1.14)</b>	(0.13)

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

		2010 € 000	2009 € 000
<b>Loss for the period</b>		<b>(97,159)</b>	(9,468)
Foreign currency translation reserve		1,070	(169)
Effective portion of changes in fair value of hedging instruments	30g	79,645	55,968
Net change in fair value of hedging instruments transferred from equity to profit or loss	30g	(56,970)	148,147
Income tax on other comprehensive income	27	(6,730)	(61,604)
<b>Other comprehensive income for the period, net of tax</b>		<b>17,015</b>	142,342
<b>Total comprehensive income – all attributable to the shareholders of the Company</b>		<b>(80,144)</b>	132,874



## 08) Financial Statements

## Air Berlin PLC

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as of 31 December 2010

	Note	31/12/2010	31/12/2009
		€ 000	€ 000
<b>Assets</b>			
<b>Non-current assets</b>			
Intangible assets	6	387,420	318,060
Property, plant and equipment	7	887,664	1,209,743
Trade and other receivables	10	157,657	106,252
Deferred tax asset	27	51,283	0
Positive market value of derivatives	29	6,448	14
Deferred expenses		20,409	5,825
Investments in associates	8	405	3,183
<b>Non-current assets</b>		<b>1,511,286</b>	<b>1,643,077</b>
<b>Current assets</b>			
Inventories	9	42,890	38,724
Trade and other receivables	10	298,570	297,663
Positive market value of derivatives	29	53,662	23,720
Deferred expenses		52,618	35,120
Cash and cash equivalents	28	411,093	373,233
<b>Current assets</b>		<b>858,833</b>	<b>768,460</b>
<b>Total assets</b>		<b>2,370,119</b>	<b>2,411,537</b>
<b>Equity and liabilities</b>			
<b>Shareholders' equity</b>			
Share capital	11	21,379	21,379
Share premium	11	373,923	374,319
Equity component of convertible bond	16	21,220	51,598
Other capital reserves	11	217,056	217,056
Retained earnings		(153,242)	(62,323)
Hedge accounting reserve, net of tax	30	23,163	7,218
Foreign currency translation reserve	11	1,837	767
<b>Total equity – all attributable to the shareholders of the Company</b>		<b>505,336</b>	<b>610,014</b>
<b>Non-current liabilities</b>			
Liabilities due to bank from assignment of future lease payments	16	244,770	583,158
Interest-bearing liabilities	16	565,898	273,355
Provisions	15	8,090	10,298
Trade and other payables	18	73,261	36,401
Deferred tax liabilities	27	26,733	4,327
Negative market value of derivatives	29	25,913	70,853
<b>Non-current liabilities</b>		<b>944,665</b>	<b>978,392</b>
<b>Current liabilities</b>			
Liabilities due to bank from assignment of future lease payments	16	56,533	77,228
Interest-bearing liabilities	16	33,140	13,580
Tax liabilities		10,616	7,526
Provisions	15	3,282	11,177
Trade and other payables	18	394,635	334,926
Negative market value of derivatives	29	25,166	12,756
Deferred income		75,223	78,390
Advanced payments received	19	321,523	287,548
<b>Current liabilities</b>		<b>920,118</b>	<b>823,131</b>
<b>Total equity and liabilities</b>		<b>2,370,119</b>	<b>2,411,537</b>

The financial statements were approved by the Board of Directors and authorised for issue on 18 March 2011 and signed on behalf of the Board:

Joachim Hunold  
Chief Executive Officer

Ulf Hüttmeyer  
Chief Financial Officer

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## Air Berlin PLC

## CONSOLIDATED STATEMENT OF CASH FLOWS

for the period ended 31 December 2010

	Note	31/12/2010	31/12/2009
		€ 000	€ 000
Loss for the period		(97,159)	(9,468)
Adjustments to reconcile profit or loss to cash flows from operating activities:			
Depreciation and amortisation of non-current assets	6, 7	92,761	109,144
Gain on disposal of non-current assets	21	(25,035)	(8,394)
Write-off of loans		1,500	2,000
Share based payments	13	32	(88)
Gain from step-up to fair value of previous interest in the acquiree	5	(17,002)	0
Increase in inventories		(2,431)	(2,032)
Decrease in trade accounts receivables		5,270	21,479
Increase in other assets and prepaid expenses		(2,046)	(23,978)
Deferred tax benefit	27	(55,513)	(17,834)
Decrease in provisions		(10,103)	(4,748)
Increase in trade accounts payables		5,588	26,689
Increase in other current liabilities		4,443	36,502
Losses on foreign exchange and derivatives, net	25	24,720	14,613
Interest expense	25	70,429	60,222
Interest income	25	(5,797)	(3,280)
Loss (profit) from redemption of convertible bonds	25	42,193	(21,273)
Income tax expense	27	11,049	5,606
Share of profit of associates	26	(1,057)	(808)
Other non-cash changes		1,070	(169)
<b>Cash generated from operations</b>		<b>42,912</b>	<b>184,182</b>
Interest paid		(51,216)	(49,442)
Interest received		2,108	1,812
Income taxes paid		(7,945)	(6,156)
<b>Net cash flows from operating activities</b>		<b>(14,141)</b>	<b>130,396</b>
Purchases of non-current assets		(58,605)	(161,738)
Purchase of minority interests		0	(1,182)
Net advanced payments for non-current items	10	(18,542)	(11,782)
Proceeds from sale of tangible and intangible assets		563,182	106,044
Loans given to third parties		(40,500)	0
Addition of NIKI, net of cash		4,328	0
Acquisitions of investments in associates	8	0	(17)
<b>Cash flow from investing activities</b>		<b>449,863</b>	<b>(68,674)</b>
Principal payments on interest-bearing liabilities		(480,349)	(202,791)
Proceeds from long-term borrowings		222,996	110,625
Payment of transaction costs related to issue of long-term borrowings		(7,534)	0
Issue of ordinary shares	11	0	72,247
Transaction costs related to issue of ordinary shares	11	(565)	(4,470)
Redemption of convertible bonds	16	(136,872)	(53,405)
Proceeds from issue of convertible bonds	16	0	125,000
Payment of transaction costs related to issue of convertible bonds	16	0	(6,339)
<b>Cash flow from financing activities</b>		<b>(402,324)</b>	<b>40,867</b>
<b>Change in cash and cash equivalents</b>		<b>33,398</b>	<b>102,589</b>
<b>Cash and cash equivalents at beginning of period</b>		<b>372,010</b>	<b>267,809</b>
Foreign exchange gains on cash balances		4,265	1,612
<b>Cash and cash equivalents at end of period</b>	28	<b>409,673</b>	<b>372,010</b>
thereof bank overdrafts used for cash management purposes		(1,420)	(1,223)
thereof cash and cash equivalents in the statement of financial position		411,093	373,233



## 08) Financial Statements

## Air Berlin PLC

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2010

	Share capital € 000	Share premium € 000
<b>Balances at 31 December 2008</b>	<b>16,502</b>	<b>307,501</b>
Share based payment		
Issue of ordinary shares	4,877	67,370
Transaction costs on issue of shares, net of tax		(3,130)
Acquisition of non-controlling interest		
Reimbursement of transaction costs (issue of ordinary shares), net of tax		2,578
Redemption of convertible bonds		
Issue of convertible bonds, net of tax		
Transaction costs on issue of convertible bonds, net of tax		
<b>Total transactions with shareholders</b>	<b>4,877</b>	<b>66,818</b>
Loss for the period		
Other comprehensive income		
<b>Total comprehensive income</b>	<b>0</b>	<b>0</b>
<b>Balances at 31 December 2009</b>	<b>21,379</b>	<b>374,319</b>
Share based payment		
Transaction costs on issue of shares, net of tax		(396)
Redemption of convertible bonds		
<b>Total transactions with shareholders</b>	<b>0</b>	<b>(396)</b>
Loss for the period		
Other comprehensive income		
<b>Total comprehensive income</b>	<b>0</b>	<b>0</b>
<b>Balances at 31 December 2010</b>	<b>21,379</b>	<b>373,923</b>

Equity component of convertible bonds	Other capital reserves	Retained earnings	Hedge accounting reserve, net of tax	Foreign currency translation reserve	Equity attributable to the shareholders of the Company	Minority interest	Total equity
€ 000	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000
<b>27,344</b>	<b>217,056</b>	<b>(62,654)</b>	<b>(135,294)</b>	<b>936</b>	<b>371,391</b>	<b>629</b>	<b>372,020</b>
		(88)			(88)		(88)
					72,247		72,247
					(3,130)		(3,130)
		(553)			(553)	(629)	(1,182)
					2,578		2,578
(10,440)		10,440			0		0
36,548					36,548		36,548
(1,854)					(1,854)		(1,854)
<b>24,254</b>	<b>0</b>	<b>9,799</b>	<b>0</b>	<b>0</b>	<b>105,748</b>	<b>(629)</b>	<b>105,119</b>
		(9,468)			(9,468)		(9,468)
			142,512	(169)	142,343		142,343
<b>0</b>	<b>0</b>	<b>(9,468)</b>	<b>142,512</b>	<b>(169)</b>	<b>132,875</b>	<b>0</b>	<b>132,875</b>
<b>51,598</b>	<b>217,056</b>	<b>(62,323)</b>	<b>7,218</b>	<b>767</b>	<b>610,014</b>	<b>0</b>	<b>610,014</b>
		32			32		32
					(396)		(396)
(30,378)		6,208			(24,170)		(24,170)
<b>(30,378)</b>	<b>0</b>	<b>6,240</b>	<b>0</b>	<b>0</b>	<b>(24,534)</b>	<b>0</b>	<b>(24,534)</b>
		(97,159)			(97,159)		(97,159)
			15,945	1,070	17,015		17,015
<b>0</b>	<b>0</b>	<b>(97,159)</b>	<b>15,945</b>	<b>1,070</b>	<b>(80,144)</b>		<b>(80,144)</b>
<b>21,220</b>	<b>217,056</b>	<b>(153,242)</b>	<b>23,163</b>	<b>1,837</b>	<b>505,336</b>	<b>0</b>	<b>505,336</b>



## 08) Financial Statements

## Air Berlin PLC

## COMPANY STATEMENT OF FINANCIAL POSITION

as of 31 December 2010

	Note	31/12/2010	31/12/2009
		€ 000	€ 000
<b>Assets</b>			
<b>Non-current assets</b>			
Investments in subsidiaries	34b	470,964	470,992
Investments in associates	34c	13	0
Deferred tax assets	34d	41,707	4,856
Positive market value of derivatives		196	0
Loans to subsidiaries	34e	0	15,200
Loans to associates	34f	143	39
Other loans	34e	0	1,500
<b>Non-current assets</b>		<b>513,023</b>	<b>492,587</b>
<b>Current assets</b>			
Loans to subsidiaries	34e	199,802	185,182
Receivables from subsidiaries	34g	139,850	91,200
Receivables from associates	34h	149	149
Positive market value of derivatives		7,877	58
Other receivables		1,989	4,228
Deferred expenses		629	904
Cash and cash equivalents		138,956	104,295
<b>Current assets</b>		<b>489,252</b>	<b>386,016</b>
<b>Total assets</b>		<b>1,002,275</b>	<b>878,603</b>
<b>Equity and liabilities</b>			
<b>Shareholders' equity</b>			
Share capital	34i	21,379	21,379
Share premium	34i	373,923	374,319
Equity component of convertible bond		21,220	51,598
Retained earnings		48,228	34,775
<b>Total equity – all attributable to the shareholders of the Company</b>		<b>464,750</b>	<b>482,071</b>
<b>Non-current liabilities</b>			
Interest-bearing liabilities		192,672	0
Other liabilities to subsidiaries	34k	141,476	198,089
Negative market value of derivatives		67	7,078
<b>Non-current liabilities</b>		<b>334,215</b>	<b>205,167</b>
<b>Current liabilities</b>			
Interest-bearing liabilities		2,361	0
Tax liabilities		0	4,815
Trade and other payables		2,054	2,395
Payables to subsidiaries	34m	198,895	182,720
Negative market value of derivatives		0	1,435
<b>Current liabilities</b>		<b>203,310</b>	<b>191,365</b>
<b>Total equity and liabilities</b>		<b>1,002,275</b>	<b>878,603</b>

The financial statements were approved by the Board of Directors and authorised for issue on 18 March 2011 and signed on behalf of the Board:

Joachim Hunold  
Chief Executive Officer

Ulf Hütsmeyer  
Chief Financial Officer

## Air Berlin PLC

## COMPANY STATEMENT OF CASH FLOWS

for the year ended 31 December 2010

	Note	31/12/2010	31/12/2009
		€ 000	€ 000
Profit for the period		7,213	17,301
Adjustments to reconcile profit or loss to cash flows from operating activities:			
Write-off of loans		1,500	2,000
Share based payments	12	32	(88)
(Increase) decrease in receivables from subsidiaries		(48,650)	88,356
Increase in receivables from associates		0	(1)
Decrease in other assets and prepaid expenses		4,270	2,659
Deferred tax benefit	34d	(36,696)	(226)
Decrease in trade accounts payables and other liabilities		(326)	(2,507)
Increase (decrease) in payables to subsidiaries	34g	16,174	(99,395)
Losses on foreign exchange and derivatives, net		(16,496)	(3,401)
Interest expense		27,456	17,945
Interest income		(3,377)	(3,022)
Loss (profit) from redemption of convertible bonds		42,193	(21,273)
Income tax (benefit) expense		(420)	2,254
Share of (profit) loss of associates		(54)	586
<b>Cash generated from operations</b>		<b>(7,181)</b>	<b>1,188</b>
Interest paid		(10,991)	(6,219)
Interest received		1,620	726
Income taxes paid		(4,394)	0
<b>Net cash flows from operating activities</b>		<b>(20,946)</b>	<b>(4,305)</b>
Acquisition of investments in subsidiaries	34b	(13)	(33)
Disposal of investments in subsidiaries	34b	45	0
Increase in share capital of subsidiaries	34b	(5)	(155,001)
Acquisition of investments in associates	34c	(13)	0
Loans given to subsidiaries	34e	580	(28,998)
Loans given to associates	34f	(50)	(250)
<b>Cash flow from investing activities</b>		<b>544</b>	<b>(184,282)</b>
Issue of ordinary shares	11	0	72,247
Transaction costs related to issue of ordinary shares	11	(565)	(4,470)
Redemption of convertible bonds	16	(136,872)	(53,405)
Proceeds from issue of convertible bonds	16	0	125,000
Payment of transaction costs related to issue of convertible bonds	16	0	(6,339)
Proceeds from issue of corporate bonds	16	200,000	0
Payment of transaction costs related to issue of corporate bonds	16	(7,534)	0
<b>Cash flow from financing activities</b>		<b>55,029</b>	<b>133,033</b>
<b>Change in cash and cash equivalents</b>		<b>34,627</b>	<b>(55,554)</b>
<b>Cash and cash equivalents at beginning of period</b>		<b>104,295</b>	<b>159,978</b>
Foreign exchange gains on cash balances		34	(129)
<b>Cash and cash equivalents at end of period</b>		<b>138,956</b>	<b>104,295</b>
thereof cash and cash equivalents in the statement of financial position		138,956	104,295



## 08) Financial Statements

## Air Berlin PLC

## COMPANY STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2010

	Share capital	Share premium	Equity component of convertible bonds	Retained earnings	Total equity
	€ 000	€ 000	€ 000	€ 000	€ 000
<b>Balances at 31 December 2008</b>	<b>16,502</b>	<b>307,501</b>	<b>27,344</b>	<b>7,122</b>	<b>358,469</b>
Share based payment				(88)	(88)
Issue of ordinary shares	4,877	67,370			72,247
Transaction costs on issue of shares, net of tax		(3,130)			(3,130)
Reimbursement of transaction costs (issue of ordinary shares), net of tax		2,578			2,578
Redemption of convertible bonds			(10,440)	10,440	0
Issue of convertible bonds			36,548		36,548
Transaction costs on issue of convertible bonds, net of tax			(1,854)		(1,854)
<b>Total transactions with shareholders</b>	<b>4,877</b>	<b>66,818</b>	<b>24,254</b>	<b>10,352</b>	<b>106,301</b>
Profit for the period				17,301	17,301
<b>Total comprehensive income</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>17,301</b>	<b>17,301</b>
<b>Balances at 31 December 2009</b>	<b>21,379</b>	<b>374,319</b>	<b>51,598</b>	<b>34,775</b>	<b>482,071</b>
Share based payment				32	32
Transaction costs on issue of shares, net of tax		(396)			(396)
Redemption of convertible bonds			(30,378)	6,208	(24,170)
<b>Total transactions with shareholders</b>	<b>0</b>	<b>(396)</b>	<b>(30,378)</b>	<b>6,240</b>	<b>(24,534)</b>
Profit for the period				7,213	7,213
<b>Total comprehensive income</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>7,213</b>	<b>7,213</b>
<b>Balances at 31 December 2010</b>	<b>21,379</b>	<b>373,923</b>	<b>21,220</b>	<b>48,228</b>	<b>464,750</b>



# NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS AS OF 31 DECEMBER 2010

## 1. INTRODUCTION

The consolidated financial statements of Air Berlin PLC for the year ended 31 December 2010 comprise Air Berlin PLC and its subsidiaries (together referred to as "airberlin" or the "Group") and the Group's interest in associates. airberlin is a public limited company incorporated in England and Wales with its registered office in London. The corporate headquarters of airberlin are located in Berlin. The Company's ordinary shares are traded on the Frankfurt Stock Exchange.

## 2. BASIC PRINCIPLES AND PREPARATION OF FINANCIAL STATEMENTS

Both the parent company financial statements and the group financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRS"). On publishing the parent company financial statements here together with the group financial statements, the company is taking advantage of the exemption in Section 408 of the Companies Act 2006 not to present its individual statement of comprehensive income and related notes that form a part of these approved financial statements. The Company financial statements are presented on pages 110 to 112.

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements. The accounting policies have been applied consistently by all Group entities. The financial statements have been prepared on the historical cost basis except that derivative financial instruments and the put-option liability are stated at their fair value.

The consolidated financial statements have been prepared in Euro. The European Central Bank year end exchange rate was GBP 0.8608 to the Euro. All financial figures presented have been rounded to the nearest thousand currency units, except for share data. The financial statements were authorised and approved for issue by the Board of Directors on 18 March 2011.

## GOING CONCERN

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Report on Forecasts and the Outlook of the Group on pages 76 to 82.

The financial position of the Group, its cash flows, and liquidity position are described in the Development in Financial Figures on pages 50 to 57. Details for the Group's borrowings are set out in note 16 and 30 of the financial statements. In addition, notes 4u and 30 to the financial statements include the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities, and its exposure to credit and liquidity risk.

The Group meets its day to day working capital requirements through its cash holdings. As discussed in the Report on Forecasts and the Outlook of the Group on pages 76 to 82, the current economic conditions create uncertainty particularly in respect of fluctuating currency rates, fluctuating jet fuel prices and passenger demand. The Group's forecasts and projections, taking into account reasonably possible changes in trading performance, show that the Group will generate sufficient cash to meet its liabilities in the foreseeable future.

The directors have a reasonable expectation that the Group has adequate resources to continue as a going concern for the foreseeable future. The going concern basis is used in preparing the accounts.

## Use of estimates

The preparation of financial statements in conformity with Adopted IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.



## 08) Financial Statements

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Judgements made by management in the application of Adopted IFRSs that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year relate primarily to the estimate of residual values of fixed assets, the impairment test for goodwill and other intangible assets with indefinite lives and the expected utilisation of deferred tax assets and are discussed in note 4b, 4d and 4j below.

### 3. BASIS OF CONSOLIDATION

#### a) Subsidiaries

All subsidiaries under control of airberlin are included in the consolidated financial statements. Control exists when airberlin has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group.

For acquisitions on or after 1 January 2010, the Group measures goodwill at the acquisition date as:

- ✈ the fair value of the consideration transferred; plus
- ✈ the recognised amount of any non-controlling interests in the acquiree; plus
- ✈ if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
- ✈ the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

The subsidiaries listed in note 35 are included in the consolidated financial statements.

Several of the Company's subsidiaries prepare their financial statements in a currency other than Euro (Swiss francs). The assets and liabilities of these subsidiaries are translated to Euro at the exchange rates of the reporting date. The income and expenses of foreign operations are translated to Euro at the average exchange rate for the period. Foreign currency differences resulting are recognised directly in equity. Since 1 January 2003, the Group's date of transition to IFRS, such differences have been recognised in the foreign currency translation reserve.

All of the German subsidiaries identified in note 35 are required to present financial statements under German statutory law except for the following companies, as they are exempt due to Article 264b German Commercial Code:

- ✈ Air Berlin PLC & Co. Luftverkehrs KG
- ✈ Air Berlin PLC & Co. Airport Service KG
- ✈ Air Berlin PLC & Co. Cabin Service KG
- ✈ Air Berlin PLC & Co. Verwaltungs KG
- ✈ Air Berlin PLC & Co. Service Center KG

#### b) Special purpose entity

In 2006 the Group established a special purpose entity (SPE) in connection with the repurchase and administration of shares relating to its Employee Share Plan, which is included in the consolidated financial statements. A SPE is consolidated if, based on an evaluation of the substance of its relationship with the Group and the SPE's risks and rewards, the Group concludes that it controls the SPE. SPEs are considered to be controlled by the Group if they were established under terms that impose strict limitations on the decision-making powers of the SPE's management and that result in the Group receiving the majority of all the risks and benefits related to the SPE's operations and net assets.

**c) Associates**

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Group's share of the total recognised gains and losses of associates on an equity accounted basis and are initially recognised at cost, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an associate, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of an associate.

**d) Transactions eliminated on consolidation**

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates are eliminated to the extent of the Group's interest in the entity. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

**4. SIGNIFICANT ACCOUNTING POLICIES****a) Intangible assets**

Goodwill is recognised where the cost of a business combination exceeds the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. Other identifiable intangible assets acquired through a business combination are capitalised at fair value and subsequently measured at cost less accumulated amortisation charges and impairment losses. Goodwill and other intangible assets with indefinite useful lives are not amortised but are tested for impairment annually or more frequently if there is an indication that the asset may be impaired.

Acquired intangible assets are recognised at cost less accumulated amortisation charges and impairment losses. Amortisation of intangible assets is based on the Group's accounting policies and calculated according to the straight-line method over the estimated useful lives (if applicable).

The estimated useful lives of intangible assets are as follows:

Software licenses	3–5 years
Trademarks	indefinite
Customer relationships	4 years
Landing rights (slots)	indefinite

Landing rights are determined to have indefinite lives, as they do not expire and are not subject to a regular loss in value over time. airberlin intends to use the trademark NIKI for the unforeseeable future and therefore the trademark is determined to have an indefinite life.

**b) Property, plant and equipment**

Property, plant and equipment are valued at their acquisition or production costs less accumulated depreciation and accumulated impairment losses. Depreciation is based on the Group's accounting policies and calculated according to the straight-line method over the estimated useful lives. Judgement is required in estimating the residual values and useful lives of property, plant and equipment. Uncertainty exists in the useful life of aircraft and in the amounts which can be realised through future disposals.



## 08) Financial Statements

## -- AIRCRAFT

The Group owns aircraft of the type Boeing 737-800, Airbus A319, A320 and A321, Bombardier Q400 as well as Embraer E190. The depreciation period is ten years taking into account estimated residual values. The residual values and useful lives are reviewed at the end of each period.

Portions of the cost of an aircraft is attributed on acquisition to major inspection and overhaul costs of its engines and airframe and is depreciated separately over a period of five to seven years, at which time the new overhaul is capitalised and depreciated over its useful life.

As aircraft are purchased in stages with the payment of initial and subsequent deposit payments, the borrowing costs associated with these payments are capitalised as part of the costs of those qualifying assets. Other borrowing costs are expensed as incurred.

## -- LAND AND BUILDINGS

Land and buildings relate to two airport buildings leased under finance leases as further discussed in note 17. The buildings are depreciated over the shorter of their remaining useful lives or the lease term.

## -- OTHER TANGIBLE ASSETS

The estimated useful lives of other tangible assets are as follows:

Technical equipment and machinery	8–15 years
Office equipment	3–13 years

**c) Subsequent expenditure**

Expenditure incurred to replace a component of an item of aircraft, engines and other equipment, including major inspection and overhaul expenditure, is capitalised as a separate item. Other subsequent expenditures are capitalised only when they increase the future economic benefits embodied in the items of property, plant and equipment. All other expenditures are recognised in the statement of comprehensive income as an expense when incurred.

**d) Impairment**

## -- NON-FINANCIAL ASSETS

The carrying amounts of the Group's property, plant and equipment and intangible assets are reviewed at the end of each period to determine whether there is any indication of impairment. If any such indication exists, the assets' recoverable amount is estimated. For goodwill and intangible assets with indefinite lives, the recoverable amount is estimated at each period end. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses, if any, are recorded in the statement of comprehensive income.

The recoverable amount is the greater of the assets' fair value less costs to sell and value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses, if any, are allocated first to goodwill allocated to the cash-generating unit and then to the other assets of the unit pro rata based on their carrying amounts. In respect of tangible assets, an impairment loss is reversed when there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. Judgement is required in determining the cash-generating unit, as well as in calculating value in use. The operating margins used in determining value in use are based on planned business and operational growth. The trading environment is subject to both regulatory and competitive pressures that could have a material impact on the operating performance of the business. The discount rate reflects management's estimate of the peer-group long-term cost of capital for the cash-generating unit.

#### -- FINANCIAL ASSETS

Financial assets are assessed at each reporting date to determine whether objective evidence of impairment exists. An impairment loss on financial assets measured at amortised cost is calculated as the difference between the present value of estimated future cash flows discounted at the original effective interest rate and its carrying amount.

#### **e) Inventories**

Inventories are measured at the lower of cost or net realisable value. Inventories include supplies and spares, raw materials and purchased merchandise. The cost of inventories is based on the weighted average cost formula.

#### **f) Trade and other receivables**

Trade and other receivables are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method less impairment loss, which approximates their fair value. An impairment loss is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Receivables for which collection is doubtful are written down to their realisable value in a separate account. Further details to the allowance for impairment losses are found in note 30b. The allowance for impairment losses is used to record impairment losses until the Group determines that the receivable is irrecoverable. Financial assets are derecognised directly when they are expected to be irrecoverable.

Estimated future cash flows are based on estimates and judgements regarding the credit worthiness of individual receivables, the actual customer structure and an analysis of historical impairment losses.

#### **g) Derivatives**

Derivative financial instruments are used for hedging fuel price, interest rate, and currency rate risks arising from operational and financing activities. Hedging transactions are entered into to eliminate uncertainty over future cash flows. Derivative financial instruments are recognised initially at fair value. All derivatives that do not qualify for hedge accounting are classified as held for trading. Hedge accounting is discontinued prospectively if the hedging instrument expires, is sold, is terminated or exercised, if the Group revokes the designation as hedge accounting or if the hedge no longer meets the criteria for hedge accounting. Subsequent to initial recognition, derivative financial instruments are stated at fair value. Any resultant gain or loss is recognised directly in the statement of comprehensive income as profit or loss unless the derivative has been classified as a hedge of a highly probable future cash flow. The effective portion of gains and losses from changes in the fair value of derivatives designated as cash flow hedges are taken to equity in accordance with IAS 39 and are recognised in profit and loss when the related transaction impacts income or the future cash flow ceases to be considered probable. The ineffective portion of a cash flow hedge is recognised immediately in profit or loss.

Forward exchange transactions are used to mitigate exchange rate exposure. Commodity swaps and options are used to limit the fuel price risk. The Group uses cross-currency interest rate swaps to convert variable rate liabilities in foreign currency to fixed rate positions in the functional currency.

The fair value of derivatives is their quoted market price at the end of the period.



## 08) Financial Statements

**h) Cash and cash equivalents**

Cash and cash equivalents comprise cash balances and short-term deposits with an initial maturity of less than three months. Cash and cash equivalents are valued at cost. Bank overdrafts used for cash management purposes are included in cash and cash equivalents for purposes of the cash flow statement. Cash and cash equivalents also include restricted cash as set out in note 28.

**i) Share capital**

Share capital of the Company consists of ordinary shares and redeemable Class A shares. In addition the Company holds treasury shares.

**-- ORDINARY SHARES**

Incremental costs directly related to the issue of ordinary shares are shown as a deduction in equity.

**-- REDEEMABLE "CLASS A" PREFERENCE SHARES**

Class A shares are classified as equity, as these shares are redeemable only at the option of airberlin and any dividends are discretionary. Dividends are recognised as distributions within equity.

**-- TREASURY SHARES**

Repurchased shares are classified as treasury shares and shown as a deduction from total equity. The amount of consideration paid for the repurchase of share capital, including directly attributable costs, is recognised as a deduction in retained earnings.

**j) Income taxes**

Income tax on the profit or loss for the year and on items taken to equity comprises current and deferred tax. Income tax is recognised in the statement of comprehensive income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the period, and any adjustment to tax payable in respect of previous years.

Deferred taxes are calculated in accordance with IAS 12 on the basis of temporary differences between the tax base at the level of the individual company and the respective IFRS book value. No deferred tax is recognised on the initial recognition of goodwill arising from acquisitions. A deferred tax asset is recognised for tax losses carried forward and other temporary differences resulting in an expected tax benefit in future periods to the extent that it is probable that taxable income will be available in the near future against which the unused tax losses can be utilised. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the end of the period. Judgement is required in estimating the probability of utilisation of deferred tax assets; uncertainty exists in the amount and timing of future taxable income.

**k) Provisions**

A provision is recognised in the statement of financial position when the Group has a present legal or constructive obligation as result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and the obligation is measurable. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

**l) Interest-bearing liabilities**

Interest-bearing liabilities are recognised initially at fair value, less attributable transaction costs. Subsequent to initial recognition, interest-bearing liabilities are stated at amortised cost using the effective interest method.

**m) Trade and other payables**

Trade and other payables are initially recognised at their fair value and subsequently stated at their amortised cost using the effective interest method, which approximates their fair value.

**n) Foreign currency**

Transactions in foreign currencies are translated into the respective functional currencies of Group entities at the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are subsequently translated at the exchange rate at the end of the period. Any differences resulting from the currency translation are recognised in the statement of comprehensive income. Further details of currency risk are provided in note 30d.

Exchange rate differences arising from interest-bearing liabilities and other financing activities – as well as unrealised exchange rate differences due to the fair value measurement of derivative financial instruments and other unrealised foreign exchange rate gains and losses – are classified as part of financing costs. All other exchange rate differences are allocated to the various income and expense line items from which they arose within operating results.

**o) Recognition of income and expenses**

Revenue relates primarily to transportation services provided and duty-free sales. Revenue and other operating income are recognised when the corresponding service has been provided (for example transportation) or when the risks and rewards associated with the right of ownership are transferred to the buyer (for example duty-free sales). Revenue is measured at the fair value of the consideration received taking into account the amount of any sales deductions (for example air passenger duty, VAT and discounts). Expenses are recognised in the period in which they are incurred, which generally corresponds to the time at which the income is recognised.

**p) Deferred income and expenses**

Deferred income in the statement of financial position relates mainly to ticket sales and airberlin's frequent flyer plan. airberlin recognises ticket sales as income at the time the transportation is provided. However, when the fare is for a round-trip and the return flight has not been taken at year end, the unearned revenue is deferred in the consolidated statement of financial position under "deferred income" until such time the transportation is provided. Revenue on unclaimed tickets is realised when the expiry date of the ticket has passed.

Deferred expenses in the statement of financial position relate mainly to the prepayments, primarily relating to aircraft lease costs, insurances and other contracts and deferred losses on the sale and leaseback of aircraft.

**-- FREQUENT FLYER PLAN**

The Group operates a frequent flyer plan which allows the customer to collect bonus miles on flights, by doing business with airberlin's partners (hotels, car rental agencies, insurance and financial service companies) or by shopping.

The frequent flyer plan miles earned are valued at fair value using the deferred-income-method in accordance with IFRIC 13.



## 08) Financial Statements

**q) Leasing**

The Group leases a number of aircraft under operating leases which require airberlin to maintain the leased assets. Repair and overhaul costs are not included in the lease rentals. For the majority of its leased aircraft, the Group makes payments for the future maintenance expenses to the lessor. These are based on the estimated costs of major airframe and certain engine checks and are calculated based on the number of flight hours or cycles flown. When maintenance takes place the Group is reimbursed for the payments already made.

Payments made under operating leases are recognised in the statement of comprehensive income on a straight-line basis over the term of the lease.

The Group capitalises fixed assets leased under arrangements in which substantially all the risks and rewards of ownership are transferred to the Group as finance leases in accordance with IAS 17. Leased assets are measured initially at the lower of their fair value or the present value of the minimum lease payments. The assets are depreciated on a straight-line basis over the lease term. The related obligation is shown under interest-bearing liabilities in the amount of the discounted minimum lease payments less payments made.

Lease income from operating leases is recognised in the statement of comprehensive income over the lease term.

The Group carries out sale and leaseback transactions. If the leaseback transaction is an operating lease, and the sale price is below fair value of the asset, any profit or loss is recognised immediately in the statement of comprehensive income in accordance with IAS 17. If the loss is compensated for by future lease payments below market price, it is deferred and amortized in proportion to the lease payments over the lease term.

**r) Pensions**

Defined benefit plans are post-employment benefit plans which do not qualify as defined contribution plans. Defined contribution plans are pension plans under which fixed contributions are paid into a separate legal entity with no legal or constructive obligation to pay further amounts.

The Group's net obligation or asset in connection with defined benefit plans is calculated separately for each plan. The amount of future benefits that employees have earned in return for their service in current and prior periods is estimated and discounted to present value using an appropriate discount rate based on AA-credit rated bonds with maturities approximating the maturities of the Group's obligations under the pension plans. The calculation is performed by a qualified actuary using the projected unit credit method. The fair value of plan assets as of the end of the period are deducted from the obligation. Any resulting net assets are limited to the net total of the present value of future refunds or reductions in payments and the amount of any unrecognised prior service cost.

Actuarial gains and losses are recognised immediately in profit or loss in the period in which they are incurred.

Obligations for contributions to defined contribution pension plans are recognised as an expense in profit and loss in the period in which they are due.

**s) Share-based payment transactions**

The fair value of options granted to employees is estimated on the grant date and recognised in the statement of comprehensive income as personnel expense over the vesting period (i.e. the period in which the employees become unconditionally entitled to the options). The corresponding entry is an increase in equity. The fair value was determined using valuation techniques which comply with IFRS 2.

The amount recognised as an expense is adjusted to reflect the number of share options expected to vest. Market conditions are included in the calculation of fair value at grant date and do not affect future valuation, whereas vesting conditions are taken into consideration in determining the number of share options expected to vest. Further details to vesting conditions are found in note 13.



#### **t) New pronouncements – not adopted**

Some new standards, alignments of standards and interpretations were issued and endorsed by the EU for the financial years beginning on or after 1 January 2010 but have not been applied by the Group in preparing the financial statements. None of them is expected to have a significant effect on the financial statements of the Group except for IFRS 9 “Financial Instruments” that is compulsory to adopt for the Group’s financial year 2013. The standard could have effects on the classification and valuation of financial assets. The Group is not intending to adopt this standard early and therefore the respective impact has not been determined.

#### **u) Financial risk management**

The Group has exposure to the following risks from its use of financial instruments:

- ✈ Credit risk
- ✈ Liquidity risk
- ✈ Market risk

This note presents information about the Group’s exposure to each of the above risks, the Group’s objectives, policies and processes for measuring and managing risk, and the Group’s management of capital. Further quantitative disclosures are included throughout the financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Group’s risk management framework. The Board has an established risk management system, which monitors the Group’s risk management policies. Any significant risks are reported to the Board.

Risk reporting includes the review and assessment of all risks in the individual departments. This includes the registration of new risks and the reassessment of existing risks regarding their probability of occurrence and potential effect on earnings. In general a quantitative assessment of risks is undertaken. The registered risks are continuously updated using respective IT-tools.

Extensive risk reporting, which contains information on current risks and assessments, changes in assessments and the appropriate measures is submitted each quarter to the Executive Board.

There were no changes in the Group’s exposures to risk or its objectives, policies and processes for identifying, measuring and managing risks since the previous period.

#### **Credit risk**

Single-seat tickets are sold subject to payment up front. Credit risk is very low and limited to payments made from overdrawn bank accounts shortly before the flight. Credit risk relating to bulk ticket sales to charter and package tour operators is also limited, as tour operators make regular pre-payments during the month based on the expected monthly sales.

The sale of passage and freight documents is handled via agencies and the Internet within the guidelines of the International Air Transport Association (IATA). Agencies are connected with country-specific clearing systems for the settlement of passage or freight sales. Individual agents are subject to controls by appropriate clearing houses. The credit risk from an individual sales agent is relatively low due to worldwide dispersion. Where the agreement upon which a payment is based does not explicitly state otherwise, claims and liabilities arising between the airlines are usually settled on a bilateral basis or via a clearing house of IATA. Settlement takes place principally through the balancing of all receivables and liabilities in monthly intervals, which also contributes to a significant reduction in the risk of non-payment. Separate security may be required in the particular payment agreement for other transactions.



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For all other payment relationships, depending upon the type and level of the particular payment, securities may be required or credit information/references obtained. Historical data from the business relationship up until that point, in particular in relation to payment behaviour, may be used in an effort to avoid non-payment. Recognisable risks are accounted for by valuation adjustments on receivables.

The credit risk from investments and derivative financial instruments arises from the risk of non-payment by a contract partner. Since the transactions are concluded with contracting parties of the highest possible credit rating the risk of non-payment is extremely low. Cash in bank is held only at banks with the highest credit ratings. Derivative financial instruments are also held with parties with AA ratings or that are known to be reliable based on past experience. The Group considers its net position in determining its impairment risk on bank balances and positive market values of derivatives.

### Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. Liquidity in the Group is protected by appropriate liquidity planning and adequate financing structures.

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the airberlin reputation.

A group-wide treasury management system is implemented. It covers and evaluates all matters associated with interest and exchange rates. All substantial airberlin companies are fully incorporated into the airberlin treasury management system. In addition the Group has enhanced its liquidity management through the development of a liquidity management tool which incorporates expected operational, financing and investing cash flows on a weekly basis. The primary focus is on sufficient liquidity, based on comprehensive financial and liquidity planning.

The treasury management system includes those hedge relations required by IAS 39 for hedge accounting and the calculations for hedge effectiveness. Both the underlying transactions and the hedging activities are incorporated into this system. All the hedging arrangements entered into are continuously monitored on their effectiveness and modified as necessary.

### Market risk

Market risk is the risk of changes in market prices, such as foreign exchange rates, interest rates and commodity prices. Changes in market prices can affect the Group's income and expenses or the value of airberlin holdings in financial instruments.

As an airline airberlin is exposed to currency, interest rate and fuel price risks as well as credit and liquidity risks. airberlin uses derivatives to limit these risks. A detailed description of the Group's exposure to market risks and the hedging activities to limit these risks is presented in note 30.

### Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the return on capital, which the Company defines as net operating income divided by total shareholders' equity. The Board seeks to maintain a balance between higher returns that might be possible with a higher level of borrowings and the advantages and security afforded by a sound capital position. In particular, in reviewing the Company's financing alternatives, the Board, always bearing in mind the shareholders' return on equity, balances a variety of financing options, including share issues, bond issues and traditional bank financing.

The airberlin group is not subject to any externally imposed capital requirements.

## v) Financial instruments

Financial instruments are all contracts which lead to the recognition of a financial asset, a financial liability or an equity instrument. Financial assets include primarily cash and cash equivalents, trade receivables, loans receivables and positive market values of derivative financial instruments. Financial liabilities include liabilities to banks, trade creditors, finance lease liabilities, put-option liability and negative market values of derivatives. Financial instruments are recorded in the statement of financial position at the time airberlin becomes partner to a contract for a financial instrument.

Categories of financial assets and financial liabilities which apply to airberlin are as follows:

- ✈ Loans and receivables
- ✈ Financial assets at fair value through profit or loss classified as held for trading in accordance with IAS 39 (derivative financial instruments)
- ✈ Financial liabilities at fair value through profit or loss - designated as such upon initial recognition (put-option liability) – classified as held for trading in accordance with IAS 39 (derivative financial instruments)
- ✈ Financial liabilities measured at amortised cost (includes trade payables and other financial liabilities as well as interest-bearing liabilities and liabilities due to banks for the assignment of future lease payments)

The categories of financial assets and financial liabilities are further detailed in note 30h.

airberlin has defined the following classes of financial assets and financial liabilities:

- ✈ Loans and receivables
- ✈ Derivative financial instruments classified as held for trading
- ✈ Derivative financial instruments classified as hedge accounting
- ✈ Financial liabilities measured at amortised cost (includes interest-bearing liabilities and liabilities due to banks from assignment of future lease payments, trade payables and other financial liabilities)
- ✈ Financial liabilities measured at fair value (includes put-option liability)
- ✈ Cash and cash equivalents
- ✈ Finance leases

## 5. BUSINESS COMBINATION NIKI

On 5 July 2010, through the acquisition of a further 25.9%, the Group's share in NIKI Luftfahrt GmbH, Vienna, Austria (NIKI) rose to 49.9%. In addition the Group fulfilled the requirements of IAS 27.13a and IAS 1.83 and therefore has consolidated the net assets and results of NIKI. Furthermore the Group granted a loan to the owner of NIKI amounting to € 40,500. The borrower has the right to repay the loan upon maturity or to transfer his remaining shares in NIKI to the Group.

The increase of shares in NIKI unites the present extensive cooperation with NIKI under the umbrella of the Group and creates the possibility to realize further synergies. Market presence of the Group in Austria will be enormously strengthened and Vienna will be developed into another Hub of the Group. Further growth opportunities can be realized due to the mere presence of NIKI in Eastern Europe and the former crown states.



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In the six months to 31 December 2010 NIKI contributed revenue of € 173,169. If the acquisition had occurred on 1 January 2010, management estimates that consolidated revenue would have been € 3,850,187. In determining these amounts, management has assumed that the fair value adjustments, determined provisionally, that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2010.

**Consideration transferred**

Cash consideration amounting to € 21,000 was paid at the acquisition date.

**Identifiable assets acquired and liabilities assumed**

In thousands of Euro

Intangible asset	66,606
Property, plant and equipment	243,886
Trade and other receivables	52,037
Positive market value of derivatives	5,957
Other assets	3,640
Cash and cash equivalents	25,328
Interest-bearing liabilities	(197,781)
Trade and other payables	(90,638)
Negative market value of derivatives	(4,717)
Deferred tax liability	(20,060)
Other liabilities	(4,154)
Total net identifiable assets	80,104

**Goodwill**

Goodwill was recognized as a result of the business combination as follows:

In thousands of Euro

Total consideration transferred	21,000
Fair value of put-option	40,500
Fair value of previous interest in the acquiree	19,421
Less fair value of identifiable net assets	(80,104)
Goodwill	817

The remeasurement to fair value of the Group's existing 24 % interest in the acquiree resulted in a gain of € 17,002 which has been recognized in other income (see note 21).

The goodwill results from a variety of factors including synergies between the route networks and expected cost savings.

None of the goodwill recognized is expected to be deductible for income tax purposes.

The Group incurred costs for the additional shares in NIKI of € 1,702 relating to external legal fees and due diligence costs.

The legal fees and due diligence costs have been included in other operating expenses in the Group's consolidated statement of comprehensive income.

**6. INTANGIBLE ASSETS**

In thousands of Euro	Software licences	Goodwill	Landing rights	Trademarks	Customer relationship	Total
<b>Acquisition cost</b>						
Balance at 1 January 2009	22,117	194,668	108,249	6,592	3,036	<b>334,662</b>
Additions	4,107	0	10,000	0	0	<b>14,107</b>
Disposals	(405)	0	0	(6,592)	0	<b>(6,997)</b>
Balance at 31 December 2009	25,819	194,668	118,249	0	3,036	<b>341,772</b>
Additions	8,640	0	0	0	0	<b>8,640</b>
Additions through business combinations	106	817	58,000	8,500	0	<b>67,423</b>
Disposals	(1,032)	0	0	0	0	<b>(1,032)</b>
Balance at 31 December 2010	33,533	195,485	176,249	8,500	3,036	<b>416,803</b>
<b>Depreciation</b>						
Balance at 1 January 2009	16,455	0	0	3,313	1,075	<b>20,843</b>
Depreciation charge for the year	5,823	0	0	3,279	759	<b>9,861</b>
Disposals	(400)	0	0	(6,592)	0	<b>(6,992)</b>
Balance at 31 December 2009	21,878	0	0	0	1,834	<b>23,712</b>
Depreciation charge for the year	5,894	0	0	0	759	<b>6,653</b>
Disposals	(982)	0	0	0	0	<b>(982)</b>
Balance at 31 December 2010	26,790	0	0	0	2,593	<b>29,383</b>
<b>Carrying amount</b>						
At 1 January 2009	5,662	194,668	108,249	3,279	1,961	<b>313,819</b>
At 31 December 2009	3,941	194,668	118,249	0	1,202	<b>318,060</b>
At 31 December 2010	6,743	195,485	176,249	8,500	443	<b>387,420</b>

In connection with the business combination NIKI (see note 5) landing rights and trademarks have been accounted for at their fair values as of the acquisition date. The valuation of landing rights has been performed on a fair value basis and is based on the average cash flows that can be generated by a representative market participant on regulated airports under consideration of a scarcity factor. Significant assumptions used in the calculation of value in use were a discount rate of 10.55% and cash flow projections for each route with an individual landing right. The valuation of the trademark NIKI is predicted on a licence price analogy. Assuming an indefinite life the valuation is based on trademark-related revenues multiplied by a licence rate that is derived from comparable transactions and discounted with a discount rate of 10.55%.



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The Group performed an impairment test on both landing rights and goodwill in the fourth quarter of 2010 based on a variety of assumptions and concluded that as the estimated recoverable amount exceeds the carrying amounts, no impairment was required. The recoverable amount was determined for the cash-generating unit to which the landing rights and goodwill belongs.

The Group has determined three cash-generating units for purposes of the impairment test and allocated goodwill to these cash generating units as follows:

In thousands of Euro	Freight	Technical services	Flight services	Total
Goodwill	31,000	0	164,485	<b>195,485</b>
Landing rights	0	0	176,249	<b>176,249</b>

Flight services is the most significant cash-generating unit with significant intangibles allocated to it. For flight services, the future cash flows were estimated using the value-in-use method based on the most recent five year cash flow plan approved by management for the existing fleet, extrapolated to perpetuity using a 0.5% growth rate (2009: two year cash flow plan, growth rate 0.5%) and discounted to their present value. The pre-tax peer-group weighted average cost of capital was 9.01% (2009: 10.43%). The plan is based on a passenger volume of 36-43 million passengers (2009: 33-35 million passengers). The calculation of value in use is most sensitive to the assumptions of discount rate and the number of passengers. The operating margins used in determining value in use are based on planned business and operational growth, excluding growth arising from purchases of additional fixed assets but including maintenance and repairs. The recoverable amount exceeds the carrying amount by a significant amount. The recoverable amount of the cash-generating unit Flight services will be equal to its carrying amount by an adverse change in the weighted average cost of capital of more than ten percentage points (2009: 2.57%) or through a decline in the passenger volume of about 13 percentage points (2009: about 4%). The trading environment is subject to both regulatory and competitive pressures that could have a material impact on the operating performance of the business. The discount rate reflects management's estimate of the peer-group long-term cost of capital for the cash-generating unit.

## 7. PROPERTY, PLANT AND EQUIPMENT

In thousands of Euro	Land and buildings	Aircraft and engines	Technical equipment and machinery	Office-equipment	Total
<b>Acquisition cost</b>					
Balance at 1 January 2009	28,834	1,474,269	130,015	36,978	<b>1,670,096</b>
Additions	322	151,978	24,002	5,687	<b>181,989</b>
Disposals	(7)	(124,361)	(62,100)	(2,243)	<b>(188,711)</b>
Reclassifications	10,923	0	14,735	(25,658)	<b>0</b>
Balance at 31 December 2009	40,072	1,501,886	106,652	14,764	<b>1,663,374</b>
Additions	429	34,190	34,020	3,186	<b>71,825</b>
Disposals	(110)	(748,189)	(34,285)	(3,213)	<b>(785,797)</b>
Additions through business combinations	24	239,518	4,117	227	<b>243,886</b>
Balance at 31 December 2010	40,415	1,027,405	110,504	14,964	<b>1,193,288</b>
<b>Depreciation</b>					
Balance at 1 January 2009	4,337	352,089	23,586	20,141	<b>400,153</b>
Depreciation charge for the year	3,580	81,563	10,267	3,873	<b>99,283</b>
Currency translation adjustments	0	0	27	0	<b>27</b>
Disposals	(1)	(30,343)	(14,434)	(1,054)	<b>(45,832)</b>
Reclassifications	7,394	0	9,947	(17,341)	<b>0</b>
Balance at 31 December 2009	15,310	403,309	29,393	5,619	<b>453,631</b>
Depreciation charge for the year	3,978	67,691	10,772	3,667	<b>86,108</b>
Currency translation adjustments	0	0	(7)	0	<b>(7)</b>
Disposals	(175)	(217,892)	(13,623)	(2,418)	<b>(234,108)</b>
Balance at 31 December 2010	19,113	253,108	26,535	6,868	<b>305,624</b>
<b>Carrying amount</b>					
At 1 January 2009	24,497	1,122,180	106,429	16,837	<b>1,269,943</b>
At 31 December 2009	24,762	1,098,577	77,259	9,145	<b>1,209,743</b>
At 31 December 2010	21,302	774,297	83,969	8,096	<b>887,664</b>

Borrowing costs for aircraft and engines capitalised in 2010 and 2009 are € 0 and € 543 respectively, at borrowing rates between 1.51% and 1.72% in the previous year.

Aircraft are pledged as security in connection with the Group's interest-bearing liabilities and liabilities due to banks from assignment of future lease payments.

Capital commitments for property, plant and equipment amount to 6.4 bn USD (2009: 7.8 bn USD).

Tangible assets include land and buildings, aircraft and engines, and technical equipment and machinery which have been capitalised as a result of finance leases.



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The book value of tangible assets capitalised as a result of finance leases is as follows:

In thousands of Euro	2010	2009
Land and buildings	18,380	21,439
Aircraft and engines	45,012	47,097
Technical equipment and machinery	2,011	2,010
	65,403	70,546

Finance leases are explained in more detail in note 17.

## 8. INVESTMENTS IN ASSOCIATES

In thousands of Euro	2010	2009
Acquisition cost		
Balance at 1 January	3,183	1,771
Additions	13	17
Disposals	(716)	0
Share of profit	344	1,395
Disposal due to acquisition	(2,419)	0
Balance at 31 December	405	3,183

The Group has the following investments in associates:

Ownership	Country	2010	2009
		%	%
Niki Luftfahrt GmbH, Vienna*	Austria	n/a	24.0
IBERO Tours GmbH, Düsseldorf**	Germany	0.0	50.0
Follow Me Entertainment GmbH, Cologne***	Germany	50.0	0.0
Lee & Lex Flugzeugvermietung GmbH, Vienna	Austria	24.0	24.0
BINOLI GmbH, Berlin	Germany	49.0	49.0
THBG BBI GmbH, Schönefeld	Germany	35.0	35.0
E190 Flugzeugvermietung GmbH, Vienna	Austria	24.0	24.0

\* Since 5 July 2010 the company is fully consolidated (see note 5)

\*\* In connection with the concentration on core business, disposal in the second quarter of 2010

\*\*\* Accounted for as an associate due to lack of control

The Group's share of recognised profit in the above associates for the years ending 31 December 2010 and 2009 is € 1,057 and € 808, respectively.

In the prior year the Group has recognised losses relating to Lee & Lex Flugzeugvermietung GmbH only up to the amount of the Group's net investment in the associate. In connection with the recognition of these losses the Group's long-term loans receivable to Lee & Lex Flugzeugvermietung GmbH have been written off by € 718. The write off has been reversed during the reporting period.



Similarly the Group has recognised losses relating to Binoli GmbH only up to the amount of the Group's net investment in the associate. In connection with the recognition of the losses the Group's long-term loans receivable to Binoli GmbH have been written off by € 407 for the year ending 31 December 2010 (2009: € 461).

airberlin has recognised losses relating to THBG BBI GmbH only up to the amount of the Group's net investment in the associate. In connection with the recognition of the losses the Group's long-term loans receivable to THBG BBI GmbH have been written off by € 59 for the year ending 31 December 2010 (2009: € 0).

Summary of financial information on associates – 100 per cent. The latest financial information (2009) disclosed the following amounts:

In thousands of Euro	Assets	Liabilities	Equity	Revenues	Profit (loss)
Follow Me Entertainment GmbH, Cologne	n/a	n/a	n/a	n/a	n/a
Lee & Lex Flugzeugvermietung GmbH, Vienna	49,945	53,552	(3,607)	7,444	(615)
BINOLI GmbH, Berlin	1,702	2,384	(682)	1,693	110
THBG BBI GmbH, Schönefeld	17,824	17,992	(168)	0	(649)
E190 Flugzeugvermietung GmbH, Vienna	41,392	42,321	(929)	3,092	(999)

## 9. INVENTORIES

Inventories are made up of supplies and spares and purchased merchandise as follows:

In thousands of Euro	2010	2009
Supplies and spares	41,712	37,102
Purchased merchandise	1,178	1,622
	<b>42,890</b>	<b>38,724</b>

Inventories are measured at the lower of cost and net realisable value. In 2010 the impairment of inventories was released by € 553 (2009: € 137). The amount of inventories expensed directly in the statement of comprehensive income is reported in note 22.



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## 10. TRADE AND OTHER RECEIVABLES, CURRENT AND NON-CURRENT

In thousands of Euro	Current 2010	Non-Current 2010	Total 2010	Current 2009	Non-Current 2009	Total 2009
Trade receivables	96,418	0	<b>96,418</b>	95,380	0	95,380
Receivables from related parties	7,830	4,112	<b>11,942</b>	26,990	2,711	29,701
Loans receivable	0	0	<b>0</b>	0	1,500	1,500
Loans receivable due to business combination NIKI	0	43,538	<b>43,538</b>	0	0	0
Accrued receivables	506	0	<b>506</b>	17	0	17
Security deposits and deposits with suppliers	20,638	33,370	<b>54,008</b>	6,463	30,965	37,428
Receivables for bonus and claims	30,770	0	<b>30,770</b>	38,656	0	38,656
Receivables from sale of fixed assets	0	0	<b>0</b>	37,961	12,123	50,084
Other receivables	15,394	76	<b>15,470</b>	12,033	0	12,033
Loans and receivables	171,556	81,096	<b>252,652</b>	217,500	47,299	264,799
Receivables from tax authorities	6,476	0	<b>6,476</b>	2,550	0	2,550
Advanced payments on aircraft and other tangible assets	86,800	61,298	<b>148,098</b>	62,610	57,037	119,647
Other assets	33,738	15,263	<b>49,001</b>	15,003	1,916	16,919
	<b>298,570</b>	<b>157,657</b>	<b>456,227</b>	<b>297,663</b>	<b>106,252</b>	<b>403,915</b>

Security deposits and deposits with suppliers relate primarily to amounts which are held as deposit according to supplier agreements and which are repaid after all obligations from the supplier agreement have been fulfilled. The amounts are carried at amortised cost using the effective interest method.

Other assets mainly include suppliers with debit balances (2010: € 23,340 and 2009: € 6,899).

Advanced payments on aircraft and other tangible assets relate primarily to advanced payments, deposits and commitment fees made under the Group's various agreements for the purchase of aircraft. Net payments of € 18,542 (2009: € 11,782) were made during the period and € 6,899 was capitalised in 2010 (2009: € 34,210).

The Group's exposure to credit and currency risks and impairment losses related to trade receivables and other financial assets are disclosed in note 30.

## 11. SHARE CAPITAL AND RESERVES

### Share capital and share premium

On 4 June 2009 the Company issued 6,571,700 new shares at a share price of € 3.50. Gross proceeds on the issue of new shares amounted to € 23,000,950.

On 10 June 2009 the Company issued 4,500,000 new shares at a share price of € 3.50. Gross proceeds on the issue of new shares amounted to € 15,750,000.

On 19 October 2009 the Company issued 8,437,393 new shares at a share price of € 3.97. Gross proceeds on the issue of new shares amounted to € 33,496,450.

Transaction costs incurred in 2009 amounted to k€ 4,470. In 2010 further transaction costs of k€ 565 have been incurred.

Share capital of 85,226,196 ordinary shares of € 0.25 each and 50,000 A shares of £ 1.00 each was issued and fully paid up as of 31 December 2010. Included in this amount are 177,600 treasury shares held by airberlin (through the Air Berlin Employee Share Trust) in connection with the employee share plan described below. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the shareholders.

The A shares are redeemable at the option of airberlin only, and the holders of A shares shall not be entitled to any participation in the profits or assets of airberlin save on a distribution of assets of airberlin among its members on a winding up or other return of capital (other than a redemption or purchase by airberlin of its own shares), in which case the holders of A shares shall be entitled, in priority of any holder of ordinary shares, to receive an amount equal to the aggregate of the capital paid up or credited as paid up on each A share.

### Other capital reserves

Other capital reserves are comprised of general partners' and limited partners' capital of consolidated partnerships and subscribed capital of consolidated entities which were reclassified to other capital reserves due to the reverse acquisition in 2005.

### Treasury shares

In connection with the amendment made to the employee share-based payment scheme discussed below, the Company repurchased the beneficial interest (and limited all significant legal aspects of the ownership, such as voting rights) in 177,600 shares of its stock in 2006. The purchase price was € 0.25 per share (par value), resulting in a decrease in retained earnings of € 45.

### Hedge accounting reserve

The reserve for hedge accounting contains the effective portion of the cumulative net change in the fair value of derivative financial instruments designated as hedges of probable future cash flows, net of tax.

### Foreign currency translation reserve

The reserve for currency translation differences comprises all foreign currency differences arising from the translation of the financial statements of foreign subsidiaries.

### Dividends

No dividends on ordinary shares or Class A shares were declared or paid during the period.



## 08) Financial Statements

**12. EARNINGS PER SHARE**

The basic (and diluted) earnings per share are determined by dividing the profit or loss for the period by the weighted average number of ordinary shares outstanding during the financial year.

In thousands of Euro and thousands of shares, except EPS	2010	2009
Loss for the year	(97,159)	(9,468)
Dividends declared on redeemable "Class A" preference shares	0	0
Loss attributable to ordinary shareholders (basic and diluted)	(97,159)	(9,468)
Issued ordinary shares at 1 January	85,226	65,717
Effect of shares issued in 2009	0	7,984
Effect of treasury shares held	(178)	(178)
Weighted average number of ordinary shares outstanding (basic)	85,048	73,523
Weighted average number of ordinary shares outstanding (diluted)	85,048	73,523
Basic earnings per share (in €)	(1.14)	(0.13)
Diluted earnings per share (in €)	(1.14)	(0.13)

The 50,000 Class A shares (redeemable preference shares) do not entitle the holders to any participation in the profit or loss of airberlin, as dividends are discretionary. These shares therefore have not been included in the calculation of the weighted average number of ordinary shares outstanding above.

The conversion of convertible bonds would have had an anti-dilutive effect on earnings per share and is therefore not considered in the calculation of diluted earnings per share.

**13. EMPLOYEE SHARE PLAN**

The Company introduced a share-based payment scheme in April 2006, which was later amended in November 2006, as part of the remuneration package provided to the Executive Directors and certain senior executives of the Group (each a "Participant"). In April 2006 the Company invited Executive Directors and certain senior executives of the Group (each a "Participant") to subscribe for shares in a one-off award (the "Award"). Participants paid the nominal value for their shares. The Award was made subject to the conditions set out in an agreement entered into between the Company and each Participant. Participants became owners of the shares when they subscribed for them but were unable to sell or otherwise dispose of the shares other than in accordance with the agreement.

The plan was amended on 28 November 2006 so that the Company reacquired the beneficial interest in all of the shares under the Award and placed restrictions on the legal interest in the shares (i.e. voting rights). The beneficial interest in the shares was transferred to Ogier Employee Benefit Trustee Limited as trustee of the Air Berlin Employee Share Trust. The amendment was not treated as a modification.

Under the terms of the revised Employee Share Plan 2006 the Participant holds (limited) legal title to the shares but will only be able to acquire the beneficial interest to the shares if certain performance conditions are met and if the employee remains with the Company for the entire performance period (vesting period). If the conditions are not met, if the Participant leaves the Company before the end of the vesting period or if the Participant does not transfer payment for the shares within two weeks upon notification by the Company that the conditions have been met, the Company may require the Participant to transfer legal title to the shares to the Company. Participants are not entitled to receive dividends during the performance period. In addition, restrictions have been placed on the Participant's legal interest in the shares (i.e. voting rights) during the performance period. The shares are divided equally in three tranches, each comprising one-third of the shares granted. 50% of the shares granted under each of the tranches are subject to a performance condition based on return on equity achieved by the Company and 50% of the shares granted under each of the tranches are subject to performance conditions based on the percentage increase in the Company's share price over a three-year period as follows:

Tranche and three-year performance period (ending 31 December)	Total number of shares in tranche	Threshold return on equity element	Threshold share price growth element
Tranche 1: 2008	59.200	13%	35%
Tranche 2: 2009	59.200	14%	38%
Tranche 3: 2010	59.200	15%	40%

Both performance conditions will be measured in respect of the first, second and third tranches over the performance periods of three consecutive financial years ending on 31 December 2008, 2009 and 2010 respectively.

The right to acquire the beneficial interest in the shares subject to the Employee Share Plan 2006 is exercisable during a two week period following notification by the Company of fulfilment of the performance criteria. The exercise price is € 0.25 per share, the nominal value of the shares.

The performance conditions were not met for all of the three Tranches as at 31 December 2010. Therefore, participants will not be able to call for the economic interest in the shares and will be required to transfer the legal ownership of those shares to the Air Berlin Employee Share Trust. The equity-settled share-based payment transactions are measured at fair value on the grant date in accordance with IFRS 2. The weighted average fair value of these options was € 8.95 at the measurement date. The fair value of the options granted was determined using the binomial model under the following assumptions:

- ✈ Volatility: 40%
- ✈ Dividends: 0
- ✈ Risk-free interest rate: 4%

Volatility was estimated by a peer group analysis in the airline sector, adjusted for a "new issuer" premium.



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The number and weighted average exercise price of share options during the period was as follows:

	Number of share options 2010	Weighted average exercise price 2010	Number of share options 2009	Weighted average exercise price 2009
Share options				
Outstanding at the beginning of the period	56,800	0.25	113,600	0.25
Forfeited during the period	56,800	0.25	56,800	0.25
Outstanding at the end of the period	0	0.25	56,800	0.25
Exercisable at the end of the period	0	0.25	0	0.25

No options were exercised or lapsed during the period.

Total expense in the statement of comprehensive income relating to the Employee Share Plan was € 32 in 2010 (2009: benefit € 88).

#### 14. PENSION LIABILITIES / EMPLOYEE BENEFITS

The Group held provisions for the following employee benefits at 31 December 2010:

In thousands of Euro	2010	2009
Provision for anniversary bonuses	7,491	6,825
Provision for old age part time (early retirement)	1,404	4,330
Pension liabilities	108	0
Total employee benefits	9,003	11,155

The provisions for anniversary bonuses and old age part time (early retirement) are described in note 15.

#### Defined benefit plans

In 2007, the Company entered into a defined benefit pension plan for its Executive Directors. In addition the Group has a defined benefit pension plan for certain employees of dba. Both pension plans are funded through payments to qualified insurance contracts.

The development of the Group's defined benefit obligations during the period is as follows:

In thousands of Euro	2010	2009
Present value of funded obligations	14,378	11,594
Fair value of plan assets	(16,591)	(13,562)
Funded status	(2,213)	(1,968)
Amount not recognised due to limitation in IAS 19.58(b)	2,321	1,968
Pension liabilities	108	0

Changes in the present value of the defined benefit obligation are as follows:

In thousands of Euro	2010	2009
Defined benefit obligation at 1 January	11,594	8,306
Current service cost	344	1,426
Benefits paid	(152)	(111)
Interest on obligation	618	520
Actuarial losses	1,974	1,453
Defined benefit obligation at 31 December	14,378	11,594

Changes in the fair value of plan assets are as follows:

In thousands of Euro	2010	2009
Fair value of plan assets at 1 January	13,562	10,279
Contribution	3,496	3,909
Benefits paid	(152)	(111)
Expected return on plan assets	684	431
Actuarial losses	(999)	(946)
Fair value of plan assets at 31 December	16,591	13,562

Plan assets consist exclusively of external contracts with insurance companies in Germany. These insurances could potentially include shares in Air Berlin Plc. However, due to strict requirements in Germany regarding the structure of insurance companies, the percentage of airberlin shares held would be minimal.

The actual loss on plan assets was € 315 during the period (2009: € 515). No experience adjustments were made during the period.

The amount recognised as pension expense in profit or loss is as follows:

In thousands of Euro	2010	2009
Current service cost	344	1,426
Interest on obligation	618	520
Expected return on plan assets	(684)	(431)
Net actuarial losses recognised in the period	2,973	2,399
Effect of the limitation in IAS 19.58(b)	829	(5)
Pension expense	4,080	3,909

The Group expects to contribute € 2,382 to its defined benefit pension plans in 2011.



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Principal actuarial assumptions at the reporting date are as follows:

	2010	2009
Discount rate at 31 December	4.65%	5.39%
Expected return on plan assets at 1 January	4.00–4.30%	4.00–4.30%
Future salary increases	0.00–2.00%	0.00–2.00%
Cost of living adjustment (future pension increases)	1.00%	1.00%

Assumptions regarding future mortality are based on published statistics and mortality tables ("Richttafeln 2005 G" published by Heubeck-Richttafeln-GmbH). The average remaining life expectancy of an individual retiring at age 65 is 20 years for males and 25 years for females.

#### Defined contribution plans

Through the acquisition of dba in 2006, the Group acquired a defined contribution pension plan covering all employees of dba, to which the Group makes contributions. Furthermore in 2010 Air Berlin PLC & Co. Luftverkehrs KG contracted a defined contribution plan with its pilots. The net pension expense recorded in profit and loss in 2010 as a result of the defined contribution plans is € 1,670 (2009: € 5).

As employees in Germany are covered by and required to contribute to the German social security system, airberlin does not have any other employee benefit plans at the end of the period. The Group paid contributions into the German social security system of € 27,709 in 2010 (€ 26,687 in 2009).

#### 15. PROVISIONS

In thousands of Euro	Balance at 1.1.2010	Additions	Utilisation	Release	Compensation	Balance at 31.12.2010
Provision for airport fees	5,381	0	0	(5,381)	0	0
Provision for anniversary bonuses	6,825	989	(323)	0	0	7,491
Provision for old age part time	4,330	1,274	(715)	0	(3,485)	1,404
Provision for redundancy costs	4,938	2,369	(4,938)	0	0	2,369
Provision for pensions	0	108	0	0	0	108
	21,474	4,740	(5,976)	(5,381)	(3,485)	11,372

Thereof € 8,090 relating to the provision for pensions, anniversary bonuses and old age part time was classified as non-current as at 31 December 2010 (2009: € 10,298).

Older employees (age 55 and above) have the opportunity to take part in an old age part time ("Altersteilzeit") program. The program is a form of early retirement in which the employee works full time during the first few years and not at all in the following years until reaching the official age of retirement. 69 (2009: 69) employees have signed such agreements as of the end of the period. A discount rate of 3.5% (2009: 4.9%) and an expected salary increase of 2.0% (2009: 2.0%) were used to calculate the provision. Uncertainties exist as to the life expectancy of the employees and as to the future salary at the time the contract takes effect. The provision was compensated by security funds of € 3,485.



The provision for anniversary bonuses was calculated using a discount rate of 4.8% (2009: 5.6%) and an expected yearly salary increase of 2.0% (2009: 2.0%). Uncertainties exist in the probability that the employees will remain with the Group until they are entitled to receive their anniversary bonus and as to their salaries at that time. The provision was accounted for in accordance with IAS 19.

The provision for redundancy costs is related to the layoff of staff in connection with the concentration of the business in Berlin. Uncertainties exist relating to the amount and probability of payments. The provision is based on past experiences.

#### 16. INTEREST-BEARING LIABILITIES AND LIABILITIES DUE TO BANKS FROM ASSIGNMENT OF FUTURE LEASE PAYMENTS

This note provides information about the terms and conditions of the Group's interest-bearing loans and borrowings, all of which are measured at amortised cost. More information about the Group's exposure to interest rate, foreign currency and liquidity risk is provided in note 30.

##### Interest-bearing liabilities

The Group has entered into various interest-bearing liabilities. The carrying amounts for the years 2010 and 2009, classified according to their maturity dates and borrowing rates, are as follows:

In thousands of Euro	Secured / unsecured	Currency	Maturity date	Carrying amount 31.12.2010	Carrying amount 31.12.2009
Bank loans, variable rate	Secured	EUR	2022	23,976	0
Bank loans, variable rate	Secured	USD	2018-2020	93,145	0
Bank loans, fixed rate	Secured	EUR	2021	27,195	0
Bank loans, fixed rate	Secured	USD	2017-2020	33,670	0
Corporate bonds	Unsecured	EUR	2015	195,033	0
Convertible bonds – liability component, fixed rate (issued in 2007)	Unsecured	EUR	2012*	129,518	123,592
Convertible bonds – liability component, fixed rate (issued in 2009)	Unsecured	EUR	2014	9,958	72,497
Finance lease liabilities	Unsecured	USD	2011–2018	40,110	41,134
Finance lease liabilities	Unsecured	EUR	2011–2022	45,013	48,489
Bank overdrafts	Unsecured			1,420	1,223
				599,038	286,935

\* first option to redeem the bonds

Of this amount € 33,140 (2009: € 13,580) is classified within current liabilities in the statement of financial position. The finance lease liabilities are detailed in note 17 below. The bank overdrafts are due in the following year respectively.



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Payments for the above-mentioned interest-bearing liabilities are due as follows:

In thousands of Euro	2010	2009
Less than one year	33,140	13,580
Between one and five years	432,845	230,633
More than five years	133,053	42,722
	<b>599,038</b>	<b>286,935</b>

#### Corporate bonds

On 10 November 2010 the Group issued € 200,000 corporate bonds due 2015. The bond issue is made up of 200,000 bonds with a principal amount of € 1 each, earning yearly interest of 8.5%. Gross proceeds from the bond issue amounted to € 200,000. Transaction costs incurred were € 7,534. The bonds are measured at amortized cost on 31 December 2010.

#### Convertible bonds I

On 11 April 2007 the Group issued € 220,000 convertible bonds due 2027. The bond issue is made up of 2,200 bonds with a principal amount of € 100 each, earning yearly interest of 1.5%. The initial conversion price is € 22.47 which results in an initial conversion ratio of 4,450 ordinary shares per bond. Gross proceeds from the bond issue amounted to € 220,000. Transaction costs incurred were € 6,391.

The convertible bond was split into its equity and debt components in accordance with IAS 32. The equity component, less transaction costs net of tax, is shown as a separate line item in equity.

In the second half of 2009 the Group redeemed 840 convertible bonds with a principle amount of € 84,000 in total. Payments related to the redemption amount to € 53,405. The profit from the redemption equals € 21,273 and is presented as part of the financial income in the statement of comprehensive income. The equity component of the redeemed convertible bonds of € 10,758 less transaction costs net of tax of (€ 317) was transferred to the retained earnings within equity.

The equity component, which is shown net of taxes of € 7,838 in the statement of financial position, totalled € 16,904 as at 31 December 2010 (2009: € 16,904).

The bonds are convertible into 4,450 ordinary shares per bond at the option of the bondholder at any time beginning 40 days following closing and ending 14 days before maturity (21 May 2007 to 25 March 2027). In addition, the bondholder has the option to require the Company to repurchase the bonds at principal amount plus accrued interest on 11 April 2012, 11 April 2017, and 11 April 2022 or upon change in control. The Company has the option to redeem the bonds in whole at their principal amount plus accrued interest at any time as of 30 April 2014, so long as the trading price of the airberlin share exceeds 150% of the conversion price.

#### Convertible bonds II

On 20 August 2009 the Group issued € 125,000 convertible bonds due in 5 years. The bond issue is made up of 2,500 bonds with a principal amount of € 50 each, earning yearly interest of 9.0%. The initial conversion price is € 4.01 which results in an initial conversion ratio of 12,469 ordinary shares per bond. Proceeds from the bond issue amount to € 125,000. Transaction costs incurred in 2009 were € 6,338.

The convertible bond was split into its equity and debt component in accordance with IAS 32. The equity component, less transaction costs net of tax, is shown as a separate line item within equity.

On 17 November 2010 the Group redeemed 2,189 convertible bonds with a principle amount of € 109,450 in total. Payments related to the redemption amount to € 136,872. The loss from the redemption equals € 66,363, thereof € 42,193 is presented as part of the financial expenses in the statement of comprehensive income and € 24,170 is presented in retained earnings within equity. The equity component of the redeemed convertible bonds less transaction costs was transferred to retained earnings within equity. The equity component, which is shown net of taxes of € 1,946 in the statement of financial position, totalled € 4,316 as at 31 December 2010 (2009: € 34,694).

The bonds are convertible into 12,469 ordinary shares per bond at the option of the bondholder at any time beginning 17 November 2009 and ending 10 days before maturity (inclusive) or in case of early redemption ending 10 days before the determined redemption date (inclusive). In addition, the bondholder has the option to require the Company to repurchase the bonds at principal amount plus accrued interest on 30 October 2011 or upon change in control. The Company has the option to redeem the bonds in whole at their principal amount plus accrued interest at any time as of 30 October 2011, so long as the trading price of the airberlin share exceeds 150% of the conversion price.

#### Liabilities due to banks from assignment of future lease payments

The Group entered into financing agreements with commercial banks by which the Group assigned intra-group lease payments to the banks.

The carrying amounts for the years 2010 and 2009, classified according to their maturity dates and borrowing rates, are as follows:

In thousands of Euro	Secured / unsecured	Currency	Maturity date	Carrying amount 31.12.2010	Carrying amount 31.12.2009
Interest rate					
Variable rate	Secured	EUR	2011–2013	47,583	62,453
Variable rate	Secured	USD	2011–2022	253,720	532,548
Fixed rate	Secured	USD	n/a	0	65,385
				301,303	660,386

Of this amount € 56,533 (2009: € 77,228) is classified within current liabilities in the statement of financial position. The assigned intra-group lease payments are secured over aircraft.

Payments for the above-mentioned liabilities due to banks from assignment of future lease payments are due as follows:

In thousands of Euro	2010	2009
Less than one year	56,533	77,228
Between one and five years	117,765	299,174
More than five years	127,005	283,984
	301,303	660,386



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**17. LEASING****Operating leases**

The Group leases various aircraft, engines, some warehouse and office facilities and other assets under leasing agreements which qualify as operating lease agreements. The leases typically run for a period of up to twelve years and terminate automatically upon expiry of the lease term. The leases expire between 2011 and 2022, with an option to renew the leases after these dates. No restrictions have been placed on the lessee as a result of these leases.

Non-cancellable operating lease rentals are payable as follows:

In thousands of Euro	2010	2009
Less than one year	423,605	341,012
Between one and five years	1,113,630	868,604
More than five years	611,481	399,359
	<b>2,148,716</b>	<b>1,608,975</b>

No contingent leasing payments were recognised as lease payments in the period.

During the year ended 31 December 2010, € 464,588 (2009: € 381,836) was recognised as an expense in the statement of comprehensive income in respect of operating leases.

The Group also leases assets as lessor under agreements which qualify as operating leases. The contracts expire between 2011 and 2014.

Future minimum lease payments are receivable as follows:

In thousands of Euro	2010	2009
Less than one year	8,436	19,929
Between one and five years	5,662	73,129
More than five years	0	67,626
	<b>14,098</b>	<b>160,684</b>

**Finance leases**

The Group leases certain technical equipment under an agreement which qualifies as a finance lease. The finance lease relates to technical equipment for aircraft leased under operating leases with various leasing terms, the latest of which phase out in 2015.

The Group also leases two aircraft under agreements which qualify as finance leases. The lease agreements are for terms of eleven years, the latest of which expires in 2018. The agreements contain various put and call options relating to the right of the lessee to purchase the aircraft or the right of the lessor to require the lessee to purchase the aircraft on certain dates at prices and conditions set out in the agreements. In addition, the lessor has the right to require the lessee to name a purchaser at the end of the lease term for a fixed price (guaranteed residual value). Lease payments are in USD and vary based on changes in the interest rate component of the lease. The present value of future minimum lease payments was therefore determined by using the expected lease payments based on the preliminary interest rate stated in the lease.

In addition the Group leases two airport buildings under agreements which qualify as finance leases. The leases expire in 2011 and 2022.

The net book value of assets capitalised at 31 December 2010 as a result of finance leases is detailed in note 7 above.

No contingent leasing payments were recorded in profit and loss in 2010 (2009: € 0).

Future minimum lease payments are as follows:

In thousands of Euro	At 31 December 2010		At 31 December 2009	
	Future minimum lease payments	Discounted to present value	Future minimum lease payments	Discounted to present value
Less than one year	13,577	13,049	13,107	12,599
Between one and five years	37,961	31,722	40,987	34,302
More than five years	66,217	40,352	72,527	42,722
	117,755	85,123	126,621	89,623

#### 18. TRADE AND OTHER PAYABLES, CURRENT AND NON-CURRENT

In thousands of Euro	Current 2010	Non-current 2010	Total 2010	Current 2009	Non-current 2009	Total 2009
Trade payables	110,505	0	110,505	95,233	0	95,233
Put-option liability	0	43,538	43,538	0	0	0
Other financial liabilities	1,928	0	1,928	205	0	205
Trade payables and other financial liabilities	112,433	43,538	155,971	95,438	0	95,438
Accrued liabilities	270,303	29,723	300,026	208,391	36,401	244,792
Receivables with credit balances	1,211	0	1,211	5,259	0	5,259
Payroll tax	6,071	0	6,071	5,692	0	5,692
VAT	870	0	870	17,938	0	17,938
Social insurance contributions	1,668	0	1,668	699	0	699
Other non-financial liabilities	2,079	0	2,079	1,509	0	1,509
	394,635	73,261	467,896	334,926	36,401	371,327

Accrued liabilities include expenses for services provided and goods received before the end of the period but not yet invoiced, credit notes and commissions to travel agencies in connection with the sale of tickets, accrued vacation and payroll and accruals for aircraft and engine maintenance checks and overhauls.

Information about the Group's exposure to foreign currency and liquidity risk related to trade payables and other financial liabilities is provided in note 30.

#### 19. ADVANCED PAYMENTS RECEIVED

Advanced payments primarily relate to payments received in advance for single-seat ticket sales for which the scheduled flight is to be provided in the following financial period and for which no revenue has been recorded.



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## 20. REVENUE

In thousands of Euro	2010	2009
Single-seat ticket sales	2,245,948	1,845,382
Bulk ticket sales to charter and package tour operators	1,161,568	1,121,111
Duty-free /in-flight sales	38,204	33,083
Ground and other services	277,858	240,768
	<b>3,723,578</b>	<b>3,240,344</b>

Ground and other services primarily include freight, technical services and ancillary sales.

## Segment information

The company is managed by the Board of Directors as a single business unit in one geographical area and one service. The key figures and ratios presented to the Board of Directors in managing the company are: Result from operating activities, net debt, revenues, passengers, yield and block hours. The financial measures are IFRS measures and are shown in the primary statements. Resource allocation decisions are made based on the entire route network and the deployment of the entire fleet. Revenues derive nearly completely from the principal activity as an airline and include flights, commissions, in-flight and related sales that are generated in Europe. Since airberlin's aircraft fleet is employed across its scheduled destinations on an as needed basis all assets and liabilities are allocated to the one segment. The Board has also determined that there is no reasonable basis of allocating assets and related liabilities, income and expenses to geographical areas other than Europe or to individual groups of customers.

## 21. OTHER OPERATING INCOME

In thousands of Euro	2010	2009
Gain on disposal of long-term assets, net	24,857	11,922
Gain from step-up to fair value of previous interest in NIKI	17,002	0
Income from subleases	2,468	1,451
Income from insurance claims	1,104	1,243
Release of liabilities	0	5,879
Other	8,344	16,184
	<b>53,775</b>	<b>36,679</b>

## 22. EXPENSES FOR MATERIALS AND SERVICES

In thousands of Euro	2010	2009
Fuel for aircraft	787,449	715,352
Catering costs and cost of materials for in-flight sales	131,344	108,284
Airport & handling charges	837,510	697,098
Operating leases for aircraft and equipment	535,028	366,032
Navigation charges	275,166	219,745
Other	111,018	86,662
	<b>2,677,515</b>	<b>2,193,173</b>

The expenses for operating leases for aircraft and equipment include expenses of € 124,101 (2009: 45,289) that do not directly relate to the lease of assets.

### 23. PERSONNEL EXPENSES AND STAFF NUMBERS

The aggregate payroll costs were as follows:

In thousands of Euro	2010	2009
Wages and salaries	392,627	370,081
Pension expense	33,459	30,601
Social security	45,685	40,040
	<b>471,771</b>	<b>440,722</b>

Pension expense relates to the defined benefit plan for the Executive Directors and senior management of € 3,177 (2009: € 3,364) and the dba pension plan of € 903 (2009: € 545), contributions paid to defined contribution plans of € 1,670 (2009: € 5) and to social security systems of € 27,709 (2009: € 26,687) during the period. Further details regarding the pension plans are found in note 14 above.

Remuneration of the Executive Directors is as follows:

In thousands of Euro	2010	2009
Basic remuneration	2,018	2,027
Bonus	425	1,164
Share based payment expense	0	(60)
Other	53	67
	<b>2,496</b>	<b>3,198</b>

The highest paid Director received € 1,205 in total remuneration in 2010 (2009: € 1,621). Directors' Remuneration is detailed in the Directors' Remuneration Report on pages 90 to 99.

The average number of persons employed by the Group (including Directors) during the year and the number of employees at year-end, analysed by category and on a full-time basis, were as follows:

	On annual average 2010	On annual average 2009	At 31 December 2010	At 31 December 2009
Employees				
Flight and cabin crew	4,707	4,553	4,731	4,489
Sales, operations and administration	4,015	3,670	4,169	3,789
	<b>8,722</b>	<b>8,223</b>	<b>8,900</b>	<b>8,278</b>



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## 24. OTHER OPERATING EXPENSES

In thousands of Euro	2010	2009
Sales commissions paid to agencies	23,038	18,319
Repairs and maintenance of technical equipment	195,640	187,313
Advertising	62,213	53,548
Insurance	19,433	19,815
Hardware and software expenses	60,835	53,057
Bank charges	24,977	25,498
Travel expenses for cabin crews	31,304	27,991
Expenses for premises and vehicles	34,549	30,203
Training and other personnel expenses	12,755	11,969
Phone and postage	5,457	4,845
Allowances for receivables	2,161	2,467
Consulting fees	15,732	22,497
Remuneration of the auditor	1,966	3,055
Other	54,587	44,940
	<b>544,647</b>	<b>505,517</b>

Remuneration of the auditor is as follows:

In thousands of Euro	2010	2009
Audit of the annual accounts	118	110
Audit of accounts of subsidiaries of the Company	971	1,152
Other services pursuant to legislation	34	284
Taxation services	149	164
Other services	694	1,345
	<b>1,966</b>	<b>3,055</b>

## 25. NET FINANCING COSTS

In thousands of Euro	2010	2009
Interest expense on interest-bearing liabilities	(67,391)	(60,222)
Expense on valuation of liability from put-option at fair value	(3,038)	0
Expense on redemption of convertible bonds	(42,193)	0
Other financial expenses	(2,803)	(2,366)
Financial expenses	<b>(115,425)</b>	<b>(62,588)</b>
Interest income on fixed deposits	1,107	1,380
Interest income on loans and receivables	150	40
Other financial income	5,549	1,861
Income on redemption of convertible bonds	0	21,273
Financial income	<b>6,806</b>	<b>24,554</b>
Losses on foreign exchange and derivatives, net	(24,720)	(12,938)
Net financing costs	<b>(133,339)</b>	<b>(50,972)</b>



As described in note 4n above, exchange rate differences not arising from interest-bearing liabilities and other financing activities are reclassified to the relevant line items within operating expenses.

Total net foreign exchange losses are reconciled to foreign exchange gains or (losses) in profit or loss as follows:

In thousands of Euro	2010	2009
Total net foreign exchange gains recognised in profit or loss	55,721	37,776
Thereof reclassified to operating expenses	(61,925)	(50,714)
Thereof reclassified to operating income	(7,859)	0
Foreign exchange losses in financial result	(14,063)	(12,938)

## 26. SHARE OF PROFIT OF ASSOCIATES

In thousands of Euro	2010	2009
Niki Luftfahrt GmbH*	137	1,686
Lee & Lex Flugzeugvermietung GmbH	1,110	(126)
E190 Flugzeugvermietung GmbH	(17)	0
IBERO Tours GmbH**	0	51
Follow Me Entertainment GmbH	0	0
Binoli GmbH	54	(586)
THBG BBI GmbH	(227)	(217)
	1,057	808

\* Since 5 July 2010 the company is fully consolidated (see note 5)

\*\* In connection with the concentration on core business, disposal in the second quarter of 2010

## 27. INCOME TAX EXPENSES AND DEFERRED TAXES

Loss before tax is primarily attributable to Germany and Austria.

Income tax benefit is as follows:

In thousands of Euro	2010	2009
Current income tax expense	(11,049)	(5,606)
Deferred income tax benefit	55,513	17,835
Total income tax benefit	44,464	12,229

The current income tax expense of the airberlin group includes corporate tax, a solidarity charge in addition to corporate tax, trade tax and foreign income taxes. The current income tax expense of € 11,049 (2009: € 5,606) includes € 127 of prior year income tax expenses (2009: € 380).

The tax rate for the airberlin group equals 30.18% (2009: 30.18%). It consists of corporate tax rate and solidarity charge of 15.83% and trade tax of 14.35%. The calculation of the trade tax rate includes the effect of the different trade tax rates depending on the municipality in which the Company operates.



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As a result of variations in the tax rate in different jurisdictions, several subsidiaries have tax rates which differ from the airberlin group tax rate. The difference to the Group tax rate is shown as "effect of tax rates in different jurisdictions" in the tax rate reconciliation in amount of € 4,261 (2009: € 7,635).

The reasons for the differences between the tax benefit expected on the basis of loss for the period and the recognised income tax benefits are as follows:

In thousands of Euro	2010	2009
Loss before tax	(141,623)	(21,697)
Expected income tax benefit at 30.18% (2009: 30.18%)	42,742	6,548
Effect of tax rates in different jurisdictions	4,261	7,635
Movement in deferred tax assets on tax loss carry forwards	(11,069)	6,701
Not recognised loss carry forwards due to changes in group structure	(7,945)	0
Non-tax deductible expenses and tax deductible goodwill amortisation	5,063	(8,105)
Deferred tax benefit due to prior years	2,449	0
Current tax expenses previous years	(127)	(380)
Effects of redemption of convertible bonds	7,542	0
Other	1,548	(170)
Total income tax benefit	44,464	12,229

As of 31 December 2010, total tax loss carry forwards for which deferred tax assets were recognised amounted to € 362,023 for trade tax purposes and € 313,264 for corporate tax purposes (2009: € 312,399 and € 261,347 respectively). As of 31 December 2010, no additional deferred tax assets were capitalised for further loss carry forwards of € 188,676 for trade tax € 195,596 for corporate tax (2009: € 595,330 and € 845,663). Loss carry forwards of € 489,418 for trade tax and € 819,255 for corporate tax (2009: € 0) will get lost due to corporate restructuring. For the major part of these loss carry forwards no deferred tax asset has been accounted for. The tax loss carry forwards are not subject to expiration.

Deferred tax assets and liabilities are attributable to the following assets and liabilities:

In thousands of Euro	2010	2009
Deferred tax assets:		
Finance lease liabilities and deferred income	18,996	21,860
Foreign currency receivables and derivatives	7,396	18,058
Tax loss carry forward	98,575	79,617
	124,967	119,535
Deferred tax liabilities:		
Aircraft and engines and related liabilities	(42,219)	(67,367)
Land and buildings	(5,739)	(6,694)
Intangible assets	(31,684)	(28,472)
Technical equipment	(115)	(387)
Leasehold improvements	(83)	(83)
Accrued liabilities and provisions	(3,513)	(86)
Convertible bonds, Corporate bond	(6,309)	(20,410)
Foreign currency liabilities and derivatives	(10,755)	(363)
	(100,417)	(123,862)
Offsetting	124,967	119,535
Deferred tax assets (liabilities), net	24,550	(4,327)
Deferred tax (liabilities) assets, net beginning of period	(4,327)	54,555
Change in deferred tax position	28,877	(58,882)
Thereof related to purchase price allocation NIKI	20,060	0
Thereof related to cash flow hedges and items recorded in equity	6,576	76,717
Deferred income tax benefit	55,513	17,835

The deferred tax asset on tax loss carry forwards takes into consideration the expected future tax benefits.

The presentation in the statement of financial position is as follows:

In thousands of Euro	2010	2009
Deferred tax asset	51,283	0
Deferred tax liabilities	(26,733)	(4,327)
	24,550	(4,327)

Offsetting is not possible, because the asset and liabilities are subject to different jurisdictions. The liabilities relate to Austria.



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## Income tax recognised in equity

In thousands of Euro	2010			2009		
	Before tax	Tax benefit	Net of Tax	Before tax	Tax (expense) benefit	Net of Tax
Transaction costs on issuance of new shares	(565)	169	(396)	(4,470)	1,340	(3,130)
Refund of transaction costs on issuance of new shares	0	0	0	4,184	(1,606)	2,578
Convertible bond and related transaction costs	0	0	0	49,549	(14,855)	34,694
	(565)	169	(396)	49,263	(15,121)	34,142

## Income tax recognised in the statement of other comprehensive income

In thousands of Euro	2010			2009		
	Before tax	Tax expense	Net of Tax	Before tax	Tax expense	Net of Tax
Foreign currency translation differences for foreign operations	1,070	0	1,070	(169)	0	(169)
Fair value of hedging instruments	22,675	(6,730)	15,945	204,115	(61,604)	142,511
	23,745	(6,730)	17,015	203,946	(61,604)	142,342

## 28. CASH FLOW STATEMENT

The cash flow statement of the airberlin group is presented according to the indirect method. Cash and cash equivalents include cash, bank balances and fixed-term deposits with banks with a maturity of less than three months.

In thousands of Euro	2010	2009
Cash	390	650
Bank balances	95,116	84,204
Fixed-term deposits	315,587	288,379
Cash and cash equivalents	411,093	373,233
Bank overdrafts used for cash management purposes	(1,420)	(1,223)
Cash and cash equivalents in the statement of cash flows	409,673	372,010

Cash and cash equivalents include restricted cash of € 90,951 as of 31 December 2010 (31 December 2009: € 80,749).

**29. DERIVATIVES**

Positive and negative market values of derivatives are as follows:

In thousands of Euro	Current 2010	Non-current 2010	Total 2010	Current 2009	Non-current 2009	Total 2009
<b>Positive market values of derivatives classified as held for trading:</b>						
Forward contracts	3,830	398	4,228	954	0	954
Foreign currency options	466	996	1,462	525	0	525
Commodity options	2,150	0	2,150	269	0	269
Cross-currency interest rate swaps	2,179	2,501	4,680	0	14	14
Total positive market values of derivatives classified as held for trading	8,625	3,895	12,520	1,748	14	1,762
<b>Positive market values of derivatives classified as hedge accounting:</b>						
Forward contracts	7,639	2,553	10,192	9,450	0	9,450
Foreign currency options	5,895	0	5,895	2,493	0	2,493
Commodity swaps	21,661	0	21,661	7,513	0	7,513
Commodity options	9,842	0	9,842	2,517	0	2,517
Total positive market values of derivatives classified as hedge accounting	45,037	2,553	47,590	21,973	0	21,973
Total positive market values of derivatives	53,662	6,448	60,110	23,721	14	23,735
<b>Negative market values of derivatives classified as held for trading:</b>						
Forward contracts	3,724	230	3,954	851	0	851
Cross-currency interest rate swaps	1,820	24,628	26,448	6,587	66,430	73,017
Total negative market values of derivatives classified as held for trading	5,544	24,858	30,402	7,438	66,430	73,868
<b>Negative market values of derivatives classified as hedge accounting:</b>						
Forward contracts	14,366	1,055	15,421	4,484	0	4,484
Foreign currency options	5,256	0	5,256	731	0	731
Commodity swaps	0	0	0	104	0	104
Cross-currency interest rate swaps	0	0	0	0	4,423	4,423
Total negative market values of derivatives classified as hedge accounting	19,622	1,055	20,677	5,319	4,423	9,742
Total negative market values of derivatives	25,166	25,913	51,079	12,757	70,853	83,610

Hedge accounting is discussed in note 30g below.



## 08) Financial Statements

## 30. FINANCIAL RISK MANAGEMENT

## a) Credit risk

The carrying amount of financial assets represents the maximum credit exposure.

The maximum exposure to credit at the reporting date was:

In thousands of Euro	Note	Carrying amount 2010	Carrying amount 2009
Loans and receivables	10	252,652	264,799
Positive market values of derivatives classified as held for trading	29	12,520	1,762
Positive market values of derivatives classified as hedge accounting	29	47,590	21,973
Cash and cash equivalents	28	411,093	373,233
		723,855	661,767

The maximum exposure to credit risk for trade receivables at the reporting date by type of customer was:

In thousands of Euro	2010	2009
Receivables from single-seat ticket sales	4,287	9,669
Receivables from charter sales	11,736	12,308
Receivables from credit card companies	19,521	21,860
Receivables from IATA clearing house ("BSP" travel agencies)	19,729	15,688
Other trade receivables	41,145	35,855
	96,418	95,380

Other trade receivables relate primarily to receivables from other airlines for technical services (2010: € 6,288, 2009: € 8,794) and to receivables from cargo services (2010: € 16,612, 2009: € 14,305).

## b) Impairment losses

## -- TRADE RECEIVABLES

The aging of trade receivables at the reporting date was:

In thousands of Euro	Gross 2010	Impairment 2010	Gross 2009	Impairment 2009
Not past due	66,701	2	72,547	948
Past due 1–30 days	11,968	0	5,224	2,056
Past due 31–120 days	10,269	479	13,821	1,057
Past due 121–365 days	6,528	2,118	8,097	1,091
More than one year past due	12,304	8,753	7,694	6,851
	107,770	11,352	107,383	12,003

Trade receivables are analysed for a possible impairment loss according to historical data on impairment losses as discussed below. Receivables which are neither past due nor impaired are generally considered to contain only a small risk of impairment based on past experience. The consideration is the same for receivables that are 1–30 days overdue.

The movement in the impairment allowance is as follows:

In thousands of Euro	Allowance for impairment losses 2010	Allowance for impairment losses 2009
Balance at 1 January	12,003	5,044
Increase in allowance for impairment losses	1,510	9,426
Release of allowance for impairment losses	(2,161)	(2,467)
Balance at 31 December	11,352	12,003

The allowance for impairment losses is used to record impairment losses until the Group determines that the financial asset should be derecognised.

The allowance for impairment losses is based on estimates and judgements regarding the credit worthiness of individual receivables, the actual customer structure and an analysis of historical impairment losses. A companywide credit control process is implemented. Once the third notice is issued along with a court order, and an allowance for impairment losses of 60% is recorded on the receivable. This percentage represents the probability of impairment loss based on past experience. At the balance sheet date the allowance for impairment losses is € 11,352 (2009: € 12,003).

#### -- OTHER LOANS AND RECEIVABLES

None of the other loans and receivables were past due as of 31 December 2010 (2009: none), and there were no renegotiations of payment terms during the period which would otherwise have resulted in overdue receivables. No impairment losses have been recorded on other financial assets (2009: € 2,000).

These receivables relate primarily to amounts due from suppliers (deposits, bonus and claims). The Group only enters into contracts with suppliers of high quality and as such does not consider there to be a significant impairment risk relating to these amounts.

Receivables from related parties relate primarily to loans receivable and clearing accounts from Lee & Lex Flugzeugvermietung GmbH and clearing accounts from E190 Flugzeugvermietung GmbH. As the receivables are not overdue and payments have been made on time in the past, the Group does not consider an impairment loss to be necessary.

#### -- CASH AND CASH EQUIVALENTS AND POSITIVE MARKET VALUES OF DERIVATIVES

No impairment has been recorded on bank balances or positive market values of derivatives, as the transactions are only made with parties of the highest credit rating or, in the case of derivative financial instruments, with parties that are known to be reliable based on past experience (past customer behaviour regarding timely payments of amounts due). The Group considers its net position in determining its impairment risk on bank balances and positive market values of derivatives.



## 08) Financial Statements

## c) Liquidity risk

The following are the contractual undiscounted maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements as at 31 December 2010:

In thousands of Euro	Carrying amount	Contractual cash flows	6 months or less	7–12 months	1–2 years	2–5 years	More than 5 years
<b>Non-derivative financial liabilities</b>							
Liabilities due to bank from							
assignment of future lease payments	301,303	326,574	24,445	36,932	52,787	78,277	134,133
Secured bank loans	177,986	188,366	9,118	9,774	19,490	58,047	91,937
Finance lease liabilities	85,123	117,506	6,832	6,496	11,453	26,508	66,217
Corporate Bonds	195,033	285,000	8,500	8,500	17,000	251,000	0
Convertible bonds – liability component	139,476	160,879	2,740	700	139,440	17,999	0
Trade payables and							
other financial liabilities	155,971	112,422	112,422	0	0	0	0
Bank overdraft	1,420	1,420	1,420	0	0	0	0
Total financial liabilities measured at amortised cost	1,056,312	1,192,167	165,477	62,402	240,170	431,831	292,287
<b>Derivative financial liabilities</b>							
Derivatives classified as hedge accounting:							
Forward exchange contracts	15,421	15,834	11,373	3,330	1,131	0	0
Outflow		388,084	243,000	132,727	12,357	0	0
Inflow		(372,250)	(231,627)	(129,397)	(11,226)	0	0
Foreign currency options	5,256	7,338	6,531	807	0	0	0
Outflow		119,597	96,338	23,259	0	0	0
Inflow		(112,259)	(89,807)	(22,452)	0	0	0
Derivatives classified as held for trading:							
Cross-currency interest rate swaps	26,448	29,326	5,320	5,743	9,807	8,456	0
Outflow		287,890	20,400	51,006	79,113	137,371	0
Inflow		(258,564)	(15,080)	(45,263)	(69,306)	(128,915)	0
Forward exchange contracts	3,954	4,034	3,838	0	196	0	0
Outflow		52,820	45,336	0	7,484	0	0
Inflow		(48,786)	(41,498)	0	(7,288)	0	0
	1,107,391	1,248,699	192,539	72,282	251,304	440,287	292,287



For 31 December 2009, the maturities were as follows:

In thousands of Euro	Carrying amount	Contractual cash flows	6 months or less	7–12 months	1–2 years	2–5 years	More than 5 years
<b>Non-derivative financial liabilities</b>							
Liabilities due to bank from							
assignment of future lease payments	660,386	728,098	45,705	45,397	103,819	233,090	300,087
Finance lease liabilities	89,623	126,621	6,554	6,554	12,820	28,166	72,527
Convertible bonds – liability component	196,089	320,558	7,665	5,625	13,290	293,978	0
Trade payables and							
other financial liabilities	95,438	95,438	95,438	0	0	0	0
Bank overdraft	1,223	1,223	1,223	0	0	0	0
Total financial liabilities measured at amortised cost	1,042,759	1,271,938	156,585	57,576	129,929	555,234	372,614
<b>Derivative financial liabilities</b>							
Derivatives classified as hedge accounting:							
Cross-currency interest rate swaps	4,423	4,531	632	632	1,265	2,002	0
Outflow		17,140	2,392	2,391	4,784	7,573	0
Inflow		(12,609)	(1,760)	(1,759)	(3,519)	(5,571)	0
Forward exchange contracts	4,484	4,735	4,735	0	0	0	0
Outflow		251,234	251,234	0	0	0	0
Inflow		(246,499)	(246,499)	0	0	0	0
Foreign currency options	731	2,645	2,645	0	0	0	0
Outflow		85,944	85,944	0	0	0	0
Inflow		(83,299)	(83,299)	0	0	0	0
Commodity swaps	104	104	104	0	0	0	0
Outflow		104	104	0	0	0	0
Inflow		0	0	0	0	0	0
Derivatives classified as held for trading:							
Cross-currency interest rate swaps	73,017	77,186	15,142	12,060	21,281	29,028	(325)
Outflow		622,677	74,716	70,495	135,182	313,807	28,477
Inflow		(545,491)	(59,574)	(58,435)	(113,901)	(284,779)	(28,802)
Forward exchange contracts	851	668	508	160	0	0	0
Outflow		44,278	38,724	5,554	0	0	0
Inflow		(43,610)	(38,216)	(5,394)	0	0	0
	1,126,369	1,361,807	180,351	70,428	152,475	586,264	372,289



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The amounts disclosed in the maturity analysis are the contractual undiscounted cash flows, including future interest payments. Amounts in USD are translated at the relevant year-end exchange rate, and variable interest payments are calculated using the year-end basis rates.

The Group intends to meet its obligations primarily through cash balances held and cash inflows from operations and in the case of purchases of new aircraft (not included above) through future borrowings which are already in place for aircraft deliveries in 2011 and early 2012.

**d) Currency risk**

The Group has significant transactions in USD as well as smaller transactions in GBP and CHF. airberlin enters into USD currency forwards and options in order to manage functional currency risk which arises on operating costs (e.g. payments regarding aircraft financing and leasing, fuel, maintenance etc.) denominated in USD. airberlin generally hedges up to 75% (2009: 75%) of the expected cash flow on a 6–18 month (2009: 6–18 month) revolving basis.

The Group's exposure to foreign currency risk was as follows based on the currency values at end of year:

In thousands of currency units	31 December 2010			31 December 2009		
	USD	GBP	CHF	USD	GBP	CHF
Loans and receivables	85,405	1,189	13,776	58,547	4,248	1,907
Cash and cash equivalents	93,570	431	2,804	66,599	526	23,901
Liabilities due to bank from						
assignment of future lease payments	(339,021)	0	0	(861,382)	0	0
Secured bank loans	(169,448)	0	0	0	0	0
Finance lease liabilities	(53,595)	0	0	(59,258)	0	0
Trade payables and						
other financial liabilities	(19,727)	(329)	(3,884)	(18,265)	(732)	(2,000)
Bank overdraft	0	0	0	0	0	0
Total exposure of balance positions	(402,816)	1,291	12,696	(813,759)	4,042	23,808
Estimated forecast purchases	(2,004,000)	0	0	(1,834,600)	0	0
Gross exposure	(2,406,816)	1,291	12,696	(2,648,359)	4,042	23,808
Forward exchange contracts						
(hedged volume in USD)	934,800	0	0	644,850	0	0
Foreign currency options						
(hedged volume in USD)	376,000	0	0	366,500	0	0
Cross-currency interest rate swaps						
(hedged volume in USD)	492,738	0	0	780,807	0	0
Net exposure	(603,278)	1,291	12,696	(856,202)	4,042	23,808

The estimated forecast purchases shown above are for a twelve-month period. The volume hedged through forward exchange contracts and forward exchange options is for estimated forecast purchases for up to two years. The volume hedged through cross-currency interest rate swaps is the nominal amount of the interest-bearing liabilities in USD.

The following significant exchange rates applied during the year:

Currency units to the Euro	Average rate		Reporting date spot rate	
	2010	2009	2010	2009
USD	1.3257	1.3948	1.3362	1.4406
GBP	0.8578	0.8909	0.8608	0.8881
CHF	1.3803	1.5100	1.2504	1.4836

#### -- SENSITIVITY ANALYSIS

A sensitivity analysis was performed on the year-end balances of foreign currency financial assets and liabilities and the fair values of derivative financial instruments existing at year-end. The assumptions used in the calculation of currency risk were the same as those used in the prior year. Assuming that all other variables, in particular interest rates, remain constant, a 10 per cent strengthening of the Euro against the following currencies at 31 December would have increased / (decreased) equity and profit or loss by the following amounts:

Effect in thousands of Euro	31 December 2010			31 December 2009		
	USD	GBP	CHF	USD	GBP	CHF
Profit or loss	648	(11)	103	1,956	(414)	(1,459)
Equity	(77,015)	0	0	(50,699)	0	0

A 10 per cent weakening of the Euro against the above mentioned currencies at 31 December would have increased / (decreased) equity and profit or loss by the following amounts:

Effect in thousands of Euro	31 December 2010			31 December 2009		
	USD	GBP	CHF	USD	GBP	CHF
Profit or loss	(878)	13	(96)	(2,584)	506	1,783
Equity	91,080	0	0	64,948	0	0

#### e) Interest rate risk

The interest rate profile of the Group is as follows:

In thousands of Euro	Carrying amount	
	2010	2009
<b>Fixed rate instruments</b>		
Financial assets	47,649	3,890
Financial liabilities	(480,497)	(351,096)
Cross-currency interest rate swaps	(21,768)	(77,426)
	<b>(454,616)</b>	<b>(424,632)</b>
<b>Variable rate instruments</b>		
Financial assets	0	1,500
Financial liabilities	(419,844)	(595,001)
	<b>(419,844)</b>	<b>(593,501)</b>



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The variable rate interest bearing liabilities and liabilities due to banks from aircraft financing and from assignment of future lease payments, which are generally denominated in USD, expose the Group to variability in interest payments due to changes in interest rates as well as to a foreign currency risk. The interest risk results from the sensitivity of financial assets and financial liabilities with variable interest rates to changes in the market interest rate. airberlin uses cross-currency interest rate swaps to hedge these risks. The swaps are considered cash flow hedges from their inception until the liability is recorded in the statement of financial position, at which point the interest rate swaps are classified as held for trading, with future changes in market value taken to profit or loss.

-- FAIR VALUE SENSITIVITY ANALYSIS FOR FIXED RATE INSTRUMENTS

The Group does not account for any fixed rate financial instruments at fair value through profit or loss, and the Group does not designate any of its derivatives (interest rate swaps) as fair value hedge accounting instruments. Therefore a change in interest rates (unless they resulted in the hedge becoming ineffective) at the reporting date would only affect profit or loss to the extent that it affects the fair value of interest rate swaps not designated as hedge accounting (held for trading). A change of 100 basis points in interest rates would have increased or decreased equity by € 0 (2009: € 274) and profit or loss by € 7,050 (2009: € 14,313) based on a one year impact.

-- CASH FLOW SENSITIVITY ANALYSIS FOR VARIABLE RATE INSTRUMENTS

Assuming that all other variables, in particular foreign currency rates, remain constant, a change of 100 basis points in interest rates would have increased or decreased profit or loss (financial result) by € 1,663 (2009: € 1,152) and had no effect on equity over the twelve-month period, based on the balance sheet amounts at the reporting date and taking into consideration the effect of interest rate swaps.

**f) Fuel price risk**

The fuel price (jet fuel) plays an important role as far as the business performance of the Group is concerned. Fuel expense amounted to 20.2% (2009: 22.0%) of the Group's entire operating expenses. airberlin uses commodity swaps as well as commodity options to hedge the exposure to fuel price increases. At the end of the period 2010, the hedged volume was 543,000 tons for the business year 2011 (2009: 523,500 tons for 2010). The hedging quota was 37.3% for 2011 (in the prior year: 40.3% for 2010).

-- SENSITIVITY ANALYSIS

Assuming that all other variables, in particular foreign currency rates, remain constant, a 10% increase in the fuel price at the reporting date would have increased equity by € 25,365 (2009: € 18,585) and profit or loss by € 3,321 (2009: € 797). A 10% decrease in the fuel price at the reporting date would have decreased equity by € 21,925 (2009: € 17,250) and profit or loss by € 2,735 (2009: € 2,237).

The calculation is based on the fair values of commodity derivatives (swaps and options) at the end of the period. The assumptions used were the same as in the prior period.

## g) Hedge accounting

As an airline, the airberlin group is exposed to currency, interest rate and fuel price risks as well as credit and liquidity risks. airberlin uses derivatives to limit these risks.

airberlin applies hedge accounting for its hedges of future foreign currency denominated cash flows and its hedges of future cash flows related to the purchase of jet fuel that satisfy the criteria under IAS 39, thus reducing income statement volatility. IAS 39 sets out strict requirements on the use of hedge accounting. airberlin fulfils those requirements by documenting, at the inception of a hedge, both the relationship between the derivative used as the hedging instrument and the hedged item, as well as the aim and strategy of the hedge. This includes assigning the hedging instruments to the corresponding firm commitments and future transactions and also estimating the degree of effectiveness of the hedging instruments employed. The effectiveness of existing hedge accounting is monitored on an ongoing basis. For hedge accounting, the change in the fair value of the hedging instrument is deferred in equity to the extent the hedge is effective. Accumulated fair value changes from qualifying hedges are removed from equity to profit or loss in the period when the hedged cash flow affects profit or loss.

airberlin also uses hedges that do not satisfy the strict hedge accounting criteria of IAS 39. For such derivatives airberlin recognises the changes in fair value in profit or loss. The fair values of derivatives are presented in a separate line in the statement of financial position.

The fair values of derivatives for hedging exchange rate, interest rate and fuel price risks at 31 December 2010 and their movement during the period are as follows:

In thousands of Euro	Fair value at 31 December 2009	Additions through business combinations	Change in fair value recognised in profit or loss	Change in fair value recognised in equity	Removed from equity to profit or loss	Fair value at 31 December 2010
<b>Cash flow hedges:</b>						
Forward contracts	4,966	0	0	30,145	(40,340)	(5,229)
Foreign currency options	1,762	0	(8,489)	20,988	(13,622)	639
Cross-currency interest rate swaps	(4,424)	0	(3,237)	4,424 <sup>1</sup>	3,237	0
Commodity swaps (fuel price)	7,409	0	0	18,681	(4,429)	21,661
Commodity options (fuel price)	2,517	0	(690)	9,831	(1,816)	9,842
<b>Held for trading:</b>						
Forward contracts	103	1,082	(911)	0	0	274
Foreign currency options	525	1,316	(379)	0	0	1,462
Cross-currency interest rate swaps	(73,002)	1,546	54,112	(4,424) <sup>1</sup>	0	(21,768)
Commodity options (fuel price)	269	(2,704)	4,585	0	0	2,150
	(59,875)	1,240	44,991	79,645	(56,970)	9,031

<sup>1</sup> Reclassification from cash flow hedges to held for trading in 2010.



## 08) Financial Statements

The change in fair value of derivatives was as follows in 2009:

In thousands of Euro	Fair value at 31 December 2008	Change in fair value recognised in profit or loss	Change in fair value recognised in equity	Removed from equity to profit or loss	Option premium paid	Fair value at 31 December 2009
<b>Cash flow hedges:</b>						
Forward contracts	31,673	0	12,732	(39,439)	0	4,966
Foreign currency options	5,422	1,232	(370)	(4,522)	0	1,762
Cross-currency interest rate swaps	(7,635)	(1,102)	943	3,370 <sup>1</sup>	0	(4,424)
Commodity swaps (fuel price)	(220,283)	0	40,358	187,334	0	7,409
Commodity options (fuel price)	(165)	(1,027)	2,305	1,404	0	2,517
<b>Held for trading:</b>						
Forward contracts	952	(849)	0	0	0	103
Foreign currency options	(688)	1,213	0	0	0	525
Cross-currency interest rate swaps	(57,362)	(12,270)	0	(3,370) <sup>1</sup>	0	(73,002)
Commodity options (fuel price)	(185)	454	0	0	0	269
	(248,271)	(12,349)	55,968	144,777	0	(59,875)

<sup>1</sup> Reclassification from cash flow hedges to held for trading in 2009.

All foreign currency options and commodity options (fuel price) entered into during the period meet the qualifications of hedge accounting and are accounted for as cash flow hedges. The change in the intrinsic value is recorded in equity, and the change in the time value is recorded in profit or loss.

Hedge accounting concerning the cross-currency interest rate swaps are accounted for as cash flow hedges. Those cross-currency interest rate swaps which do not meet the criteria for hedge accounting continue to be recorded in profit or loss and are classified as held for trading.

Cash flow hedges are expected to impact profit or loss in the same period in which the cash flows are expected to occur, as detailed in section c "liquidity risk" above.

#### h) Fair values

Fair value is the amount obtainable in an arm's length transaction between knowledgeable willing parties. The fair values of financial assets and liabilities, together with their carrying amounts shown in the statement of financial position, are as follows:

		31 December 2010		31 December 2009	
In thousands of Euro	Note	Carrying amount	Fair value	Carrying amount	Fair value
<b>Loans and receivables:</b>					
Total loans and receivables	10	252,652	252,652	264,799	264,799
<b>Positive market values of derivatives classified as held for trading:</b>					
Forward exchange contracts	29	4,228	4,228	954	954
Foreign currency options	29	1,462	1,462	525	525
Commodity options (fuel price)	29	2,150	2,150	269	269
Cross-currency interest rate swaps	29	4,680	4,680	14	14
<b>Positive market values of derivatives classified as hedge accounting:</b>					
Forward exchange contracts	29	10,192	10,192	9,450	9,450
Foreign currency options	29	5,895	5,895	2,493	2,493
Commodity swaps (fuel price)	29	21,661	21,661	7,513	7,513
Commodity options (fuel price)	29	9,842	9,842	2,517	2,517
Total positive market values of derivatives					
at fair value through profit and loss		60,110	60,110	23,735	23,735
Cash and cash equivalents	28	411,093	411,093	373,233	373,233
<b>Financial liabilities measured at amortised cost:</b>					
Liabilities due to bank from assignment of					
future lease payments	16	(301,303)	(288,483)	(660,386)	(654,341)
Secured bank loans	16	(177,986)	(154,899)	0	0
Finance lease liabilities	16	(85,123)	(91,521)	(89,623)	(97,497)
Corporate bonds	16	(195,033)	(211,000)	0	0
Convertible bonds – liability component	16	(139,476)	(139,621)	(196,089)	(219,043)
Trade payables and other financial liabilities	18	(112,433)	(112,433)	(95,438)	(95,438)
Bank overdraft	16	(1,420)	(1,420)	(1,223)	(1,223)
Total financial liabilities measured at amortised cost		(1,012,774)	(999,377)	(1,042,759)	(1,067,542)
<b>Financial liabilities measured at fair value:</b>					
Put Option liability	18	(43,538)	(43,538)	0	0
<b>Negative market values of derivatives classified as hedge accounting:</b>					
Forward exchange contracts	29	(15,421)	(15,421)	(4,484)	(4,484)
Foreign currency options	29	(5,256)	(5,256)	(731)	(731)
Commodity swaps (fuel price)	29	0	0	(104)	(104)
Cross-currency interest rate swaps	29	0	0	(4,423)	(4,423)
<b>Negative market values of derivatives classified as held for trading:</b>					
Forward exchange contracts	29	(3,954)	(3,954)	(851)	(851)
Cross-currency interest rate swaps	29	(26,448)	(26,448)	(73,017)	(73,017)
Total negative market values of derivatives					
at fair value through profit and loss		(51,079)	(51,079)	(83,610)	(83,610)
		(383,536)	(370,139)	(464,602)	(489,385)



## 08) Financial Statements

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments:

### Derivatives

Forward exchange, interest rate and fuel price derivatives are carried at fair value, by valuation model. The valuation is performed using the quoted prices that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e. derived from prices). Therefore, all the derivative financial instruments of airberlin relate to the Level 2 of the three level hierarchy as defined in IFRS 7.27A.

### Put Option liability

The put option liability is measured at fair value. The measurement of the liability takes into consideration factors that are not based on observable market data. Therefore the derivative financial instrument held by airberlin is classified in its entirety to level 3 according to IFRS 7.27A defined three-level hierarchy.

The changes in level 3 financial instruments are as follows:

In thousands of Euro	2010	2009
Balance of the liability at 1 January	0	0
Arising from business combination	40,500	0
Changes in fair value of the liability	3,038	0
Balance of the liability at 31 December	43,538	0

### Interest-bearing loans and borrowings

Fair value is calculated based on discounted expected future principal and interest cash flows using current rates.

### Trade and other receivables / payables

For receivables/payables with a remaining life of less than one year, the carrying value is deemed to reflect the fair value. All other receivables/payables are discounted to determine the fair value.

### Cash and cash equivalents

Due to the short maturity date, the notional amount is deemed to reflect the fair value.

### i) Net gain or loss

The net gains (losses) on financial assets and liabilities during the period are as follows:

In thousands of Euro	2010	2009
Loans and receivables	(612)	(14,655)
Cash and cash equivalents	4,265	1,612
Derivatives	97,647	19,034
Financial liabilities measured at amortised cost	(51,234)	16,450
Financial liabilities measured at fair value	3,038	0
	53,104	22,441

This includes foreign exchange rate gains (losses), impairment losses and reversals of impairment losses, changes in fair value recognised in profit or loss and gains (losses) on disposal.

No interest income, fee income and fee expense was accrued on impaired financial assets during the period (2009: none).



### 31. RELATED PARTY TRANSACTIONS

The Group has related party relationships with its Directors and key management as well as with its associates (see note 8). Total remuneration of Directors is included in the Directors' Remuneration Report (see pages 90 to 99). The share-based payment scheme for Executive Directors and certain senior executives of the Group is detailed in note 13.

One of the Executive Directors of the Group controls a voting share of 2.64% (2009: 2.64%) of airberlin. In addition, a receivable of € 4 is due from one of the Directors and is included in other current assets in the statement of financial position as at 31 December 2010 (2009: € 25).

One of the non-executive directors, also a shareholder of the Company with a voting share of 1.58% (2009: 1.58%), is the main shareholder of Phoenix Reisen GmbH. The Group had revenues from ticket sales with Phoenix Reisen GmbH in 2010 of € 20,024 (2009: € 18,679). At 31 December 2010 € 1,282 are included in the statement of financial position in trade receivables (2009: € 729).

During the years ending 31 December 2010 and 2009, associates purchased or delivered goods and services from the Group as follows:

In thousands of Euro	2010	2009
<b>IBERO-Tours GmbH</b>		
Other income from cost transfer	0	9
Expenses for services	540	87
<b>THBG BBI GmbH</b>		
Receivables from related parties	2,397	1,908
Interest income	86	0
<b>Follow Me Entertainment GmbH</b>		
Receivables from related parties	50	0
Interest income	1	0
<b>BINOLI GmbH</b>		
Revenues from ticket sales	66	417
Other income from cost transfer	0	380
Receivables from related parties	93	187
Trade and other receivables	148	9
Interest income	30	0
<b>Lee &amp; Lex Flugzeugvermietung GmbH</b>		
Expenses for leasing	2,622	0
Receivables from related parties	1,572	764
Interest income	70	0
Payables to related parties	1,462	0
<b>E190 Flugzeugvermietung GmbH</b>		
Expenses for leasing	4,270	0
Receivables from related parties	7,677	0
<b>Niki Luftfahrt GmbH</b>		
Revenues	127	245
Other income from administrative services	1,389	2,381
Other income from cost transfer	1,600	6,000
Receivables from related parties	0	26,778



## 08) Financial Statements

Transactions with associates are priced on an arm's length basis.

In 2010 no dividends have been received from associates (2009: none).

In connection with the concentration on core business, the Group disposed of its 50.0% share in IBERO-Tours GmbH, Düsseldorf, in the second quarter of 2010.

NIKI Luftfahrt GmbH is consolidated since 5 July 2010 (see note 5).

### 32. EXECUTIVE BOARD OF DIRECTORS

Joachim Hunold	Chief Executive Officer
Ulf Hüttmeyer	Chief Financial Officer
Christoph Debus	Chief Commercial Officer

### 33. SUBSEQUENT EVENTS

From the end of the 2010 financial year to the editorial deadline for the submission of this Annual Report on 18 March 2011, with the exception of the political upheavals in North Africa, no events occurred that could have significant impact on the business development of the Company. The events in North Africa adversely effected flight bookings to Egypt in particular. Numerous passengers cancelled their bookings after the German Government had issued travel warnings for Egypt. Accordingly, passenger numbers in the first quarter of the current financial year were effected.

### 34. NOTES TO THE COMPANY'S STATEMENT OF FINANCIAL POSITION

#### a) Significant accounting policies

The accounting framework and significant accounting policies described in notes 2 and 4 above also apply to the Company financial statements. In addition the following accounting policies were applied:

Investments in subsidiaries and in associates are recorded at cost less accumulated impairment losses and are tested for impairment if an indication of impairment exists.

Receivables from subsidiaries and payables to subsidiaries and to associates are initially measured on the basis of their fair value. Subsequently they are carried at amortised cost using the effective interest method.

The Company has recorded financial assets and liabilities in the statement of financial position.

Categories of financial assets and liabilities which apply to Air Berlin PLC are as follows:

- ✈ Loans and receivables
- ✈ Financial assets and liabilities at fair value through profit or loss classified as held for trading in accordance with IAS 39 (derivative financial instruments)
- ✈ Financial liabilities measured at amortised cost (includes trade payables and other financial liabilities as well as interest-bearing liabilities)

The Company has defined the following classes of financial assets and liabilities:

- ✈ Loans and receivables
- ✈ Derivative financial instruments classified as held for trading
- ✈ Financial liabilities measured at amortised cost (includes interest-bearing liabilities, trade payables and other financial liabilities)
- ✈ Cash and cash equivalents

#### b) Investments in subsidiaries

A detailed list of the companies in which the Company has interests, direct and indirect, is found in note 35 to the consolidated financial statements. The Company is general partner of Air Berlin PLC & Co. Luftverkehrs KG.

In thousands of Euro	2010	2009
Acquisition cost		
Balance at 1 January	470,992	220,958
Additions	12	33
Disposals	(45)	0
Increase in subsidiaries capital	5	250,001
Balance at 31 December	470,964	470,992

#### c) Investments in associates

The company acquired a 50% share in Follow Me Entertainment GmbH, Cologne, in the reporting period for € 13.

#### d) Deferred tax assets

Profit or loss before tax is completely attributable to Germany.

Income tax benefit (expense) is as follows:

In thousands of Euro	2010	2009
Current income tax benefit (expense)	420	(2,099)
Deferred income tax benefit	36,696	226
Total income tax benefit (expense)	37,116	(1,873)

The current income tax expense of the Company includes corporate tax, a solidarity charge in addition to corporate tax and trade tax. The current income tax expense includes € 77 of prior year income tax expense (2009: € 157 income tax benefit).



## 08) Financial Statements

The tax rate of the Company equals 30.03% (2009: 29.98%). It consists of corporate tax rate and solidarity charge of 15.83% and trade tax of 14.20% (2009: 14.15%). The calculation of the trade tax rate includes the effect of the different trade tax rates depending on the municipality in which the Company operates.

Reconciliation between the tax expense expected on the basis of profit for a period and the recognised income tax expense is as follows:

In thousands of Euro	2010	2009
(Loss)/Profit before tax	(29,903)	19,172
Expected income tax benefit/(expense) at 30.03% (2009: 29.98%)	8,980	(5,748)
Effect of change in tax rate	17	245
Effect of tax pooling agreements with subsidiaries	30,018	9,084
Write down of deferred tax assets on tax loss carry forwards	(8,185)	(2,865)
Effect from non-deductible expenses	(2,613)	(2,552)
Deferred tax benefit due to prior years	1,837	0
Effects of redemption of convertible bonds	7,542	0
Current tax (expense)/benefit previous years	(77)	157
Other	(403)	(194)
Total income tax benefit/(expense) recognised	37,116	(1,873)

The total tax loss carry forward was € 44,832 (2009: € 20,136) for trade tax purposes and € 272,643 (2009: € 120,986) for corporation tax purposes as at 31 December 2010. As of 31 December 2010, no additional deferred tax assets were capitalised for further loss carry forwards of € 68,647 for corporate tax (2009: € 15,126). The tax loss carry forwards are not subject to expiration.

Deferred tax assets are attributable to the following assets and liabilities:

In thousands of Euro	2010	2009
Deferred tax assets		
Receivables	122	0
Accrued liabilities and provisions	802	1,041
Negative market values of derivatives	0	2,552
Tax loss carry forwards	49,493	21,690
Total deferred tax assets	50,417	25,283
Deferred tax liabilities		
Convertible bonds	(6,309)	(20,410)
Positive market values of derivatives	(2,401)	(17)
Total deferred tax liabilities	(8,710)	(20,427)
Offsetting	50,417	25,283
Deferred tax assets, net	41,707	4,856
Deferred tax assets, net beginning of period	4,856	19,751
Change in deferred tax assets	36,851	(14,895)
thereof related to items recorded in equity	(155)	15,121
Deferred income tax benefit	36,696	226

The deferred tax asset on tax loss carry forwards takes into consideration the expected future tax benefits.

**Income tax recognised in equity**

In thousands of Euro	2010			2009		
	Before tax	Tax expense	Net of Tax	Before tax	Tax (expense) benefit	Net of Tax
Transaction costs on issuance of shares	(565)	169	(396)	(4,470)	1,340	(3,130)
Refund of transaction costs on issuance of new shares	0	0	0	4,184	(1,606)	2,578
Convertible bond and related transaction costs	0	0	0	49,549	(14,855)	34,694
	(565)	169	(396)	49,263	(15,121)	34,142

**e) Loans to subsidiaries and other loans receivable**

In these positions are included:

A long-term loan was concluded with LTU Beteiligungs- und Holding GmbH (€ 140,000) with a yearly interest rate of 1%.

The loan was prolonged till 31 December 2011.

In addition the Company has a long-term loan to LOMA GmbH of € 15,200. The loan is due in 2011 and has a yearly interest rate of 1%.

The company signed a non limited loan with AB Luftfahrttechnik Düsseldorf GmbH (€ 26,166) with a yearly interest rate of 1%. The loan can be called with a notice period of one month to the end of a month.

**f) Long-term loans to associates**

The company entered into two loans with Binoli GmbH of € 250 each. The loans were agreed with an indefinite maturity and a 6 per cent interest rate. Due to the at-equity accounting concerning investments in associates the investment in Binoli GmbH was written off to zero and the loans have been written down by € 407 (see note 8).

Furthermore the company entered into a loan with Follow Me Entertainment GmbH of € 50 with 5 per cent interest rate. The loan can be cancelled at any time.

**g) Receivables from subsidiaries**

Receivables due to profit and loss transfer agreements are included with € 21,543 (2009: € 21,228).

Cash pooling agreements were concluded to bundle the Group's financial activities. At the end of the period the receivables from cash pooling amounts to € 53,739 (2009: € 29,470).

The remaining receivables result from trade, clearing accounts and interest for the group-loans.

**h) Receivables from associates**

Receivables from associates include the clearing account with Binoli GmbH € 149 (2009: € 149).

**i) Share capital and reserves**

The capital structure of Air Berlin PLC is that of the Group, except that certain reserves on the consolidated level are not relevant at Company level.

A full description of the Company's share capital and reserves is detailed in note 11 to the consolidated financial statements. The Employee Share Plan is detailed in note 13 to the consolidated financial statements.

**j) Pension liabilities**

In 2007 Air Berlin PLC entered into a defined benefit pension plan for its Executive Directors. The pension plan is funded through payments to a qualifying insurance contract.



## 08) Financial Statements

The development of the company's defined benefit obligations during the period is as follows:

In thousands of Euro	2010	2009
Present value of funded obligations	4,482	6,364
Fair value of plan assets	(5,369)	(7,816)
Funded status	(887)	(1,452)
Amount not recognised due to limitation in IAS 19.58(b)	887	1,452
Pension liabilities	0	0

Changes in the present value of the defined benefit obligation are as follows:

In thousands of Euro	2010	2009
Defined benefit obligation at 1 January	6,364	3,685
Current service cost	298	1,322
Interest on obligation	337	230
Actuarial losses	1,502	1,127
Transfer to subsidiary	(4,019)	0
Defined benefit obligation at 31 December	4,482	6,364

Changes in the fair value of plan assets are as follows:

In thousands of Euro	2010	2009
Fair value of plan assets at 1 January	7,816	4,701
Contribution	1,570	3,364
Expected return on plan assets	447	200
Actuarial losses	(445)	(449)
Transfer to subsidiary	(4,019)	0
Fair value of plan assets at 31 December	5,369	7,816

Plan assets consist exclusively of external contracts with insurance companies in Germany. These insurances could potentially include shares in Air Berlin Plc. However, due to strict requirements in Germany regarding the structure of insurance companies, the percentage of airberlin shares held would be minimal.

The actual gain on plan assets was € 2 during the period (2009: loss: € 249). No experience adjustment was made during the period.

The amount recognised as pension expense in profit or loss is as follows:

In thousands of Euro	2010	2009
Current service cost	298	1,322
Interest on obligation	337	230
Expected return on plan assets	(447)	(200)
Net actuarial losses recognised in the period	1,947	1,576
Effect of the limitation in IAS 19.58 (b)	(565)	436
Pension expense	1,570	3,364

The Company expects to contribute € 1,602 to its defined benefit pension plan in 2011.

Principal actuarial assumptions at the reporting date are as follows:

	2010	2009
Discount rate at 31 December	4.65%	5.39%
Expected return on plan assets at 1 January	4.30%	4.30%
Future salary increases	0.00%	0.00%
Cost of living adjustment (future pension increases)	1.00%	1.00%

Assumptions regarding future mortality are based on published statistics and mortality tables ("Richttafeln 2005 G" published by Heubeck-Richttafeln-GmbH). The average remaining life expectancy of an individual retiring at age 65 is 20 years for males and 25 years for females.

#### **k) Other non-current liabilities to subsidiaries**

The Group issued two convertible bonds with a volume of € 220,000 (issued in 2007) and € 125,000 (issued in 2009). Air Berlin is accounting for these bonds in the same way as the Group. For further information see note 16.

The convertible bonds were issued by AB Finance B.V., and the proceeds were transferred to Air Berlin PLC with the same conditions as the bonds.

During the reporting period the company redeemed convertible bonds issued in 2009 with a nominal volume of € 109,450 and transferred them to AB Finance B.V. to payback the respective loan. In the prior year the company redeemed convertible bonds issued in 2007 with a nominal volume of € 84,000 and transferred them to AB Finance B.V. to payback the respective loan. The disclosures regarding the liquidity risk and maturity analysis in respect of the convertible bonds are detailed in note 16 and 30c.

Another loan agreement was concluded with AB Finance B.V. (€ 2,000). The loan is due on 11 April 2027 and has a yearly interest rate of LIBOR plus 1%.

#### **l) Accrued liabilities**

Accrued liabilities primarily relate to expenses for services received but not yet invoiced as of the end of the period.

#### **m) Payables to subsidiaries**

Payables to subsidiaries include € 7 (2009: € 14,181) regarding profit and loss transfers and € 180,859 (2009: 159,340) regarding cash pooling agreements.



## 08) Financial Statements

**n) Fair values**

Fair value is the amount obtainable in an arm's length transaction between knowledgeable willing parties. The carrying amounts of financial assets and liabilities approximate their fair values.

The fair values of financial assets and liabilities, together with their carrying amounts shown in the statement of financial position, are as follows:

In thousands of Euro	Note	31 December 2010		31 December 2009	
		amount	Carrying Fair value	amount	Carrying Fair value
Long-term loans to subsidiaries	34e	0	0	15,200	15,200
Long-term loans to associates	34f	143	143	39	39
Other long-term loans	34e	0	0	1,500	1,500
Short-term loans to subsidiaries	34e	199,802	199,802	185,182	185,182
Receivables from subsidiaries	34g	139,850	139,850	91,200	91,200
Receivables from associates	34h	149	149	149	149
Total loans and receivables		339,944	339,944	293,270	293,270
Positive market values of derivatives classified as held for trading		8,073	8,073	58	58
Cash and cash equivalents		138,956	138,956	104,295	104,295
Financial liabilities measured at amortised cost:					
Interest-bearing liabilities	16	(195,033)	(211,000)	0	0
Non-current liabilities to subsidiaries	34k	(141,476)	(141,476)	(198,089)	(198,089)
Trade payables and payables to subsidiaries	34m	(200,949)	(200,949)	(183,139)	(183,139)
Total financial liabilities measured at amortised cost		(537,458)	(553,425)	(381,228)	(381,228)
Negative market values of derivatives classified as held for trading:		(67)	(67)	(8,513)	(8,513)
		(50,552)	(66,519)	7,882	7,882

**o) Related party transactions**

The Company has related party relationships with its Directors and subsidiaries (see note 31 to the consolidated financial statements). Total remuneration of Directors is included in the Directors' Remuneration Report (see pages 90 to 99).

One of the Executive Directors of the Group controls a voting share of 2.64% (2009: 2.64%) of airberlin. In addition, one of the non-executive directors is also a shareholder of the Company with a voting share of 1.58% (2009: 1.58%).



The Company had the following transactions with related parties during the years ending 31 December 2010 and 2009:

In thousands of Euro	2010	2009
<b>Air Berlin PLC &amp; Co. Luftverkehrs KG</b>		
Revenues	3,692	4,155
Interest Income	777	477
Receivables from subsidiaries	50,123	24,427
Other operating expenses	534	540
Payables to subsidiaries	6,714	5,436
<b>Pegasus 1. – 7. Luftfahrtbeteiligungsgesellschaft mbH</b>		
Revenues	24	17
Receivables from subsidiaries	13	0
Payables to subsidiaries	195	181
<b>Alpha Engine Trading GmbH</b>		
Receivables from subsidiaries	659	660
Payables to subsidiaries	2,652	2,655
<b>Air Berlin Beteiligungs GmbH</b>		
Receivables from subsidiaries	90	0
Payables to subsidiaries	0	13
<b>Belair Airlines AG</b>		
Revenues	0	0
<b>LTU Beteiligungs- und Holding GmbH</b>		
Interest Income	1,416	1,416
Receivables from subsidiaries	144,305	142,818
Payables to subsidiaries	0	24
<b>AB Luftfahrttechnik Berlin GmbH</b>		
Interest Income	11	36
Receivables from subsidiaries	45,181	37,443
Payables to subsidiaries	16,740	13,417
<b>AB Luftfahrttechnik Düsseldorf GmbH</b>		
Interest Income	265	182
Receivables from subsidiaries	25,966	26,700
Payables to subsidiaries	3,932	14,403
<b>AB Luftfahrttechnik Köln GmbH</b>		
Receivables from subsidiaries	2,553	903
<b>LTU Lufttransport Unternehmen GmbH</b>		
Receivables from subsidiaries	22,189	15,000
<b>Leisure Cargo GmbH</b>		
Receivables from subsidiaries	7,612	2,256



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Loma Beteiligungsgesellschaft mbH		
Interest Income	248	332
Receivables from subsidiaries	15,965	15,717
Air Berlin 1. –9. LeaseLux Sàrl		
Revenues	20	0
Receivables from subsidiaries	1,404	1,282
Air Berlin Netherlands B.V.		
Interest Income	11	47
Receivables from subsidiaries	1,110	1,937
Payables to subsidiaries	1,996	2,001
Air Berlin Finance B.V.		
Expenses from convertible bonds	12,307	17,189
Interest Expenses	97	0
Receivables from subsidiaries	9,463	174
Payables to subsidiaries	141,838	198,364
Air Berlin Technik Ltd.		
Interest Income	23	47
Receivables from subsidiaries	2,432	2,397
Air Berlin Fünfte Flugzeug GmbH		
Revenues	10	0
Interest Expenses	43	264
Receivables from subsidiaries	10	0
Payables to subsidiaries	119,802	89,563
Air Berlin Sechste Flugzeug GmbH		
Interest Expenses	10	78
Payables to subsidiaries	26,844	26,866
Air Berlin Siebte Flugzeug GmbH		
Interest Income	25	0
Receivables from subsidiaries	2,662	2,641
Payables to subsidiaries	5,138	5,148
Air Berlin Zwölfte Flugzeug GmbH		
Payables to subsidiaries	227	0
Air Berlin Erste Flugzeugvermietungs GmbH		
Receivables from subsidiaries	5,301	5,301
Payables to subsidiaries	811	819
Air Berlin Dritte Flugzeugvermietungs GmbH		
Receivables from subsidiaries	4,111	4,111
Payables to subsidiaries	540	544
Air Berlin Vierte Flugzeugvermietungs GmbH		
Receivables from subsidiaries	3,533	3,533
Payables to subsidiaries	451	455

Air Berlin Achte Flugzeugvermietungs GmbH		
Receivables from subsidiaries	60	60
Air Berlin Neunte Flugzeugvermietungs GmbH		
Receivables from subsidiaries	15	15
Air Berlin Finance GmbH		
Receivables from subsidiaries	96	0
Air Berlin PLC & Co. Airport Service KG		
Revenues	15	0
Receivables from subsidiaries	18	15
Air Berlin PLC & Co. Cabin Service KG		
Revenues	15	0
Receivables from subsidiaries	18	15
Air Berlin PLC & Co. DUS Service KG		
Revenues	15	0
Receivables from subsidiaries	18	15
Air Berlin PLC & Co. Service Center KG		
Revenues	15	0
Receivables from subsidiaries	18	15
AB Finance II GmbH		
Interest Expenses	5	105
Receivables from subsidiaries	2,996	3,000
Payables to subsidiaries	12,493	20,919
Euconus GmbH		
Receivables from subsidiaries	0	10
JFK Stiftung		
Receivables from subsidiaries	1,182	1,182

#### p) Employees

The Company employs the three Executive Directors (2009: four employees and three Executive Directors). The Directors remuneration is included in note 23 above as well as in the Directors' Remuneration Report on pages 90 to 99.

The Executive Directors are participants in the Employee Share Plan 2006, which is described in detail in note 13 above as well as in the Directors' Remuneration Report. In addition, € 1,570 (2009: € 3,364) was paid to a defined benefit plan.



## 08) Financial Statements

## 35. CONSOLIDATED ENTITIES

The following entities are included in the consolidated financial statements:

Subsidiaries	Country of incorporation	2010	2009
AB Erste Flugzeugvermietungs GmbH	Germany	✈	✈
AB Zweite Flugzeugvermietungs GmbH	Germany	✈	✈
AB Dritte Flugzeugvermietungs GmbH	Germany	✈	✈
AB Vierte Flugzeugvermietungs GmbH	Germany	✈	✈
AB Achte Flugzeugvermietungs GmbH	Germany	✈	✈
AB Neunte Flugzeugvermietungs GmbH	Germany	✈	✈
AB Zehnte Flugzeugvermietungs GmbH	Germany	✈	✈
AB Luftfahrttechnik Berlin GmbH	Germany	✈	✈
AB Luftfahrttechnik Düsseldorf GmbH	Germany	✈	✈
AB Luftfahrttechnik Köln GmbH	Germany	✈	✈
AB Luftfahrtbeteiligung GmbH	Austria	✈	
Air Berlin Beteiligungsgesellschaft mbH	Germany	✈	✈
Air Berlin Finance B.V. <sup>1</sup>	Netherlands	✈	✈
Air Berlin Finance GmbH	Germany	✈	✈
Air Berlin Finance II GmbH <sup>1</sup>	Germany	✈	✈
Air Berlin Netherlands B.V. <sup>1</sup>	Netherlands	✈	✈
Air Berlin PLC & Co. Luftverkehrs KG <sup>1</sup>	Germany	✈	✈
Air Berlin PLC & Co. Airport Service KG <sup>1</sup>	Germany	✈	✈
Air Berlin PLC & Co. Cabin Service KG <sup>1</sup>	Germany	✈	✈
Air Berlin PLC & Co. Verwaltungs KG (formerly: Air Berlin PLC & Co. DUS KG) <sup>1</sup>	Germany	✈	✈
Air Berlin PLC & Co. Service Center KG <sup>1</sup>	Germany	✈	✈
Air Berlin Switzerland GmbH <sup>1</sup>	Switzerland	✈	✈
Air Berlin Technik Ltd. <sup>1</sup>	United Kingdom	✈	✈
Air Berlin 1. LeaseLux Sàrl <sup>1</sup>	Luxembourg	✈	✈
Air Berlin 2. LeaseLux Sàrl <sup>1</sup>	Luxembourg	✈	✈
Air Berlin 3. LeaseLux Sàrl <sup>1</sup>	Luxembourg	✈	✈
Air Berlin 4. LeaseLux Sàrl <sup>1</sup>	Luxembourg	✈	✈
Air Berlin 5. LeaseLux Sàrl <sup>1</sup>	Luxembourg	✈	✈
Air Berlin 6. LeaseLux Sàrl <sup>1</sup>	Luxembourg	✈	✈
Air Berlin 7. LeaseLux Sàrl <sup>1</sup>	Luxembourg	✈	✈
Air Berlin 8. LeaseLux Sàrl <sup>1</sup>	Luxembourg	✈	✈
Air Berlin 9. LeaseLux Sàrl <sup>1</sup>	Luxembourg	✈	✈
Air Berlin Fünfte Flugzeug GmbH	Germany	✈	✈
Air Berlin Sechste Flugzeug GmbH	Germany	✈	✈
Air Berlin Siebte Flugzeug GmbH	Germany	✈	✈
Air Berlin Zwölfte Flugzeug GmbH	Germany	✈	✈
Alpha Engine Trading GmbH	Germany	✈	✈
Belair Airlines AG <sup>1</sup>	Switzerland	✈	✈

CHS Cabin & Handling Service GmbH	Germany	✈	✈
CHS Switzerland AG <sup>1</sup>	Switzerland	✈	✈
CHS Holding & Services GmbH <sup>1</sup>	Germany	✈	✈
CHS Netherlands N.V. <sup>1</sup>	Netherlands		✈
CHAS Italy s.r.l. <sup>1</sup>	Italy	✈	✈
CHAS UK Ltd. <sup>1</sup>	United Kingdom	✈	✈
Euconus Flugzeugleasinggesellschaft mbH	Germany	✈	✈
JFK Stiftung	Switzerland	✈	✈
Leisure Cargo GmbH <sup>1</sup>	Germany	✈	✈
Loma Beteiligungsgesellschaft mbH	Germany	✈	✈
LTU Beteiligungs- und Holding GmbH <sup>1</sup>	Germany	✈	✈
LTU Lufttransport Unternehmen GmbH	Germany	✈	✈
NIKI Luftfahrt GmbH	Austria	✈	
Pegasus Erste Luftfahrtbeteiligungsgesellschaft mbH <sup>1</sup>	Germany	✈	✈
Pegasus Zweite Luftfahrtbeteiligungsgesellschaft mbH <sup>1</sup>	Germany	✈	✈
Pegasus Dritte Luftfahrtbeteiligungsgesellschaft mbH <sup>1</sup>	Germany	✈	✈
Pegasus Vierte Luftfahrtbeteiligungsgesellschaft mbH <sup>1</sup>	Germany	✈	✈
Pegasus Fünfte Luftfahrtbeteiligungsgesellschaft mbH <sup>1</sup>	Germany	✈	✈
Pegasus Sechste Luftfahrtbeteiligungsgesellschaft mbH <sup>1</sup>	Germany	✈	✈
Pegasus Siebte Luftfahrtbeteiligungsgesellschaft mbH <sup>1</sup>	Germany	✈	✈
Air Berlin Employee Share Trust <sup>1, 2</sup>	United Kingdom	✈	✈

<sup>1</sup> Shares held directly by Air Berlin PLC (the remaining subsidiaries are held indirectly through other Group companies).

<sup>2</sup> The company is consolidated as a Special Purpose Entity.

Except for NIKI Luftfahrt GmbH (Air Berlin PLC holds indirectly 49.9% of the share capital) and the special purpose entity, Air Berlin Employee Share Trust, Air Berlin PLC holds (directly or indirectly) 100% of the share capital of the subsidiaries.

**Excerpt from the Annual Report 2009, comprising the following:**

**Independent Auditor's Report**

**Financial Statements 2009**

**Notes to the Financial Statements**



- 01) Essentials
- 02) Evolving for success
- 03) The Share
- 04) Directors' Report
- 05) Corporate Governance
- 06) Responsibilities
- 07) Auditors' report**  
**Independent Auditors'**  
**report**
- 08) Financial Statements
- 09) Other Information

## INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF AIR BERLIN PLC

We have audited the financial statements of Air Berlin PLC for the year ended 31 December 2009 set out on pages 121 to 187. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of directors and auditors**

As explained more fully in the Directors' Responsibilities Statement set out on page 117, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

A description of the scope of an audit of financial statements is provided on the APB's website at [www.frc.org.uk/apb/scope/UKP](http://www.frc.org.uk/apb/scope/UKP).

### **Opinion on financial statements**

In our opinion:

- ✈ the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2009 and of the group's loss for the year then ended;
- ✈ the group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- ✈ the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006;
- ✈ the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

**Opinion on other matters prescribed by the Companies Act 2006 and under the terms of our engagement**

In our opinion:

- ✈ the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- ✈ the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

**Matters on which we are required to report by exception**

We have nothing to report in respect of the following:

Under the Companies Act 2006 and under the terms of our engagement we are required to report to you if, in our opinion:

- ✈ adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- ✈ the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- ✈ certain disclosures of directors' remuneration specified by law are not made; or
- ✈ we have not received all the information and explanations we require for our audit.

**Melvyn Egglenton (Senior Statutory Auditor)**  
**for and on behalf of KPMG Audit Plc, Statutory Auditor**

Chartered Accountants  
One Snowhill  
Snow Hill Queensway  
Birmingham  
B4 6GH  
Great Britain

18 March 2010



# AIR BERLIN PLC FINANCIAL STATEMENTS 2009

## Air Berlin PLC

**CONSOLIDATED INCOME STATEMENT**

for the year ended 31 December 2009

	Note	2009	2008 (adjusted)*
		€ 000	€ 000
<b>Revenue</b>	19	<b>3,240,344</b>	3,388,520
<b>Other operating income</b>	20	<b>42,443</b>	38,621
Expenses for materials and services	21	(2,193,173)	(2,359,845)
Personnel expenses	22	(440,722)	(446,264)
Depreciation and amortisation	5, 6	(109,144)	(103,142)
Other operating expenses	23	(511,281)	(515,897)
<b>Operating expenses</b>		<b>(3,254,320)</b>	(3,425,148)
<b>Result from operating activities</b>		<b>28,467</b>	1,993
Financial expenses	24	(62,588)	(55,533)
Financial income	24	24,554	12,561
Foreign exchange losses, net	24	(12,938)	(28,989)
<b>Net financing costs</b>		<b>(50,972)</b>	(71,961)
Share of profit (loss) of associates, net of tax	25	808	(9)
<b>Loss before tax</b>		<b>(21,697)</b>	(69,977)
Income tax benefit (expense)	26	12,229	(13,541)
<b>Loss for the period – attributable to owners of Air Berlin PLC</b>		<b>(9,468)</b>	(83,518)
Basic earnings per share in €	11	(0.13)	(1.27)
Diluted earnings per share in €	11	(0.13)	(1.27)

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

		2009	2008
		€ 000	€ 000
<b>Loss for the period</b>		<b>(9,468)</b>	(83,518)
Foreign currency translation differences		(169)	1,137
Effective portion of changes in fair value of hedging instruments	29g	55,968	(83,324)
Net change in fair value of hedging instruments transferred from equity to profit or loss	29g	148,147	(100,946)
Income tax on other comprehensive income	26	(61,604)	55,528
<b>Other comprehensive income for the period, net of tax</b>		<b>142,342</b>	(127,605)
<b>Total comprehensive income - attributable to owners of Air Berlin PLC</b>		<b>132,874</b>	(211,123)

\* The adjustments as of 31 December 2008 relate to the first time adoption of IFRIC 13. For further information see note 4p.



## 06) Financial Statements

## Air Berlin PLC

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 December 2009

	Note	31/12/2009	31/12/2008 (adjusted)*
		€ 000	€ 000
<b>Assets</b>			
<b>Non-current assets</b>			
Intangible assets	5	318,060	313,819
Property, plant and equipment	6	1,209,743	1,269,943
Trade and other receivables	9	106,252	108,254
Deferred tax asset	26	0	54,555
Positive market value of derivatives	28	14	664
Deferred expenses		5,825	0
Investments in associates	7	3,183	1,771
<b>Non-current assets</b>		<b>1,643,077</b>	<b>1,749,006</b>
<b>Current assets</b>			
Inventories	8	38,724	36,692
Trade and other receivables	9	297,663	283,427
Positive market value of derivatives	28	23,720	46,567
Deferred expenses		35,120	25,110
Cash and cash equivalents	27	373,233	268,287
<b>Current assets</b>		<b>768,460</b>	<b>660,083</b>
<b>Total assets</b>		<b>2,411,537</b>	<b>2,409,089</b>
<b>Equity and liabilities</b>			
<b>Shareholders' equity</b>			
Share capital	10	21,379	16,502
Share premium	10	374,319	307,501
Equity component of convertible bond	15	51,598	27,344
Other capital reserves	10	217,056	217,056
Retained earnings		(62,323)	(62,654)
Hedge accounting reserve, net of tax	29	7,218	(135,294)
Foreign currency translation reserve	10	767	936
<b>Equity available to the shareholders of the Company</b>		<b>610,014</b>	<b>371,391</b>
<b>Minority interest</b>		<b>0</b>	<b>629</b>
<b>Total equity</b>		<b>610,014</b>	<b>372,020</b>
<b>Non-current liabilities</b>			
Liabilities due to bank from assignment of future lease payments	15	583,158	610,463
Interest-bearing liabilities	15	273,355	302,783
Provisions	14	10,298	10,661
Trade and other payables	17	36,401	31,263
Deferred tax liabilities	26	4,327	0
Negative market value of derivatives	28	70,853	58,767
<b>Non-current liabilities</b>		<b>978,392</b>	<b>1,013,937</b>
<b>Current liabilities</b>			
Liabilities due to bank from assignment of future lease payments	15	77,228	73,011
Interest-bearing liabilities	15	13,580	44,012
Current tax liabilities		7,526	8,076
Provisions	14	11,177	15,562
Trade and other payables	17	334,926	316,121
Negative market value of derivatives	28	12,756	236,735
Deferred income		78,390	72,795
Advanced payments received	18	287,548	256,820
<b>Current liabilities</b>		<b>823,131</b>	<b>1,023,132</b>
<b>Total equity and liabilities</b>		<b>2,411,537</b>	<b>2,409,089</b>

\* The adjustments as of 31 December 2008 relate to the first time adoption of IFRIC 13. For further information see note 4p.

The financial statements were approved by the Board of Directors and authorised for issue on 18 March 2010 and signed on behalf of the Board:

J. Hunold

Joachim Hunold  
Chief Executive Officer

U. Hüttmeyer

Ulf Hüttmeyer  
Chief Financial Officer

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## Air Berlin PLC

## CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2009

	Note	31/12/2009	31/12/2008 (adjusted)*
		€ 000	€ 000
Loss for the period		(9,468)	(83,518)
Adjustments to reconcile loss to cash flows from operating activities:			
Depreciation and amortisation of non-current assets	5, 6	109,144	103,142
Gain on disposal of tangible and intangible assets	20, 23	(8,394)	(18,851)
Write-off of loans		2,000	0
Gain on disposal of associates		0	(2,282)
Loss on disposal of subsidiaries		0	316
Share based payments		(88)	(143)
Increase in inventories		(2,032)	(5,868)
Decrease in trade accounts receivables		21,479	3,722
Increase in other assets and prepaid expenses		(23,978)	(18,568)
Deferred tax (benefit) expense	26	(17,834)	8,631
Decrease in accrued liabilities and provisions		(4,748)	(92,703)
Increase (decrease) in trade accounts payable		26,689	(4,478)
Increase in other current liabilities		36,502	79,034
Foreign exchange losses	24	12,938	28,989
Interest expense	24	60,222	54,919
Interest income	24	(3,280)	(12,561)
Profit from redemption of convertible bonds	24	(21,273)	0
Income tax expense	7, 26	5,606	4,910
Share of (profit) loss of associates	25	(808)	9
Changes in fair value of derivatives		1,675	(1,662)
Other non-cash changes		(169)	1,234
<b>Cash generated from operations</b>		<b>184,182</b>	<b>44,272</b>
Interest paid		(49,442)	(40,188)
Interest received		1,812	11,317
Income taxes paid		(6,156)	(3,597)
<b>Net cash flows from operating activities</b>		<b>130,396</b>	<b>11,804</b>
Purchase of tangible and intangible assets		(161,738)	(203,700)
Acquisition of subsidiary, net of cash		0	1,494
Purchase of minority interests		(1,182)	0
Proceeds from sale of subsidiary, net of cash		0	(2,247)
Net advanced payments for non-current items	9	(11,782)	(27,497)
Proceeds from sale of tangible and intangible assets		106,044	72,972
Dividends received from associates		0	211
Proceeds from sale of associates		0	2,328
Acquisition of investments in associates	7	(17)	(376)
<b>Cash flow from investing activities</b>		<b>(68,674)</b>	<b>(156,815)</b>
Principal payments on interest-bearing liabilities		(202,791)	(231,256)
Proceeds from long-term borrowings		110,625	170,518
Issue of ordinary shares	10	72,247	0
Transaction costs related to issue of new shares	10	(4,470)	0
Redemption of convertible bonds (issued in 2007)	15	(53,405)	0
Issue of convertible bonds	15	125,000	0
Transaction costs related to convertible bonds	15	(6,339)	0
<b>Cash flow from financing activities</b>		<b>40,867</b>	<b>(60,738)</b>
<b>Change in cash and cash equivalents</b>		<b>102,589</b>	<b>(205,749)</b>
<b>Cash and cash equivalents at beginning of period</b>		<b>267,809</b>	<b>468,550</b>
Foreign exchange gains on cash balances		1,612	5,008
<b>Cash and cash equivalents at end of period</b>	27	<b>372,010</b>	<b>267,809</b>
Thereof bank overdrafts used for cash management purposes		(1,223)	(478)
Thereof cash and cash equivalents in the statement of financial position		373,233	268,287

\* The adjustments as of 31 December 2008 relate to the first time adoption of IFRIC 13. For further information see note 4p.



## 06) Financial Statements

## Air Berlin PLC

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2009

	Note	Share capital €000	Share premium €000
<b>Balances at 31 December 2007 (reported)</b>		<b>16,502</b>	<b>307,501</b>
First time adoption IFRIC 13			
<b>Balances at 31 December 2007 (adjusted)</b>		<b>16,502</b>	<b>307,501</b>
Share based payment			
<b>Total transactions with owners</b>		<b>0</b>	<b>0</b>
Loss for the period (adjusted)			
Other comprehensive income			
<b>Total comprehensive income for the period (adjusted)</b>		<b>0</b>	<b>0</b>
<b>Balances at 31 December 2008 (adjusted)</b>		<b>16,502</b>	<b>307,501</b>
Issue of ordinary shares	10	4,877	67,370
Transaction cost, net of tax	10		(3,130)
Share based payment	12		
Acquisition of non-controlling interest	10		
Reimbursement of transaction costs (issue of ordinary shares), net of tax			2,578
Redemption of convertible bonds	15		
Issue of convertible bond, net of tax	15		
Transaction cost, net of tax	15		
<b>Total transactions with owners</b>		<b>4,877</b>	<b>66,818</b>
Loss for the period			
Other comprehensive income			
<b>Total comprehensive income for the period</b>		<b>0</b>	<b>0</b>
<b>Balances at 31 December 2009</b>		<b>21,379</b>	<b>374,319</b>

Equity component of convertible bonds	Other capital reserves	Retained earnings	Hedge accounting reserve, net of tax	Foreign currency translation reserve	Equity available to the owners of Air Berlin PLC	Non-controlling interest	Total equity
€ 000	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000
27,431	217,056	31,889	(6,639)	(201)	593,539	629	594,168
		(10,882)			(10,882)		(10,882)
27,431	217,056	21,007	(6,639)	(201)	582,657	629	583,286
		(143)			(143)		(143)
0	0	(143)	0	0	(143)	0	(143)
		(83,518)			(83,518)		(83,518)
(87)			(128,655)	1,137	(127,605)		(127,605)
(87)	0	(83,518)	(128,655)	1,137	(211,123)	0	(211,123)
27,344	217,056	(62,654)	(135,294)	936	371,391	629	372,020
					72,247		72,247
					(3,130)		(3,130)
		(88)			(88)		(88)
		(553)			(553)	(629)	(1,182)
					2,578		2,578
(10,440)		10,440			0		0
36,548					36,548		36,548
(1,854)					(1,854)		(1,854)
24,254	0	9,799	0	0	105,748	(629)	105,119
		(9,468)			(9,468)		(9,468)
			142,512	(169)	142,343		142,343
0	0	(9,468)	142,512	(169)	132,875	0	132,875
51,598	217,056	(62,323)	7,218	767	610,014	0	610,014



## 06) Financial Statements

## Air Berlin PLC

## COMPANY STATEMENT OF FINANCIAL POSITION

as at 31 December 2009

	Note	31/12/2009	31/12/2008
		€ 000	€ 000
<b>Assets</b>			
<b>Non-current assets</b>			
Investments in subsidiaries	34b	470,992	220,958
Investments in associates		0	125
Deferred tax assets	34c	4,856	19,751
Positive market value of derivatives		0	350
Loans to subsidiaries	34d	15,200	16,384
Loans to associates	34e	39	250
Other loans	34d	1,500	3,500
<b>Non-current assets</b>		<b>492,587</b>	<b>261,318</b>
<b>Current assets</b>			
Loans to subsidiaries		185,182	155,000
Receivables from subsidiaries	34f	91,200	274,040
Receivables from associates	34g	149	148
Positive market value of derivatives		58	2,380
Other receivables		4,228	1,260
Deferred expenses		904	567
Cash and cash equivalents		104,295	159,978
<b>Current assets</b>		<b>386,016</b>	<b>593,373</b>
<b>Total assets</b>		<b>878,603</b>	<b>854,691</b>
<b>Equity and liabilities</b>			
<b>Shareholders' equity</b>			
Share capital	34h	21,379	16,502
Share premium	34h	374,319	307,501
Equity component of convertible bond		51,598	27,344
Retained earnings		34,775	7,122
<b>Total equity</b>		<b>482,071</b>	<b>358,469</b>
<b>Non-current liabilities</b>			
Other liabilities	34j	198,089	192,696
Negative market value of derivatives		7,078	14,715
<b>Non-current liabilities</b>		<b>205,167</b>	<b>207,411</b>
<b>Current liabilities</b>			
Accrued taxes		4,815	2,560
Accrued liabilities		1,761	2,228
Payables to subsidiaries	34l	182,720	281,347
Trade and other payables		419	2,570
Negative market value of derivatives		1,435	0
Other liabilities		207	86
Deferred income		8	20
<b>Current liabilities</b>		<b>191,365</b>	<b>288,811</b>
<b>Total equity and liabilities</b>		<b>878,603</b>	<b>854,691</b>

The financial statements were approved by the Board of Directors and authorised for issue on 18 March 2010 and signed on behalf of the Board:

Joachim Hunold  
Chief Executive Officer

Ulf Hüttmeyer  
Chief Financial Officer

## Air Berlin PLC

## COMPANY STATEMENT OF CASH FLOWS

for the year ended 31 December 2009

	Note	31/12/2009	31/12/2008
		€ 000	€ 000
Profit for the period		17,301	41,399
Adjustments to reconcile profit to cash flows from operating activities			
Write-off of loans	12	2,000	0
Share based payments		(88)	(143)
Decrease (increase) in receivables from subsidiaries		88,356	(147,452)
Increase in receivables from associates		(1)	(148)
Decrease in other receivables and prepaid expenses		2,659	1,159
Deferred tax benefit	34c	(226)	(2,403)
(Decrease) increase in accrued liabilities and provisions		(467)	2,020
(Decrease) increase in trade accounts payable		(2,150)	2,466
(Decrease) increase in payables to subsidiaries	34f	(99,395)	273,423
Decrease in pension liabilities		0	(587)
Increase (decrease) in other payables and deferred income		110	(2,046)
Foreign exchange losses		129	0
Interest expense		17,945	16,554
Interest income		(3,022)	(8,575)
Profit from redemption of convertible bonds		(21,273)	0
Income tax expense		2,254	2,482
Share of loss of associates		586	0
Changes in fair value of derivatives		(3,530)	(4,423)
<b>Cash generated from operations</b>		<b>1,188</b>	<b>173,726</b>
Interest paid		(6,219)	(45)
Interest received		726	5,389
Income taxes received		0	78
<b>Net cash flows from operating activities</b>		<b>(4,305)</b>	<b>179,148</b>
Acquisition of investments in subsidiaries	34b	(33)	(77,643)
Increase in share capital of subsidiaries	34b	(155,001)	0
Acquisition of investments in associates		0	(125)
Long-term loans to subsidiaries	34d	(28,998)	(16,384)
Long-term loans to associates	34e	(250)	(250)
<b>Cash flow from investing activities</b>		<b>(184,282)</b>	<b>(94,402)</b>
Repayment of short-term borrowings		0	(100,000)
Issue of ordinary shares	10	72,247	0
Transaction costs related to issue of new shares	10	(4,470)	0
Redemption of convertible bonds (issued in 2007)	15	(53,405)	0
Issue of convertible bonds	15	125,000	0
Transaction costs related to convertible bonds	15	(6,339)	0
<b>Cash flow from financing activities</b>		<b>133,033</b>	<b>(100,000)</b>
<b>Change in cash and cash equivalents</b>		<b>(55,554)</b>	<b>(15,254)</b>
<b>Cash and cash equivalents at beginning of period</b>		<b>159,978</b>	<b>175,232</b>
Foreign exchange losses on cash balances		(129)	0
<b>Cash and cash equivalents at end of period</b>		<b>104,295</b>	<b>159,978</b>
Thereof cash and cash equivalents in the statement of financial position		104,295	159,978





## 06) Financial Statements

## Air Berlin PLC

## COMPANY STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2009

	Note	Share capital	Share premium	Equity component of convertible bonds	Retained earnings	Total equity
		€ 000	€ 000	€ 000	€ 000	€ 000
<b>Balances at 31 December 2007</b>		<b>16,502</b>	<b>307,501</b>	<b>27,431</b>	<b>(34,134)</b>	<b>317,300</b>
Share based payment		0	0	0	(143)	(143)
<b>Total transactions with owners</b>		<b>0</b>	<b>0</b>	<b>0</b>	<b>(143)</b>	<b>(143)</b>
Profit for the period		0	0	0	41,399	41,399
Other comprehensive income		0	0	(87)	0	(87)
<b>Total comprehensive income for the period</b>		<b>0</b>	<b>0</b>	<b>(87)</b>	<b>41,399</b>	<b>41,312</b>
<b>Balances at 31 December 2008</b>		<b>16,502</b>	<b>307,501</b>	<b>27,344</b>	<b>7,122</b>	<b>358,469</b>
Share based payment	12	0	0	0	(88)	(88)
Issue of ordinary shares	10	4,877	67,370	0	0	72,247
Transaction cost, net of tax	10	0	(3,130)	0	0	(3,130)
Reimbursement of transaction costs (issue of ordinary shares), net of tax		0	2,578	0	0	2,578
Issue of convertible bonds, net of tax	15	0	0	36,548	0	36,548
Transaction cost, net of tax	15	0	0	(1,854)	0	(1,854)
Redemption of convertible bonds	15	0	0	(10,440)	10,440	0
<b>Total transactions with owners</b>		<b>4,877</b>	<b>66,818</b>	<b>24,254</b>	<b>10,352</b>	<b>106,301</b>
Profit for the period		0	0	0	17,301	17,301
<b>Total comprehensive income for the period</b>		<b>0</b>	<b>0</b>	<b>0</b>	<b>17,301</b>	<b>17,301</b>
<b>Balances at 31 December 2009</b>		<b>21,379</b>	<b>374,319</b>	<b>51,598</b>	<b>34,775</b>	<b>482,071</b>

# NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS AS OF 31 DECEMBER 2009

## 1. INTRODUCTION

The consolidated financial statements of Air Berlin PLC for the year ended 31 December 2009 comprise Air Berlin PLC and its subsidiaries (together referred to as "Air Berlin" or the "Group") and the Group's interest in associates. Air Berlin is a public limited company incorporated in England and Wales with its registered office in London. The corporate headquarters of Air Berlin are located in Berlin. The Company's ordinary shares are traded on the Frankfurt Stock Exchange.

## 2. BASIC PRINCIPLES AND PREPARATION OF FINANCIAL STATEMENTS

Both the parent company financial statements and the group financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRS"). On publishing the parent company financial statements here together with the group financial statements, the Company is taking advantage of the exemption in Section 408 of the Companies Act 2006 not to present its individual statement of comprehensive income and related notes that form a part of these approved financial statements. The Company financial statements are presented on pages 126 to 128.

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements except for the changes by IFRIC 13 "Customer Loyalty Programmes" which are discussed in note 4p below and IFRS 3 "Business Combinations" and IAS 27 "Consolidated and Separate Financial Statements". The accounting policies have been applied consistently by all Group entities. The financial statements have been prepared on the historical cost basis except that derivative financial instruments are stated at their fair value.

The consolidated financial statements have been prepared in Euro. The European Central Bank year-end exchange rate was GBP 0.8881 to the Euro. All financial figures presented have been rounded to the nearest thousand currency units, except for share and bond data. The financial statements were authorised and approved for issue by the Board of Directors on 18 March 2010.

### Going concern

The Groups' business activities, together with the factors likely to affect its future development, performance and position are set out in the Report on Economic Development and the Outlook for the Group on pages 92 to 96.

The financial position of the Group, its cash flows, and liquidity position are described in the Development in Financial Figures on pages 71 to 78. Details for the Group's borrowings are set out in note 15 and 29 of the financial statements. In addition, notes 4u and 28 to the financial statements include the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities, and its exposure to credit and liquidity risk.

The Group meets its day to day working capital requirements through its cash holdings. As discussed in the Report on Economic Development and the Outlook for the Group on pages 92 to 96, the current economic conditions create uncertainty particularly in respect of

fluctuating currency rates, fluctuating jet fuel prices and passenger demand. The Group's forecasts and projections, taking into account of reasonably possible changes in trading performance, show that the Group will generate sufficient cash to meet its liabilities in the foreseeable future.

The directors have a reasonable expectation that the Group has adequate resources to continue as a going concern for the foreseeable future. The going concern basis is used in preparing the accounts.

### Use of estimates

The preparation of financial statements in conformity with Adopted IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses.



## 06) Financial Statements

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. Judgements made by management in the application of Adopted IFRSs that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year relate primarily to the estimate of residual values of fixed assets, the impairment test for goodwill and other intangible assets with indefinite lives and the expected utilisation of deferred tax assets and are discussed in note 4b, 4d and 4j below.

### 3. BASIS OF CONSOLIDATION

#### a) Subsidiaries

All subsidiaries under the control of Air Berlin are included in the consolidated financial statements. Control exists when Air Berlin has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The subsidiaries listed in note 35 are included in the consolidated financial statements.

Several of the Company's subsidiaries prepare their financial statements in a currency other than Euro (Swiss francs). The assets and liabilities of these subsidiaries are translated to Euro at the exchange rates of the reporting date. The income and expenses of foreign operations are translated to Euro at the average exchange rate for the period. Foreign currency differences resulting are recognised directly in equity. Since 1 January 2003, the Group's date of transition to IFRS, such differences have been recognised in the foreign currency translation reserve.

All of the German subsidiaries identified in note 35 are required to present financial statements under German statutory law except for the following companies, as they are exempt due to Article 264b German Commercial Code:

- ✈ Air Berlin PLC & Co. Luftverkehrs KG
- ✈ Air Berlin PLC & Co. Airport Service KG
- ✈ Air Berlin PLC & Co. Cabin Service KG
- ✈ Air Berlin PLC & Co. DUS KG
- ✈ Air Berlin PLC & Co. Service Center KG

#### b) Special purpose entity

In 2006 the Group established a special purpose entity (SPE) in connection with the repurchase and administration of shares relating to its Employee Share Plan, which is included in the consolidated financial statements. An SPE is consolidated if, based on an evaluation of the substance of its relationship with the Group and the SPE's risks and rewards, the Group concludes that it controls the SPE. SPEs are considered to be controlled by the Group if they were established under terms that impose strict limitations on the decision-making powers of the SPE's management and that result in the Group receiving the majority of all the risks and benefits related to the SPE's operations and net assets.

#### c) Associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Group's share of the total recognised gains and losses of associates on

an equity accounted basis and are initially recognised at cost, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an associate, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of an associate.

#### **d) Transactions eliminated on consolidation**

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates are eliminated to the extent of the Group's interest in the entity. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

### **4. SIGNIFICANT ACCOUNTING POLICIES**

#### **a) Intangible assets**

Goodwill is recognised where the cost of a business combination exceeds the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. Other identifiable intangible assets acquired through a business combination are capitalised at fair value and subsequently measured at cost less accumulated amortisation charges and impairment losses. Goodwill and other intangible assets with indefinite useful lives are not amortised but are tested for impairment annually, or more frequently if there is an indication that the asset may be impaired.

Acquired intangible assets are recognised at cost less accumulated amortisation charges and impairment losses. Amortisation of intangible assets is based on the Group's accounting policies and calculated according to the straight-line method over the estimated useful lives (if applicable).

The estimated useful lives of intangible assets are as follows:

Software licenses	3–5 years
Trademarks	5 years
Customer relationships	4 years
Landing rights (slots)	indefinite

Landing rights are determined to have indefinite lives, as they do not expire and are not subject to a regular loss in value over time.

#### **b) Property, plant and equipment**

Property, plant and equipment are valued at their acquisition or production costs less accumulated depreciation and accumulated impairment losses. Depreciation is based on the Group's accounting policies and calculated according to the straight-line method over the estimated useful lives.

#### **-- AIRCRAFT AND ENGINES**

The Group owns aircraft and engines of the type Boeing 737-800, Airbus A319 and A320 as well as Bombardier Q400 and engines. The depreciation period is ten years taking into account estimated residual values. The residual values and useful lives are reviewed at the end of each period. Judgement is required in estimating the residual values and useful lives of property, plant and equipment. Uncertainty exists in the useful life of aircraft and engines and in the amounts which can be realised through future disposals.



06) Financial Statements

Portions of the cost of an aircraft is attributed on acquisition to major inspection and overhaul costs of its engines and airframe and is depreciated separately over a period of five to seven years, at which time the new overhaul is capitalised and depreciated over its useful life.

As aircraft and engines are purchased in stages with the payment of initial and subsequent deposit payments, the borrowing costs associated with these payments are capitalised as part of the costs of those qualifying assets. Other borrowing costs are expensed as incurred.

-- LAND AND BUILDINGS

Land and buildings relate to two airport buildings leased under finance leases as further discussed in note 16. The buildings are depreciated over their remaining useful lives or the term of the lease.

-- OTHER TANGIBLE ASSETS

The estimated useful lives of other tangible assets are as follows:

Technical equipment and machinery	8–15 years
Office equipment	3–13 years

c) Subsequent expenditure

Expenditure incurred to replace a component of an item of aircraft, engines and other equipment, including major inspection and overhaul expenditure, is capitalised as a separate item. Other subsequent expenditures are capitalised only when they increase the future economic benefits embodied in the items of property, plant and equipment. All other expenditures are recognised in the statement of comprehensive income as an expense when incurred.

d) Impairment

-- NON-FINANCIAL ASSETS

The carrying amounts of the Group’s property, plant and equipment and intangible assets are reviewed at the end of each period to determine whether there is any indication of impairment. If any such indication exists, the assets’ recoverable amount is estimated. For goodwill and intangible assets with indefinite lives, the recoverable amount is estimated at each period end. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses, if any, are recorded in the statement of comprehensive income.

The recoverable amount is the greater of the assets’ fair value less costs to sell and value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses, if any, are allocated first to goodwill allocated to the cash generating unit and then to the other assets of the unit pro rata based on their carrying amounts. In respect of tangible assets, an impairment loss is reversed when there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset’s carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Judgement is required in determining the cash generating unit, as well as in calculating value in use. The operating margins used in determining value in use are based on planned business and operational growth. The trading environment is subject to both regulatory and competitive pressures that could have a material impact on the operating performance of the business. The discount rate reflects management's estimate of the peer-group long-term cost of capital for the cash generating unit.

#### -- FINANCIAL ASSETS

Financial assets are assessed at each reporting date to determine whether objective evidence of impairment exists. An impairment loss on financial assets measured at amortised cost is calculated as the difference between the present value of estimated future cash flows discounted at the original effective interest rate and its carrying amount.

#### **e) Inventories**

Inventories are measured at the lower of cost or net realisable value. Inventories include supplies and spares, raw materials and purchased merchandise. The cost of inventories is based on the weighted average cost formula.

#### **f) Trade and other receivables**

Trade and other receivables are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method less impairment loss, which approximates their fair value. An impairment loss is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Receivables for which collection is doubtful are written down to their realisable value in a separate account. Further details to the allowance for impairment losses are found in note 29a. The allowance for impairment losses is used to record impairment losses until the Group determines that the receivable is irrecoverable. Financial assets are derecognised directly when they are expected to be irrecoverable.

Estimated future cash flows are based on estimates and judgements regarding the credit worthiness of individual receivables, the actual customer structure and an analysis of historical impairment losses.

#### **g) Derivatives**

Derivative financial instruments are used for hedging fuel price, interest rate, and currency rate risks arising from operational and financing activities. Hedging transactions are entered into to secure future cash flows. Derivative financial instruments are recognised initially at fair value. All derivatives that do not qualify for hedge accounting are classified as held for trading. Hedge accounting is discontinued prospectively if the hedging instrument expires or is sold, terminated or exercised, if the Group revokes the designation as hedge accounting or if the hedge no longer meets the criteria for hedge accounting. Subsequent to initial recognition, derivative financial instruments are stated at fair value. Any resultant gain or loss is recognised directly in the statement of comprehensive income as profit or loss unless the derivative has been classified as a hedge of a highly probable future cash flow. The effective portion of gains and losses from changes in the fair value of derivatives designated as cash flow hedges are taken to equity in accordance with IAS 39 and are recognised in the profit and loss when the related transaction impacts income or the future cash flow ceases to be considered probable. The ineffective portion of a cash flow hedge is recognised immediately in income.

Forward exchange transactions are used to mitigate exchange rate exposure. The fair value of forward exchange contracts is their quoted market price at the end of the period, being the present value of the quoted forward price.

Commodity swaps and options are used to limit the fuel price risk.

The Group uses cross-currency interest rate swaps to convert variable rate liabilities in foreign currencies to fixed rate positions in the functional currency.



## 06) Financial Statements

### h) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and short-term deposits with an initial maturity of less than three months. Cash and cash equivalents are valued at cost. Bank overdrafts used for cash management purposes are included in cash and cash equivalents for purposes of the cash flow statement. Cash and cash equivalents also include restricted cash as set out in note 27.

### i) Share capital

Share capital of the Company consists of ordinary shares and redeemable Class A shares. In addition the Company holds treasury shares.

#### -- ORDINARY SHARES

Incremental costs directly related to the issue of ordinary shares are shown as a deduction in equity.

#### -- REDEEMABLE "CLASS A" PREFERENCE SHARES

Class A shares are classified as equity, as these shares are redeemable only at the option of Air Berlin and any dividends are discretionary. Dividends are recognised as distributions within equity.

#### -- TREASURY SHARES

Repurchased shares are classified as treasury shares and shown as a deduction from total equity. The amount of consideration paid for the repurchase of share capital, including directly attributable costs, is recognised as a deduction in retained earnings.

### j) Income taxes

Income tax on the profit or loss for the year and on items taken to equity comprises current and deferred tax. Income tax is recognised in the statement of comprehensive income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the period, and any adjustment to tax payable in respect of previous years.

Deferred taxes are calculated in accordance with IAS 12 on the basis of temporary differences between the tax base at the level of the individual company and the respective IFRS book value. No deferred tax is recognised on the initial recognition of goodwill arising from acquisitions. A deferred tax asset is recognised for tax loss carry forwards and other temporary differences resulting in an expected tax benefit in future periods to the extent that it is probable that taxable income will be available in the near future against which the unused tax losses can be utilised. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the end of the period. Judgement is required in estimating the probability of utilisation of deferred tax assets; uncertainty exists in the amount and timing of future taxable income.

### k) Provisions

A provision is recognised in the statement of financial position when the Group has a present legal or constructive obligation as result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and the obligation is measurable. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

**l) Interest-bearing liabilities**

Interest-bearing liabilities are recognised initially at fair value, less attributable transaction costs. Subsequent to initial recognition, interest-bearing liabilities are stated at amortised cost using the effective interest method.

**m) Trade and other payables**

Trade and other payables are initially recognised at their fair value and subsequently stated at their amortised cost using the effective interest method, which approximates their fair value.

**n) Foreign currency**

Transactions in foreign currencies are translated into the respective functional currencies of Group entities at the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are subsequently translated at the exchange rate at the end of the period. Any differences resulting from the currency translation are recognised in the statement of comprehensive income. Further details to the currency risk are provided in note 29d.

Exchange rate differences arising from interest-bearing liabilities and other financing activities – as well as unrealised exchange rate differences due to the fair value measurement of derivative financial instruments and other unrealised foreign exchange rate gains and losses – are classified as part of financing costs. All other exchange rate differences are allocated to the various income and expense line items from which they arose within operating results.

**o) Recognition of income and expenses**

Revenue relates primarily to transportation services provided and duty-free sales. Revenue and other operating income are recognised when the corresponding service has been performed (for example transportation) or when the risks and rewards associated with the right of ownership are transferred to the buyer (for example duty-free sales). Revenue is measured at the fair value of the consideration received taking into account the amount of any sales deductions (for example air passenger duty, VAT and discounts). Expenses are recognised in the period in which they are incurred, which generally corresponds to the time at which the income is recognised.

**p) Deferred income**

Deferred income in the statement of financial position relates mainly to ticket sales and bonus miles resulting from Air Berlin's frequent flyer plan.

Air Berlin recognises ticket sales as income at the time the transportation is provided. However, when the fare is for a round-trip and the return flight has not been taken at year-end, the unearned revenue is deferred in the consolidated statement of financial position under "deferred income" until such time the transportation is provided. Revenue on unclaimed tickets is realised when the expiry date of the ticket has passed.

**-- FREQUENT FLYER PLAN**

The Group operates a frequent flyer plan ("topbonus" programme) which allows the customer to collect bonus miles on flights, by doing business with Air Berlin's partners (hotels, car rental agencies, insurance and financial service companies) or by shopping. Within the scope of the "topbonus" programme of Air Berlin miles earned are valued at the fair value using the deferred-income-method in accordance with IFRIC 13 "Customer Loyalty Programmes". IFRIC 13 was applied from 1 January 2009. The value of one mile was previously valued using the incremental-cost method until 31 December 2008. In accordance with IAS 8 "Accounting policies, changes in accounting estimates and errors", the impact of IFRIC 13 has been applied retrospectively.





## 06) Financial Statements

**The effects of IFRIC 13 are as follows:**

In thousands of Euro	01.01.2008			31.12.2008		
	Reported	Adjustment	Adjusted	Reported	Adjustment	Adjusted
Equity	(594,168)	10,882	(583,286)	(391,401)	19,381	(372,020)
Deferred income	(48,079)	(15,584)	(63,663)	(45,039)	(27,756)	(72,795)
Deferred tax asset	2,956	4,702	7,658	46,180	8,375	54,555
Revenue				3,400,692	(12,172)	3,388,520
Income tax expense				(17,214)	3,673	(13,541)
Earnings per share (basic) in €				(1.14)	(0.13)	(1.27)
Earnings per share (diluted) in €				(1.14)	(0.13)	(1.27)

**q) Leasing**

The Group leases a number of aircraft under operating leases which require Air Berlin to maintain the leased assets. Repair and overhaul costs are not included in the lease rentals. In addition, for the majority of its leased aircraft, the Group makes payments for the future maintenance expenses to the lessor. These are based on the estimated costs of major airframe and certain engine checks and are calculated based on the number of flight hours or cycles flown. When maintenance takes place the Group is reimbursed for the payments already made.

Payments made under operating leases are recognised in the statement of comprehensive income on a straight-line basis over the term of the lease.

The Group capitalises fixed assets leased under arrangements in which substantially all the risks and rewards of ownership are transferred to the Group as finance leases in accordance with IAS 17. Leased assets are measured initially at the lower of their fair value or the present value of the minimum lease payments. The assets are depreciated on a straight-line basis over the lease term. The related obligation is shown under Interest-bearing liabilities in the amount of the discounted minimum lease payments less payments made.

Lease income from operating leases is recognised in the statement of comprehensive income over the lease term.

The Group carries out sale and leaseback transactions. If the leaseback transaction is an operating lease, and the sale price is below fair value of the asset, any profit or loss is recognized immediately in the statement of comprehensive income in accordance with IAS 17. If the loss is compensated for by future lease payments below market price, it shall be deferred and amortized in proportion to the lease payments over the lease term.

**r) Pensions**

Defined benefit plans are post-employment benefit plans which do not qualify as defined contribution plans. Defined contribution plans are pension plans under which fixed contributions are paid into a separate legal entity with no legal or constructive obligation to pay further amounts.

The Group's net obligation or asset in connection with defined benefit plans is calculated separately for each plan. The amount of future benefits that employees have earned in return for their service in current and prior periods is estimated and discounted to present value using an appropriate discount rate based on AA-credit rated bonds with maturities approximating the maturities of the Group's obligations under the pension plans. The calculation is performed by a qualified actuary using the projected unit credit method. The fair value of plan assets as of the end of the period are deducted from the obligation. Any resulting net assets are limited to the net total of the present value of future refunds or reductions in payments and the amount of any unrecognised prior service cost. Actuarial gains and losses are recognised immediately in profit or loss in the period in which they are incurred. Obligations for contributions to defined contribution pension plans are recognised as an expense in profit and loss in the period in which they are due.

### s) Share-based payment transactions

The fair value of options granted to employees is estimated on the grant date and recognised in the statement of comprehensive income as personnel expense over the vesting period (i.e. the period in which the employees become unconditionally entitled to the options). The corresponding entry is an increase in equity. The fair value was determined using valuation techniques which comply with IFRS 2.

The amount recognised as an expense is adjusted to reflect the number of share options expected to vest. Market conditions are included in the calculation of fair value at grant date and do not affect future valuation, whereas vesting conditions are taken into consideration in determining the number of share options expected to vest. Further details to vesting conditions are found in note 12.

### t) New pronouncements

The following IFRS standards and interpretations were issued, endorsed by the EU and are available for early application and have been applied by the Group in the financial statements:

- ✈ Revised IFRS 3, Business Combinations, effective for the financial years beginning on or after 1 July 2009 was already adopted by the Group together with the respective changes in other standards.
- ✈ Amended IAS 27, Consolidated and Separate Financial Statements, effective for the financial years beginning on or after 1 July 2009.

The following IFRS standards and interpretations, none of which are expected to have a significant effect on the financial statements, were issued, endorsed by the EU and are available for early application but have not been applied by the Group in the financial statements:

- ✈ Revised IFRS 1, First-time Adoption of International Financial Reporting Standards, effective for the financial years beginning on or after 1 July 2009.
- ✈ Amendments to IFRS 5, Non-current Assets held for Sale and Discontinued Operations as a result of Improvements to International Financial Reporting Standards 2008, effective for the financial years beginning on or after 1 July 2009.
- ✈ Amendments to IAS 39, Financial Instruments: Recognition and Measurement - Eligible Hedged Items, effective for the financial years beginning on or after 1 July 2009.
- ✈ IFRIC 17, Distribution of Non-cash Assets to Owners, effective for the financial years beginning on or after 1 July 2009.

### u) Financial risk management

The Group has exposure to the following risks from its use of financial instruments:

- ✈ Credit risk
- ✈ Liquidity risk
- ✈ Market risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout the financial statements.



## 06) Financial Statements

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board has an established risk management system, which monitors the Group's risk management policies. Any significant risks are reported to the Board.

Risk reporting includes the review and assessment of all risks in the individual departments. This includes the registration of new risks and the reassessment of existing risks regarding their probability of occurrence and potential effect on earnings. In general a quantitative assessment of risks is undertaken. The registered risks are continuously updated using respective IT-tools. Extensive risk reporting, which contains information on current risks and assessments, changes in assessments and the appropriate measures is submitted each quarter to the Executive Board.

There were no changes in the Group's exposures to risk or its objectives, policies and processes for identifying, measuring and managing risks since the previous period.

### Credit risk

Single-seat tickets are sold subject to payment up front. Credit risk is very low and limited to payments made from overdrawn bank accounts shortly before the flight. Credit risk relating to bulk ticket sales to charter and package tour operators is also limited, as tour operators make regular pre-payments during the month based on the expected monthly sales.

The sale of passage and freight documents is handled via agencies and the Internet within the guidelines of IATA. Agencies are connected with country-specific clearing systems for the settlement of passage or freight sales. Individual agents are subject to controls by appropriate clearing houses. The credit risk from an individual sales agent is relatively low due to worldwide dispersion. Where the agreement upon which a payment is based does not explicitly state otherwise, claims and liabilities arising between the airlines are usually settled on a bilateral basis or via a clearing house of the International Air Transport Association (IATA). Settlement takes place principally through the balancing of all receivables and liabilities in monthly intervals, which also contributes to a significant reduction in the risk of non-payment. Separate security may be required in the particular payment agreement for other transactions.

For all other payment relationships, depending upon the type and level of the particular payment, securities may be required or credit information/references obtained. Historical data from the business relationship up until that point, in particular in relation to payment behaviour, may be used in an effort to avoid non-payment. Recognisable risks are accounted for by valuation adjustments on receivables.

The credit risk from investments and derivative financial instruments arises from the risk of non-payment by a contract partner. Since the transactions are concluded with contracting parties of the highest possible credit rating the risk of non-payment is extremely low. Cash in bank is held only at banks with the highest credit ratings. Derivative financial instruments are also held with parties with AA ratings or that are known to be reliable based on past experience. The Group considers its net position in determining its impairment risk on bank balances and positive market values of derivatives.

### Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. Liquidity in the Group is protected by appropriate liquidity planning and adequate financing structures.

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Air Berlin reputation.

A group-wide treasury management system is implemented. It covers and evaluates all matters associated with interest and exchange rates. All substantial Air Berlin companies are fully incorporated into the Air Berlin treasury management system. In addition the Group has enhanced its liquidity management through the development of a liquidity management tool which incorporates expected operational, financing and investing cash flows on a weekly basis. The primary focus is on sufficient liquidity, based on comprehensive financial and liquidity planning.

The treasury management system includes those hedge relations required by IAS 39 for hedge accounting and the calculations for hedge effectiveness. Both the underlying transactions and the hedging activities are incorporated into this system. All the hedging arrangements entered into are continuously monitored on their effectiveness and modified as necessary.

### **Market risk**

Market risk is the risk of changes in market prices, such as foreign exchange rates, interest rates and commodity prices. Changes in market prices can affect the Group's income and expenses or the value of Air Berlin holdings in financial instruments. As an airline Air Berlin is exposed to currency, interest rate and fuel price risks as well as credit and liquidity risks. Air Berlin uses derivatives to limit these risks. A detailed description of the Group's exposure to market risks and the hedging activities to limit these risks is presented in note 29.

### **Capital management**

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the return on capital, which the Company defines as net operating income divided by total shareholders' equity. The Board seeks to maintain a balance between higher returns that might be possible with a higher level of borrowings and the advantages and security afforded by a sound capital position. In particular, in reviewing the Company's financing alternatives, the Board, always bearing in mind the shareholders' return on equity, balances a variety of financing options, including share issues, bond issues and traditional bank financing. The Group is not subject to any externally imposed capital requirements.

### **v) Financial instruments**

Financial instruments are all contracts which lead to the recognition of a financial asset, a financial liability or an equity instrument. Financial assets include primarily cash and cash equivalents, trade receivables, loans receivable and positive market values of derivative financial instruments. Financial liabilities include liabilities to banks, trade creditors, finance lease liabilities and negative market values of derivatives. Financial instruments are recorded in the statement of financial position at the time Air Berlin becomes partner to a contract for a financial instrument.

Categories of financial assets and financial liabilities which apply to Air Berlin are as follows:

- ✈ Loans and receivables
- ✈ Financial assets at fair value through profit or loss classified as held for trading in accordance with IAS 39 (derivative financial instruments)
- ✈ Financial liabilities at fair value through profit or loss classified as held for trading in accordance with IAS 39 (derivative financial instruments)
- ✈ Financial liabilities measured at amortised cost (includes trade payables and other financial liabilities as well as interest-bearing liabilities and liabilities due to banks for the assignment of future lease payments)

The categories of financial assets and financial liabilities are further detailed in note 29h.



## 06) Financial Statements

Air Berlin has defined the following classes of financial assets and financial liabilities:

- ✈ Loans and receivables
- ✈ Derivative financial instruments classified as held for trading
- ✈ Derivative financial instruments classified as hedge accounting
- ✈ Financial liabilities measured at amortised cost (includes interest-bearing liabilities and liabilities due to banks from assignment of future lease payments, trade payables and other financial liabilities)
- ✈ Cash and cash equivalents
- ✈ Finance leases

## 5. INTANGIBLE ASSETS

In thousands of Euro	Software licences	Goodwill	Landing rights	Trademarks	Customer relationships	Total
<b>Acquisition cost</b>						
Balance at 1 January 2008	17,414	196,162	108,249	6,592	3,036	331,453
Additions	5,147	0	0	0	0	5,147
Adjustments through business combinations	0	(1,494)	0	0	0	(1,494)
Disposals	(444)	0	0	0	0	(444)
Balance at 31 December 2008	22,117	194,668	108,249	6,592	3,036	334,662
Additions	4,107	0	10,000	0	0	14,107
Disposals	(405)	0	0	(6,592)	0	(6,997)
Balance at 31 December 2009	25,819	194,668	118,249	0	3,036	341,772
<b>Depreciation</b>						
Balance at 1 January 2008	11,271	0	0	2,417	0	13,688
Depreciation charge for the year	5,484	0	0	896	1,075	7,455
Disposals	(300)	0	0	0	0	(300)
Balance at 31 December 2008	16,455	0	0	3,313	1,075	20,843
Depreciation charge for the year	5,823	0	0	3,279	759	9,861
Disposals	(400)	0	0	(6,592)	0	(6,992)
Balance at 31 December 2009	21,878	0	0	0	1,834	23,712
<b>Carrying amount</b>						
At 1 January 2008	6,143	196,162	108,249	4,175	3,036	317,765
At 31 December 2008	5,662	194,668	108,249	3,279	1,961	313,819
At 31 December 2009	3,941	194,668	118,249	0	1,202	318,060

The Group performed an impairment test on both landing rights and goodwill in the fourth quarter of 2009 based on a variety of assumptions and concluded that as the estimated recoverable amount exceeds the carrying amounts, no impairment was required. The recoverable amount was determined for the cash generating unit to which the landing rights and goodwill belongs.

The Group has determined three cash generating units for purposes of the impairment test and allocated goodwill to these cash generating units as follows:

In thousands of Euro	Freight	Technical services	Flight services	Total
Goodwill	31,000	0	163,668	194,668
Landing rights	0	0	118,249	118,249

The future cash flows were estimated using the value-in-use method based on the most recent mid-term cash flow plan (2 years) approved by management for the existing fleet, extrapolated to perpetuity using a 0.5% (2008: 0.5%) growth rate and discounted to their present value. The pre-tax peer-group weighted average cost of capital was 10.43% (2008: 12.33%). The plan is based on the passenger volume of 33 – 35 million passengers. The calculation of value in use is most sensitive to the assumptions of discount rate and the number of passengers. The operating margins used in determining value in use are based on planned business and operational growth, excluding growth arising from purchases of additional fixed assets but including maintenance and repairs. The recoverable amount exceeds the carrying amount by a significant amount. The recoverable amount of the cash-generating unit Flight services will be equal to its carrying amount by an adverse change in the weighted average cost of capital of 2.57 percentage points or through a decline in the passenger volume of about 1.2 million passengers. The trading environment is subject to both regulatory and competitive pressures that could have a material impact on the operating performance of the business. The discount rate reflects management's estimate of the peer-group long-term cost of capital for the cash generating unit.



## 06) Financial Statements

## 6. PROPERTY, PLANT AND EQUIPMENT

In thousands of Euro	Land and buildings	Aircrafts and engines	Technical equipment and machinery	Office-equipment	Total
<b>Acquisition cost</b>					
Balance at 1 January 2008	28,834	1,349,951	103,384	41,711	<b>1,523,880</b>
Additions	0	173,977	33,770	7,590	<b>215,337</b>
Currency translation adjustments	0	0	107	0	<b>107</b>
Disposals	0	(49,659)	(7,246)	(12,323)	<b>(69,228)</b>
Balance at 31 December 2008	28,834	1,474,269	130,015	36,978	<b>1,670,096</b>
Additions	322	151,978	24,002	5,687	<b>181,989</b>
Disposals	(7)	(124,361)	(62,100)	(2,243)	<b>(188,711)</b>
Reclassifications	10,923	0	14,735	(25,658)	<b>0</b>
Balance at 31 December 2009	40,072	1,501,886	106,652	14,764	<b>1,663,374</b>
<b>Depreciation</b>					
Balance at 1 January 2008	1,277	284,012	14,346	20,635	<b>320,270</b>
Depreciation charge for the year	3,060	71,959	14,450	6,218	<b>95,687</b>
Currency translation adjustments	0	0	10	0	<b>10</b>
Disposals	0	(3,882)	(5,220)	(6,712)	<b>(15,814)</b>
Balance at 31 December 2008	4,337	352,089	23,586	20,141	<b>400,153</b>
Depreciation charge for the year	3,580	81,563	10,267	3,873	<b>99,283</b>
Currency translation adjustments	0	0	27	0	<b>27</b>
Disposals	(1)	(30,343)	(14,434)	(1,054)	<b>(45,832)</b>
Reclassifications	7,394	0	9,947	(17,341)	<b>0</b>
Balance at 31 December 2009	15,310	403,309	29,393	5,619	<b>453,631</b>
<b>Carrying amount</b>					
At 1 January 2008	27,557	1,065,939	89,038	21,076	<b>1,203,610</b>
At 31 December 2008	24,497	1,122,180	106,429	16,837	<b>1,269,943</b>
At 31 December 2009	24,762	1,098,577	77,259	9,145	<b>1,209,743</b>

Borrowing costs for aircrafts and engines capitalised in 2009 and 2008 are € 543 and € 1,005 respectively, at borrowing rates between 1.51% and 1.72% for 2009 and 3.80% and 6.06% for 2008.

Aircraft and engines are pledged as security in connection with the Group's interest-bearing liabilities and liabilities due to banks from assignment of future lease payments.

Tangible assets include land and buildings, aircraft and engines, and technical equipment and machinery which have been capitalised as a result of finance leases.

The book value of tangible assets capitalised as a result of finance leases is as follows:

In thousands of Euro	2009	2008
Land and buildings	21,439	24,498
Aircraft and engines	47,097	49,182
Technical equipment and machinery	2,010	0
Office equipment	0	208
	<b>70,546</b>	<b>73,888</b>

Finance leases are explained in more detail in note 16.

## 7. INVESTMENTS IN ASSOCIATES

In thousands of Euro	2009	2008
Acquisition cost		
Balance at 1 January	1,771	935
Additions	17	510
Disposals	0	(46)
Dividends received	0	(211)
Share of profits	1,395	583
Balance at 31 December	<b>3,183</b>	<b>1,771</b>

The Group has the following investments in associates:

Ownership	Country	2009	2008
		%	%
Niki Luftfahrt GmbH, Vienna	Austria	24.0	24.0
IBERO Tours GmbH, Düsseldorf*	Germany	50.0	50.0
Lee & Lex Flugzeugvermietung GmbH, Vienna	Austria	24.0	24.0
BINOLI GmbH, Berlin	Germany	49.0	49.0
THBG BBI GmbH, Schönefeld	Germany	35.0	35.0
E190 Flugzeugvermietung GmbH, Vienna	Austria	24.0	0.0

\* Accounted for as an associate due to lack of control

The Group's share of recognised profit or loss in the above associates for the years ending 31 December 2009 and 2008 is € 808 and € -9, respectively.

The Group has recognised losses relating to Lee & Lex Flugzeugvermietung GmbH only up to the amount of the Group's net investment in the associate. In connection with the recognition of these losses the Group's long-term loans receivable to Lee & Lex Flugzeugvermietung GmbH have been written off by € 592, thereof € 126 in the year ending 31 December 2009. Similarly the Group has recognised losses relating to Binoli GmbH only up to the amount of the Group's net investment in the associate. In connection with the recognition of the losses the Group's long-term loans receivable to Binoli GmbH have been written off by € 461 for the year ending 31 December 2009.





## 06) Financial Statements

Summary of financial information on associates – 100 per cent. The figures are determined in accordance with Austrian or German local GAAP:

The latest financial information (2008) disclosed the following amounts:

In thousands of Euro	Assets	Liabilities	Equity	Revenues	Profit (loss)
Niki Luftfahrt GmbH, Vienna	156,846	146,338	10,508	229,479	7,028
IBERO Tours GmbH, Düsseldorf	1,837	896	941	2,816	102
Lee & Lex Flugzeugvermietung GmbH, Vienna	51,979	54,971	(2,992)	7,466	(526)
BINOLI GmbH, Berlin	1,318	2,110	(792)	1,155	(1,197)
THBG BBI GmbH, Schönefeld	5,845	5,364	481	0	(619)

### 8. INVENTORIES

Inventories are made up of raw materials, supplies and spares and purchased merchandise as follows:

In thousands of Euro	2009	2008
Raw materials	0	656
Supplies and spares	37,102	35,136
Purchased merchandise	1,622	900
	<b>38,724</b>	<b>36,692</b>

Inventories are measured at the lower of cost and net realisable value. In 2009 the impairment of inventories was released by € 137 (2008: inventories were written down by € 1,176). The amount of inventories expensed directly in the statement of comprehensive income is reported in note 21.

**9. TRADE AND OTHER RECEIVABLES, CURRENT AND NON-CURRENT**

In thousands of Euro	Current 2009	Non-current 2009	Total 2009	Current 2008	Non-current 2008	Total 2008
Trade receivables	95,380	0	<b>95,380</b>	107,092	0	107,092
Receivables from related parties	26,990	2,711	<b>29,701</b>	13,911	2,918	16,829
Loans receivable	0	1,500	<b>1,500</b>	0	3,500	3,500
Accrued receivables	17	0	<b>17</b>	2,372	0	2,372
Security deposits and deposits with suppliers	6,463	30,965	<b>37,428</b>	14,599	29,754	44,353
Receivables for bonus and claims	38,656	0	<b>38,656</b>	40,095	0	40,095
Receivables from sale of fixed assets	37,961	12,123	<b>50,084</b>	274	0	274
Other receivables	12,033	0	<b>12,033</b>	10,397	781	11,178
Loans and receivables	217,500	47,299	<b>264,799</b>	188,740	36,953	225,693
Receivables from tax authorities	2,550	0	<b>2,550</b>	6,239	0	6,239
Advanced payments on aircraft and other tangible assets	62,610	57,037	<b>119,647</b>	71,391	71,301	142,692
Other assets	15,003	1,916	<b>16,919</b>	17,057	0	17,057
	<b>297,663</b>	<b>106,252</b>	<b>403,915</b>	<b>283,427</b>	<b>108,254</b>	<b>391,681</b>

Security deposits and deposits with suppliers relate primarily to amounts which are held as deposit according to supplier agreements and which are repaid after all obligations from the supplier agreement have been fulfilled. The amounts are carried at amortised cost using the effective interest method.

Receivables from related parties relate primarily to NIKI Luftfahrt GmbH. The Group's share in this company is 24%.

The receivables result from trade receivables and clearing accounts.

Other assets mainly include receivables from insurance carriers (2009: € 2,691 and 2008: € 1,460) and suppliers with debit balances (2009: € 6,899 and 2008: € 11,456).

Advanced payments on aircraft and other tangible assets relate primarily to advanced payments, deposits and commitment fees made under the Group's various agreements for the purchase of aircraft, which are detailed in note 31 "Capital commitments" below. Net payments of € 11,782 (2008: € 27,497) were made during the period and € 34,210 was capitalised in 2009 (2008: € 16,784).

The Group's exposure to credit and currency risks and impairment losses related to trade receivables and other financial assets are disclosed in note 29.

**10. SHARE CAPITAL AND RESERVES****Share capital and share premium**

On 4 June 2009 the Company issued 6,571,700 new shares at a share price of € 3.50. Gross proceeds on the issue of new shares amounted to € 23,000,950.

On 10 June 2009 the Company issued 4,500,000 new shares at a share price of € 3.50. Gross proceeds on the issue of new shares amounted to € 15,750,000.

On 19 October 2009 the Company issued 8,437,393 new shares at a share price of € 3.97. Gross proceeds on the issue of new shares amounted to € 33,496,450. As result of this transaction Leibniz-Service GmbH holds 9.9 % investment in share capital of the Group. Transaction costs incurred in 2009 amounted to € 4,470.



## 06) Financial Statements

Share capital of 85,226,196 ordinary shares of € 0.25 each and 50,000 A shares of £ 1.00 each was issued and fully paid up as of 31 December 2009. Included in this amount are 177,600 treasury shares held by Air Berlin (through the Air Berlin Employee Share Trust) in connection with the employee share plan described below. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the shareholders.

The A shares are redeemable at the option of Air Berlin only, and the holders of A shares shall not be entitled to any participation in the profits or assets of Air Berlin save on a distribution of assets of Air Berlin among its members on a winding up or other return of capital (other than a redemption or purchase by Air Berlin of its own shares), in which case the holders of A shares shall be entitled, in priority of to any holder of ordinary shares, to receive an amount equal to the aggregate of the capital paid up or credited as paid up on each A share.

Movements in share capital are summarised below:

In thousands of shares	Ordinary shares		Redeemable "Class A" preference shares	
	2009	2008	2009	2008
On issue at 1 January	65,717	65,717	50	50
Issued for cash	19,509	0	0	0
On issue at 31 December	85,226	65,717	50	50
Thereof held as treasury shares	178	178	0	0

No shares have been reserved for issue under options.

#### Other capital reserves

Other capital reserves are comprised of general partners' and limited partners' capital of consolidated partnerships and subscribed capital of consolidated entities which were reclassified to other capital reserves due to the reverse acquisition in 2005.

#### Treasury shares

In connection with the amendment made to the employee share-based payment scheme discussed below, the Company repurchased the beneficial interest (and limited all significant legal aspects of the ownership, such as voting rights) in 177,600 shares of its stock in 2006. The purchase price was € 0.25 per share (par value), resulting in a decrease in retained earnings of € 45.

#### Hedge accounting reserve

The reserve for hedge accounting contains the effective portion of the cumulative net change in the fair value of derivative financial instruments designated as hedges of probable future cash flows, net of tax.

#### Foreign currency translation reserve

The reserve for currency translation differences comprises all foreign currency differences arising from the translation of the financial statements of foreign subsidiaries.

#### Dividends

No dividends on ordinary shares or Class A shares were declared or paid during the period.

### Minority interest

The minority interest of € 629 shown in the statement of financial position as at 31 December 2008 relates to the 51 per cent of Belair's equity at the acquisition date. On 26 October 2009 the Group purchased the remaining 51 per cent of Belair's equity. The purchase price equals CHF 1,785 (€ 1,182). The increase in ownership interest in Belair without change in control is accounted for as an equity transaction.

### 11. EARNINGS PER SHARE

The basic and diluted earnings per share are determined by dividing the loss for the period by the weighted average number of ordinary shares outstanding during the financial year.

In thousands of Euro and thousands of shares, except EPS	2009	2008
Loss for the year	(9,468)	(83,518)
Dividends declared on redeemable "Class A" preference shares	0	0
Profit attributable to ordinary shareholders (basic and diluted)	(9,468)	(83,518)
Issued ordinary shares at 1 January	65,717	65,717
Effect of shares issued in 2009	7,984	0
Effect of treasury shares held	(178)	(178)
Weighted average number of ordinary shares outstanding (basic)	73,523	65,539
Weighted average number of ordinary shares outstanding (diluted)	73,523	65,539
Basic earnings per share (in €)	(0.13)	(1.27)
Diluted earnings per share (in €)	(0.13)	(1.27)

The 50,000 Class A shares (redeemable preference shares) do not entitle the holders to any participation in the profit or loss of Air Berlin, as dividends are discretionary. These shares therefore have not been included in the calculation of the weighted average number of ordinary shares outstanding above.

The conversion of convertible bonds would have had an anti-dilutive effect on earnings per share and is therefore not considered in the calculation of diluted earnings per share.

### 12. EMPLOYEE SHARE PLAN

The Company introduced a share-based payment scheme in April 2006, which was later amended in November 2006, as part of the remuneration package provided to the Executive Directors and certain senior executives of the Group (each a "Participant"). In April 2006 the Company invited Executive Directors and certain senior executives of the Group (each a "Participant") to subscribe for shares in a one-off award (the "Award"). Participants paid the nominal value for their shares. The Award was made subject to the conditions set out in an agreement entered into between the Company and each Participant. Participants became owners of the shares when they subscribed for them but were unable to sell or otherwise dispose of the shares other than in accordance with the agreement.

The plan was amended on 28 November 2006 so that the Company reacquired the beneficial interest in all of the shares under the Award and placed restrictions on the legal interest in the shares (i.e. voting rights). The beneficial interest in the shares was transferred to Ogier Employee Benefit Trustee Limited as trustee of the Air Berlin Employee Share Trust. The amendment was not treated as a modification.



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Under the terms of the revised Employee Share Plan 2006 the Participant holds (limited) legal title to the shares but will only be able to acquire the beneficial interest to the shares if certain performance conditions are met and if the employee remains with the Company for the entire performance period (vesting period). If the conditions are not met, if the Participant leaves the Company before the end of the vesting period or if the Participant does not transfer payment for the shares within two weeks upon notification by the Company that the conditions have been met, the Company may require the Participant to transfer legal title to the shares to the Company. Participants are not entitled to receive dividends during the performance period. In addition, restrictions have been placed on the Participant's legal interest in the shares (i.e. voting rights) during the performance period. The shares are divided equally in three tranches, each comprising one-third of the shares granted. 50% of the shares granted under each of the tranches are subject to a performance condition based on return on equity achieved by the Company and 50% of the shares granted under each of the tranches are subject to performance conditions based on the percentage increase in the Company's share price over a three-year period as follows:

Tranche and three-year performance period (ending 31 December)	Total number of shares in tranche	Threshold return on equity element	Threshold share price growth element
Tranche 1: 2008	59,200	13%	35%
Tranche 2: 2009	59,200	14%	38%
Tranche 3: 2010	59,200	15%	40%

Both performance conditions will be measured in respect of the first, second and third tranches over the performance periods of three consecutive financial years ending on 31 December 2008, 2009 and 2010 respectively.

The right to acquire the beneficial interest in the shares subject to the Employee Share Plan 2006 is exercisable during a two week period following notification by the Company of fulfilment of the performance criteria. The exercise price is € 0.25 per share, the nominal value of the shares.

Neither of the performance conditions were met for the Tranche 1 performance period, which ended 31 December 2008, and for the Tranche 2 performance period, which ended 31 December 2009. Therefore, participants will not be able to call for the economic interest in the shares under these tranches and may be required to transfer the legal ownership of those shares to the Air Berlin Employee Share Trust. The equity-settled share-based payment transactions are measured at fair value on the grant date in accordance with IFRS 2. The weighted average fair value of these options was € 8.95 at the measurement date. The fair value of the options granted was determined using the binomial model under the following assumptions:

- ✈ Volatility: 40%
- ✈ Dividends: 0
- ✈ Risk-free interest rate: 4%

Volatility was estimated by a peer group analysis in the airline sector, adjusted for a "new issuer" premium.

The number and weighted average exercise price of share options during the period was as follows:

Share options	Number of share options 2009	Weighted average exercise price 2009	Number of share options 2008	Weighted average exercise price 2008
Outstanding at the beginning of the period	113,600	0.25	174,000	0.25
Forfeited during the period	56,800	0.25	60,400	0.25
Outstanding at the end of the period	56,800	0.25	113,600	0.25
Exercisable at the end of the period	0	0.25	0	0.25

No options were exercised or lapsed during the period.

Total benefit in the statement of comprehensive income relating to the Employee Share Plan was € 88 in 2009 (benefit of € 143 in 2008).

### 13. PENSION LIABILITIES / EMPLOYEE BENEFITS

The Group held provisions for the following employee benefits at 31 December 2009:

In thousands of Euro	2009	2008
Provision for anniversary bonuses	6,825	7,243
Provision for old age part time (early retirement)	4,330	4,119
Total employee benefits	11,155	11,362

The provisions for anniversary bonuses and old age part time (early retirement) are described in note 14.

#### Defined benefit plans

In 2007, the Company entered into a defined benefit pension plan for its Executive Directors. In addition the Group has a defined benefit pension plan for certain employees of dba. Both pension plans are funded through payments to qualified insurance contracts.

The development of the Group's defined benefit obligations during the period is as follows:

In thousands of Euro	2009	2008
Present value of funded obligations	11,594	8,306
Fair value of plan assets	(13,562)	(10,279)
Funded status	(1,968)	(1,973)
Amount not recognised due to limitation in IAS 19.58(b)	1,968	1,973
Pension liabilities	0	0



## 06) Financial Statements

Changes in the present value of the defined benefit obligation are as follows:

In thousands of Euro	2009	2008
Defined benefit obligation at 1 January	8,306	8,270
Current service cost	1,426	1,681
Benefits paid	(111)	(11)
Interest on obligation	520	426
Actuarial losses / (gains)	1,453	(2,060)
Defined benefit obligation at 31 December	11,594	8,306

Changes in the fair value of plan assets are as follows:

In thousands of Euro	2009	2008
Fair value of plan assets at 1 January	10,279	7,065
Contribution	3,909	3,188
Benefits paid	(111)	(11)
Expected return on plan assets	431	56
Actuarial losses	(946)	(19)
Fair value of plan assets at 31 December	13,562	10,279

Plan assets consist exclusively of external contracts with insurance companies in Germany. These insurances could potentially include shares in Air Berlin Plc. However, due to strict requirements in Germany regarding the structure of insurance companies, the percentage of Air Berlin shares held would be minimal.

The actual loss on plan assets was € 515 during the period (€ 37 gain in 2008). No experience adjustments were made during the period.

The amount recognised as pension expense in profit or loss is as follows:

In thousands of Euro	2009	2008
Current service cost	1,426	1,681
Interest on obligation	520	426
Expected return on plan assets	(431)	(56)
Net actuarial losses / (gains) recognised in the period	2,399	(2,041)
Effect of the limitation in IAS 19.58(b)	(5)	1,973
Pension expense	3,909	1,983

The Group expects to contribute € 3,610 to its defined benefit pension plans in 2010.

Principal actuarial assumptions at the reporting date are as follows:

	2009	2008
Discount rate at 31 December	5.39%	6.30%
Expected return on plan assets at 1 January	4.00–4.30%	2.75–4.00%
Future salary increases	0.00–2.00%	3.00%
Cost of living adjustment (future pension increases)	1.00%	1.00%

Assumptions regarding future mortality are based on published statistics and mortality tables ("Richttafeln 2005 G" published by Heubeck-Richttafeln-GmbH). The average remaining life expectancy of an individual retiring at age 65 is 20 years for males and 25 years for females.

#### Defined contribution plans

Through the acquisition of dba in 2006, the Group acquired a defined contribution pension plan covering all employees of dba, to which the Group makes contributions. The net pension expense recorded in the profit and loss in 2009 as a result of the defined contribution plan is € 5 (2008: € 18).

As employees in Germany are covered by and required to contribute to the German social security system, Air Berlin does not have any other employee benefit plans at the end of the period. The Group paid contributions into the German social security system of € 26,687 in 2009 (€27,713 in 2008).

#### 14. PROVISIONS

In thousands of Euro	Balance at 1.1.2009	Additions	Utilisation	Release	Balance at 31.12.2009
Provision for airport fees	4,445	936	0	0	5,381
Provision for anniversary bonuses	7,243	48	(466)	0	6,825
Provision for old age part time	4,119	947	(736)	0	4,330
Provision for redundancy costs	10,416	0	(4,460)	(1,018)	4,938
	26,223	1,931	(5,662)	(1,018)	21,474

Thereof € 10,298 relating to the provision for anniversary bonuses and old age part time was classified as non-current as at 31 December 2009 (2008: € 10,661).

As a result of the existing collective labour agreement, older employees of LTU (age 55 and above) have the opportunity to take part in the old age part time ("Altersteilzeit") program, till the end of the reporting period. The program is a form of early retirement in which the employee works full time during the first few years and not at all in the following years until reaching the official age of retirement. 69 employees have signed such agreements as of the end of the period. A discount rate of 4.9% and an expected salary increase of 2.0% was used to calculate the provision. Uncertainties exist as to the life expectancy of the employees and as to the future salary at the time the contract takes effect.

The provision for anniversary bonuses was calculated using a discount rate of 5.6% and an expected yearly salary increase of 2%. Uncertainties exist in the probability that the employees will remain with the Group until they are entitled to receive their anniversary bonus and as to their salaries at that time. The provision was accounted for in accordance with IAS 19.

The provision for redundancy costs is related to the layoff of dba and LTU staff at the offices in Munich and Dusseldorf in connection with the concentration of the business in Berlin. Uncertainties exist relating to the amount and probability of payments. The provision is based on the most likely outcome based on similar cases in Germany.





## 06) Financial Statements

**15. INTEREST-BEARING LIABILITIES AND LIABILITIES DUE TO BANKS FROM ASSIGNMENT OF FUTURE LEASE PAYMENTS**

This note provides information about the terms and conditions of the Group's interest-bearing loans and borrowings, all of which are measured at amortised cost. More information about the Group's exposure to interest rate, foreign currency and liquidity risk is provided in note 29.

**Interest-bearing liabilities**

The Group has entered into various interest-bearing liabilities. The carrying amounts for the years 2009 and 2008, classified according to their maturity dates and borrowing rates, are as follows:

In thousands of Euro	Secured / unsecured	Currency	Maturity date	Carrying amount 31.12.2009	Carrying amount 31.12.2008
Bank loans, variable rate	Unsecured	USD	n/a	0	26,678
Bank loans, variable rate	Secured	USD	n/a	0	13,633
Bank loans, variable rate	Secured	USD	n/a	0	18,753
Convertible bonds –					
liability component, fixed rate (issued in 2007)	Unsecured	EUR	2012*	123,592	190,696
Convertible bonds –					
liability component, fixed rate (issued in 2009)	Unsecured	EUR	2014	72,497	0
Finance lease liabilities	Unsecured	USD	2010–2018	41,134	46,391
Finance lease liabilities	Unsecured	EUR	2010–2022	48,489	50,166
Bank overdrafts	Unsecured			1,223	478
				286,935	346,795

\* first option to redeem the bonds

Of this amount € 13,580 (2008: € 44,012) is classified within current liabilities in the statement of financial position. The finance lease liabilities are detailed in note 16 below. The bank overdrafts are due in the following year respectively.

Payments for the above-mentioned interest-bearing liabilities are due as follows:

In thousands of Euro	2009	2008
Less than one year	13,580	44,012
Between one and five years	230,633	243,281
More than five years	42,722	59,502
	286,935	346,795

### Convertible bonds I

On 11 April 2007 the Group issued € 220,000 convertible bonds due 2027. The bond issue is made up of 2,200 bonds with a principal amount of € 100 each, earning yearly interest of 1.5%. The initial conversion price is € 22.47 which results in an initial conversion ratio of 4,450 ordinary shares per bond. Gross proceeds from the bond issue amounted to € 220,000. Transaction costs incurred were € 6,391.

The convertible bond was split into its equity and debt components in accordance with IAS 32. The equity component, less transaction costs net of tax, is shown as a separate line item in equity.

In the second half of 2009 the Group redeemed 840 convertible bonds with a principle amount of € 84,000 in total.

Payments related to the redemption amount to € 53,405. The profit from the redemption equals € 21,273 and is presented as part of the financial income in the statement of comprehensive income.

The equity component of the redeemed convertible bonds of € 10,758 less transaction costs net of tax of (€ 317) was transferred to the retained earnings within equity.

The equity component, which is shown net of taxes of € 7,838 in the statement of financial position, totalled € 16,904 as at 31 December 2009 (2008: € 27,344).

The bonds are convertible into 4,450 ordinary shares per bond at the option of the bondholder at any time beginning 40 days following closing and ending 14 days before maturity (21 May 2007 to 25 March 2027). In addition, the bondholder has the option to require the Company to repurchase the bonds at principal amount plus accrued interest on 11 April 2012, 11 April 2017, and 11 April 2022 or upon change in control. The Company has the option to redeem the bonds in whole at their principal amount plus accrued interest at any time as of 30 April 2014, so long as the trading price of the Air Berlin share exceeds 150% of the conversion price.

### Convertible bonds II

On 20 August 2009 the Group issued € 125,000 convertible bonds due in 5 years. The bond issue is made up of 2,500 bonds with a principal amount of € 50 each, earning yearly interest of 9.0 %. The initial conversion price is € 4.01 which results in an initial conversion ratio of 12,469 ordinary shares per bond. Proceeds from the bond issue amount to € 125,000. Transaction costs incurred in 2009 were € 6,338.

The convertible bond was split into its equity and debt component in accordance with IAS 32. The equity component, less transaction costs net of tax, is shown as a separate line item within equity.

The debt component of the convertible bond is included under interest-bearing liabilities in the statement of financial position as follows:

in thousands of Euro	2009
Proceeds from issue of convertible bonds	125,000
Transaction costs	(6,338)
Net proceeds	118,662
Amount classified as equity	(49,549)
Accrued interest and amortisation of bond discount	3,384
Carrying amount at 31 December 2009	72,497



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The equity component comprises of:

In thousands of Euro	2009
Equity component of convertible bond	52,196
Transaction costs allocated to equity component	(2,647)
Total amount classified as equity	49,549
Taxes on equity component	(14,855)
Equity component of convertible bond, net of tax at 31 December 2009	34,694

The bonds are convertible into 12,469 ordinary shares per bond at the option of the bondholder at any time beginning 17 November 2009 and ending 10 days before maturity (inclusive) or in case of early redemption ending 10 days before the determined redemption date (inclusive). In addition, the bondholder has the option to require the Company to repurchase the bonds at principal amount plus accrued interest on 30 October 2011 or upon change in control. The Company has the option to redeem the bonds in whole at their principal amount plus accrued interest at any time as of 30 October 2011, so long as the trading price of the Air Berlin share exceeds 150% of the conversion price.

#### Liabilities due to banks from assignment of future lease payments

The Group entered into financing agreements with commercial banks by which the Group assigned intra-group lease payments to the banks.

The carrying amounts for the years 2009 and 2008, classified according to their maturity dates and borrowing rates, are as follows:

In thousands of Euro	Secured / unsecured	Currency	Maturity date	Carrying amount 31.12.2009	Carrying amount 31.12.2008
Interest rate					
Variable rate	Secured	EUR	2011–2013	62,453	76,718
Variable rate	Secured	USD	2011–2022	532,548	530,664
Fixed rate	Secured	USD	2015	65,385	76,092
				660,386	683,474

Of this amount € 77,228 (2008: € 73,011) is classified within current liabilities in the statement of financial position. The assigned intra-group lease payments are secured over aircrafts.

Payments for the above-mentioned liabilities due to banks from assignment of future lease payments are due as follows:

In thousands of Euro	2009	2008
Less than one year	77,228	73,011
Between one and five years	299,174	313,950
More than five years	283,984	296,513
	660,386	683,474

## 16. LEASING

### Operating leases

The Group leases a number of aircraft, engines and one Unix Server under leasing agreements which qualify as operating lease agreements. The leases typically run for a period of up to twelve years and terminate automatically upon expiry of the lease term. Lease payments are denominated in USD and vary depending upon the change in the market rate of interest. No restrictions have been placed on the lessee as a result of these leases.

In addition the Group leases a number of warehouse and office facilities under operating leases. The leases expire between 2010 and 2018, with an option to renew the leases after these dates.

Non-cancellable operating lease rentals are payable as follows:

In thousands of Euro	2009	2008
Less than one year	341,012	336,535
Between one and five years	868,604	909,459
More than five years	399,359	218,261
	<b>1,608,975</b>	<b>1,464,255</b>

No contingent rents were recognised as lease payments in the period.

During the year ended 31 December 2009, € 381,836 (2008: € 383,628) was recognised as an expense in the statement of comprehensive income in respect of operating leases.

The Group also leases several of its aircraft as lessor under agreements which qualify as operating leases. The lease terms vary from three to twelve years, the latest of which expire in 2019. Lease payments are in USD.

Future minimum lease payments are receivable as follows:

In thousands of Euro	2009	2008
Less than one year	19,929	24,885
Between one and five years	73,129	89,972
More than five years	67,626	84,815
	<b>160,684</b>	<b>199,672</b>

### Finance leases

The Group leases certain technical equipment under an agreement which qualifies as a finance lease. The finance lease relates to technical equipment for aircraft leased under operating leases with various leasing terms, the latest of which phase out in 2015. The Group also leases two aircrafts under agreements which qualify as finance leases. The lease agreements are for terms of eleven years, the latest of which expires in 2018. The agreements contain various put and call options relating to the right of the lessee to purchase the aircraft or the right of the lessor to require the lessee to purchase the aircraft on certain dates at prices and conditions set out in the agreements. In addition, the lessor has the right to require the lessee to name a purchaser at the end of the lease term for a fixed price (guaranteed residual value). Lease payments are in USD and vary based on changes in the interest rate component of the lease. The present value of future minimum lease payments was therefore determined by using the expected lease payments based on the preliminary interest rate stated in the lease.



## 06) Financial Statements

In addition the Group leases two airport buildings under agreements which qualify as finance leases. The leases expire in 2011 and 2022.

The net book value of assets capitalised at 31 December 2009 as a result of finance leases is detailed in note 6 above.

No contingent leasing payments were recorded in profit and loss in 2009 (2008: € 0).

Future minimum lease payments are as follows:

In thousands of Euro	At 31 December 2009		At 31 December 2008	
	Future minimum lease payments	Discounted to present value	Future minimum lease payments	Discounted to present value
Less than one year	13,107	12,599	12,961	12,542
Between one and five years	40,987	34,302	45,170	37,813
More than five years	72,527	42,722	81,602	46,202
	126,621	89,623	139,733	96,557

## 17. TRADE AND OTHER PAYABLES, CURRENT AND NON-CURRENT

In thousands of Euro	Current 2009	Non-current 2009	Total 2009	Current 2008	Non-current 2008	Total 2008
Trade payables	95,233	0	95,233	108,764	0	108,764
Other financial liabilities	205	0	205	174	0	174
Trade payables and other financial liabilities	95,438	0	95,438	108,938	0	108,938
Accrued liabilities	208,391	36,401	244,792	189,635	31,263	220,898
Receivables with credit balances	5,259	0	5,259	4,999	0	4,999
Payroll tax	5,692	0	5,692	5,571	0	5,571
VAT	17,938	0	17,938	4,876	0	4,876
Social insurance contributions	699	0	699	875	0	875
Other non-financial liabilities	1,509	0	1,509	1,227	0	1,227
	334,926	36,401	371,327	316,121	31,263	347,384

Accrued liabilities include expenses for services provided and goods received before the end of the period but not yet invoiced, credit notes and commissions to travel agencies in connection with the sale of tickets, accrued vacation and payroll and accruals for aircraft and engine maintenance checks and overhauls.

Information about the Group's exposure to foreign currency and liquidity risk related to trade payables and other financial liabilities is provided in note 29.

## 18. ADVANCED PAYMENTS RECEIVED

Advanced payments primarily relate to payments received in advance for single-seat ticket sales for which the scheduled flight is to be provided in the following financial period and for which no revenue has been recorded.

**19. REVENUE (ADJUSTED)**

In thousands of Euro	2009	2008 (adjusted)
Single-seat ticket sales	1,845,382	1,863,345
Bulk ticket sales to charter and package tour operators	1,121,111	1,229,142
Duty-free	33,083	35,154
Ground and other services	240,768	260,879
	<b>3,240,344</b>	<b>3,388,520</b>

Ground and other services primarily include freight, technical services and ancillary sales.

**Segment information**

The company is managed by the Board of Directors as a single business unit in one geographical area and one service. The key figures and ratios presented to the Board of Directors in managing the company are: Result from operating activities, Net Debt, Revenues, passengers, Yield and block hours. The financial measures are IFRS measures and are shown in the primary statements. Resource allocation decisions are made based on the entire route network and the deployment of the entire fleet. Revenues derive nearly completely from the principal activity as an airline and include flights, commissions, inflight and related sales that are generated in Europe. Since Air Berlin's aircraft fleet is employed across its scheduled destinations on an as needed basis all assets and liabilities are allocated to the one segment. The Board has also determined that there is no reasonable basis of allocating assets and related liabilities, income and expenses to geographical areas other than Europe or to individual groups of customers.

**20. OTHER OPERATING INCOME**

In thousands of Euro	2009	2008
Gain on disposal of fixed assets, associates and subsidiaries	17,686	23,325
Income from write-off of liabilities	5,879	0
Income from insurance claims	1,243	1,529
Other	17,635	13,767
	<b>42,443</b>	<b>38,621</b>

**21. EXPENSES FOR MATERIALS AND SERVICES**

In thousands of Euro	2009	2008
Fuel for aircraft	715,352	874,336
Catering costs and cost of materials for in-flight sales	108,284	123,978
Airport & handling charges	697,098	710,087
Operating leases for aircraft and equipment	366,032	359,523
Navigation charges	219,745	227,896
Other	86,662	64,025
	<b>2,193,173</b>	<b>2,359,845</b>



## 06) Financial Statements

The expenses for operating leases for aircraft and equipment include expenses of € 45,289 that do not directly relate to the lease of assets.

## 22. PERSONNEL EXPENSES AND STAFF NUMBERS

The aggregate payroll costs were as follows:

In thousands of Euro	2009	2008
Wages and salaries	370,081	377,352
Pension expense	30,601	29,714
Social security	40,040	39,198
	<b>440,722</b>	<b>446,264</b>

Pension expense relates to the defined benefit plan for the Executive Directors of € 3,364 (2008: € 1,937) and the dba pension plan of € 545 (2008: € 46), contributions paid to defined contribution plans of € 5 (2008: € 18) and to the German social security system of € 26,687 (2008: € 27,713) during the period. Further details regarding the pension plans are found in note 13 above.

Remuneration of the Executive Directors is as follows:

In thousands of Euro	2009	2008
Basic remuneration	2,027	2,200
Bonus	1,164	1,139
Share based payment expense	(60)	(92)
Other	67	62
	<b>3,198</b>	<b>3,309</b>

The highest paid Director received € 1,621 in total remuneration in 2009 and € 1,501 in 2008, respectively. Directors' Remuneration is detailed in the Directors' Remuneration Report on pages 104 to 115.

The average number of persons employed by the Group (including Directors) during the year and the number of employees at year-end, analysed by category and on a full-time basis, were as follows:

	On annual average 2009	On annual average 2008	At 31 December 2009	At 31 December 2008
Employees				
Flight and cabin crew	4,553	4,826	4,489	4,681
Sales, operations and administration	3,670	3,655	3,789	3,630
	<b>8,223</b>	<b>8,481</b>	<b>8,278</b>	<b>8,311</b>

**23. OTHER OPERATING EXPENSES**

In thousands of Euro	2009	2008
Sales commissions paid to agencies	18,319	32,250
Repairs and maintenance of technical equipment	187,313	186,777
Advertising	53,548	56,480
Insurance	19,815	20,161
Hardware and software expenses	53,057	44,510
Bank charges	25,498	24,414
Travel expenses for cabin crews	27,991	31,197
Expenses for premises and vehicles	30,203	28,167
Loss from disposal of fixed assets, associates and subsidiaries	5,764	2,508
Training and other personnel expenses	11,969	15,423
Phone and postage	4,845	5,071
Allowances for receivables	2,467	1,310
Consulting fees	22,497	24,944
Remuneration of the auditor	3,055	2,843
Other	44,940	39,842
	<b>511,281</b>	<b>515,897</b>

Remuneration of the auditor is as follows:

In thousands of Euro	2009	2008
Audit of the annual accounts	110	128
Audit of accounts of subsidiaries of the Company	1,152	1,061
Other services pursuant to legislation	284	150
Taxation services	164	182
Other services	1,345	1,322
	<b>3,055</b>	<b>2,843</b>

**24. NET FINANCING COSTS**

In thousands of Euro	2009	2008
Interest expense on interest-bearing liabilities	(60,222)	(54,919)
Other financial expenses	(2,366)	(614)
Financial expenses	<b>(62,588)</b>	<b>(55,533)</b>
Interest income on fixed deposits	1,380	9,228
Interest income on loans and receivables	40	1,708
Other financial income	1,861	1,625
Income on redemption of convertible bonds	21,273	0
Financial income	<b>24,554</b>	<b>12,561</b>
Foreign exchange losses	<b>(12,938)</b>	<b>(28,989)</b>
Net financing costs	<b>(50,972)</b>	<b>(71,961)</b>





## 06) Financial Statements

As described in note 4n above, exchange rate differences not arising from interest-bearing liabilities and other financing activities are reclassified to the relevant line items within operating expenses.

Total net foreign exchange gains (losses) are reconciled to foreign exchange losses in profit or loss as follows:

In thousands of Euro	2009	2008
Total net foreign exchange gains (losses) recognised in profit or loss	37,776	(80,322)
Thereof reclassified to operating expenses	(50,714)	51,333
Foreign exchange losses in financial result	(12,938)	(28,989)

## 25. SHARE OF PROFIT (LOSS) OF ASSOCIATES

In thousands of Euro	2009	2008
Niki Luftfahrt GmbH	1,686	595
Lee & Lex Flugzeugvermietungs GmbH	(126)	(604)
IBERO Tours GmbH	51	32
Stockheim Air Catering GmbH & Co. KG*	0	(32)
Binoli GmbH	(586)	0
THBG BBI GmbH	(217)	0
	808	(9)

\* The investment was disposed as at 31 May 2008.

## 26. INCOME TAX EXPENSES AND DEFERRED TAXES (ADJUSTED)

Profit or loss before tax is primarily attributable to Germany.

Income tax expense is as follows:

In thousands of Euro	2009	2008 (adjusted)
Current income tax expense	(5,606)	(4,910)
Deferred income tax benefit (expense)	17,835	(8,631)
Total income tax benefit (expense)	12,229	(13,541)

The current income tax expense of the Air Berlin Group includes corporate tax, a solidarity charge in addition to corporate tax, trade tax and foreign income taxes. The current income tax expense of € 5,606 (2008: 4,910) includes € 380 of prior year income tax expenses (2008: income tax income for prior years of € 414).

The tax rate for the Air Berlin Group equals 30.18% (2008: 30.18%). It consists of corporate tax rate and solidarity charge of 15.83% and trade tax of 14.35%. The calculation of the trade tax rate includes the effect of the different trade tax rates depending on the municipality in which the Company operates.

As a result of variations in the tax rate in different jurisdictions, several subsidiaries have tax rates which differ from the Air Berlin Group tax rate. The difference to the Group tax rate is shown as "effect of tax rates in different jurisdictions" in the tax rate reconciliation in amount of € 7,635 (2008: € (11,337)). The reasons for the differences between the tax burden expected on the basis of profit for the period and the recognised income tax expenses are as follows:

In thousands of Euro	2009	2008 (adjusted)
Loss before tax	(21,697)	(69,977)
Expected income tax benefit at 30.18% (2008: 30.18%)	6,548	21,119
Effect of change in tax rate	0	153
Recognition of tax loss carry forwards previously not recognised	0	1,754
Effect of tax rates in different jurisdictions	7,635	(11,337)
Movement in deferred tax assets on tax loss carry forwards	6,701	(20,777)
Non-tax deductible expenses	(8,105)	(5,571)
Current tax (expenses) benefits previous years	(380)	414
Other	(170)	704
Total income tax benefit (expense)	12,229	(13,541)

As of 31 December 2009, total tax loss carry forwards for which deferred tax assets were capitalised amounted to € 312,399 for trade tax purposes and € 261,347 for corporate tax purposes (2008: € 379,270 and € 296,755 respectively). As of 31 December 2009, no additional deferred tax assets were capitalised for further loss carry forwards of € 595,330 for trade tax and € 845,663 for corporate tax (2008: € 634,783 and € 826,635). The tax loss carry forwards are not subject to expiration.

Deferred tax assets and liabilities are attributable to the following:

In thousands of Euro	2009	2008 (adjusted)
Deferred tax assets:		
Finance lease liabilities and deferred income	21,860	23,659
Foreign currency receivables and derivatives	18,058	74,946
Tax loss carry forward	79,617	95,604
	119,535	194,209
Deferred tax liabilities:		
Aircraft and engines and related liabilities	(67,367)	(70,721)
Land and buildings	(6,694)	(7,692)
Intangible assets	(28,472)	(35,099)
Technical equipment	(387)	(516)
Leasehold improvements	(83)	(87)
Accrued liabilities and provisions	(86)	(14,552)
Convertible bond	(20,410)	(9,644)
Foreign currency liabilities and derivatives	(363)	(1,343)
	(123,862)	(139,654)
Offsetting	119,535	194,209
Deferred tax (liabilities) assets, net	(4,327)	54,555
Deferred tax assets, net beginning of period	54,555	7,658
Change in deferred tax position	(58,882)	46,897
Thereof related to cash flow hedges and items recorded in equity	76,717	(55,528)
Deferred income tax benefit (expense)	17,835	(8,631)

The deferred tax asset on tax loss carry forwards takes into consideration the expected future tax benefits.



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## Income tax recognised in equity

In thousands of Euro	Before tax	2009 Tax (expense) benefit	Net of Tax	Before tax	2008 Tax (expense) benefit	Net of Tax
Transaction costs on issuance						
of new shares	(4,470)	1,340	(3,130)	0	0	0
Refund of transaction costs on issuance of new shares	4,184	(1,606)	2,578	0	0	0
Convertible bond and related transaction costs	49,549	(14,855)	34,694	0	0	0
	49,263	(15,121)	34,142	0	0	0

## Income tax recognised in other comprehensive income

In thousands of Euro	Before tax	2009 Tax (expense) benefit	Net of tax	Before tax	2008 Tax (expense) benefit	Net of tax
Foreign currency translation differences						
for foreign operations	(169)	0	(169)	1,137	0	1,137
Fair value of hedging instruments	204,115	(61,604)	142,511	(184,270)	55,528	(128,742)
	203,946	(61,604)	142,342	(183,133)	55,528	(127,605)

## 27. CASH FLOW STATEMENT

The cash flow statement of the Air Berlin Group is presented according to the indirect method. Cash and cash equivalents include cash, bank balances and fixed-term deposits with banks with a maturity of less than three months.

In thousands of Euro	2009	2008
Cash	650	1,042
Bank balances	84,204	55,510
Fixed-term deposits	288,379	211,735
Cash and cash equivalents	373,233	268,287
Bank overdrafts used for cash management purposes	(1,223)	(478)
Cash and cash equivalents in the statement of cash flows	372,010	267,809

Cash and cash equivalents include restricted cash of € 80,749 as of 31 December 2009 (31 December 2008: € 66,355).

**28. DERIVATIVES**

Positive and negative market values of derivatives are as follows:

In thousands of Euro	Current 2009	Non-current 2009	Total 2009	Current 2008	Non-current 2008	Total 2008
<b>Positive market values of derivatives classified as held for trading:</b>						
Forward contracts	954	0	954	3,587	0	3,587
Foreign currency options	525	0	525	2,504	0	2,504
Commodity options	269	0	269	304	0	304
Cross currency interest rate swaps	0	14	14	0	640	640
Total positive market values of derivatives classified as held for trading	1,748	14	1,762	6,395	640	7,035
<b>Positive market values of derivatives classified as hedge accounting:</b>						
Forward contracts	9,450	0	9,450	34,750	0	34,750
Foreign currency options	2,493	0	2,493	5,422	0	5,422
Commodity swaps	7,513	0	7,513	0	0	0
Commodity options	2,517	0	2,517	0	0	0
Cross currency interest rate swaps	0	0	0	0	24	24
Total positive market values of derivatives classified as hedge accounting	21,973	0	21,973	40,172	24	40,196
Total positive market values of derivatives	23,721	14	23,735	46,567	664	47,231
<b>Negative market values of derivatives classified as held for trading:</b>						
Forward contracts	851	0	851	2,636	0	2,636
Foreign currency options	0	0	0	3,192	0	3,192
Commodity options	0	0	0	489	0	489
Cross currency interest rate swaps	6,587	66,430	73,017	6,893	51,109	58,002
Total negative market values of derivatives classified as held for trading	7,438	66,430	73,868	13,210	51,109	64,319
<b>Negative market values of derivatives classified as hedge accounting:</b>						
Forward contracts	4,484	0	4,484	3,077	0	3,077
Foreign currency options	731	0	731	0	0	0
Commodity swaps	104	0	104	220,283	0	220,283
Commodity options	0	0	0	165	0	165
Cross-currency interest rate swaps	0	4,423	4,423	0	7,658	7,658
Total negative market values of derivatives classified as hedge accounting	5,319	4,423	9,742	223,525	7,658	231,183
Total negative market values of derivatives	12,757	70,853	83,610	236,735	58,767	295,502

Hedge accounting is discussed in note 29g below.



## 06) Financial Statements

## 29. FINANCIAL RISK MANAGEMENT

## a) Credit risk

The carrying amount of financial assets represents the maximum credit exposure.

The maximum exposure to credit at the reporting date was:

In thousands of Euro	Note	Carrying amount 2009	Carrying amount 2008
Loans and receivables	9	264,799	225,693
Positive market values of derivatives classified as held for trading	28	1,762	7,035
Positive market values of derivatives classified as hedge accounting	28	21,973	40,196
Cash and cash equivalents	27	373,233	268,287
		661,757	541,211

The maximum exposure to credit risk for trade receivables at the reporting date by type of customer was:

In thousands of Euro	2009	2008
Receivables from single-seat ticket sales	9,669	6,850
Receivables from charter sales	12,308	9,872
Receivables from credit card companies	21,860	21,015
Receivables from IATA clearing house ("BSP" travel agencies)	15,688	17,042
Other trade receivables	35,855	52,313
	95,380	107,092

Other trade receivables relate primarily to receivables from other airlines for technical services (2009: € 8,794, 2008: € 15,782) and to receivables from cargo services (2009: € 14,305, 2008: € 941).

## b) Impairment losses

## -- TRADE RECEIVABLES

The aging of trade receivables at the reporting date was:

In thousands of Euro	Gross 2009	Impairment 2009	Gross 2008	Impairment 2008
Not past due	72,547	948	91,247	0
Past due 1–30 days	5,224	2,056	3,943	3
Past due 31–120 days	13,821	1,057	4,882	506
Past due 121–365 days	8,097	1,091	6,485	1,176
More than one year past due	7,694	6,851	5,579	3,359
	107,383	12,003	112,136	5,044

Trade receivables are analysed for a possible impairment loss according to historical data on impairment losses as discussed below. Receivables which are neither past due nor impaired are generally considered to contain only a small risk of impairment based on past experience. The consideration is the same for receivables that are 1–30 days overdue. However, due to the worldwide crises in financial markets and the impact on the world economy, which affected Air Berlin's customers, the impairment losses increased in the reporting period.

The movement in the impairment allowance is as follows:

In thousands of Euro	Allowance for impairment losses 2009	Allowance for impairment losses 2008
Balance at 1 January	5,044	4,009
Increase in allowance for impairment losses	9,426	4,444
Release of allowance for impairment losses	(2,467)	(3,409)
Balance at 31 December	12,003	5,044

The allowance for impairment losses is used to record impairment losses until the Group determines that the financial asset should be derecognised.

The allowance for impairment losses is based on estimates and judgements regarding the credit worthiness of individual receivables, the actual customer structure and an analysis of historical impairment losses. A companywide credit control process is implemented. The third notice is issued along with a court order, and an allowance for impairment losses of 60% is recorded on the receivable. This percentage represents the probability of impairment loss based on past experience. Receivables more than one year past due are written off completely. At the balance sheet date the allowance for impairment losses is € 12,003 (2008: € 5,044).

#### -- OTHER LOANS AND RECEIVABLES

None of the other loans and receivables were past due as of 31 December 2009 (2008: none), and there were no renegotiations of payment terms during the period which would otherwise have resulted in overdue receivables. Impairment losses of € 2,000 (2008: none) have been recorded on other financial assets.

These receivables relate primarily to amounts due from suppliers (deposits and bonus and claims). The Group only enters into contracts with suppliers of high quality and as such does not consider there to be a significant impairment risk relating to these amounts.

Receivables from related parties relate primarily to amounts due from Niki for administrative services provided and clearing accounts and to the long-term loans receivable from Lee & Lex. As the receivables are not overdue and payments have been made on time in the past, the Group does not consider an impairment loss to be necessary.

#### -- CASH AND CASH EQUIVALENTS AND POSITIVE MARKET VALUES OF DERIVATIVES

No impairment has been recorded on bank balances or positive market values of derivatives, as the transactions are only made with parties of the highest credit rating or, in the case of derivative financial instruments, with parties that are known to be reliable based on past experience (past customer behaviour regarding timely payments of amounts due). The Group considers its net position in determining its impairment risk on bank balances and positive market values of derivatives.



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## c) Liquidity risk

The following are the contractual undiscounted maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements as at 31 December 2009:

In thousands of Euro	Carrying amount	Contractual cash flows	6 months or less	7–12 months	1–2 years	2–5 years	More than 5 years
<b>Non-derivative financial liabilities</b>							
Liabilities due to bank from							
assignment of future lease payments	660,386	728,098	45,705	45,397	103,819	233,090	300,087
Finance lease liabilities	89,623	126,621	6,554	6,554	12,820	28,166	72,527
Convertible bonds – liability component	196,089	320,558	7,665	5,625	13,290	293,978	0
Trade payables and							
other financial liabilities	95,438	95,438	95,438	0	0	0	0
Bank overdraft	1,223	1,223	1,223	0	0	0	0
Total financial liabilities measured at amortised cost	1,042,759	1,271,938	156,585	57,576	129,929	555,234	372,614
<b>Derivative financial liabilities</b>							
Derivatives classified as hedge accounting:							
Cross-currency interest rate swaps	4,423	4,531	632	632	1,265	2,002	0
Outflow		17,140	2,392	2,391	4,784	7,573	0
Inflow		(12,609)	(1,760)	(1,759)	(3,519)	(5,571)	0
Forward exchange contracts	4,484	4,735	4,735	0	0	0	0
Outflow		251,234	251,234	0	0	0	0
Inflow		(246,499)	(246,499)	0	0	0	0
Foreign currency options	731	2,645	2,645	0	0	0	0
Outflow		85,944	85,944	0	0	0	0
Inflow		(83,299)	(83,299)	0	0	0	0
Commodity swaps	104	104	104	0	0	0	0
Outflow		104	104	0	0	0	0
Inflow		0	0	0	0	0	0
Derivatives classified as held for trading:							
Cross-currency interest rate swaps	73,017	77,186	15,142	12,060	21,281	29,028	(325)
Outflow		622,677	74,716	70,495	135,182	313,807	28,477
Inflow		(545,491)	(59,574)	(58,435)	(113,901)	(284,779)	(28,802)
Forward exchange contracts	851	668	508	160	0	0	0
Outflow		44,278	38,724	5,554	0	0	0
Inflow		(43,610)	(38,216)	(5,394)	0	0	0
	1,126,369	1,361,807	180,351	70,428	152,475	586,264	372,289

In addition to the contractual cash flows above, the Group has capital commitments under purchase arrangements for aircrafts. For more details see note 31.

For 31 December 2008, the maturities were as follows:

In thousands of Euro	Carrying amount	Contractual cash flows	6 months or less	7–12 months	1–2 years	2–5 years	More than 5 years
<b>Non-derivative financial liabilities</b>							
Liabilities due to bank from							
assignment of future lease payments	683,474	792,046	47,588	47,114	93,948	280,308	323,088
Secured bank loans	32,386	37,406	2,764	2,761	5,533	12,001	14,347
Unsecured bank loans	26,678	26,949	20,250	6,699	0	0	0
Finance lease liabilities	96,557	139,733	6,473	6,488	13,055	32,115	81,602
Convertible bonds – liability component	190,696	233,200	3,300	0	3,300	226,600	0
Trade payables and other financial							
liabilities	108,938	108,938	108,938	0	0	0	0
Bank overdraft	478	478	478	0	0	0	0
Total financial liabilities measured at amortised cost	1,139,207	1,338,750	189,791	63,062	115,836	551,024	419,037
<b>Derivative financial liabilities</b>							
Derivatives classified as hedge accounting:							
Cross-currency interest rate swaps	7,658	5,410	766	1,129	1,970	4,012	(2,467)
Outflow		71,941	3,690	4,738	9,375	26,361	27,777
Inflow		(66,531)	(2,924)	(3,609)	(7,405)	(22,349)	(30,244)
Forward exchange contracts	3,077	3,176	2,954	222	0	0	0
Outflow		187,483	176,483	11,000	0	0	0
Inflow		(184,307)	(173,529)	(10,778)	0	0	0
Commodity swaps	220,283	220,283	151,181	69,102	0	0	0
Outflow		220,283	151,181	69,102	0	0	0
Inflow		0	0	0	0	0	0
Commodity options	165	165	62	103	0	0	0
Outflow		165	62	103	0	0	0
Inflow		0	0	0	0	0	0
Derivatives classified as held for trading:							
Cross-currency interest rate swaps	58,002	79,630	7,269	15,726	17,338	33,823	5,474
Outflow		647,371	40,707	100,461	134,302	306,514	65,387
Inflow		(567,741)	(33,438)	(84,735)	(116,964)	(272,691)	(59,913)
Forward exchange contracts	2,636	2,477	1,106	1,371	0	0	0
Outflow		46,705	32,334	14,371	0	0	0
Inflow		(44,228)	(31,228)	(13,000)	0	0	0
Foreign currency options	3,192	397	397	0	0	0	0
Outflow		108,870	108,870	0	0	0	0
Inflow		(108,473)	(108,473)	0	0	0	0
Commodity options	489	489	113	376	0	0	0
Outflow		489	113	376	0	0	0
Inflow		0	0	0	0	0	0
	1,434,709	1,650,777	353,639	151,091	135,144	588,859	422,044





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The amounts disclosed in the maturity analysis are the contractual undiscounted cash flows, including future interest payments. Amounts in USD are translated at the relevant year-end exchange rate, and variable interest payments are calculated using the year-end basis rates.

The Group intends to meet its obligations primarily through cash balances held and cash inflows from operations and in the case of purchases of new aircraft (not included above) through future borrowings which are already in place for aircraft deliveries in 2010 and early 2011.

**d) Currency risk**

The Group has significant transactions in USD as well as smaller transactions in GBP and CHF. Air Berlin enters into USD currency forwards and options in order to manage functional currency risk which arises on operating costs (e.g. payments regarding aircraft financing and leasing, fuel, maintenance etc.) denominated in USD. Air Berlin generally hedges up to 75% (2008: 75%) of the expected cash flow on a 6–18 month (2008: 6–18 month) revolving basis.

The Group's exposure to foreign currency risk was as follows based on the currency values at end of year:

In thousands of currency units	31 December 2009			31 December 2008		
	USD	GBP	CHF	USD	GBP	CHF
Loans and receivables	58,547	4,248	1,907	65,719	1,009	3,058
Cash and cash equivalents	66,599	526	23,901	68,871	531	14,007
Liabilities due to bank from						
assignment of future lease payments	(861,382)	0	0	(844,422)	0	0
Secured bank loans	0	0	0	(45,072)	0	0
Unsecured bank loans	0	0	0	(37,128)	0	0
Finance lease liabilities	(59,258)	0	0	(67,562)	0	0
Trade payables and						
other financial liabilities	(18,265)	(732)	(2,000)	(29,739)	(188)	(4,247)
Bank overdraft	0	0	0	(100)	(81)	0
Total exposure of balance positions	(813,759)	4,042	23,808	(889,433)	1,271	12,818
Estimated forecast purchases	(1,834,600)	0	0	(1,805,000)	0	0
Gross exposure	(2,648,359)	4,042	23,808	(2,694,433)	1,271	12,818
Forward exchange contracts						
(hedged volume in USD)	644,850	0	0	1,139,500	0	0
Foreign currency options						
(hedged volume in USD)	366,500	0	0	120,000	0	0
Cross currency interest rate swaps						
(hedged volume in USD)	780,807	0	0	897,914	0	0
Net exposure	(856,202)	4,042	23,808	(537,019)	1,271	12,818

The estimated forecast purchases shown above are for a twelve-month period. The volume hedged through forward exchange contracts and forward exchange options is for estimated forecast purchases for up to two years. The volume hedged through cross currency interest rate swaps is the nominal amount of the interest-bearing liabilities in USD.

The following significant exchange rates applied during the year:

Currency units to the Euro	Average rate		Reporting date spot rate	
	2009	2008	2009	2008
USD	<b>1.3948</b>	1.4708	<b>1.4406</b>	1.3917
GBP	<b>0.8909</b>	0.7963	<b>0.8881</b>	0.9525
CHF	<b>1.5100</b>	1.5874	<b>1.4836</b>	1.4850

#### -- SENSITIVITY ANALYSIS

A sensitivity analysis was performed on the year-end balances of foreign currency financial assets and liabilities and the fair values of derivative financial instruments existing at year-end. The assumptions used in the calculation of currency risk were the same as those used in the prior year. Assuming that all other variables, in particular interest rates, remain constant, a 10 per cent strengthening of the Euro against the following currencies at 31 December would have increased or decreased equity and profit or loss by the following amounts:

Effect in thousands of Euro	31 December 2009			31 December 2008		
	USD	GBP	CHF	USD	GBP	CHF
Profit or loss	1,956	(414)	(1,459)	1,340	(121)	(785)
Equity	(50,699)	0	0	(76,824)	0	0

A 10 per cent weakening of the Euro against the above mentioned currencies at 31 December would have increased (decreased) equity and profit or loss by the following amounts:

Effect in thousands of Euro	31 December 2009			31 December 2008		
	USD	GBP	CHF	USD	GBP	CHF
Profit or loss	(2,584)	506	1,783	(7,058)	148	959
Equity	64,948	0	0	87,803	0	0

#### e) Interest rate risk

The interest rate profile of the Group is as follows:

In thousands of Euro	Carrying amount	
	2009	2008
<b>Fixed rate instruments</b>		
Financial assets	<b>3,890</b>	3,510
Financial liabilities	<b>(65,384)</b>	(266,788)
Cross-currency interest rate swaps	<b>(77,426)</b>	(64,996)
	<b>(138,920)</b>	(328,274)
<b>Variable rate instruments</b>		
Financial assets	<b>1,500</b>	3,500
Financial liabilities	<b>(595,001)</b>	(666,447)
	<b>(593,501)</b>	(662,947)



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The variable rate interest bearing liabilities and liabilities due to banks from assignment of future lease payments, which are generally denominated in USD, expose the Group to variability in interest payments due to changes in interest rates as well as to a foreign currency risk. The interest risk results from the sensitivity of financial assets and financial liabilities with variable interest rates to changes in the market interest rate. Air Berlin uses cross currency interest rate swaps to hedge these risks. The swaps are considered cash flow hedges from their inception until the liability is recorded in the statement of financial position, at which point the interest rate swaps are classified as held for trading, with future changes in market value taken to profit or loss.

### -- FAIR VALUE SENSITIVITY ANALYSIS FOR FIXED RATE INSTRUMENTS

The Group does not account for any fixed rate financial instruments at fair value through profit or loss, and the Group does not designate any of its derivatives (interest rate swaps) as fair value hedge accounting instruments. Therefore a change in interest rates (unless they resulted in the hedge becoming ineffective) at the reporting date would only affect profit or loss to the extent that it affects the fair value of interest rate swaps not designated as hedge accounting (held for trading). A change of 100 basis points in interest rates would have increased or decreased equity by € 274 (2008: € 516) and profit or loss by € 14,313 (2008: € 6,303) based on a one year impact.

### -- CASH FLOW SENSITIVITY ANALYSIS FOR VARIABLE RATE INSTRUMENTS

Assuming that all other variables, in particular foreign currency rates, remain constant, a change of 100 basis points in interest rates would have increased or decreased profit or loss (financial result) by € 1,152 (2008: € 1,323) and had no effect on equity over the twelve-month period, based on the balance sheet amounts at the reporting date and taking into consideration the effect of interest rate swaps.

## f) Fuel price risk

The fuel price (jet fuel) plays an important role as far as the business performance of the Group is concerned. Fuel expense amounted to 22.0% (2008: 25.5%) of the Group's entire operating expenses. Air Berlin uses commodity swaps as well as commodity options to hedge the exposure to fuel price increases. At the end of the period 2009, the hedged volume was 523,500 tons for the business year 2010 (2008: 681,000 tons for 2009). The hedging quota was 40.3% for 2010 (in the prior year: 55.8% for 2009).

### -- SENSITIVITY ANALYSIS

Assuming that all other variables, in particular foreign currency rates, remain constant, a 10% increase in the fuel price at the reporting date would have increased equity by € 18,585 (2008: € 23,286) and profit or loss by € 797 (2008: € 0). A 10% decrease in the fuel price at the reporting date would have decreased equity by € 17,250 (2008: € 23,286) and profit or loss by € 2,237 (2008: € 0).

The calculation is based on the fair values of commodity derivatives (swaps and options) at the end of the period. The assumptions used were the same as in the prior period.

## g) Hedge accounting

As an airline, the Air Berlin Group is exposed to currency, interest rate and fuel price risks as well as credit and liquidity risks. Air Berlin uses derivatives to limit these risks.

Air Berlin applies hedge accounting for its hedges of future foreign currency denominated cash flows and its hedges of future cash flows related to the purchase of jet fuel that satisfy the criteria under IAS 39, thus reducing income statement volatility. In addition, as of the third quarter of 2007 Air Berlin applies hedge accounting for its foreign currency options and for several of its hedges of future cash flows resulting from variable USD interest rate payments. These hedging transactions are accounted for as cash flow hedges.

IAS 39 sets out strict requirements on the use of hedge accounting. Air Berlin fulfils those requirements by documenting, at the inception of a hedge, both the relationship between the derivative used as the hedging instrument and the hedged item, as well as the aim and strategy of the hedge. This includes assigning the hedging instruments to the corresponding firm commitments and future transactions and also estimating the degree of effectiveness of the hedging instruments employed. The effectiveness of existing hedge accounting is monitored on an ongoing basis. For hedge accounting, the change in the fair value of the hedging instrument is deferred in equity to the extent the hedge is effective. Accumulated fair value changes from qualifying hedges are removed from equity to profit or loss in the period when the hedged cash flow affects profit or loss (2009 and 2010 for foreign currency and fuel hedges, 2009 to 2015 for cross-currency interest rate hedges).

Air Berlin also uses hedges that do not satisfy the strict hedge accounting criteria of IAS 39. For such derivatives Air Berlin recognises the changes in fair value in profit or loss. The fair values of derivatives are presented in a separate line in the statement of financial position.

The fair values of derivatives for hedging exchange rate, interest rate and fuel price risks at 31 December 2009 and their movement during the period are as follows:

In thousands of Euro	Fair value at 31 December 2008	Transfer to hedge accounting	Change in fair value recognised in profit or loss	Change in fair value recognised in in equity	Removed from equity to profit or loss	Option premium paid	Fair value at 31 December 2009
<b>Cash flow hedges, (net):</b>							
Forward contracts	31,673	0	0	12,732	(39,439)	0	4,966
Foreign currency options	5,422	0	1,232	(370)	(4,522)	0	1,762
Cross-currency interest rate swaps	(7,635)	0	(1,102)	943	3,370 <sup>1</sup>	0	(4,424)
Commodity swaps (fuel price)	(220,283)	0	0	40,358	187,334	0	7,409
Commodity options (fuel price)	(165)	0	(1,027)	2,305	1,404	0	2,517
<b>Held for trading, (net):</b>							
Forward contracts	952	0	(849)	0	0	0	103
Foreign currency options	(688)	0	1,213	0	0	0	525
Cross-currency interest rate swaps	(57,362)	0	(12,270)	0	(3,370) <sup>1</sup>	0	(73,002)
Commodity options (fuel price)	(185)	0	454	0	0	0	269
	(248,271)	0	(12,349)	55,968	144,777	0	(59,875)

<sup>1</sup> Reclassification from cash flow hedges to held for trading in 2009.



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The change in fair value of derivatives was as follows in 2008:

In thousands of Euro	Fair value at 31 December 2007	Transfer to hedge accounting	Change in fair value recognised in profit or loss	Change in fair value recognised in in equity	Removed from equity to profit or loss	Option premium paid	Fair value at 31 December 2008
<b>Cash flow hedges, (net):</b>							
Forward contracts	(77,721)	0	0	52,198	57,196	0	31,673
Foreign currency options	(1,321)	27	0	6,716	0	0	5,422
Cross-currency interest rate swaps	(511)	0	(85)	(14,709)	7,670	0	(7,635)
Commodity swaps (fuel price)	68,427	0	0	(122,899)	(165,811)	0	(220,283)
Commodity options (fuel price)	2,396	0	0	(4,630)	0	2,069	(165)
<b>Held for trading, (net):</b>							
Forward contracts	1,050	0	(98)	0	0	0	952
Foreign currency options	(2,566)	(27)	1,905	0	0	0	(688)
Cross-currency interest rate swaps	(67,022)	0	9,660	0	0	0	(57,362)
Commodity swaps (fuel price)	137	0	(137)	0	0	0	0
Commodity options (fuel price)	0	0	(185)	0	0	0	(185)
	(77,131)	0	11,060	(83,324)	(100,945)	2,069	(248,271)

All foreign currency options and commodity options (fuel price) entered into during the period meet the qualifications of hedge accounting and are accounted for as cash flow hedges. The change in the intrinsic value is recorded in equity, and the change in the time value is recorded in profit or loss.

Hedge accounting concerning the cross-currency interest rate swaps are accounted for as cash flow hedges. Those cross-currency interest rate swaps which do not meet the criteria for hedge accounting continue to be recorded in profit or loss and are classified as held for trading.

Cash flow hedges are expected to impact profit or loss in the same period in which the cash flows are expected to occur, as detailed in section c "liquidity risk" above.

#### h) Fair values

Fair value is the amount obtainable in an arm's length transaction between knowledgeable willing parties. The fair values of financial assets and liabilities, together with their carrying amounts shown in the statement of financial position, are as follows:

In thousands of Euro	Note	31 December 2009		31 December 2008	
		Carrying amount	Fair value	Carrying amount	Fair value
<b>Loans and receivables:</b>					
Total loans and receivables	9	264,799	264,799	225,693	226,304
<b>Positive market values of derivatives classified as held for trading:</b>					
Forward exchange contracts	28	954	954	3,587	3,587
Foreign currency options	28	525	525	2,504	2,504
Commodity options (fuel price)	28	269	269	304	304
Cross-currency interest rate swaps	28	14	14	640	640
<b>Positive market values of derivatives classified as hedge accounting:</b>					
Forward exchange contracts	28	9,450	9,450	34,750	34,750
Foreign currency options	28	2,493	2,493	5,422	5,422
Commodity swaps (fuel price)	28	7,513	7,513	0	0
Commodity options (fuel price)	28	2,517	2,517	0	0
Cross-currency interest rate swaps	28	0	0	24	24
Total positive market values of derivatives					
at fair value through profit and loss		23,735	23,735	47,231	47,231
Cash and cash equivalents	27	373,233	373,233	268,287	268,287
<b>Financial liabilities measured at amortised cost:</b>					
Liabilities due to bank from assignment of					
future lease payments	15	(660,386)	(654,341)	(683,474)	(670,732)
Secured bank loans	15	0	0	(32,386)	(31,087)
Unsecured bank loans	15	0	0	(26,678)	(26,536)
Finance lease liabilities	15	(89,623)	(97,497)	(96,557)	(106,496)
Convertible bonds – liability component	15	(196,089)	(219,043)	(190,696)	(168,524)
Trade payables and other financial liabilities	17	(95,438)	(95,438)	(108,938)	(108,938)
Bank overdraft	15	(1,223)	(1,223)	(478)	(478)
Total financial liabilities measured at amortised cost		(1,042,759)	(1,067,542)	(1,139,207)	(1,112,790)
<b>Negative market values of derivatives classified as hedge accounting:</b>					
Forward exchange contracts	28	(4,484)	(4,484)	(3,077)	(3,077)
Foreign currency options	28	(731)	(731)	0	0
Commodity swaps (fuel price)	28	(104)	(104)	(220,283)	(220,283)
Commodity options (fuel price)	28	0	0	(165)	(165)
Cross-currency interest rate swaps	28	(4,423)	(4,423)	(7,658)	(7,658)
<b>Negative market values of derivatives classified as held for trading:</b>					
Forward exchange contracts	28	(851)	(851)	(2,636)	(2,636)
Foreign currency options	28	0	0	(3,192)	(3,192)
Commodity options (fuel price)	28	0	0	(489)	(489)
Cross-currency interest rate swaps	28	(73,017)	(73,017)	(58,002)	(58,002)
Total negative market values of derivatives					
at fair value through profit and loss		(83,610)	(83,610)	(295,502)	(295,502)
		(464,602)	(489,385)	(893,498)	(866,470)



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The following summarises the major methods and assumptions used in estimating the fair values of financial instruments:

#### Derivatives

Forward exchange, interest rate and fuel price derivatives are carried at fair value, by valuation model. The valuation is performed using the quoted prices that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e. derived from prices). Therefore, all the derivative financial instruments of Air Berlin relate to the Level 2 of the three level hierarchy as defined in IFRS 7.27A.

#### Interest-bearing loans and borrowings

Fair value is calculated based on discounted expected future principal and interest cash flows using current rates.

#### Trade and other receivables / payables

For receivables/payables with a remaining life of less than one year, the carrying value is deemed to reflect the fair value. All other receivables/payables are discounted to determine the fair value.

#### Cash and cash equivalents

Due to the short maturity date, the notional amount is deemed to reflect the fair value.

#### i) Net gain or loss

The net gains (losses) on financial assets and liabilities during the period are as follows:

In thousands of Euro	2009	2008
Loans and receivables	(14,655)	(7,259)
Cash and cash equivalents	1,612	5,008
Derivatives	19,034	(2,963)
Financial liabilities measured at amortised cost	16,450	(38,179)
	22,441	(43,393)

This includes foreign exchange rate gains (losses), impairment losses and reversals of impairment losses, changes in fair value recognised in profit or loss and gains (losses) on disposal.

No interest income, fee income and fee expense was accrued on impaired financial assets during the period (2008: none).

#### 30. RELATED PARTY TRANSACTIONS

The Group has related party relationships with its Directors and key management as well as with its associates (see note 7).

Total remuneration of Directors is included in the Directors' Remuneration Report (see pages 104 to 115). The share-based payment scheme for Executive Directors and certain senior executives of the Group is detailed in note 12.

One of the Executive Directors of the Group controls a voting share of 2.64% (2008: 3.15%) of Air Berlin. In addition, a receivable of € 25 is due from one of the Directors and is included in other current assets in the statement of financial position as at 31 December 2009 (2008: € 2).

The Chairman of the Board, also a shareholder of the Company with a voting share of 1.58% (2008: 1.52%), is the main shareholder of Phoenix Reisen GmbH. The Group had revenues from ticket sales with Phoenix Reisen GmbH in 2009 and 2008 of € 18,679 and € 18,197, respectively. At 31 December 2009 and 2008, € 729 and € 2,663, respectively, are included in the statement of financial position in trade receivables.

During the years ending 31 December 2009 and 2008, associates purchased or delivered goods and services from the Group as follows:

In thousands of Euro	2009	2008
<b>IBERO-Tours</b>		
Other income from cost transfer	9	0
Expenses for services	87	1,177
Trade payables	0	13
<b>SCK DUS GmbH &amp; Co. KG</b>		
Catering expenses	0	7,073
<b>THBG BBI</b>		
Receivables from related parties, non-current	1,908	1,824
<b>BINOLI GmbH</b>		
Revenues from ticket sales	0	629
Other income from cost transfer	380	0
Receivables from related parties, non-current	39	250
Receivables from related parties, current	148	0
Trade and other receivables	9	230
<b>Lee &amp; Lex Flugzeugvermietung GmbH</b>		
Receivables from related parties, non-current	698	844
Receivables from related parties, current	66	0
<b>Niki Luftfahrt GmbH</b>		
Revenues	245	0
Other operating expenses	0	810
Other income from administrative services	2,381	1,027
Other income from cost transfer	6,000	0
Receivables from related parties, current	26,778	13,760

Transactions with associates are priced on an arm's length basis.

In 2009 no dividends have been received from associates (2008: € 211).

### 31. CAPITAL COMMITMENTS

The Group's contracts to purchase aircraft are set out as follows:

Date of contract	Supplier	Number of aircraft	Type of aircraft	Delivery dates	Delivered in 2009	Delivered in 2008	Deliveries outstanding 31 Dec. 09	Thereof in 2010
2004	Airbus	60	A320/319/321	2005–2012	8	9	19	13
2006–2007	Boeing	97	B737-700/800	2007–2014	7	4	82	9
7/2007	Boeing	25	B787	2013–2017	0	0	25	0
10/2007	Bombardier	10	Q400	2008–2009	8	2	0	0





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**32. EXECUTIVE BOARD OF DIRECTORS**

<b>Executive Directors</b>	Joachim Hunold	Chief Executive Officer
	Ulf Hüttmeyer	Chief Financial Officer
	Christoph Debus	Chief Commercial Officer, since 1 June 2009

**33. SUBSEQUENT EVENTS**

On 17 February 2010 Air Berlin PLC & Co. Luftverkehrs KG acquired a further 25.9% of the share capital of NIKI Luftfahrt GmbH (NIKI) for a purchase price of € 21,000 from Privatstiftung Lauda (private Lauda foundation). The Group interest in the share capital of NIKI would be 49.9%. As a result of the analyses of the transaction, Air Berlin has to account for it in accordance with IFRS 3 Business Combinations, provided Air Berlin receives approval from the antitrust agency.

In connection with the increase of its shareholding, Air Berlin PLC & Co. Luftverkehrs KG provides the private Lauda foundation a loan of 40.5 million Euro. The private Lauda foundation has the option of repaying the loan in three years with cash or through the transfer of the remaining 50.1% of NIKI Luftfahrt GmbH's shares.

The initial accounting of this business combination was incomplete at the time when the financial statements were authorised for issue, therefore, the disclosures about the major classes of consideration transferred, assets and liabilities acquired, recognized goodwill, accounting for non-controlling interest as well as disclosures for the business combination achieved in stages could not be made.

In March 2010 Air Berlin has reduced the number of firm orders of Boeing 787 aircraft from 25 to 15 and the number of options from 10 to 5. Furthermore the delivery of 9 Boeing 737 aircraft was rescheduled to 2015. These aircraft were originally scheduled for delivery in 2010 or 2011.

**34. NOTES TO THE COMPANY'S STATEMENT OF FINANCIAL POSITION****a) Significant accounting policies**

The accounting framework and significant accounting policies described in notes 2 and 4 above also apply to the Company financial statements. In addition the following accounting policies were applied:

Investments in subsidiaries and in associates are recorded at cost less accumulated impairment losses and are tested for impairment if an indication of impairment exists.

Receivables from subsidiaries and payables to subsidiaries and to associates are initially measured on the basis of their fair value. Subsequently they are carried at amortised cost using the effective interest method.

The Company has recorded financial assets and financial liabilities in the statement of financial position.

Categories of financial assets and financial liabilities which apply to Air Berlin PLC are as follows:

- ✈ Loans and receivables
- ✈ Financial assets and liabilities at fair value through profit or loss classified as held for trading in accordance with IAS 39 (derivative financial instruments)
- ✈ Financial liabilities measured at amortised cost (includes trade payables and other financial liabilities as well as interest-bearing liabilities)

The Company has defined the following classes of financial assets and financial liabilities:

- ✈ Loans and receivables
- ✈ Derivative financial instruments classified as held for trading
- ✈ Financial liabilities measured at amortised cost (includes interest-bearing liabilities, trade payables and other financial liabilities)
- ✈ Cash and cash equivalents

#### b) Investments in subsidiaries

A detailed list of the companies in which the Company has interests, direct and indirect, is found in note 35 to the consolidated financial statements. The Company is general partner of Air Berlin PLC & Co. Luftverkehrs KG.

In thousands of Euro	2009	2008
Acquisition cost		
Balance at 1 January 2008	220,958	143,315
Additions	33	77,668
Disposals	0	(25)
Increase in subsidiaries capital	250,001	0
Balance at 31 December	470,992	220,958

In the reporting period the Company assigned trade receivables of € 95,000 and cash contributions of € 155,000 to Pegasus Erste Luftfahrtbeteiligungsgesellschaft mbH, Pegasus Zweite Luftfahrtbeteiligungsgesellschaft mbH, Pegasus Dritte Luftfahrtbeteiligungsgesellschaft mbH, Pegasus Vierte Luftfahrtbeteiligungsgesellschaft mbH, Pegasus Fünfte Luftfahrtbeteiligungsgesellschaft mbH, Pegasus Sechste Luftfahrtbeteiligungsgesellschaft mbH and Pegasus Siebte Luftfahrtbeteiligungsgesellschaft mbH. The carrying amount of the subsidiaries was increased by these amounts.

#### c) Deferred tax assets

Profit or loss before tax is completely attributable to Germany.

Income tax expense is as follows:

In thousands of Euro	2009	2008
Current income tax expense	(2,099)	(2,482)
Deferred income tax benefit	226	2,403
Total income tax expense	(1,873)	(79)

The current income tax expense of the Company includes corporate tax, a solidarity charge in addition to corporate tax and trade tax. The current income tax expense includes € 157 of prior year income tax benefit (2008: € 74).



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The tax rate of the Company equals 29.98% (2008: 30.42%). It consists of corporate tax rate and solidarity charge of 15.83% and trade tax of 14.15%. The calculation of the trade tax rate includes the effect of the different trade tax rates depending on the municipality in which the Company operates.

Reconciliation between the tax expense expected on the basis of profit for a period and the recognised income tax expense is as follows:

In thousands of Euro	2009	2008
Profit before tax	19,172	41,478
Expected income tax expense at 29.98% (2008: 30.42%)	(5,748)	(12,618)
Effect of change in tax rate	245	153
Recognition of tax loss carry forwards previously not recognised	0	923
Effect of tax pooling agreements with subsidiaries	9,084	11,557
Write down of deferred tax assets on tax loss carry forwards	(2,865)	0
Effect from non-deductible expenses	(2,552)	(464)
Current tax benefits from previous years	157	74
Other	(194)	296
Total income tax expense recognised	(1,873)	(79)

The total tax loss carry forward was € 20,136 (2008: € 43,181) for trade tax purposes and € 120,986 (2008: € 120,013) for corporate tax purposes as at 31 December 2009. As of 31 December 2009, no additional deferred tax assets were capitalised for further loss carry forwards of € 15,126 for corporate tax and (2008: € 0). The tax loss carry forwards are not subject to expiration.

Deferred tax assets are attributable to the following:

In thousands of Euro	2009	2008
Deferred tax assets		
Accrued liabilities and provisions	1,041	453
Negative market values of derivatives	2,552	4,477
Tax loss carry forwards	21,690	25,296
Total deferred tax assets	25,283	30,226
Deferred tax liabilities		
Convertible bond	(20,410)	(9,644)
Positive market values of derivatives	(17)	(831)
Total deferred tax liabilities	(20,427)	(10,475)
Offsetting	25,283	30,226
Deferred tax assets, net	4,856	19,751
Deferred tax assets, net beginning of period	19,751	17,435
Change in deferred tax assets	(14,895)	2,316
thereof related to items recorded in equity	15,121	87
Deferred income tax benefit	226	2,403

The deferred tax asset on tax loss carry forwards takes into consideration the expected future tax benefits.

**Income tax recognised in equity**

In thousands of Euro	2009			2008		
	Before tax	Tax (expense) benefit	Net of Tax	Before tax	Tax (expense) benefit	Net of Tax
Transaction costs on issuance of new shares	(4,470)	1,340	(3,130)	0	0	0
Refund of transaction costs on issuance of new shares	4,184	(1,606)	2,578	0	0	0
Convertible bond and related transaction costs	49,549	(14,855)	34,694	0	0	0
	49,263	(15,121)	34,142	0	0	0

**d) Loans to subsidiaries and other loans receivable**

In these positions are included:

A long-term loan was concluded with LTU Beteiligungs- und Holding GmbH (€ 140,000) with a yearly interest rate of 1%.

The loan was extended till 31 December 2010. In addition the Company has a long-term loan to LOMA GmbH of € 15,200.

The loan is due in 2010 and has a yearly interest rate of 1%.

A loan of € 3,500, which has a variable interest rate based on the 3-month-EURIBOR, was agreed with Luftfahrtgesellschaft Walter GmbH. The loan was impaired in the reporting period to € 1,500.

The company signed a non-limited loan with AB Luftfahrttechnik Düsseldorf GmbH (€ 26,700) with a yearly interest rate of 1%.

The loan can be called with a notice period of one month to the end of a month.

**e) Long-term loans to associates**

The company entered into two loans with Binoli GmbH of € 250 each. The loans were agreed with an indefinite maturity and a 6 per cent interest rate. Due to the at-equity accounting concerning investments in associates the investment in Binoli GmbH was written off to zero and the loans have been written down by € 461 (see note 7).

**f) Receivables from subsidiaries**

Receivables from subsidiaries due to profit and loss transfer agreements are included with € 21,228 (2008: € 24,321).

Cash pooling agreements were concluded to bundle the Group's financial activities. At the end of the period the receivables from cash pooling amounts to € 29,470 (2008: € 154,867).

The remaining receivables result from trade, clearing accounts and interest for the group-loans.

**g) Receivables from associates**

Receivables from associates include the clearing account with Binoli GmbH € 149 (2008: € 148).

**h) Share capital and reserves**

The capital structure of Air Berlin PLC is that of the Group, except that certain reserves on the consolidated level are not relevant at Company level.

A full description of the Company's share capital and reserves is detailed in note 10 to the consolidated financial statements.

The Employee Share Plan is detailed in note 12 to the consolidated financial statements.

**i) Pension liabilities**

In 2007 Air Berlin PLC entered into a defined benefit pension plan for its Executive Directors. The pension plan is funded



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through payments to a qualifying insurance contract.

The development of the Group's defined benefit obligations during the period is as follows:

In thousands of Euro	2009	2008
Present value of funded obligations	6,364	3,685
Fair value of plan assets	(7,816)	(4,701)
Funded status	(1,452)	(1,016)
Amount not recognised due to limitation in IAS 19.58(b)	1,452	1,016
Pension liabilities	0	0

Changes in the present value of the defined benefit obligation are as follows:

In thousands of Euro	2009	2008
Defined benefit obligation at 1 January	3,685	2,918
Current service cost	1,322	1,410
Interest on obligation	230	146
Actuarial losses / (gains)	1,127	(789)
Defined benefit obligation at 31 December	6,364	3,685

Changes in the fair value of plan assets are as follows:

In thousands of Euro	2009	2008
Fair value of plan assets at 1 January	4,701	2,331
Contribution	3,364	2,524
Expected return on plan assets	200	(155)
Actuarial (losses) / gains	(449)	1
Fair value of plan assets at 31 December	7,816	4,701

Plan assets consist exclusively of external contracts with insurance companies in Germany. These insurances could potentially include shares in Air Berlin Plc. However, due to strict requirements in Germany regarding the structure of insurance companies, the percentage of Air Berlin shares held would be minimal.

The actual loss on plan assets was € 249 during the period (2008: gain: € 154). No experience adjustment was made during the period.

The amount recognised as pension expense in profit or loss is as follows:

In thousands of Euro	2009	2008
Current service cost	1,322	1,410
Interest on obligation	230	146
Expected return on plan assets	(200)	155
Net actuarial (gains) / losses recognised in the period	1,576	(790)
Effect of the limitation in IAS 19 paragraph 58 (b)	436	1,016
Pension expense	3,364	1,937

The Company expects to contribute € 3,249 to its defined benefit pension plan in 2010.

Principal actuarial assumptions at the reporting date are as follows:

	2009	2008
Discount rate at 31 December	5.39%	6.30%
Expected return on plan assets at 1 January	4.30%	2.75%
Future salary increases	0.00%	3.00%
Cost of living adjustment (future pension increases)	1.00%	1.00%

Assumptions regarding future mortality are based on published statistics and mortality tables ("Richttafeln 2005 G" published by Heubeck-Richttafeln-GmbH). The average remaining life expectancy of an individual retiring at age 65 is 20 years for males and 25 years for females.

#### j) Other non-current liabilities to subsidiaries

The Group issued two convertible bonds with a volume of € 220,000 (issued in 2007) and € 125,000 (issued in 2009).

Air Berlin is accounting for these bonds in the same way as the Group. For further information see note 15.

The convertible bonds were issued by AB Finance B.V., and the proceeds were transferred to Air Berlin PLC with the same conditions as the bonds.

During the reporting period the company redeemed convertible bonds issued in 2007 with a nominal volume of € 84,000 and transferred them to AB Finance B.V. to pay back the respective loan. The disclosures regarding the liquidity risk and maturity analysis in respect of the convertible bonds are detailed in note 15 and 29c. Another loan agreement was concluded with AB Finance B.V. (€ 2,000). The loan is due on 11 April 2027 and has a yearly interest rate of LIBOR plus 1%.

#### k) Accrued liabilities

Accrued liabilities primarily relate to expenses for services received but not yet invoiced as of the end of the period.

#### l) Payables to subsidiaries

Payables to subsidiaries include € 14,181 (2008: € 60) regarding profit and loss transfers and € 159,340 (2008: 281,311) regarding cash pooling agreements.

#### m) Fair values

Fair value is the amount obtainable in an arm's length transaction between knowledgeable willing parties. The carrying amounts of financial assets and liabilities approximate their fair values.



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The fair values of financial assets and liabilities, together with their carrying amounts shown in the statement of financial position, are as follows:

In thousands of Euro	Note	31 December 2009		31 December 2008	
		Carrying amount	Fair value	Carrying amount	Fair value
Long-term loans from subsidiaries	34d	15,200	15,200	16,384	16,384
Long-term loans from associates	34e	39	39	250	260
Other long-term loans	34d	1,500	1,500	3,500	3,519
Short-term loans from subsidiaries	34d	185,182	185,182	155,000	155,000
Receivables from subsidiaries	34f	91,200	91,200	274,040	274,040
Receivables from associates	34g	149	149	148	148
Total loans and receivables		293,270	293,270	449,322	449,351
Positive market values of derivatives classified as held trading		58	58	2,730	2,730
Cash and cash equivalents		104,295	104,295	159,978	159,978
Financial liabilities measured at amortised cost:					
Non-current liabilities to subsidiaries	34j	(198,089)	(198,089)	(192,696)	(205,729)
Trade payables and payables to subsidiaries	34l	(183,139)	(183,139)	(283,917)	(283,917)
Total financial liabilities measured at amortised cost		(381,228)	(381,228)	(476,613)	(489,646)
Negative market values of derivatives classified as held for trading		(8,513)	(8,513)	(14,715)	(14,715)
		7,882	7,882	120,702	107,698

#### n) Related party transactions

The Company has related party relationships with its Directors and subsidiaries (see note 3 to the consolidated financial statements). Total remuneration of Directors is included in the Directors' Remuneration Report (see pages 104 to 115). One of the Executive Directors of the Group controls a voting share of 2.64% (2008: 3.15%) of Air Berlin. In addition, the Chairman of the Board is also a shareholder of the Company with a voting share of 1.58% (2008: 1.52%).

The Company had the following transactions with related parties during the year ending 31 December 2009:

In thousands of Euro	2009	2008
<b>Air Berlin PLC &amp; Co. Luftverkehrs KG</b>		
Revenues	4,155	3,722
Interest income	477	0
Receivables from subsidiaries	24,427	109,730
Other operating expenses	540	675
Payables to subsidiaries	5,436	216
<b>Pegasus 1. – 7. Luftfahrtbeteiligungsgesellschaft mbH</b>		
Revenues	17	0
Payables to subsidiaries	181	180
<b>Alpha Engine Trading GmbH (formerly Luftfahrttechnischer Betrieb GmbH)</b>		
Receivables from subsidiaries	660	0
Payables to subsidiaries	2,655	1,996
<b>Air Berlin Beteiligungs GmbH</b>		
Payables to subsidiaries	13	14
<b>Belair Airlines AG</b>		
Revenues	0	24
<b>LTU Beteiligungs- und Holding GmbH</b>		
Interest income	1,416	0
Receivables from subsidiaries	142,818	141,377
Payables to subsidiaries	24	0
<b>AB Luftfahrttechnik Berlin GmbH</b>		
Interest income	36	0
Receivables from subsidiaries	37,443	17,116
Payables to subsidiaries	13,417	2,636
<b>AB Luftfahrttechnik Düsseldorf GmbH</b>		
Interest income	182	0
Receivables from subsidiaries	26,700	1,060
Payables to subsidiaries	14,403	1,802
<b>AB Luftfahrttechnik Köln GmbH</b>		
Receivables from subsidiaries	903	777
<b>LTU Lufttransport Unternehmen GmbH</b>		
Receivables from subsidiaries	15,000	51,613
Payables to subsidiaries	0	27,039





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Leisure Cargo GmbH		
Receivables from subsidiaries	2,256	5,367
Payables to subsidiaries	0	2,450
Loma Beteiligungsgesellschaft mbH		
Interest income	332	866
Receivables from subsidiaries	15,717	16,384
Air Berlin 1. – 8. LeaseLux Sàrl		
Receivables from subsidiaries	1,282	49
Air Berlin Netherlands B.V.		
Interest income	47	0
Receivables from subsidiaries	1,937	2,002
Payables to subsidiaries	2,001	0
Air Berlin Finance B.V.		
Expenses from convertible bonds	17,189	12,157
Receivables from subsidiaries	174	0
Payables to subsidiaries	198,364	198,463
Air Berlin Technik Ltd.		
Interest income	47	0
Receivables from subsidiaries	2,397	2,350
Air Berlin Fünfte Flugzeug GmbH		
Interest expenses	264	0
Payables to subsidiaries	89,563	35,201
Air Berlin Sechste Flugzeug GmbH		
Interest expenses	78	0
Payables to subsidiaries	26,866	26,240
Air Berlin Siebte Flugzeug GmbH		
Receivables from subsidiaries	2,641	0
Payables to subsidiaries	5,148	5,383
Air Berlin GmbH & Co. Elfte Flugzeugvermietungs OHG <sup>2</sup>		
Payables to subsidiaries	0	52,904
Air Berlin Erste Flugzeugvermietungs GmbH		
Receivables from subsidiaries	5,301	5,017
Payables to subsidiaries	819	0
Air Berlin Dritte Flugzeugvermietungs GmbH		
Receivables from subsidiaries	4,111	3,918
Payables to subsidiaries	544	0

Air Berlin Vierte Flugzeugvermietungs GmbH		
Receivables from subsidiaries	3,533	3,373
Payables to subsidiaries	455	0
Air Berlin Achte Flugzeugvermietungs GmbH		
Receivables from subsidiaries	60	30
Air Berlin Finance GmbH		
Receivables from subsidiaries	0	75
Binoli GmbH <sup>1</sup>		
Income	0	10
Long-term loans	0	250
AB Finance II GmbH		
Interest expenses	105	0
Receivables from subsidiaries	3,000	0
Payables to subsidiaries	20,919	36,148
Euconus GmbH		
Receivables from subsidiaries	10	1
JFK Stiftung		
Receivables from subsidiaries	1,182	0
Joachim Hunold & Co. Flugzeugvermietungs KG i.L.		
Receivables from subsidiaries	0	7

1 In 2009 associated company.

2 In 2009 the company was merged to Air Berlin Fünfte Flugzeug GmbH.

#### **o) Employees**

The Company has four employees besides the three Executive Directors four employees (2008: five Directors). Their remuneration is included in note 22 above as well as in the Directors' Remuneration Report on pages 104 to 115.

The Executive Directors are Participants in the Employee Share Plan 2006, which is described in detail in note 12 above as well as in the Directors' Remuneration Report. In addition, € 3,364 (2008: € 1,937) was paid to a defined benefit plan.



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## 35. SUBSIDIARIES

The following subsidiaries are included in the consolidated financial statements:

Subsidiaries	Country of incorporation	2009	2008
AB Erste Flugzeugvermietungs GmbH	Germany	✈	✈
AB Zweite Flugzeugvermietungs GmbH	Germany	✈	✈
AB Dritte Flugzeugvermietungs GmbH	Germany	✈	✈
AB Vierte Flugzeugvermietungs GmbH	Germany	✈	✈
AB Achte Flugzeugvermietungs GmbH	Germany	✈	✈
AB Neunte Flugzeugvermietungs GmbH	Germany	✈	✈
AB Zehnte Flugzeugvermietungs GmbH	Germany	✈	✈
AB Luftfahrttechnik Berlin GmbH	Germany	✈	✈
AB Luftfahrttechnik Düsseldorf GmbH	Germany	✈	✈
AB Luftfahrttechnik Köln GmbH	Germany	✈	✈
Air Berlin Beteiligungsgesellschaft mbH	Germany	✈	✈
Air Berlin Finance B.V. <sup>1</sup>	Netherlands	✈	✈
Air Berlin Finance GmbH	Germany	✈	✈
Air Berlin Finance II GmbH (formerly: dba Luftfahrtgesellschaft mbH) <sup>1</sup>	Germany	✈	✈
Air Berlin Netherlands B.V. <sup>1</sup>	Netherlands	✈	✈
Air Berlin PLC & Co. Luftverkehrs KG <sup>1</sup>	Germany	✈	✈
Air Berlin PLC & Co. Airport Service KG <sup>1</sup>	Germany	✈	✈
Air Berlin PLC & Co. Cabin Service KG <sup>1</sup>	Germany	✈	✈
Air Berlin PLC & Co. DUS KG <sup>1</sup>	Germany	✈	✈
Air Berlin PLC & Co. Service Center KG <sup>1</sup>	Germany	✈	✈
Air Berlin Switzerland GmbH <sup>1</sup>	Switzerland	✈	✈
Air Berlin Technik Ltd. <sup>1</sup>	United Kingdom	✈	✈
Air Berlin 1. LeaseLux Sàrl <sup>1</sup>	Luxembourg	✈	✈
Air Berlin 2. LeaseLux Sàrl <sup>1</sup>	Luxembourg	✈	✈
Air Berlin 3. LeaseLux Sàrl <sup>1</sup>	Luxembourg	✈	✈
Air Berlin 4. LeaseLux Sàrl <sup>1</sup>	Luxembourg	✈	✈
Air Berlin 5. LeaseLux Sàrl <sup>1</sup>	Luxembourg	✈	✈
Air Berlin 6. LeaseLux Sàrl <sup>1</sup>	Luxembourg	✈	✈
Air Berlin 7. LeaseLux Sàrl <sup>1</sup>	Luxembourg	✈	✈
Air Berlin 8. LeaseLux Sàrl <sup>1</sup>	Luxembourg	✈	✈

Air Berlin Fünfte Flugzeug GmbH (formerly: Air Berlin GmbH & Co. Fünfte Flugzeugvermietungs OHG)	Germany	✈	✈
Air Berlin Sechste Flugzeug GmbH (formerly: Air Berlin GmbH & Co. Sechste Flugzeugvermietungs OHG)	Germany	✈	✈
Air Berlin Siebte Flugzeug GmbH (formerly: Air Berlin GmbH & Co. Siebte Flugzeugvermietungs OHG)	Germany	✈	✈
Air Berlin Zwölfte Flugzeug GmbH	Germany	✈	
Air Berlin GmbH & Co. Elfte Flugzeugvermietungs OHG <sup>2</sup>	Germany		✈
Alpha Engine Trading GmbH	Germany	✈	✈
Belair Airlines AG <sup>1</sup>	Switzerland	✈	✈
CHS Cabin & Handling Service GmbH	Germany	✈	✈
CHS Switzerland AG <sup>1</sup>	Switzerland	✈	✈
CHS Holding & Services GmbH <sup>1</sup>	Germany	✈	✈
CHS Netherlands N.V. <sup>1</sup>	Netherlands	✈	✈
CHAS Italy s.r.l. <sup>1</sup>	Italy	✈	✈
CHAS UK Ltd. <sup>1</sup>	United Kingdom	✈	✈
Euconus Flugzeugleasinggesellschaft mbH	Germany	✈	✈
JFK Stiftung	Switzerland	✈	
Leisure Cargo GmbH <sup>1</sup>	Germany	✈	✈
Loma Beteiligungsgesellschaft mbH	Germany	✈	✈
LTU Beteiligungs- und Holding GmbH <sup>1</sup>	Germany	✈	✈
LTU Lufttransport Unternehmen GmbH	Germany	✈	✈
Pegasus Erste Luftfahrtbeteiligungsgesellschaft mbH <sup>1</sup>	Germany	✈	✈
Pegasus Zweite Luftfahrtbeteiligungsgesellschaft mbH <sup>1</sup>	Germany	✈	✈
Pegasus Dritte Luftfahrtbeteiligungsgesellschaft mbH <sup>1</sup>	Germany	✈	✈
Pegasus Vierte Luftfahrtbeteiligungsgesellschaft mbH <sup>1</sup>	Germany	✈	✈
Pegasus Fünfte Luftfahrtbeteiligungsgesellschaft mbH <sup>1</sup>	Germany	✈	✈
Pegasus Sechste Luftfahrtbeteiligungsgesellschaft mbH <sup>1</sup>	Germany	✈	✈
Pegasus Siebte Luftfahrtbeteiligungsgesellschaft mbH <sup>1</sup>	Germany	✈	✈
Air Berlin Employee Share Trust <sup>1, 3</sup>	United Kingdom	✈	✈

<sup>1</sup> Shares held directly by Air Berlin PLC (the remaining subsidiaries are held indirectly through other Group companies).

<sup>2</sup> In 2009 the company was merged to Air Berlin Fünfte Flugzeug GmbH.

<sup>3</sup> The company is consolidated as a Special Purpose Entity.

Except for the special purpose entity, Air Berlin Employee Share Trust, Air Berlin PLC holds (directly or indirectly) 100% of the share capital of the subsidiaries as of 31 December 2009.

**Excerpt from the Interim Financial Report for the second quarter and the first six months of the financial year 2011 (unaudited), comprising the following:**

**Consolidated Financial Statements for the period ended 30 June 2011**

**Notes to the consolidated Financial Statements as of 30 June 2011**



## 03) Financial Statements

## Air Berlin PLC

**CONSOLIDATED INCOME STATEMENT (UNAUDITED)**

for the period ended 30 June 2011

	1/11-6/11	1/10-6/10	4/11-6/11	4/10-6/10
	€ 000	€ 000	€ 000	€ 000
<b>Revenue</b>	1,897,817	1,567,912	<b>1,116,239</b>	876,990
<b>Other operating income</b>	4,315	16,617	<b>2,583</b>	12,532
Expenses for materials and services	(1,548,491)	(1,180,477)	<b>(860,916)</b>	(644,628)
Personnel expenses	(230,958)	(229,792)	<b>(117,918)</b>	(116,712)
Depreciation and amortisation	(42,484)	(48,384)	<b>(21,521)</b>	(22,759)
Other operating expenses	(300,664)	(252,770)	<b>(150,660)</b>	(133,671)
<b>Operating expenses</b>	<b>(2,122,597)</b>	<b>(1,711,423)</b>	<b>(1,151,015)</b>	<b>(917,770)</b>
<b>Result from operating activities</b>	<b>(220,465)</b>	<b>(126,894)</b>	<b>(32,193)</b>	<b>(28,248)</b>
Financial expenses	(32,208)	(34,200)	<b>(16,871)</b>	(17,779)
Financial income	5,288	1,605	<b>2,686</b>	727
Losses on foreign exchange and derivatives, net	(5,825)	(40,015)	<b>(33,164)</b>	(22,662)
<b>Net financing costs</b>	<b>(32,745)</b>	<b>(72,610)</b>	<b>(47,349)</b>	<b>(39,714)</b>
Share of profit of associates, net of tax	97	3,059	<b>97</b>	(227)
<b>Loss before tax</b>	<b>(253,113)</b>	<b>(196,445)</b>	<b>(79,445)</b>	<b>(68,189)</b>
Income tax benefit	88,652	45,971	<b>35,555</b>	11,310
<b>Loss for the period</b>				
<b>– all attributable to the shareholders of the Company</b>	<b>(164,461)</b>	<b>(150,474)</b>	<b>(43,890)</b>	<b>(56,879)</b>
<b>Basic earnings per share in €</b>	<b>(1.93)</b>	<b>(1.77)</b>	<b>(0.51)</b>	<b>(0.67)</b>
<b>Diluted earnings per share in €</b>	<b>(1.93)</b>	<b>(1.77)</b>	<b>(0.51)</b>	<b>(0.67)</b>



## 03) Financial Statements

## Air Berlin PLC

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)**

for the period ended 30 June 2011

	1/11-6/11	1/10-6/10
	€ 000	€ 000
<b>Loss for the period</b>	<b>(164,461)</b>	<b>(150,474)</b>
Foreign currency translation reserve	1,346	940
Effective portion of changes in fair value of hedging instruments	(25,781)	74,268
Net change in fair value of hedging instruments transferred from equity to profit or loss	(22,466)	(30,120)
Income tax on other comprehensive income	14,390	(13,326)
<b>Other comprehensive income for the period, net of tax</b>	<b>(32,511)</b>	<b>31,762</b>
<b>Total comprehensive income – all attributable to the shareholders of the Company</b>	<b>(196,972)</b>	<b>(118,712)</b>



## 03) Financial Statements

## Air Berlin PLC

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)

as of 30 June 2011

	30/06/2011	31/12/2010
	€ 000	€ 000
<b>Assets</b>		
<b>Non-current assets</b>		
Intangible assets	389,248	387,420
Property, plant and equipment	913,658	887,664
Trade and other receivables	142,540	157,657
Deferred tax asset	156,246	51,283
Positive market value of derivatives	146	6,448
Deferred expenses	34,946	20,409
Investments in associates	184	405
<b>Non-current assets</b>	<b>1,636,968</b>	<b>1,511,286</b>
<b>Current assets</b>		
Inventories	44,781	42,890
Trade and other receivables	410,705	298,570
Positive market value of derivatives	46,325	53,662
Deferred expenses	62,814	52,618
Cash and cash equivalents	434,701	411,093
<b>Current assets</b>	<b>999,326</b>	<b>858,833</b>
<b>Total assets</b>	<b>2,636,294</b>	<b>2,370,119</b>





## 03) Financial Statements

## Air Berlin PLC

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)

as of 30 June 2011

	30/06/2011	31/12/2010
	€ 000	€ 000
<b>Equity and liabilities</b>		
<b>Shareholders' equity</b>		
Share capital	21,379	21,379
Share premium	373,923	373,923
Equity component of convertible bond	21,220	21,220
Other capital reserves	217,056	217,056
Retained earnings	(317,703)	(153,242)
Hedge accounting reserve, net of tax	(10,694)	23,163
Foreign currency translation reserve	3,183	1,837
<b>Total equity – all attributable to the shareholders of the Company</b>	<b>308,364</b>	<b>505,336</b>
<b>Non-current liabilities</b>		
Liabilities due to bank from assignment of future lease payments	208,661	244,770
Interest-bearing liabilities	742,233	565,898
Provisions	7,038	8,090
Trade and other payables	81,748	73,261
Deferred tax liabilities	27,118	26,733
Negative market value of derivatives	33,999	25,913
<b>Non-current liabilities</b>	<b>1,100,797</b>	<b>944,665</b>
<b>Current liabilities</b>		
Liabilities due to bank from assignment of future lease payments	61,645	56,533
Interest-bearing liabilities	38,303	33,140
Tax liabilities	2,806	10,616
Provisions	1,622	3,282
Trade and other payables	455,717	394,635
Negative market value of derivatives	59,204	25,166
Deferred income	71,265	75,223
Advanced payments received	536,571	321,523
<b>Current liabilities</b>	<b>1,227,133</b>	<b>920,118</b>
<b>Total equity and liabilities</b>	<b>2,636,294</b>	<b>2,370,119</b>



## 03) Financial Statements

## Air Berlin PLC

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

for the period ended 30 June 2011

	Share capital € 000	Share premium € 000	Equity component of convertible bond € 000	Other capital reserves € 000	Retained earnings € 000	Hedge accounting reserve, net of tax € 000	Foreign currency translation reserve € 000	Equity attributable to the share- holders of the Company € 000
<b>Balances at 31 December 2009</b>	<b>21,379</b>	<b>374,319</b>	<b>51,598</b>	<b>217,056</b>	<b>(62,323)</b>	<b>7,218</b>	<b>767</b>	<b>610,014</b>
Share based payment					16			16
Transaction costs on issue of shares, net of tax		(396)						(396)
<b>Total transactions with shareholders</b>	<b>0</b>	<b>(396)</b>	<b>0</b>	<b>0</b>	<b>16</b>	<b>0</b>	<b>0</b>	<b>(380)</b>
Loss for the period					(150,474)			(150,474)
Other comprehensive income						30,822	940	31,762
<b>Total comprehensive income</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(150,474)</b>	<b>30,822</b>	<b>940</b>	<b>(118,712)</b>
<b>Balances at 30 June 2010</b>	<b>21,379</b>	<b>373,923</b>	<b>51,598</b>	<b>217,056</b>	<b>(212,781)</b>	<b>38,040</b>	<b>1,707</b>	<b>490,922</b>
<b>Balances at 31 December 2010</b>	<b>21,379</b>	<b>373,923</b>	<b>21,220</b>	<b>217,056</b>	<b>(153,242)</b>	<b>23,163</b>	<b>1,837</b>	<b>505,336</b>
<b>Total transactions with shareholders</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Loss for the period					(164,461)			(164,461)
Other comprehensive income						(33,857)	1,346	(32,511)
<b>Total comprehensive income</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(164,461)</b>	<b>(33,857)</b>	<b>1,346</b>	<b>(196,972)</b>
<b>Balances at 30 June 2011</b>	<b>21,379</b>	<b>373,923</b>	<b>21,220</b>	<b>217,056</b>	<b>(317,703)</b>	<b>(10,694)</b>	<b>3,183</b>	<b>308,364</b>



## 03) Financial Statements

## Air Berlin PLC

## CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

for the period ended 30 June 2011

	30/06/2011	30/06/2010
	€ 000	€ 000
Loss for the period	(164,461)	(150,474)
Adjustments to reconcile profit or loss to cash flows from operating activities:		
Depreciation and amortisation of non-current assets	42,484	48,384
Loss (gain) on disposal of non-current assets	6,045	(8,125)
Share based payments	0	16
Increase in inventories	(1,891)	(3,035)
Increase in trade accounts receivables	(46,467)	(46,325)
Increase in other assets and prepaid expenses	(70,249)	(26,203)
Deferred tax benefit	(90,187)	(52,573)
Decrease in provisions	(2,712)	(8,452)
Increase in trade accounts payables	71,023	59,423
Increase in other current liabilities	207,052	182,579
Losses on foreign exchange and derivatives, net	9,250	40,015
Interest expense	32,193	34,156
Interest income	(1,563)	(1,592)
Income tax expense	1,536	6,602
Share of profit of associates	(97)	(3,059)
Other non-cash changes	1,346	940
<b>Cash generated from operations</b>	<b>(6,698)</b>	<b>72,277</b>
Interest paid	(23,521)	(28,744)
Interest received	1,806	835
Income taxes paid	(9,346)	(6,952)
<b>Net cash flow from operating activities</b>	<b>(37,759)</b>	<b>37,416</b>
Purchases of non-current assets	(125,182)	(18,536)
Net-advanced payments for non-current items	(8,997)	(3,657)
Proceeds from sale of tangible and intangible assets	52,779	177,038
<b>Cash flow from investing activities</b>	<b>(81,400)</b>	<b>154,845</b>
Principal payments on interest-bearing liabilities	(111,222)	(177,548)
Proceeds from long-term borrowings	263,724	0
Transaction costs related to issue of long-term borrowings	(5,115)	0
Transaction costs related to issue of ordinary shares	0	(565)
<b>Cash flow from financing activities</b>	<b>147,387</b>	<b>(178,113)</b>
<b>Change in cash and cash equivalents</b>	<b>28,228</b>	<b>14,148</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>409,673</b>	<b>372,010</b>
Foreign exchange (losses) gains on cash balances	(4,425)	7,498
<b>Cash and cash equivalents at end of period</b>	<b>433,476</b>	<b>393,656</b>
thereof bank overdrafts used for cash management purposes	(1,225)	(1,283)
thereof cash and cash equivalents in the statement of financial position	434,701	394,939

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 30 JUNE 2011

(Euro/USD/CHF in thousands, except share data)

## **1. REPORTING ENTITY**

The consolidated interim financial statements of Air Berlin PLC for the six months ended 30 June 2011 comprise Air Berlin PLC ("the Company") and its subsidiaries (together referred to as "airberlin" or the "Group") and the Group's interest in associates. Air Berlin PLC is a company incorporated in England and Wales with its registered office in London. The corporate headquarters of airberlin are located in Berlin. The Company's ordinary shares are traded on the Frankfurt Stock Exchange.

The group financial statements as at, and for, the year ended 31 December 2010 prepared in accordance with IFRSs as adopted by the EU and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS, are available from the Company's registered office and at [ir.airberlin.com](http://ir.airberlin.com).

Statutory accounts for 2010 have been delivered to the registrar of Companies in England and Wales. The auditors have reported on those accounts and their report (i) was unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 408 of the Companies act 2006.

The comparability of the figures of the current reporting period versus the figures of the prior year is restricted due to the first time consolidation of NIKI Luftfahrt GmbH, Vienna, as at 5 July 2010.

## **2. STATEMENT OF COMPLIANCE**

These consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standard (IFRS) IAS 34 "Interim Financial Reporting" as adopted by the EU. They have been neither reviewed nor audited and do not include all of the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 31 December 2010.

This condensed set of financial statements was approved by the Directors on 16 August 2011.

## **3. ACCOUNTING POLICIES AND CHANGES IN ACCOUNTING**

This interim report up to 30 June 2011 has been drawn up in accordance with IAS 34 and in compliance with the standards and interpretations applicable from 1 January 2011 as adopted by the EU. The Group has used the same accounting and valuation methods as for the consolidated financial statements for the year ended 31 December 2010.

## **4. ESTIMATES**

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates. In preparing these consolidated interim financial statements, the significant judgments made by management in applying the Group's accounting policies and the key sources of uncertainty related to estimates were the same as those that applied to the consolidated financial statements as at and for the year ended 31 December 2010.



## 03) Financial Statements

**5. SEASONLITY**

The aviation industry is subject to seasonal fluctuations. Due to holiday travellers, the summer months generally show the highest revenue from ticket sales. The Group attempts to minimise seasonal impacts by expanding the number of business travellers. For the twelve months ended 30 June 2011 the Group had revenue of € 3,979,052 (prior year: € 3,311,287) and loss for the period after tax of € 111,146 (prior year: € 78,586). Furthermore, for the twelve months ended 30 June 2011 the EBIT amounted to € -102,912 (prior year: € -28,707).

**6. NON-CURRENT ASSETS**

During the six months ended 30 June 2011 the Group acquired fixed assets with a cost of € 143,223 (prior year: € 37,905). Assets with a carrying amount of € 76,882 were disposed of during the six months ended 30 June 2011 (prior year: € 177,916).

Capital commitments for property, plant and equipment amount to 5.6 bn USD (prior year: 6.4 bn USD).

**7. SHARE CAPITAL**

Of airberlin's authorized share capital, 85,226,196 ordinary shares of € 0.25 each and 50,000 A shares of €1.00 each were issued and fully paid up as of 30 June 2011. Included in this amount are 177,600 treasury shares held by airberlin (through the Air Berlin Employee Share Trust).

**8. CORPORATE BONDS**

On 19 April 2011 the group issued € 150,000 corporate bonds due 2018. The bond issue is made up of 150,000 bonds with a principal amount of € 1 each, earning yearly interest of 8.25%. Gross proceeds from the bond issue amounted to € 150,000. Transaction costs incurred were € 5,115. The bonds are measured at amortized cost.

**9. REVENUE**

in thousands of Euro	1/11-6/11	1/10-6/10	4/11-6/11	4/10-6/10
Single-seat ticket sales	1,140,375	956,297	682,660	537,599
Bulk ticket sales to charter and package tour operators	517,067	468,616	301,156	259,221
Ground and other services	147,995	126,780	77,673	70,866
Air transportation tax	74,431	0	44,450	0
In-flight sales	17,949	16,219	10,300	9,304
	1,897,817	1,567,912	1,116,239	876,990

airberlin recognizes ticket sales as income at the time when the transportation is provided. When the fare is for a round-trip and the return flight has not yet been provided at the reporting date, the unearned revenue is deferred in the consolidated balance sheet under "deferred income" until such time the transportation is provided.



## 03) Financial Statements

**Segment information**

The company is managed by the Board of Directors as a single business unit in one geographical area and one service. The key figures and ratios presented to the Board of Directors in managing the company are: Result from operating activities, net debt, revenues, passengers, yield and block hours. The financial measures are IFRS measures and are shown in the primary statements. Resource allocation decisions are made based on the entire route network and the deployment of the entire fleet. Revenues derive nearly completely from the principal activity as an airline and include flights, commissions, in-flight and related sales that are generated in Europe. Since airberlin's fleet is employed across its scheduled destinations on an as needed basis all assets and liabilities are allocated to the one segment. The Board has also determined that there is no reasonable basis of allocating assets and related liabilities, income and expenses to geographical areas other than Europe or to individual groups of customers.

**10. OTHER OPERATING INCOME**

in thousands of Euro	1/11-6/11	1/10-6/10	4/11-6/11	4/10-6/10
Gain on disposal of long-term assets, net	0	8,741	0	8,489
Income from services provided to Niki and cost transfer	0	2,989	0	2,557
Income from insurance claims	738	767	196	215
Other	3,577	4,120	2,387	1,271
	4,315	16,617	2,583	12,532

**11. EXPENSES FOR MATERIALS AND SERVICES**

in thousands of Euro	1/11-6/11	1/10-6/10	4/11-6/11	4/10-6/10
Airport and handling charges	432,313	376,328	233,337	204,010
Fuel for aircraft	472,706	334,699	277,181	186,080
Operating leases for aircraft and equipment	294,574	246,846	152,995	129,785
Navigation charges	139,142	120,669	79,603	68,465
Air transportation tax	74,431	0	44,450	0
Catering costs and cost of materials for in-flight sales	66,726	54,037	38,430	29,366
Other	68,599	47,898	34,920	26,922
	1,548,491	1,180,477	860,916	644,628

The expenses for operating leases for aircraft and equipment include expenses of € 59,064 (prior year: € 58,016) that do not directly relate to the lease of assets.



## 03) Financial Statements

**12. PERSONNEL EXPENSES**

in thousands of Euro	1/11-6/11	1/10-6/10	4/11-6/11	4/10-6/10
Wages and salaries	190,891	191,900	<b>98,230</b>	98,665
Social security	19,864	22,355	<b>9,414</b>	7,110
Pension expense	20,203	15,537	<b>10,274</b>	10,937
	230,958	229,792	<b>117,918</b>	116,712

**13. OTHER OPERATING EXPENSES**

in thousands of Euro	1/11-6/11	1/10-6/10	4/11-6/11	4/10-6/10
Repairs and maintenance of technical equipment	110,743	91,669	<b>57,634</b>	49,440
Hardware and software expenses	35,666	30,079	<b>16,480</b>	14,997
Advertising	34,190	29,978	<b>13,200</b>	16,246
Expenses for premises and vehicles	17,951	16,415	<b>9,355</b>	8,382
Travel expenses for cabin crews	13,726	14,887	<b>7,504</b>	7,690
Bank charges	12,998	10,935	<b>7,939</b>	6,322
Sales commissions paid to agencies	11,871	9,974	<b>7,095</b>	5,144
Insurance	10,352	8,500	<b>5,089</b>	3,823
Auditing and consulting	9,378	6,324	<b>5,472</b>	4,476
Training and other personnel expenses	8,610	5,865	<b>4,669</b>	3,293
Loss on disposal of long-term assets, net	5,743	0	<b>4,234</b>	0
Phone and postage	2,694	2,723	<b>1,201</b>	1,422
Allowances for receivables	654	1,199	<b>201</b>	582
Other	26,088	24,222	<b>10,587</b>	11,854
	300,664	252,770	<b>150,660</b>	133,671



## 03) Financial Statements

**14. NET FINANCING COSTS**

in thousands of Euro	1/11-6/11	1/10-6/10	4/11-6/11	4/10-6/10
Interest expense on interest bearing liabilities	(28,928)	(34,156)	(15,224)	(17,765)
Expense on valuation of liability from put-option at fair value	(3,265)	0	(1,632)	0
Other financial expenses	(15)	(44)	(15)	(14)
<b>Financial expenses</b>	<b>(32,208)</b>	<b>(34,200)</b>	<b>(16,871)</b>	<b>(17,779)</b>
Interest income on fixed deposits	1,001	483	565	256
Other financial income	4,287	1,122	2,121	471
<b>Financial income</b>	<b>5,288</b>	<b>1,605</b>	<b>2,686</b>	<b>727</b>
Losses on foreign exchange and derivatives, net	(5,825)	(40,015)	(33,164)	(22,662)
<b>Net financing costs</b>	<b>(32,745)</b>	<b>(72,610)</b>	<b>(47,349)</b>	<b>(39,714)</b>

Foreign exchange gains or losses result from actual exchange rate differences at the settlement date (realised gains or losses), from the revaluation of interest-bearing liabilities, liabilities due to bank from assignment of future lease payments and other financial assets and liabilities which are to be settled in a foreign currency at the balance sheet date as well as from changes in the fair value of derivatives. Realised exchange rate gains or losses not arising from interest-bearing liabilities and other financing activities are reclassified to the various income and expense line items from which they arose within operating result.

**15. INCOME TAX EXPENSES AND DEFERRED TAX**

Loss before tax is primarily attributable to Germany. The income tax benefit for the period is as follows:

in thousands of Euro	1/11-6/11	1/10-6/10	4/11-6/11	4/10-6/10
Current income taxes	(1,536)	(6,602)	172	(5,530)
Deferred income taxes	90,188	52,573	35,383	16,840
<b>Total income tax benefit</b>	<b>88,652</b>	<b>45,971</b>	<b>35,555</b>	<b>11,310</b>

**16. CASH FLOW STATEMENT**

in thousands of Euro	30/06/2011	30/06/2010
Cash	510	1,098
Bank balances	101,683	128,473
Fixed-term deposits	332,508	265,368
<b>Cash and cash equivalents</b>	<b>434,701</b>	<b>394,939</b>
Bank overdrafts used for cash management purposes	(1,225)	(1,283)
<b>Cash and cash equivalents in the statement of cash flows</b>	<b>433,476</b>	<b>393,656</b>

Cash and cash equivalents include restricted cash of € 110,195 as of 30 June 2011 (prior year: € 86,902).





## 03) Financial Statements

**17. RELATED PARTY TRANSACTIONS**

The Group has related party relationships with its Directors and associates.

One of the Executive Directors of the Group controls a voting share of 2.64 % of airberlin (prior year: 2.64 %).

One of the non-executive directors, also a shareholder of the Company with a voting share of 1.58 % (prior year: 1.58 %), is the controlling shareholder of Phoenix Reisen GmbH. The Group had revenues from ticket sales with Phoenix Reisen GmbH during the first six months of 2011 of € 6,825 (prior year: € 9,496). At 30 June 2011 € 905 (prior year: trade receivables € 104) are included in trade payables line.

During the six-month period ended 30 June 2011 respectively 2010 the Group had transactions with associates as follows:

in thousands of Euro	2011	2010
<b>THBG BBI GmbH</b>		
Receivables from related parties	1,996	1,891
Interest Income	55	42
<b>Follow Me Entertainment GmbH</b>		
Receivables from related parties	75	0
<b>Binoli GmbH</b>		
Revenues from ticket sales	245	18
Receivables from related parties	682	251
Interest Income	15	15
<b>Lee &amp; Lex Flugzeugvermietung GmbH</b>		
Receivables from related parties	0	848
<b>E190 Flugzeugvermietung GmbH</b>		
Expenses for leasing	2,697	0
Receivables from related parties	6,922	0

Transactions with associates are priced on an arm's length basis.

The group disposed its 24.0% share in Lee & Lex Flugzeugvermietung GmbH, Vienna, in the second quarter of 2011.

**18. EXECUTIVE DIRECTORS**

Joachim Hunold	Chief Executive Officer
Ulf Hüttmeyer	Chief Financial Officer
Christoph Debus	Chief Operating Officer

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