

AIR BERLIN PLC
ANNUAL REPORT

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AIR BERLIN PLC
FINANCIAL FIGURES

2012

KEY FINANCIAL FIGURES

	2012	2011 *	2011 **
Revenue (in million euros)	4,311.7	4,227.3	4,227.3
including ticket sales (in million euros)	4,006.7	3,934.8	3,857.0
EBITDAR (in million euros)	736.4	425.9	425.9
EBIT (in million euros)	70.2	-247.0	-247.0
Consolidated gain/loss for the year (in million euros)	6.8	-420.4	-271.8
Earnings per share (in euros)	0.06	-4.94	-3.20
Total assets (in million euros)	2,217.6	2,125.7	2,264.0
Employees (31.12)	9,284	9,113	9,113

* revised

** as reported, see note 2

OPERATING FIGURES

	%	2012	2011
Passengers	-5.5	33,346,495	35,300,209
Destinations (31.12)	+7.4	174	162
Aircraft at year end	-8.8	155	170
Available seat kilometres (in billion; ASK)	-2.8	60.40	62.16
Seat load factor (%; Passengers/Capacity)	+1.59 *	79.80	78.21

* percentage points

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W. PROCK-SCHAUER

Chief Executive Officer (CEO)
and Chief Strategy and
Planning Officer (CSPO)

LEAN & SMART

INTERVIEW WITH THE CHIEF EXECUTIVE OFFICER WOLFGANG PROCK-SCHAUER

We are realigning the entire airberlin group – including its corporate culture. The aim is a performance-oriented and highly productive organisation with a strong workforce.

Mr Prock-Schauer, you joined airberlin as the new Chief Strategy and Planning Officer in October 2012. Since the beginning of January, you have also assumed the role of CEO. Upon assuming this new role, you had just completed your first one hundred days at airberlin. How familiar are you with the Company?

W. PROCK-SCHAUER

In this short period of time I was able to gain a comprehensive understanding of the Company thanks to a highly competent and cooperative team – at both the management and the departmental levels.

The press has repeatedly reported that airberlin is performing poorly.

W. PROCK-SCHAUER

airberlin, along with many other airlines, grew too quickly. Consequently, airberlin still has a highly complex diverse structure, in administration and also in its route network, fleet, and flight personnel deployment. Despite the major progress we have recently achieved in reducing our costs and increasing our efficiency, we have not yet reached our goal – namely, sustainable profitability. This was demonstrated in 2012 by the numerous new challenges we confronted. Just consider for example the increase in fuel prices, the dampened economic outlook, increasingly intense competition, and distorted European competitive environment. Moreover, the German aviation tax in particular adversely affected us. Therefore, we have to take the next step.

By implementing Turbine 2013?

W. PROCK-SCHAUER

Yes, and by launching this programme as well. We are implementing our future strategy using a comprehensive plan, which aims to make airberlin sustainably profitable. Turbine is this strategy's key element. It is an extensive package of measures to assist with our goal of sustained profitability. These measures are currently scheduled to be completely implemented by the end of 2014. Additionally, our turnaround programme is designed to focus all of our employees on success-oriented thinking and acting, which should produce long-term effects. We are realigning the entire airberlin group, including, among other measures, improving its corporate culture. All employees will be asked to review their current operational procedures and structure them more efficiently where possible. The aim is to further develop a performance-oriented and highly productive organisation with a strong workforce that applies a "lean" approach and "smart" implementation. Therefore, we have named the airberlin group's dual strategy "LEAN & SMART".

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WE HAVE NAMED THE
AIRBERLIN GROUP'S
DUAL STRATEGY
LEAN & SMART.

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What area are you focusing on in particular?

W. PROCK-SCHAUER

airberlin shows enormous potential. We are a well-established European brand. More than 80 per cent of our passengers – 25 million people – fly within Europe and therefore on the short and medium haul routes. We are very well positioned in this market and will intensely focus our turnaround on this segment and the related route connections with our strategic partner Etihad Airways and the oneworld® alliance members.





WELL ORGANIZED
Mr Prock Schauer's desk.

Is airberlin suffering from diminished prices and at the same time soaring costs?

W. PROCK-SCHAUER

Naturally we need to further reduce our costs in order to be well positioned for the on-going price wars. However, cost reduction alone is as poor a strategy as simply raising prices. The latter would surely not be constructive when considering the intense competition in our industry, which is primarily steered by prices. At the forefront are critically important strategic questions. At the same time, one should start with the basics.

For example?

W. PROCK-SCHAUER

Our system and controlling landscapes continue to entail obsolescences, which have grown historically and are expensive and unnecessary. Standardisation, automation, and integration are the key central concepts. We need to create a homogeneous airberlin world, with a uniform culture and management. Conventional thinking can no longer exist. Therefore, we are reviewing all of our processes and our entire organisational structure and will reform and simplify them both as much as possible. This demands a reduction in complexity and the elimination of obsolescence. Many of the manual processes must also be replaced with more cost effective and more stable system solutions. All paths should be maintained as short as possible so that decisions can be made more quickly.

Are there any further key elements on which you will focus?

W. PROCK-SCHAUER

Due to production adjustments, the question naturally arises in some areas as to whether the right personnel structure is in place. We have identified approximately 900 positions that will be eliminated due to production cuts and the introduction of more efficient processes. This is painful but unavoidable. As regards salaries, the airberlin management has led the way and prescribed its own salary reduction. Discussions are of course being held with our business partners on the procurement side and with our numerous service providers. Only this integrated approach will enable us to sustainably reduce our operating costs and costs of aircraft ownership. This is the only way we will reach cost efficiency.

As previously mentioned, we seek to develop a corporate culture of continuous improvement so that performance is constantly optimised in every situation and area. In short: Do things right. This is what "LEAN" means to me.



IN GOOD COMPANY

As many leading men, Barack Obama being the most prominent of them, Mr Prock-Schauer is left-handed.

And “**SMART**”?

W. PROCK-SCHAUER

Do the right things! In other words: We must be LEAN internally and SMART externally! We are a very well established network carrier with a strong brand. This is a very solid basis upon which we can continue to expand. With numerous individual measures we will substantiate even more clearly our brand’s key features: Always remain a step ahead of the competition in bringing value to the customer! The strategic aim is: More value for money, more customer satisfaction, and a more positive perception of the airberlin brand. The necessary IT structures to further implement this strategy have recently become available on the market.

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**WE MUST BE LEAN INTERNALLY AND
SMART EXTERNALLY!**

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Therefore, we will continue to improve our recognised and attractive price/performance ratio. We will do this, for example, by providing an even more personalised product range, through more innovation in our online presence in terms of convenience and self-service, but also by using competent customer service representatives. We aim to provide the smoothest possible operations on the ground and more comfort in the air: This can be achieved, for example, with integrated customer service, efficient boarding and de-boarding procedures, state-of-the-art in-flight entertainment, more comfort – particularly on long-haul routes, an attractive buy-on-board product range, or in the services provided to children. Of course the successful topbonus frequent flyer programme will be further developed in keeping with this philosophy with our strategic partner Etihad Airways.

What does "SMART" mean for the airberlin route network?

W. PROCK-SCHAUER

We will expand route networks where we are strong and withdraw from those areas which are unprofitable or non-strategic. This will also result in capacity adjustments. For example, during 2013, the fleet will decline to 142 aircraft while the fleet's structure will simultaneously be adjusted to changes in demand. Equally important however is intelligently shifting our capacity to significantly improve airberlin's profile in our strategic core markets.

Our hubs' strategic expansion is a key element of this plan. Among others, we will strengthen our East European capabilities in Berlin and



ALWAYS ONLINE

His tablet is never far when Mr Prock-Schauer is at work. Being constantly on top of the news is essential for him.

accelerate our North American business out of Berlin and Düsseldorf. We will also underpin our market leadership in Palma de Mallorca with a number of additional flights to and from Germany, Austria, and Switzerland. Furthermore, we will expand our tourism offers at the Vienna Airport.

Our new network strategy, which will be introduced with 2013's summer flight schedule, is also consistent with our goal of higher efficiency. This is not only true for the short and medium-haul routes, but also for the long-haul routes in particular. Here we want to expand airberlin's global network connections with Etihad Airways and the numerous oneworld member airlines and concentrate on the resulting cooperative synergies.

Using Etihad Airways' hub at Abu Dhabi will enable us to jointly expand our presence in the far eastern markets, which at the moment means

Australia, Japan, China, and India. Furthermore, airberlin will clearly focus on North America, mainly by having more non-stop connections. Here the cooperation with our oneworld partner American Airlines at their hubs is progressing very well. The code shares with S7 Airlines in Russia are also an important component of our strategic plan. In 2013, we have definitely laid the foundation for continued growth in the intercontinental business.

Keyword 2013: How does the timetable look?

W. PROCK-SCHAUER

Our most important goal is very clear: To ensure sustainable profitability!

Overall, by the end of 2014 we want to achieve turnaround effects of approximately EUR 400 million by changing our current structures and processes, including cost reductions and efficiency improvements, re-focusing the business, and product improvements. As the turnaround programme aims to improve cost and efficiency consciousness in matters both large and small in the long-term, the above figure should by no means be the end of our development. Rather it should simply represent a milestone along our path.



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**OUR MOST IMPORTANT GOAL
IS VERY CLEAR:
TO ENSURE SUSTAINABLE
PROFITABILITY!**

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CHAIRMAN'S STATEMENT



DR.
HANS-JOACHIM KÖRBER

Chairman of the Board since
1 January 2011.

THE FINANCIAL POSITION OF THE AIRBERLIN GROUP

In 2012, airberlin significantly improved its operating efficiency. The efficiency improvement programme Shape & Size was successfully implemented and achieved a positive effect of more than EUR 250 million in operating results (EBIT). Costs of aircraft ownership dropped significantly by approximately nine per cent as a result of maintenance, repair, and overhaul process optimisation, productivity improvements in network management, and numerous other individual measures.

Moreover, we have made significant progress by further developing airberlin's hubs and expanding our offering of long-haul flights. Simultaneously, the fleet and route network were adjusted in response to changes in demand. Our broad-based codeshare network also positively affected our revenue.

The sale of a majority stake in topbonus Ltd. represents yet another success. Following this carve-out, topbonus will further accelerate its growth and develop to its full potential as an independent company. This has opened up additional growth potential, which will be pursued in close cooperation with our strategic partner Etihad Airways. Both airlines would not have been able to realise this additional growth with their own individual programmes alone.

The successes of 2012 mentioned above unfortunately coincided with and were mostly offset by several new adverse external factors. Many of these adverse factors impacted the entire European airline industry, particularly the renewed above-average rise in fuel costs due to the euro's weakness and the sluggish European economy.

Due to our focus on German airspace and short and medium-haul routes, several of these factors had a particularly significant impact on us. The renewed delay in the opening of the Berlin Brandenburg Airport led to high additional costs and the competition-distorting aviation tax led to a noticeable decline in German domestic passengers.

Overall, the numerous steps forward in financial year 2012 were insufficient to restore the airberlin group to a sustainable profit. Moreover, some of the measures introduced demanded additional up-front investments, but at the same time were not able to achieve their full impact in 2012. Slightly higher revenues of EUR 4,312 million resulted in an EBIT of EUR 70.2 million after a loss of EUR –247.0 million in 2011.

Under these circumstances, the management developed an additional long-term strategic plan, which encompasses the entire airberlin group. Its chief aims will again be achieving significant improvements in cost efficiency and customer focus, thereby stabilising and expanding airberlin's competitive position. The programme's most important operational aspect is the Turbine 2013 turnaround programme. Its numerous individual measures are presently scheduled to be implemented in 2013 and 2014 and following the programme's complete implementation, we seek to achieve a positive impact on results in the amount of approximately EUR 400 million.

This financial progress will be accompanied by re-positioning airberlin in the market with a significantly more focused business model: airberlin is re-positioning itself as a full-service airline with an above-average range of services. These services shall be systematically expanded and their unique characteristics more clearly defined. The close collaboration with our strategic partner Etihad Airways, our membership in the leading airline alliance oneworld, and the codeshare agreements with numerous other airlines open up an extensive global network for our customers. airberlin's contributions to this network are the multiple flight connection possibilities within our own dense European network and therefore short flying distances to destinations throughout the entire world. We are convinced that airberlin will greatly profit from the cooperative synergies which will result from this alliance. Consequently, the foundation has been established to optimise airberlin's chances for achieving sustainable and profitable development in the future.

THE WORK OF THE BOARD OF DIRECTORS

The work of the Board of Directors and its committees in financial year 2012 is discussed in detail in the Corporate Governance Report contained within this Annual Report from page 74.

PERSONNEL

In 2012, the Board of Directors comprehensively reformed the Company's management structure. These measures took effect on 1 October 2012. In conjunction therewith, a new Management Board was established. Under this new management structure, the Board of Directors is responsible for the Company's strategic focus and has overall oversight of the Company's management, including the Management Board. The Management Board is responsible for the Company's daily management and execution of the Company's strategy within the parameters set by the Board. The Management Board regularly reports to the Board of Directors.

In addition, the Board of Directors was also streamlined from fifteen to ten members to further enhance the Board's overall performance and effectiveness. Messieurs Hüttmeyer, Himmelreich, Gregorowitsch, Oberegger, and Hammad stepped down from the Board. Messieurs Hüttmeyer, Himmelreich, and Gregorowitsch were appointed to the new Management Board. Mrs. Martina Niemann who had assumed the newly created position of Chief Human Resources Officer on 15 February 2012 also joined the Management Board. As an Executive Director, the Chief Executive Officer is also member of the Board of Directors and Chairman of the Management Board.

Moreover, the following changes to the Board of Directors' composition took effect in financial year 2012: On 24 January 2012, Mr James Hogan, President and Chief Executive Officer of our strategic partner airline Etihad Airways, was appointed Non-Executive Director and Vice Chairman. On the same day, Mr James Rigney, Chief Financial Officer of Etihad Airways, was appointed Non-Executive Director. On 6 March 2012, Mrs Barbara Cassani stepped down from the Board of Directors. On 21 December 2012, Mr Nikolaus Lauda stepped down from the Board of Directors.

As at 31 December 2012, the Management Board comprised the following six members: Chief Executive Officer Hartmut Mehdorn, Chief Financial Officer Ulf Hüttmeyer, Chief Commercial Officer Paul Gregorowitsch, Chief Operating Officer Helmut Himmelreich, Chief Strategy and Planning Officer Wolfgang Prock-Schauer, and Chief Human Resources Officer Dr. Martina Niemann.

Following financial year 2012, the following changes to the Board of Directors' composition took effect: Mr Austin Reid was appointed Non-Executive Director on 3 January 2013. On 7 January 2013, Mr Hartmut Mehdorn stepped down from his position as Chief Executive Officer and from 7 January 2013 until 12 March 2013 served on the Board of Directors as a Non-Executive Director. On 7 January 2013, Wolfgang Prock-Schauer assumed the position of Chief Executive Officer in addition to his responsibility as CSPO. Consequently, he was appointed Executive Director of the Board of Directors and Chairman of the Management Board.

The Board of Directors and the Management Board would like to thank all Directors that have stepped down from their positions for their commitment to airberlin and wish them the very best for the future. Our special thanks go to Mr Mehdorn who achieved major milestones for the Company in difficult times.

A WORD OF THANKS

In financial year 2012, airberlin was confronted with a number of new challenges which negatively impacted earnings. At first glance, it appears that the great successes which were achieved with the implementation of the Shape & Size programme were offset to a large extent. It must be noted, however, that the airberlin group's management and employees, through their commitment and their performance, were able to counterbalance a large portion of these new burdens and thus strengthened the Company in this difficult past year. The Board of Directors thanks them for this achievement.

A handwritten signature in black ink, appearing to read 'Hans J. Körber', written in a cursive style.

DR. HANS-JOACHIM KÖRBER

CHAIRMAN OF THE BOARD OF DIRECTORS

THE BOARD OF DIRECTORS OF AIR BERLIN PLC

EXECUTIVE DIRECTORS

WOLFGANG PROCK-SCHAUER

CHIEF EXECUTIVE OFFICER

Born on 12 November 1956 in Horn, Austria. Graduate of Vienna University of Business and Economics. Began career at Austrian Airlines in 1981. Executive Vice President responsible for the management of the route network, strategic planning, and alliances as well as for the integration of the regional airlines Lauda Air and Tyrolean, among others. 2003 changed to Jet Airways in India as CEO. Took Jet Airways public in 2005, expanded long-haul business and the global network with other airlines. From 2009 to 2012, CEO of bmi British Midland. Since 1 October 2012, Mr Prock-Schauer has been Chief Strategy and Planning Officer (CSPO). On 7 January 2013, he also assumed the position of CEO, sole Executive Director and Chairman of the Management Board.

PAUL GREGOROWITSCH

CHIEF COMMERCIAL OFFICER

Executive Director until 30 September 2012. Since 1 October 2012, member of the Management Board of the airberlin group. For a description of Mr Gregorowitsch's previous experience, please see page 21 (MANAGEMENT BOARD).

ULF HÜTTMEYER

CHIEF FINANCIAL OFFICER

Executive Director until 30 September 2012. Since 1 October 2012, member of the Management Board of the airberlin group. For a description of Mr Hüttmeyer's previous experience, please see page 20 (MANAGEMENT BOARD).

HELMUT HIMMELREICH

CHIEF OPERATING OFFICER

Executive Director until 30 September 2012. Since 1 October 2012, member of the Management Board of the airberlin group. For a description of Mr Himmelreich's previous experience, please see page 21 (MANAGEMENT BOARD).

NON-EXECUTIVE DIRECTORS

DR. HANS-JOACHIM KÖRBER

CHAIRMAN OF THE BOARD OF DIRECTORS

Born on 9 July 1946 in Braunschweig, Germany. Brew master degree and degree in Business Administration. After several years of holding executive positions within the R.A. Oetker Group, Dr. Körber joined Metro SB Großmärkte in 1985, a legal predecessor of Metro AG, holding executive positions until 1996. With the founding of Metro in 1996, he became a member of the Board of Directors and was CEO from 1999 to 2007. Dr. Körber has been Non-Executive Director since 10 May 2006, and Chairman since 1 January 2011.

JAMES HOGAN

PRESIDENT AND CHIEF EXECUTIVE OFFICER
ETIHAD AIRWAYS; VICE CHAIRMAN OF THE
BOARD OF DIRECTORS

Born on 28 November 1956 in Melbourne, Australia. James Hogan has been the President and Chief Executive Officer of Etihad Airways, the national airline of the United Arab Emirates, since September 2006. Prior to this, he held senior executive and board positions at Hertz, bmi British Midland, Forte Hotels, and the Granada Group, and was President and Chief Executive of Gulf Air from 2002 to 2006. He is a Member of the UBS Industrialisation Advisory Board and the International Air Transport Association (IATA) Board of Governors and is Vice Chairman on the Executive Committee of the World Travel and Tourism Council (WTTC). Mr Hogan has been a Non-Executive Director and Vice Chairman of the Board of Directors since 24 January 2012.

BARBARA CASSANI

EXECUTIVE CHAIRPERSON,
JURYS INN

Ms Cassani has been a Non-Executive Director since 1 May 2011 and stepped down from the Board of Directors on 6 March 2012.

SAAD HAMMAD

MANAGING DIRECTOR,
GORES GROUP LLC

Mr Hammad has been a Non-Executive Director since 1 May 2011 and stepped down from the Board of Directors on 30 September 2012.

JOACHIM HUNOLD

FOUNDER OF AIR BERLIN PLC

Born on 5 September 1949 in Düsseldorf, Germany. Law graduate. In the airline industry since 1978. Founder of Air Berlin GmbH & Co Luftverkehrs KG in April 1991 and led the acquisition of Air Berlin, Inc. Since that time and until 31 August 2011, he was Head of the airberlin group as Managing Partner and as of 1 January 2006, was its Chief Executive Officer. Mr Hunold has been a Non-Executive Director since 1 September 2011 and was the Chief Executive Officer of the Company until 31 August 2011.

NIKOLAUS (NIKI) LAUDA

FOUNDER OF NIKI LUFTFAHRT GMBH

Mr Lauda has been a Non-Executive Director since 8 November 2011 and stepped down from the Board of Directors on 21 December 2012.

HARTMUT MEHDORN

CHIEF EXECUTIVE OFFICER OF FLUGHAFEN
BERLIN BRANDENBURG GMBH

Born 31 July 1942 in Warsaw, Poland. Degree in mechanical engineering, Technical University, Berlin. From 1965 at Focke-Wulf; 1966 to 1978 worked for VFW with last position as Head of Production at MBB; 1979 to 1984, member of the Management Board of Airbus Industrie S.A. 1984 to 1989 Head of MBB Transport- und Verkehrsflugzeuge Group; from 1985, also a member of MBB Management Board; 1989 to 1992 Chairman of the Management Board of Deutsche Airbus GmbH; 1992 to 1995, member of the Management Board of Deutsche Aerospace AG; 1995 to 1999, Chief Executive Officer of Heidelberger Druckmaschinen AG; and simultaneously from 1997 to 1999, member of the Management Board of RWE AG; 1999 to 2009 Chief Executive Officer of Deutsche Bahn AG. Dr.-Ing. E.h. Hartmut Mehdorn served as Non-Executive Director from 1 July 2009 until 31 August 2011, as Chief Executive Officer from 1 September 2011 until 7 January 2013, and as Non-Executive Director of Air Berlin PLC from 7 January 2013 until 12 March 2013.

PETER R. OBEREGGER

FORMER PERSONALLY LIABLE PARTNER OF
VORWERK & CO. KG

Mr Oberegger has been a Non-Executive Director since 2 March 2010 and stepped down from the Board of Directors on 30 September 2012.

AUSTIN REID

FORMER CEO BMI BRITISH MIDLAND

Born on 11 November 1945 in Paisley, Great Britain. Began career at KPMG in New York. 1975 changed to Hertz Corporation; with last position as Vice President Finance for Europe, the Middle East, and Africa. After ten years, switched to bmi British Midland as CEO. Remained closely linked to aviation as a consultant. Mr Reid is a Non-Executive Director and since 3 January 2013, member of the Board of Directors.

JAMES RIGNEY

CHIEF FINANCIAL OFFICER
ETIHAD AIRWAYS

Born on 29 May 1967, in Melbourne, Australia. James Rigney has been the Chief Financial Officer of Etihad Airways, the national airline of the United Arab Emirates, since October 2006. Prior to this appointment, Mr Rigney held a number of senior strategic and commercial positions within KPMG, the Ansett Group and at Gulf Air. A chartered accountant, he holds a Bachelor of Business and an MBA degree from RMIT in Melbourne. Mr. Rigney is a former Non-Executive Director of Abu Dhabi Aircraft Technologies (ADAT). He currently serves on the Finance Committee of the International Air Transport Association (IATA). He has been a Non-Executive Director since 24 January 2012.

ALI SABANCI

MEMBER OF THE BOARD OF
ESAS HOLDING AND CHAIRMAN
OF PEGASUS AIRLINES

Born on 5 May 1969 in Adana, Turkey. Obtained an MBA in political science and economics. Following his return to Turkey, he held various positions with Akbank. From 1997 he was a Project Director for Sabanci Holding and since 2001 its Executive Vice President for Strategy and Business Development. In March 2004, he resigned from his position at Sabanci Holding and joined ESAS Holding. Ali Sabanci has been a member of the Board of Directors as a Non-Executive Director since 8 May 2009.

NICHOLAS TELLER

CHIEF EXECUTIVE OFFICER OF E.R. CAPITAL
HOLDING GMBH & CIE. KG, HAMBURG

Born on 16 June 1959 in London, Great Britain. Bachelor of Commerce. From 1982 in various management positions at Commerzbank. From 2002 until 2003, Regional Board Member, 2003 until 2008 member of the Management Board of Commerzbank AG. Thereafter, CEO of E.R. Capital Holding. Member of Commerzbank's Central Advisory Board, of the Advisory Board of Eurex Zürich AG, and of the Board of Directors of the American Chamber of Commerce, Germany. Mr Nicholas Teller has been a Non-Executive Director since 10 May 2006.

HEINZ-PETER SCHLÜTER

CHAIRMAN OF THE SUPERVISORY BOARD OF
TRIMET ALUMINIUM AG, ESSEN

Born on 16 October 1949 in Rübehorst/Ruppin, Germany. Merchant in wholesale and foreign trade. Began career in 1971 as a metal trader at W&O Bergmann. From 1979, overall responsibility for its trading division, from 1982 Member of the Management Board. In 1985 he founded and was sole proprietor of TRIMET Metallhandelsgesellschaft, now known as Trimet Aluminium AG, Germany's largest producer of aluminium. Heinz-Peter Schlüter has been a Non-Executive Director since 1 April 2008.

JOHANNES ZURNIEDEN

MANAGING DIRECTOR AT
PHOENIX REISEN GMBH, BONN

Born on 28 June 1950 in Bergisch-Gladbach, Germany. Graduate of Law and Psychology. Managing Director at Phoenix Reisen since 1973. From 1994 Deputy Chairman of the Supervisory Board of Deutscher Reisepreis-Sicherungsverein and from 1998 Vice President of DRV (Deutsche ReiseVerband). Member of the Advisory Boards of Europäische Reiseversicherung, Commerzbank, and Sparkasse Köln-Bonn. Johannes Zurnieden has been a Non-Executive Director since 10 May 2006 and until 31 December 2010 was Chairman of the Board of Directors.

FROM LEFT TO RIGHT



**WOLFGANG
PROCK-SCHAUER**

CHIEF EXECUTIVE OFFICER
(CEO)



ULF HÜTTMEYER

CHIEF FINANCIAL OFFICER
(CFO)



PAUL GREGOROWITSCH

CHIEF COMMERCIAL OFFICER
(CCO)



DR. MARTINA NIEMANN

CHIEF HUMAN RESOURCES OFFICER
(CHO)



HELMUT HIMMELREICH

CHIEF OPERATING OFFICER
(COO)



MANAGEMENT BOARD



WOLFGANG PROCK-SCHAUER

CHIEF EXECUTIVE OFFICER
(CEO)



Born on 12 November 1956 in Horn, Austria. Graduate of Vienna University of Business and Economics. Began career at Austrian Airlines in 1981. Executive Vice President responsible for the management of the route network, strategic planning, and alliances as well as for the integration of the regional airlines Lauda Air and Tyrolean, among others. 2003 changed to Jet Airways in India as CEO. Took Jet Airways public in 2005, expanded long-haul business and the global network with other airlines. From 2009 to 2012, CEO of bmi British Midland. Since 1 October 2012, Mr Prock-Schauer has been Chief Strategy and Planning Officer (CSPO). On 7 January 2013, he also assumed the position of CEO, sole Executive Director and Chairman of the Management Board.

ULF HÜTTMEYER

CHIEF FINANCIAL OFFICER (CFO)



Born on 9 July 1973 in Wildeshausen, Germany. Degree in Business Administration; from 1996 Credit and Finance analyst at Commerzbank; thereafter, various duties performed in Germany and abroad (Singapore); thereafter served as head of Group Manager Corporate Clients Services, Berlin; became Director in 2005; from February 2006 CFO of Air Berlin PLC.

Hartmut Mehdorn

CEO from 1 September 2011 until 7 January 2013

For a description of Mr Mehdorn's previous experience, please see page 16.

PAUL GREGOROWITSCH

CHIEF COMMERCIAL OFFICER (CCO)



Born on 24 May 1956 in Gravenhage, Netherlands. Education in Business Administration, Academy of Tourism, Breda. From 1980 at KLM, numerous international functions and management duties primarily in the areas of sales and marketing. Since 1995, Senior VP of KLM and, after five years, head of the Global Sales Passenger Division, last position was as Executive VP of Commercial. CEO of Martinair from August 2007. CCO of Air Berlin PLC from 1 September 2011.

MARTINA NIEMANN

CHIEF HUMAN RESOURCES OFFICER
(CHO)



Born on 13 March 1964 in Duisburg, Germany. Studied at the Freie Universität Berlin and received a diploma in economics. Thereafter, held a management position at a private equity company and then spent two years at Deutsche Lufthansa and then accepted a position at the Kaufhof Group as Director of Controlling for the travel agency sector. Held various management positions at Deutsche Bahn AG including Director of Human Resource Reporting and Analysis, Workforce Deployment and the Group's labour market, and was recently the Head of the Remuneration and Welfare Policy Department. Chief Human Resources Officer (CHO) of Air Berlin PLC since 15 February 2012.

HELMUT HIMMELREICH

CHIEF OPERATING OFFICER (COO)



Born on 15 July 1952 in Wallendorf, Germany. For 25 years at LTU Fluggesellschaft GmbH & Co. KG; last position Managing Director of Operations, Air Traffic, and Maintenance. From 2003 until 2007 Technical Director at Swiss International Air Lines. Later, Senior Executive VP responsible for Aircraft Services and the restructuring of the technical services subsidiaries. From March 2010, CMO of Air Berlin PLC & Co. Luftverkehrs KG. Appointed COO of Air Berlin PLC on 4 November 2011.

THE AIRBERLIN SHARE

The aviation tax, fuel prices, repeated delays in the opening of the Berlin Brandenburg Airport, and weak earnings development: high headwinds for the airberlin share.

The airberlin Share and the Stock Market in 2012

The aviation tax, fuel prices, the repeated delays in the opening of the Berlin Brandenburg Airport, and last but not least, weak earnings development in the course of the financial year, have all negatively impacted airberlin's share price in the 2012 trading year.

In 2012, the recession in the eurozone, concerns regarding the Spanish banking sector, the interim threat of Greece's exit from the eurozone, dampened growth in China, the impending US fiscal cliff, and weaker corporate earnings were all factors which only temporarily put the stock market under pressure. In contrast, the weaker euro, the continued high fuel price, the retention of the aviation tax introduced in 2011, the repeated delays in the opening of the Berlin Brandenburg Airport, and last but not least, the weak earnings development in the course of the financial year, all had a much stronger impact on the economic results of the airberlin group.

Thanks to the successful implementation of the Shape & Size efficiency improvement programme, it was possible to counteract the negative trend – which had been dominant since 2011 – and achieve a distinctly better operating result. Through the sale of a majority stake in topbonus Ltd., we were able to end 2012 with positive results.

airberlin's share price remained largely unaffected by this. At a closing price of EUR 1.54 (XETRA), airberlin's shares were 38.4 per cent lower than last year's EUR 2.50 (XETRA) closing price. Thus, they showed a trend contrary to that of the stock market indices in 2012 which rose 24.4 per cent (DAX price index) and 14.9 per cent (SDAX price index).

The development of airberlin's share price was still disappointing, even in light of the effect the intense competition, over capacity, and fiscal policy decision-making had on the entire aviation sector in the eurozone. The trend in the share price only reversed with the announcement of the Turbine 2013 turnaround programme. Evidently, the turnaround programme's described measures strengthened the confidence in the airberlin share. With a strong rise since the beginning of 2013, the shares took off to a good start.

Coverage of the airberlin Share

As at the end of 2012, the following 10 research institutes covered and assessed the airberlin share: Bankhaus Lampe KG, Commerzbank AG, Credit Suisse Group AG, Deutsche Bank AG, DZ Bank AG, HSBC Bank plc, MainFirst Bank AG, B. Metzler seel. Sohn & Co. Holding AG, Morgan Stanley, and Nord/LB.

The following table lists all individual estimates until the editorial deadline of this annual report. In the course of the current 2013 financial year thus far, three research institutions, B. Metzler seel. Sohn & Co. Holding AG, Deutsche Bank AG and DZ Bank AG have revised their recommendations. All three recommendations for the airberlin share were raised to "Buy". Morgan Stanley has terminated their coverage of airberlin.

Recommendation	Number of recommendations
Buy	3
Hold	1
Underperform	1
Underweight	1
Sell	3

Capital Measures

CAPITAL INCREASE

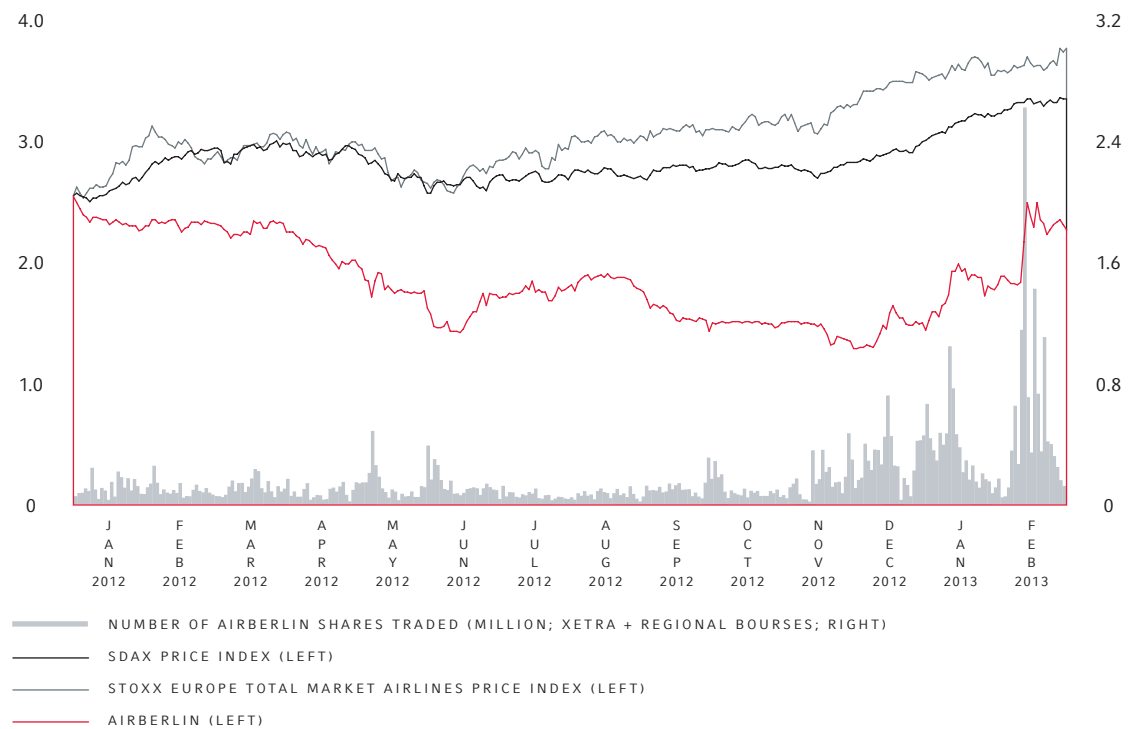
On 24 January 2012, Air Berlin PLC issued 31,574,312 new ordinary shares at a price of EUR 2.31 by way of a capital increase. The number of shares issued increased to 116,800,508 ordinary shares at a nominal value of EUR 0.25 each (prior to the capital increase: 85,226,196 ordinary shares). The new shares were purchased by the national airline of the United Arab Emirates, Etihad Airways, which then became the Company's largest single shareholder. Etihad Airways' stake in Air Berlin PLC rose from 2.99 per cent to 29.21 per cent via this share purchase. For the duration of two years, Etihad Airways has in principle committed itself to retain the shares acquired, to not acquire a shareholding in Air Berlin PLC exceeding 29.21 per cent, and to refrain from making a public takeover offer for Air Berlin PLC.

MEASURES IN THE CREDIT AREA

In the second quarter of the reporting year, airberlin redeemed 60 convertible bonds of the convertible bonds issued in 2007 (total volume: EUR 220.0 million; denominations: 2,200 convertible bonds with a principal amount of EUR 100,000 and a term until 2027) for EUR 6.162 million including transaction costs. As a result, as at 31 December 2012, there were still 48 convertible bonds outstanding with a principal amount of EUR 4.8 million. The equity component of the remaining outstanding convertible bonds amounted to EUR 0.60 million as at the balance sheet date.

On 1 November 2012, Air Berlin PLC successfully increased the aggregate principal amount of its bond placed on 1 November 2011 with a coupon of 11.5% per annum from EUR 100 million to the maximum amount of EUR 150 million. The new fractional bonds were placed with institutional investors. The bonds were issued at 101 per cent of their principal amount.

**RELATIVE PERFORMANCE AIR BERLIN PLC VS. SDAX PRICE INDEX
AND DOW JONES STOXX TMI AIRLINES INDEX (EUR)**



SOURCE: REUTERS

The Air Berlin PLC Share

Data as at 31 December 2012:

Share capital:	EUR 29,200,127 and GBP 50,000
Total number of issued, fully paid-in, and registered shares:	116,800,508 shares
Class:	Registered common shares
Nominal value:	EUR 0.25
Bloomberg symbol:	AB1 GY
Reuters symbol:	AB1.DE
ISIN:	GB00B128C026
WKN:	AB1000
Accounting standard:	IAS/IFRS
Trading segment:	Regulated Market (Prime Standard)
Primary industry:	Transport and Logistics
Industry group:	Airlines
Indices:	SDAX, Prime All Share, Classic All Share
Designated Sponsors:	Commerzbank AG Morgan Stanley Bank AG
Market capitalisation as at 31 December 2012:	EUR 179.87 million
Free float (Deutsche Börse AG) as at 31 December 2012:	53.29%
Capitalisation of free float as at 31 December 2012:	EUR 95.85 million
Average daily trading volume in financial year 2012 (units):	Xetra: 77,029 regional bourses: 20,888 Total: 97,917

- ▶ The shares are traded on XETRA and on the Frankfurt Stock Exchange in the regulated market. Trading is carried out on the regulated unofficial markets at the exchanges in Berlin, Bremen, Düsseldorf, Hamburg, Munich and Stuttgart.
- ▶ airberlin shares are registered common shares. In accordance with various Air Transport Agreements and EU Directives, entry in an appropriate schedule of names giving information on the distribution of the shares by nationality ensures that a majority of the shares are held by German and European investors. The registrar for the shares is Registrar Services GmbH, Eschborn.
- ▶ Additionally "A shares" have been issued. For further information, refer to notes no. 1 and 13.

Shareholders in Air Berlin PLC as at 31 December 2012

Shareholders	Holdings in % *
Etihad Airways	29.21
ESAS Holding A.S.	12.02
Hans-Joachim Knieps	5.48
Reidun Lundgren (Metolius Foundation, Ringerike GmbH & Co. Luftfahrtbeteiligungs KG)	3.55
Leibniz-Service GmbH/TUI Travel PLC	3.37
Werner Huehn	2.79
JP Morgan Chase & Co.	2.70
Joachim Hunold	1.95
Severin Schulte	1.88
Rudolf Schulte	1.85
Moab Investments Ltd.	1.74
Johannes Zurnieden	1.16
Heinz-Peter Schlüter	1.03
Dr. Hans-Joachim Körber (Chairman Air Berlin PLC)	0.17
Dr. Hartmut Mehdorn	0.11

* Information to the best of the Company's knowledge. Shareholders holding less than 5 per cent are allocated to free float.

Shareholder Structure by Nationality as at 31 December 2012

In accordance with EU regulations, an airline based in the EU must be at least 50 per cent owned by EU member states or nationals of EU member states in order to maintain its operating license. Some bilateral agreements on the use of air traffic rights further require a purely German shareholding in the company of more than 50 per cent. airberlin continuously monitors the shareholder structure using a shareholder register and can intervene and regulate appropriately in the case of a detrimental development in the shareholder structure.

The proportion of German investors in Air Berlin PLC at the end of 2012 was 52.72 per cent and the proportion of European investors was 56.83 per cent. The largest shareholder of Air Berlin PLC is its strategic partner airline, Etihad Airways, with a holding of 29.21 per cent followed by ESAS Holding A.S. with 12.02 per cent, and Hans-Joachim Knieps with 5.48 per cent. By the end of financial year 2012, there were 32,000 shareholders overall listed in the Company's share register.

Shareholder Structure by Nationality as at 31 December 2012

	in %
Germany	52.72
United Arab Emirates	29.21
Turkey	12.02
USA	1.43
United Kingdom	1.38
Luxemburg	0.88
Other EU countries/EWR	1.85
Other countries	0.51

Details of the movements in authorised and issued share capital in the year are provided in note 13 of the financial statements. The rights and obligations attaching to the company's shares are also given in this note.

Investor Relations

Through airberlin's Investor Relations department, the Company is in continuous dialogue with analysts as well as with institutional and private investors. We are committed to the principles of transparent communication, and accordingly, we provide information in an objective, comprehensive, and timely manner. Our dialogue with the financial community was further enhanced through our participation in numerous roadshows and investor conferences. Moreover, airberlin's Investor Relations department offers an electronic newsletter which keeps all stakeholders timely informed of important events within the airberlin group.

airberlin's investor relations activities were awarded 5th place within the SDAX in the prestigious IR ranking carried out by the German Investor Relations Association (DIRK) and the weekly business publication, WirtschaftsWoche.

All publications, announcements, financial reports, and traffic figures are additionally made available on the investor relations homepage at www.ir.airberlin.com.

Investors are also invited to contact us directly via the contact form on our home page or to write us at:

Air Berlin PLC & Co. Luftverkehrs KG
Investor Relations
Saatwinkler Damm 42-43
D-13627 Berlin

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DIRECTORS' REPORT AND BUSINESS REVIEW

On the right track: Shape & Size improves the 2012 operating performance by more than EUR 250 million. With Turbine 2013 the aim is to achieve sustainable profitability.

PROFILE

Company Structure and Operating Activities

AIR BERLIN PLC OPERATES UNDER BRITISH LAW AND IS MANAGED BY A "UNITARY BOARD"

Air Berlin PLC, also referred to herein as the "**Company**", the legal parent of the airberlin group, was founded in England and Wales with its registered office in Rickmansworth. The Company has the legal form of a PLC (Public Limited Company) and accordingly, the Company is managed by a "unitary board", which comprises Executive Directors and Non-Executive Directors. The Directors during financial year 2012 are listed on page 14 ff., the members of the Management Board on page 18 ff., and changes to the Board in the course of the financial year are described on page 74 ff. The Management Board is based in Berlin.

AIRBERLIN IS THE SECOND LARGEST GERMAN AIRLINE

airberlin is a national and international scheduled airline operator and has been a member of the International Air Transport Association (IATA) since 1997. At the beginning of 2011, airberlin became the thirty-seventh member of the Association of European Airlines (AEA). With 9.284 employees, a fleet of 155 aircraft and 33.4 million passengers, airberlin is the second largest airline in Germany, and ranks seventh in Europe, measured by the number of passengers (as per the end of 2012).

CORPORATE STRATEGY

airberlin is a Full-Service-Airline

airberlin positions itself as a full-service provider with an above-average range of flying-related services. We particularly appeal to comfort-oriented customers who place importance on value for money before, during, and after the flight. For this reason, *the customer and his requests are the focus*: We want to provide customers with maximum flexibility and independence and design their trip to be as pleasant as possible and to include short distances, high comfort, and simple, efficient processes on the ground and in the air.

Through airberlin's membership in the global **oneworld** alliance, the strategic partnership with Etihad Airways, and codeshare agreements with numerous additional airlines, we offer our passengers a *global network* with easy access. This offer provides us with a wide range of options to further develop the future global mobility market.

airberlin has systematically enlarged its codeshare agreements in recent years. At the end of 2012, the Company had entered into codeshare agreements with the strategic partner Etihad Airways, the fourth-largest airline in China, Hainan Airlines, Russia's S7 Airlines, Pegasus Airlines, Turkey's largest private airline, Thailand's Bangkok Airways, the US carrier American Airlines, British Airways, Finland's Finnair, the Spanish airline Iberia, Royal Jordanian, the Italian airline Meridiana, Air Baltic from Latvia, Japan Airlines and, since February 2013, Air Seychelles.

AIRBERLIN CLOSELY COLLABORATES WITH 14 PARTNER AIRLINES

A clearly-defined core brand, a strong brand name

"Easy Access" is an everyday occurrence at airberlin. Our slogan "airberlin. Your airline." emphasises customer focus and convenience.

Therefore, we strive to have the closest possible contact with the customer, and embrace all sales and distribution options. We offer our customers *all of the relevant distribution channels* and contacts: the ticket counter, travel agents and holiday operators, a call to the airberlin 24/7 call centre for a personal conversation, as well as the airberlin service optimised website via smartphones and tablet computers. Hence, we offer maximum flexibility and independence for the customer – before, during, and after the flight.

Our service on the ground and in the air has frequently received *national and international awards* and, in some categories, for several consecutive years. For example, in 2012 we were awarded the German Service Award by the German Institute for Service Quality in the tourism category. Here, airberlin ranked first of the 53 tested companies. The award had highlighted the individual processing of email queries and the transparent booking process over the internet in particular.

OUR SERVICE IS WHAT SETS US APART

We offer various services on all routes. A free daily newspaper, a snack and a cold or hot drink are a given and are included on flights to all our destinations. On short and medium-haul routes, passengers can also pre-order a variety of hot dishes and gourmet menus. Long-haul guests can enjoy the extensive airberlin service with up to *four different gourmet menus* and a variety of high-quality beverages.

In addition to the multi-award winning *frequent flyer programme topbonus*, our offered services also include free baggage allowance, free seat reservations, quick check-in at the airport, priority check-in for frequent flyers, as well as free e-services such as web check-in. airberlin's customers can also use the check-in facilities of our *codeshare partners*. Through the mobile website mobile.airberlin.com and airberlin's mobile app, bookings can be made up to two hours prior to departure. The boarding pass can be saved on iPhones so that the boarding no longer requires any paperwork.

Our comprehensive and highly individualised *services for corporate customers* are especially well perceived, particularly by small and medium-sized companies with more than three employees. Our contribution to the active promotion of small and medium-sized businesses can best be shown by the increase in the number of companies taking part in the business point's bonus programme: In the last three years, the number has grown 23 per cent on average and most recently has reached 12,000.

We place considerable importance on being a *family-friendly airline*. On each flight, "baby kits" and "children's toy packages" entertain our youngest guests. Children under the age of twelve pay a reduced fare, under the age of two they travel for free on German domestic routes.

Our services offered go far beyond just travel-related inquiries. For example, we work closely with several partners ranging from travel services to financial services as well as with the press. *airberlin's premium partners* provide their services directly via the airberlin website.

airberlin's strong brand recognition is due to the strategic positioning of airberlin's hubs in Berlin and Düsseldorf, the densely populated regions of Germany, Switzerland, and Austria ("D-A-CH"), and in the tourism centre of Palma de Mallorca. We have further expanded our market position thanks to a demand-optimised route network which comprehensively covers this region and which also ensures short distances into our own intercontinental network as well as in the global network of our partners.

Extensive Strategic Collaboration with Etihad Airways

The *close commercial and operational collaboration* between airberlin and Etihad Airways, the national airline of the United Arab Emirates founded in 2003, has been an additional major impetus for growth. Etihad Airways was awarded the "world's leading airline" for the fourth consecutive year and carried 10.29 million passengers in 2012. The airline serves 86 destinations in 56 countries in the Middle East, Africa, Europe, Asia, Australia, and North America from its hub at Abu Dhabi International Airport. By the end of 2012, the airline had codeshare partnerships with 41 well-known airlines. The fleet consists of a total of 65 passenger aircraft and five cargo aircraft from Airbus and Boeing with an average age of 4.5 years. In 2008, Etihad Airways had ordered a total of 205 aircraft, among which are 10 of the largest passenger aircraft in the world, the Airbus A380. At the end of 2012, Etihad Airways employed 10,656 people.

The strategic alliance combines the route networks of both airlines and expands the offering by 87 codeshare destinations worldwide. The *route networks ideally complement each other* since there are hardly any overlaps. airberlin guests benefit from a vast amount of connecting flights to Asia and Australia offered at Etihad Airways's hub in Abu Dhabi. In return, Etihad Airways guests gain access to airberlin's dense network in Europe.

The launch of airberlin's services to Etihad Airways's hub in Abu Dhabi is a key element of the partnership. Consequently, airberlin moved its focus in the Middle East from Dubai to Abu Dhabi at the beginning of 2012. After initially starting with four flights per week from Berlin, since the summer of 2012, airberlin increased service to Abu Dhabi to once a day from both Berlin as well as Düsseldorf. European passengers now have the choice of 42 weekly flights to and from Abu Dhabi and beyond, via four German hubs.

**DIRECT CONNEC-
TION TO ETIHAD
AIRWAYS'S HUB AT
ABU DHABI**

By working together smartly and pooling administrative resources, both companies are achieving *far-reaching synergies*, particularly in the areas of fleet procurement and operations, ground operations, maintenance, repair, and overhaul (MRO), as well as in general purchasing.

Additionally, airberlin and Etihad Airways are working together to provide all passengers a seamless flight experience. Product standards are being harmonised and since early 2013, airberlin has been equipping its business class with the same Lie Flat Seats as Etihad Airways. Synergy initiatives between the airlines even stretch as far as areas which are not directly experienced by our passengers: For example, the integration of our Boeing Dreamliner programmes. This initiative relates to a total of 56 confirmed orders from both airlines.

More than three million topbonus members accumulate status miles on flights with airberlin, NIKI, Etihad Airways, and with our **oneworld** partners who provide exclusive benefits within the alliance. Moreover, topbonus members can accumulate award miles by flying as well as with *more than 120 partner companies*. These miles can be redeemed for award flights worldwide and for upgrades to the airberlin business class. Over the last three years, the number of topbonus members grew on average at a rate of almost one thousand per day – from 2.4 million in 2010 to 3.1 million in 2012.

airberlin founded a separate legal entity in December 2012 under English law named topbonus Ltd. as owner of the topbonus programme. Etihad Airways, acting through its subsidiary, acquired a stake of 70 per cent in this company. airberlin disposed of its frequent flyer plan topbonus to topbonus Ltd for EUR 200 million. As the airberlin group has a 30 per cent interest in topbonus Ltd., the unrealised profit has been derecognised to the extent of the Group's investment in topbonus generating net income amounting to EUR 184.4 million.

oneworld Global Network

TAKE AIRBERLIN AND ONEWORLD TO MORE THAN 800 TRAVEL DESTINATIONS

airberlin's membership in the global **oneworld** alliance offers an enormous potential for implementing airberlin's growth strategy, independent of the extensive cooperation with Etihad Airways. The Austrian airline NIKI, a member of the airberlin group, is also an "affiliate member" of the alliance. Numerous reputable international airlines have joined together to form **oneworld**: American Airlines, British Airways, Cathay Pacific, Finnair, Iberia, Japan Airlines, LAN, Qantas, Royal Jordanian, and S7 Airlines as well as 30 additional affiliated members such as American Eagle, Dragonair, LAN Argentina, LAN Ecuador, LAN Express, and LAN Peru. The newest **oneworld** member is Malaysia Airlines since February 2013.

The membership has significantly expanded the services offered to airberlin's passengers: airberlin's passengers have access to 842 travel destinations in 156 countries. The alliance's fleet contains approximately 2,500 aircraft, offers around 9,000 flights per day and transports 340 million passengers annually. Members of topbonus – airberlin's frequent flyer programme – can collect and redeem status and premium miles worldwide with 11 **oneworld** carriers. Furthermore, frequent flyers have access to 550 airport lounges worldwide. The alliance was chosen for the tenth consecutive time as the *worldwide leading alliance* at the 2012 World Travel Awards.

Sustainable Profitability is the Key Target for 2013 ff

2012: SUCCESSFUL COMPLETION OF SHAPE & SIZE

SHAPE & SIZE: COST SAV- INGS AND PERFORMANCE IM- PROVEMENTS OF EUR 250 MILLION ANNUALLY

In financial year 2012, airberlin achieved *cost savings and performance improvements* amounting to EUR 250 million annually due to its efficiency improvement programme Shape & Size. Notably, this programme achieved savings of more than nine per cent in the costs of aircraft ownership per block hour. At the same time, a transformation was initiated and consequently implemented which, in the course of the year, brought the airberlin group from an independent hybrid carrier with somewhat independent control and marketing of business and leisure offers to an integrated full service airline with numerous partnerships.

2012 A YEAR OF TRANSFORMATION

This led to a number of single measures which were implemented which naturally led to additional up-front investments and therefore resulted in *corresponding start-up costs*. Among others, this led to the introduction of a new yield management system for optimising price and capacity management as well as a new passenger service and tariff system. Additionally, investments were made in the further development of airberlin's hubs, more comfortable lounges, new destinations, and the expansion of long-haul services. In this respect, financial year 2012 can be regarded as a year of transformation where decisions were made to make numerous areas of weakness more profitable. However, the positive effects of these decisions have not yet been fully realised.

Furthermore, 2012 brought a number of additional external burdening factors in the form of higher expenses, which could only be minimally compensated for in view of the stiff price competition in the industry. The *renewed above-average rise in fuel prices* and in particular the repeated delay in the opening of the Berlin Brandenburg Airport, the decline in German domestic passenger numbers, and the general weakness of the European economy, were all additional burdens in 2012. airberlin was particularly impacted by the last two factors due to its concentration on short and medium-haul routes which amount to around 85 per cent of the passenger traffic in 2012.

2013: A TURNAROUND WITH TURBINE 2013

Overall, Shape & Size was insufficient to lead airberlin to sustainable profitability despite having reached all of its targets. As a result, the management developed an additional, comprehensive strategic plan in order to achieve this goal. The primary element of this plan is airberlin's focus on its core markets and the *consistent implementation of a stringent business model*. The most important operational element of this comprehensive plan is the turnaround programme Turbine 2013 which is presently scheduled to be implemented in financial years 2013 and 2014. Following its complete implementation, management seeks to achieve a positive impact on results from the programme of approximately EUR 400 million.

COMPANY MANAGEMENT

Safety in the air and on the ground has the utmost priority. For this reason, all relevant policies are applied as a matter of priority by the *Company's management*. At the same time, the operational and strategic management of the airberlin group is based upon strict cost and process efficiency. The protection of all available resources and improvements in their deployment are on-going cross-divisional tasks across all areas and levels of the Company. These tasks must be executed by all responsible individuals. Therefore, the Company's organisational *structure is as flat and transparent* as possible. Cross-divisional tasks such as flight operations, on-board service, and technical services, are managed by the individual Management Board members, to which the respective subsidiaries are allocated.

SAFETY AND EFFICIENCY GO HAND IN HAND

The *earnings classification EBITDAR* is the central earnings-oriented governing factor of the airberlin group. EBITDAR is broadly used in the airline industry, as well as by investors and analysts as a generally comparable *operating key performance indicator*. EBITDAR is the abbreviation for "Earnings Before Interest, Tax, Depreciation, Amortisation, and Rent", or leasing costs as in the case of aircraft.

EBITDAR MEASURES FINANCIAL AND OPERATIONAL SUCCESS

Airlines which finance and purchase a larger share of their aircraft, generally incur higher depreciation, and possibly higher interest costs. By contrast, companies that lease more aircraft have comparatively higher expenses for materials and services, where leasing costs are booked. The *optimum* balance of the proportion of owned aircraft compared with leased aircraft and the maximisation of the results from operating activities after financing can only feasibly occur on the basis of EBITDAR since it adjusts the operating result EBIT by expense types, depreciation, and leasing costs.

An additional important operating indicator in aviation, and hence for airberlin, is the *seat-load factor* which is a benchmark for fleet and aircraft utilisation. It is the ratio of revenue passenger kilometres (RPK) and available seat kilometres (ASK). In addition, the *average yield per passenger*, per kilometres flown, or per passenger kilometres, measure the specific sales power. airberlin operates a fully developed yield management system, which is optimised on a continuous basis in order to systematically increase the average yields.

ECONOMIC CONDITIONS

The Overall Economy

In financial year 2012, the European economy was largely impacted by severe recessions in many problem countries of the eurozone. In total, the economies in the European Union (EU27) countries fell into recession. After growth of 1.6 per cent in 2011, the EU economy contracted 0.2 per cent in 2012. At -0.4 per cent, the *contraction in the eurozone* was even more pronounced. The German economy also continuously lost steam in the course of the year. Starting the year with robust growth of 1.7 per cent in the first quarter, real GDP slightly contracted in the fourth quarter. In total, the German economy still grew 0.7 per cent in 2012 (2011: 3.0 per cent) mainly supported by solid exports.

The global economy also experienced lower growth of just 3.2 per cent in 2012 as compared to 3.9 per cent in the prior year. However, the decline in momentum was far less pronounced than in Europe. On the one hand, growth in numerous emerging markets remained relatively high at 5.1 per cent compared to 6.3 per cent in the prior year. On the other hand, Japan was able to rebound from the previous year's recession and recorded positive growth rates. Last but not least, the US economy has slightly gained momentum as compared to the prior year.

THE OIL PRICE

MUCH HIGHER FUEL COSTS

In financial year 2012, the average price of Brent crude oil rose 9.05 per cent to EUR 86.83 in comparison to the average price for the prior year of EUR 79.63. Consequently, the market prices for fuel have increased. At the same time, the *volatility of the oil price has grown significantly* and hedging transactions have also become much more expensive.

Fuel expenses at airberlin for financial year 2012 have risen 7.8 per cent to EUR 1.130 billion after EUR 1.048 billion in the prior year. This increase is below that of the oil price. This is chiefly due to two reasons: First, in the course of optimising the route network, airberlin has reduced the overall distance flown by nearly 3 per cent. Secondly, the on-going efforts at saving fuel, also in the past financial year, are coming to fruition once again.

THE INTEREST RATE MARKETS

In financial year 2012, the bond markets continued to be dominated by the *risk aversion of investors*. Consequently, investors' interest was focussed on government securities such as German government bonds which are considered to be comparably safe. The downward trend in government bond yields continued as a result. The yields on 10-year German government bonds fell 53 basis points to 1.30 per cent in financial year 2012 after a decline of 115 basis points in 2011 to 1.83 per cent. So far this trend has not continued into the current financial year. On the contrary, since the beginning of 2013 a noticeable increase in yields can be observed, albeit from a very low level.

FOREIGN EXCHANGE MARKETS

In financial year 2012, the euro had continued its depreciation trend versus the dollar which had started in May 2011. After beginning 2012 at a rate of USD 1.3050, the price fell 7.6 per cent to a low of USD 1.2059 on 24 July. This had followed an interim recovery in the first weeks of the year in the wake of the *worsening European debt crisis*. A strong upward movement began with the comment by the president of the European Central Bank to do everything within their power to save the common currency. The euro recovered by 9.4 per cent to USD 1.3194 by the end of 2012. Overall, the euro's average annual rate of USD 1.2846 in 2012 against the USD was 7.7 per cent below the average annual rate in 2011 of USD 1.3920.

The weakness of the euro in the reporting year 2012 was the main reason for airberlin's higher fuel costs since the average USD price for Brent crude oil rose only 0.7 per cent in financial year 2012.

The Air Travel Sector in 2012

The International Association of Airlines IATA reported growth in demand totalling 5.3 per cent for the entire year 2012 compared with the prior year. IATA measures the demand based on the passenger kilometres flown (RPK) of its member companies. The rise is less than that of the prior year where 5.9 per cent was achieved. However, it is above the growth rate of the industry which in the last 20 years was 5.0 per cent.

**BOOMING MIDDLE
EAST MARKETS
IN 2012**

As in the previous year, industry *growth on a regional basis was again very different* and was mainly supported by the booming development in the emerging markets. Thus, the total demand in the Middle East rose 15.2 per cent and 6.0 per cent in Asia/Pacific (the Chinese domestic market alone accounted for +9.5 per cent) and an increase of 9.5 per cent in Latin America. This contrasts with the weaker development of Europe with +5.1 per cent and particularly North America with +1.1 per cent. Overall, demand for domestic flights (+4.0 per cent) did not grow as strongly as demand for flights to international destinations (+6.0 per cent).

Demand for international flights from Europe rose 5.3 per cent in 2012. In 2011, growth there was still 9.5 per cent. The cause for the slowdown in growth was exclusively due to long-haul flights while the *demand for flights within the eurozone stagnated*. Additionally, growth stemmed primarily from European countries outside of the EU, especially Turkey.

According to IATA, capacity – measured by the seat kilometres available (ASK) – rose 3.9 per cent at member companies. This led to a sizable increase in their utilisation (seat load factor) of a full percentage point to 79.1 per cent: A level which is near to the historical all-time high. European capacity only rose 2.9 per cent and the utilisation even reached 79.6 per cent. In North America, it rose to 82.9 per cent with nearly unchanged capacity.

**ALMOST ZERO
GROWTH IN EU
PASSENGER
VOLUMES**

With respect to passenger volumes, the statistics from the airport association Airport Council International Europe (ACI Europe) also show only minor growth of 1.8 per cent in Europe for the year 2012. At +0.2 per cent, the *EU was dominated by a near stagnation*. The development in the EU during the fourth quarter of 2012 was particularly weak. All three months showed declines in a year-on-year comparison to the same period of the prior year, whereby December came in particularly negative with –3.1 per cent. European airports outside of the EU on the other hand saw a rise of 8.8 per cent in 2012. Here, Istanbul and Moscow demonstrated high double-digit growth.

In Germany, airport operators belonging to the Arbeitsgemeinschaft Deutscher Verkehrsflughäfen (ADV) felt the impact of the euro crisis, the difficult market situation for airlines, and national burdens such as the aviation tax. In comparison to the prior year, the number of passengers at the 22 international German commercial airports rose just 1.1 per cent to 200,405,821 passengers (2011: +5.0 per cent). Additionally, the analyses of ADV show that only the intercontinental connections had satisfactory growth (+4.9 per cent compared with 2011). However, traffic development in European traffic lost considerable momentum (+2.0 per cent).

Domestic German traffic weakened by even 3.6 per cent in comparison to the same period of the prior year. Hereof, mainly small and medium-sized airports were affected. They suffered a significant decline in traffic, particularly in the second half of 2012. Furthermore, traffic development was also negatively impacted by the introduction of the aviation tax in 2011. As a result, airports near the borders in particular had to accept considerable declines in the second half of 2012. Only large hubs with a high portion of intercontinental flight connections could show acceptable growth rates, according to the ADV. The cancellations of flight destinations and frequency reductions which accompanied the market developments were reflected in the decline in aircraft movements. These dropped 2.9 per cent compared to last year to approximately two million take-offs and landings.

OPERATIVE DEVELOPMENT

Passenger Travel and the Fleet

In financial year 2012, the route network was adjusted in a targeted manner for the *change in demand*. This resulted in the removal of several of the German domestic connections to regional airports from our programme since the passenger numbers have significantly declined since the introduction of the *aviation tax*. Core adjustments are the *systematic optimisation of the route network* of airberlin's hubs in Berlin, Düsseldorf, Vienna, and Palma de Mallorca and the expansion of connections to the networks of airberlin's strategic partner Etihad Airways and the **oneworld** alliance members.

TARGETED
STRATEGIC
ADJUSTMENTS
IN THE ROUTE
NETWORK

As a part of this measure, the number of aircraft declined from 170 in the previous year to 155 in the reporting year. Accordingly, capacity also declined. The number of seats fell 7.4 per cent to 41,788,847 after 45,136,999 and the number of available seat kilometres (ASK) declined 2.8 per cent from 62.2 billion to 60.4 billion. The number of passengers was 5.5 per cent lower at 33,346,495 after 35,300,209 and revenue passenger kilometres (RPK) fell 6.6 per cent to EUR 48.7 billion after EUR 52.1 billion. Utilisation reached a *historic peak level* of 79.80 per cent (up by 1.59 percentage points) measured by the seat load factor.

UTILISATION
REACHED A
HISTORIC PEAK
LEVEL IN 2012

Development of Capacity Utilisation from 2005 until 2012

	2005	2006	2007	2008	2009	2010	2011	2012
Capacity (million)	23.3	33.8	36.5	36.4	41.8	45.6	45.1	41.8
Passengers (million)	17.5	25.6	28.2	28.6	32.4	34.9	35.3	33.4
Seat load factor (%)	75.11	75.73	77.30	78.57	77.47	76.45	78.21	79.80

**EXPANSION OF
CONNECTING
FLIGHTS AND
LONG-HAUL
ROUTES**

ASK declined due to the reduction in seating capacity, particularly on the short-haul routes. At the same time flight connections with partner airlines and long-haul route connections were increased. Accordingly, the average length per destination rose 5.0 per cent from 1,377km to 1,445km and the average seat capacity per aircraft remained unchanged at 166.9 passengers. However, the number of flights was reduced 7.4 per cent from 270,498 to 250,406. Compared to this, revenue passenger kilometres (RPK) experienced a below-average decline of 6.6 per cent from 52.1 billion to 48.7 billion.

**SIGNIFICANT
INCREASE IN
REVENUE PER PAS-
SENGER, PER ASK,
AND PER RPK**

The success of the Shape & Size efficiency improvement programme could clearly be seen in the per passenger figures, the ASK and the RPK. Thus, *flight revenue per passenger* in financial year 2012 rose 7.8 per cent to EUR 120.15 after EUR 111.47 in the prior year. *Total revenue per passenger* rose 8.0 per cent to EUR 129.30 after EUR 119.75. Total revenue per ASK rose 5.0 per cent to 7.14 eurocents after 6.80 eurocents. Total revenue per RPK grew 9.1 per cent to 8.85 eurocents after 8.11 eurocents.

Higher fuel expenses growing 7.8 per cent and a decline of just 2.8 per cent in ASK still meant a renewed double-digit increase in *specific fuel costs* as in the previous year. In the reporting year, they were 10.7 per cent higher per ASK at 1.87 eurocents after 1.69 eurocents. As a result, operating expenses per ASK rose 3.6 per cent to 7.46 eurocents after 7.21 eurocents. Excluding fuel expenses, the increase in operating costs per ASK could be limited to an increase of just 1.3 per cent (5.59 eurocents after 5.53 eurocents).

**STRONG IMPROVE-
MENT IN OPERA-
TIVE MARGINS**

The *operating profit margins* at the EBITDAR and EBIT level improved significantly in the reporting year – even when eliminating the positive on-off effect of EUR 184.4 million from the topbonus transaction. On this basis, the EBITDAR per passenger was 37.2 per cent higher in 2012 (EUR 16.56 after EUR 12.07) and the result from operating activities (EBIT) amounted to EUR –3.43 in the reporting year after EUR –7.00 in the prior year. The increase in EBITDAR per ASK rose 31.9 per cent (0.91 eurocents after 0.69 eurocents) and per RPK rose EBITDAR rose 37.8 per cent (EUR 1.13 eurocents after 0.82 eurocents). At the EBIT level in 2012, the improvement amounts to 0.21 eurocents per ASK (–0.19 eurocents after –0.40 eurocents), and 0.24 eurocents per RPK (–0.23 eurocents after –0.47 eurocents).

Material flight related figures (as at 31 December)

	+/- %	2012	2011
Aircraft	-8.8	155	170
Flights	-7.4	250,406	270,498
Destinations	+7.4	174	162
Capacity (thousands)	-7.4	41,789	45,137
Passengers (thousands; "Pax")	-5.5	33,346	35,300
Passenger load factor (per cent; Pax/capacity)	1.59 %-points	79.80	78.21
Available seat kilometres (bn; ASK)	-2.8	60.40	62.16
Revenue seat kilometres (bn; RPK)	-6.6	48.72	52.14
Number of block hours	-4.3	520,407	543,660
Average length per destination (km)	+5.0	1,445	1,377

In 2012, the total number of aircraft declined to 155 from 170 in the prior year. With an average age of 5.2 years, the fleet of the airberlin group continues to belong to one of the youngest fleets worldwide. Therefore, it is also one of the most efficient fleets in terms of fuel consumption. The aircraft belonging to IATA member airlines have an average age of 13.8 years.

AIRBERLIN CONTINUES TO OPERATE ONE OF THE YOUNGEST AND MOST FUEL EFFICIENT FLEETS

The fleet of the airberlin group

Number at the end of	2012	2011
A319	8	11
A320	43	46
A321	16	14
A330-200	13	12
A330-300	1	2
B737-700	21	26
B737-800	36	42
Q400	10	10
Embraer E 190	7	7
Total	155	170

RESULTS OF OPERATIONS, NET ASSETS, AND FINANCIAL POSITION

The statements in the following reports on the results of operations, net assets, and financial position in financial year 2012 have been made on the basis of restated figures for the previous year. The restatements pertain to deferred tax assets within non-current assets and deferred tax liabilities within non-current liabilities in the consolidated statement of financial position of the airberlin group for the 2011 financial year. The deferred tax assets amounting to EUR 138.3 million within non-current assets recognised in the 2011 Annual Report, were retroactively written down to zero as at 31 December 2011 with no impact on liquidity. The deferred tax liabilities were retrospectively increased by EUR 10.3 million and as at 31 December 2011 amounted to EUR 39.7 million.

Accordingly, the "income tax" item in the consolidated income statement of financial year 2011 was burdened with an additional non-cash expense totalling EUR 148.6 million. This changed the initially reported income tax benefit of EUR 87.0 million to an income tax expense of EUR 61.6 million. The initially reported loss for the period of EUR 271.8 million rose to EUR 420.4 million. The resulting change of retained earnings in equity is as follows: The revised shareholders' equity amounted to EUR 105.2 million as at 31 December 2011 following the initially reported EUR 253.7 million.

Results of Operations

FLIGHT REVENUE GREW DESPITE LOWER PASSENGER NUMBERS

In financial year 2012, revenues grew 2.0 per cent from EUR 4,227.3 million in the prior year to EUR 4,311.7 million despite the planned streamlining of the route network. *Flight revenue*, including the aviation tax rose 1.8 per cent to EUR 4,006.7 million after EUR 3,934.8 million in the prior year. *Revenues from inflight sales* declined 17.1 per cent to EUR 32.0 million after EUR 38.6 million. The income from ground services and other services had an above-average increase of 7.5 per cent to EUR 273.0 million after EUR 254.0 million due to the broader range of services and as part of *optimising the price structure* with flying-related services.

TOPBONUS CONTRIBUTES INCOME OF EUR 184.4 MILLION

Other operating income increased to EUR 264.2 million in financial year 2012 after EUR 10.1 million in the previous year. This increase is largely due to the sale of the topbonus frequent flyer programme which resulted in an income of EUR 184.4 million. Total income in the reporting year rose 8.0 per cent to EUR 4,575.9 million after EUR 4,237.4 million in the prior year.

The development of *expenses for materials and services* in financial year 2012 was impacted by two contradictory tendencies: While the Shape & Size performance improvement programme achieved a noticeable reduction in key expense items, *fuel expenses* rose significantly in financial year 2012 despite the decline in the number of flights and routes flown. This had offset a large portion of the performance improvements which had been achieved.

At EUR 3,288.8 million, expenses for materials and services were EUR 15.7 million or 0.5 per cent below the prior year's level of EUR 3,304.5 million. This included *fuel expenses* of EUR 1,128.6 million (previous year: EUR 1,048.1 million) which rose by EUR 80.5 million or 7.7 per cent. Excluding fuel expenses, expenses for materials and services fell EUR 96.2 million or 4.3 per cent to EUR 2,160.2 million after EUR 2,256.4 million in the prior year. Airport fees declined 5.7 per cent to EUR 864.5 million, the aviation tax dropped 6.6 per cent to EUR 154.7 million, and expenses for navigation services fell 8.7 per cent to EUR 260.7 million. Expenses for catering and inflight sales declined 10.1 per cent.

**FUEL WAS THE
DECISIVE COST
DRIVER ONCE
AGAIN IN 2012**

The percentage of expenses for materials and services to total revenue decreased by 2 percentage points to 76.2 per cent of revenues. The percentage of flight revenue amounted to 82.1 per cent in the reporting year after 84.0 per cent in the prior year. The *percentage of fuel costs to flight revenue* rose from 26.6 per cent in the previous year to 28.2 per cent in the reporting year. Excluding fuel, the percentage of expenses for materials and services to flight revenue was reduced to 53.9 per cent after 57.3 per cent.

In the reporting year, *operating lease expenses* only increased slightly by 0.9 per cent to EUR 592.2 million after EUR 587.0 million in the prior year. As in the previous year's period, this was due to a depreciation of the average annual euro rate against the US dollar (leasing fees are paid in US dollars), and to a slightly higher portion of leased aircraft. By the end of 2012, airberlin's fleet of aircraft was comprised of 129 leased aircraft (previous year: 137) and of 26 own aircraft (previous year: 33). On balance, the fleet declined by 15 aircraft.

To a large extent, *depreciation of fixed assets* is comprised of depreciation of aircraft. As was already the case in the previous year, depreciation declined further in the financial year (EUR 49.0 million after EUR 62.9 million) due to the higher concentration on leased aircraft. Total depreciation fell 13.7 per cent to EUR 74.1 million after EUR 85.9 million. Consequently, total depreciation and leasing expenses for aircraft ("cost of aircraft ownership") reduced by 1.3 per cent to EUR 641.2 million after EUR 649.9 million.

Personnel expenses rose 2.8 per cent to EUR 488.8 million after EUR 475.4 million in line with the higher number of personnel which had also grown 2.8 per cent on average over the year.

In the reporting year, *other operating expenses* rose 5.7 per cent to EUR 654.0 million after EUR 618.5 million in the prior year. IT expenses increased to EUR 96.9 million after EUR 71.1 million especially due to higher costs for computerised distribution systems. In contrast, expenses for repairs and maintenance of technical equipment saw a marked decline from EUR 234.1 million to EUR 215.8 million.

Operating expenses at the EBITDAR level, i.e. excluding lease expenses and depreciation, were 0.7 per cent higher than the previous years' level and amounted to EUR 3,839.4 million in the reporting year after EUR 3,811.6 million. Excluding the higher fuel expenses, operating expenses would have been *1.9 per cent lower*.

EBITDAR INCREASED BY EUR 310.5 MILLION TO EUR 736.4 MILLION IN 2012

EBITDAR (earnings before interest, taxes, depreciation, amortisation, and leasing expenses) amounted to *EUR 736.4 million in the financial year after EUR 425.9 million in the previous year*. This EUR 310.5 million increase, or 72.9 per cent, includes proceeds from the sale of the topbonus frequent flyer programme amounting to EUR 184.4 million.

DISTINCTLY POSITIVE OPERATING RESULT

In the reporting year, the *operating profit/EBIT* (earnings before interest and taxes) rose to EUR 70.2 million after EUR –247.0 million in financial year 2011.

The *financial result* was able to improve from EUR –111.9 million in the previous year to EUR –73.6 million in financial year 2012. Financial expenses were reduced once again from EUR 82.7 million to EUR 77.2 million. In 2012, the net result from foreign currencies and the accounting for the fair value of derivative financial instruments rose to a profit of EUR 2.6 million after a loss of EUR –39.0 million in the previous year.

The *profit/loss before tax* improved to EUR –3.2 million in financial year 2012 from EUR –358.8 million in the previous year. Net of an income tax benefit of EUR 10.0 million (revised previous year figure: EUR –61.6 million), *net profit for the period* was EUR 6.8 million compared to the revised loss in the previous year of –420.4 million.

Earnings per share based on the average number of 114,552,461 shares outstanding amounted to EUR 0.06 (basic and diluted) following a revised EUR –4.94 in financial year 2011 (initially reported: EUR –3.12).

Net Assets

Total assets of the airberlin group rose 4.3 per cent to EUR 2,217.6 million as at 31 December 2012, after a revised EUR 2,125.7 million as at the closing date of the previous year. *Non-current assets* fell 12.3 per cent to EUR 1,183.8 million after revised EUR 1,349.6 million. This was largely due to a decline in property, plant, and equipment to EUR 597.9 million from EUR 818.9 million. Here the impact of the planned sale of aircraft can be seen. Since these assets were not yet disposed of at the balance sheet date, the related amount was reclassified to current assets. Intangible assets rose 6.3 per cent to EUR 421.0 million. Deferred tax assets amounted to EUR 28.7 million as at the closing date of 2012 following a revised zero in the previous year. The other items had very little change. *Capital intensity* had significantly declined as at the reporting date: Non-current assets amounted to 53.4 per cent of total assets in 2012 after 63.5 per cent in the previous year. Following the close of the sale of the aircraft available-for-sale, this ratio is expected to increase again as a result of the reduction in total assets.

Current assets rose 33.2 per cent to EUR 1,033.8 million after EUR 776.0 million largely as a result of the reclassification of non-current assets (EUR 145.2 million) and an increase in receivables of EUR 76.6 million to EUR 451.7 million. *Cash and cash equivalents* rose to EUR 327.9 million at the end of the 2012 financial year after EUR 239.6 million in the previous year. The percentage of current assets to total assets rose from 36.5 per cent in the prior year to 46.6 per cent as at the closing date of 2012.

IMPROVEMENT IN
LIQUIDITY

On the liability side, shareholders' equity rose to EUR 130.2 million after a revised EUR 105.2 million in the previous year. Subsequent to the capital increase by way of issuing 31,574,312 new shares at a price of EUR 2.31 in January 2012, share capital rose EUR 7.9 million to EUR 29.3 million and share premium rose EUR 61.2 million to EUR 435.1 million. At the end of the reporting year, retained earnings were EUR –546.7 million after a revised EUR –554.2 million. The changes in the valuation of hedging instruments and the foreign currency translation reserve turned to a negative amount of EUR –8,6 million in the reporting year after a positive amount of EUR 42.7 million in the previous year. In addition, the equity component of the convertible bond declined from EUR 1.3 million in the previous year to EUR 0.6 million. As at 31 December 2012, 48 bonds with a total nominal value of EUR 4.8 million of the convertible bond issued in 2007 were still outstanding (see note 17). The proportion of shareholders' equity to total assets was 5.9 per cent as at the 2012 balance sheet date after 4.9 per cent in the previous year.

THE EQUITY RATIO
ROSE SLIGHTLY IN
2012

In the reporting year, *non-current liabilities* declined slightly by 5.4 per cent to EUR 998.9 million after revised EUR 1,055.8 million. Key changes occurred in *non-current* interest-bearing liabilities. Interest-bearing liabilities from aircraft financing declined from EUR 471.8 million to EUR 267.0 million due to the reclassification of the aircraft available-for-sale. In contrast, non-current interest-bearing liabilities increased from EUR 470.2 million to EUR 621.1 million as a result of the granting of a credit line by the majority shareholder, Etihad Airways. Approximately 30.2 per cent of the total non-current interest-bearing liabilities have a maturity of more than five years. The non-current negative value of derivatives was considerably lower at EUR 0.5 million after EUR 11.0 million. Non-current trade payables however rose to EUR 70.4 million after EUR 55.9 million.

Current liabilities rose 12.8 per cent to EUR 1,088.5 million after EUR 964.7 million. This increase mainly resulted from higher interest-bearing liabilities from aircraft financing (EUR 158.9 million after EUR 53.1 million) as a result of the reclassification previously mentioned. Trade payables in contrast had very little change while advance payments received had grown from EUR 335.3 million to EUR 365.6 million. The decline in deferred income is explained by the sale of the topbonus frequent flyer programme.

At the end of the reporting year, net debt amounted to EUR 770.2 million after EUR 813.0 million in the previous year.

Financial Position

Operating cash flow for financial year 2012 was EUR –153.4 million after EUR –137.4 million in the previous year. This was after the add back of depreciation of EUR 74.1 million (previous year: EUR 85.9 million) and net result of EUR 6.8 million (previous year revised: EUR –420.4 million). The revision of the prior year's figure is related to the above-mentioned complete write-off of deferred tax assets which resulted in a higher loss for the period for 2011 than initially reported (EUR –420.4 million after EUR –247.0 million). Furthermore, this also effects the item "deferred tax benefits" in the reconciliation to the cash flow from operating activities: It changed from a benefit of EUR 92.9 million to an expense of EUR 55.7 million. Furthermore, the 2012 operating cash flow is reduced by a gain of EUR 184.4 million included in the net profit for the period which had resulted from the sale of the topbonus frequent flyer programme. This amount has been allocated to cash flow from investing activities.

Trade and other receivables/payables adversely impacted cash generated from operations in 2012 due to an increase in trade receivables of EUR 58.9 million (previous year: EUR 28.7 million). The corresponding liabilities however increased by only EUR 36.7 million (previous year: EUR 31.4 million). Furthermore, other current liabilities fell EUR 30.2 million. In the prior year, these had risen by EUR 33.6 million. Net cash flows from changes in net working capital (increases/decreases in inventories and trade receivables and trade payables) amounted to EUR –26.5 million in the reporting year after EUR 0.0 million in the previous year. After taking into consideration the total of EUR 70.4 million (previous year: EUR 58.5 million) for income taxes paid and net interest paid, *net cash flows from operating activities* amounted to EUR –223.8 million after EUR –195.9 million in the prior year.

Cash flow from investment amounted to EUR 168.0 in the reporting year after EUR –62.5 in the previous year. The investments in aircraft fell to a large extent to the level of maintenance costs as a result of a reduction in the fleet. This was offset by higher investment in the IT infrastructure among others. In total, the payments for investments in long-term assets as well as the related prepayments fell to EUR 54.4 million in the reporting year after EUR 175.8 million in the previous year. EUR 20.2 million was invested in topbonus Ltd. and a joint venture. This was offset by proceeds in the amount of EUR 41.9 million (previous year: EUR 114.2 million) from the sale of long-term assets and from aircraft, and EUR 200 million from the sale of the topbonus frequent flyer programme.

**HIGHER NET CASH
INFLOWS FROM
THE SALE OF
ASSETS**

Cash flow from financing activities was EUR 144.4 million in the reporting year after EUR 87.6 million in the previous year. The increase resulted primarily from the capital increase in January 2012 which brought proceeds of EUR 67.4 million, net of transaction costs of EUR 5.5 million. On a net basis and after transaction costs, proceeds from the issuance of interest-bearing financial liabilities amounted to EUR 83.2 million after EUR 228.5 million in the previous year. The repurchase of convertible bonds resulted in a cash outflow of EUR 6.2 million after EUR 140.9 million in the previous year.

The effect of foreign exchange rates on cash balances was immaterial. The change in cash and cash equivalents in financial year 2012 amounted to an inflow of EUR 89.4 million (previous year: outflow of EUR –171.3 million). Cash and cash equivalents at the end of the reporting year amounted to EUR 327.8 million after EUR 238.4 million at the beginning of the year.

RESPONSIBILITY

airberlin's philosophy is based on a comprehensive sustainability policy. We consider ourselves to be responsible participants in social life. Our aim is to accompany and support the community in a positive manner.

SOCIAL RESPONSIBILITY BEGINS INSIDE THE COMPANY

EQUAL OPPORTUNITY OUT OF PRINCIPLE

As an employer, airberlin promotes equal opportunity and strives to avoid and eliminate any discrimination with respect to ethnic heritage, sex, religion, political views, disabilities, age, or sexual preference. In accordance with the European Union's *general non-discrimination clause*, all collective policies and core HR processes are continuously reviewed for any signs of discrimination and the management is kept current on any legal requirements.

BUILDING BRIDGES: AIRBERLIN EMPLOYS PEOPLE OF 68 DIFFERENT NATIONS

Mutual respect and embracing diversity go hand in hand at airberlin. As an internationally operating company, airberlin accomplishes more across borders than just mobility. On the contrary, the airberlin group brings together *people and cultures* from all over the world. Internally, we also experience this diversity. In financial year 2012, airberlin had engaged employees of 68 different nationalities.

WORKING AT AIRBERLIN

Employees

NUMBER OF EMPLOYEES IN 2012: 9,284

At 31 December 2012, the airberlin group had 9,284 employees, following 9,113 employees in the previous year. With 4,767 women outnumbered 4,517 men and represented 51.3 per cent of the total workforce. On average, employees have been employed with the airberlin group for 8.2 years and the average age of our workforce is 37.1. Internationally, airberlin employs 771 people, of which 183 in Spain, 353 in Switzerland and 99 in Austria.

At the end of the financial year, there were 2,541 part-time employees at the airberlin group. 574 of these employees are from the area Cockpit/Cabin and use a *work-hour model* with a corresponding adjustment for salary called a "free month" (Freimonat). The *quotient of part-time employees* was 27.4 per cent (24.6 per cent in the previous year).

Employee Structure at airberlin

	31.12.2012	31.12.2011
Pilots	1,362	1,385
Cabin crew	3,431	3,412
Technical staff	1,286	1,521
Administration/services/others	3,206	2,795
Total	9,284	9,113

A Variety of Educational Offers

airberlin offers young people a wide range of traditional and technically-orientated occupations. There are *seven training occupations* and a dual training course. There are besides others training programmes for qualifying as office clerks, air travel and air traffic clerks, clerks for office communication, aircraft mechanics, and electronic technicians.

NUMEROUS BUSINESS AND TECHNICAL TRAINING PATHS

For young people interested in technology, airberlin also offers the opportunity to receive training as an aircraft mechanic (maintenance) or electronic technician for aviation systems. In September 2012, 17 new apprentices started their first year of training at *airberlin technik GmbH* in Düsseldorf. With approximately 90 apprentices, *it is one the largest training companies* in the Düsseldorf region.

In collaboration with the International University of Cooperative Education (IBA), airberlin also offers a dual degree in business administration with an emphasis on hotel and tourism management.

DUAL DEGREE IN BUSINESS ADMINISTRATION

In 2012, 25 young men and women began their careers in the commercial and technical areas at airberlin. Across all apprentice levels, the airberlin group had 123 apprentices at the end of this reporting year. In calendar year 2012, 30 apprentices had successfully completed their apprenticeships and had accepted permanent positions at airberlin. In addition, we offer a *wide range of internships*. At December 31, 2012 there were 42 interns appointed to various specialised areas within the Company. Across all professions, airberlin's apprentices achieve excellent examination results.

At airberlin, training is not only a social responsibility but it also serves our own interests. The *subsequent employment of all apprentices* had a positive impact on the development of the Company. An early commitment creates a high degree of identification with the employer. Through close cooperation with professional schools and universities, we also focus on junior executive programmes and talent management. Special trainee programmes are offered over a period of 18 months and can have an international orientation through

CLOSE COOPERATION WITH PROFESSIONAL SCHOOLS AND UNIVERSITIES

exchange programmes with our strategic partners. There is also an in-house training centre in Düsseldorf.

AIRBERLIN TRAINS ITS OWN FLIGHT ATTENDANTS

In financial year 2012, 279 flight attendants were trained as compared to the 402 flight attendants trained in the previous year and 665 in the year prior to that. Security and emergency training is offered in specialised training courses as well as on-board-service, first aid, communication, and announcement training. Training flights are offered in order to carry out various practical exercises. The training period is 6 weeks.

Since 2007, the airberlin flight school has been carrying out air transport pilot training. Those who choose a cockpit position at airberlin receive a two-year theoretical and practical training according to the *highest international standards*.

Health is Top Priority

AIRBERLIN PRO- VIDES COMPRE- HENSIVE HEALTH AND SAFETY PROGRAMMES

Prerequisites for a successful company include healthy, engaged, and performance-oriented employees. Therefore, we provide our employees with a *comprehensive health and safety programme*. As a preventative measure, we perform risk assessments for all areas in order to ensure safety and health at the workplace and to allow for the opportunity to take early measures. In addition, we offer a variety of activities and measures to ensure the protection of health and safety.

At our larger locations, the Company receives support through five occupational physicians and an external safety expert. airberlin offers annual health days on a regular basis where topics such as nutrition, exercise, and relaxation are addressed.

For employees who are ill more than 42 days in the year, airberlin offers occupational *reintegration management*. This enables employees to organise their return to their workplace as best as possible and to achieve a permanent recovery.

SOCIAL COMMITMENT

A Special Focus on Helping Children

airberlin is fully aware of its social responsibility and takes part in numerous social projects. A special focus of our involvement is on helping children. For many years, we have been supporting the *Christiane Herzog Foundation*. Since 1997, the foundation has provided support for young people with cystic fibrosis, the most common hereditary metabolic disorder. Each year, airberlin flies children with cystic fibrosis to the island of Gran Canaria for climate therapy, initiates fund-raising campaigns, and helps finance the foundation's events.

In 2008, airberlin launched the airberlin Fund for ALS Therapy Research at the *Charité Hospital in Berlin*. ALS (amyotrophic lateral sclerosis) is a severe degenerative disease of the motor nervous system. The Charité ALS clinic received EUR 100,000 from the fund every year until 2012. Intensive therapy research helps to determine the long-term causes of the disease and furthers the development of effective medicines. By conducting clinical studies with ALS patients, it is hoped that medications can be found that are able to help slow the progress or alleviate the symptoms of ALS.

AIRBERLIN SUPPORTS CYSTIC FIBROSIS THERAPY AND SPONSORS ALS STUDIES

Due to the high quality and safety requirements involved in therapeutic studies, the testing of new ALS medications is time-consuming and expensive. The supported pilot projects serve to demonstrate the feasibility and benefits of telemedical solutions with the aim that these will become a standard care treatment in the future. The ALS Foundation is also supported by "Achse" (a German alliance for rare chronic diseases) and its patron Eva Luise Köhler, the wife of the former German federal president.

For more than 15 years, airberlin has organised the benefit campaign "Help & Fly". With the funds raised, we supported the Düsseldorf-based AIDS organisation, "*AIDS-Hilfe Düsseldorf e.V.*". In the last few years, over EUR 500,000 was raised for projects. The employees directly involved support this project in their spare time. In 2012, airberlin was able to hand over a cheque over EUR 35,000 to the AIDS-Hilfe Düsseldorf e.V. on the stage during the event.

AIRBERLIN'S ENVIRONMENTAL ENGAGEMENT

The strategic and operational management of the airberlin group and its subsidiaries are also based on the principle of sustainability – beyond financial and organisational criteria. Therefore, we make every effort possible to keep our *ecological footprint as small as possible*. Hence, improving the ecological balance is a permanent horizontal objective of the entire airberlin group that is to be pursued by all employees. Even the smallest contributions are treated with the utmost care as they can add up to a large difference.



The key focus is on the gentlest use possible of non-renewable resources. As an aviation company, fuel poses by far the most important resource of this kind for airberlin. The key challenge in our all-encompassing environmental engagement is to *minimise fuel consumption and thus CO₂ emissions*. This is an integral part of our corporate philosophy.

The group-wide "*Eco-efficient Flying*" programme continuously develops and executes measures in the areas of technical services, flight operations, operations, and controlling, which save fuel and reduce emissions.

Outstanding Feature of Quality: Minimum Fuel Consumption

At the same time, minimum fuel consumption also represents an *outstanding feature of the quality of airberlin* that is gaining importance with passengers and investors alike. We see this particularly with corporate customers who choose us for business travel. Moreover, airberlin was already awarded the best-in-class "*prime rating*" in 2009 for sustainable investment by the rating agency "oekom research". In 2011, we were not only able to affirm our award but in some areas we have even made improvements.

AIRBERLIN'S
ENVIRONMENTAL
ENGAGEMENT HAS
BEEN AWARDED
SEVERAL TIMES

In addition, airberlin was the first airline to ever win the *ÖkoGlobe 2011* award of the University of Duisburg-Essen. We received this award for ground-breaking innovations made in sustainable mobility through our "Eco-efficient Flying" programme.

According to the so-called Atmosfair Airline Index (AAI), which was presented in September 2012 at the Berlin Air Show (ILA), airberlin was ranked as *Europe's most climate-friendly scheduled carrier* *.

An Environmental Pioneer from the Start

AIRBERLIN HAS
EMPLOYED WING-
LETS AS EARLY AS
2001

At an early stage, airberlin assumed a pioneering role in *numerous areas of technical innovations* for improving the environmental balance in aircraft design and flight operation. We were the first European airline to use winglets as early as 2001, thus setting a standard in the aviation industry. Winglets improve aerodynamics and reduce fuel consumption by around 3 per cent. A jet equipped with *blended winglets* also needs less time for take-off and a steeper angle at departure which reduces the noise levels for those residing near airports. This is particularly true for the noise-intense take-offs.

The 14 Airbus A320/A321 aircraft to be shipped by 2015 will be equipped with the new and enhanced fuel-saving wingtips. As one of the first airlines worldwide to use such sharklets, the airberlin group will introduce the *first of these sharklets* in as early as spring 2013. The first aircraft to be equipped with sharklets will be an Airbus A320 of NIKI, a member of the airberlin group. Sharklets are two-and-a-half-metre upward extensions at the tip of the wings and they *reduce air turbulence*. This results in fuel savings of up to 3.5 per cent. An aircraft equipped in this way saves an additional 1,000 tonnes of CO₂ emissions on an annual basis. This is equal to 55 flights per aircraft per year flying from Berlin to Palma de Mallorca. Through the improved upward lift, an Airbus equipped with sharklets can also climb more rapidly. This also reduces noise on the ground.

* airberlin ranks first as the best European scheduled airline in the Atmosfair Airline Index 2012 scoring 74 of a maximum of 100 points. According to atmosfair, 100 points mark the optimum achievable using today's technology.

think • go climate conscious



airberlin was the first German airline to introduce the *satellite-based precision approach* according to the RNP-AR method (Required Navigation Performance – Authorisation Required) in Innsbruck and Salzburg. When approaching these airports, which can be found by their particular location in a mountainous landscape, airberlin pilots can also fly curves – even upon final approach – and are not restricted to straight flight paths. Moreover, this landing method uses air space more efficiently and consequently also saves fuel. *Curved approaches* can also allow for circumventing densely populated residential areas, and as a result, reduce noise pollution.

In Europe, airberlin was also a pioneer in terms of technical innovations such as *satellite-based navigation approach systems* and *GLS (Global Positioning and Landing System)*. With GLS, the approach and landing phase can be optimised and as a result, the noise exposure of residents can be minimised. This eliminates the need for holding patterns or a detour to a nearby airport. GLS enables aircraft to circumvent residential areas and execute steeper landings. Navigation using GLS lessens the noise level in residential areas and preserves the environment via a shorter approach and less pollution. All Boeing 737-700 and -800s delivered to airberlin since 2007 are equipped with GLS.

Already in 2005, we were the first airline worldwide to use digital air maps and since 2011, the use of paper in flight operations has been entirely eliminated. Meanwhile, the use of tablet PC's is already well advanced.

WE AVOID QUEUES

A further innovation to be introduced with the Boeing 737 Next Generation (NG) at airberlin is the GBAS. This ground-based satellite approach system allows *landings* with an accuracy of up to less than one metre and which are *controlled by autopilot*. In contrast to the Instrument Landing System (ILS), the GBAS system can control up to 49 parallel approaches. This technology allows better utilisation of airspace over the airports and helps to avoid delays, thus saving fuel. airberlin has been a pioneer in Europe with both technologies.

Environmentally Aware On Board

At airberlin, all cleaning articles on board such as folded paper towels, facial tissues, and toilet paper, are recyclable. Paper towels have the FSC-mix label which signifies paper products whose fibres stem at least 50 per cent from *sustainable forest management*. All trash bags are all made of thickness-reduced LDPE film. The soap contains fragrances which do not burden the environment. Since autumn of 2012, airberlin has been using new, extra-light polypropylene cups. With this alone, 200 tonnes of weight will be saved every year and more than one tonne of CO₂ emissions will be saved upon disposal.

Potential Savings are Everywhere

WE ENSURE MORE ON-TIME DEPARTURES AND MORE STABLE FLIGHT OPERATIONS

There are potential savings along the *entire value chain*. Before every flight, intelligent software ("Actual Filing") optimises the flight route and altitude according to weather, load, the airspace situation, and other factors. Interim changes in the weather and wind data are provided online via the "wind uplink" tool. In order to avoid strong headwinds and to save time and fuel, the altitude and the routes are varied. Positive side effect: The crew must no longer enter the data manually, *more on-time departures*, and *more stable flight operations* at the hubs.

airberlin has developed its own methodology to calculate *fuel-saving optimised flight times*. If flight times are too tightly calculated, planes must fly faster which in turn consumes more fuel. By optimising block times, 13,000 tonnes less CO₂ was emitted in the year 2012 alone.

New Record in Lowest Fuel Consumption

All of these measures add up to significant gains: In 1994, on average an airberlin aircraft had consumed almost 4.4 litres of fuel in order to transport one passenger 100 kilometres (100 RPM; based on DIN standard EN 16258).

IN 2012, AIRBERLIN SAVED EMISSIONS EQUALLING 415 INTERCONTINEN- TAL FLIGHTS

By 2011, we were able to reduce fuel consumption by 20 per cent to only 3.5 litres and in financial year 2012 we achieved a further reduction of more than 2 per cent to just 3.39 litres. In *2012 alone, total savings amounted to nearly 32,000 tonnes of fuel* and CO₂ emissions were cut by 2.5 per cent or 100,000 tonnes. This corresponds to emissions equal to those of an Airbus A330 travelling 620 flights from Düsseldorf to New York! Compared to 1994, CO₂ emissions were cut by 20 per cent.

The IATA scheduled airlines have 35 per cent higher specific fuel consumption on average amounting to approximately 4.7 litres per 100 PKM. An automobile is even higher at over 5 litres when adjusted for capacity. Since we improve our fuel efficiency by about 2 per cent per year, we *exceed the industry's ACARE reduction targets*.

Fuel Savings and CO₂ Reductions from 2008 until 2012 and Current Estimates for 2013

in per cent	2008	2009	2010	2011	2012	2013e
Fuel in '000 tonnes	7.9	10.9	14.5	19.8	31.7	29.4
as a percentage of total consumption	0.6	0.9	1.1	1.5	2.2	2.2
CO ₂ emissions in '000 tonnes	24.9	34.3	45.7	62.4	100.2	92.6
Consumption per 100 RPK in litres	3.70	3.64	3.60	3.50	3.39	3.32

Naturally, weight reduction plays a key role in lowering fuel consumption. Among others, *ultra-light service trolleys* ensure less weight on board airberlin aircraft. On an A330 aircraft, 24 full-size trolleys and 14 half-size trolleys are used for service. This translates into a total weight reduction of 255 kilogrammes. In addition, the replacement of older, heavier seats with modern and lightweight seats leads to significant weight savings. As a result, airberlin reduced CO₂ emissions by an additional 3,020 tonnes in 2012.

Less NOISE = more Acceptance

All airberlin aircraft, with the exception of four, meet the latest ICAO Chapter IV standard which is at least 10 dB (A) quieter than the previous ICAO Chapter III.

airberlin develops new techniques in noise reduction as part of a *joint research project* with the German Aerospace Centre (DLR), the German Air Traffic Control GmbH (DFS), and Fraport AG. An airberlin Boeing 737-700 validated 13 of these procedures at the DLR research airport in Braunschweig-Wolfsburg while the noise level was taken on the ground. airberlin validated the curved approach in order to avoid flying over residential areas as much as possible. The research flights in Braunschweig simulate approaches to the Frankfurt am Main airport. Furthermore, airberlin is a competent partner for discussions with numerous aircraft noise commissions which have the statutory mandate to advise the air traffic control on the establishment of flight routes.

**AT THE FORE-
FRONT OF NOISE
REDUCTION
RESEARCH**

PRINCIPAL RISKS AND UNCERTAINTIES

The early identification and control of risks, effectively seizing opportunities: airberlin's risk management system serves both the Company AND the people. It is a central element of our sustainable management of the Company.

RISK MANAGEMENT SYSTEM

As an *international aviation company*, airberlin operates in an environment characterised by a variety of risks. The early identification and control of these risks represent key components of the Company's management approach. Here, management is supported by a *comprehensive risk management system*. As an integral part of the operating and reporting system, opportunities and risks are systematically recorded and assessed.

EARLY IDENTIFICATION OF RISKS AND EFFICIENT MANAGEMENT

Regular reviews in collaboration with risk bearers ensure the *early identification of opportunities and risks* and enable effective control. Discussions on opportunities and risks are a key component of the monthly Management Board meetings. If specific measures are deemed necessary by members of the Management Board then these measures are promptly initiated.

The existing risk management system is an integral part of the overall operating and reporting process. The risks which have been identified are regularly updated utilising an IT-supported process.

Risk reporting covers the *review and assessment of all risks* in each separate area and in each subsidiary. If necessary, newly identified risks will be added. Existing risks are reassessed with regard to their probability of occurrence, the potential extent of damage, and ultimately the recognition of when they no longer exist. Generally, risks are assessed in a quantitative manner, i.e. a *monetary evaluation of risks*. A qualitative assessment should only be carried out in exceptional cases.

The responsibilities for risks lie with both the individual department and the Risk Management Board. The Risk Management Board is comprised of members nominated by the Management Board. As a cross-divisional committee, the Risk Management Board meets on a regular basis in order to verify the existing risks and share information.

GROUP-WIDE COMPLIANCE PROGRAMME

The implementation of regulations issued by national and international authorities and institutions, particularly with reference to *safety*, are of major importance to the Company's operations. A group-wide compliance programme ensures the recognition of regulations and policies, amendments, the Company's compliance with the current regulations and policies, and the adaptation of all processes to these regulations.

The Company has summarized below certain key risks that could have an adverse effect on the airberlin group's reputation and operational and financial performance. The list of risks presented below is not intended to be exhaustive and the order in which the risks are presented does not reflect the likelihood of their occurrence or their magnitude or significance.

INDUSTRY RISKS

Overall Economic Environment

The airberlin group's revenue is very sensitive to economic conditions in the markets in which the airberlin group operates. Deterioration in either the German domestic and/or global economy may have a material adverse impact on the airberlin group's financial position, operating results and business. Moreover, insolvencies among airberlin's customers or contracting parties, including financial institutions acting as hedge counterparties, could result in losses for airberlin.

The general economic environment remains risk-ridden for the *economically sensitive airline industry*. Europe is particularly impacted by this as was the case in the prior year. The economic outlook for 2013 was recently judged pessimistically once again even though the IMF continues to expect a light recovery in the world economy. This should mainly result from a less negative development in Europe as compared to the previous year and strong growth in the emerging markets. Nevertheless, the GDP of the EU 27 following the recession in 2012 is expected to achieve only a very slight recovery (+0.2 per cent) in the current year. This is mainly due to the *continued weakness in the eurozone*. Here in 2013 a recessionary trend is still expected. Also the comparatively favourable development in Germany with an expected increase of 0.6 per cent in GDP in 2013 will also continue in a somewhat more moderate manner.

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 flight-generated revenue is variable and is directly related to the number of passengers carried and the flight's fare structure. Accordingly, a change in the number of passengers or in average fares could have a negative effect on airberlin's financial condition and results of operations.

**ECONOMIC RISKS
FOR AIRLINES
REMAIN HIGH**

Market and Competitive Risks

The aviation industry is characterised by a *further increase in fierce competition and the markets in which the airberlin group operates remain highly competitive*. The primary competitive factors airberlin faces include prices, route networks, flight schedules, reputation,

safety record, range of passenger services provided and type and age of aircraft. This high competitive pressure leads to sustained market dynamics, which are reflected in both on-going consolidation and in further cooperation of airlines in global alliances and partnerships among others. Mergers and acquisitions among airberlin's competitors could adversely affect airberlin's market position and revenue. Moreover, maintaining its strategic alliances and partnerships and capitalizing on the synergies that they offer is key to safeguarding airberlin's network and financial performance. Additionally, in Germany airberlin is not only in competition with other commercial and charter airlines, but also with providers of ground transportation whose markets are to be further liberalised.

Some of the airberlin group's competitors may have cost structures that are lower than those of the airberlin group or may benefit from other competitive advantages such as receiving support via government intervention or various insolvency protections. Should competitors increase their market share at airberlin's expense, the airberlin group's business prospects and profits could be materially adversely affected.

**CONCENTRATION
PROCESS IN THE
AIRLINE INDUSTRY
CONTINUES**

Moreover, airberlin is *dependent in particular 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 airberlin's routes accounted for 64.6% of airberlin's total passenger volume in 2012. airberlin's business is likely to be adversely affected by any circumstance causing a reduction in demand or change in competitive behaviour with respect to air transportation services involving German destinations, including, without limitation, adverse changes in local economic conditions. The concentration process in the airline industry continues.

Regulatory Risks

**REGULATION
OF THE AIRLINE
INDUSTRY IS
INCREASING**

Regulation of the airline industry is increasing and covers many of the airberlin group's activities including security, aircraft noise and emissions levels, safety, data gathering and management, traffic rights, airport slots, operating licenses and environmental controls. Legislators or regulatory authorities may impose *additional operating or other restrictions* at airports or otherwise, 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 airberlin's ability to provide or increase services at such airports and may cause airberlin to incur additional costs. This could have a material adverse effect on airberlin's business, financial condition and results of operations.

Additionally, airberlin's operations are subject to airberlin's on-going compliance with applicable EU and international statutes, bilateral and multilateral treaties, and rules and regulations pertaining to the airline industry. airberlin cannot predict what future changes will be made to German, European Union and international air traffic regulations and treaties, or

what the impact of such changes will be on the airline industry or airberlin's operations or costs. Changes to the regulatory framework within which airberlin operates could impose significantly greater costs on airberlin's business activities and could materially and adversely affect the airline industry generally and the airberlin group.

Passenger Compensation Regulation

The European Union has passed legislation for compensating airline passengers whose flights have been cancelled or have been denied boarding on a flight for which they hold a valid ticket (Regulation (EC) No. 261/2004). This legislation imposes *fixed levels of compensation* to be paid to passengers for 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. The Court of Justice of the European Union has confirmed extension of this right to monetary compensation to cases where passengers reach their final destination three hours or more after the scheduled arrival time. Depending on the length of the delay, *passengers are entitled to "assistance"* including meals, drinks and telephone calls, hotel accommodations, a refund of the ticket's cost and/or a return flight to the initial departure location. The European Commission is currently in the process of finalizing a proposal for a revised Air Passenger Rights Regulation to be submitted to the European Parliament and the European Council for consultation. Thus, there can be no assurance that airberlin 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 airberlin's operating costs and in turn reduce its profitability.

Moreover, the restrictions caused by *non-uniform air traffic control across Europe* are problematic for the aviation industry. These bottlenecks continue to result in detours, delays, increased fuel consumption, emissions, and substantial waiting times. Not only does this adversely impact the results of airlines operating in Europe, but it also causes environmental pollution.

**NON-UNIFORM AIR
TRAFFIC CONTROL
ACROSS EUROPE
RESULTS IN HIGH
COSTS**

This could in turn jeopardise the overall growth in European air traffic. Therefore, the goal should be the creation of a uniform air traffic control system across Europe. The *European Commission* has criticised the insufficient progress of countries, including Germany, to establish functional airspace blocks in Europe. In addition, significant increases in cost are expected in national air traffic control due to soaring personnel costs and higher aviation security costs.

The *aviation tax* which was introduced on 1 January 2011 and levied for departures from German airports *continues to present another serious problem*. Since airberlin's business is predominantly German passenger business, the Company is affected more severely by the tax than its competitors as this tax is not levied for cargo and transfer business. Other

carriers may choose to absorb, in whole or in part, the additional cost or to pass it on to the customers in the form of an increased ticket price. airberlin may not be able to do the same without having a material adverse effect on its revenues and results of operations.

The introduction of a *European Emissions Trading Scheme*, which started at the EU level on 1 January 2012, influences the aviation market and its competitive situation. From 1 January 2012 all flights that arrive or depart from an airport situated in the territory of an EU Member State were included in the European Emissions Trading Scheme. The scheme is a cap and trade system for carbon emissions to encourage industries to reduce their CO₂ emissions. Under the relevant 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. There can be no assurance that airberlin will be able to obtain sufficient allowances in the future. Further, this scheme places carriers operating within the EU at a competitive disadvantage as compared to competitors operating outside the EU. Inclusion of aviation in the scheme could increase costs for airberlin. Various countries (such as China, India and the US) which oppose international aviation's inclusion in the scheme could impose sanctions against the EU and EU air carriers.

On 13 November 2012, the European Commission announced that it intends to "stop the clock" and *not immediately implement the extra-EU aspects* of its European Emissions Trading Scheme. Instead, the European Commission proposed postponing the obligation to report and surrender emission allowances from air traffic to and from the EU by one year. This means that no enforcement action will be taken against aircraft operators that do not report or surrender emissions in respect of air traffic to and from the EU for the years 2010 to 2012 as specified in the proposal. The condition for making use of this derogation is that free allowances allocated for 2012 to aircraft operators in respect of certain air traffic as specified in the proposal will either not be issued or will be returned to the relevant national regulators. The emission reporting and surrendering obligations relating to all operators' activities within the EU, however, will remain intact and compliance with EU law will be monitored and enforced in this respect.

According to the European Commission, the proposed postponement described above is based on the assumption that a *global solution* for addressing the fast growing aviation emissions from international aviation is within reach. The global solution is currently scheduled to be addressed at the upcoming ICAO Assembly in the fall of 2013. The European Commission emphasizes that, should such efforts to establish global Emissions Trading Scheme legislation fail, the scheme (as originally proposed by the European Commission) will be applied in full again from 2013 onwards.

The European Commission's proposal for the postponement described above is subject to the *review and confirmation of the European Parliament and the European Council* and is currently under legislative review. It is therefore currently unclear how the European Emissions Trading Scheme will further develop in the future. Thus, airberlin will prepare extensively for currently anticipated changes and any possible further scheme developments within a framework of appropriate projects.

FINANCIAL RISKS

As an internationally operating aviation company, airberlin is exposed to *fluctuations in fuel prices, interest rates, and exchange rates* – primarily of the US dollar. A substantial and/or sustained strengthening of the US dollar which could not be hedged against, or sufficiently hedged against, could adversely effect the airberlin group's financial performance. Possible rises in the price of fuel in particular or a reduction in the availability of fuel can also lead to higher expenses and could adversely affect the airberlin group's business, operational and financial performance. Therefore, such fluctuations are extensively managed through permanent hedging. Possible risks are reduced in advance on the basis of rolling hedges for the relevant defined periods of time. This is concluded by working with renowned financial institutions through the exclusive use of financial futures contracts which are customary on international markets. However, there can be no guarantee that airberlin's hedging policy will be successful or that a hedging party will not enter insolvency and will perform its obligations.

ONLY CUSTOMARY
HEDGES ON IN-
TERNATIONAL
MARKETS ARE
EMPLOYED

airberlin carried out its first hedging transactions in preparation for the European *Emissions Trading Scheme for airlines* which the EU authorities had planned to introduce in 2012. airberlin's hedging instruments do not, however, fully protect it against the adverse effects of increases in the price of aviation allowances under the scheme.

In compliance with EU regulations, all information regarding emissions trading for the reporting period 2010 that was required from all airlines was reported to the German emissions trading agency (Deutsche Emissionshandelsstelle DEHSt) in March 2011. As described above, in November 2012, the European Commission proposed a *one-year moratorium* on the European Emissions Trading Scheme by issuing a formal proposal to postpone the EU Emissions Trading Scheme's extra-EU aviation compliance obligations by one year. Notwithstanding this proposed moratorium, airberlin meets the requirements for monitoring, reporting, and submitting the 2012 mandatory report. As in 2010 and 2011, the emissions data for the 2012 reporting period will be verified by an independent third party and reported to DEHSt by 31 March 2013 in compliance with EU regulations.

AIRBERLIN EMPLOYS A GROUP-WIDE TREASURY MANAGEMENT SYSTEM

The existing risk management system includes a group-wide treasury management system for the systematic *management of interest rate and currency risks*. In addition to a review of all underlying transactions and the hedging transactions concluded in connection therewith on a revolving basis, a thorough calculation of the market-driven valuation and the effectiveness of the hedging arrangements entered into is carried out.

Internal guidelines which define and support an operating business framework are used for the management of financial risks. Here, the core element is *sound liquidity management*, which comprehensive financial and liquidity planning aims to ensure.

Future Financing

airberlin is dependent upon its ability to obtain financing to acquire additional aircraft to meet capacity needs, finance its on-going operations, replace existing aircraft as they age, and to refinance its existing obligations as they become due. Such ability is subject to various factors, including financial market conditions, the general availability of credit, and prevailing interest rates. To minimize this risk, *airberlin secures financing well in advance* of the delivery dates taking into account the individual changes to the market, but there can be no assurance that airberlin will be able to secure such financing on commercially acceptable terms, or at all.

airberlin also has significant financing costs for its outstanding indebtedness for aircraft financing and interest payments under its outstanding bonds. If airberlin is not able to generate sufficient revenues to meet its fixed costs obligations, this would have a material adverse effect on airberlin's financial condition.

Shape & Size and Turbine Programmes

airberlin has enhanced its existing efficiency improvement programme Shape & Size (which is comprised of approximately 450 single measures) with *further restructuring measures* and launched the additional turnaround programme Turbine in January 2013 which aims to improve the airberlin group's operating performance and to achieve sustainable profitability. Should airberlin be unable to fully implement, or realise the benefits of, these programmes, or should these programmes fail to meet airberlin's expectations, this could have a material adverse effect on its business, financial condition and results of operations.

Seasonal Fluctuations

Demand for airberlin'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 *airberlin'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, especially during the summer season, they may have a particularly strong adverse effect on airberlin's business, financial condition and results of operations.

OPERATIONAL RISKS

As part of the risk management system, airberlin, as all other airlines, covers existing *operating and technical risks of flight operations*. These are systematically identified, assessed, and managed using appropriate measures.

airberlin undertook its flight planning for Berlin on the basis of the infrastructure of the new Berlin Brandenburg Airport and the initially planned opening date of 3 June 2012. In the summer of 2012, airberlin added more than 230 additional flights per week in the German capital to its *Berlin schedule* with the aim of expanding its international hub. Following the airport's announcement that its opening would be delayed, all of these flights must now fly through Berlin-Tegel, the infrastructure of which is not designed to handle such demand, necessitating considerable additional costs for airberlin. Tegel is already operating at the limits of its capacity and even with the most committed engagement of the airport staff, it offers neither the capacity nor the quality that the new airport would have provided.

DELAYED OPENING OF BER AIRPORT CAUSES CONSIDERABLE DAMAGES AND ADDITIONAL COSTS

As a result of the delayed launch of the new airport, airberlin is sustaining considerable damage which cannot be fully quantified at this stage. The overall damage, which consists of multiple factors, is also in part dependent on the continuing operations at Berlin-Tegel, in particular during the winter months. The estimated additional costs and other *losses incurred to date already run into the tens of millions*.

Despite intensive discussions with the airport operator, it was not possible to find a mutually acceptable solution. Therefore, airberlin decided to institute *legal action to claim damages*. On 6 November 2012, airberlin filed a claim at the district court against the Flughafen Berlin Brandenburg GmbH in order to safeguard the Company's interests. A further delay in the opening of the new Berlin Brandenburg Airport, or difficulties encountered in operating the airport itself, could have a further material adverse effect on the airberlin group's operations and financial performance.

Safety and Accident Prevention

airberlin's reputation and operations depend upon its ability to prevent a major safety accident or incident or to deal with it effectively. An aircraft accident or incident could involve not only repair or replacement of a damaged aircraft and its consequent removal from service, but also claims from injured passengers and dependents of deceased passengers. Should

a major safety accident or incident occur, or should airberlin fail to deal with a major accident or incident effectively, this could materially and adversely effect airberlin's reputation, business, and operational and/or financial performance. To minimize this risk, airberlin has response systems in place and trains its staff on crisis management. Moreover, *airberlin has insurance for such safety accidents* or incidents which is believed to be in line with European aviation market standards. However, there can be no guarantee that airberlin's insurance coverage would be adequate to cover all losses suffered from an aircraft accident or incident.

Security and Terrorism

AIRBERLIN HAS UNDERTAKEN A VARIETY OF MEASURES TO INSURE SAFETY

airberlin's operations, like the operations of all commercial airlines, are subject to security and/or *terrorism threats and attacks*. Failure to prevent or thwart a major security or terrorism attack or threat, or to deal with it effectively, could adversely effect airberlin's reputation, operation and financial performance. Additionally, future terrorist acts or other conflicts could result in heightened security regulations for air traffic, thereby increasing airberlin's operational costs. The safety of airberlin's passengers and staff is its utmost priority and airberlin has undertaken a *variety of measures* to insure safety, including internal safety control systems, emergency response systems, and crisis management training.

Route Planning

When airberlin 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. Consequently, 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 airberlin may have expected. Additionally, new routes may experience more competition than current ones, or competition may exceed airberlin's expectations in other ways. Investments in new routes may not be successful and the route network may need to be restructured. Should airberlin 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.

Access to Airports and Other Operational Restrictions

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 that may differ from one airport to another and that may change in the future. Established airlines at certain airports have been granted certain slot allocation priority rights. Additionally, a number of major European airports and other *major international airports currently operate at close to or at full capacity*, so that slot expansion at these airports is limited. Should slot coordinators not offer airberlin enough slots at the times it needs them or on acceptable terms, airberlin may be unable to grow and may be forced to restrict its aircraft's

use. 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 airberlin fail to use its slots, this could result in the loss of slot rights.

Airport, Transit and Landing Fees and Security Charges

Airport, transit and landing fees and security charges and costs represent a *significant portion of airberlin's operating costs* and directly affect the fares that airberlin must charge its passengers to operate cost-effectively. There can be no assurance that such costs will not rise or that airberlin will not incur additional new costs. Any of these developments could cause airberlin's operating costs to increase. If airberlin 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.

Civil and Political Conflicts

The *political upheavals in North Africa* since January 2011 adversely affected flight bookings to North Africa and Egypt in particular. Further civil, political or military conflicts, uprisings or other disruptions, or the expansion or continuance of existing conflicts or similar events, especially if they are directed against air traffic or occur in markets that are significant to airberlin, could materially and adversely affect the airline industry in general and airberlin.

Employee Relations

airberlin's workforce is *partially unionised* and covered by several collective bargaining agreements that regulate work conditions and remuneration. These agreements are subject to renegotiation with the unions periodically. airberlin may also be subject to its employees' strikes or strikes affecting the entire airline industry or other industrial action. Such events could have a material adverse effect on airberlin's ability to remain or become competitive or on airberlin's business, financial condition and results of operations.

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

PURCHASING RISKS

An important factor in *maintaining the smooth operation* of the airberlin group is the reliable supply of goods and services such as fuel, catering, access to attractive destination airports, spare parts, maintenance, repair and overhaul services, and various other materials. The efficiency, timeliness and quality of third-party providers' contract performance are largely beyond airberlin's direct control. Failure to obtain such goods and services or to obtain them

at economically viable prices, or inability to renew or renegotiate favourable replacement contracts could have a material adverse effect on airberlin's business, financial condition and results of operations. In order to minimise its dependence on individual suppliers in the long-term, airberlin aims at avoiding monopolistic situations in the supplier market and monitors its third party service suppliers' performance on an on-going basis.

A modern fleet essentially reduces the cost of maintenance and repairs. Therefore, airberlin maintains *long-term relationships* with the major aircraft manufacturers Airbus, Boeing, Bombardier, and Embraer, to ensure access to the most modern aircraft. In addition to existing purchasing agreements with manufacturers, airberlin has the option of acquiring additional aircraft at predetermined prices. Alongside its own aircraft, airberlin operates a fleet of leased aircraft.

FUEL IS THE LARGEST COST ITEM IN PROCUREMENT

The *largest cost item* for all airlines, and therefore also for airberlin, is undoubtedly fuel. In addition to the commercial criteria used in the purchase of jet fuel, airberlin assesses the ability of all fuel suppliers at a given airport to provide airberlin with a stable supply of fuel. Moreover, airberlin monitors the compliance with quality standards pertaining to jet fuel storage and into-plane fuelling as per the IATA Fuel Quality Pool guidelines. airberlin maintains long-term relationships with major oil suppliers in order to *ensure oil supply* at any time.

Another significant cost factor is catering. In this matter airberlin also operates with fixed supplier agreements which are continuously monitored. In ground and air services, airberlin is permanently interacting with the airports and the authorities. For all other remaining goods and services, airberlin aims for a *mixture of short, medium, and long-term contracts*. This way airberlin is more flexible in reacting to changes in the market and benefitting from the competition. An institutionalised supplier management system enhances the sound risk management in procurement.

ENVIRONMENTAL AND HEALTH RISKS

Recurring or extended periods of *extreme adverse weather conditions* such as snow or fog, and forces of nature such as earthquakes, volcanic eruptions or other natural disasters, particularly when occurring in the European Union, may result in a material disruption of airberlin's routes and flight network. These extreme weather conditions and forces of nature may also result in additional costs due to, among others, flight cancellations, aircraft de-icing, or increased fuel consumption. Such disruptions, particularly when occurring during peak air travel seasons, may result in lost revenue and have a material adverse effect on the airberlin group's operational and financial performance.

Further, the *outbreak of a pandemic* such as the swine flu, severe acute respiratory syndrome (SARS), or other infectious diseases may also result in a material network disruption. Such a disruption, particularly when occurring during peak air travel seasons, may result in decreased travel frequency, increased staff absences and lost revenue and have a material adverse effect on the airberlin group's business, financial condition and results of operations.

IT RISKS

airberlin's central business processes would not be possible without *appropriate and uninterrupted internal and external computer systems*, communication systems, and IT support and systems. Such central business processes include ticket sales, reservation processing, traffic network management, and flight operations. 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 airberlin or third parties, including those used by airberlin's sales partners, such as reservation systems at travel agencies. A loss, failure or disruption of such support and systems, or loss of access to the relevant facilities in which such systems are housed, or breach of the security measures protecting such IT systems and the information contained therein, could materially disrupt airberlin's operations and materially and adversely effect its reputation, business and operational and financial performance. Identifying and controlling IT risks are a particular focus of airberlin's risk management system. Both external and internal risks are taken into consideration. The basis for dealing with IT risks is laid out in the *group-wide internal security guidelines*.

REPORT ON FORECASTS AND THE OUTLOOK FOR THE GROUP

Our long-term strategy, Lean & Smart sets out clear aims: Do the right things and do them right.

DEVELOPMENT OF THE OVERALL ECONOMY AND THE AVIATION INDUSTRY

The Outlook for the World Economy

Recently, forecasts for the current 2013 financial year were generally retracted. Essentially, the reason referred to was high economic uncertainty. In 2013, the IMF expects an overall modest recovery in the world economy. Global growth should improve to 3.6 per cent following 3.2 per cent in the previous year. A slight improvement in the development in Europe and a growth surge in the emerging markets should be the primary reasons for this trend. In the USA, slightly weaker growth of 2 per cent is expected while growth in Japan is expected to decline to 1.2 per cent.

Following the recessive decline for the EU27 of 0.2 per cent in the previous year, the IMF expects a slight recovery of 0.2 per cent in the current year. After a decline of 0.4 per cent in the prior year, and despite a less recessive downturn in important countries such as Italy and a slight improvement in France, the *recession in the eurozone will persist in 2013*. However, at -0.2 per cent, the recession should be slightly weaker. In comparison, the favourable development in Germany, where growth of 0.6 per cent in GDP is expected in 2013, will also continue in a somewhat moderate manner.

The Air Travel Industry in 2013

IATA CAUTIOUSLY
OPTIMISTIC FOR
2013

IATA views the year 2013 with *cautious optimism*. The association's basis for this is the more favourable overall economic climate and a more stable situation in Europe than in the prior year. Nevertheless, *significant risks remain* such as the oil price and the continued modest growth of the world economy. Overall, in 2013 an increase in demand of up to 5 per cent is expected, which is in line with the long-term growth trend. IATA also expects airline earnings to develop slightly better than in 2012. The net margin should increase to 1.3 per cent from 1.0 per cent in the previous year.

On the other hand with regard to Germany, the *ADV is concerned* about the future. The airport association is only assuming 0.4 per cent in passenger growth at the international German airports for 2013. This would be the *worst figure since the slump in 2009* in the course of the financial and economic crisis. According to the ADV, German airports clearly continue to feel the impact of the comprehensive consolidation taking place among airlines. The intense competition within the global and price-sensitive airline industry leads to broad-based

flight cancellations. During the current winter flight scheduling in Germany, the ADV expects a 6.2 per cent decline in flights. This declining trend should continue throughout the 2013 summer flight plan.

REPORT ON EXPECTED DEVELOPMENTS

Direction of the airberlin group for the Next Two Financial Years

The financial years 2013 and 2014 will be *fully dedicated to implementing the Turbine turnaround programme*. Under this programme, short and mid-term action parameters are summarised which are part of the long-term Lean & Smart strategy and aim internally for a significantly more efficient organisation and externally, for a greatly improved market presence, particularly with regard to service and convenience. airberlin will hence position itself as a full-service airline with above-average services on all routes.

At the same time, Lean & Smart will represent our key slogan, which will also accompany airberlin into the future. This pertains to the entire airberlin group “doing the right things” (“smart”) and to “do these things right”, this means operating as lean as possible (“lean”). Work processes should be *organised easily, be cost efficient, and utilise lean processes*.

**LEAN & SMART:
KEY SLOGAN
TO ACCOMPANY
AIRBERLIN INTO
THE FUTURE**

Following its successful and complete implementation, which is currently scheduled for the end of 2014, Turbine aims for an overall *improvement in results* of approximately EUR 400 million. Turbine’s numerous individual measures aim at cost reductions and improvements in efficiency not only within the organisation, but also as regards processes. It also targets improvements in the product range and an improvement in airberlin’s attractiveness within the competitive environment.

Opportunities and Risks in the Forecast

Generally, the risks mentioned in the risk report are also valid for financial year 2013. This particularly applies to the further development of raw material prices – especially the oil price, whose development depends not purely on the economy but also on the unpredictable *speculative influences* on the financial markets. The continued, further and unexpected political risks in several of the Arabian countries add yet another risk factor.

**THE OIL PRICE
REMAINS A LARGE
RISK FACTOR**

The forecast for the further development of the euro versus the US dollar continues to involve uncertainty due to the mostly unresolved *debt problems* in Europe and in the USA and the continued fears of recession in the eurozone. On the other hand, the slight recent improvements and the overall continued subdued economic outlook, including for the current financial year, do not indicate an upcoming strong and sustainable increase in interest rates.

**THE EURO WILL
REMAIN VOLATILE
VERSUS THE US
DOLLAR, LITTLE
CHANGE IN INTER-
EST RATES**

**TURBINE
2013 AIMS TO
SUSTAINABLY
STRENGTHEN
AIRBERLIN'S
FINANCIAL
STRENGTH**

From a mid-term perspective, *airberlin group's refinancing costs* should only change very little in light of the overall economic background. In the current financial year, the airberlin group also undertook comprehensive efforts to sustainably improve the Company's earnings and financing strength with the introduction of the Turbine turnaround programme.

Price competitiveness in the European skies will continue to be a considerable risk for operational development in the current financial year. Furthermore, the aviation tax's introduction in Germany has continuously, significantly and negatively impacted German domestic passenger numbers and therefore also this area's business prospects. airberlin combatted this tax during the last financial year with a corresponding adjustment in German domestic and other short-haul offers. airberlin will continue to watch further developments very closely and flexibly react to the general market development of individual destinations' prices.

Financial Year 2013

**GOAL OF
SUSTAINABLE
PROFITABILITY
CLEARLY AT THE
FOREFRONT**

Financial year 2013 will be focused on the consistent implementation of the current year's elements of the two-year Turbine turnaround programme. The Turbine programme will implement numerous additional and individual measures, which apply to the entire airberlin group. Such measures will once again intensify the Shape & Size programme's defined goals, following Shape & Size's successful implementation in 2012, which resulted in an improvement in earnings at the operating level of more than EUR 250 million. The *goal of ensuring sustainable profitability* is clearly at the forefront.

The financial year 2013 will be regarded as the year of "rebuilding" and the realisation of key interim steps along the way. Turbine's successful implementation depends on continuing normal market conditions typical of the airline industry – this means excluding additional burdens such as these seen in the previous year, as well as upon airberlin's business partners (airports, suppliers, lessors, travel companies), with whom airberlin is currently negotiating. If the targeted results are not achieved, the extent and speed of the programme's implementation could change and the interim aims for the current financial year could be endangered.

Operationally, *optimisation of the summer flight schedule for 2013* has already begun and will be further expedited as of winter 2013/2014. airberlin's strategic core areas are unchanged in Europe and particularly in the DACH region (Germany, Austria, and Switzerland). Furthermore, the focus lies on the long-haul hubs of Berlin and Düsseldorf as well as key stops in Palma de Mallorca, Vienna, Hamburg, Munich, Zurich, and Stuttgart. Simultaneously, fleet reduction and harmonisation will continue. Consequently, the airberlin group will need 142 aircraft in the coming summer for the current route network scheduling. Six of these aircraft will be held in reserve.

In order to achieve a turnaround, the implementation must be carried out *quickly and effectively*. Internally, structural adjustments in nearly all departments are being addressed, which will also have consequences for the staff. Consequently, it is unavoidable that up to 15 per cent of the total targeted savings will be achieved by *personnel-related measures*. The Management Board has already decreased its own compensation by ten per cent. More than 90 per cent of the management have also already agreed to a 5 per cent decline in their salaries. For other personnel, a possible temporary suspension of the 13th monthly salary payment is a key element in the negotiations for a turnaround wage contract with the unions. Additionally, *discussions with employee representatives* have begun, covering necessary optimisations of the crew and technical bases and the technical, administrative and service departments' organisation and processes. These discussions generally aim to realign the airberlin group personnel capacity with the optimised flight plan and to render the working conditions more flexible. The goal is to consistently streamline all internal airberlin processes, thereby reducing the necessary personnel capacity by approximately 900 jobs while maintaining the same business volume.

The crew and maintenance locations will be consolidated to raise productivity, reduce complexity and costs, and especially to be able to react quicker to unpredictable changes. The aim is to structure the flight schedule such that the crews and airplanes return to their base again in the evenings where possible. At the same time, a *more effective scheduling* for the crews is being pursued.

In the technical department, maintenance programmes and the line maintenance network are to be further optimised. To ensure the best possible use of all capabilities, in the future, the heavy-duty maintenance work will take place at the Munich location and a focus on line maintenance will take place in Düsseldorf.

In terms of a "smart" organisation of the entire airberlin group, the *product standards* within the airberlin group will be further unified and service on the ground will be improved and placed in a single pair of hands. This should further minimise delays. The future bundling of all customer information into one customer care department as well as back-office process automation should not only reduce the expenses of manual control but the consolidation should also improve our guests' services.

Overall Statement on the Economic Development of the airberlin group

From the Board of Directors' perspective, the airberlin group has gained strength through the successful execution of the Shape & Size efficiency improvement programme in 2012. However, the additional challenges which have arisen have shown that the path to sustainable profitability is longer than was expected. Consequently, the Board of Directors has planned a sharpening of the Company's strategy, which is long-term oriented. The Company currently anticipates that the Turbine turnaround programme should lead to positive results if all of the programme's individual measures timely and completely come into effect as planned. The Company's financial resources and its room to manoeuvre should allow it to improve through its own strength. Furthermore, the Board continues to regard airberlin as well prepared for international competition through its strategic partnership with Etihad Airways and its membership in the airline alliance **oneworld**.

SUPPLEMENTARY REPORT

On 3 January 2013, Austin Reid was appointed Non-Executive Director.

On 7 January 2013, Hartmut Mehdorn stepped down from his position as Chief Executive Officer and on 7 January 2013 was appointed Non-Executive Director of Air Berlin PLC. On 12 March 2013, Mr Mehdorn stepped down from the Board of Directors. On 7 January 2013, Wolfgang Prock-Schauer assumed the position as Chief Executive Officer in addition to his responsibility as CSPO.

27 February 2013: Excluding the pre-emptive rights of shareholders, Air Berlin PLC placed convertible bonds with a maturity of six years in an aggregate principal amount of approximately EUR 140 million and in denominations of EUR 100,000 each. The bonds were issued at 100 per cent of nominal value. The convertible bonds carry a coupon of 6.0 per cent per annum, payable quarterly. The initial conversion price was set at EUR 2.82.

The bonds, which are guaranteed by Air Berlin PLC, were issued by Air Berlin Finance B.V. and will be convertible into ordinary registered shares of Air Berlin PLC. Air Berlin Finance B.V. is entitled to prematurely call the bonds after two years, if the XETRA price of the shares (over a certain period specified in the terms and conditions of the bonds) exceeds the conversion price by more than 200 per cent. Air Berlin Finance B.V. is also entitled to prematurely call the bonds after four years, if the XETRA price of the shares (over a certain period specified in the terms and conditions of the bonds) exceeds the conversion price by more than 150 per cent. Holders of the bonds are entitled to demand an early redemption of their bonds at the principal amount together with accrued interest on the fourth anniversary after the issue date.

The bonds were subscribed to by international institutional investors outside of the United States of America by way of an accelerated bookbuilding process. Etihad Airways PJSC, which holds a 29.2 per cent stake in Air Berlin PLC, subscribed on a pro-rata basis in accordance with its stake.

12 March 2013: Hartmut Mehdorn stepped down from his position as Non-Executive Director of the Board of Directors of Air Berlin PLC.

CORPORATE GOVERNANCE REPORT

The Company is committed to responsible corporate management, effective and transparent corporate governance, business integrity, sustainability and ethical values. The Company conducts its affairs in keeping with these principles. This corporate governance report sets out the various ways in which the Company fulfils the corporate governance standards set out in the UK Corporate Governance Code (the “Code”), including a discussion of those instances in which the Company has chosen not to comply with the Code.

BOARD COMPOSITION

As at 31 December 2012, the Board comprised the following eight Non-Executive Directors: Dr. Hans-Joachim Körber (Chairman of the Board), James Hogan (Vice-Chairman of the Board), Joachim Hunold, James Rigney, Ali Sabanci, Heinz-Peter Schlüter, Nicholas Teller and Johannes Zurnieden and one Executive Director, Hartmut Mehdorn. The Board met 9 times in 2012.

With effect from 3 January 2013, Austin Reid was appointed as a Non-Executive Director of the Board and with effect from 7 January 2013 Wolfgang Prock-Schauer replaced Hartmut Mehdorn as the sole Executive Director on the Board. Following this replacement, Hartmut Mehdorn remained on the Board as a Non-Executive Director until 12 March 2013, when he stepped down from the Board.

The Board is responsible for determining the airberlin group’s risk profiles, limits, and long-term strategy, upholding the airberlin group’s ethical values, and optimising shareholder value. The Board also considers and makes all key decisions that affect the airberlin group’s risks, composition and profile, including the annual budget and performance targets, financial statements, strategic planning, and key capital investments. Further, the Board periodically reviews the Management Board’s structure and identifies, in consultation with the Nominations Committee, additional Management Board candidates as the need may arise. The Chairman is responsible for leading the Board and ensuring the Board’s effectiveness 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.

Non-Executive Directors and Independence

The Non-Executive Directors provide a wealth of experience and skills and are key to the formulation and development of the Company’s strategy. The Non-Executive Directors’ responsibilities include, among other things, the following:

- ▶ constructively challenging and contributing to the development of strategies;
- ▶ scrutinising management’s performance in meeting agreed goals and objectives and monitoring performance reporting;

- ▶ satisfying themselves that financial information is accurate and that financial controls and risk management systems are robust and defensible;
- ▶ determining any Executive Director's appropriate remuneration level, in consultation with the Remuneration Committee; and
- ▶ acting in a way that they consider, in good faith, would be most likely to promote the Company's success for the benefit of its members as a whole.

The Board is satisfied that the Chairman and each Non-Executive Director committed sufficient time during 2012 to fulfilling their duties as Board members and that their contributions and performance continue to be insightful, timely and relevant. The main external commitments of the Board's Chairman, Dr. Hans-Joachim Körber, did not change during the year, other than his stepping down from his Chairmanship of Esprit's board of directors.

The Board considers each Non-Executive Director's independence annually to ensure, among other things, maximum compliance with the Code's requirements, and that no one Director or group of Directors exerts an undue influence on the other Directors. The Board applies a rigorous process to satisfy itself that its independent Non-Executive Directors remain independent.

After due consideration, the Board has determined that Messieurs Schlüter, Lauda (who retired from the Board in December 2012), Teller and Zurnieden are independent Non-Executive Directors. The Board has also determined that Mr Austin Reid, who was appointed as a Non-Executive Director with effect from 3 January 2013, is an independent Non-Executive Director. In reaching these determinations, the Board has considered these Non-Executive Directors' relevant external commitments during the period under review in light of the Code's requirements. In particular, the Board has considered whether they are nevertheless independent in judgment and character and free from circumstances or relationships which are likely to affect, or could affect, their judgment.

The Board determined that each such Non-Executive Director strengthens the Board through his level of expertise and senior experience gained in his respective professional and business field. The Board also considered, where applicable, the above-named Non-Executive Director's Company shareholdings and financial interests (see page 26) in the Company as compared to the total number of Company shares outstanding. The Board has concluded that such shareholdings and interests are sufficiently low so as not to interfere with the Code's independence requirements.

THE BOARD'S WORK IN 2012

During the period under review, matters that the Board considered included, among others, the following:

- ▶ fleet management and optimisation;
- ▶ network planning;
- ▶ comprehensive cost-saving and turn-around programmes: Shape & Size and Turbine 2013;
- ▶ streamlining the Board and creating the Management Board;
- ▶ the impact of the European sovereign debt crisis and the general state of the economy in the European member states in which airberlin operates; and
- ▶ the delay in the opening of the Berlin Brandenburg Airport, its ramifications for airberlin and the necessity to file suit.

Furthermore, during the period under review, senior executives and Hartmut Mehdorn, as then CEO and Management Board Chairman, reported to the Board on a regular basis on financial, commercial, strategic and operational matters. The Board has unrestricted access to senior management and the Management Board as may be necessary with respect to any queries the Board may have on the Company or the Company's operation.

MANAGEMENT BOARD

In a comprehensive reform of the Company's management structure, and to further enhance the Board's overall performance and effectiveness, the Board was streamlined from fifteen to ten members. Specifically, Messieurs Hüttmeyer, Himmelreich, Gregorowitsch, Oberegger, and Hamaad stepped down from the Board.

In conjunction therewith, a new Management Board was also established, as further described below. Each such measure took effect on 1 October 2012. Under this new management structure, the Board is responsible for the Company's strategic management and has overall oversight of the Company's management, including the Management Board. The Management Board is responsible for the Company's daily management and execution of the Company's strategy within the parameters set by the Board. The Management Board regularly reports to the Board on all material business planning and performance matters, including risk status and risk management.

From 1 October 2012 and as at 31 December 2012, the Management Board comprised the following six members: Chief Executive Officer Hartmut Mehdorn, Chief Financial Officer Ulf Hüttmeyer, Chief Commercial Officer Paul Gregorowitsch, Chief Operating Officer Helmut Himmelreich, Chief Strategy and Planning Officer Wolfgang Prock-Schauer, and Chief Human Resources Officer Dr. Martina Niemann. Mr Hartmut Mehdorn was the Management Board's Chairman until, effective as of 7 January 2013, he stepped down from his position as CEO and as Management Board Chairman, and was replaced in both such capacities by Mr Prock-Schauer. As Management Board Chairman and CEO, Mr Prock-Schauer is responsible for the airberlin group's leadership and operational and performance management, each within the guidelines set by the Board. The Management Board meets weekly, or more frequently as circumstances require. The Management Board's Chairman may choose to invite individuals who are not Management Board members, such as appropriate employees and/or external advisers, to attend its meetings. The Company Secretary, Michelle Johnson, serves as secretary to the Management Board.

The purpose of the Management Board is to monitor the airberlin group's performance and be responsible for all key management issues arising from the airberlin group's business, including in relation to all airberlin group risk, safety and security issues. The Management Board also monitors the airberlin group's operating and financial performance, and the implementation of the airberlin group's strategy, operational plans, policies, procedures and budgets, each as directed by the Board. Further, the Management Board monitors competitive forces in each area of the airberlin group's operations. The division of responsibilities between the Board and the Management Board is set out in the Management Board's terms of reference, which have been reviewed and approved by the Board.

The Board has delegated to the Management Board responsibility for the development and recommendation of strategic plans for the Board's consideration that reflect the long-term objectives and priorities that the Board has already established; the development and implementation of the Company's strategies and policies as determined by the Board; the monitoring of operational and financial results against the Board's plan; the prioritisation, optimisation and allocation of resources and ensuring compliance with relevant legislation and regulation.

BOARD COMMITTEES

The Company has established the Audit, Nominations, Remuneration, and Finance Committees of the Board. Each such Committee meets regularly in accordance with its respective terms of reference. Each Committee's responsibilities, activities and membership are described below in this Corporate Governance Report.

Audit Committee

From 1 January 2012 until 1 October 2012, the Audit Committee members comprised the following three independent Non-Executive Directors, in accordance with the Code: Heinz-Peter Schlüter (as Committee Chairman), Peter Oberegger and Nicholas Teller. From 1 October 2012 and as at 31 December 2012, the Audit Committee comprised two independent Non-Executive Directors: Heinz-Peter Schlüter (as Committee Chairman) and Nicholas Teller. With effect from 3 January 2013 Austin Reid was appointed as a member of the Board and member of the Audit Committee. The qualifications of the Audit Committee members in 2012 are set out on page 16 f.

The Audit Committee met five times during 2012. Generally, the Committee meets at least three times a year or more frequently as circumstances may require and where appropriate, such meetings coincide with key dates in the Company's financial reporting cycle. A representative of the Company's external auditors and the Chief Financial Officer attend the Audit Committee's meetings. Board members or senior executives may attend meetings upon invitation from the Committee. Furthermore, the Company's external auditors, the head of internal audit and officers responsible for risk assurance may request a meeting with the Committee if they consider one to be necessary. The Committee's Chairman attends the Company's AGM in order to answer any questions on the Committee's activities and responsibilities.

The Audit Committee's primary function is to assist the Board in fulfilling its oversight responsibilities in relation to internal and external audits and controls. The Committee's tasks include reviewing the Company's consolidated annual financial statements and other financial information before their publication, including trading statements and formal announcements relating to the Company's performance, determining the annual audit's scope, and advising on the shareholders' appointment of external auditors. The Committee also generally oversees the Company's relationship with its auditors, KPMG and monitors the effectiveness of the airberlin group's risk management and external and internal control systems, including the results of internal audits. The Committee is informed on a regular basis of significant audit findings and progress and has unlimited access to the Company's and the airberlin group's management, books and records.

At least once a year, the Committee is entitled to meet with the external auditors without the presence of executive management and the internal auditors.

RELATIONSHIP WITH EXTERNAL AUDITORS

The external auditors perform non-audit work for the Company or airberlin group members from time to time. The Committee reviews the scope of the auditors' non-audit work and the fees related to such work to ensure that the auditors' impartiality is not or may not become impaired. The Committee discharges this duty by observing the following practices:

- ▶ approving the external auditors' remuneration and ensuring that the fee level is appropriate to enable an adequate audit to be conducted;
- ▶ approving the external auditors' terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
- ▶ assessing annually the external auditor's independence and objectivity taking into account relevant professional and regulatory requirements and the relationship with the external auditor as a whole, including the provision of any non-audit services;
- ▶ asking the auditors to articulate the steps they have taken to ensure independence and objectivity;
- ▶ satisfying itself that there are no relationships (such as family, employment, investment, financial or business) between the external auditor and the Company (other than in the ordinary course of business);
- ▶ monitoring the external auditor's compliance with relevant ethical and professional guidance, the level of fees paid by the Company compared to the overall fee income of the firm, office and partner and other related requirements; and
- ▶ assessing annually the external auditor's qualification, expertise and resources and the effectiveness of the audit process, including a report from the external auditor on their internal quality procedures.

The Audit Committee's policy regarding external auditors is that external auditors carry out non-audit related services when it is work that they are best suited to perform and when it is in the Company's best interest that they do so. Non-audit-related services may include formalities relating to borrowings, work in respect of mergers, acquisitions and disposals, various regulatory reports, and risk management services. Similarly, the external auditors are employed for tax and accounting work when they are best suited to undertake it and when it is in the Company's best interest that they do so. The Company has not pre-approved or pre-excluded the external auditors from any given type of non-audit services, but rather reviews the potential provision of such services on a case-by-case basis in accordance with the principles described above.

The Committee ensures that the provision of any non-audit services does not impair the external auditors' independence or objectivity. The Committee reviews the external auditors' performance and effectiveness in consultation with Committee members and, where appropriate, other Board members and senior management. The Committee's choice of external auditors is not limited by any contractual obligations.

In 2012, the airberlin group paid the following amounts to KPMG: EUR 1.4 million for applicable audit services, EUR 0.2 million for audit-related services and EUR 1.1 million for non-audit related services. The majority of the non-audit related services related to transaction services for the disposal of the frequent flyer programme and advisory services in the preparation of the financial statements.

The Committee also makes recommendations to the Board regarding external auditors' reappointment or removal, terms of engagement and remuneration. KPMG are the Company's existing external auditor and have acted in such capacity since the Company listed in 2006, as the Company continues to believe that KPMG are the most suitable external auditing firm for this role. The responsible partner at the external auditing firm has rotated periodically. Following its review of the external auditor's performance and effectiveness, relationship with the Company, independence, objectivity, and non-audit related fees and services, each as described above, the Committee and the Board have recommended the existing external auditors' reappointment for the 2013 financial year. Accordingly, resolutions to reappoint KPMG as the Company's external auditors, and to authorise the Directors to determine the auditors' remuneration, will be proposed at the Company's next Annual General Meeting ("AGM").

AUDIT COMMITTEE'S WORK IN 2012

In 2012, the Committee discharged its duties by, among other activities, conducting a review of:

- ▶ the form, content and integrity of the Company's Annual Report and the Company and airberlin group financial statements, half-yearly results announcement and interim management statements;
- ▶ the reports prepared by senior management, the internal auditor and KPMG;
- ▶ the consistency of accounting policies and practices across the airberlin group;
- ▶ the airberlin group's significant accounting policies and practices, including any changes to them;
- ▶ KPMG's objectivity, independence, audit and non-audit fees and reappointment and recommendations to the Board in this respect;
- ▶ compliance with appropriate accounting standards and making appropriate estimates and judgments, taking the external auditor's view into account;

- ▶ the airberlin group's arrangements for compliance with appropriate standards of corporate conduct and business ethics to ensure that the airberlin group complies with relevant regulatory and legal requirements; and
- ▶ all material information presented with the financial statements, such as the operating and financial review.

Nominations Committee

As at 31 December 2012, the Nominations Committee comprised two Non-Executive Directors: Dr. Hans-Joachim Körber (as Committee Chairman) and James Hogan, and three independent Non-Executive Directors: Nicholas Teller, Heinz-Peter Schlüter and Johannes Zurnieden. Mr Oberegger stepped down from his positions as an independent Non-Executive Director on the Nominations Committee and the Board on 1 October 2012.

The Committee met once in 2012. The Committee is primarily responsible for assisting the Board in determining the Board's composition, member selection criteria and balance. In so doing, the Committee considers the knowledge, skill set, independence, experience, gender and diversity required for the Board. The Company believes that corporate boards perform better when they include the most qualified individuals who come from a range of perspectives and backgrounds. The Company continues to be committed to developing a diverse workforce and being an equal opportunity employer. The Nominations Committee therefore aims to achieve a balance of appointing competent and high-calibre individuals to the Board who together offer an appropriate mix of skills, experiences and backgrounds, while still ensuring that the best qualified person obtains the job. The Nominations Committee plans to review opportunities for increasing the Board's diversity, in the broadest sense of the term, in the future.

The Committee also periodically reviews the Board's structure, including the independence of its respective members, and identifies potential candidates to be appointed as Directors as the need may arise. The Director candidates must possess the required qualifications and experience, as determined by the Committee, to discharge their duties.

Further, the Committee determines the succession plans for the Chairman of the Board and the Chief Executive Officer. The Committee meets as required, but no less than once per year. Director appointments are generally the result of a search process carried out by the Board and/or an independent professional consulting agency. However, in connection with Etihad Airways' investment in the Company, James Hogan and James Rigney were appointed as Non-Executive Directors. The Committee and the Board believe that their appointment is in the Company's best interest as they bring with them a wealth of business and other

relevant experience. As no new Non-Executive Directors other than Messieurs Hogan and Rigney were appointed to the Board in 2012, the Company did not engage the services of any independent professional consultancy for Board appointments.

In the past, the Company has engaged the services of Egon Zehnder International GmbH, an independent consulting agency with no further connections to the members of the airberlin group.

NOMINATIONS COMMITTEE'S WORK IN 2012

In 2012, the Committee discharged its duties by, among other activities:

- ▶ ensuring that the Company maintained contact as necessary with its major shareholders about appointments to the Company;
- ▶ reviewing the Board's structure, size and composition (including the Board members' skills, knowledge and experience) and making recommendations to the Board with regard to adjustments;
- ▶ identifying and nominating future candidates for the Board's approval following the Board's comprehensive restructuring;
- ▶ ensuring that, on appointment to the Board, the Non-Executive Directors received a formal letter of appointment setting out clearly what is expected of them in terms of time commitment, committee service and involvement outside Board meetings;
- ▶ considering succession planning for directors and other senior executives, in particular with respect to the Chief Executive Officer, taking into account the challenges and opportunities facing the Company and the skills and expertise which the Company will require in the future;
- ▶ undertaking an annual performance evaluation to ensure that all Board members have devoted sufficient time to their duties;
- ▶ ensuring that, before the appointment of the Non-Executive Directors, the proposed appointee discloses any other business interests that may result in a conflict of interest and ensuring that they are required to report any future business interests that could result in a conflict of interest; and
- ▶ determining the statement of responsibilities for the Board Chairman and Chief Executive Officer and ensuring that the Company Secretary has formally written on the Board's behalf to any appointees, detailing the role and time commitments and, as appropriate including a statement of their responsibilities.

Remuneration Committee

As at 31 December 2012, the Remuneration Committee comprised three independent Non-Executive Directors Heinz-Peter Schlüter (as Committee Chairman), Johannes Zurnieden and Nicholas Teller, and one Non-Executive Director: Dr. Hans-Joachim Körber. Mr Oberegger stepped down from his positions as an independent Non-Executive Director on the Remuneration Committee and the Board on 1 October 2012. The Committee meets as required, but no less than once per year. The Remuneration Committee met twice in 2012. The Remuneration Committee makes recommendations to the Board on the Executive Director's and the Management Board members' compensation, including any bonuses, pension rights (where appropriate) and share-based compensation payments. The Committee oversees and reviews the airberlin group's remuneration principles. It reports its decisions to the Board and updates the Board on the airberlin group's overall remuneration policy. The Committee regularly reviews both the effectiveness of the airberlin group's remuneration policy in incentivising executives to enhance value for the shareholders and its competitiveness. The remuneration report on pages 90 ff. provides further details of the Company's remuneration policies and the Committee's work.

Finance Committee

As at 31 December 2012, the Finance Committee comprised four Non-Executive Directors: Nicholas Teller (as Committee Chairman), Hans-Joachim Körber, Ali Sabanci and James Rigney. The Committee meets as required, but no less than twice per year. The Committee met twice in 2012. The Committee oversees and reviews the airberlin group's financial plans and policies and their implementation. Further, the Finance Committee supports the Board in various activities (such as investment, asset disposition or capital expenditure) that may have a material financial impact. It monitors hedging policy and activities and the financing budget and provides advice with respect to financing opportunities. The Finance Committee works closely with the Management Board and the Chief Financial Officer in exercising its functions.

FINANCE COMMITTEE'S WORK IN 2012

In 2012, the Finance Committee discharged its duties by, among other activities:

- ▶ monitoring the financing budget together with projected cash flows;
- ▶ assessing any significant deviations from budget and/or cash flows;
- ▶ assisting in formulating and implementing the hedging policy with respect to fuel and currency exchange risks and interest rate risk; and
- ▶ monitoring the hedging policy for compliance with the treasury guidelines, as the same may be amended from time to time.

BOARDS AND COMMITTEE MEETINGS

Directors are expected, wherever possible, to attend all Board meetings, relevant Committee meetings and the AGM. All Board members are provided in advance with appropriate information covering matters which are to be considered at the AGM.

A table detailing the individual Directors' attendance at each of the Board and Committee meetings held in 2012 is set out below:

	Board	Audit Committee	Nominations Committee	Remuneration Committee	Finance Committee
Total meetings held	9	5	1	2	2
Meetings attended					
Dr. Hans Joachim Körber CHAIRMAN OF THE BOARD	9	NA	1	2	2
Hartmut Mehdorn ¹ FORMER CHIEF EXECUTIVE OFFICER, FORMER CHAIRMAN OF THE MANAGEMENT BOARD	9	NA	NA	NA	NA
Ulf Hüttmeyer* CHIEF FINANCIAL OFFICER	5	NA	NA	NA	NA
Paul Gregorowitsch* CHIEF COMMERCIAL OFFICER	5	NA	NA	NA	NA
Helmut Himmelreich* CHIEF OPERATING OFFICER	5	NA	NA	NA	NA
Barbara Cassani*** INDEPENDENT NON-EXECUTIVE DIRECTOR	0	NA	NA	NA	NA
Saad Hammad* INDEPENDENT NON-EXECUTIVE DIRECTOR	5	NA	NA	NA	2**
Joachim Hunold NON-EXECUTIVE DIRECTOR	9	NA	NA	NA	NA
Andreas Nikolaus Lauda***** INDEPENDENT NON-EXECUTIVE DIRECTOR	5	NA	NA	NA	NA
Peter Oberegger* INDEPENDENT NON-EXECUTIVE DIRECTOR	5	2**	1**	2**	NA
James Hogan**** NON-EXECUTIVE DIRECTOR, VICE-CHAIRMAN OF THE BOARD	8	NA	NA	NA	NA
James Rigney**** NON-EXECUTIVE DIRECTOR	8	NA	NA	NA	1
Ali I. Sabanci NON-EXECUTIVE DIRECTOR	8	NA	NA	NA	2

Heinz-Peter Schlüter					
INDEPENDENT NON-EXECUTIVE DIRECTOR	8	5	NA	2	NA
Nicholas Teller					
INDEPENDENT NON-EXECUTIVE DIRECTOR	8	5	NA	NA	2
Johannes Zurnieden					
INDEPENDENT NON-EXECUTIVE DIRECTOR	9	NA	NA	2	NA

The above table does not reflect guest participation in meetings. The table includes those Management Board members who had an Executive Director position in 2012.

“NA” means not applicable, because the relevant individual is not a member of the relevant Committee.

¹ Served as CEO, sole Executive Director, and Chairman of the Management Board until 7 January 2013 when Mr Prock-Schauer replaced him in each such capacity.

From 7 January 2013 until 12 March 2013, Mr Mehdorn remained on the Board as a Non-Executive Director.

^{*} Served as a Board member until 1 October 2012, following the comprehensive reorganisation of the Company's management structure.

^{**} Served as a Committee member until 1 October 2012, following the comprehensive reorganisation of the Company's management structure.

^{***} Barbara Cassani stepped down from the Board on 6 March 2012.

^{****} Joined the Board on 24 January 2012 following Etihad Airways' investment in airberlin.

^{*****} Mr Lauda stepped down from the Board on 21 December 2012 and was replaced by Mr Reid on 3 January 2013.

COMPANY SECRETARY

All Directors may benefit from the advice and assistance of the Company Secretary, who reports to the Chairman of the Board and is responsible for ensuring that Board procedures are complied with and that applicable rules and regulations are followed.

The Company Secretary is Michelle Johnson, who was appointed on 21 February 2007.

The Company Secretary is responsible for advising and supporting the Chairman and the Board on corporate governance matters, new developments in legislation and new regulations. The Company Secretary ensures that new Board members receive an appropriate introduction to all relevant Company business aspects including a detailed information pack. Additionally, new Non-Executive Directors are encouraged to meet with the Executive Director and senior management for a briefing on the Company's development and operations, as defined by the Board.

The Company Secretary provides the Board members with extensive papers and information on key business issues before Board meetings. The Directors also have access to appropriate independent professional advice if necessary to perform their duties, at the Company's expense. The Company maintains directors' and officers' liability insurance at an appropriate level with respect to any legal actions taken against the directors and officers in the course of exercising their respective duties.

POLITICAL DONATIONS

In line with its established policy, the airberlin group made no political donations pursuant to the authority granted at the 2012 AGM. Although the Company does not make, and does not intend to make, donations to political parties, within the normal meaning of that expression, the definition of political donations under the Companies Act 2006 is very broad and includes

expenses legitimately incurred as part of the process of talking to legislative members and opinion formers to ensure that the airberlin group's issues and concerns are addressed and considered. These activities are not intended to support any political party and the airberlin group's policy is not to make any donations for political purposes in the normally accepted sense. A resolution will therefore be proposed at the 2013 AGM seeking shareholder approval for the directors to be given authority to make donations and incur expenditure which might otherwise be caught by the terms of the Companies Act 2006. The authority sought will be limited to a maximum amount of GBP 100,000 per airberlin group company but so as not to exceed GBP 100,00 for the entire airberlin group in aggregate.

POLICY AND PRACTICE ON PAYMENT OF CREDITORS

airberlin seeks to enter into strategic agreements with suppliers, which emphasises the importance of strong suppliers aligned to airberlin's success as a business. Many of our supply agreements are unique and tailored to airberlin's business needs, to ensure that suppliers are appropriately rewarded for delivering services which meet pre-agreed performance targets and align with airberlin's own internal performance goals.

We observe the following practices in concluding such agreements:

- ▶ agreeing payment terms at the start of business with our suppliers;
- ▶ ensuring that those suppliers are made aware of such payment terms; and
- ▶ paying in accordance with contractual and other legal obligations.

As at 31 December 2012, the number of creditors days outstanding for the airberlin group was 9 days (2011: 11 days), and for the Company was 0 days (2011: 0 days).

Change of control

There are select contracts and agreements which would enable the counterparties to terminate or alter those arrangements upon a change of control of the Company. These arrangements are commercially confidential and their disclosure could be seriously prejudicial to the Company.

As at 31 December 2012, all but one of the Management Board members' service contracts contained change of control clauses allowing them to terminate their service contracts due to, *inter alia*, a mandatory takeover bid and receive lump sum salary and maximum bonus cash payments, generally calculated over a two-year period. The Management Board members' service contracts generally release the respective Management Board members upon a change in control from the otherwise applicable three-year holding period for any bonus paid in shares. In addition, the service contracts have a term in excess of one year.

SHAREHOLDER RELATIONS

The Company believes that maintaining open communication lines with its shareholders is extremely important. The AGM provides all shareholders with the opportunity to communicate directly with the Board, including the chairmen of the Committees. In accordance with applicable law, the Company provides all shareholders with adequate notice of the AGM, at which the Chief Executive Officer reviews and presents the airberlin group's business and performance for the year and answers questions from the shareholders. At the AGM, the number of proxy votes cast on each resolution is made available, both at the meeting and, subsequently, on the Company's website. Each substantially separate issue is presented as a separate resolution. Additionally, the Company further facilitated shareholder participation in the 2012 AGM by implementing shareholder and proxy voting services online via the Company's website.

Heinz-Peter Schlüter serves as the Senior Independent Non-Executive Director and is available to shareholders if contact through the normal channels of Chairman, Chief Executive Officer or Chief Financial Officer may be inappropriate or unsuccessful.

The Company also maintains regular contact with its major institutional shareholders through its investor relations department, through meetings with the Chief Executive Officer, the Chief Financial Officer and the Chairman, and through its special institutional investor events.

Moreover, the Company ensures that all Directors have an understanding of the views and concerns of major shareholders. A separate investor relations department facilitates engagement.

INTERNAL CONTROLS AND BOARD PERFORMANCE

The Directors are responsible for establishing and reviewing the effectiveness of the Company's risk management and internal control systems, including, without limitation, with respect to the airberlin group's financial reporting process and the preparation of the airberlin group's consolidated accounts. Internal control procedures are only designed to provide reasonable, but not absolute, assurance regarding the safeguarding of assets against misuse or unauthorised disposition and the risk of material misstatement or loss, or failure to achieve business objectives.

Whereas the overall responsibility for establishing such control procedures and the day-to-day management is delegated to the Chief Executive Officer, certain powers have been delegated to the responsible department heads. The authority granted is subject to defined limitations and reporting requirements.

The Board has conducted a review of the effectiveness of the system of internal control during the year using the support of the Audit Committee. This included systems and controls in relation to financial reporting processes and in preparing financial statements.

With respect to financial reporting, the airberlin group has a comprehensive budgeting system and the Board approves the airberlin group's annual budget. Revised forecasts for the year are reported quarterly or more frequently. Actual results, at both business and the airberlin group level, are reported and any deviations are reviewed.

The Company has developed an on-going process for effective risk identification and management, whereby potential risks are identified, monitored and reported by key areas of the Company. Detailed risk management reports are provided to the Management Board, which reflect risks identified within the Company. The Board as a whole addresses significant risks.

Policies and procedures are subject to on-going review and updated as required to ensure that they are properly and consistently applied with respect to significant risks, investment decisions and management issues.

The internal audit department, which reviews the Company's internal control systems, enhances such systems and in particular, those areas of greatest risk to the Company as determined by management. Internal audit review is undertaken in accordance with an approved annual audit plan, which is amended periodically during the year as required.

The Board Chairman regularly meets with the Board members and the Management Board members to discuss their performance, the Board's performance as a whole, the Board committees, the Management Board and any other matters that the Directors may wish to discuss.

COMPLIANCE WITH THE UNITED KINGDOM CORPORATE GOVERNANCE CODE

As the Company 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 Code, nor is it required to comply with German corporate governance standards. The Company complies voluntarily with most of the provisions of the Code, a copy of which can be obtained from the website of the UK Financial Reporting Council (www.frc.org.uk). However, the Company has not complied with certain provisions of the Code, some of which are not required by German corporate governance standards and are not customary in the German market. Specifically, for the period under review, there were more non-independent Directors on the Board than independent Directors. However, this Board composition only reflects a temporary transitional phase where the Board as a whole is focusing on improving its performance and effectiveness. The Company currently anticipates that the Board's composition will fulfil this aspect of the Code's requirements in 2013.

Furthermore, in deviation from the Code, the service contracts of the Executive Directors who served in 2012 have terms in excess of one year. The Company continues to believe that these conditions of its service contracts are necessary to avoid placing the Company at a disadvantage in the recruitment and retention of senior executives.

The Directors are subject to re-election at periods that, although not compliant with the Code, are customary in the German market. The Company continues to believe that more stringent requirements would place the Company at a disadvantage in the recruitment and retention of senior executives.

DIRECTORS' REMUNERATION REPORT

This Directors' Remuneration Report lays out details of the Company's remuneration policy for Directors, describes its implementation, and discloses the amount paid to Directors during the 2012 financial year.

This Directors' Remuneration Report has been prepared in accordance with the provisions of the Companies Act 2006. Those sections of this report that are subject to audit have been labelled appropriately, in keeping with the Code's requirements.

INFORMATION NOT SUBJECT TO AUDIT

Membership and Responsibilities of the Remuneration Committee

As at 31 December 2012, the Remuneration Committee comprised three independent Non-Executive Directors Heinz-Peter Schlüter (as Committee Chairman), Johannes Zurnieden and Nicholas Teller, and one Non-Executive Director: Dr. Hans-Joachim Körber.

The Committee determines on the Board's behalf the overall remuneration packages for the Executive Director and the other Management Board members, the Company's Chairman and the Company Secretary in accordance with the Company's remuneration policy, including any bonuses, pension rights (where appropriate) and share-based compensation payments as described below. All Committee members have access to the Chief Executive Officer and may obtain independent professional advice at the Company's expense in discharging their duties.

The Committee discharges its duties by, inter alia:

- ▶ determining and reviewing the on-going appropriateness and relevance of the Company's remuneration policy;
- ▶ liaising with the Nominations Committee to ensure that newly appointed executives' remuneration complies with the Company's remuneration policy;
- ▶ setting and monitoring performance criteria for any bonus arrangements and performance related payments provided by the Company and the airberlin group and ensuring that they represent achievable and motivating rewards for appropriate levels of performance and, where appropriate, are justifiable taking into account the Company's and the airberlin group's overall performance and the corresponding return on shareholders' investment in the same period;
- ▶ ensuring that the Board maintains contact with its principal shareholders with respect to its remuneration policy;
- ▶ approving any payment to and/or any non-cash benefit to be provided to, or for the benefit of, the Executive Director or other executive management member and any other terms and conditions to apply on termination of that person's employment; and

- ▶ being aware of and advising on any major changes in employee benefit structures throughout the Company and the airberlin group.

During the period under review, the Committee did not obtain advice from any external advisors. The Committee has full authority from the Board to commission any reports or surveys which it deems necessary to help it fulfil its obligations.

Remuneration Committee's Work in 2012

During the year ended 31 December 2012, the Committee considered the following:

- ▶ Executive Director and Management Board remuneration;
- ▶ German market standards and the Code as they impact remuneration policy; and
- ▶ its remuneration policy generally, including a review of its appropriateness and relevance.

Remuneration Policy

The airberlin group remains committed to achieving sustained performance improvements. Such improvements depend crucially on individual contributions and those of airberlin group's employees as a whole. The Board therefore is of the opinion that an effective remuneration strategy plays an essential role in the airberlin group's future success.

The Company's remuneration policy consists of the following overarching principles:

- ▶ to provide compensation packages at market rates which reward and encourage successful performance;
- ▶ in recommending rewards and benefits and any long-term and performance related incentives, to take into account any relevant legal requirements, and the provisions and recommendations of the Code;
- ▶ to ensure that the Company's executive management members are provided with appropriate incentives to encourage enhanced performance and are, in a fair and responsible manner, rewarded for their individual contributions to the Company's long-term success;
- ▶ to recommend to the Board the policy for and scope of pension arrangements for any executive directors and other senior executives taking into account the future liabilities of any recommendation and detailing precisely which remuneration package elements are pensionable; and
- ▶ in respect of any executive management remuneration element which is performance-related, to formulate suitable performance-related criteria and monitor their operation.

However, it should be noted that the remuneration policy is flexible by its very nature and the Remuneration Committee reviews the remuneration policy regularly, revising it where necessary to reflect changes in the market, the Company's performance, the competitive environment and overall employment and salary conditions within the airberlin group.

Executive Directors' Remuneration

In keeping with the Company's remuneration policy, the Company provides a compensation package that reflects the Executive Directors' level of responsibility and contribution to the Company in the competitive environment. The Company also considers, where appropriate, a comparison of executive pay and remuneration and changes in pay level throughout the airberlin group. The Committee periodically reviews its remuneration policy and approach to target-setting as appropriate.

The compensation package for the Executive Directors who served on the Board in 2012 comprised a combination of a basic salary, a variable bonus scheme and benefits in kind. Basic salaries are reviewed annually and are based, among others, on the following factors:

- a) an appraisal of the relevant executive and his or her contribution to the business;
- b) the Company's remuneration policy; and
- c) the competitive environment and the marketplace for companies of similar complexity, size, and global reach.

The basic gross fixed salaries of the Executive Directors who served on the Board in 2012 are set out in the table below.

Name	Basic gross fixed remuneration in 2012 (EUR)
Hartmut Mehdorn *	1,000,000
Paul Gregorowitsch **	375,000 ***
Helmut Himmelreich **	375,000 ***
Ulf Hüttmeyer **	375,000 ***

* Mr Mehdorn served as sole Executive Director from 1 October 2012 until 7 January 2013, upon which date Mr Prock-Schauer replaced him as sole Executive Director. From of 7 January 2013 until 12 March 2013, Mr Mehdorn served on the Board as a Non-Executive Director.

** Fixed remuneration until 1 October 2012, upon which date he stepped down and became a Management Board member, in connection with a comprehensive reorganisation of the Company's management structure.

*** up to and including 30 September 2012.

Subject to the meeting of pre-defined benchmarks, the Executive Directors who served on the Board in 2012 may receive an annual bonus as determined by the Remuneration Committee. Such bonus is capped at a pre-determined maximum bonus amount established by the Committee. The bonus is intended to incentivise these individuals to achieve certain annual operational and financial goals, thereby aligning the relevant executive's interests with those of the Company's shareholders. The Remuneration Committee determines, on an annual basis, the payment of any such bonus compensation and, in deciding to award any such bonus, considers a weighted combination of several factors.

In 2012, these included the impact of the Shape & Size programme in terms of millions of euros saved, EBIT level in millions of euros, the Customer Satisfaction Index (CSI) and other individual executive-specific performance conditions.

Subject to certain exceptions, any variable compensation under target arrangements set by the Remuneration Committee and paid to the Executive Directors will be divided equally into cash and shares, the latter of which are generally subject to a holding period of three years.

Service Contracts

Service contracts govern the Company's relationship with its Executive Director and Management Board members. Appointment letters govern its relationship with its Non-Executive Directors. None of the appointment letters entitle the Non-Executive Directors to receive any compensation upon termination of their respective appointment letter or their resignation or to participate in any bonus awards, pension benefits or share schemes.

As at 31 December 2012, all but one of the Management Board members' service contracts contained change of control clauses allowing them to terminate their service contracts due to, inter alia, a mandatory takeover bid and receive lump sum salary and maximum bonus cash payments, generally calculated over a two-year period. The Management Board members' service contracts generally release the respective Management Board members upon a change in control from the otherwise applicable three-year holding period for any bonus paid in shares. In addition, the service contracts have a term in excess of one year.

The Executive Directors who stood down to the Management Board received no cash or share payment upon stepping down from the Board. Following their step-down, their service contracts remained in force and were amended in connection with the Board's comprehensive restructuring.

The service contracts of the Executive Directors who stepped down from the Board in 2012 have indefinite terms and terminate automatically upon the Executive Director's reaching a given age, ranging from 60 to 63. Each such Executive Director's service contract is dated as follows: Mr Hüttmeyer (23 March 2010, amended 20 September 2012), Mr Gregorowitsch (9 June 2011, amended 20 September 2012), and Mr Himmelreich (14 December 2011, amended 23 October 2012). These service contracts generally provide that either party may terminate them upon 2 years' notice. Further, they generally provide that, if the Company so terminates, subject to mitigation, the relevant Executive Director is entitled to payment of his salary and bonus for 2 years. The relevant Executive Director may generally terminate the

service contract with immediate effect upon: (i) the Company's change of control or (ii) loss of executive position or change of core responsibilities. In such case, he is generally entitled to the salary and maximum bonus in cash that he would have received during his 2-year notice period.

Certain of the Management Board members service contracts contain an obligation not to compete with the Company's business for one year following termination or expiry of their respective service agreements. In consideration for such obligation, each Management Board Member is entitled to receive 50 per cent of his or her fixed remuneration for that year.

The Company's policy is that any future service contracts will contain such termination and remuneration provisions as are necessary to attract and retain qualified management while reflecting the Company's remuneration policy, as described above. The provisions of any future service contracts will depend upon a wide variety of factors, including, without limitation, the prevailing economic climate and market conditions and the relevant individual's qualifications.

Additional Benefits

In 2007, the Company entered into a defined benefit pension plan for its Executive Directors serving at that time. This plan continues to apply to certain Management Board members who served as Executive Directors. Upon reaching age 65 or in case of permanent inability to work, the pension benefit entitlement amounts to at least 4 per cent for each year of service based on his respective 2011 base compensation for Mr Gregorowitsch and Mr Himmelreich and 4 per cent of his 2009 base compensation for Mr Hüttmeyer. The entitlement cannot exceed 50 per cent of such base compensation amount. The accumulated pension rights as at 31 December 2012 are set forth on page 98.

The Executive Directors are provided with a company telephone, car and telecommunications equipment. Additionally, the Executive Directors are entitled to reduced or free air transportation on flights operated by the Company or its affiliates. The Executive Directors have the benefit of directors' and officers' insurance and accident insurance, at appropriate levels, with respect to any legal actions taken against the directors and officers in the course of exercising their respective duties.

Remuneration Policy for 2013 and Beyond

The Board currently anticipates that the remuneration policy described above will continue to be applied in determining basic salary, bonuses, pensions and all other benefits in 2013 and subsequent financial years. The Board currently expects that the Remuneration Committee, using its discretion, will determine the level of any annual bonus award made by taking into consideration the airberlin group's financial and operational performance assessed on the basis of factors such as the impact of cost-saving and turn-around programmes in terms of millions of euros saved, EBIT level in millions of euros, the Customer Satisfaction Index (CSI) and other individual executive-specific performance conditions. However, it should be noted that the remuneration policy is flexible by its very nature and the Remuneration Committee reviews the remuneration policy regularly, revising it where necessary to reflect changes in the market, the Company's performance, the competitive environment and overall employment and salary conditions within the airberlin group.

In principle the directors have received no bonus based on the target agreement for 2012. Based on individual agreements two directors received a special payment with reference of contractual obligations made in 2011. Mr Gregorowitsch as part of his contract has received a sign-on bonus of EUR 250,000, which was paid out 12 months after his commencement date. Following the closing of the investment by Etihad Airways early 2012, the remuneration committee decided to grant Mr Hüttmeyer a bonus of EUR 500,000.

Non-Executive Directors' Remuneration

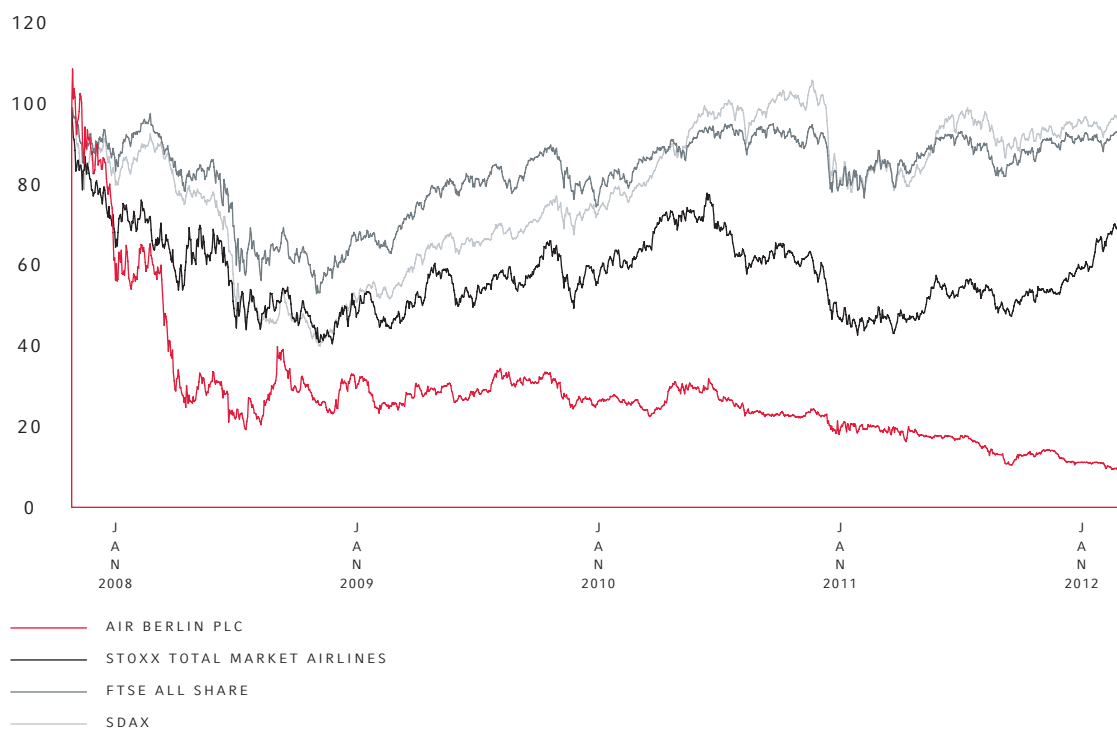
The Chairman and the Executive Director determine the Non-Executive Directors' remuneration. When determining such remuneration, they consider the remuneration practices of airberlin's competitors, the relevant Non-Executive Director's participation and chairmanship in the Board's committees, and the anticipated time commitment. No Director is involved in determining his own level of compensation. In accordance with the Company's Articles of Association, the compensation afforded the Non-Executive Directors cannot, in the aggregate, exceed EUR 750,000.

Non-Executive Directors do not enter into service contracts with the Company but instead are paid a fee for the provision of their services under the terms of appointment letters. Specifically, each Non-Executive Director is paid EUR 50,000 a year and EUR 25,000 a year for each Committee that the relevant Non-Executive Director chairs. Messieurs Rigney and Hogan have chosen to waive such fees for 2012. Non-Executive Directors are not eligible for share options or pension benefits.

Performance Graph

The following graph shows the Company's total shareholder return as compared to the SDAX Index, STOXX TM Airlines Index, and FTSE All Share Index. The SDAX was selected for comparative purposes because it is an equity index of which the Company is a constituent. The STOXX TM Airlines index was chosen inasmuch as it comprises companies operating in the airline sector. The FTSE All Share Index was chosen as it is a broad equity index.

THE AIRBERLIN SHARE TOTAL SHAREHOLDER RETURN VS. THE SDAX, STOXX TOTAL MARKET AIRLINES AND FTSE ALL SHARE INDICES



SOURCE: INVESTIS

INFORMATION SUBJECT TO AUDIT

Directors' Remuneration

The Directors' remuneration during 2012 was:

in Thousand EURs	Basic Salary and Fees Paid or Receivable	Taxable Benefits ¹	Redundancy Payments ²	Total Bonus Paid or Receivable	Other Benefits ³	Total 2012	Total 2011
Executive Directors:							
Hartmut Mehndorn *	1,000	0	0	0	9	1,009	395
Paul Gregorowitsch **	375	0	0	250	12	637	170
Helmut Himmelreich **	375	0	0	0	185 ***	560	121
Ulf Hüttmeyer **	375	0	0	500	15	890	534
Non-Executive Directors:							
Dr. Hans-Joachim Körber	178	0	0	0	2	180	180
Joachim Hunold	0	0	0	0	0	0	4,805
Peter R. Oberegger ^{4, 5}	67	0	0	0	3	70	69
Ali Sabanci	50	0	0	0	0	50	50
Heinz-Peter Schlüter ⁴	89	0	0	0	3	92	90
Nicholas Teller ⁴	89	0	0	0	2	91	91
Johannes Zurnieden ⁴	60	0	0	0	0	60	60
James Hogan ⁷	0	0	0	0	0	0	0
James Rigney ⁷	0	0	0	0	0	0	0
Saad H. Hammad ^{4, 5}	38	0	0	0	0	38	33
Niki Lauda ^{4, 8}	50	0	0	0	0	50	4
Barbara Cassani ⁶	9	0	0	0	0	9	33
Aggregate emoluments:	630	0	0	0	10	640	5,415

¹ Total Amount Paid or Receivable of Expense Allowances that are Chargeable to UK Income Tax and are in Respect of Qualifying Services

² Total Amount of Compensation for Loss of Office, Paid or Receivable and Any Other Termination Payments

³ Total Estimated Value of Benefits Received Other Than in Cash That Are Emoluments

* Hartmut Mehndorn served as the Management Board Chairman, sole Executive Director on the Board and Chief Executive Officer until 7 January 2013, when Wolfgang Prock-Schauer replaced him in each such capacity. From 7 January 2013 until 12 March 2013, Mr Mehndorn remained on the Board as a Non-Executive Director. Mr Mehndorn did not receive any termination payment upon stepping down from his position as CEO and sole Executive Director. Pursuant to a separation agreement entered into in January 2013, Mr Mehndorn is entitled to continued payments of his base salary until the end of March 2013 and waived payment of his base salary from April 2013 until and including December 2013. Mr Mehndorn has also waived all rights to a bonus for financial years 2012 and 2013.

** Remuneration up to 1 October 2012 has been disclosed upon which date he stepped down from the Board and became a Management Board member, in connection with a comprehensive reorganisation of the Company's management structure. No additional compensation was paid to the relevant executive upon his stepping down from the Board to the Management Board.

*** This reflects a payment made in lieu of his participation in the airberlin pension plans.

⁴ Independent Non-Executive Director.

⁵ Stepped down from the Board effective 1 October 2012.

⁶ Stepped down from the Board effective 6 March 2012.

⁷ Joined the Board on 24 January 2012 following Etihad Airways' investment in airberlin.

⁸ Stepped down from the Board on 21 December 2012 and was replaced in January 2013 by Mr Austin Reid.

Joachim Hunold served as an Executive Director and CEO through 31 August 2011. Upon being released from his duties as an Executive Director and CEO he was appointed as a Non-Executive Director, effective 1 September 2011. On 1 October 2011 he was awarded a minimum of EUR 4,098,000 as compensation for the loss of his executive position. The compensation consists of salary, bonus and multiple non-cash benefits. The amount awarded will be settled up to 30 September 2014. Furthermore, he was awarded additional pension entitlements that were completely accounted for as at 31 December 2011. His pension entitlements and those of the other Directors are shown in the table below.

in Thousand EURs	Accumulated Annual Accrued Benefits as at 31 December 2012/ 1 October 2012	Accumulated Annual Accrued Benefits as at 31 December 2011	Increase in Accumulated Annual Accrued Benefits During the Year 2012
Joachim Hunold	438	438	0
Ulf Hüttmeyer	108	86	22
Paul Gregorowitsch	20	7	13
Hartmut Mehdorn	0	0	0
Helmut Himmelreich	0	0	0

The transfer value of the Directors' accrued benefits, which represents a liability to the Company rather than an amount paid or due to the individual, is as follows:

in Thousand EURs	Transfer Value as at 31 December 2012	Transfer Value as at 31 December 2011	Directors' Contribution During 2012	Movements in 2012 Less Directors' 2012 Contributions
Joachim Hunold	6,148	5,754	1,207	(813)
Ulf Hüttmeyer	569	334	1,125	(890)
Paul Gregorowitsch	474	115	491	(132)
Hartmut Mehdorn	0	0	0	0
Helmut Himmelreich	0	0	0	0
Total	7,191	6,203	2,823	(1,835)

This Directors' Remuneration Report sets out the policy and disclosures on directors' remuneration as required by the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 issued under the Companies Act 2006 (the "**Act**"). In accordance with the Act, a resolution to approve this Report will be proposed at the Company's forthcoming Annual General Meeting. The vote will have advisory status in respect of the remuneration policy and overall remuneration packages and will not be specific to individual levels of remuneration.

15 March 2013

By order of the Board

HEINZ-PETER SCHLÜTER
REMUNERATION COMMITTEE CHAIRMAN

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ANNUAL REPORT AND THE FINANCIAL STATEMENTS

The Directors are responsible for preparing this Annual Report, the corporate governance statement and the airberlin group consolidated and Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare consolidated airberlin group and Company financial statements for each financial year. Under that law, the Directors are required to prepare the airberlin group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and applicable law and have elected to prepare the Company financial statements on the same basis.

Under company law, the Directors must not approve the airberlin group and Company financial statements unless they are satisfied that such financial statements give a true and fair view of the state of affairs of the airberlin group and the Company and of their profit or loss for that period. In preparing each of the airberlin group and Company financial statements, the Directors are required to:

- ▶ select suitable accounting policies and then apply them consistently;
- ▶ make judgements and accounting estimates that are reasonable and prudent;
- ▶ state whether they have been prepared in accordance with IFRSs as adopted by the European Union and
- ▶ prepare the financial statements on the going concern basis unless it is inappropriate to presume that the airberlin group and the Company will continue in business.

The Directors are also responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the Company's financial position and enable them to ensure that the financial statements comply with the Companies Act 2006 and, as regards the airberlin group financial statements, Article 4 of the IAS Regulation. They have general responsibility for taking such steps as are reasonably open to them to safeguard the Company's and the airberlin group's assets and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are responsible for preparing a Directors' Report and Directors' Remuneration Report that complies with that law and regulation.

Furthermore, the Directors are responsible for the maintenance and integrity of the corporate and financial information on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of accounts may differ from legislation in other jurisdictions.

GOING CONCERN

After making inquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future as disclosed in Note 2 to the financial statements. For this reason, they continue to adopt the going concern basis in preparing the accounts.

DISCLOSURE OF INFORMATION TO AUDITORS

Each Director in office at the date the Directors' Report is approved confirms, in accordance with Section 418 of the Companies Act 2006:

- a) so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- b) he has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given, and should be interpreted, in accordance with the provisions of Section 418 of the Companies Act 2006.

The Annual report on pages 2 to 101 was approved by the Board of Directors and authorised for issue on 15 March 2013 and signed on behalf of the Board of Directors by:



WOLFGANG PROCK-SCHAUER

CHIEF EXECUTIVE OFFICER

DECLARATION BY THE LEGAL REPRESENTATIVES

We confirm that to the best of our knowledge and according to the applicable accounting standards, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position, and profit or loss of the group and that the group management report includes a fair view of the development and performance of the business and the position of the group, together with a description of the principal risks and opportunities that the group faces.

Berlin, 15 March 2013

A handwritten signature in black ink, appearing to read 'W. Prock-Schauers', with a stylized, flowing script.

WOLFGANG PROCK-SCHAUER

CHIEF EXECUTIVE OFFICER

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF AIR BERLIN PLC

We have audited the financial statements of Air Berlin PLC for the year ended 31 December 2012 set out on pages 107 to 167. 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 103, 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.

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 2012 and of the group's profit 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.

Philip Charles (Senior Statutory Auditor)

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

Chartered Accountants

St. Nicholas House

Park Row

Nottingham

NG 1 6FQ

Great Britain

15 March 2013

Air Berlin PLC
CONSOLIDATED INCOME STATEMENT
for the period ended 31 December 2012

	Note	31/12/2012 EUR 000	31/12/2011 EUR 000 (restated) *
Revenue	21	4,311,676	4,227,318
Other operating income (including net gain from disposal of topbonus of EUR 184,400)	6, 22	264,192	10,113
Expenses for materials and services	23	(3,288,763)	(3,304,535)
Personnel expenses	24	(488,761)	(475,444)
Depreciation and amortisation	7, 8	(74,145)	(85,943)
Other operating expenses	25	(654,046)	(618,534)
Operating expenses		(4,505,715)	(4,484,456)
Result from operating activities		70,153	(247,025)
Financial expenses	26	(77,217)	(82,715)
Financial income	26	1,068	9,804
Profit (Loss) on foreign exchange and derivatives, net	26	2,575	(39,007)
Net financing costs		(73,574)	(111,918)
Share of at equity investments, net of tax	27	247	97
Loss before tax		(3,174)	(358,846)
Income tax benefit (expenses)	28	9,987	(61,550)
Profit (Loss) for the period – all attributable to the shareholders of the Company		6,813	(420,396)
Basic earnings per share in EUR	14	0.06	(4.94)
Diluted earnings per share in EUR	14	0.06	(4.94)

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

	Note	31/12/2012 EUR 000	31/12/2011 EUR 000 (restated)
Profit (Loss) for the period		6,813	(420,396)
Foreign currency translation reserve		490	1,102
Effective portion of changes in fair value of hedging instruments		(18,876)	64,596
Net change in fair value of hedging instruments transferred from equity to profit or loss		(54,459)	(36,453)
Income tax on other comprehensive income	28	21,971	(8,544)
Other comprehensive income for the period, net of tax		(50,874)	20,701
Total comprehensive income – all attributable to the shareholders of the Company		(44,061)	(399,695)

* Details of the restatement are given in note 2 on page 116.

Air Berlin PLC
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As of 31 December 2012

	Note	31/12/2012 EUR 000	31/12/2011 EUR 000 (restated) *
Assets			
Non-current assets			
Intangible assets	7	421,044	396,008
Property, plant and equipment	8	597,890	818,915
Trade and other receivables	11	79,770	79,188
Deferred tax asset	28	28,666	0
Net defined benefit asset	15	4,015	2,206
Deferred expenses	12	47,597	53,112
At equity investments	9	4,847	184
Non-current assets		1,183,829	1,349,613
Current assets			
Inventories	10	49,867	45,524
Trade and other receivables	11	451,736	375,122
Positive market value of derivatives	30	12,467	73,187
Deferred expenses	12	46,571	42,598
Assets held for sale	8	145,206	0
Cash and cash equivalents	29	327,936	239,607
Current assets		1,033,783	776,038
Total assets		2,217,612	2,125,651

* Details of the restatement are given in note 2 on page 116.

Air Berlin PLC
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As of 31 December 2012

	Note	31/12/2012	31/12/2011
		EUR 000	EUR 000 (restated) *
Equity and liabilities			
Shareholders' equity			
Share capital	13	29,273	21,379
Share premium	13	435,085	373,923
Equity component of convertible bond	17	597	1,343
Other capital reserves	13	217,056	217,056
Retained earnings		(546,663)	(554,221)
Hedge accounting reserve, net of tax		(8,602)	42,762
Foreign currency translation reserve	13	3,429	2,939
Total equity – all attributable to the shareholders of the Company		130,175	105,181
Non-current liabilities			
Interest-bearing liabilities due to aircraft financing	17	267,044	471,775
Interest-bearing liabilities	17	621,066	470,193
Provisions	16	9,153	7,161
Trade and other payables	19	70,357	55,922
Deferred tax liabilities	28	30,786	39,700
Negative market value of derivatives	30	531	11,021
Non-current liabilities		998,937	1,055,772
Current liabilities			
Interest-bearing liabilities due to aircraft financing	17	158,946	53,123
Interest-bearing liabilities	17	51,084	57,504
Tax liabilities		4,514	2,726
Provisions	16	14,234	2,525
Trade and other payables	19	426,778	423,421
Negative market value of derivatives	30	38,601	17,521
Deferred income		28,718	72,619
Advanced payments received	20	365,625	335,259
Current liabilities		1,088,500	964,698
Total equity and liabilities		2,217,612	2,125,651

* Details of the restatement are given in note 2 on page 157.

The financial statements were approved by the Board of Directors and authorised for issue on 15 March 2013 and signed on behalf of the Board:



WOLFGANG PROCK-SCHAUER
 CHIEF EXECUTIVE OFFICER

Air Berlin PLC

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the period ended 31 December 2012

	Share capital	Share premium	Equity component of convertible bonds	Other capital reserves	Retained earnings	Hedge accounting reserve, net of tax	Foreign currency translation reserve	Equity attri- butable to the shareholders of the Company
	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000
Balances at 31 December 2010	21,379	373,923	21,220	217,056	(153,242)	23,163	1,837	505,336
Redemption of convertible bonds			(19,877)		19,417			(460)
Total transactions with shareholders	0	0	(19,877)	0	19,417	0	0	(460)
Loss for the period as previously reported					(271,838)			(271,838)
Other comprehensive income						19,599	1,102	20,701
Total comprehensive income as previously reported	0	0	0	0	(271,838)	19,599	1,102	(251,137)
Prior year adjustment					(148,558)			(148,558)
Total comprehensive income as restated	0	0	0	0	(420,396)	19,599	1,102	(399,695)
Balances at 31 December 2011 (restated)	21,379	373,923	1,343	217,056	(554,221)	42,762	2,939	105,181
Issue of ordinary shares	7,894	65,043						72,937
Transaction costs on issue of shares, net of tax		(3,881)						(3,881)
Redemption of convertible bonds			(746)		746			0
Total transactions with shareholders	7,894	61,162	(746)	0	746	0		69,056
Profit for the period					6,813			6,813
Other comprehensive income						(51,364)	490	(50,874)
Total comprehensive income	0	0	0	0	6,813	(51,364)	490	(44,061)
Balances at 31 December 2012	29,273	435,085	597	217,056	(546,663)	(8,602)	3,429	130,175

Air Berlin PLC
CONSOLIDATED STATEMENT OF CASH FLOWS
for the period ended 31 December 2012

	Note	31/12/2012	31/12/2011
		EUR 000	EUR 000 (restated) *
Profit (Loss) for the period		6,813	(420,396)
Adjustments to reconcile profit or loss to cash flows from operating activities:			
Depreciation and amortisation of non-current assets	7, 8	74,145	85,943
Gain on disposal of topbonus	6	(184,400)	0
(Gain) Loss on disposal of non-current assets	22, 25	(33,076)	6,793
Increase in inventories		(4,343)	(2,634)
Increase in trade accounts receivables		(58,918)	(28,684)
Increase in other assets and prepaid expenses		(33,475)	(7,491)
Deferred tax (benefit) expense	28	(13,944)	55,706
Increase (Decrease) in provisions		11,893	(3,892)
Increase in trade accounts payable		36,730	31,406
(Decrease) Increase in other current liabilities		(30,332)	33,606
(Profit) Loss on foreign exchange and derivatives, net	26	(2,575)	39,007
Interest expense	26	75,227	70,760
Interest income	26	(1,068)	(9,804)
Loss from redemption of convertible bonds	26	0	5,440
Income tax expense	26	3,957	5,844
Share of profit of at equity investments	27	(247)	(97)
Other non-cash changes		187	1,102
Cash generated from operations		(153,426)	(137,391)
Interest paid		(68,716)	(51,073)
Interest received		477	3,678
Income taxes paid		(2,171)	(11,130)
Net cash flows from operating activities		(223,836)	(195,916)
Purchases of non-current assets		(30,032)	(142,933)
Net advanced payments for non-current items	11	(24,361)	(32,871)
Proceeds from sale of tangible and intangible assets		41,872	114,262
Proceeds from disposal of topbonus	6	200,000	0
Dividends received from at equity investments		704	0
Addition of subsidiaries, net of cash		0	(969)
Acquisition of at equity investments		(20,186)	0
Cash flow from investing activities		167,997	(62,511)
Principal payments on interest-bearing liabilities		(180,833)	(234,124)
Proceeds from long-term borrowings		265,549	473,347
Payment of transaction costs related to issue of long-term borrowings		(1,497)	(10,740)
Issue of ordinary shares		72,937	0
Transaction costs related to issue of ordinary shares	13	(5,546)	0
Redemption of convertible bonds	17	(6,162)	(140,899)
Cash flow from financing activities		144,448	87,584
Change in cash and cash equivalents		88,609	(170,843)
Cash and cash equivalents at beginning of period		238,384	409,673
Foreign exchange gains (losses) on cash balances		828	(446)
Cash and cash equivalents at end of period	29	327,821	238,384
thereof bank overdrafts used for cash management purposes		(115)	(1,223)
thereof cash and cash equivalents in the statement of financial position		327,936	239,607

Air Berlin PLC
COMPANY STATEMENT OF FINANCIAL POSITION
as at 31 December 2012

	Note	31/12/2012	31/12/2011
		EUR 000	EUR 000 (restated) *
Assets			
Non-current assets			
Investments in subsidiaries	35b	720,924	720,946
At equity investments	35c	261	184
Deferred tax asset	35d	15,034	0
Positive market value of derivatives		0	0
Loans to subsidiaries	35e	140,000	140,000
Net defined benefit asset	35j	2,862	723
Non-current assets		879,081	861,853
Current assets			
Loans to subsidiaries	35e	58,677	59,234
Loans to at equity investments	35f	0	25
Receivables from subsidiaries	35g	135,652	148,714
Receivables from at equity investments	35h	149	149
Positive market value of derivatives		696	2,497
Other receivables		464	493
Deferred expenses		337	1,077
Cash and cash equivalents		118,067	61,798
Current assets		314,042	273,987
Total assets		1,193,123	1,135,840

* Details of the restatement are given in note 35a) on page 157.

Air Berlin PLC
COMPANY STATEMENT OF FINANCIAL POSITION
as at 31 December 2012

	Note	31/12/2012	31/12/2011
		EUR 000	EUR 000 (restated) *
Equity and liabilities			
Shareholders' equity			
Share capital	35i	29,273	21,379
Share premium	35i	435,085	373,923
Equity component of convertible bond		597	1,343
Retained earnings		(58,960)	(45,307)
Total equity – all attributable to the shareholders of the Company		405,995	351,338
Non-current liabilities			
Interest-bearing liabilities		487,362	434,226
Other liabilities to subsidiaries	35k	2,000	2,000
Negative market value of derivatives		0	0
Non-current liabilities		489,362	436,226
Current liabilities			
Interest-bearing liabilities		7,716	6,702
Tax liabilities		1,681	375
Trade and other payables		8,617	12,434
Payables to subsidiaries	35k, m	277,535	328,114
Negative market value of derivatives		2,217	651
Current liabilities		297,766	348,276
Total equity and liabilities		1,193,123	1,135,840

* Details of the restatement are given in note 35a) on page 157.

The financial statements were approved by the Board of Directors and authorised for issue on 15 March 2013 and signed on behalf of the Board:



WOLFGANG PROCK-SCHAUER
CHIEF EXECUTIVE OFFICER

Air Berlin PLC**COMPANY STATEMENT OF CHANGES IN EQUITY**

for the year ended 31 December 2012

	Share capital EUR 000	Share premium EUR 000	Equity component of convertible bonds EUR 000	Retained earnings EUR 000	Total equity EUR 000
Balances at 31 December 2010	21,379	373,923	21,220	48,228	464,750
Redemption of convertible bonds			(19,877)	19,417	(460)
Total transactions with shareholders	0	0	(19,877)	19,417	(460)
Loss for the period as previously reported				(61,166)	(61,166)
Total comprehensive income as previously reported	0	0	0	(61,166)	(61,166)
Prior year adjustment				(51,786)	(51,786)
Total comprehensive income as restated	0	0	0	(112,952)	(112,952)
Balances at 31 December 2011 (restated)	21,379	373,923	1,343	(45,307)	351,338
Issue of ordinary shares	7,894	65,043			72,937
Transaction costs on issue of shares, net of tax		(3,881)			(3,881)
Redemption of convertible bonds			(746)	746	0
Total transactions with shareholders	7,894	61,162	(746)	746	69,056
Loss for the period				(14,399)	(14,399)
Total comprehensive income	0	0	0	(14,399)	(14,399)
Balances at 31 December 2012	29,273	435,085	597	(58,960)	405,995

Air Berlin PLC
COMPANY STATEMENT OF CASH FLOWS
for the year ended 31 December 2012

	Note	31/12/2012	31/12/2011
		EUR 000	EUR 000 (restated)
Loss for the period		(14,399)	(112,952)
Adjustments to reconcile profit or loss to cash flows from operating activities:			
Decrease (Increase) in receivables from subsidiaries		13,335	(8,510)
Decrease in other assets and prepaid expenses		2,905	4,498
Deferred tax (benefit) expense	35d	(13,369)	41,707
Increase (Decrease) in trade accounts payable and other liabilities		(3,820)	10,222
Increase in net defined benefit asset		(2,139)	(723)
(Decrease) increase in payables to subsidiaries	35g	(44,622)	118,440
Losses on foreign exchange and derivatives, net		3,376	6,116
Interest expense		46,309	39,522
Interest income		(2,471)	(4,315)
Loss from redemption of convertible bonds		0	5,440
Income tax expense		1,307	534
Share of profit at equity investments		(7,055)	(553)
Cash generated from operations		(20,643)	99,426
Interest paid		(40,957)	(26,585)
Interest received		62	511
Net cash flows from operating activities		(61,538)	73,352
Disposal of investments in subsidiaries		22	0
Increase in share capital of subsidiaries	35b	0	(249,982)
Repayments of loans given to subsidiaries	35e	557	568
Repayments of loans given to at equity investments	35f	50	500
Dividends received from subsidiaries		6,249	0
Dividends received from at equity investments		704	0
Cash flow from investing activities		7,582	(248,914)
Issue of ordinary shares		72,937	0
Transaction costs related to issue of ordinary shares	13	(5,546)	0
Redemption of convertible bonds	17	(6,162)	(140,899)
Proceeds from issue of corporate bonds	17	50,500	250,000
Payment of transaction costs related to issue of corporate bonds	17	(1,497)	(10,740)
Cash flow from financing activities		110,232	98,361
Change in cash and cash equivalents		56,276	(77,201)
Cash and cash equivalents at beginning of period		61,798	138,956
Foreign exchange (losses) gains on cash balances		(7)	43
Cash and cash equivalents at end of period		118,067	61,798
thereof cash and cash equivalents in the statement of financial position		118,067	61,798

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS AS OF 31 DECEMBER 2012

1. INTRODUCTION

The consolidated financial statements of Air Berlin PLC for the year ended 31 December 2012 comprise Air Berlin PLC and its subsidiaries (together referred to as “airberlin” or the “Group”) and the Group’s interest in at equity investments. Air Berlin PLC 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 European Union. 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 112 to 115.

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 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 0.8161 to the Euro. All financial figures presented have been rounded to the nearest thousand currency units, except for share data and subsequent events. The financial statements were authorised and approved for issue by the Board of Directors on 15 March 2013.

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 Forecasts and the Outlook of the Group on pages 68 to 72.

The financial position of the Group, its cash flows, and liquidity position are described in the Development in Financial Figures on pages 42 to 47. Details for the Group’s borrowings are set out in note 17 and 31 of the financial statements. In addition, notes 4t and 31 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 68 to 72, the current economic conditions create uncertainty particularly in respect of fluctuating currency rates, fluctuating jet fuel prices, passenger demand and yield. Financing is in place for our committed plane deliveries for the next twelve months. The Group’s forecasts and projections sensitised for significant deviations from the forecast currency rate, jet fuel price, passenger demand and yield, show that the Group will generate sufficient cash through funding and operating cash flows to meet its liabilities in the foreseeable future. Achievability of these forecasts is also dependent on the success of the Turbine 2013 program (note 34). Furthermore Air Berlin PLC issued a convertible bond of EUR 140,000 in February 2013 to strengthen its cash position (note 34).

Taking into account the above factors, the directors have concluded that there is 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 IFRS as adopted by the European Union 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.

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 IFRS as adopted by the European Union 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.

Prior year adjustment

IAS 12 states that where there is a history of recent losses an entity can recognise a deferred tax asset to the extent there is convincing other evidence that sufficient taxable profit will be available to utilise the tax losses. There is no guidance in the standard as to what constitutes convincing evidence and therefore judgement is required. The directors considered that convincing evidence existed in 2010. However, following conversations with the German Financial Reporting Enforcement Panel ('FREP') in 2012 and in light of the significant increase in operating loss during the year which showed a significant deviation from the budget set in December 2010 for 2011 the directors have concluded that there had been insufficient evidence as at 31 December 2011. As a result deferred tax assets only have been recognised to the extent of the deferred tax liabilities. The Group has therefore restated the comparatives accordingly. The following table summarises the effects of the restatement on the consolidated statement of financial position and the consolidated statement of comprehensive income:

In thousands of EUR	31/12/2011 Reported	31/12/2011 Adjustment	31/12/2011 Adjusted
Equity	253,739	(148,558)	105,181
Retained earnings	(405,663)	(148,558)	(554,221)
Deferred tax assets	138,306	(138,306)	0
Deferred tax liabilities	29,448	10,252	39,700
Income tax expenses	87,008	(148,558)	(61,550)
Loss of the year	(271,838)	(148,558)	(420,396)
Earnings per share (basic) in EUR	(3.20)	(1.74)	(4.94)
Earnings per share (diluted) in EUR	(3.20)	(1.74)	(4.94)

The adjustment had no effect on the loss before tax for 2011 or the opening position at 1 January 2011.

The quarterly reports for the financial year 2012 included as comparatives in 2013 will be adjusted accordingly.

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 36 are included in the consolidated financial statements.

Several of the Company's subsidiaries prepare their financial statements in a currency other than Euro (CHF and USD). 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 36 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. 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) Investments in associates and jointly controlled entities (at equity investments)

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power of another entity. Jointly controlled entities are those entities over whose activities the Group has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions.

The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of at equity investments using the equity method 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 at equity investment, the Group's carrying amount is reduced to zero 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 the investee.

d) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains and losses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with at equity investments are eliminated only to the extent of the Group's interest in that 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.

— AIRCRAFT

The Group owns aircraft of the type Boeing 737-700 and 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.

Aircraft are purchased in stages with the payment of initial and subsequent prepayments.

— 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 aircraft, engine and other equipment, including major inspection and overhaul expenditure, is capitalised as a separate item. Other subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the items of property, plant and equipment. All other expenditure is 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. Key assumptions are the seat load factor, yield, fuel price and USD exchange rate.

— 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 as well as 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 31b. 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 creditworthiness 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 or 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. For further information see note 31e.

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 29.

i) Share capital

Share capital of Air Berlin PLC 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 PLC 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 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 a 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. The fair value option is not applied.

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.

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 31d.

Exchange rate differences arising from interest-bearing liabilities and other financing activities – as well as unrealised gains and losses 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. Flight revenue is recognised at the point where the flight is flown whilst a return portion of the ticket is deferred until the return flight is flown. Revenue on unclaimed tickets is recognised when the ticket expires. Other revenue and operating income is recognised when the corresponding service has been provided 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). Rebates and discounts offered are deducted from revenue and are recognised at the point when the flight to which the rebate or discount relates is flown.

As at 31 December 2012 the Group presents airport duties as “Flight revenue” rather than as “Ground and other services”. The Group considers the new presentation as more appropriate to understand developments in the “Flight revenue” and the key performance indicators based on these figures. The effects on prior year are as follows:

In thousands of EUR	2011 Reported	2011 Adjustment	2011 Adjusted
Flight revenue	3,857,022	77,729	3,934,751
Ground and other services	331,704	(77,729)	253,975
Duty-free/in-flight sales	38,592		38,592
	4,227,318		4,227,318

Expenses are recognised when the product or service is used or the expense arises.

p) Deferred income and expenses

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

Deferred income in the statement of financial position relates mainly to ticket sales and in 2011 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.

— FREQUENT FLYER PLAN (TOPBONUS)

The Group operates a frequent flyer plan (topbonus) 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.

Up to December 2012, the frequent flyer plan miles earned are valued at fair value using the deferred-income-method in accordance with IFRIC 13. Following the sale of the frequent flyer plan (see note 6), the liability to provide awards now falls to topbonus Ltd in return for a payment from airberlin to topbonus Ltd. This payment is deducted from flight revenue.

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 and recognises them in profit or loss. 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. Except 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 (see note 4p).

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.

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) New pronouncements – not yet 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 2013 but have not been applied by the Group in preparing the financial statements. None of these 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 2015.

t) Financial risk management

The Group has exposure to the following risks:

- ▶ 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 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.

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 held with parties with the highest credit grades 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 31.

Capital management

The Group considers bonds, equity (excluding hedge accounting reserves and foreign currency reserves), traditional bank financing and finance leases to be capital. 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.

u) 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, corporate bonds, trade creditors, finance lease liabilities 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 and liabilities at fair value through profit or loss classified as held for trading in accordance with IAS 39 (derivative financial instruments)
- ▶ Financial assets and liabilities at fair value classified as hedging instruments 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 categories of financial assets and financial liabilities are further detailed in note 31g.

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 trade payables and other financial liabilities)

5. BUSINESS COMBINATION ATMS

On 31 December 2011 the Group acquired 100.0% of the shares in Air Travel Marketing Services Inc., Aventura, Florida, USA (ATMS). Therefore the net assets and results of ATMS have to be consolidated. Goodwill of EUR 975 was recognized as a result of the business combination. Because the transaction is not material to airberlin's earning, financial and asset position there is no detailed description provided.

In the reporting period ATMS changed the name to Air Berlin Americas Inc.

6. TOPBONUS TRANSACTION

On 17 December 2012 airberlin acquired 30% interest in a new established legal entity under English law named topbonus Ltd for EUR 15,600 in cash. The majority stake in the topbonus Ltd is owned by Etihad Airways PJSC, the major shareholder of airberlin.

airberlin disposed its frequent flyer plan topbonus (see note 4p) to topbonus Ltd for EUR 200,000. As no assets and liabilities of the Group were sold as part of this transaction, a profit of EUR 200,000 was generated on this sale. As the Group has a 30% interest in topbonus Ltd the unrealised profit has been derecognised to the extent of the Group's investment in topbonus generating net income amounting to EUR 184,400 which has been accounted for as part of other operating income in the statement of comprehensive income (note 22).

The liability for the "bonus miles" sold up to 17 December 2012 has been remeasured and income of EUR 29,029 previously deferred has been recognized in the financial year 2012 in full amount as flight revenue. Since the redemption of these "bonus miles" has been granted by airberlin to topbonus Ltd free of charge, the Group has had to account for this obligation in its financial statements as of 31 December 2012 in amount of EUR 7,878. The expense has been recognized in expenses for material and services in the statement of comprehensive income.

topbonus Ltd shall continue to operate and further develop the frequent flyer plan on the basis of a commercial agreement with airberlin. Under this commercial agreement airberlin granted topbonus Ltd a minimum miles compensation volume for the financial years 2013–2017 of app. EUR 31,000 a year. The minimum flight purchasing volume to be received by airberlin for the financial years 2013–2017 amounts to app. EUR 69,600 in total.

Furthermore, the Group issued to topbonus Ltd a financial guarantee for one-year period for the loan amounting to EUR 45,000. The financial guarantee has been recognized at its estimated fair value of EUR 1,125 in the financial expenses in the statement of comprehensive income. Group's shares of topbonus Ltd are pledged to the lender in case the Group cannot service the financial guarantee.

Related to the transaction the Group incurred expenses of EUR 4,324, which have been classified within other operating expenses.

7. INTANGIBLE ASSETS

In thousands of EUR	Software, licenses	Goodwill	Landing rights	Trademarks	Customer relationships	Total
Acquisition cost						
Balance at 1 January 2011	33,533	195,485	176,249	8,500	3,036	416,803
Additions	12,427	0	0	0	0	12,427
Additions through business combinations	0	975	0	0	0	975
Disposals	(3,338)	0	0	0	(3,036)	(6,374)
Balance at 31 December 2011	42,622	196,460	176,249	8,500	0	423,831
Additions	33,449	0	0	0	0	33,449
Currency translation adjustments	0	303	0	0	0	303
Disposals	(660)	0	0	0	0	(660)
Balance at 31 December 2012	75,411	196,763	176,249	8,500	0	456,923
Amortisation						
Balance at 1 January 2011	26,790	0	0	0	2,593	29,383
Amortisation charge for the year	4,370	0	0	0	443	4,813
Disposals	(3,337)	0	0	0	(3,036)	(6,373)
Balance at 31 December 2011	27,823	0	0	0	0	27,823
Amortisation charge for the year	8,715	0	0	0	0	8,715
Disposals	(659)	0	0	0	0	(659)
Balance at 31 December 2012	35,879	0	0	0	0	35,879
Carrying amount						
At 1 January 2011	6,743	195,485	176,249	8,500	443	387,420
At 31 December 2011	14,799	196,460	176,249	8,500	0	396,008
At 31 December 2012	39,532	196,763	176,249	8,500	0	421,044

The Group performed an impairment test on landing rights, goodwill and trademarks in the fourth quarter of 2012 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, the goodwill and the trademarks belong.

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 EUR	Freight	Technical services	Flight services	Total
Goodwill	31,000	0	165,763	196,763
Landing rights	0	0	176,249	176,249
Trademarks	0	0	8,500	8,500

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, sensitised for the purposes of the Impairment test and extrapolated to perpetuity using a 0.5% growth rate (2011: identical) and discounted to their present value. The pre-tax peer-group weighted average cost of capital was 9.01% (2011: 9.51%). The discount rate reflects management's estimate of the peer-group long-term cost of capital for the cash-generating unit. The underlying management cashflow forecast is most sensitive to the assumptions of seat load factor, yield, fuel price and USD exchange rate. The underlying sensitized cashflow forecasts are below the average market expectations published by third parties. The Group is satisfied that there is no reasonably possible change in any key assumptions which would result in the determination of the recoverable amount being below the cash-generating unit's carrying amount.

8. PROPERTY, PLANT AND EQUIPMENT

In thousands of EUR	Land and buildings	Aircraft and engines	Technical equipment and machinery	Office equipment	Total
Acquisition cost					
Balance at 1 January 2011	40,415	1,027,405	110,504	14,964	1,193,288
Additions	963	138,540	11,340	4,294	155,137
Additions through business combinations	9	0	0	73	82
Disposals	(6,518)	(172,348)	(16,038)	(5,183)	(200,087)
Balance at 31 December 2011	34,869	993,597	105,806	14,148	1,148,420
Additions	1,526	2,030	30,429	3,353	37,338
Disposals	(22,803)	(30,322)	(13,823)	(2,128)	(69,076)
Reclassification held for sale	0	(172,454)	0	0	(172,454)
Balance at 31 December 2012	13,592	792,851	122,412	15,373	944,228
Depreciation					
Balance at 1 January 2011	19,113	253,108	26,535	6,868	305,624
Depreciation charge for the year	3,544	62,867	9,758	4,961	81,130
Disposals	(6,485)	(42,090)	(3,933)	(4,741)	(57,249)
Balance at 31 December 2011	16,172	273,885	32,360	7,088	329,505
Depreciation charge for the year	1,193	49,003	11,678	3,556	65,430
Disposals	(7,405)	(3,117)	(6,837)	(3,990)	(21,349)
Reclassification held for sale	0	(27,248)	0	0	(27,248)
Balance at 31 December 2012	9,960	292,523	37,201	6,654	346,338
Carrying amount					
At 1 January 2011	21,302	774,297	83,969	8,096	887,664
At 31 December 2011	18,697	719,712	73,446	7,060	818,915
At 31 December 2012	3,632	500,328	85,211	8,719	597,890

Aircraft are pledged as security in connection with the Group's interest-bearing liabilities due to aircraft financing. Capital commitments for property, plant and equipment amount to 3.8 bn USD (2011: 5.2 bn USD). Tangible assets include aircraft and technical equipment and machinery which have been capitalised as a result of finance leases (prior year: in addition land and buildings).

The book value of tangible assets capitalised as a result of finance leases is as follows:

In thousands of EUR	2012	2011
Land and buildings	0	15,707
Aircraft	40,481	42,926
Technical equipment and machinery	1,828	1,796
	42,669	60,429

Finance leases are explained in more detail in note 18.

Assets held for Sale

This position includes seven aircraft, which are expected to be sold by airberlin. When publishing these financial statements the transactions were not finally settled. The fair value less costs to sell of the aircraft held for sale exceeds its carrying amounts. Non-current liabilities due to aircraft financing relating to financing of the aircraft held for sale have been reclassified to current liabilities. These liabilities will be settled on disposal of the aircraft.

9. AT EQUITY INVESTMENTS

In thousands of EUR	2012	2011
Acquisition cost		
Balance at 1 January	184	405
Acquisition	20,186	0
Offset of unrealised profit on disposal of frequent flyer plan	(15,600)	0
Reclassification from other assets to at equity investments	534	0
Disposals	0	(392)
Share of profit	247	171
Dividends	(704)	0
Balance at 31 December	4,847	184

Offset of unrealised profit on sale of frequent flyer plan refers to the disposal of the frequent flyer plan and is explained in more detail in note 6 and 3d.

On 4 September 2012 airberlin acquired 46.82% share in capital of IHY IZMIR HAVAYOLLARI A.S. for EUR 4,586. On 17 December 2012 airberlin acquired 30% of the shares of topbonus Ltd for EUR 15,600 (note 6).

The line in the statement of financials position "At equity investments" covers all associates and joint ventures measured at equity.

10. INVENTORIES

Inventories are made up of supplies and spares and purchased merchandise as follows:

In thousands of EUR	2012	2011
Supplies and spares	48,733	44,356
Purchased merchandise	1,134	1,168
	49,867	45,524

Inventories are measured at the lower of cost and net realisable value. In 2012 the impairment of inventories was utilised by EUR 6,826 (2011: EUR 5,715). The amount of inventories expensed directly in the statement of comprehensive income is reported in note 23 (fuel for aircraft and catering cost).

11. TRADE AND OTHER RECEIVABLES

In thousands of EUR	2012			2011		
	Current	Non-current	Total	Current	Non-current	Total
Trade receivables	184,193	0	184,193	125,197	0	125,197
Receivables from related parties	21,564	1,607	23,171	6,653	2,076	8,729
Accrued receivables	2,721	0	2,721	394	0	394
Security deposits and deposits with suppliers	14,033	29,700	43,733	22,994	32,769	55,763
Receivables for bonus and claims	47,624	0	47,624	39,267	0	39,267
Other receivables	38,296	1,071	39,367	23,769	76	23,845
Loans and receivables	308,431	32,378	340,809	218,274	34,921	253,195
Receivables from tax authorities	10,723	0	10,723	7,156	0	7,156
Advanced payments	94,344	47,392	141,736	113,618	44,267	157,885
Other assets	38,238	0	38,238	36,074	0	36,074
	451,736	79,770	531,506	375,122	79,188	454,310

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 (2012: EUR 20,756 and 2011: EUR 30,627).

Advanced payments relate primarily to advanced payments, deposits and commitment fees made under the Group's various agreements for the purchase of aircraft. Net payments of EUR 24,361 (2011: EUR 32,871) were made during the period and EUR 41,156 was capitalised (2011: EUR 23,084). The advanced payments are pledged as security in connection with the loan of the Etihad Airways PJSC (note 32).

The Group's exposure to credit and currency risks and impairment losses related to trade receivables and other financial assets are disclosed in note 31.

12. DEFERRED EXPENSES

In thousands of EUR	2012			2011		
	Current	Non-current	Total	Current	Non-current	Total
Lease rate prepayments	18,527	683	19,210	17,878	1,127	19,005
Deferred losses from sale-and-leaseback transactions and smoothing of leasing rates	8,535	36,692	45,227	10,634	40,755	51,389
Other	19,509	10,222	29,731	14,086	11,230	25,316
	46,571	47,597	94,168	42,598	53,112	95,710

The position Other consists of prepayments in the ordinary course of business and a participation fee in a rotatable-pool for aircraft spare parts.

13. SHARE CAPITAL AND RESERVES

Share capital and share premium

Share capital of 116,800,508 ordinary shares (before issue of new shares 85,226,196) of EUR 0.25 each and 50,000 A shares of £ 1.00 each is issued and fully paid up. Included in this amount are 177,600 treasury shares held by airberlin (through the Air Berlin Employee Share Trust) in connection with an expired employee share plan. 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.

On 24 January 2012 the Company issued 31,574,312 new shares at a share price of EUR 2.31. Gross proceeds on the issue of new shares amounted to EUR 72,936,661. Transaction costs incurred amounted to EUR 5,545,694. On 17 December 2012 8,522,618 shares were accepted for trading on the Deutsche Börse. Acceptance for trading of 23,051,694 shares on the Deutsche Börse is still pending.

Other capital reserves

Other capital reserves comprise 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 an expired share-based payment scheme, 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. The purchase price was EUR 0.25 per share (par value), resulting in a decrease in retained earnings of EUR 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.

14. 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 EUR and thousands of shares, except EPS	2012	2011*
Profit (Loss) for the period	6,813	(420,396)
Dividends declared on redeemable Class A preference shares	0	0
Loss attributable to ordinary shareholders (basic and diluted)	6,813	(420,396)
Issued ordinary shares at 1 January	85,226	85,226
Issuance of shares	31,574	0
Effect of treasury shares held	(178)	(178)
Weighted average number of ordinary shares outstanding (basic)	114,552	85,048
Weighted average number of ordinary shares outstanding (diluted)	114,552	85,048
Basic earnings per share (in EUR)	0.06	(4.94)
Diluted earnings per share (in EUR)	0.06	(4.94)

* restated

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 a dilutive effect on earnings per share and is therefore considered in the calculation of diluted earnings per share. Due to the amount outstanding and the related conversion price, the dilution is not substantial.

15. PENSION LIABILITIES/EMPLOYEE BENEFITS

The Group held provisions for the following employee benefits at 31 December 2012:

In thousands of EUR	2012	2011
Provision for anniversary bonuses	8,514	7,247
Provision for old age part time (early retirement)	0	425
Pension liabilities	1,239	90
Total employee benefits	9,753	7,762

The provisions for anniversary bonuses and old age part time (early retirement) are described in note 16.

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 AB Finance II GmbH (former: 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 EUR	2012	2011
Present value of funded obligations	20,542	16,437
Fair value of plan assets	(23,318)	(18,553)
Funded status	(2,776)	(2,116)
Pension liabilities	1,239	90
Net defined benefit asset	(4,015)	(2,206)

Changes in the present value of the defined benefit obligation are as follows:

In thousands of EUR	2012	2011
Defined benefit obligation at 1 January	16,437	14,378
Current service cost	692	386
Benefits paid	(334)	(671)
Interest on obligation	755	702
Actuarial losses	2,992	1,642
Defined benefit obligation at 31 December	20,542	16,437

Changes in the fair value of plan assets are as follows:

In thousands of EUR	2012	2011
Fair value of plan assets at 1 January	18,553	16,591
Contribution	4,122	2,578
Benefits paid	(334)	(671)
Expected return on plan assets	832	771
Actuarial losses	145	(716)
Fair value of plan assets at 31 December	23,318	18,553

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 EUR 2,243 during the period (2011: loss EUR 55). No experience adjustments were made during the period.

The amount recognised as pension expense in profit or loss is as follows:

In thousands of EUR	2012	2011
Current service cost	692	386
Interest on obligation	755	702
Expected return on plan assets	(832)	(771)
Net actuarial losses recognised in the period	2,847	2,507
Effect of the limitation in IAS 19.58(b)	0	(17)
Pension expense	3,462	2,807

The Group expects to contribute EUR 3,253 to its defined benefit pension plans in 2013.

Principal actuarial assumptions at the reporting date are as follows:

in %	2012	2011
Discount rate at 31 December	3.57–3.93	4.63
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 AB Finance II GmbH (former: dba) in 2006, the Group acquired a defined contribution pension plan covering all employees of AB Finance II GmbH (former: dba), to which the Group makes contributions. Furthermore Air Berlin PLC & Co. Luftverkehrs KG contracted a defined contribution plan with its pilots and cabin crew. The net pension expense recorded in profit and loss in 2012 as a result of the defined contribution plans is EUR 11,705 (2011: EUR 6,578).

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 EUR 29,679 in 2012 (2011: EUR 29,541).

16. PROVISIONS

In thousands of EUR	Balance at 1/1/2012	Additions	Utilisation	Compensation	Balance at 31/12/2012
Provision for legal dispute	0	9,003	0	0	9,003
Provision for onerous contract	0	2,500	0	0	2,500
Provision for financial guarantee	0	1,125	0	0	1,125
Provision for anniversary bonuses	7,247	1,590	(323)	0	8,514
Provision for old age part time	425	917	(648)	(694)	0
Provision for redundancy costs	1,924	1,918	(2,836)	0	1,006
Provision for pensions	90	4,439	(334)	(2,956)	1,239
	9,686	21,492	(4,141)	(3,650)	23,387

Therof EUR 9,153 relating to the provision for pensions, anniversary bonuses and old age part time was classified as non-current as of 31 December 2012 (2011: EUR 7,161).

Provision for litigation is in respect of an historical dispute about airport fees in the past.

The Group set up a provision for an onerous contract in the amount of which unavoidable costs of meeting the obligations under the contract exceed the economic benefits.

Older employees (age 55 and above) have the opportunity to take part in an old age part time programme. The programme 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. 56 (2011: 62) employees have signed such agreements as of the end of the period. A discount rate of 1.0% (2011: 3.4%) and an expected salary increase of 2.0% (2011: 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 EUR 5,218 (2011: EUR 4,686).

The provision for anniversary bonuses was calculated using a discount rate of 2.6% (2011: 4.8%) and an expected yearly salary increase of 2.0% (2011: 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 redundancy payments in the ordinary course of business.

The Group has contingent liabilities from legal disputes of EUR 12,315.

17. INTEREST-BEARING LIABILITIES AND INTEREST-BEARING LIABILITIES DUE TO AIRCRAFT FINANCING

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 31.

Interest-bearing liabilities

The Group has entered into various interest-bearing liabilities. The carrying amounts for the years 2012 and 2011 are as follows:

In thousands of EUR	Secured/ unsecured	Currency	Maturity	Carrying amount 31/12/2012	Carrying amount 31/12/2011
Corporate bonds I	Unsecured	EUR	2015	198,038	196,518
Corporate bonds II	Unsecured	EUR	2018	148,494	147,745
Corporate bonds III	Unsecured	EUR	2014	148,546	96,665
Convertible bonds I	Unsecured	EUR	2017*	4,852	10,781
Finance lease liabilities	Secured	EUR	2013–2022	1,251	41,307
Loans from related parties	Secured	USD	2013–2016	155,696	0
Loans	Unsecured	USD	2013–2014	15,158	33,458
Bank overdrafts	Unsecured	EUR		115	1,223
				672,150	527,697

* first option to redeem the bonds

Of this amount EUR 51,084 (2011: EUR 57,504) is classified within current liabilities in the statement of financial position. The bank overdrafts are due in the following year respectively. The finance lease liabilities are detailed in note 18.

Payments for the above-mentioned interest-bearing liabilities are due as follows:

In thousands of EUR	2012	2011
Less than one year	51,084	57,504
Between one and five years	475,013	306,850
More than five years	146,053	163,343
	672,150	527,697

CORPORATE BONDS I

On 10 November 2010 the Group issued EUR 200,000 of corporate bonds due 2015. The bond issue is made up of 200,000 bonds with a principal amount of EUR 1 each, earning yearly interest of 8.5%. Interest is paid quarterly. Gross proceeds from the bond issue amounted to EUR 200,000. Transaction costs incurred were EUR 7,534. The bonds are measured at amortized cost.

CORPORATE BONDS II

On 19 April 2011 the Group issued EUR 150,000 of corporate bonds due 2018. The bond issue is made up of 150,000 bonds with a principal amount of EUR 1 each, earning yearly interest of 8.25%. Interest is paid quarterly. Gross proceeds from the bond issue amounted to EUR 150,000. Transaction costs incurred were EUR 5,188. The bonds are measured at amortized cost.

CORPORATE BONDS III

On 1 November 2011 the Group issued EUR 100,000 of corporate bonds due 2014. The bond issue is made up of 100,000 bonds with a principal amount of EUR 1 each, earning yearly interest of 11.5%. Interest is paid quarterly. Gross proceeds from the bond issue amounted to EUR 100,000. Transaction costs incurred were EUR 5,552. The bonds are measured at amortized cost.

On 1 November 2012 the Group increased the principal amount of the corporate bond placed on 1 November 2011 from EUR 100,000 to EUR 150,000. The notes were issued at 101% of their principal amount. Transaction costs incurred were EUR 1,497.

CONVERTIBLE BONDS I

On 11 April 2007 the Group issued EUR 220,000 of convertible bonds due 2027. The bond issue is made up of 2,200 bonds with a principal amount of EUR 100 each, earning yearly interest of 1.5%. The initial conversion price is EUR 22.47 which results in an initial conversion ratio of 4,450 ordinary shares per bond. Gross proceeds from the bond issue amounted to EUR 220,000. Transaction costs incurred were EUR 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.

After redemption of 840 convertible bonds in 2009 EUR 136,000 made up of 1,360 bonds were still in the market as at 31 December 2010. In 2011 the Group redeemed 1,252 convertible bonds with a principal amount of EUR 125,200 in total.

In the second quarter of 2012 the bondholders of 60 convertible bonds with a principal amount of EUR 6,000 have exercised the option to require the company to repurchase the bonds. The payments related to the repurchase amounts to EUR 6,162. The equity component of the redeemed convertible bonds less transaction costs net of tax was transferred to the retained earnings within equity. As at 31 December 2012, 48 convertible bonds with a principal amount of EUR 4,800 are still in the market. The equity component in the statement of financial position totalled EUR 597 (2011: EUR 1,343).

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 EUR 125,000 of convertible bonds due in 2014. The bond issue is made up of 2,500 bonds with a principal amount of EUR 50 each, earning yearly interest of 9.0%. Interest is paid quarterly. The initial conversion price is EUR 4.01 which results in an initial conversion ratio of 12,469 ordinary shares per bond. Proceeds from the bond issue amounted to EUR 125,000. Transaction costs incurred were EUR 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.

In the fourth quarter of 2011 the Group redeemed the remaining 311 convertible bonds with a principal amount of EUR 15,550 in total. Payments relating to the redemption amounted to EUR 15,838. The loss from the redemption equalled EUR 5,043, thereof EUR 4,291 was presented as part of the financial expenses in the statement of comprehensive income and EUR 752 was presented in retained earnings within equity. The equity component of the redeemed convertible bonds less transaction costs was transferred to retained earnings within equity. As of 31 December 2011 there are no more bonds outstanding.

LOANS FROM RELATED PARTIES

Loans from related parties are disclosed in note 32.

Interest-bearing liabilities due to aircraft financing

The Group entered into various financing agreements with commercial banks to finance aircraft. The loans are secured over aircraft. The carrying amounts for the years 2012 and 2011 are as follows:

In thousands of EUR	Secured/ unsecured	Currency	Maturity	Carrying amount	Carrying amount 31/12/2011
Interest rate					
Variable rate	Secured	EUR	2013–2023	68,219	82,392
Variable rate	Secured	USD	2013–2021	239,550	311,520
Fixed rate	Secured	EUR	2013–2021	21,889	24,543
Fixed rate	Secured	USD	2013–2023	64,286	69,694
Finance lease liabilities	Secured	USD	2013–2018	32,046	36,749
				425,990	524,898

Of this amount EUR 158,946 (2011: EUR 53,123) is classified within current liabilities in the statement of financial position. The finance lease liabilities are detailed in note 18.

Payments for the above-mentioned interest-bearing liabilities due to aircraft financing are due as follows:

In thousands of EUR	2012	2011
Less than one year	158,946	53,123
Between one and five years	138,474	238,769
More than five years	128,570	233,006
	425,990	524,898

18. 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 21 years and terminate automatically upon expiry of the lease term. The leases expire between 2013 and 2034, 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 EUR	2012	2011
Less than one year	522,321	446,300
Between one and five years	1,570,827	1,162,312
More than five years	790,115	617,804
	2,883,263	2,226,416

No contingent leasing payments were recognised as lease payments in the period.

During the year ended 31 December 2012, EUR 505,852 (2011: EUR 497,428) 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 in 2014–2017.

Future minimum lease payments are receivable as follows:

In thousands of EUR	2012	2011
Less than one year	24,984	3,977
Between one and five years	53,158	6,845
	78,142	10,822

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 the prior year the Group also leased an airport building which qualified as a finance lease.

The net book value of assets capitalised at 31 December 2012 as a result of finance leases is detailed in note 8.

No contingent leasing payments were recorded in profit and loss in 2012 (2011: EUR 0).

Future minimum lease payments are as follows:

In thousands of EUR	At 31 December 2012		At 31 December 2011	
	Future minimum lease payments	Discounted to present value	Future minimum lease payments	Discounted to present value
Less than one year	3,158	3,097	11,802	11,480
Between one and five years	31,747	26,424	35,323	29,247
More than five years	0	0	58,774	37,329
	34,905	29,521	105,899	78,056

19. TRADE AND OTHER PAYABLES

In thousands of EUR	2012			2011		
	Current	Non-current	Total	Current	Non-current	Total
Trade payables	94,391	0	94,391	118,886	0	118,886
Other financial liabilities	5,469	0	5,469	10,535	0	10,535
Trade payables and other financial liabilities	99,860	0	99,860	129,421	0	129,421
Accrued liabilities	312,320	70,357	382,677	265,819	55,922	321,741
Receivables with credit balances	776	0	776	3,179	0	3,179
Payroll tax	6,270	0	6,270	5,937	0	5,937
VAT	4,131	0	4,131	15,231	0	15,231
Social insurance contributions	1,046	0	1,046	907	0	907
Other non-financial liabilities	2,375	0	2,375	2,927	0	2,927
	426,778	70,357	497,135	423,421	55,922	479,343

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 31.

20. 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.

21. REVENUE

In thousands of EUR	2012	2011 *
Flight revenue	4,006,684	3,934,751
Ground and other services	272,975	253,975
Duty-free/in-flight sales	32,017	38,592
	4,311,676	4,227,318

* adjusted

Ground and other services primarily include freight, technical services and ancillary sales. See note 6 for the impact of the topbonus transaction.

The details of the adjustment are provided in note 4o.

Segment information

The Group is managed by the Board of Directors as a single business unit in one geographical area and performing one service. The key figures and ratios presented to the Board of Directors in managing the Group are: Result from operating activities, EBITDAR, net debt, revenues, passengers, yield and block hours. Resource allocation decisions are made based on the entire route network and the deployment of the entire fleet. The vast majority of revenues derive 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.

22. OTHER OPERATING INCOME

In thousands of EUR	2012	2011
Gain on disposal frequent flyer plan, net (see note 6)	184,400	0
Income on indemnity received	33,200	0
Gain on disposal of long-term assets, net	33,076	0
Income from subleases	2,809	2,386
Income from insurance claims	1,582	1,906
Other	9,125	5,821
	264,192	10,113

Gain on disposal of long-term assets includes gains on a reclassification of a finance lease to operate lease of EUR 24,022. This reclassification relates to an airport building.

Indemnity income includes the settlement of nominal EUR 30,316 with a maturity up to 8 years which has been sold to Etihad Airways PJSC for a present value of EUR 25,769. This amount has been settled in full by Etihad Airways PJSC (note 32).

23. EXPENSES FOR MATERIALS AND SERVICES

In thousands of EUR	2012	2011
Fuel for aircraft	1,128,625	1,048,134
Airport and handling charges	864,547	916,597
Operating leases for aircraft and equipment	592,164	587,002
Navigation charges	260,650	285,648
Air transportation tax	154,727	165,639
Catering costs and cost of materials for in-flight sales	128,830	143,326
Other	159,220	158,189
	3,288,763	3,304,535

The expenses for operating leases for aircraft and equipment include expenses of EUR 120,636 (2011: EUR 120,771) that do not directly relate to the lease of assets.

The expenses from material and services have been reduced by EUR 31,833 received from Etihad Airways PJSC for airberlin's share of the joint procurement program (note 32).

24. PERSONNEL EXPENSES AND STAFF NUMBERS

The aggregate payroll costs were as follows:

In thousands of EUR	2012	2011
Wages and salaries	402,823	396,899
Pension expense	43,638	38,926
Social security	42,300	39,619
	488,761	475,444

Pension expense relates to the defined benefit plan for the Executive Directors and senior management of EUR 2,074 (2011: EUR 2,607) and the AB Finance II GmbH (former: dba) pension plan of EUR 168 (2011: EUR 200), contributions paid to defined contribution plans of EUR 11,705 (2011: EUR 6,578) and to social security systems of EUR 29,691 (2011: EUR 29,541) during the period. Further details regarding the pension plans are found in note 15.

Remuneration of the Executive Directors is as follows:

In thousands of EUR	2012	2011
Basic remuneration	2,125	2,182
Bonus	924	0
Other	47	4,303
	3,096	6,485

The highest paid Director received EUR 1,009 in total remuneration in 2012 (2011: EUR 4,805). Directors' Remuneration is detailed in the Directors' Remuneration Report on pages 90 to 99.

Since October 2012 the operative management of the company is entrusted to a newly established body, the Management Board. The total remuneration for the management board in the reporting period was EUR 848 of which EUR 0 was paid in pension contributions.

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:

Employees	On annual average 2012	On annual average 2011	At 31 December 2012	At 31 December 2011
Flight and cabin crew	4,852	4,808	4,793	4,797
Sales, operations and administration	4,463	4,256	4,491	4,316
	9,315	9,064	9,284	9,113

25. OTHER OPERATING EXPENSES

In thousands of EUR	2012	2011
Repairs and maintenance of technical equipment	215,771	234,106
Hardware and software expenses	96,925	71,050
Advertising	59,423	67,017
Expenses for premises and vehicles	41,221	36,655
Travel expenses for cabin crews	33,561	31,060
Sales commissions paid to agencies	32,290	24,971
Bank charges	30,168	29,157
Consulting fees	27,466	20,103
Insurance	18,300	19,833
Training and other personnel expenses	16,478	16,616
Loss on disposal of long-term assets, net	0	6,574
Phone and postage	5,991	5,760
Allowances for receivables	2,822	1,811
Remuneration of the auditor	2,752	1,775
Other	70,878	52,046
	654,046	618,534

Remuneration of the auditor is as follows:

In thousands of EUR	2012	2011
Audit of the annual accounts	184	137
Audit of accounts of subsidiaries of the Company	1,245	866
Audit related services	232	281
Other services pursuant to legislation	20	40
Taxation services	42	151
Other services	1,029	300
	2,752	1,775

26. NET FINANCING COSTS

In thousands of EUR	2012	2011
Interest expense on interest-bearing liabilities	(76,352)	(65,046)
Expense on valuation of liability from put-option at fair value	0	(5,714)
Expense on redemption of convertible bonds	0	(5,440)
Other financial expenses	(865)	(6,515)
Financial expenses	(77,217)	(82,715)
Interest income on fixed deposits	377	1,967
Interest income on loans and receivables	167	283
Other financial income	524	7,554
Financial income	1,068	9,804
Profit (Loss) on foreign exchange and derivatives, net	2,575	(39,007)
Net financing costs	(73,574)	(111,918)

As described in note 4n, 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 gains or (losses) in profit or loss as follows:

In thousands of EUR	2012	2011
Total net foreign exchange gains (losses) recognised in profit or loss	66,619	(49,387)
Thereof reclassified to operating expenses/income	(63,352)	38,130
Foreign exchange gains (losses) in financial result	3,267	(11,257)

27. SHARE OF PROFIT OF AT EQUITY INVESTMENTS

In thousands of EUR	2012	2011
E190 Flugzeugvermietung GmbH	0	0
Follow Me Entertainment GmbH	24	(38)
Binoli GmbH	782	591
THBG BBI GmbH	(559)	(456)
	247	97

28. 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 EUR	2012	2011 *
Current income tax expense	(3,957)	(5,844)
Deferred income tax benefit	13,944	(55,706)
Total income tax benefit	9,987	(61,550)

* restated

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 EUR 3,957 (2011: EUR 5,844) includes EUR 110 of prior year income tax expenses (2011: EUR 1,799).

The tax rate for the airberlin group equals 30.18% (2011: 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 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 the amount of EUR 4,556 (2011: EUR (6,889)).

The Group's deferred tax position as at 31 December 2011 has been restated. As described in note 2, the Group has a recent history of losses and as consequence in order to recognize the deferred tax asset requires convincing other evidence that sufficient taxable profits will be available to utilise the tax losses. There are a number of recent positive factors which in the view of management contribute to achieving appropriate evidence as at 31 December 2012 such as:

- ▶ The impact of the restructuring program Turbine 2013
- ▶ The increasing positive contribution from airberlin's partnership with Etihad Airways PJSC
- ▶ The increased external confidence in airberlin as evidence by several recent capital transactions
- ▶ The potential to restructure airberlin's tax strategy and thereby utilise tax losses

However, given the uncertainty on the timing and overall impact of the Turbine 2013 and Etihad Airways PJSC factors and the risks in implementing tax strategies the level of deferred tax asset recognised has been significantly restricted.

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 EUR	2012	2011 *
Loss before tax	(3,175)	(358,846)
Expected income tax benefit at 30.18% (2011: 30.18%)	958	108,300
Effect of tax rates in different jurisdictions	4,556	(6,889)
Movement in deferred tax assets on tax loss carry forwards	(21,879)	(165,620)
Tax-free income and non-tax deductible expenses	(16,953)	(14,328)
Deferred tax benefit due to prior years	0	16,197
Current tax expenses for previous years	(110)	(1,799)
Effects of redemption of convertible bonds	0	(381)
Other	(343)	2,970
Total income tax benefit (expense)	9,987	(61,550)

* restated

Due to changes in the shareholder structure loss carry forwards of EUR 44,457 for trade tax and EUR 47,205 for corporate tax were lost in the period. For none of these loss carry forwards any deferred tax asset has been accounted for.

In the prior year loss carry forward of EUR 489,418 for trade tax and EUR 819,255 for corporate tax were lost due to corporate restructuring. For the none of these loss carry forwards no deferred tax asset has been accounted for.

As of 31 December 2012, total tax loss carry forwards for which deferred tax assets were recognised amounted to EUR 198,753 for trade tax purposes and EUR 221,559 for corporate tax purposes (2011 restated: EUR 70,278 and EUR 90,373 respectively). Thereof EUR 103,753 (2011 restated: EUR 70,278) for trade tax purposes and EUR 129,559 (2011 restated: EUR 99,373) for corporate tax purposes have been recognized to offset deferred tax liabilities. Tax loss carry forwards amounting to EUR 95,000 is forecast to be recovered through future taxable profits. As of 31 December 2012, no additional deferred tax assets were recognised for further loss carry forwards of EUR 456,966 for trade tax and EUR 462,654 for corporate tax (2011 restated: EUR 482,729 and EUR 441,245). 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 EUR	2012	2011 *
Deferred tax assets:		
Finance lease liabilities and deferred income	0	15,671
Foreign currency receivables and derivatives	9,418	4,861
Intangible assets	1,221	0
Technical equipment	266	18
Accrued liabilities and provisions	38,977	32,239
Tax loss carry forwards	55,957	20,645
	105,839	73,434
Deferred tax liabilities:		
Finance lease liabilities and deferred income	(3,224)	0
Aircraft and related liabilities	(44,468)	(42,176)
Land and buildings	0	(4,740)
Intangible assets	(45,378)	(43,568)
Leasehold improvements	(67)	(79)
Accrued liabilities and provisions	(8,365)	0
Convertible bonds, corporate bonds	(3,949)	(4,779)
Foreign currency liabilities and derivatives	(2,508)	(17,792)
	(107,959)	(113,134)
Offsetting	105,839	60,001
Deferred tax assets (liabilities), net	(2,120)	(39,700)
Deferred tax assets (liabilities), net beginning of period	(39,700)	24,550
Change in deferred tax position	(37,580)	(64,250)
Thereof related to cash flow hedges and items recorded in equity	(23,636)	8,544
Deferred income tax benefit	13,944	(55,706)

* restated

The presentation in the statement of financial position is as follows:

In thousands of EUR	2012	2011 *
Deferred tax asset	28,666	0
Deferred tax liabilities	(30,786)	(39,700)
	(2,120)	(39,700)

* restated

Offsetting is not possible, because the asset and liabilities are subject to different jurisdictions.

Income tax recognised in equity

In thousands of EUR	2012			2011		
	Before tax	Tax expense	Net of tax	Before tax	Tax expense	Net of tax
Transaction costs on issuance of new shares	(5,546)	1,665	(3,881)	0	0	0
	(5,546)	1,665	(3,881)	0	0	0

Income tax recognised in the statement of other comprehensive income

In thousands of EUR	2012			2011		
	Before tax	Tax expense	Net of tax	Before tax	Tax expense	Net of tax
Foreign currency translation differences for foreign operations	490	0	490	1,102	0	1,102
Fair value of hedging instruments	(73,335)	21,969	(51,364)	28,143	(8,544)	19,559
	(72,798)	21,969	(50,874)	29,245	(8,544)	20,661

29. 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 EUR	2012	2011
Cash	209	258
Bank balances	145,540	104,055
Fixed-term deposits	182,187	135,294
Cash and cash equivalents	327,936	239,607
Bank overdrafts used for cash management purposes	(115)	(1,223)
Cash and cash equivalents in the statement of cash flows	327,831	238,384

Cash and cash equivalents include restricted cash of EUR 104,034 as of 31 December 2012 (2011: EUR 98,536).

30. DERIVATIVES

Positive and negative market values of derivatives are as follows:

In thousands of EUR	2012			2011		
	Current	Non-current	Total	Current	Non-current	Total
Derivatives classified as hedge accounting:						
Positive market values	10,830	0	10,830	68,041	0	68,041
Negative market values	(29,859)	0	(29,859)	(8,770)	0	(8,770)
	(19,029)	0	(19,029)	59,271	0	59,271
related underlying:						
Fuel price	2,741	0	2,741	2,451	0	2,451
Foreign exchange rate	(21,772)	0	(21,772)	56,820	0	56,820
	(19,029)	0	(19,029)	59,271	0	59,271
Derivatives classified as held for trading:						
Positive market values	1,637	0	1,637	5,146	0	5,146
Negative market values	(8,743)	(531)	(9,274)	(8,751)	(11,021)	(19,772)
	(7,106)	(531)	(7,637)	(3,605)	(11,021)	(14,626)
related underlying:						
Fuel price	0	0	(0)	(1,660)	0	(1,660)
Foreign exchange rate	(1,629)	(531)	(2,160)	(1,205)	(485)	(1,690)
Foreign exchange and interest rate	(5,477)	0	(5,477)	(740)	(10,536)	(11,276)
	(7,106)	(531)	(7,637)	(3,605)	(11,021)	(14,626)

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.

All foreign currency and fuel price options have been assessed as to whether they meet the hedge accounting criteria. Options which meet the criteria are recognized and disclosed as cashflow-hedges.

Cross-currency-swaps have been classified as held for trading and the changes in fair value are recognized in profit or loss.

Cashflow-hedges are to be recognized in profit and loss in the same period as the underlying transactions.

31. 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 EUR	Note	2012	2011
Loans and receivables	11	340,809	253,195
Positive market values of derivatives classified as held for trading	30	1,637	5,146
Positive market values of derivatives classified as hedge accounting	30	10,829	68,041
Cash and cash equivalents	29	327,936	239,607
		681,211	565,989

b) Impairment losses

— TRADE RECEIVABLES

The aging of trade receivables at the reporting date was:

In thousands of EUR	2012		2011	
	Gross	Impairment	Gross	Impairment
Not past due	135,067	0	92,489	0
Past due 1–30 days	22,979	309	18,306	131
Past due 31–120 days	17,616	1,262	12,546	902
Past due 121–365 days	3,404	387	3,715	2,240
More than one year past due	19,192	12,101	12,564	11,150
	198,259	14,058	139,620	14,423

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 EUR	2012	2011
Balance at 1 January	14,423	11,352
Increase in allowance for impairment losses	4,651	4,882
Release of allowance for impairment losses	(5,016)	(1,811)
Balance at 31 December	14,058	14,423

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 creditworthiness of individual receivables, the actual customer structure and an analysis of historical impairment losses. A company-wide credit control process is implemented. Once the third notice is issued along with a court order, 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 EUR 14,058 (2011: EUR 14,423).

— OTHER LOANS AND RECEIVABLES

None of the other loans and receivables were past due as of 31 December 2012 (2011: 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 (2011: EUR none).

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 receivables related to the joint procurement program with Etihad Airways PJSC 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.

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 2012:

In thousands of EUR	Note	Contractual cash flows	12 months	1 – 5 years	More than 5 years
Non-derivative financial liabilities					
Interest-bearing liabilities due to aircraft financing	17	(458,149)	(160,308)	(188,723)	(109,118)
Interest bearing liabilities	17	(833,906)	(99,810)	(577,925)	(156,171)
Trade payables and other financial liabilities	19	(99,860)	(99,860)	0	0
Total non-derivative financial liabilities		(1,391,915)	(359,978)	(766,648)	(265,289)
Derivatives					
Derivatives with positive market values	30				
Outflow		(218,668)	(218,668)	0	0
Inflow		229,794	229,794	0	0
Derivatives with negative market values	30				
Outflow		(703,474)	(702,663)	(811)	0
Inflow		671,888	671,888	0	0
Total derivatives		(20,460)	(19,649)	(811)	0

For 31 December 2011, the maturities were as follows:

In thousands of EUR	Note	Contractual cash flows	12 months	1 – 5 years	More than 5 years
Non-derivative financial liabilities					
Interest-bearing liabilities due to aircraft financing	17	(602,815)	(68,527)	(278,681)	(255,607)
Interest bearing liabilities	17	(728,331)	(92,640)	(438,040)	(197,651)
Trade payables and other financial liabilities	19	(129,421)	(129,421)	0	0
Total non-derivative financial liabilities		(1,460,567)	(290,588)	(716,721)	(453,258)
Derivatives					
Derivatives with positive market values	30				
Outflow		(906,899)	(906,899)	0	0
Inflow		983,740	983,740	0	0
Derivatives with negative market values	30				
Outflow		(370,638)	(272,696)	(97,942)	0
Inflow		345,060	254,573	90,487	0
Total derivatives		51,263	58,718	(7,455)	0

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 2013 and early 2014.

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 at least 75% of the expected cash flow on a 1–3 month revolving basis and at least 35% of the expected cash flow on a 4–12 month revolving basis (2011: identical).

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	2012			2011		
	USD	GBP	CHF	USD	GBP	CHF
Loans and receivables	73,159	142	335	67,178	635	1,283
Cash and cash equivalents	80,230	1,177	17,929	66,370	1,735	6,894
Interest-bearing liabilities due to aircraft financing	(443,161)	0	0	(540,802)	0	0
Interest-bearing liabilities	(221,000)	0	0	(43,292)	0	0
Trade payables and other financial liabilities	(72,351)	(1,697)	(693)	(166,731)	(1,181)	(8,398)
Total exposure of balance positions	(583,123)	(378)	17,571	(617,277)	1,189	(221)
Estimated forecast purchases	(2,056,673)	0	(62,298)	(2,111,500)	0	(101,400)
Gross exposure	(2,639,796)	(139)	(54,334)	(2,728,777)	1,189	(101,621)
Hedged volume	1,266,587	0	0	1,377,090	0	0
Net exposure	(1,373,209)	(139)	(54,334)	(1,351,687)	1,189	(101,621)

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 EUR	Average rate		Reporting date spot rate	
	2012	2011	2012	2011
USD	1.2848	1.3920	1.3194	1.2939
GBP	0.8109	0.8679	0.8161	0.8353
CHF	1.2053	1.2326	1.2072	1.2156

— 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. Due to options used for hedging purposes the sensitivity is not a linear function of the underlying foreign exchange rates. 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:

Currency units to the EUR	2012			2011		
	USD	GBP	CHF	USD	GBP	CHF
Profit or loss	31,683	42	(1,780)	30,212	(129)	46
Equity	(95,270)	0	0	(59,797)	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:

Currency units to the EUR	2012			2011		
	USD	GBP	CHF	USD	GBP	CHF
Profit or loss	(53,345)	(51)	1,059	(39,942)	158	(15)
Equity	63,685	0	0	74,642	0	0

e) Interest rate risk

The interest rate profile of the Groups financial instruments is as follows:

In thousands of EUR	Carrying amount	
	2012	2011
Fixed rate instruments		
Financial assets	1,607	2,076
Financial liabilities	(788,456)	(624,002)
Cross-currency interest rate swaps	(5,477)	(11,276)
	(792,326)	(633,202)
Variable rate instruments		
Financial liabilities	(309,684)	(428,594)
	(309,684)	(428,594)

The interest rate risk profile of the Group based on the nominal values of the financial instruments is as follows:

In thousands of EUR	2012	2011
Variable rate financial liabilities net of nominal value of cross-currency interest rate swaps	(251,451)	(286,255)
	(251,451)	(286,255)

The variable rate interest-bearing liabilities and interest-bearing liabilities due to aircraft financing, 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

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 EUR 0 (2011: EUR 0) and increased profit or loss by EUR 5,187 (2011: EUR 1,976) respectively decreased by EUR 5,534 (2011: 408) based on a one year impact.

— CASH FLOW SENSITIVITY ANALYSIS

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 EUR 2,515 (2011: EUR 2,863) 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 25.0% (2011: 23.4%) 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 2012, the hedged volume was 547,000 tons for the 2013 financial year (2011: 664,500 tons for 2012). The hedged volume with the hedged prices and the underlying USD foreign exchange rate lead to a valuation of EUR 2,742 (2011: EUR 792). The hedging quota was 42.3% for 2013 (in the prior year: 46.1% for 2012).

— SENSITIVITY ANALYSIS

Due to options used for hedging purposes the sensitivity is not a linear function of the underlying foreign fuel price.

Assuming that all other variables, in particular foreign currency rates, remain constant, a 10% increase/decrease in the fuel price at the reporting date would have increased/(decreased) equity and profit or loss by the following amounts:

Effect in thousands of EUR	2012		2011	
	+ 10%	-10%	+ 10%	-10%
Profit or loss	4,059	(166)	4,426	(4,497)
Equity	29,318	(33,068)	33,661	(36,213)

g) Categories and fair values

The fair values of the financial assets and liabilities, the carrying amount disclosed and the relevant category as of 31 December 2012 are as follows:

In thousands of EUR	Note	Loans & receivables	Held for trading	Hedge-Accounting	Financial liabilities at amortised costs	Total carrying amount	Fair value at 31 December 2012
Trade receivables and other assets	17	340,809	0	0	0	340,809	340,809
Derivatives classified as held for trading with positive market values	30	0	1,637	0	0	1,637	1,637
Derivatives classified as hedge accounting with positive market values	30	0	0	10,830	0	10,830	10,830
Cash and cash equivalents	29	327,936	0	0	0	327,936	327,936
		668,745	1,637	10,830	0	681,212	681,212
Derivatives classified as held for trading with negative market values	30	0	(9,274)	0	0	(9,274)	(9,274)
Derivatives classified as hedge accounting with negative market values	30	0	0	(29,859)	0	(29,859)	(29,859)
Financial liabilities at amortised costs	17	0	0	0	(1,198,000)	(1,198,000)	(1,135,683)
Finance lease liabilities	18	0	0	0	(33,298)	(33,298)	(29,520)
Bank overdrafts used for cash management purposes	29	0	0	0	(115)	(115)	(115)
		0	(9,274)	(29,859)	(1,231,413)	(1,270,546)	(1,204,451)

The fair values of the financial assets and liabilities, the carrying amount disclosed and the relevant category as of 31 December 2011 were as follows:

In thousands of EUR	Note	Loans & receivables	Held for trading	Hedge-Accounting	Financial liabilities at amortised costs	Total carrying amount	Fair value at 31 December 2011
Trade receivables and other assets	17	253,195	0	0	0	253,195	253,195
Derivatives classified as held for trading with positive market values	30	0	5,146	0	0	5,146	5,146
Derivatives classified as hedge accounting with positive market values	30	0	0	68,041	0	68,041	68,041
Cash and cash equivalents	29	239,607	0	0	0	239,607	239,607
		492,802	5,146	68,041	0	565,989	565,989
Derivatives classified as held for trading with negative market values	30	0	(19,772)	0	0	(19,772)	(19,772)
Derivatives classified as hedge accounting with negative market values	30	0	0	(8,770)	0	(8,770)	(8,770)
Financial liabilities at amortised costs	17	0	0	0	(1,102,737)	(1,102,737)	(1,051,600)
Finance lease liabilities	18	0	0	0	(78,056)	(78,056)	(81,449)
Bank overdrafts used for cash management purposes	29	0	0	0	(1,223)	(1,223)	(1,223)
		0	(19,772)	(8,770)	(1,182,016)	(1,210,558)	(1,162,814)

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 and are internally valued regularly by the use of option pricing models and the discounted cashflow method. 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 was 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 EUR	2012	2011
Balance of the liability at 1 January	0	43,538
Changes in fair value of the liability through profit and loss	0	5,714
Settlement of liability by acquisition of remaining shares in NIKI	0	(49,252)
Balance of the liability at 31 December	0	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.

h) Net gain or loss

The net gains or loss on financial assets and liabilities during the period are as follows:

In thousands of EUR	2012	2011
Loans and receivables	(3,977)	(3,956)
Cash and cash equivalents	828	(446)
Derivatives	72,391	50,248
Financial liabilities measured at amortised cost	7,863	(22,923)
Financial liabilities measured at fair value	0	(5,714)
	77,105	17,209

This includes foreign exchange rate gains, impairment losses and reversals of impairment losses, changes in fair value recognised in profit or loss and gains on disposal.

No interest income, fee income and fee expense was accrued on impaired financial assets during the period (2011: none).

32. RELATED PARTY TRANSACTIONS

Transactions with directors of the group

The Group has related party relationships with its Directors and its at equity investments (see note 9). Total remuneration of Directors is included in the Directors' Remuneration Report (see pages 90 to 99).

Members of the Board of Directors control a voting share of 4.42% of Air Berlin PLC (prior year: 6.05%).

One of the Non-Executive Directors, also a shareholder of the Company, is the controlling shareholder of Phoenix Reisen GmbH. The Group had revenues from ticket sales with Phoenix Reisen GmbH in 2012 of EUR 12,930 (2011: EUR 15,424). At 31 December 2012, EUR 598 is included in the trade receivables line (2011: EUR 892).

Transactions with major shareholder

Etihad Airways PJSC and airberlin cooperate in miscellaneous operative areas e.g. procurement, maintenance and frequent-flyer programs. airberlin has also entered into a code-share-agreement with Etihad Airways PJSC. The Group paid commissions of EUR 889 to Etihad Airways PJSC and received from Etihad Airways PJSC commissions of EUR 837. Additionally the Group received EUR 31,833 related to the joint procurement program which have been allocated to expenses for materials and services. Of this as at 31 December 2012 EUR 16,877 are included in the trade and other receivables line, the remainder being settled in full. Indemnity income of nominal EUR 30,316 with a maturity up to 8 years has been sold to Etihad for its present value of EUR 25,769. This amount has been settled in full.

In January 2012 Etihad Airways PJSC committed a loan facility of USD 255,000 to the Group. During the year the Group received secured loans that are shown as interest-bearing liabilities from Etihad Airways PJSC of which USD 201,000 is outstanding at 31 December 2012. The outstanding amount equals EUR 155,696 including accrued interest. The respective interest expense

recognized in the statement of comprehensive income in 2012 amounts to EUR 8,625. The loan is secured by down payments for aircraft of the Group as well as the underlying aircraft deliveries.

On 17 December 2012, the Group and Etihad Airways PJSC also entered into a shareholder agreement and invested in topbonus Ltd as described in note 6 in detail.

Transactions with at equity investments

During the years ending 31 December 2012 and 2011, at equity investments purchased or delivered goods and services from the Group as follows:

In thousands of EUR	2012	2011
THBG BBI GmbH		
Receivables from related parties	1,622	2,051
Interest income	0	110
Follow Me Entertainment GmbH		
Receivables from related parties	41	25
Interest income	97	0
BINOLI GmbH		
Receivables from related parties	44	226
Interest income	15	15
Revenues from ticket sales	745	407
E190 Flugzeugvermietung GmbH		
Receivables from related parties	4,587	6,427
Expenses for leasing	6,235	5,731
IHY IZMIR HAVAYOLLARI A.S.		
Lease income	652	0
Lease expense	5,783	0

Transactions with at equity investments are priced on an at arm's length basis.

In 2012 EUR 704 dividends have been received from associates (2011: none).

33. EXECUTIVE BOARD OF DIRECTORS

Wolfgang Prock-Schauer	Chief Executive Officer	(since 7 January 2013)
Hartmut Mehdorn	Chief Executive Officer	(until 7 January 2013)
Paul Gregorowitsch	Chief Commercial Officer	(until 30 September 2012)
Ulf Hüttmeyer	Chief Financial Officer	(until 30 September 2012)
Helmut Himmelreich	Chief Operating Officer	(until 30 September 2012)

34. SUBSEQUENT EVENTS

Air Berlin PLC has successfully completed the placement of convertible bonds (the "Bonds") in an aggregate principal amount of EUR 140 million. The Bonds, which will be guaranteed by Air Berlin PLC, will be issued by Air Berlin Finance B.V. and will be convertible into ordinary registered shares of Air Berlin PLC (the "Shares"). The Bonds have a maturity of six years and carry a coupon of 6% per annum, payable quarterly. The initial conversion price of the Bonds was set at EUR 2.82. Etihad Airways PJSC, which holds a 29.2% stake in Air Berlin PLC, subscribed, pro-rata to its stake in Air Berlin PLC, Bonds with an aggregate principal amount of EUR 40 million.

The Group announced its restructuring plan Turbine 2013 in January 2013. For further information please see in the Report on Forecasts and the Outlook of the Group on pages 66 to 70.

On 12 March 2013 Hartmut Mehdorn stepped down from his position as Non-Executive Director of the Board of Directors of Air Berlin PLC.

35. NOTES TO THE COMPANY'S STATEMENT OF FINANCIAL POSITION

a) Significant accounting policies

The accounting framework and significant accounting policies described in notes 3 and 4 above also apply to the Company financial statements. In addition the following accounting policies were applied:

Investments in subsidiaries and in at equity investments 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 at equity investments 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.

PRIOR YEAR ADJUSTMENT

IAS 12 states that where there is a history of recent losses an entity can recognise a deferred tax asset to the extent there is convincing other evidence that sufficient taxable profit will be available to utilise the tax losses. There is no guidance in the standard as to what constitutes convincing evidence and therefore judgement is required. The directors considered that convincing evidence existed in 2010. However, following conversations with the German Financial Reporting Enforcement Panel ('FREP') in 2012 and in light of the significant increase in operating loss during the year which showed a significant deviation from the budget set in December 2010 for 2011 the directors have concluded that there had been insufficient evidence as at 31 December 2011. As a result deferred tax asset only have been recognised to the extent of the deferred tax liabilities. The Company has therefore restated the comparatives accordingly. The following table summarises the effects of the restatement on the Company statement of financial position and statement of comprehensive income:

In thousands of EUR	31/12/2011 Reported	31/12/2011 Adjustment	31/12/2011 Adjusted
Equity	403,124	(51,786)	351,338
Retained earnings	6,479	(51,786)	(45,307)
Deferred tax assets	51,786	(51,786)	0

The adjustment had no effect on the loss before tax for 2011 or the opening position at 1 January 2011.

The quarterly reports for the financial year 2012 included as comparatives in 2013 will be adjusted accordingly.

b) Investments in subsidiaries

A detailed list of the companies in which the Company has interests, direct and indirect, is found in note 36 to the consolidated financial statements. The Company is general partner of Air Berlin PLC & Co. Luftverkehrs KG.

In thousands of EUR	2012	2011
Acquisition cost		
Balance at 1 January	720,946	470,964
Disposals	(22)	0
Increase in subsidiaries capital	0	249,982
Balance at 31 December	720,924	720,946

c) Investments in at equity investments

In 2012 the Company sold a 50% share in Follow Me Entertainment GmbH, Cologne.

d) Deferred tax assets

Profit or loss before tax is completely attributable to Germany.

Income tax benefit (expense) is as follows:

In thousands of EUR	2012	2011*
Current income tax expense	(1,306)	(534)
Deferred income tax benefit (expense)	13,369	(41,707)
Total income tax benefit	12,061	(42,241)

* restated

Current income taxes of the Company include corporate tax, a solidarity charge in addition to corporate tax and trade tax. The current income tax expense includes EUR 1 of prior year income tax expense (2011: EUR 534).

The tax rate of the Company equals 30.03% (2010: 30.03%). It consists of corporate tax rate and solidarity charge of 15.83% and trade tax of 14.20%. 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.

The Company's deferred tax position 2011 has been restated. For further Information see note 2 and 35a. As described in note 2, airberlin has a recent history of losses and as consequence in order to recognize the deferred tax asset requires convincing other evidence that sufficient taxable profits will be available to utilize the tax losses. There are a number of recent positive factors which in the view of management contribute to achieving appropriate evidence as at 31 December 2012 such as:

- ▶ The impact of the restructuring program Turbine 2013
- ▶ The increasing positive contribution from airberlin's partnership with Etihad Airways PJSC
- ▶ The increased external confidence in airberlin as evidence by several recent capital transactions
- ▶ The potential to restructure airberlin's tax strategy and thereby utilise tax losses

However given the uncertainty on the timing and overall impact of the Turbine 2013 and Etihad Airways PJSC factors and the risks in implementing tax strategies the level of deferred tax asset recognised has been significantly restricted.

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 EUR	2012	2011*
Loss before tax	(26,460)	(70,710)
Expected income tax benefit at 30.03% (2011: 30.03%)	7,946	21,234
Effect of tax pooling agreements with subsidiaries	262	44,987
Recognition (Write down) of deferred tax assets on tax loss carry forwards	12,985	(60,694)
Effect from non-deductible expenses	(9,637)	(19,057)
Deferred tax (expense) benefit for previous years	0	(28,579)
Current tax expenses for previous years	(1)	(534)
Effects of redemption of convertible bonds	0	(381)
Other	506	1,053
Total income tax benefit (expense)	12,061	(42,241)

* restated

As of 31 December 2012, total tax loss carry forwards for which deferred tax assets were recognised amounted to EUR 0 (2011: EUR 0) for trade tax purposes and EUR 111,147 (2011 restated: EUR 29,095) for corporate tax purposes. Thereof EUR 0 (2011: EUR 0) for trade tax purposes and EUR 16,147 (2011 restated: EUR 29,095) for corporate tax purposes have been recognized to offset deferred tax liabilities. Tax loss carry forwards amounting to EUR 95,000 for corporate tax purposes is forecast to be recovered through future taxable profits.

As of 31 December 2012, no additional deferred tax assets were capitalised for further loss carry forwards of EUR 49,991 for trade tax and EUR 452,127 for corporate tax (2011 restated: EUR 58,970 for trade tax and EUR 349,916 for corporate tax). 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 EUR	2012	2011*
Deferred tax assets:		
Receivables	0	7
Accrued liabilities and provisions	937	722
Negative market values of derivatives	646	25
Tax loss carry forwards	17,589	4,604
	19,172	5,358
Deferred tax liabilities:		
Convertible bonds, corporate bonds	(3,949)	(579)
Positive market values of derivatives	(189)	(4,779)
	(4,138)	(5,358)
Offsetting	19,172	(5,358)
Deferred tax assets, net	15,034	0
Deferred tax assets, net beginning of period	0	41,707
Change in deferred tax position	15,034	(41,707)
Thereof related to items recorded in equity	1,665	0
Deferred income tax benefit (expense)	13,369	(41,707)

* restated

Income tax recognised in equity

	2012			2011		
	Before tax	Tax benefit	Net of tax	Before tax	Tax benefit	Net of tax
Transaction costs on issuance of new shares	(5,546)	1,665	(3,881)	0	0	0
	(5,546)	1,665	(3,881)	0	0	0

e) Loans to subsidiaries

A long-term loan amounting to EUR 140,000 was concluded with LTU Beteiligungs- und Holding GmbH earning yearly interest of 1%. Due to restructuring of the Group during the last reporting period the loan was transferred to Air Berlin PLC & Co. Luftverkehrs KG. The loan was extended to 31 December 2013.

In addition the Company granted a further long-term loan to Air Berlin PLC & Co. Luftverkehrs KG amounting to EUR 15,200 in 2011. The loan is due in 2013 and has a yearly interest rate of 1m EURIBOR +1%.

The Company signed an unlimited loan with airberlin Technik GmbH amounting to EUR 25,130 (2011: EUR 25,643) 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) Loans to associates

In 2011 the loan to Follow Me Entertainment GmbH was written down by EUR 25 to EUR 25. This loan was fully paid back in 2012 (EUR 50). No further loans exist.

g) Receivables from subsidiaries

Receivables due to profit and loss transfer agreements are included with EUR 6,571 (2011: EUR 16,874).

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 EUR 35,256 (2011: EUR 41,104).

The remaining receivables result from trade, clearing accounts and interest for the Group loans.

h) Receivables from at equity investments

Receivables from at equity investments relate mostly to clearing accounts with BINOLI GmbH.

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 13 to the consolidated financial statements.

j) Pensions

In 2007 Air Berlin PLC entered into a defined benefit pension plan for its Executive Directors. The pension plan is funded through payments to qualifying insurance contracts.

The development of the Company's defined benefit obligations during the period is as follows:

In thousands of EUR	2012	2011
Present value of funded obligations	7,776	6,432
Fair value of plan assets	(10,638)	(7,155)
Funded status	(2,862)	(723)
Amount not recognised due to limitation in IAS 19.58(b)	0	0
Net defined benefit asset	(2,862)	(723)

Changes in the present value of the defined benefit obligation are as follows:

In thousands of EUR	2012	2011
Defined benefit obligation at 1 January	6,432	4,482
Current service cost	422	122
Interest on obligation	297	204
Actuarial losses	625	1,624
Transfer to subsidiary	0	0
Defined benefit obligation at 31 December	7,776	6,432

Changes in the fair value of plan assets are as follows:

In thousands of EUR	2012	2011
Fair value of plan assets at 1 January	7,155	5,369
Contribution	3,460	1,896
Expected return on plan assets	347	285
Actuarial losses	(324)	(395)
Transfer to subsidiary	0	0
Fair value of plan assets at 31 December	10,638	7,155

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 EUR 1,505 during the period (2011: loss EUR 110). No experience adjustments were made during the period.

The amount recognised as pension expense in profit or loss is as follows:

In thousands of EUR	2012	2011
Current service cost	422	122
Interest on obligation	297	204
Expected return on plan assets	(347)	(285)
Net actuarial losses recognised in the period	948	2,019
Effect of the limitation in IAS 19.58(b)	0	0
Pension expense	1,321	2,060

The Company expects to contribute EUR 2,640 to its defined benefit pension plans in 2013.

Principal actuarial assumptions at the reporting date are as follows:

in %	2012	2011
Discount rate at 31 December	3.57	4.63
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 liabilities to subsidiaries

The Company issued two convertible bonds in 2007 and 2009 and is accounting for these bonds in the same way as the Group. For further information see note 17.

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.

The remaining outstanding convertible bonds issued in 2009 have been completely redeemed during the reporting period and transferred to AB Finance B.V. to repay the respective loan. The Company also redeemed the convertible bonds issued in 2007 during the reporting period and transferred them to AB Finance B.V. to repay the respective loan. Disclosures regarding this and the disclosures regarding the liquidity risk and maturity analysis in respect of the convertible bonds are detailed in note 17 and 31c to the consolidated financial statements.

Another loan agreement was concluded with AB Finance B.V. (EUR 2,000). The loan is due on 11 April 2027 and has a yearly interest rate of LIBOR plus 1%.

Furthermore the Company issued three corporate bonds and is accounting for these bonds in the same way as the Group. For further information see note 17.

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 EUR 29 (2011: EUR 0) regarding profit and loss transfers and EUR 154,901 (2011: 186,750) regarding cash pooling agreements.

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 as at 31 December shown in the statement of financial position, are as follows:

In thousands of EUR	Note	2012		2011	
		Carrying amount	Fair value	Carrying amount	Fair value
Loans to subsidiaries	35e	198,677	198,677	199,234	199,234
Loans to at equity investments	35f	0	0	25	25
Receivables from subsidiaries	35g	135,652	135,652	148,714	148,714
Receivables from at equity investments	35h	149	149	149	149
Total loans and receivables		334,478	334,478	348,122	348,122
Positive market values of derivatives classified as held for trading		696	696	2,497	2,497
Cash and cash equivalents		118,067	118,067	61,798	61,798
Interest-bearing liabilities	17	(495,078)	(511,350)	(440,928)	(411,800)
Payables to subsidiaries	35k, m	(279,535)	(279,535)	(330,114)	(329,755)
Trade and other payables		(8,617)	(8,617)	(12,434)	(12,434)
Total financial liabilities measured at amortised cost		(783,230)	(799,502)	(783,476)	(753,989)
Negative market values of derivatives classified as held for trading		(2,217)	(2,217)	(651)	(651)
		(332,206)	(348,478)	(371,710)	(342,223)

o) Related party transactions

The Company has related party relationships with its Directors and subsidiaries (see note 32 to the consolidated financial statements). Total remuneration of Directors is included in the Directors' Remuneration Report (see pages 90 to 99). Members of the Board of Directors control a voting share of 4.42% of Air Berlin PLC (prior year: 6.05%).

The Company had the following transactions with related parties during the years ending 31 December:

In thousands of EUR	2012	2011
Air Berlin PLC & Co. Luftverkehrs KG		
Revenues	10,609	11,056
Interest income	2,121	3,479
Other operating expenses	1,171	519
Receivables from subsidiaries	228,991	227,323
Payables to subsidiaries	102,417	145,420
Pegasus 1. – 7. Luftfahrtbeteiligungsgesellschaft mbH		
Revenues	20	24
Interest income	29	0
Payables to subsidiaries	182	179
Alpha Engine Trading		
Payables to subsidiaries	50	55
airberlin technik GmbH (formerly: AB Luftfahrttechnik Düsseldorf GmbH)		
Revenues	138	0
Interest income	255	231
Receivables from subsidiaries	62,569	81,079
Payables to subsidiaries	1,303	316
Leisure Cargo GmbH		
Receivables from subsidiaries	5,263	13,955
Payables to subsidiaries	0	11,243
Air Berlin 1. – 9. LeaseLux Sàrl		
Revenues	27	3,242
Receivables from subsidiaries	3,241	3,544
Payables to subsidiaries	244	0
Air Berlin Netherlands B.V.		
Interest income	0	5
Payables to subsidiaries	55	59
Air Berlin Finance B.V.		
Expenses from convertible bonds	76	3086
Interest expenses	46	68
Receivables from subsidiaries	0	0
Payables to subsidiaries	15,197	13,197
Air Berlin Technik Ltd.		
Interest income	22	22
Receivables from subsidiaries	2,480	2,454
Air Berlin Fünfte Flugzeug GmbH		
Revenues	1	1
Interest expenses	1	410
Receivables from subsidiaries	10	10
Payables to subsidiaries	117,225	119,271

Air Berlin Sechste Flugzeug GmbH		
Revenues	12	0
Interest expenses	0	102
Payables to subsidiaries	27,380	27,388
Air Berlin Siebte Flugzeug GmbH		
Interest income	9	0
Receivables from subsidiaries	0	2,166
Payables to subsidiaries	3,003	5,150
Air Berlin Zwölfte Flugzeug GmbH		
Revenues	18	0
Receivables from subsidiaries	37	0
Payables to subsidiaries	1,317	0
Air Berlin Erste Flugzeugvermietungs GmbH		
Receivables from subsidiaries	5,300	5,300
Payables to subsidiaries	806	807
Air Berlin Dritte Flugzeugvermietungs GmbH		
Receivables from subsidiaries	4,109	4,109
Payables to subsidiaries	1,237	1,253
Air Berlin Vierte Flugzeugvermietungs GmbH		
Receivables from subsidiaries	3,588	3,565
Air Berlin Achte Flugzeugvermietungs GmbH		
Receivables from subsidiaries	60	60
Air Berlin Finance GmbH		
Receivables from subsidiaries	81	122
AB Finance II GmbH		
Interest expenses	0	23
Receivables from subsidiaries	2,993	2,993
Payables to subsidiaries	2,653	3,995
JFK Stiftung		
Receivables from subsidiaries	1,182	1,182
Belair Airlines AG		
Dividends received	6,249	0

p) Employees

The Company employed the five Directors (2011: five Directors). The Directors remuneration is included in note 22 to the consolidated financial statements above as well as in the Directors' Remuneration Report on pages 90 to 99.

Additionally the Company employs the new established Management Board (note 22). Furthermore the Company employs 12 non-director employees.

36. CONSOLIDATED ENTITIES

The following entities are included in the consolidated financial statements:

Subsidiaries	Country of incorporation	2012	2011
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 (merged to airberlin technik GmbH)	Germany	○	○
AB Luftfahrttechnik Köln GmbH (merged to airberlin technik GmbH)	Germany	○	○
AB Luftfahrtbeteiligung GmbH (merged to NL AB Beteiligungs GmbH)	Austria	○	○
Air Berlin Beteiligungsgesellschaft mbH (merged to LTU Beteiligungs- und Holding GmbH)	Germany	○	○
Air Berlin Crew Operations GmbH (formerly: CHS Cabin & Handling Service GmbH)	Germany	○	○
Air Berlin Finance B.V. ¹	Netherlands	○	○
Air Berlin Finance GmbH	Germany	○	○
Air Berlin Finance II GmbH ¹	Germany	○	○
Air Berlin Netherlands B.V. ¹	Netherlands	○	○
Air Berlin PLC & Co. Luftverkehrs KG ¹	Germany	○	○
Air Berlin PLC & Co. Airport Service KG ¹	Germany	○	○
Air Berlin PLC & Co. Verwaltungs KG ¹	Germany	○	○
Air Berlin PLC & Co. Service Center KG ¹	Germany	○	○
airberlin technik GmbH (formerly: AB Luftfahrttechnik Düsseldorf GmbH)	Germany	○	○
Air Berlin Technik Ltd.1	United Kingdom	○	○
Air Berlin 1. LeaseLux Sàrl ¹	Luxembourg	○	○
Air Berlin 2. LeaseLux Sàrl ¹	Luxembourg	○	○
Air Berlin 3. LeaseLux Sàrl ¹	Luxembourg	○	○
Air Berlin 4. LeaseLux Sàrl ¹	Luxembourg	○	○
Air Berlin 5. LeaseLux Sàrl ¹	Luxembourg	○	○
Air Berlin 6. LeaseLux Sàrl ¹	Luxembourg	○	○
Air Berlin 7. LeaseLux Sàrl ¹	Luxembourg	○	○
Air Berlin 8. LeaseLux Sàrl ¹	Luxembourg	○	○
Air Berlin 9. LeaseLux Sàrl ¹	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	○	○
Air Berlin Americas Inc. (formerly: Air Travel Marketing Services Inc.)	USA	○	○
Alpha Engine Trading GmbH	Germany	○	○
Bairs GmbH (formerly: Air Berlin Switzerland GmbH) ¹	Switzerland	○	○

Belair Airlines AG ¹	Switzerland	○	○
CHS Switzerland AG ¹	Switzerland	○	○
CHS Holding & Services GmbH ¹	Germany	○	○
CHAS Italy s.r.l. ¹	Italy		○
Euconus Flugzeugleasinggesellschaft mbH	Germany	○	○
Gehuba Beteiligungs-Verwaltungs GmbH	Austria	○	○
JFK Stiftung	Switzerland	○	○
Leisure Cargo GmbH ¹	Germany	○	○
Loma Beteiligungsgesellschaft mbH (merged to Air Berlin PLC & Co. Luftverkehrs KG)	Germany	○	○
LTU Beteiligungs- und Holding GmbH (merged to Air Berlin PLC & Co. Luftverkehrs KG)	Germany	○	○
LTU Lufttransport Unternehmen GmbH (merged to Air Berlin PLC & Co. Luftverkehrs KG)	Germany	○	○
NIKI Luftfahrt GmbH	Austria	○	○
NL AB Beteiligungs GmbH	Austria	○	
Pegasus Erste Luftfahrtbeteiligungsgesellschaft mbH ¹	Germany	○	○
Pegasus Zweite Luftfahrtbeteiligungsgesellschaft mbH ¹	Germany	○	○
Pegasus Dritte Luftfahrtbeteiligungsgesellschaft mbH ¹	Germany	○	○
Pegasus Vierte Luftfahrtbeteiligungsgesellschaft mbH ¹	Germany	○	○
Pegasus Fünfte Luftfahrtbeteiligungsgesellschaft mbH ¹	Germany	○	○
Pegasus Sechste Luftfahrtbeteiligungsgesellschaft mbH ¹	Germany	○	○
Pegasus Siebte Luftfahrtbeteiligungsgesellschaft mbH ¹	Germany	○	○
Air Berlin Employee Share Trust ^{1,2}	United Kingdom	○	○

¹ Shares held directly by Air Berlin PLC (the remaining subsidiaries are held indirectly through other Group companies).

² The company is consolidated as a special purpose entity.

Except for the Air Berlin Employee Share Trust and NIKI Luftfahrt GmbH, Air Berlin PLC holds (directly or indirectly) 100% of the share capital of the subsidiaries.

AVIATION GLOSSARY

▶ ANCILLARY REVENUE

Supplementary revenue beyond ticket sales.

▶ APU

Auxiliary Power Unit – an auxiliary power generator that is primarily used in aircraft.

▶ ASK

Available seat kilometres; number of seats available for sale, per flight segment, multiplied by the number of kilometres flown on a flight. Measure of an airline's performance capacity.

▶ BLOCK HOURS

The time during which an aircraft is in revenue service. Calculated from gate departure (push-back) before take-off to standstill at the gate following landing.

▶ DRY LEASE

Leasing of an aircraft without personnel.

▶ FLAG-CARRIER

National airline, either currently or in the past government owned or under government control. The term "legacy carrier" is also used.

▶ FRILLS

Means the same as "odds and ends". No-frills airlines are airlines which lower the ticket price as much as possible by doing away with free services and/or additional services.

▶ IATA

International Air Transport Association.

▶ LOW-COST CARRIER (LCC)

Also known as "low-fare carrier". "No-frills airline".

▶ PAX

Passenger.

▶ RPK

"Revenue Passenger Kilometres". Number of passengers multiplied by the number of kilometres they cover in flight.

▶ SEAT LOAD FACTOR

Percentage value to indicate the utilisation of an aircraft or an entire fleet within a certain time period, either on a route or within a route network. Represents the ratio of the number of passengers to the number of available seats (capacity).

▶ SLOT

Time window within which an airline can use an airport for take-off or landing.

▶ WET LEASE

Leasing an aircraft including personnel.

▶ YIELD

Average revenues. Average revenues per selected output unit. The unit could be a single passenger, a single kilometre flown, or the revenue passenger kilometres.

▶ YIELD MANAGEMENT

Price management system to increase average earnings.

EDITORIAL DEADLINE

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FINANCIAL MARKET GLOSSARY

► ACCRUED LIABILITIES AND PROVISIONS

Liability items in the annual financial statements that encompass outgoing payments and/or decreases in value of later periods as expenditure of the accounting period. The exact amount and/or time of these items is not known on balance sheet date, but their occurrence is sufficiently certain.

► ACQUISITION & LEVERAGED FINANCE

Financing of company transactions that lead to a change in ownership structure, whereby equity and borrowed capital are used.

► AFFILIATED COMPANIES

The term covers Air Berlin PLC and all subsidiaries included in the consolidated financial statements (see note 35).

► ANCILLARY REVENUE

Supplementary revenue beyond ticket sales.

► ASSOCIATED COMPANY

A company that is not under uniform management or majority-owned by a controlling company, but on which nevertheless the controlling company exercises considerable influence (shareholding greater than 20 per cent).

► AT-EQUITY VALUATION

Valuation of investments in associated companies, whereby their share of equity capital and share of profit for the year are taken into consideration.

► CAP

Contractual agreement where for the payment of a premium a buyer acquires a guaranteed interest rate ceiling for an agreed period. If the market interest rate rises above this ceiling at the individual times when the rate of interest for the next interest period is determined, the cap seller must compensate the amount of the difference.

► CAPITAL CONSOLIDATION

Equity links between the companies of a group must be eliminated in the consolidated financial statements. Here the investment book value is offset against the proportionate shareholders' equity amounts of the subsidiaries.

► CASH FLOW

Business ratio for the earning and financial power of a company within the framework of an analysis of the company. It gives an indication of the degree to which a company has liquid assets arising from its business turnover within an accounting period.

► CONSOLIDATION

Addition of partial accounts to a total account – for example of individual balance sheets of the companies of a group to the consolidated balance sheet.

► CONSOLIDATED GROUP

All of the group companies included in the consolidated financial statements.

► CONSOLIDATION OF REVENUE AND EXPENDITURE

As a matter of principle only revenue and expenditure can be considered in the consolidated income statement that results from business activities with entities outside the group. Revenue and expenditure resulting from internal transactions must therefore be eliminated in the consolidated financial statements. These include internal sales, group charges, interest expenditure and earnings arising from intra-group liabilities as well as intragroup profit and loss transfers.

► CORPORATE GOVERNANCE

Code of behaviour that defines guidelines for the transparent management and control of companies. It creates transparency, strengthens confidence in the company management and in particular serves the protection of the shareholders.

► DEBT CONSOLIDATION

Consolidation measure that must be carried out when the consolidated financial statements are prepared. Here not only the items shown in the balance sheet but all intragroup accounts receivable and payable must be taken into consideration.

► DEFERRED TAXES

Temporary differences to tax calculations in tax expenditure in individual and consolidated financial statements according to commercial law as compared to tax law. This item creates a meaningful correlation between the overall company result and the associated tax expenditure.

► DEPRECIATION AND AMORTISATION

Investments are written off over their full useful life, so that the purchase price is spread over several years as expenses.

► DERIVATIVES

Derived financial instruments whose valuation depends on the base value in each case – for example share, interest rate, foreign exchange or goods. Futures and options are important forms of derivative financial instruments.

► DISINVESTMENT

Write-offs that are greater than replacement investments and serve to maintain the production system.

► DISAGIO

Difference by which the repayable total of a loan is greater than the amount paid out.

► DUE DILIGENCE

Intensive analysis and appraisal by external specialists of the financial, legal and business situation of a company including its risks and perspectives. Due diligence forms the prerequisite for the preparation of an IPO (Initial Public Offering), the purchase or sale of a company or parts of a company as well as for granting of credit or capital increases.

► DVFA/SG RESULT

Standardised output quantity developed by Deutsche Vereinigung für Finanzanalyse und Anlagenberatung (DVFA) and the Schmalenbach-Gesellschaft (SG). Here the reported profit after tax is adjusted to eliminate special influences that make it difficult to compare with other companies.

► EBIT

Result from operating activities, Earnings Before Interest and Taxes.

► EBITDA

Earnings Before Interest, Taxes, Depreciation and Amortisation.

► EBITDAR

Earnings Before Interest, Taxes, Depreciation, Amortisation and Rent.

► ELIMINATION OF INTERCOMPANY PROFIT AND LOSS

Within the framework of the consolidated financial statements, profits and losses resulting from the intragroup supply of goods and services are to be considered as not realised as long as they have not left the consolidated group. The elimination of intercompany profits and losses is effected by the valuation of goods and services supplied at uniform consolidated group acquisition and production costs.

► EQUITY RATIO

Business ratio of the capital structure analysis that quantifies the share of equity capital as a proportion of total capital. Calculation formula: shareholders' equity divided by balance sheet total.

► FREE FLOAT

Proportion of shares of a public limited company not in the firm possession of certain shareholders, but held by many shareholders in small parcels.

► GOODWILL

Difference between the purchase price of a company and its net worth (assets less liabilities).

► HEDGING

Safeguarding the share price: through the sale or purchase of derivatives (futures, options, swaps), security positions can be safeguarded (hedged) against share market trends.

► IFRS/IAS

Internationally applicable accounting standards that allow comparability of consolidated financial statements worldwide. Thanks to great transparency they fulfil the information expectations of investors and other addressees. The individual IFRS standards are called IAS (International Accounting Standards) and the newer standards are called IFRS.

► INVESTMENT/CAPITAL EXPENDITURE

Expenditure for objects required for longer than just one year for production – from buildings through machinery to computer programmes. Investment/capital expenditure contributes to safeguarding the future of companies and must be written down (depreciated) over the useful life.

► **INVESTMENT INTENSITY**

Business ratio for analysis of asset structure that describes the ratio of fixed assets as a proportion of total assets.

► **JOINT VENTURE**

Business cooperation between companies, usually limited in terms of time and function. Projects within the framework of a joint venture are carried out jointly by the participating partner companies.

► **MARKET CAPITALISATION**

Result of the multiplication of number of shares by share price.

► **MERGERS & ACQUISITIONS (M & A)**

Mediation of mergers and acquisitions of companies or parts of companies and the associated consulting of buyers and sellers.

► **OPTION**

Right to purchase or sale of an option object from or to a contractual partner (writer) at a previously agreed fixed price, at a certain time or in a certain period. Purchase options are known as a "call", sales options as a "put".

► **PREPAID EXPENSES AND DEFERRED INCOME**

Payments already made or received in advance during the reporting period, but which relate to a period after the balance sheet date.

► **PROFIT MARGIN**

Profit after taxation divided by revenue.

► **PROJECTED UNIT CREDIT METHOD**

Method for the valuation of pension obligations according to IAS 19. Here – in addition to the acquired pension benefits and entitlements effective on the balance sheet date – the increases in salaries and pensions to be expected in future are also taken into consideration.

► **PURCHASE PRICE ALLOCATION**

Purchase price distribution: after the acquisition of a company the purchase price is distributed across the individual assets and liabilities.

► **R+D PROPORTION**

Business ratio indicating R&D expenditure (Research & Development) as a share of turnover, expressed as a percentage.

► **RATING**

Assessment of the creditworthiness of a company. Here forecasts are made as to the extent to which a company is capable of meeting its obligations arising from interest and capital repayments at an agreed point in time. The assessment takes into consideration factors specific to the company and the industry as well as country-specific risks. Ratings provide more transparency and better comparability. As a result, investors and creditors can more realistically estimate the risks of a financial investment.

► **RETAINED EARNINGS**

Reserves accumulated from undistributed profits.

► **RETURN ON EQUITY (ROE)**

Ratio of profit after tax to equity capital employed.

► **SHAREHOLDERS' EQUITY**

Capital value introduced by the owners and which the company has accumulated over years as reserves. It is permanently available to the company.

► **SWAP**

Agreement between two companies to swap payment flows at a future point in time. In the case of an interest swap for an agreed nominal amount fixed interest payments are swapped for variable interest payments.

IMPRINT

REGISTERED OFFICE OF THE COMPANY

The Hour House, 32 High Street,
Rickmansworth, WD3 1ER Herts,
Great Britain

INVESTOR RELATIONS CONTACT

Dr Ingolf T. Hegner
Head of Investor Relations
Saatwinkler Damm 42–43
13627 Berlin, Germany
Telephone: +49 30 3434 1532
Fax: +49 30 3434 1509
Email: ihegner@airberlin.com

EXTERNAL ADVISERS

Registrar
Registrar Services GmbH
Postfach 60630
Frankfurt/Main
Visitors' address:
Frankfurter Strasse 84–90a,
65760 Eschborn, Germany

Auditors

KPMG Audit Plc
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH
Great Britain

Legal representative

Freshfields Bruckhaus Deringer
Bockenheimer Anlage 44
60322 Frankfurt/Main, Germany

CONCEPTION & GRAPHIC DESIGN

Strichpunkt GmbH, Stuttgart/Berlin
www.strichpunkt-design.de

TEXT

Frenzel & Co. GmbH, Oberursel
www.frenzelco.de

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FINANCIAL CALENDAR 2013

09 January	Traffic figures December 2012
07 February	Traffic figures January 2013
06 March	Traffic figures February 2013
20 March	Analysts & Investors Conference, Berlin Press Conference on 2012 results
05 April	Traffic figures March 2013
07 May	Traffic figures April 2013
15 May	Publication of Interim Report as of 31 March 2013 (Q1) Analysts & Investors Conference Call
06 June	Traffic figures May 2013
06 June	Annual General Meeting Air Berlin PLC, London
05 July	Traffic figures June 2013
07 August	Traffic figures July 2013
15 August	Publication of Interim Report as of 30 June 2013 (Q2) Analysts & Investors Conference Call
06 September	Traffic figures August 2013
07 October	Traffic figures September 2013
06 November	Traffic figures October 2013
14 November	Publication of Interim Report as of 30 September 2013 (Q3) Analysts & Investors Conference Call
06 December	Traffic figures November 2013

