

Prospectus dated 1 November 2010

AIR BERLIN PLC

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



Up to € 150,000,000 8.5% Fixed Rate Notes due 2015, subject to an increase of up to a further € 50,000,000

Issue price: 100%

The up to € 150,000,000 (subject to an increase of up to a further € 50,000,000) 8.5% Fixed Rate Notes due 2015 (the **Notes**) will be issued on 10 November 2010 by Air Berlin PLC (the **Issuer**). The Issuer may, at its option, redeem all, but not some only, of the Notes at any time at par plus accrued interest to (but excluding) the date fixed for redemption in the event of certain tax changes as set out in § 5(2) of the Terms and Conditions.

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

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

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

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

The Notes have been assigned the following security codes: ISIN DE000AB100A6, WKN AB100A.

An investment in Notes involves certain risks. Prospective investors should have regard to the factors described under the heading "Risk Factors" beginning on page 14.

Lead Manager

quirin bank AG

RESPONSIBILITY STATEMENT

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

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

NOTICE

The only persons authorised to use this Prospectus in connection with the offering of the Notes are the Issuer and the Manager (as described under "*Subscription, Offer and Sale*" beginning on page 77).

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

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

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

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

The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the **US Securities Act**), and are subject to U.S. tax law requirements. In the absence of an available exemption from the registration requirements of the US Securities Act, the Notes may not be offered, sold or delivered within the United States. For a further description of certain restrictions on the offering and sale of the Notes and on distribution of this document, see "*Subscription, Offer and Sale*" beginning on page 77.

This Prospectus does not constitute an offer to sell or the solicitation of an offer to buy the Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Prospectus and the offer or sale of Notes may be restricted by law in certain jurisdictions. The Issuer and the Manager do not represent that this Prospectus may be lawfully distributed, or that the Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, except as indicated in the "*Subscription, Offer and Sale*" section beginning on page 77, no action has been taken by the Issuer or the Manager which is intended to permit a public offering of the Notes or the distribution of this Prospectus in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Prospectus or any Notes may come must inform themselves about, and observe, any such restrictions on the distribution of this Prospectus and the offering and sale of Notes. In particular, there are restrictions on the distribution of this Prospectus and the offer or sale of Notes in the United States, the United Kingdom and the European Economic Area, see "*Subscription, Offer and Sale*" beginning on page 77.

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SUMMARY

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

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

SUMMARY OF THE TERMS AND CONDITIONS AND GENERAL INFORMATION

Issuer:	Air Berlin PLC
Lead Manager:	quirin bank AG
Principal Paying Agent:	quirin bank AG
Description of Notes:	Up to € 150,000,000 (subject to an increase of up to a further € 50,000,000) 8.5% Fixed Rate Notes due on 10 November 2015 (the Notes), to be issued by the Issuer on 10 November 2010 (the Issue Date).
Form and Clearing:	The Notes will be issued in bearer form in denominations of € 1,000. The Notes will initially be represented by a Temporary Global Note without interest coupons which will be deposited with Clearstream Banking AG, Frankfurt. Notes represented by a Temporary Global Note will be exchangeable for Notes represented by a Permanent Global Note without interest coupons not earlier than 40 days after the Issue Date and upon certification to the effect that the beneficial owner or owners of the Notes represented by the Temporary Global Note is/are not (a) U.S. person(s) who has (have) purchased the Notes for resale to any U.S. person as governed by the U.S. Treasury Regulations.
Number of Notes to be issued:	The number of Notes to be issued will be announced in a notice which will be published on the website of the Issuer (www.airberlin.com) on or prior to the Issue Date of the Notes.
Interest:	The Notes will bear interest from (and including) 10 November 2010 to (but excluding) 10 November 2015 at the rate of 8.5% per annum. Interest shall be payable

quarterly in arrear on 10 February, 10 May, 10 August and 10 November in each year, commencing on 10 February 2011.

Optional Redemption by the Issuer for Tax Reasons

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

Events of Default:

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

Negative Pledge:

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

Change of Control:

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

Status of the Notes:

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

Resolutions of Noteholders:

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

Withholding Tax and Additional Amounts:

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

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

Governing Law:

The Notes will be governed by German law.

Jurisdiction:

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

Listing and Admission to Trading:

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

Selling Restrictions:

The Notes have not been and will not be registered under the US Securities Act and, subject to certain exceptions, may not be offered or sold within the United States. The Notes may be sold in other jurisdictions only pursuant to Regulation S under the US Securities Act and in compliance with applicable laws and regulations. See "*Subscription, Offer and Sale*" beginning on page 77.

Public Offer:

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

Use of Proceeds:

The Issuer intends to use the net proceeds for refinancing and general corporate purposes, including, but not limited to, the potential buy-back of the outstanding 9 per cent. Guaranteed Convertible Bonds due 2014 issued by Air Berlin Finance B.V. and guaranteed by the Issuer.

SUMMARY OF THE RISK FACTORS

Risks relating to the Notes

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

Risks relating to the Issuer

There are certain factors which are material for the purpose of assessing the risks associated with the airline industry in general and Air Berlin in particular. These are set out under “Risk Factors” beginning on page 16 and include, inter alia, risks relating to joining oneworld®, risks relating to the imposition of air travel taxes, competitive risks, risks relating to extreme weather conditions, volcanic activity, disease, natural or man-made disasters, and terrorist or military activity, risks relating to air crashes, risks relating to high fixed costs and increased regulation, risks relating to suitable airports and increases in airport transit fees, landing fees and security charges, risks relating to the inclusion of aviation in the EU emissions trading scheme, dependency on third party providers and the ability to obtain financing, risks relating to employees and employee representatives, risks relating to the integration of acquired businesses and technology, and risks relating to investment in new routes, seasonal fluctuations, the German market, fluctuations in aviation fuel supply and prices, interest rate and currency exchange rates.

SUMMARY OF THE DESCRIPTION OF THE ISSUER

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

Air Berlin’s authorised share capital is comprised of 85,226,196 ordinary shares of € 0.25 each and 50,000 A shares of € 1.00 each which were issued and fully paid up as of 30 June 2010. Included in this amount are 177,000 treasury shares held by Air Berlin through the Air Berlin Employee Share Trust.

Air Berlin is the parent company of a group which comprises Germany’s second-largest airline and Europe’s third-largest low-cost carrier and sixth-largest airline in terms of passenger numbers. Air Berlin offers scheduled flights on a wide range of short-, medium- and long-haul routes. As of 30 June 2010, Air Berlin flies to 156 domestic German and international destinations in 43 countries. In total, Air Berlin flies to 84 destinations in Europe, 11 in North Africa along with a further 18 destinations overseas in Africa and Asia. Air Berlin’s European destinations are located primarily in, or in close proximity to, major European cities that are attractive to leisure and business travellers alike. In 2009, Air Berlin transported 27.9 million passengers (2008: 28.6 million) and generated revenue of € 3,240.3 million (2008: € 3,388.5 million). Air Berlin’s major competitor in the European low-cost carrier market is easyJet and in the German market, Lufthansa.

SUMMARY (GERMAN TRANSLATION)

ZUSAMMENFASSUNG

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

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

ZUSAMMENFASSUNG DER BEDINGUNGEN UND ALLGEMEINE INFORMATIONEN

Emittentin:	Air Berlin PLC
Lead Manager:	quirin bank AG
Hauptzahlstelle:	quirin bank AG
Beschreibung der Schuldverschreibungen:	Bis zu € 150.000.000 (vorbehaltlich einer Erhöhung um weitere bis zu € 50.000.000) 8,5 % Festverzinsliche Schuldverschreibungen mit Fälligkeit zum 10. November 2015 (die Schuldverschreibungen). Die Schuldverschreibungen werden von der Emittentin am 10. November 2010 (der Emissionstag) emittiert.
Form und Clearing:	Die Schuldverschreibungen lauten auf den Inhaber und werden in Stückelungen von € 1.000 begeben. Die Schuldverschreibungen werden anfänglich durch eine vorläufige Globalurkunde ohne Zinsscheine verbrieft, welche bei Clearstream Banking AG, Frankfurt hinterlegt werden. Schuldverschreibungen, die durch eine vorläufige Globalurkunde verbrieft sind, können, nicht früher als 40 Tage nach dem Emissionstag, gegen eine Dauerglobalurkunde ohne Zinsscheine ausgetauscht werden, sofern eine Bescheinigung vorliegt, wonach der oder die wirtschaftliche(n) Eigentümer der durch die vorläufige Globalurkunde verbrieften Schuldverschreibungen keine U.S. Person(en) ist (sind), der (die) die Schuldverschreibungen zum Weiterverkauf an eine U.S. Person gemäß den U.S. Treasury Regulations erworben

hat (haben).

**Anzahl der zu emittierenden
Schuldverschreibungen:**

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

Zinsen:

Die Schuldverschreibungen werden ab dem 10. November 2010 (einschließlich) bis zum 10. November 2015 (ausschließlich) zu einem Satz von 8,5 % per annum verzinst. Zinszahlungen erfolgen vierteljährlich nachträglich am 10. Februar, 10. Mai, 10. August und am 10. November eines jeden Jahres, beginnend am 10. Februar 2011.

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

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

Kündigungsgründe:

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

Negativverpflichtung:

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

Kontrollwechsel:

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

Status der Schuldverschreibungen:

Die Schuldverschreibungen stellen direkte, unbedingte, nicht nachrangige und (vorbehaltlich der Bestimmungen der Negativverpflichtung (§ 2 Absatz 2 der Emissionsbedingungen)) unbesicherte Verbindlichkeiten der Emittentin dar und sind untereinander sowie (mit Ausnahme bestimmter

Verpflichtungen, die kraft Gesetzes vorrangig zu bedienen sind) mit allen anderen, jeweils ausstehenden unbesicherten Verbindlichkeiten (mit Ausnahme etwaiger nachrangiger Verbindlichkeiten) der Emittentin gleichrangig.

Beschlüsse der Schuldverschreibungsgläubiger:

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

Quellensteuer und Zusätzliche Beträge:

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

Anwendbares Recht:

Die Schuldverschreibungen unterliegen deutschem Recht.

Gerichtsstand:

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

Börsennotierung und Zulassung zum Handel:

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

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

Wertpapierbörse ist ein geregelter Markt im Sinne der MiFID.

Verkaufsbeschränkungen:

Die Schuldverschreibungen wurden und werden nicht gemäß dem US-Wertpapiergesetz (*US Securities Act*) registriert und dürfen vorbehaltlich bestimmter Ausnahmen, nicht innerhalb der Vereinigten Staaten angeboten oder verkauft werden. In anderen Rechtsordnungen dürfen die Schuldverschreibungen nur gemäß Regulation S unter dem US Securities Act und unter Einhaltung der geltenden Gesetze und Vorschriften verkauft werden. Siehe "Zeichnung, Angebot und Verkauf" (*Subscription, Offer and Sale*) ab Seite 77.

Öffentliches Angebot:

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

Verwendung des Emissionserlöses:

Die Emittentin beabsichtigt, den Nettoerlös der Emission der Schuldverschreibungen für Refinanzierungs- und allgemeine Geschäftszwecke zu verwenden, einschließlich (ohne darauf beschränkt zu sein) des potentiellen Rückkaufs der von Air Berlin Finance B.V. begebenen und von der Emittentin garantierten Wandelanleihe (9 per cent. Guaranteed Convertible Bonds due 2014).

ZUSAMMENFASSUNG DER RISIKOFAKTOREN

Schuldverschreibungsbezogene Risikofaktoren

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

Emittentenbezogene Risikofaktoren

Bestimmte Faktoren sind für die die Bewertung der Risiken, die mit der Luftfahrtbranche im Allgemeinen und insbesondere mit Air Berlin verbunden sind, wesentlich. Diese Risiken sind unter "Risikofaktoren" (*Risk Factors*) ab Seite 16 beschrieben. Diese Risiken beziehen sich unter anderem auf Risiken im Zusammenhang mit dem Beitritt in die oneworld®-Allianz, Risiken im Zusammenhang mit der Erhebung von Steuern und Gebühren für Flugreiseaktivitäten, Wettbewerbsrisiken, Risiken im Zusammenhang mit extremen Wetterbedingungen und vulkanischen

Aktivitäten, dem Ausbruch von Krankheiten, dem Auftreten von natürlichen oder von Menschen verursachten Katastrophen und terroristischen oder militärischen Aktivitäten, Risiken im Zusammenhang mit Flugzeugunglücken, Risiken im Zusammenhang mit hohen Fixkosten und zunehmender Regulierung, Risiken in Verbindung mit angemessenen Flughäfen und dem Anstieg von Flughafen-, Transit- und Landegebühren sowie Sicherheitszuschlägen, Risiken in Verbindung mit der Aufnahme der Luftfahrt in das EU-Emissionshandelssystem, Risiken im Zusammenhang mit der Abhängigkeit von Dritten als Dienstleister und Risiken im Zusammenhang mit Finanzierungsmöglichkeiten, Risiken im Zusammenhang mit Angestellten und Arbeitnehmervertretern, Risiken in Verbindung mit der Integrierung von erworbenen Geschäften und erworbener Technologie sowie Risiken in Verbindung mit der Investition in neue Flugrouten, mit saisonalen Schwankungen, dem deutschen Markt, Schwankungen des Angebots von sowie der Preisentwicklung bei Kerosin, Zinskursen und Wechselkursen.

ZUSAMMENFASSUNG DER BESCHREIBUNG DER EMITTENTIN

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

Air Berlin hat ein genehmigtes Kapital von 85.226.196 Stammaktien mit einem Nominalwert von € 0,25 pro Aktie und 50.000 Aktien der Klasse A mit einem Nominalwert von € 1,00 pro Aktie, welche zum 30. Juni 2010 ausgeben und vollständig bezahlt waren. Dieser Betrag schließt 177.000 eigene Aktien ein, die die Air Berlin durch den Air Berlin Mitarbeiterbeteiligungsplan hält.

Air Berlin ist die Muttergesellschaft einer Unternehmensgruppe, die die zweitgrößte Fluggesellschaft Deutschlands und zugleich den drittgrößten Low-Cost-Carrier und die sechstgrößte Fluggesellschaft Europas, jeweils in Bezug auf Passagierzahlen, bildet. Air Berlin bietet auf zahlreichen Kurz-, Mittel- und Langstrecken Linienflüge an. Zum 30. Juni 2010 bot Air Berlin 156 Inlandsflugziele und internationale Flugziele in 43 Ländern an. Insgesamt fliegt Air Berlin 84 Flughäfen in Europa, 11 in Nordafrika und weitere 18 Flughäfen in Afrika und Asien an. Air Berlins europäische Ziele liegen hauptsächlich in oder in der Nähe von wichtigen europäischen Städten, die Ziele von Urlaubs- und Geschäftsreisenden zugleich sind. Im Jahre 2009 transportierte Air Berlin 27,9 Millionen Fluggäste (2008: 28,6 Millionen) und erwirtschaftete Umsatzerlöse in Höhe von € 3.240,3 Millionen (2008: € 3.388,5). Hauptwettbewerber von Air Berlin ist im europäischen Low-Cost-Carrier-Markt easyJet und im deutschen Markt Lufthansa.

RISK FACTORS

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

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

RISKS RELATING TO THE NOTES

The Notes may not be a suitable investment for all investors

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

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

Market price risks

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

Interest Rate risks

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

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

Inflation

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

EU Savings Directive

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

On 15 September 2008, the European Commission issued a report to the Council of the European Union on the operation of the Directive, which included the Commission's advice on the need for changes to the Directive. On 13 November 2008, the European Commission published a more detailed proposal for amendments to the Directive, which included a number of suggested changes. The European Parliament approved an amended version of this proposal on 24 April 2009. If any of the proposed changes are made in relation to the Directive, they may amend or broaden the scope of the requirements described above.

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

Secondary market

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

Early redemption for tax reasons

In the event that the Issuer would be obliged to increase the amounts payable in respect of any Notes due to any withholding or deduction for, or on account of, any present or future taxes, duties,

assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed, the Issuer may redeem all outstanding Notes in accordance with the Terms and Conditions. Noteholders may be exposed to risks connected to the reinvestment of cash proceeds from the sale or early redemption of any Note. It may in particular not be possible for Noteholders to reinvest the redemption proceeds in investments with a yield and risk structure similar to the yield and risk structure of the Notes.

Transaction costs

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

Noteholder resolutions

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

Substitution of Issuer

The Terms and Conditions provide for a right of the Issuer to substitute the Issuer by a Substitute Debtor. If the Issuer exercises such substitution right, the substitution might, for German tax purposes, be treated as an exchange of the original Notes for new notes for private Noteholders subject to German taxation. In this case, any gain from such exchange would be subject to tax at a rate of 25% (plus solidarity surcharge thereon, and, if applicable, church tax), and the Noteholder might not be able to enforce its right for indemnification against the Issuer and the Substitute Debtor.

Change of law

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

RISKS RELATING TO THE ISSUER

Risks relating to Air Berlin joining the oneworld® alliance

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

Risks relating to the airline industry

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

Air Berlin's business and results of operations are significantly impacted by general economic and industry conditions. Industry-wide passenger air travel varies from year to year. Robust demand for Air Berlin's air transportation services depends largely on favourable general economic conditions,

including the strength of the global and local economies, low unemployment levels, strong consumer confidence levels and the availability of consumer and business credit. For leisure travellers, air transportation is often a discretionary purchase that they can eliminate from their spending in difficult economic times. In addition, during periods of poor economic conditions, businesses usually reduce the volume of their business travel, either due to cost-saving initiatives or as a result of decreased business activity requiring travel. Despite the recent upturn in the German economy, the overall demand for air transportation in Germany could be negatively impacted by deterioration in the health of the global economy. The downturn, which negatively impacted Air Berlin's results of operations for the year ended 31 December 2009 and in the first half of 2010, could continue to have a significant negative impact on Air Berlin's future results of operations.

In its half year report, IATA recorded a recovery of international air travel in the first six months of 2010. However, the basis of the comparison was low, since the downturn in the sector reached its low point in the first quarter of 2009. The below average growth in the European market was further masked by above average growth in the Middle East¹.

Moreover, insolvencies among Air Berlin's customers or contracting parties, including financial institutions acting as hedge counterparties, could result in losses. In particular, the insolvency of one of Air Berlin's financing counterparties could make it more difficult or expensive for Air Berlin to obtain third-party finance for its aircraft acquisitions, or even cause such financing to fail entirely. The impact of the financial crisis might also induce governments to unilaterally grant subsidies or other public aid to one or more of Air Berlin's competitors, which could distort the markets and deteriorate Air Berlin's competitive position.

Air travel tax levied by German Federal Government

On 1 September 2010 the German Federal Government resolved to create an air travel tax, known as the "eco tax", designed to raise EUR 1 billion annually. The tax applies to all bookings from 1 September 2010 for flights departing from 1 January 2011. The tax amounts to EUR 8, 25 or 45 per passenger depending on the duration of the flight. Since 5 September 2010 global flight reservation systems have been applying the air travel tax to Air Berlin flights. Air Berlin considers it necessary to pass on the resulting cost increase to passengers and/or restructure the network so that optimal passing through can be achieved. At a time when there is significant pressure on consumers' budgets, the increased cost of air travel may lead customers to reduce their use of air transportation further.

In addition, other air carriers may choose to absorb the additional cost where Air Berlin is not able to do the same. This would make Air Berlin less competitive in an already intensely competitive market, which may have a material adverse effect on Air Berlin's revenues and results of operations.

The airline industry is highly competitive

Air Berlin operates in a highly competitive market and is in intense competition with a number of other air carriers for both leisure and business travellers. The primary competitive factors in the airline industry include prices, route networks, flight schedules, reputation, safety record, range of passenger services provided and type and age of aircraft. Air Berlin's competitors include other low-cost carriers, legacy carriers, other established commercial and charter airlines, travel conglomerates with integrated airlines and new entrants. Air Berlin expects that there will be increasing market consolidation among air carriers in the future. This development would strengthen the market position of some carriers and further increase competition.

Some of Air Berlin's competitors have large home markets, traffic hubs with large catchment areas, extensive flight schedules and financial resources, economical cost structures or well-known brands. Air Berlin's competitors may seek to protect or gain market share through fare matching or price discounting or by offering more attractive flight schedules or services. Some competitors may be able to offer lower fares than Air Berlin by, for example, providing passengers with fewer services, or

¹ Source: IATA "Financial Forecast" report dated July 2010.

so-called frills, or by drawing upon sources of funding unavailable to Air Berlin, such as government subsidies or intra-group financial support. Should competitors increase their market share at Air Berlin's expense, Air Berlin's business prospects and profits could be materially adversely affected.

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

Extreme weather at the end of 2009 and start of 2010 resulted in charges of approximately EUR 28 million. This can be attributed to aircraft de-icing, increased waiting times, additional heating for cabins as well as increased fuel consumption due to cold weather. A repetition of such extreme weather conditions or the existence of comparable conditions, especially in European airspace, could materially and adversely affect Air Berlin and the airline industry.

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

In April 2010 the ash cloud from Eyjafjallajökull in Iceland led the European supervisory authority to cancel thousands of flights resulting in a drop in Air Berlin's passenger volume of 16%. The charges attributable to the ash cloud amounted to approximately EUR 40 million. The relevant insurance was not available on the market at the time and at present is not available on economically viable terms. Consequently Air Berlin was not, and is not, insured for flight cancellations owing to volcanic eruptions or flight bans imposed by air traffic control authorities. Compensation measures under discussion with government authorities remain unapproved and unquantifiable. Further activity from this or other volcanoes, or other natural disasters, especially in European airspace, could materially and adversely affect Air Berlin and the airline industry.

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

In addition, a natural or man-made disaster at, or in the region around, any of Air Berlin's major flight destinations could materially and adversely affect Air Berlin's passenger numbers and, consequently its business, financial condition and results of operations.

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

The terrorist attacks of 11 September 2001 involving commercial aircraft severely and adversely impacted the prospects for the airline industry generally through reduced demand and higher security costs. In addition, for a certain period in the immediate aftermath of the terrorist attacks of 11 September 2001, insurers stopped providing coverage against certain risks relating to acts of war and other hostilities and/or substantially increased premiums for renewed coverage, while at the same time greatly reducing the amount of coverage provided. On 30 July 2009, a car bomb was detonated outside the Civil Guards barracks in Palma Nova, Mallorca, killing two Civil Guards. Although this attack did not have a material adverse impact on Air Berlin or the airline industry, further terrorist attacks, acts of sabotage, new military conflicts or the expansion of existing conflicts or similar events, especially if they are directed against air traffic or markets that are significant to Air Berlin, or if they affect a relatively high proportion of the overall volume of air traffic in Europe generally, could materially and adversely affect Air Berlin and the airline industry.

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

An aircraft accident or incident could involve not only repair or replacement of a damaged aircraft and its consequent temporary or permanent loss from service, but also claims from injured passengers and dependents of deceased passengers. Air Berlin's insurance coverage might not be adequate to cover all losses suffered from an aircraft accident or incident. Even if Air Berlin's insurance coverage were adequate to cover all these losses in full, Air Berlin could be forced to bear substantial losses if,

for example, its insurers were unwilling or unable to pay the agreed insurance benefits. Any such losses could have a material adverse effect on Air Berlin's business, financial condition and results of operation.

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

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

The airline industry is characterised by high fixed costs

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

Commercial passenger air transport and air traffic rights are heavily regulated

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

Air Berlin is subject to many different layers of regulation by governments and other authorities. National, EU and international regulations, as well as bilateral and multilateral treaties between Germany and other EU member states, on the one hand, and other states, on the other, govern airline operations, impose requirements on air carriers and grant rights to service routes. These regulations and treaties have frequently been amended in the past. Air Berlin cannot predict what future changes will be made to German, EU and international air traffic regulations and treaties, or what the impact of such changes will be on the airline industry or its operations. In addition, bilateral agreements governing flights into and over non-EU member states and the associated landing rights also impose restrictions. These agreements grant air traffic rights only to companies controlled primarily by the treaty states or their citizens. Amendments to existing treaties, the conclusion of new treaties or the break down of treaty negotiations, as well as the introduction of new regulatory requirements or the expansion of existing requirements, could result in significant operational costs and may limit Air Berlin's flexibility to respond to market conditions, competition from other airlines or changes to its cost structure.

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

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

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

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

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

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

Regulations on passenger compensation could significantly increase costs

The European Union has passed legislation for compensating airline passengers who have been denied boarding on a flight for which they hold a valid ticket (Regulation (EC) No. 261/2004). This legislation, which came into force in February 2005, imposes fixed levels of compensation to be paid to passengers in the event of cancelled flights, except when the airline can prove that such a cancellation is caused by extraordinary circumstances, such as weather, air-traffic control delays or safety issues. Passengers subject to long delays (two hours or more for short-haul flights) are also entitled to "assistance" including meals, drinks and telephone calls, as well as hotel accommodations if the delay extends overnight. For delays of at least five hours, the airline is also required to offer the option of a refund of the cost of the ticket and, if the passenger has already completed part of the journey, a return flight to the initial point of departure.

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

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

On 2 February 2009, Directive 2008/101/EC entered into force. Pursuant to this Directive, from 1 January 2012 all flights that arrive or depart from an airport situated in the territory of an EU member state will be included in the EU emissions trading scheme. This scheme, which has thus far applied mainly to energy producers, is a cap and trade system for carbon emissions to encourage industries to reduce their CO₂ emissions. Under the legislation, airlines will be granted initial credits based on historical emissions and their shares of the total aviation market.

Any shortage of credits will have to be purchased in the open market. The cost and amount of such credits that Air Berlin would have to buy in 2012 is based on the difference between the credits awarded in 2011 and those required in 2012. This legislation is likely to have a substantial negative impact on the European airline industry, including Air Berlin, despite the relatively young age of its aircraft fleet. There can be no assurance that Air Berlin will be able to obtain sufficient carbon credits, or that the cost of the credits will not have a material adverse effect on Air Berlin's business, operating results and financial condition.

Airlines are dependent on third-party service and facility providers

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

Risks relating to Air Berlin

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

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

utilisation rates could have a material adverse effect on Air Berlin's business, financial condition and results of operations.

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

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

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

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

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

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

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

In addition, Air Berlin's workforce is partially unionised and covered by several collective bargaining agreements that regulate work conditions and remuneration. These collective bargaining agreements are subject to renegotiation with the unions from time to time. Air Berlin is exposed to the risk of strikes or other industrial action in the course of labour negotiations. In 2009 the Air Berlin Group pilots and flight attendants held a total of four strikes. Further strikes were avoided in March 2010 by successfully concluding negotiations with Verdi, the pilots' union. As Air Berlin must continue to negotiate wages and salaries on terms that allow it to offer services at competitive prices, Air Berlin may be subject to further strikes or other industrial action in the future, and there can be no assurance that labour relations will not have a material adverse effect on Air Berlin's ability to remain competitive. This could have a material adverse effect on its business, financial condition and results of operations.

Air Berlin faces risks in connection with the integration of acquired businesses

Since 2006, Air Berlin has acquired DBA, Belair, LTU, a portion of the assets of TUIfly's city shuttle and has made a significant investment in NIKI. Although Air Berlin has gained experience in the integration of acquired businesses in the past, Air Berlin remains subject to risks from the integration of separate legal entities. Diversion of management's time and resources from core operations and

other challenges in connection with the integration of newly acquired businesses could have a material adverse effect on Air Berlin's business, financial condition and results of operations.

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

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

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

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

In July 2008, fuel prices reached a record high with a Rotterdam spot market average monthly price per gallon of kerosene-type aviation fuel of \$4.06. Prices then fell to \$1.28 in February 2009, the lowest level in almost four years. In the following 18 months, prices steadily rose again and as of August 2010 the Rotterdam spot market average monthly price per gallon of kerosene-type aviation fuel was \$2.07². Over the past few years there have been discussions at the EU level and within EU member states about whether the existing tax exemptions for kerosene should be reviewed. There can be no assurance that the current tax exemptions for aviation fuel will not be repealed. The elimination of current tax exemptions for aviation fuel would lead to a substantial increase in Air Berlin's aviation fuel costs. If major reductions in the availability of aviation fuel or significant increases in aviation fuel prices occur, Air Berlin's business would be materially adversely affected.

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

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

² Source: FOB Rotterdam High Previous Month Average (Platt's); all prices without Differentials and without Duties, Taxes and Fees.

and financial liabilities with variable interest rates to changes in the market interest rate. A change in these interest rates could have a material adverse effect on Air Berlin's financial condition and results.

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

Investments in new routes may not be profitable

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

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

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

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

Demand for Air Berlin's services fluctuates over the course of the year, which causes its quarterly results to fluctuate. Demand has historically been highest in the summer season from May through October and lowest in the winter season from November through April (except for the days around Christmas, New Year's and Easter). Therefore, the level of Air Berlin's aircraft utilisation and profitability fluctuates during the year, with the majority of its profits being generated in the summer season. When flight cancellations and other factors that adversely affect aircraft utilisation occur during the summer season, they may have a particularly strong adverse effect on Air Berlin's business, financial condition and results of operations.

Air Berlin is dependent on the German market

Passengers originating from Germany on Air Berlin's routes accounted for 79.4% of Air Berlin's total passenger volume in 2009. Air Berlin's business is likely to be adversely affected by any circumstance causing a reduction in general demand for air transportation services involving German destinations, including, but not limited to, adverse changes in local economic conditions.

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

As of 30 June 2010, approximately 75.3% (including Dry Leases (i.e. leasing an aircraft without personnel) and Wet Leases (i.e. leasing an aircraft with personnel) based on 150 operational aircraft as of 30 June 2010) of Air Berlin's aircraft fleet is leased from aircraft operating lessors. Should any internal or external events occur which affect an aircraft lessor's ability to perform its obligations under its leases, the availability of aircraft leased from such lessor, and consequently Air Berlin's operations, could be negatively affected.

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

TERMS AND CONDITIONS OF THE NOTES

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

§ 1

WÄHRUNG, STÜCKELUNG, FORM, BESTIMMTE DEFINITIONEN

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

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

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

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

TERMS AND CONDITIONS OF THE NOTES ENGLISH LANGUAGE VERSION

§ 1

CURRENCY, DENOMINATION, FORM, CERTAIN DEFINITIONS

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

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

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

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

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

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

versehen.

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

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

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

§ 2 STATUS UND NEGATIVVERPFLICHTUNG

(1) *Status.* Die Schuldverschreibungen begründen unmittelbare, unbedingte, nicht nachrangige und (vorbehaltlich § 2 Absatz 2)

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

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

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

§ 2 STATUS AND NEGATIVE PLEDGE

(1) *Status.* The obligations under the Notes constitute direct, unconditional, unsubordinated and (subject to § 2(2)) unsecured obligations of

nicht besicherte Verbindlichkeiten der Emittentin, die untereinander und mit allen anderen unmittelbaren, unbedingten, nicht nachrangigen und (vorbehaltlich § 2 Absatz 2) nicht besicherten gegenwärtigen und zukünftigen Verbindlichkeiten der Emittentin wenigstens gleichrangig sind, soweit diesen Verbindlichkeiten nicht durch zwingende und allgemein anwendbare gesetzliche Bestimmungen ein Vorrang eingeräumt wird.

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

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

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

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

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

the Issuer which rank *pari passu* among themselves and at least *pari passu* with all other direct, unconditional, unsubordinated and (subject to § 2(2)) unsecured existing and future obligations of the Issuer, save for such obligations that may be preferred by the provisions of law that are mandatory and of general application.

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

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

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

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

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

Genehmigte Verbindlichkeiten bezeichnet jede Relevante Verbindlichkeit, die durch Flugzeuge oder Flugzeugausrüstungen sowie Forderungen aus Flugzeugleasingverträgen über Flugzeuge oder Flugzeugausrüstungen der Emittentin oder einer ihrer Tochtergesellschaften direkt oder indirekt (z. B. gemittelt durch Zweckgesellschaften, welche Eigentümer der Flugzeuge oder Flugzeugausrüstung sind) besichert ist/wird.

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

§ 3 ZINSEN

(1) *Zinssatz und Zinszahlungstage.* Die Schuldverschreibungen werden bezogen auf ihren Nennbetrag verzinst, und zwar vom 10. November 2010 (einschließlich) bis zum Fälligkeitstag (wie in § 5 Absatz 1 definiert) (ausschließlich) mit jährlich 8,5 %. Die Zinsen sind vierteljährlich nachträglich am 10. Februar, 10. Mai, 10. August und 10. November eines jeden Jahres zahlbar (jeweils ein **Zinszahlungstag**). Die erste Zinszahlung erfolgt am 10. Februar 2011.

(2) *Zinslauf.* Der Zinslauf der Schuldverschreibungen endet mit Beginn des Tages, an dem sie zur Rückzahlung fällig werden. Falls die Emittentin die Schuldverschreibungen bei Fälligkeit nicht einlöst, endet die Verzinsung nicht am Tag der

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

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

§ 3 INTEREST

(1) *Rate of Interest and Interest Payment Dates.* The Notes shall bear interest on their Principal Amount at the rate of 8.5% per annum from (and including) 10. November 2010 to (but excluding) the Maturity Date (as defined in § 5(1)). Interest shall be payable quarterly in arrear on 10 February, 10 May, 10 August and 10 November in each year (each such date, an **Interest Payment Date**). The first payment of interest shall be made on 10 February 2011.

(2) *Accrual of Interest.* The Notes shall cease to bear interest from the beginning of their due date for redemption. If the Issuer shall fail to redeem the Notes when due, interest shall continue to accrue beyond the due date until and excluding the actual day of redemption of

Fälligkeit, sondern erst mit Beginn des Tages der tatsächlichen Rückzahlung der Schuldverschreibungen (ausschließlich). Weitergehende Ansprüche der Schuldverschreibungsgläubiger bleiben unberührt.

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

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

§ 4 ZAHLUNGEN

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

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

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

the Notes. This does not affect any additional rights that might be available to the Noteholders.

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

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

§ 4 PAYMENTS

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

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

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

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

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

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

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

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

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

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

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

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

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

§ 5
RÜCKZAHLUNG

(1) *Rückzahlung bei Endfälligkeit.* Soweit nicht zuvor bereits ganz oder teilweise zurückgezahlt oder angekauft und entwertet, werden die Schuldverschreibungen zu ihrem Rückzahlungsbetrag am 10. November 2015 (der **Fälligkeitstag**) zurückgezahlt. Der **Rückzahlungsbetrag** in Bezug auf jede Schuldverschreibung entspricht ihrem Nennbetrag.

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

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

(3) *Vorzeitige Rückzahlung aufgrund eines Kontrollwechsels.* Tritt ein Kontrollwechsel (wie nachstehend definiert) ein, dann hat jeder Schuldverschreibungsgläubiger das Recht (sofern nicht die Emittentin, bevor die

§ 5
REDEMPTION

(1) *Redemption at Maturity.* Unless previously redeemed in whole or in part or purchased and cancelled, the Notes shall be redeemed at their Redemption Amount on 10 November 2015 (the **Maturity Date**). The **Redemption Amount** in respect of each Note shall be its Principal Amount.

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

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

(3) *Early Redemption for reasons of a Change of Control.* In the event that a Change of Control (as defined below) occurs, each Noteholder will have the option (unless, prior to the giving of the Put Event Notice referred to

nachstehend beschriebene Kündigungsoptions-Mitteilung gemacht wird, die Rückzahlung der Schuldverschreibungen nach § 5 Absatz 2 angezeigt hat), die Rückzahlung seiner Schuldverschreibungen durch die Emittentin am Wahl-Rückzahlungstag zu ihrem Nennbetrag, zuzüglich bis zum Wahl-Rückzahlungstag (ausschließlich) aufgelaufener Zinsen, zu verlangen.

Die Emittentin wird den Schuldverschreibungsgläubigern unverzüglich, nachdem sie von dem Eintritt eines Kontrollwechsels Kenntnis erlangt hat, gemäß § 12 Mitteilung von einem solchen Kontrollwechsel machen (eine **Kündigungsoptions-Mitteilung**). Die Kündigungsoptions-Mitteilung gibt die Umstände des Kontrollwechsels sowie das Verfahren für die Ausübung des in diesem § 5 Absatz 3 genannten Wahlrechts an.

Zur Ausübung dieses Wahlrechts muss der Schuldverschreibungsgläubiger während der üblichen Geschäftszeiten innerhalb eines Zeitraums (der **Rückzahlungszeitraum**) von 45 Tagen nach Vornahme der Kündigungsoptions-Mitteilung eine ordnungsgemäß ausgefüllte und unterzeichnete Ausübungserklärung bei der bezeichneten Geschäftsstelle der Hauptzahlstelle einreichen. In dieser Ausübungserklärung sind von dem jeweiligen ausübenden Schuldverschreibungsgläubiger (i) die Anzahl der Schuldverschreibungen, für die das Kündigungsrecht ausgeübt wird und (ii) die ISIN der Schuldverschreibungen (d.h. ISIN DE000AB100A6) anzugeben. Ein so ausgeübtes Wahlrecht kann nicht ohne vorherige Zustimmung der Emittentin widerrufen oder zurückgezogen werden

Für Zwecke dieses Wahlrechts gelten folgende Begriffsbestimmungen:

Ein **Kontrollwechsel** gilt immer dann als eingetreten, wenn eine Person oder mehrere Personen (die **Relevante(n) Person(en)**), die im Sinne von § 22 Absatz 2 WpHG abgestimmt handeln, oder ein oder mehrere Dritte(r), die im Auftrag der relevanten Person(en) handeln, zu irgendeiner Zeit mittelbar oder unmittelbar (unabhängig davon, ob der Board of Directors der Emittentin seine Zustimmung erteilt hat) (i) mehr als 50 % der ausgegebenen Stammaktien

below, the Issuer gives notice to redeem the Notes in accordance with § 5(2)) to require the Issuer to redeem the Notes held by him on the Optional Redemption Date at its principal amount together with interest accrued to, but excluding, the Optional Redemption Date.

Without undue delay upon the Issuer becoming aware that a Change of Control has occurred, the Issuer shall give notice (a **Put Event Notice**) to the Noteholders in accordance with § 12. The Put Event Notice shall specify the nature of the Change of Control and the circumstances giving rise to it and the procedure for exercising the option set out in this § 5 (3).

In order to exercise such option, the Noteholder must submit during normal business hours at the specified office of the Principal Paying Agent a duly completed option exercise notice within the period (the **Put Period**) of 45 days after a Put Event Notice is given. In such exercise notice the relevant exercising Noteholder must state (i) the number of Notes in respect of which the redemption right will be exercised and (ii) the ISIN of the Notes (i.e. ISIN DE000AB100A6). No option so exercised may be revoked or withdrawn without the prior consent of the Issuer.

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

A **Change of Control** shall be deemed to have occurred at each time (whether or not approved by the Board of Directors of the Issuer) that any person or persons (**Relevant Person(s)**) acting in concert within the meaning of § 22(2) of the German Securities Trading Act (*Wertpapierhandelsgesetz*) or any person or persons acting on behalf of any such Relevant Person(s), at any time directly or indirectly acquire(s) or come(s) to own (i) more than 50

der Emittentin oder (ii) eine solche Anzahl von Aktien der Emittentin, auf die mehr als 50 % der Stimmrechte entfallen, die unter normalen Umständen auf einer Hauptversammlung der Emittentin ausgeübt werden können, hält bzw. halten oder erworben hat bzw. haben, wobei ein Kontrollwechsel dann nicht als eingetreten gilt, wenn alle Gesellschafter der Relevanten Person oder ein wesentlicher Teil von ihnen Aktionäre der Emittentin sind oder unmittelbar vor dem Ereignis, welches ansonsten einen Kontrollwechsel darstellen würde, waren und dieselbe (oder im Wesentlichen dieselbe) Beteiligung am Stammkapital der relevanten Person halten bzw. hielten wie am Stammkapital der Emittentin.

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

§ 6 HAUPTZAHLSTELLE

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

quirin bank AG
Kurfürstendamm 119
10711 Berlin
Deutschland

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

(2) *Änderung der Bestellung oder Abberufung.* Die Emittentin behält sich das Recht vor, jederzeit die Bestellung der Hauptzahlstelle zu ändern oder zu beenden und eine andere Hauptzahlstelle oder eine oder mehrere zusätzliche Zahlstellen zu bestellen. Die Emittentin wird jederzeit (i) eine Hauptzahlstelle unterhalten, (ii) eine Zahlstelle (die die Hauptzahlstelle sein kann) mit bezeichneter Geschäftsstelle in einer kontinentaleuropäischen Stadt unterhalten und (iii) eine Zahlstelle (die die Hauptzahlstelle sein kann) in einem EU-Mitgliedstaat, die nicht aufgrund einer die Richtlinie 2003/48/EG im Bereich der Besteuerung von Zinserträgen des Rates der Europäischen Union umsetzenden Regelung zum Einbehalt oder Abzug von

per cent. of the issued ordinary share capital of the Issuer or (ii) such number of the shares in the capital of the Issuer carrying more than 50 per cent. of the voting rights normally exercisable at a general meeting of the Issuer, provided that a Change of Control shall be deemed not to have occurred if all or substantially all of the shareholders of the Relevant Person are, or immediately prior to the event which would otherwise have constituted a Change of Control were, the shareholders of the Issuer with the same (or substantially the same) *pro rata* interest in the ordinary share capital of the Relevant Person as such shareholders have, or as the case may be, had in the ordinary share capital of the Issuer.

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

§ 6 PRINCIPAL PAYING AGENT

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

quirin bank AG
Kurfürstendamm 119
10711 Berlin
Germany

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

(2) *Variation or Termination of Appointment.* The Issuer reserves the right at any time to vary or terminate the appointment of the Principal Paying Agent and to appoint another Principal Paying Agent or on or more other additional paying agents. The Issuer shall at all times maintain (i) a Principal Paying Agent, (ii) a paying agent (which may be the Principal Paying Agent) with a specified office in a continental European city, (iii) a paying agent (which may be the Principal Paying Agent) in an EU Member State that will not be obliged to withhold or deduct tax pursuant to any law implementing the EC Council Directive 2003/48/EC on the taxation of savings income and (iv) so long as the Notes are listed on the Open Market (*Freiverkehr*) of the Frankfurt

Steuern verpflichtet ist, und (iv) solange die Schuldverschreibungen im Open Market (*Freiverkehr*) der Frankfurter Wertpapierbörse und im Bondm Handelssegment des Freiverkehrs der Baden-Württembergischen Wertpapierbörse in Stuttgart notiert sind, eine Zahlstelle (die die Hauptzahlstelle sein kann) unterhalten, bei der es sich um ein Kredit- oder Finanzinstitut handelt, das Zahlungen bezüglich der Schuldverschreibungen in Deutschland abwickeln kann. Eine Änderung, Abberufung, Bestellung oder ein sonstiger Wechsel wird nur wirksam (außer im Insolvenzfall, in dem eine solche Änderung sofort wirksam wird), sofern die Schuldverschreibungsgläubiger hierüber gemäß § 12 vorab unter Einhaltung einer Frist von mindestens 30 und nicht mehr als 45 Tagen informiert wurden.

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

§ 7 STEUERN

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

Stock Exchange and the Bondm segment of the Open Market (*Freiverkehr*) of the Baden-Württemberg Stock Exchange in Stuttgart, a paying agent (which may be the Principal Paying Agent) which is a credit or financial institution that is able to settle payments on the Notes in Germany. Any variation, termination, appointment or change shall only take effect (other than in the case of insolvency, when it shall be of immediate effect) after not less than 30 nor more than 45 days' prior notice thereof shall have been given to the Noteholders in accordance with § 12.

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

§ 7 TAXATION

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

von den Schuldverschreibungsgläubigern empfangen worden wären; eine Verpflichtung zur Zahlung zusätzlicher Beträge besteht jedoch nicht für solche Steuern oder Abgaben, die:

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

(b) aufgrund (i) einer Richtlinie oder Verordnung der Europäischen Union bezüglich der Besteuerung von Zinserträgen (zur Klarstellung: einschließlich der Richtlinie 2003/48/EG im Bereich der Besteuerung von Zinserträgen des Rates der Europäischen Union) oder (ii) einer zwischenstaatlichen Vereinbarung über deren Besteuerung, die auf die Emittentin anwendbar ist, oder (iii) einer gesetzlichen Vorschrift, die der Umsetzung dieser Richtlinie, Verordnung oder Vereinbarung dient, dieser entspricht oder zur Befolgung dieser Richtlinie, Verordnung oder Vereinbarung eingeführt wurde, abzuziehen oder einzubehalten sind, oder

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

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

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

(f) wegen einer Verpflichtung eines Schuldverschreibungsgläubigers zur Zahlung von Steuern oder Abgaben in Bezug auf die Schuldverschreibungen zu zahlen sind, die aufgrund einer Beziehung dieses Schuldverschreibungsgläubigers zum

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

(b) are deducted or withheld pursuant to (i) any European Union Directive or Regulation concerning the taxation of interest income, including, for the avoidance of doubt, Council Directive 2003/48/EC on the taxation of savings income, or (ii) any international treaty or understanding relating to such taxation which applies to the Issuer, or (iii) any provision of law implementing, or complying with, or introduced to conform with, such Directive, Regulation, treaty or understanding; or

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

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

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

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

Vereinigten Königreich oder zur Bundesrepublik Deutschland entstanden ist, die über das bloße Halten von Schuldverschreibungen hinausgeht; oder

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

§ 8 VORLEGUNGSFRIST

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

§ 9 KÜNDIGUNG

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

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

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

(c) die Emittentin oder eine Maßgebliche Tochtergesellschaft (wie in § 9 Absatz 3 definiert) eine Zahlungsverpflichtung in Höhe von mindestens € 20.000.000 (oder ein entsprechender Betrag in einer anderen Währung) im Zusammenhang mit Geldern, die

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

§ 8 PRESENTATION PERIOD

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

§ 9 TERMINATION

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

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

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

(c) the Issuer or a Pertinent Subsidiary (as defined in § 9(3)) fails to fulfil any payment obligation equal to or exceeding € 20,000,000 (or its equivalent in another currency) when due or, as the case may be, within an applicable grace period under any monies borrowed or

die Emittentin oder eine Maßgebliche Tochtergesellschaft in Form eines Kredits oder anderweitig aufgenommen hat oder garantiert hat oder für die die Emittentin oder eine Maßgebliche Tochtergesellschaft anderweitig die Haftung übernommen hat, oder im Zusammenhang mit einer anderen Relevanten Verbindlichkeit (wie in § 2 Absatz 2 definiert), die von der Emittentin oder einer Maßgeblichen Tochtergesellschaft begeben oder garantiert wurde, oder für die die Emittentin oder eine Maßgebliche Tochtergesellschaft anderweitig die Haftung übernommen hat, nicht bei Fälligkeit oder innerhalb einer gegebenenfalls gewährten Nachfrist erfüllt; oder

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

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

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

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

raised or guaranteed by the Issuer or a Pertinent Subsidiary or for which the Issuer or a Pertinent Subsidiary has otherwise assumed liability or under any other Relevant Indebtedness (as defined in § 2(2)) issued or guaranteed by the Issuer or a Pertinent Subsidiary or for which the Issuer or a Pertinent Subsidiary has otherwise assumed liability; or

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

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

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

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

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

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

(2) *Benachrichtigung.* Jede Benachrichtigung, einschließlich einer Kündigung der Schuldverschreibungen gemäß Absatz 1 dieses § 9 ist schriftlich in deutscher oder englischer Sprache gegenüber der Hauptzahlstelle zu erklären und persönlich oder per Einschreiben an deren bezeichnete Geschäftsstelle zur Weiterleitung an die Emittentin zu übermitteln. Der Benachrichtigung ist ein Nachweis beizufügen, aus dem sich ergibt, dass der betreffende Schuldverschreibungsgläubiger zum Zeitpunkt der Benachrichtigung Inhaber der betreffenden Schuldverschreibung ist. Der Nachweis kann durch eine Bescheinigung der Depotbank (wie in § 14 Absatz 3 definiert) oder auf andere geeignete Weise erbracht werden.

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

§ 10 ERSETZUNG

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

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

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

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

(2) *Notice.* Any notice, including any notice declaring Notes due in accordance with paragraph 1 of this § 9, shall be made by means of a written declaration in the German or English language delivered by hand or registered mail to the specified office of the Principal Paying Agent to be forwarded to the Issuer by the Principal Paying Agent together with proof that such Noteholder at the time of such notice is a holder of the relevant Notes by means of a certificate of his Custodian (as defined in § 14(3)) or in another appropriate manner.

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

§ 10 SUBSTITUTION

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

§ 11
BEGEBUNG WEITERER
SCHULDVERSCHREIBUNGEN, ANKAUF
UND ENTWERTUNG

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

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

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

§ 12
MITTEILUNGEN

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

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

§ 11
FURTHER ISSUES, PURCHASES AND
CANCELLATION

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

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

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

§ 12
NOTICES

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

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

nicht gemäß den Regeln einer Börse bekannt gemacht wurden.

**§ 13
BESCHLÜSSE DER
SCHULDVERSCHREIBUNGS-
GLÄUBIGER**

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

(2) *Mehrheitserfordernisse für Änderungen der Emissionsbedingungen.* Die Schuldverschreibungsgläubiger beschließen mit einer Mehrheit von mindestens 75 % (**Qualifizierte Mehrheit**) der an der Abstimmung teilnehmenden Stimmrechte wesentliche Änderungen der Emissionsbedingungen, insbesondere die Zustimmung zu in § 5 Absatz 3 des Schuldverschreibungsgesetzes aufgeführten Maßnahmen. Beschlüsse, durch die der wesentliche Inhalt der Emissionsbedingungen nicht geändert wird, bedürfen zu ihrer Wirksamkeit einer einfachen Mehrheit von mindestens 50 % der teilnehmenden Stimmrechte (**Einfache Mehrheit**). Jeder Schuldverschreibungsgläubiger nimmt an Abstimmungen nach Maßgabe des Nennwerts oder des rechnerischen Anteils seiner Berechtigung an den ausstehenden Schuldverschreibungen teil. Jede Änderung der Emissionsbedingungen bedarf der Zustimmung der Emittentin.

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

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

**§ 13
RESOLUTIONS OF NOTEHOLDERS**

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

(2) *Majority requirements for amendments to the Terms and Conditions.* Resolutions relating to material amendments to the Terms and Conditions, in particular consents to the measures set out in § 5(3) of the German Bond Act (*Schuldverschreibungsgesetz*), shall be passed by a majority of not less than 75 per cent. of the votes cast (**Qualified Majority**). Resolutions relating to amendments to the Terms and Conditions which are not material, require a simple majority of not less than 50 per cent. of the votes cast (**Simple Majority**). Each Noteholder participating in any vote shall cast votes in accordance with the nominal amount or the notional share of its entitlement to the outstanding Notes. Any amendment of the Terms and Conditions requires the consent of the Issuer.

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

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

den Abstimmungszeitraum nachzuweisen.

§ 14
ANWENDBARES RECHT,
ERFÜLLUNGSORT, GERICHTSSTAND
UND
GERICHTLICHE GELTENDMACHUNG

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

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

(3) *Gerichtliche Geltendmachung.* Jeder Schuldverschreibungsgläubiger ist berechtigt, in jedem Rechtsstreit gegen die Emittentin oder in jedem Rechtsstreit, in dem der Schuldverschreibungsgläubiger und die Emittentin Partei sind, seine Rechte aus diesen Schuldverschreibungen im eigenen Namen auf der folgenden Grundlage geltend zu machen: (i) er bringt eine Bescheinigung der Depotbank bei, bei der er für die Schuldverschreibungen ein Wertpapierdepot unterhält, welche (a) den vollständigen Namen und die vollständige Adresse des Schuldverschreibungsgläubigers enthält, (b) den Gesamtnennbetrag der Schuldverschreibungen bezeichnet, die unter dem Datum der Bestätigung auf dem Wertpapierdepot verbucht sind und (c) bestätigt, dass die Depotbank gegenüber dem Clearing System eine schriftliche Erklärung abgegeben hat, die die vorstehend unter (a) und (b) bezeichneten Informationen enthält, und (ii) er legt eine Kopie der die betreffenden Schuldverschreibungen verbriefenden Globalurkunde vor, deren Übereinstimmung mit dem Original eine vertretungsberechtigte Person des Clearing System oder des Verwahrers des Clearing System bestätigt hat, ohne dass eine Vorlage der Originalbelege oder der die Schuldverschreibungen verbriefenden Globalurkunde in einem solchen Verfahren erforderlich wäre oder (iii) auf jede andere Weise, die im Lande der Geltendmachung prozessual zulässig ist. Für die Zwecke des Vorstehenden bezeichnet **Depotbank** jede Bank

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

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

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

(3) *Enforcement.* Any Noteholder may in any proceedings against the Issuer, or to which such Noteholder and the Issuer are parties, in his own name enforce his rights arising under such Notes on the basis of (i) a statement issued by the Custodian with whom such Noteholder maintains a securities account in respect of Notes (a) stating the full name and address of the Noteholder, (b) specifying the aggregate principal amount of Notes credited to such securities account on the date of such statement and (c) confirming that the Custodian has given written notice to the Clearing System containing the information pursuant to (a) and (b) and (ii) a copy of the Note in global form certified as being a true copy by a duly authorised officer of the Clearing System or a depository of the Clearing System, without the need for production in such proceedings of the actual records or the global note representing the Notes or (iii) any other means of proof permitted in legal proceedings in the country of enforcement. For purposes of the foregoing, **Custodian** means any bank or other financial institution of recognised standing authorised to engage in securities custody business with which the Noteholder maintains a securities account in respect of the Notes and includes the Clearing System.

oder ein sonstiges anerkanntes Finanzinstitut, das berechtigt ist, das Wertpapierverwahrungsgeschäft zu betreiben und bei der/dem der Schuldverschreibungsgläubiger ein Wertpapierdepot für die Schuldverschreibungen unterhält, einschließlich des Clearing Systems.

**§ 15
TEILUNWIRKSAMKEIT**

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

**§ 16
SPRACHE**

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

**§ 15
SEVERABILITY**

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

**§ 16
LANGUAGE**

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

DESCRIPTION OF THE ISSUER

Overview

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

The objects for which Air Berlin is established are set out on pages 1 to 3 inclusive of the Memorandum of Articles of Air Berlin PLC and include, *inter alia*:

"...to carry on business as an airline and air transport company and to provide air transport services and carry out all other forms of aerial work, whether on charter terms or otherwise, and to carry on any other trade or business or do anything which facilitates or is incidental to or associated with such business...and...to raise or borrow money in such manner as the board of directors thinks fit and to receive deposits and to mortgage, charge, pledge, or give liens or other security over the whole or any part of the Company's undertaking, property and assets (whether present or future), including its uncalled capital, for such purposes and in such circumstances and on such terms and conditions as the board of directors thinks fit..."

Air Berlin's authorised share capital is comprised of 85,226,196 ordinary shares of € 0.25 each and 50,000 A shares of € 1.00 each which were issued and fully paid up as of 30 June 2010. Included in this amount are 177,000 treasury shares held by Air Berlin through the Air Berlin Employee Share Trust.

Air Berlin is the parent company of a group which comprises Germany's second-largest airline and Europe's third-largest low-cost carrier and sixth-largest airline in terms of passenger numbers³. Air Berlin offers scheduled flights on a wide range of short-, medium- and long-haul routes. As of 30 June 2010, Air Berlin flies to 156 domestic German and international destinations in 43 countries. In total, Air Berlin flies to 84 destinations in Europe, 11 in North Africa along with a further 18 destinations overseas in Africa and Asia. Air Berlin's European destinations are located primarily in, or in close proximity to, major European cities that are attractive to leisure and business travellers alike. In 2009, Air Berlin transported 27.9 million passengers (2008: 28.6 million) and generated revenue of € 3,240.3 million (2008: € 3,388.5 million). Air Berlin's major competitor in the European low-cost carrier market is easyJet and in the German market, Lufthansa.

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

Air Berlin occupies a position as a "hybrid carrier", combining the advantages of low-cost carriers and traditional flagship airlines. Air Berlin is able to attract both leisure and business travellers through serving a balanced mix of airports in tourist destinations and airports in or in close proximity to major European cities and by offering customers a number of extra services, or so called frills, together with widely available value-for-money fares. Its business model and multi-channel distribution platform allow Air Berlin to target these core customer segments in order to balance demand and optimise yields. Air Berlin's low fares are made possible by the high utilisation of its

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

young aircraft fleet, a cost-efficient infrastructure, simplified business and operating procedures and the well-focused application of modern information technology.

As of 30 June 2010, Air Berlin's fleet is comprised of 150 aircraft (not including the aircraft of the Austrian carrier, NIKI), and is one of the youngest fleets among the top ten carriers by passengers in Europe, with an average age of 5.2 years.

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

	Six months ended 30 June		Year ended 31 December		
	2010 (unaudited)	2009	2009	2008	2007
Aircraft	150	143	152	125	124
Flights	117,649	113,503	213,399	220,808	218,587
Destinations	156	144	134	126	135
Capacity (thousands of passengers)	19,600	19,173	36,125	36,444	36,495
Passengers (in thousands)	14,228	14,335	27,911	28,559	28,212
ASKs in billion	25.9	26.2	50.66	56.48	59.38
RPKs in billion	18.8	19.6	39.16	44.31	46.07
Passenger load factor	72.59%	74.77%	77.26%	78.36%	77.30%
Number of block hours	230,038	222,460	426,608	458,921	461,823

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

Important recent events since Air Berlin's IPO

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

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

Air Berlin acquires 49% of the Swiss carrier Belair, with its strong base of tour operators and international traffic rights. |
| 2008 | Air Berlin launches the "Jump" cost-reduction programme to improve profitability throughout the Group. Starting with the winter flight schedule 2008/2009, Air Berlin implements measures to optimise capacity, flight schedules, route network |

and fleet and to streamline the organisation. Aircraft with high fuel consumption are taken out of service, while unprofitable routes are discontinued. At the same time, more flights are offered to destinations with high demand.

2009

Air Berlin transfers its option to acquire the remaining 51% of Belair to a Swiss trust which exercises the option with Hotelplan Holding AG and becomes the new owner of 51% of Belair. Air Berlin retains its 49% holding and the Swiss trust grants Air Berlin the option to acquire its 51% holding of Belair. Belair remains fully consolidated in Air Berlin's financial statements.

Air Berlin enters into agreements with members of the TUI Travel group. As a result of the agreements, new shares representing 9.9% of Air Berlin's issued share capital are issued to Leibniz, a subsidiary of TUI Travel, for cash consideration of € 33.5 million. Leibniz agrees to undertake an orderly divestment of the shares in the years following their subscription and not to exercise any voting rights with respect to the shares. Air Berlin receives certain slots, customer contracts and other rights previously utilised by TUI Travel and leases 14 Air Berlin-branded aircraft through wet lease arrangements with a subsidiary of TUI Travel, TUIfly GmbH.

Air Berlin becomes the first airline in the world with approval to use GLS (GPS landing system) for normal flight operations greatly reducing time spent in holding patterns and on diversions.

2010

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

As part of the oneworld® joining process, Air Berlin concludes codeshare agreements with existing oneworld® members, American Airlines and Finnair.

Air Berlin announces it is joining oneworld® and will begin flying as part of the alliance in early 2012.

Outlook

Although 2010 has been more successful for international aviation than originally anticipated, with the International Air Transport Association (**IATA**) revising upwards its profit forecasts for the year, the outlook for 2011 is less positive. IATA is expecting much slower growth in 2011, with Europe faring the worst⁴.

Air Berlin has not escaped the continuing adverse market developments. In the first half of 2010, passenger figures declined by 0.75% to 14.23 million from 14.34 million in the first half of 2009, in part due to the cancellation of flights as a result of the volcano eruptions during the second quarter. During the same period, revenue passenger kilometres decreased by 3.87% to 18.8 billion from 19.6 billion in the first half of 2009, and available seat kilometres decreased by 1.04% to 25.9 billion from 26.2 billion in the first half of 2009. As a result, the passenger load factor in the first half of 2010 decreased by 2.18 percentage points to 72.6% from 74.8% in the first half of 2009.

⁴ Source: IATA "Financial Forecast" report dated October 2010.

Air Berlin's current focus is on improving operating performance in the face of a challenging overall economic environment. The Board is confident about Air Berlin's prospects for the remainder of the current financial year.

Core strengths

Air Berlin's principal competitive strengths are:

Hybrid carrier business model. Air Berlin operates a hybrid carrier business model positioned between low-cost carriers and full-service, full-fare carriers by offering its customers primarily single-class travel at attractively-priced fares, while providing a number of free services to its passengers which other low-cost carriers either charge for or do not offer. Air Berlin effectively combines a hub-and-spoke system with point-to-point scheduled flights, serving a balanced mix of airports in tourist destinations as well as airports in, or in close proximity to, major European cities. An important benefit of the hybrid carrier business model is that it enables Air Berlin to focus on the following key customer segments: tour operators, individual leisure and business travellers, and corporate accounts. Air Berlin believes that it is well-positioned in the current economic environment to benefit from price sensitivity among business customers, as they seek value alternatives.

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

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

Extensive route network with high-density operations in Germany and an efficient route mix. Air Berlin operates an extensive route network with attractive departure times and flight frequencies to satisfy both leisure and business travellers. Additionally, Air Berlin believes that its coverage of 21 airports and top-two market share at 14 airports throughout Germany affords it a competitive advantage over other low-cost carriers for business and leisure destinations to and from Germany. Air Berlin's network focuses on airports with large, non-overlapping catchment areas and good ground and air transport links, which provide Air Berlin with access to routes and airports with high passenger volumes and yields, thereby enabling Air Berlin to achieve high aircraft utilisation rates.

Efficient cost structure. Air Berlin believes that its efficient cost structure allows it to provide a premium service at low fares. Although Air Berlin offers passengers services partially exceeding those of other low-cost carriers, its operating costs are low compared with other European airlines. In 2008, Air Berlin's operating expenses per ASK (excluding fuel costs) were €0.037. Air Berlin's efficient cost structure is made possible by:

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

Comprehensive and flexible multi-channel sales and distribution network. In line with its hybrid carrier business model, Air Berlin believes that it has a more comprehensive sales and distribution network compared to other large European low-cost carriers. Air Berlin sells its tickets through a

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

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

Strong brand. Air Berlin believes its strong brand recognition distinguishes it from its competitors by identifying Air Berlin as a low-cost carrier that is focused on providing premium customer service with an extensive flight network. Air Berlin's brand recognition rate in Germany has grown continuously over past years from 45% in 2002 to 89% in 2009⁵. The number of Germans with a positive impression of Air Berlin increased by 30% from 2002 to 2009. The percentage of those willing to book a ticket with Air Berlin, also increased by 30% during the same period. According to a travel survey conducted by "Stern" magazine, Air Berlin has the most satisfied customer base in Germany.

Air Berlin has won a large number of awards. In 2010 alone, Air Berlin was awarded "Best Short-Haul Airline" by the Business Travel Awards, "Loyalty Award" by Airline Business and Global Flight Magazine, "Short-Haul Airline of the Year" by Reiseblick magazine, the "Franz-von-Mendelssohn Medal" by the Berlin Chamber of Commerce and Industry, "Best Low Cost Airline" by the Danish Travel Awards and the Skytrax World Airline Award for "Best Low-Cost Airline Europe", among others.

Strategy

Air Berlin aims to build on its strengths and the efficient execution of its hybrid carrier business model to deliver sustainable and profitable growth and to strengthen its competitive position. The key elements of Air Berlin's strategy include:

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

Strategic mix of destinations served. Air Berlin has differentiated itself from other low-cost carriers by serving a balanced mix of airports in tourist destinations and airports, in or in close proximity to, major European cities to satisfy both leisure and business travellers. Air Berlin intends to increase the breadth and density of its footprint, in particular through the integration of the aircraft operated by TUIfly for Air Berlin on Air Berlin routes pursuant to the TUI Agreements with Air Berlin's existing operations. Air Berlin also intends to continue to review its network in order to opportunistically allocate capacity to more profitable routes. Membership in oneworld® and the codeshare agreements entered into in connection with oneworld® membership, will also increase the number of destinations in which Air Berlin has a presence.

⁵ Source: Forschungsgemeinschaft Urlaub und Reisen e.V.

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

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

Increasing acceptance among business travellers. Air Berlin's attention to business travellers, together with its premium low-cost service, highly frequented German domestic route network and destinations in a number of major European cities outside Germany frequented by business travellers, have enabled Air Berlin to gain steadily increasing acceptance among business travellers over the past few years. The number of agreements with corporate customers increased by 359 in 2009 bringing the total number of such agreements to 1200 as of 31 December 2009.

In addition to the Air Berlin Corporate and Flex fares schemes, Air Berlin has introduced its new loyalty reward scheme, business points, aimed at small and medium sized businesses. With these initiatives Air Berlin intends to further increase its percentage of business travellers, developing new and further strengthening existing corporate relationships. In addition, on a number of long-haul flights Air Berlin offers a business-class service of the type usually provided by legacy carriers.

Ongoing focus on a cost-efficient structure. Air Berlin intends to continue to monitor its costs closely, with particular focus on:

- Aircraft operating expenses. Air Berlin's aircraft fleet has a low average age, enabling Air Berlin to keep maintenance, repair and overhaul, or MRO, expenses low. Air Berlin expects to maintain the average age of its fleet at broadly the current level through the acceptance of new aircraft deliveries, the sale of older aircraft and the return of its older leased aircraft to their lessors.
- Airport costs. Airport costs, such as landing charges and ground-handling fees, represent a large proportion of Air Berlin's cost base. Air Berlin intends to continue to focus on airports with large catchment areas allowing for large passenger volume and aims to benefit from its scale by negotiating favourable terms with airport operators as well as with other providers of ground services.
- Personnel costs. Air Berlin intends to continue to closely monitor its personnel costs.
- Customer service costs. While focusing on providing its passengers with an attractively priced and comfortable travel experience, Air Berlin intends to continue closely monitoring the effect of costs incurred in providing additional services. Air Berlin intends to continue to provide additional services and to introduce new services where the costs of these services are more than outweighed by the higher demand for Air Berlin's flights and increased customer satisfaction.

Business operations

Route network

Overview

As of 30 June 2010, Air Berlin flies to 156 destinations in, among other countries, Germany, Spain, Austria, the United Kingdom, Switzerland, Italy, Greece, Egypt, Portugal, Turkey, Hungary, Tunisia, the Netherlands, Morocco, France, Denmark, Finland, the United States and Thailand. By connecting

German airports, international holiday regions and major European cities, Air Berlin's flight network offers attractive flights for both leisure and business travellers. In addition, Air Berlin's comprehensive airport coverage at 23 airports throughout Germany as of 30 June 2010, makes its flights accessible for travellers throughout the country.

Airports

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

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

In 2009, Air Berlin transported 27.9 million passengers between 144 airports (including TUIfly routes from October 2010 onwards). The following table sets forth Air Berlin's ten most important airports in 2009 in terms of the number of passenger arrivals and departures, including for connecting flights, and the percentage growth in passenger numbers at these airports compared with 2008:

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

Airport	Number of passengers carried in 2009	Increase/ Decrease 2009/2008
Dusseldorf	6,484,898	(2.2)%
Palma de Mallorca	6,275,305	(1.6)%
Berlin	6,058,117	7.1%
Munich	3,833,212	(11.8)%
Hamburg	2,991,004	2.8%
Nuremberg	2,312,864	(6.3)%
Zurich	1,638,834	(3.8)%
Cologne	1,720,621	15.0%
Hanover	1,304,979	(2.2)%
Vienna	1,368,611	2.7%
Other	19,520,827	(3.9)%
Total	53,509,272	(2.0)%

Hubs

Air Berlin currently has five hub airports, Palma de Mallorca International Airport, Dusseldorf International Airport, Berlin Tegel Airport, Munich Airport and Nuremberg Airport. Air Berlin believes one of its competitive strengths is its number one position at Palma de Mallorca International Airport which saw above average performance in 2009, despite the economic downturn. In addition, the new Berlin Brandenburg International Airport is being built as a major new hub for Europe and is expected to open in early 2012. Air Berlin is due to move into the airport in June 2012, which has an expected capacity of up to 45 million passengers a year.

Route management and new routes

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

In connection with the "Jump" programme launched in 2008, Air Berlin further optimised its flight schedule, beginning with the 2008/2009 winter flight schedule, with unprofitable routes being discontinued. The objectives of the "Jump" programme – a continual optimisation – continue to be carried out.

Fleet

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

Fleet as at 30 June 2010

With an average age of 5.2 years (increased from 4.6 in 2008 by reason of the addition of older TUifly aircraft), Air Berlin has one of the youngest fleets among the top ten carriers by passengers in Europe. Air Berlin has grown its fleet modestly to 150 aircraft as at 30 June 2010 and continued to modernise the fleet with the newest aircraft having the lowest fuel consumption.

The following table provides an overview of Air Berlin's current aircraft fleet:

Aircraft model	As of 30 June 2010
A319	16
A320	40
A321	9
A330-200	10
A330-300	3
Boeing 737-700	26
Boeing 737-800	36
Q400	10
Total	150

Ticket sales and distribution

Distribution channels

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

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

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

Distribution channel	Year ended 31 December		
	2009	2008	2007
	(as a percentage of total ticket sales)		
Individual ticket sales	62.2%	60.4%	62.8%
Air Berlin website	26.06%	25.2%	29.0%
Air Berlin Service Centre / In-house sales	4.28%	4.3%	4.9%
Air Berlin ticket counter	1.38%	1.9%	1.7%
Travel agencies	30.48%	29.0%	27.2%
Charter and tour organisers	37.8%	39.6%	37.2%
Total ticket sales	100.0%	100.0%	100.0%

Single-seat ticket sales

In 2009, Air Berlin generated € 1,845.4 million, or 62.2%, of its total ticket sales from single-seat ticket sales. Single-seat tickets can be bought via Air Berlin's website, Air Berlin's 24-hour service centre, Air Berlin ticket counters and third-party travel agencies (including online travel websites).

Charter and package tour operators

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

Business travellers

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

- **Air Berlin Corporate.** Air Berlin Corporate is specifically marketed to companies that are seeking a flexible yet low-cost solution for their business travel needs. Companies participating in Air Berlin Corporate enter into a master agreement with Air Berlin under which the companies' employees are eligible to purchase tickets for business travel on any Air Berlin flight at fixed-rate fares for each of three different destination zones, irrespective of when the flight is booked. Air Berlin Corporate customers may change their flight reservations and pre-book reserved seats at no additional charge. In addition, Air Berlin Corporate fares are fully refundable and are not subject to any no-show penalties. Air Berlin Corporate customers that book at least 50 coupons per year are entitled to receive discounts

on Flex fares within Germany domestic and European City Shuttle route networks, as well as intercontinental routes.

- Flex fares. Flex tickets are specifically aimed at business and other travellers seeking low fares combined with the flexibility of rebooking and cancelling their tickets without additional charge. Flex tickets entitle holders to pre-booked reserved seats, may be rebooked at no charge and are fully refundable. Flex tickets are sold at fixed rates, regardless of how far in advance the tickets are booked. As these are published fares, no special agreement is required and Flex tickets are available to both business and leisure passengers.
- Business Points. In addition to the Air Berlin Corporate and Flex fares schemes, Air Berlin has introduced its new loyalty reward scheme, business points, aimed at small and medium sized businesses.

Ancillary revenue

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

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

Marketing

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

General marketing

Air Berlin markets its services through a number of different forms of advertising media, including newspapers and magazines, television and billboards near airports. Recently, Air Berlin has added an iPhone app and sports sponsorship for the FC St. Pauli 2010/11 and the Berlin Foxes handball league as further forms of promotional advertising. Air Berlin also relies on word of mouth advertising to promote its brand.

topbonus

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

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

- Financial service partners including the “airberlin VISA Card”.
- Hotel partners including most major international hotel brands such as Hilton, Marriott and Crowne Plaza hotels.
- Car hire partners including Alamo, Avis, Europcar, Hertz, Holiday Autos Sixt and Sunny Cars.
- Other partners including American Express Membership Rewards, Binoli, comdirect, FAZ, Focus, Shell and Die Welt.

Strategic growth

oneworld®

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

As a result of oneworld® membership, Air Berlin passengers will have access to a global network. After Air Berlin joins, the number of oneworld® gateways will increase to 75 and the number of destinations will increase to almost 900 in 150 countries. The total fleet will comprise 2,500 aircraft, providing approximately 9,500 flights per day. The oneworld® alliance transports approximately 340 million passengers per year and in 2009 had a total economic power of approximately USD90 billion measured by revenue. Air Berlin has already concluded codeshare agreements with American Airlines and Finnair as part of the joining process. Bilateral agreements with British Airways and Iberia are planned to follow, as well as other members of oneworld®. As a result of oneworld® membership, topbonus members will be able to collect points with oneworld’s® 13 other quality carriers while frequent flyer cardholders of oneworld’s® established airlines will be able to earn and redeem rewards when flying with Air Berlin.

Strategic co-operation

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

Revenue management

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

Air Berlin’s revenue management process generally begins up to a year prior to a flight’s scheduled departure date, following Air Berlin’s initial sale of seats on the flight on a fixed-price wholesale basis to charter and package tour operators. Air Berlin believes that its extensive network of tour operator customers provides it with a competitive advantage in revenue management over many of its competitors by securing a basic level of utilisation across Air Berlin’s fleet prior to the

commencement of single-seat ticket sales. All seats not initially sold to or returned by tour operators are subject to Air Berlin's revenue management.

Air Berlin, similar to low-cost carriers in general, takes a flexible, dynamic approach to revenue management. Air Berlin adjusts its fares regularly, to reflect demand and to account of the time remaining until the flight departure date. An important factor in Air Berlin's revenue management is that, with the exception of long-haul flights, it offers only a single class of service and comfort on all its flights, which provides for more efficient management of passenger loads compared with airlines that allocate their passenger loads between different classes of service and comfort. Another important factor is that each flight offered by Air Berlin is available on a one-way ticket basis. As a result, each flight is subject to its own price management, enabling Air Berlin to charge passengers different fares on outbound flights and return flights.

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

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

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

Maintenance and safety

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

Following the LTU acquisition in 2007, Air Berlin amalgamated parts of the technical divisions of Air Berlin, dba and LTU under the auspices of its UK-registered subsidiary Air Berlin Technik Ltd. This independent technical company not only services the Group's own fleet, but also provides services to other airlines, thus leveraging additional growth potential through economies of scale. As well as achieving greater capacity utilisation at individual locations, the amalgamation of these technical operations has provided cost synergies.

In November 2009, Air Berlin KG extended its aircraft component management and maintenance arrangement with Lufthansa Technik AG (**LHT**) to cover the supply and maintenance of components for its entire fleet. The agreements which govern this arrangement, which are exclusive in nature,

have been entered into with a long-term perspective. The services provided by LHT are charged partly as flat charges per aircraft type and partly on agreed time and material rates, subject to a price adjustment mechanism.

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

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

Airport ground operations

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

Information and communication technology

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

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

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

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

Regulatory environment

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

The international regulatory framework

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

Non-scheduled flights, such as charter flights, are subject to the restrictions imposed by individual states. Air carriers generally obtain traffic rights for non-scheduled flights from the relevant foreign states. Germany is party to only a few bilateral air traffic agreements addressing non-scheduled services.

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

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

Bilateral agreements and EU – US Air Transport Agreement

Germany is currently a party to approximately 140 bilateral air traffic agreements. These agreements govern the designation of airlines and airports for the operation of specified routes, airline capacity and fare-approval procedures. In addition, the EU and its member states have concluded a comprehensive Air Transport Agreement with the United States.

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

Besides the Air Transport Agreement, the bilateral agreements currently relevant to Air Berlin's operations are Germany's agreements with Canada, Cuba, the Dominican Republic, Egypt, Israel, Jamaica, Kenya, Kosovo, the Maldives, Morocco, Mexico, Namibia, Russia, South Africa, Thailand, Tunisia and Turkey. However, most of Air Berlin's flights to destinations in Egypt, Kosovo and Tunisia are not scheduled flights but charter flights, which are not subject to such bilateral agreements. See "Charter Flights outside the EEA". Belair operates scheduled flights to Egypt and Turkey.

European Union

Historically, air traffic between the EU member states has been regulated by bilateral air traffic agreements. This bilateral regime was progressively liberalised through a series of measures aimed at establishing common rules for the licensing of air carriers within the European Union and permitting EU-licensed air carriers to operate services freely between points within the European Union. In order to qualify for such a licence, Article 4 of Regulation (EC) No. 1008/2008 (**Regulation 1008/2008**) requires airlines, among other things, to have their principal place of business in a member state, be principally engaged in air transport activities, be directly or indirectly owned at least as to 50% and effectively controlled by member states and/or nationals of member states and to have persons of

good repute as managers. Pursuant to Article 8 (1) of Regulation 1008/2008 airlines must be able to demonstrate to the competent licensing authority that they meet the requirements for a licence at all times. Access to traffic routes was liberalised by Council Regulation (EEC) No. 2408/92 and further by Regulation 1008/2008. According to Regulation 1008/2008 member states may restrict capacity on air traffic routes to distribute traffic more evenly between airports, to respond to sudden unavoidable and unforeseeable problems or for environmental reasons. These restrictions must not be discriminatory and are subject to review by the European Commission prior to, or, in the case of sudden problems, immediately after their implementation. In 1995, by virtue of the European Economic Area Agreement, Norway, Iceland and Liechtenstein, although not members of the European Union, became subject to the air traffic regulation regime set up by the European Union, thus extending this regime to the European Economic Area (EEA).

Regulatory requirements

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

Operational aspects

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

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

Members of the Air Berlin Group hold the necessary operator certificates. Air Berlin holds AOC No. D-051 AOC dated 24 September 2009. LTU holds AOC No. D-012 AOC dated 21 October 2009. Belair holds an AOC dated 11 September 2008.

Traffic rights

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

Traffic rights within the EEA. According to Article 15 Paras 1 and 2 of Regulation 1008/2008, no permit or authorisation by EU member states is required for the operation of intra-Community air services by EU licensed air carriers. Air Berlin is, therefore, generally allowed to exercise traffic rights within the EEA to any potential destination.

Scheduled flights outside the EEA. Scheduled flights to destinations outside the EEA require an airline licence (*Flugliniengenehmigung*) under Section 21 Para. 1 of the German Air Traffic Act. The LBA has granted Air Berlin such licences for destinations in Canada, Croatia, Cuba, the Dominican Republic, Israel, Jamaica, Kenya, the Maldives, Morocco, Mexico, Namibia, Russia, South Africa, Thailand, Turkey, Tunisia and the United States. Belair has been granted an airline licence (*Streckenkonzession*) by the Swiss Federal Civil Aviation Authority (*Bundesamt für Zivilluftfahrt*) for destinations in Egypt, Tunisia, Morocco, Algeria, Iraq, UAE, Egypt, Turkey and Kosovo.

Charter flights outside the EEA. Charter flight services to destinations outside the EEA require a general flight authorisation (*Allgemeine Ausflugerlaubnis*) under Section 2 Para. 6 of the German Air

Traffic Act. On 7 November 2007, the LBA granted Air Berlin a general flight authorisation for all ICAO regions. This general authorisation covers all package holiday flights, charter flights and freight charter flights out of German airspace to any destination in these regions. LTU was granted flight authorisations on 14 April 2005 for the same regions. Belair services charter flights to Turkey.

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

Slot allocation

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

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

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

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

The European Commission is currently working on another revision of the regulations related to slot allocation. Further changes are expected with the enactment of the second legislative package for the Single European Skies, which has been prepared by the European Commission and endorsed by the European Parliament in March 2009; it is expected that it will come into effect in 2010/2011 after EU Council of Ministers approval. However, the potential impact and the timeframe of any changes are at present unknown. See "Risk Factors – Risks relating to the airline industry – Growth of air carriers, like Air Berlin, is dependent on access to suitable airports and on its meeting the requirements needed to serve these airports".

Ownership and business requirements

According to Article 4(a) of Regulation 1008/2008, EU airlines are required to have their principal place of business in an EU member state to be granted an operating licence. Air Berlin's principal place of business is in

Berlin, Germany, an EU member state. EU regulations also require that EU airlines be principally engaged in air traffic activities, which is the case for Air Berlin.

According to Article 4(f) of Regulation 1008/2008, a European air carrier, such as Air Berlin, must be directly or indirectly owned as to at least 50% and effectively controlled by EU nationals, i.e. by EU

member states and/or their citizens. In addition, most bilateral air traffic agreements, on the basis of which Air Berlin is designated traffic rights for scheduled flights to destinations outside the EU, require that airlines be able to demonstrate majority ownership and control by nationals of their home state. Air Berlin's compliance with these requirements is safeguarded by its Articles of Association, which contain provisions allowing the Company to obtain information from Shareholders, refuse to register transfers of Shares or interests in Shares and to force the sale of Shares or interests in Shares by non-EU persons or non-German persons (as applicable) should Air Berlin's air traffic rights be jeopardised.

Fares

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

On 1 September 2010 the German Federal Government created an air travel tax, known as the "eco tax", designed to raise EUR 1 billion annually. The tax applies to all bookings from 1 September 2010 for flights departing from 1 January 2011. The tax amounts to EUR 8, 25 or 45 per passenger depending on the duration of the flight. It is highly likely, however, that the eco tax will be challenged before the German Constitutional Court (*Bundesverfassungsgericht*).

Airport and air traffic control charges

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

Moreover, the so-called Single European Sky Regulations set forth in Council Regulations (EC) No. 549/2004, 550/2004, 551/2004 and 552/2004 harmonised the legal framework for air traffic control services in Europe. However, except for the charges of Eurocontrol, the services are still being charged on the basis of national legislation.

Environmental issues

The primary environmental issues Air Berlin faces are regulations concerning substance and noise emissions from its aircraft. Air Berlin is not aware of any environmental problems, whether caused by its aircraft or by any other of its operations that could have a material effect on its business.

Inclusion of aviation in the EU emissions trading scheme

On 2 February 2009, Directive 2008/101/EC entered into force. Pursuant to this Directive, from 1 January 2012 all flights that arrive at or depart from an airport situated in the territory of an EU member state must be included in the EU emissions trading scheme. This legislation is likely to have a substantial negative impact on the European airline industry, including Air Berlin, despite the relatively young age of Air Berlin's fleet. There can be no assurance that Air Berlin will be able to obtain sufficient carbon credits or that the cost of the credits will not have a material adverse effect on the Company's business, operating results or financial condition. The inclusion of the aviation business into the EU emissions trading scheme has recently been challenged before the High Court in London by the Air Transport Association of America. The case has now been referred to the European Court of Justice (ECJ). The decision of the ECJ, however, cannot be predicted.

Security

According to Article 5 Para. 4 of Council Regulation (EC) No. 2320/2002 and Section 9 of the German Air Security Act (*Luftsicherheitsgesetz*), an air carrier is required to demonstrate specific security measures as set out in and in compliance with a security programme (*Luftsicherheitsplan*)

approved by the German air traffic authority. This requirement will remain in force when the relevant rules in Regulation (EC) No. 2320/2002 are replaced by Regulation (EC) No 300/2008 in 2010.

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

Passenger compensation and Montreal Convention liability regime

The European Union has passed legislation for compensating airline passengers who have been denied boarding on a flight for which they hold a valid ticket (Regulation (EC) No. 261/2004). This legislation, which came into force in February 2005, imposes fixed levels of compensation to be paid to passengers in the event of cancelled flights, except where the airline can prove that such a cancellation is caused by extraordinary circumstances, such as weather, air-traffic control delays or safety issues. Passengers subject to long delays (two hours or more for short-haul flights) are also entitled to “assistance” including meals, drinks and telephone calls, as well as hotel accommodation if the delay extends overnight. For delays of at least five hours, the airline is also required to offer the option of a refund of the cost of the ticket and, if the passenger has already completed part of the journey, a return flight to the first point of departure. The **Sturgeon** judgment of the ECJ of 19 November 2009 reinterpreted the Regulation (EC) No. 261/2004 so as to read into it an obligation on airlines to pay compensation of between € 250 – € 600 for flight delays exceeding three hours. The financial consequences of the Sturgeon case may be substantial but cannot be assessed at this stage.

The Montreal Convention on the Unification of Certain Rules for International Air Carriage was adopted in May 1999. The Convention consolidated, updated and has replaced all previous agreements on air carrier liability, including the 1929 Warsaw Convention vis-à-vis those countries that have also ratified the Montreal Convention, including Germany. The Montreal Convention came into force in all EU member states on 28 June 2004, and was implemented into German law in 2004. Passengers may claim up to 1,000 Special Drawing Rights (**SDRs**) (as of 16 September 2010 approximately € 1166) for lost, damaged or delayed luggage. This compares with the previous weight-based compensation system under the 1929 Warsaw Convention, which continues to apply to cargo. Finally, in case of a passenger’s death or bodily injury the Montreal Convention establishes strict carrier liability for damages of up to 100,000 SDRs (as of 16 September 2010 approximately € 116,592) for each passenger while the carrier’s liability for damages caused by delay in the carriage of persons is limited to 4,150 SDRs (as of 16 September 2010 approximately € 4,839) for each passenger. Air Berlin maintains insurance at standard industry levels in relation to any compensation or damages it is required to pay pursuant to the Montreal Convention.

Intellectual property

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

Insurance

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

Factors — Risks relating to the airline industry — Air carriers are exposed to the risks of losses from air crashes or similar disasters”.

Real estate

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

SELECTED FINANCIAL INFORMATION

The data for the six-month periods ended 30 June 2009 and 2010 and the financial years ended 31 December 2009 and 2008 set out below have been extracted without material adjustment from, and should be read together with, the Company’s unaudited interim condensed consolidated financial statements as of and for the six months ended 30 June 2010 and its audited consolidated financial statements as of and for the year ended 31 December 2009.

On 27 March 2009, Air Berlin KG entered into agreements with TUI Travel PLC, under which 8,437,393 new shares were issued to Leibniz, a subsidiary of TUI, for cash consideration of € 33.5 million. Air Berlin Group increases its interest in the Austrian carrier NIKI Luftfahrt GmbH (**NIKI**) by 25.9% from 24% to 49.9%. In addition, Air Berlin PLC & Co. Luftverkehrs KG (**Air Berlin KG**) grants a € 40.5 million loan to the private Lauda foundation (*Privatstiftung Lauda*) which is the ultimate indirect shareholder of the remaining 50.1% interest in NIKI. The maximum term of the loan is slightly less than three years and the private Lauda foundation may repay the loan including interest in cash or transfer its entire indirect interest in NIKI to Air Berlin KG instead. Largely as a result of these acquisitions, Air Berlin’s results of operations and cash flows are not directly comparable across years.

On 16 March 2009, Air Berlin exercised its call option to acquire the remaining 51 per cent. of Belair for a purchase price of CHF1,785,000. The acquisition completed in October 2009.

Selected consolidated financial data

	Six months ended 30 June		Year ended 31 December	
	2010	2009	2009	2008
	(unaudited)	(unaudited)	(audited)	(audited)
	€000	€000	€000	€000
Income statement data:				
Revenue	1,567,912	1,496,969	3,240,344	3,388,520
Other operating income	16,617	9,567	42,443	38,621
Expenses for materials and services	(1,180,477)	(1,065,055)	(2,193,173)	(2,359,845)
Personnel expenses	(229,792)	(218,884)	(440,722)	(446,264)
Depreciation and amortisation	(48,384)	(53,254)	(109,144)	(103,142)
Other operating expenses	(252,770)	(239,065)	(511,281)	(515,897)
Operating expenses	(1,711,423)	(1,576,258)	(3,254,320)	(3,425,148)
Result from operating activities				
	(126,894)	(69,722)	28,467	1,993
Financial expenses	(34,200)	(30,727)	(62,588)	(55,533)
Financial income	1,605	1,582	24,554	12,561
Gains (Losses) on foreign exchange and derivatives, net	(40,015)	(13,318)	(12,938)	(28,989)
Net financing costs	(72,610)	(42,463)	(50,972)	(71,961)
Share of profit of associates, net of tax	3,059	883	808	(9)
(Loss) Profit before tax	(196,445)	(111,302)	(21,697)	(69,977)
Income tax benefit (expense)	45,971	29,946	12,229	(13,541)
(Loss) Profit for the period - all attributable to the shareholders of the Company	(150,474)	(81,356)	(9,468)	(83,518)

	As of 30	As of 31 December	
	June	2009	2008
	(unaudited)	(audited)	(audited)
	€000	€000	€000
Balance sheet data:			
Assets			
Non-current assets			
Intangible assets	317,788	318,060	313,819
Property, plant and equipment	923,265	1,209,743	1,269,943
Trade and other receivables	133,715	106,252	108,254
Deferred tax asset	35,090	0	54,555
Positive market value of derivatives	14,121	14	664
Deferred expenses	14,113	5,825	0
Investments in associates	5,531	3,183	1,771
Non-current assets	1,443,623	1,643,077	1,749,006
Current assets			
Inventories	41,759	38,724	36,692
Trade and other receivables	333,711	297,663	283,427
Positive market value of derivatives	91,555	23,720	46,567
Deferred expenses	49,372	35,120	25,110
Assets held for sale	100,500		

Cash and cash equivalents	394,939	373,233	268,287
Current assets	1,011,836	768,460	660,083
Total assets	2,455,459	2,411,537	2,409,089
Equity and liabilities			
Shareholders' equity			
Share capital	21,379	21,379	16,502
Share premium	373,923	374,319	307,501
Equity component of convertible bond	51,598	51,598	27,344
Other capital reserves	217,056	217,056	217,056
Retained earnings	(212,781)	(62,323)	(62,654)
Hedge accounting reserve, net of tax	38,040	7,218	(135,294)
Foreign currency translation reserve	1,707	767	936
Total equity - all attributable to the shareholders of the Company	490,922	610,014	371,391
Minority interest	0	0	629
Total equity	490,222	610,014	372,020
Non-current liabilities			
Liabilities due to bank from assignment of future lease payments	452,183	583,158	610,463
Interest-bearing liabilities	280,688	273,355	302,783
Provisions	10,128	10,298	10,661
Trade and other payables	41,466	36,401	31,263
Deferred tax liabilities	0	4,327	0
Negative market value of derivatives	10,261	70,853	58,767
Non-current liabilities	794,726	978,392	1,013,937
Current liabilities			
Liabilities due to bank from assignment of future lease payments	140,751	77,228	73,011
Interest-bearing liabilities	14,757	13,580	44,012
Current tax liabilities	7,176	7,526	8,076
Provisions	2,895	11,177	15,562
Trade and other payables	413,804	334,926	316,121
Negative market value of derivatives	45,489	12,756	236,735
Deferred income	68,245	78,390	72,795
Advanced payments received	476,694	287,548	256,820
Current liabilities	1,169,811	823,131	1,023,132
Total equity and liabilities	2,455,459	2,411,537	2,409,089

MANAGEMENT, CORPORATE GOVERNANCE AND SIGNIFICANT SHAREHOLDERS

Board of Directors

Executive Directors

Joachim Hunold – Chief Executive Officer

Joachim Hunold was born on 5 September 1949 in Dusseldorf, Germany. After completing secondary school in 1970, Mr. Hunold studied law and began his career in aviation in 1978 with Braathens Air Transport, Dusseldorf. From 1982 until 1990 he held the position of Sales and Marketing Director with the LTU Group. In April 1991, Mr. Hunold was one of the founders of Air Berlin GmbH & Co. Luftverkehrs KG (as successor to Air Berlin Inc.) and since then has headed the Air Berlin Group, initially as the Managing Partner and, since the creation of the new holding company structure, as its CEO, effective as of 1 January 2006.

Ulf Hüttmeyer – Chief Financial Officer

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

Jean Christoph Debus – Chief Commercial Officer

Jean Christoph Debus was born on 1 March 1971 in Herborn, Germany. Upon completion of studies in Mechanical Engineering and Business Administration, he began his career with Roland Berger Strategy Consultants and was elected partner in 2004. During his tenure, Mr. Debus advised numerous companies in the aviation, tourism and automotive sectors. From 2005 until 1 June 2009, Mr. Debus held the position of managing director and chief financial officer with the German airline Condor Flugdienst GmbH in Kelsterbach where he was responsible for finance, controlling, IT, procurement and human resources. As of 1 June 2009, Mr. Debus was appointed Chief Commercial Officer of Air Berlin PLC.

Non-Executive Directors

Dr Hans-Joachim Körber – Former chairman of the management board and chief executive officer of Metro AG

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

Johannes Zurnieden – Chairman of the Board until 31 December 2010 and managing director at Phoenix Reisen GmbH, Bonn

Johannes Zurnieden was born on 28 June 1950 in Bergisch-Gladbach, Germany. After completing secondary school and studies in law and psychology at the Rheinische-Friedrich-Wilhelms University in Bonn, he assumed the position of managing director at Phoenix Reisen GmbH in 1973. In 1994 he was appointed deputy chairman of the supervisory board of the German Fare Insurance Association (*Deutscher Reisepreissicherungsverein*) and in 1998 vice-president of the German Tourism Association (*Deutscher Reiseverband*). He also has accepted appointments to the advisory boards of Europäische Reiseversicherung AG, Commerzbank and Sparkasse Köln-Bonn. Mr. Zurnieden joined the Board as Chairman in May 2006. Mr Zurnieden will step down from that position, effective 1 January 2011 but will remain a non-executive member of the Board.

Peter R. Oberegger – Managing partner of Vorwerk & Co. KG.

Mr. Oberegger holds a degree in Business Administration. From 1989 to 1990 he held the position of Regional Sales Manager at Hitachi Europe and from 1990 to 1993 he held the same position at Fujitsu Germany. From 1993 to 2000, he held various positions at the Nokia Corporation, most recently as Director of the Nokia Deutschland GmbH and General Manager of Nokia Display Europe. From 2001 until the end of 2006, he was President and CEO of the Division Thermomix and, from 2006, Executive Vice President of Vorwerk & Co. KG. Mr. Oberegger has been employed by Vorwerk since 2001 and since January 2007 he has been a personally liable partner of the company. Mr. Oberegger joined the Board in March 2010.

Heinz-Peter Schlüter – Chairman of the management Board of Trimet Aluminium AG, Dusseldorf

Heinz-Peter Schlüter was born on 16 October 1949 in Rubehorst/Ruppin, Germany. After training as a merchant in wholesale and foreign trade at W&O Bergmann, he began his career as a metal trader in 1971. Following positions in Hamburg, London and Paris, he assumed overall responsibility for trading in 1979 and joined the management in 1982. In 1985, he founded TRIMET Metallhandelsgesellschaft as sole proprietor. With the acquisition of Aluminiumhütten Essen (1994) and Hamburg (2006), as well as smelters and foundries in Gelsenkirchen (1993), Harzgerode (2001) and Sömmerda (2001), TRIMET ALUMINIUM AG today employs under his management around 1,600 staff working with aluminium. With an overall production of over 450,000 tonnes, his company is Germany's largest producer of aluminium. TRIMET ALUMINIUM AG operates offices in Berlin and Turin, as well as other offices in Moscow, Prague and Zug via a stake in TRIMET CH. Mr. Schlüter joined the Board in April 2008.

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

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

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

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

Hartmut Mehdorn – Former CEO of Deutsche Bahn AG

Hartmut Mehdorn was born on 31 July 1942. After studying mechanical engineering at the Technical University in Berlin, he joined the construction development section of Focke-Wulf in Bremen. Between 1966 and 1978, he worked in the business that later became known as the Vereinigte Flugtechnische Werke-Fokker GmbH, his last position being that of production head at the "Nordwerke" of MBB (Messerschmitt-Bölkow-Blohm). From 1979 until 1984, he was a member of the senior management team at Airbus Industrie S.A. in Toulouse, where he was responsible for production, purchasing and quality assurance. From 1984 to 1989, Mr. Mehdorn was in charge of MBB's Transport and Commercial Aircraft Group in Hamburg, and in 1985 he also joined the MBB management team in Munich. From 1989 until 1995, Mr. Mehdorn combined this role with others: as chairman of Deutsche Airbus GmbH in Hamburg (1989-1992) and as a board member of Deutsche Aerospace AG in Munich, responsible for the company's aviation business division (1992-1995). Between 1995 and 1999, Mr. Mehdorn was CEO of Heidelberger Druckmaschinen AG, and from 1997 until 1999 he also sat on the board of RWE AG, where he was responsible for the company's industrial holdings. From late 1999 until April 2009, Mr. Mehdorn was CEO of Deutsche Bahn AG. Mr. Mehdorn joined the Board in July 2009.

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

Name of Director	Current directorships and partnerships	Previous directorships and partnerships
Johannes Zurnieden	Phoenix Reisen GmbH Avia Consult GmbH Quality Group GmbH DRS Deutscher Reisepreis-Sicherungsverein VvaG	None
Joachim Hunold	LTU Lufttransport Unternehmen GmbH Belair Airline AG Interseroh SE	Neue Dorint GmbH Berliner Verkehrsbetriebe (BVG) dba Luftfahrtgesellschaft
Ulf Hüttmeyer	LTU Lufttransport Unternehmen GmbH Belair Airline AG	None
Jean Christoph Debus	None	Roland Berger Strategy Consultants Condor Flugdienst GmbH
Hans-Joachim Körber	Esprit Holdings Limited Sysco Corporation WEPA Industrieholding SE	Metro AG Kaufhof Warenhaus AG Real Holding GmbH LP Holding GmbH Bertelsmann AG Skandinaviska Enskilda Banken AB
Hartmut Mehdorn	SAP AG	Deutsche Bahn AG Dresdner Bank AG Bayerische Magnetbahnvorbereitungsgesellschaft mbH Projektgesellschaft METRORAPID mbH
Peter R. Oberegger	Managing Partner Vorwerk & Co. KG	akf Leasing GmbH & Co.
Ali Sabanci	ESAS Holding A.S. Pegasus Hava Tasimacigli A.S. Izmir Hava Yollari A.S. AFM Sinemalari	I-BiMSA Sabanci Telekom Dupont SA

Heinz-Peter Schlüter	Scheidt & Bachmann GmbH Trimet AG Trimet Aluminium AG	None
Nicholas Teller	E.R. Capital Holding GmbH & CIE. KG Eurex Zürich AG Eurex Clearing AG Eurex Frankfurt AG	Deutsche Schiffsbank AG BRE Bank Commerzbank AG

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

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

Corporate governance

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

The Non-Executive Directors provide a wealth of experience and skills that are key to the formulation and development of the Company's strategy. The Board is satisfied that the Chairman and each of the Non-Executive Directors committed sufficient time during 2009 to fulfilling their duties as members of the Board. The Chairman's main external commitments did not change during the year.

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 Combined Code, nor is it required to comply with German corporate governance standards. The Company complies voluntarily with the provisions of the Combined Code. However, the Company has not complied with certain provisions of the Combined Code that are not required by German corporate governance standards and are not customary in the German market. Specifically, the Executive Directors' service contracts have fixed terms of more than one year and cannot be terminated during such period unless for cause. As a consequence of the fixed term nature of the contracts, there is no liability on the Directors to mitigate loss in case of termination. The Directors are subject to re-election at periods which 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.

The Company has established Audit, Nominations and Remuneration Committees, each of them meeting regularly under its own terms of reference.

Audit Committee

As at 31 December 2009, the Audit Committee comprised Hans-Joachim Körber (as chairman of the Audit Committee), Johannes Zurnieden and Peter Oberegger. The Audit Committee currently comprises Hans-Joachim Körber (as chairman), Hartmut Mehdorn and Peter Oberegger, all of whom are independent Non-Executive Directors. A representative of the Company's external auditors and the Chief Financial Officer attend the meetings of the Audit Committee.

The Audit Committee met 6 times during 2009. The primary function of the Audit Committee is to assist the Board in fulfilling its oversight responsibilities in relation to internal and external audits and internal controls. The Audit Committee's tasks include reviewing the Company's annual financial statements and other financial information before their publication, determining the scope of the

annual audit, and advising on the appointment of external auditors. Additionally, the Audit Committee is responsible for monitoring the effectiveness of the Company's internal control systems. The Audit Committee periodically reviews the scope of the non-audit work undertaken and the fees related to such work to ensure that the auditors' impartiality is not or may not become impaired. The Audit Committee also makes recommendations to the Board regarding the reappointment or the removal of external auditors, their terms of engagement and the level of their remuneration.

Principal Shareholders

The shareholdings of principal Shareholders of the Company as of 30 June 2010 are set out below:

Major Shareholders	Holdings in %
ESAS Holding A.S.	16.48
Leibniz-Service GmbH / TUI Travel PLC	7.90
Hans-Joachim Knieps	7.51
Reidun Lundgren (Metolius Foundation, Ringerike GmbH & Co. Luftfahrtbeteiligungs KG)	5.97
Werner Huehn	3.82
JP Morgan Chase & Co.	3.70
Rudolf Schulte	2.93
Severin Schulte	2.93
Joachim Hunold (CEO Air Berlin PLC)	2.64
Moab Investments Ltd.	2.39
Johannes Zurnieden (Chairman Air Berlin PLC)	1.58
Heinz-Peter Schlüter	1.40

TAXATION

GERMANY

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

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

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

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

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

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

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

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

IRELAND

Introduction

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

TAXATION OF NOTEHOLDERS

Withholding Tax from payments on the Notes

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

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

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

Tax on Income

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

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

Encashment Tax

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

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

Capital Gains Tax

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

Capital Acquisitions Tax

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

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

Stamp Duty on Transfer Of Notes

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

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

UNITED KINGDOM

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

Interest on the Notes

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

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

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

Direct assessment

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

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

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

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

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

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

Provision of information

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

Stamp Duty and SDRT

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

EU SAVINGS DIRECTIVE

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

On 15 September 2008 the European Commission issued a report to the Council of the European Union on the operation of the Directive, which included the Commission's advice on the need for

changes to the Directive. On 13 November 2008 the European Commission published a more detailed proposal for amendments to the Directive, which included a number of suggested changes. The European Parliament approved an amended version of this proposal on 24 April 2009. If any of the proposed changes are made in relation to the Directive, they may amend or broaden the scope of the requirements described above.

SUBSCRIPTION, OFFER AND SALE

GENERAL

quirin bank AG, Kurfürstendamm 119, 10711 Berlin, Germany (the **Lead Manager**) will, pursuant to a Subscription Agreement (the **Subscription Agreement**) dated 1 November 2010, agree to subscribe or procure subscribers for the Notes under a best efforts arrangement. The Lead Manager will be entitled, under certain circumstances, to terminate the agreement reached with the Issuer. In such event, no Notes will be delivered to investors. Furthermore, the Issuer will agree to indemnify the Lead Manager against certain liabilities in connection with the offer and sale of the Notes.

OFFER OF THE NOTES

General

Up to 150,000 Notes (subject to an increase of up to a further 50,000 Notes) will be offered to investors during an offer period which will commence on 2 November 2010 and which will be open until 5 November 2010 (the **Issue Date**) subject to a shortening or extension of the offer period. The Notes may also be publicly offered after the end of the offer period subject to applicable laws and regulations. The issue price per Note is € 1,000. The rate of interest is 8.5% p.a. The number of Notes to be issued will be determined on the basis of the orders received on the closing date which is expected to be on or about 10 November 2010 (the **Closing Date**). Such information will be announced in a notice which will be published on the website of the Issuer (www.airberlin.com)* after the Closing Date. Any onsale of Notes will be subject to market conditions. Should the Issuer and the Lead Manager determine any shortening or extension of the offer period, which could be the result of changing market conditions, such changes will be notified in the same manner as the notice concerning the number of Notes to be issued will be published.

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

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

The offer consists of

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

* The website does not constitute part of this document.

Public offer

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

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

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

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

Private Placement

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

Delivery of the Notes

Delivery and payment of the Notes will be made within five business days after the allotment of Notes has been confirmed to the relevant investor. The Notes will be delivered via book-entry through the Clearing System (see "*General Information – Clearing System*" on page 82) and their depository banks against payment of the Issue Price.

Charges and costs relating to the offer

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

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

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

SELLING RESTRICTIONS

General

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

United States

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

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

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

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

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

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

Public Offer Selling Restriction under the Prospectus Directive

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

- (a) to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;
- (b) to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than € 43,000,000; and (3) an annual net turnover of more than € 50,000,000, as shown in its last annual or consolidated accounts;
- (c) to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive); or
- (d) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

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

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

United Kingdom

The Manager will represent and agree that:

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (**FSMA**)) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

GENERAL INFORMATION

LISTING

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

USE OF PROCEEDS

The Issuer intends to use the net proceeds for refinancing and general corporate purposes, including, but not limited to, the potential buy-back of the outstanding 9 per cent. Guaranteed Convertible Bonds due 2014 issued by Air Berlin Finance B. V. and guaranteed by the Issuer.

YIELD

The yield of the Notes is 8.78% p.a. (rounded upwards to two decimal places). Such yield is calculated on the basis of the ICMA (International Capital Markets Association) method and the issue price of 100% of the principal amount of the Notes and does not take into account any transaction costs or other surcharges.

RESOLUTION REGARDING THE ISSUE OF THE NOTES

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

NOTEHOLDER RESOLUTIONS UNDER THE GERMAN BOND ACT

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

CLEARING SYSTEM

The Notes have been accepted for clearance through Clearstream Banking AG, Neue Börsenstrasse 1, 60487 Frankfurt. The ISIN for this issue is DE000AB100A6 and the German Securities Identification Number (WKN) is AB100A.

U.S. TAX

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

INTEREST OF NATURAL AND LEGAL PERSONS INVOLVED

The Manager is entitled to customary fees, partly depending on the success of the issuance of the Notes. Furthermore, the auditors of the Issuer and legal advisors are entitled to customary fees. The

Manager and its affiliates have from time to time performed, and in the future may perform, various financial advisory, commercial banking (including lending) and investment banking services for the Issuer and its affiliates, for which they have received and/or will receive fees and expenses. Besides the disclosed interests above, so far as the Issuer is aware, no person involved in the offer of the Notes has an interest material to the offer.

SIGNIFICANT OR MATERIAL CHANGE

There has been no significant change in the financial or trading position of the Issuer or any of its subsidiaries (the **Group**) since 30 June 2010 and there has been no material change in the financial position or prospects of the Group since 31 December 2009.

LITIGATION

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

AUDITORS

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

KPMG Audit Plc audited the financial statements of the Issuer for the years ended 31 December 2009 and 2008.

The interim financial report for the second quarter and the first six months of the financial year 2010 is unaudited.

DOCUMENTS ON DISPLAY

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

- (i) the Prospectus;
- (ii) memorandum and articles of association of the Issuer;
- (iii) the audited consolidated financial statements of the Issuer, including the notes to such financial statements and the auditor's report thereon, for the financial years ended 31 December 2008 and 31 December 2009; and
- (iv) the unaudited consolidated financial statements of the Issuer, including the notes to such financial statements, for the six months ended 30 June 2010.

HISTORICAL FINANCIAL INFORMATION

Excerpt from the Annual Report 2008, comprising the following:

Independent Auditor's Report

Financial Statements 2008

Notes to the Financial Statements

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF AIR BERLIN PLC

We have audited the Group and Company financial statements (the “financial statements”) of Air Berlin Plc for the year ended 31 December 2008 which comprise the Consolidated Statement of Income, the Consolidated and Company Balance Sheets, the Consolidated and Company Statement of Cash Flows, the Consolidated and Company Statement of Changes in Shareholders' Equity and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. 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 AUDITORS

The Directors' responsibilities for preparing the Annual Report and the financial statements, the Directors' Remuneration Report and the Company financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU are set out in the Statement of Directors' Responsibilities on page 104.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' Report and Business Review is consistent with the financial statements. In addition, we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.



- 01) Essentials
- 02) 30 Years of Air Berlin
- 03) The Share
- 04) Directors' Report
- 05) Corporate Governance
- 06) Responsibilities
- 07) Auditor's Report**
- 08) Financial Statements
- 09) Other Information

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

BASIS OF AUDIT OPINION

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' Remuneration Report to be audited.

OPINION

In our opinion:

- ✈ the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the Group's affairs as at 31 December 2008 and of its loss for the year then ended;
- ✈ the Company financial statements give a true and fair view in accordance with IFRS as adopted by the EU as applied in accordance with the provisions of the Companies Act 1985 of the state of the Company's affairs as at 31 December 2008
- ✈ the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation; and
- ✈ the information given in the Directors' Report is consistent with the financial statements.

KPMG Audit Plc
Chartered Accountants, Registered Auditor
2 Cornwall Street
Birmingham B3 2DL
Great Britain

25 March 2009

AIR BERLIN PLC
FINANCIAL STATEMENTS 2008

Air Berlin PLC
CONSOLIDATED INCOME STATEMENT
for the year ended 31 December 2008

	Note	2008	2007
		€ 000	€ 000
Revenue	20	3,400,692	2,536,500
Other operating income	21	38,621	14,575
Expenses for materials and services	22	(2,359,845)	(1,736,435)
Personnel expenses	23	(446,264)	(311,802)
Depreciation and amortisation	6,7	(103,142)	(93,772)
Other operating expenses	24	(515,897)	(387,647)
Operating expenses		(3,425,148)	(2,529,656)
Result from operating activities		14,165	21,419
Financial expenses	25	(55,533)	(49,624)
Financial income	25	12,561	13,851
Foreign exchange (losses) gains, net	25	(28,989)	225
Net financing costs		(71,961)	(35,548)
Share of (loss) profit of associates, net of tax	26	(9)	791
Loss before tax		(57,805)	(13,338)
Income tax (expense) benefit	27	(17,214)	34,315
(Loss) profit for the year – all attributable to equity holders of the Company		(75,019)	20,977
Basic earnings per share in €	12	(1.14)	0.33
Diluted earnings per share in €	12	(1.14)	0.33



08) Financial Statements

Air Berlin PLC
CONSOLIDATED BALANCE SHEET
 as at 31 December 2008

	Note	31/12/2008	(adjusted)* 31/12/2007
		€ 000	€ 000
Assets			
Non-current assets			
Intangible assets	6, 5	313,819	317,765
Property, plant and equipment	7	1,269,943	1,203,610
Trade and other receivables	10	108,254	100,963
Deferred tax asset	27	46,180	2,956
Positive market value of derivatives	29	664	2,077
Investments in associates	8	1,771	935
Non-current assets		1,740,631	1,628,306
Current assets			
Inventories	9	36,692	30,825
Trade and other receivables	10	283,427	260,199
Positive market value of derivatives	29	46,567	84,362
Prepaid expenses		25,110	30,751
Cash and cash equivalents	28	268,287	468,658
Current assets		660,083	874,795
Total assets		2,400,714	2,503,101
Equity and liabilities			
Shareholders' equity			
Share capital	11	16,502	16,502
Share premium	11	307,501	307,501
Equity component of convertible bond	16	27,344	27,431
Other capital reserves	11	217,056	217,056
Retained earnings		(43,273)	31,889
Hedge accounting reserve, net of tax	30	(135,294)	(6,639)
Foreign currency translation reserve	11	936	(201)
Equity available to the shareholders of the Company		390,772	593,539
Minority interest		629	629
Total equity		391,401	594,168
Non-current liabilities			
Liabilities due to bank from assignment of future lease payments	16	610,463	528,907
Interest-bearing liabilities	16	302,783	316,148
Pension liabilities	14	0	1,205
Non-current provisions	15	10,661	11,036
Trade and other payables	18	31,263	26,164
Negative market value of derivatives	29	58,767	81,610
Non-current liabilities		1,013,937	965,070
Current liabilities			
Liabilities due to bank from assignment of future lease payments	16	73,011	62,935
Interest-bearing liabilities	16	44,012	122,402
Current tax liabilities		8,076	5,611
Provisions	15	15,562	13,350
Trade and other payables	18	316,121	442,289
Negative market value of derivatives	29	236,735	81,960
Deferred income		45,039	48,079
Advanced payments received	19	256,820	167,237
Current liabilities		995,376	943,863
Total equity and liabilities		2,400,714	2,503,101

* The balance sheet adjustments as of 31 December 2007 relate to the final valuation of the purchase price allocation of the LTU group. For further information see note 5. The financial statements were approved by the Board of Directors and authorised for issue on 25 March 2009 and signed on behalf of the Board:

Joachim Hunold
Chief Executive Officer

Ulf Hütsmeyer
Chief Financial Officer

Air Berlin PLC

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2008

	Note	31/12/2008	31/12/2007
		€ 000	€ 000
(Loss) profit for the year		(75,019)	20,977
Adjustments to reconcile profit or loss to cash flows from operating activities:			
Depreciation and amortisation of non-current assets	6, 7	103,142	93,772
Gain on disposal of tangible and intangible assets	21, 24	(18,851)	(1,765)
Gain on disposal of associates		(2,282)	0
Loss on disposal of subsidiaries		316	0
Share based payments	13	(143)	390
(Increase) decrease in inventories		(5,868)	1,380
Decrease (increase) in trade accounts receivable		3,722	(20,040)
(Increase) decrease in other assets and prepaid expenses		(18,568)	1,679
Deferred tax expense (benefit)	27	12,304	(38,119)
(Decrease) increase in accrued liabilities and provisions		(92,703)	18,246
Decrease in trade accounts payable		(4,478)	(7,419)
Increase in other current liabilities		66,862	4,440
Foreign exchange losses (gains)	25	28,989	(225)
Interest expense	25	54,919	49,464
Interest income	25	(12,561)	(13,851)
Income tax expense	27	4,910	3,804
Share of loss (profit) of associates	8, 26	9	(791)
Changes in fair value of derivatives		(1,662)	540
Other non-cash changes		1,234	(179)
Cash generated from operations		44,272	112,303
Interest paid		(40,188)	(38,244)
Interest received		11,317	13,422
Income taxes paid		(3,597)	(2,364)
Net cash flows from operating activities		11,804	85,117
Purchases of tangible and intangible assets		(203,700)	(269,377)
Acquisition of subsidiary, net of cash	5	1,494	(39,749)
Proceeds from sale of subsidiary, net of cash	5	(2,247)	0
Net advanced payments for non-current items	10	(27,497)	(95,642)
Proceeds from sale of tangible and intangible assets		72,972	184,731
Advanced receipts for sale of tangible assets, repaid in 2007	19	0	(40,000)
Dividends received from associates	8	211	527
Payment received on liquidation of associate	8	0	49
Proceeds from sale of associate		2,328	0
Acquisition of investments in associates	8	(376)	0
Cash flow from investing activities		(156,815)	(259,461)
Principal payments on interest-bearing liabilities		(231,256)	(356,878)
Proceeds from long-term borrowings		170,518	470,652
Issue of ordinary shares	11	0	97,978
Transaction costs related to issue of new shares	11	0	(5,195)
Issue of convertible bonds	16	0	220,000
Transaction costs related to convertible bonds	16	0	(6,391)
Cash flow from financing activities		(60,738)	420,166
Change in cash and cash equivalents		(205,749)	245,822
Cash and cash equivalents at beginning of period		468,550	228,094
Foreign exchange gains (losses) on cash balances		5,008	(5,366)
Cash and cash equivalents at end of period	28	267,809	468,550
Thereof bank overdrafts used for cash management purposes		(478)	(108)
Thereof cash and cash equivalents in the balance sheet		268,287	468,658



08) Financial Statements

Air Berlin PLC
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
 for the year ended 31 December 2008

	Note	Share capital € 000	Share premium € 000
Balances at 31 December 2006		15,009	214,190
Share based payment			
Effective portion of changes in fair value of cash flow hedges, net of tax			
Change in fair value of cash flow hedges transferred to profit or loss, net of tax			
Effect of change in tax rate on cash flow hedges			
Net currency translation differences			
Net income recognised directly in equity		0	0
Profit for the period			
Total recognised income and expense for the period		0	0
Increase in minority interest due to acquisition			
Issue of ordinary shares		1,493	96,485
Transaction cost, net of tax			(3,174)
Issue of convertible bond			
Transaction cost, net of tax			
Effect of change in tax rate			
Balances at 31 December 2007		16,502	307,501
Balances at 31 December 2007		16,502	307,501
Share based payment	13		
Effective portion of changes in fair value of cash flow hedges, net of tax	30		
Change in fair value of cash flow hedges transferred to profit or loss, net of tax	30		
Net currency translation differences	11		
Net loss recognised directly in equity		0	0
Loss for the period			
Total recognised income and expense for the period		0	0
Effect of change in tax rate			
Balances at 31 December 2008		16,502	307,501

Equity component of convertible bond	Other capital reserves	Retained earnings	Hedge accounting reserve, net of tax	Foreign currency translation reserve	Equity available to the shareholders of the Company	Minority interest	Total equity
€ 000	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000
0	217,056	10,522	(18,930)	(22)	437,825	0	437,825
		390			390		390
			(32,710)		(32,710)		(32,710)
			45,813		45,813		45,813
			(812)		(812)		(812)
				(179)	(179)		(179)
0	0	390	12,291	(179)	12,502	0	12,502
		20,977			20,977		20,977
0	0	21,367	12,291	(179)	33,479	0	33,479
					0	629	629
					97,978		97,978
					(3,174)		(3,174)
25,130					25,130		25,130
(730)					(730)		(730)
3,031					3,031		3,031
27,431	217,056	31,889	(6,639)	(201)	593,539	629	594,168
27,431	217,056	31,889	(6,639)	(201)	593,539	629	594,168
		(143)			(143)		(143)
			(58,169)		(58,169)		(58,169)
			(70,486)		(70,486)		(70,486)
				1,137	1,137		1,137
0	0	(143)	(128,655)	1,137	(127,661)	0	(127,661)
		(75,019)			(75,019)		(75,019)
0	0	(75,162)	(128,655)	1,137	(202,680)	0	(202,680)
(87)					(87)		(87)
27,344	217,056	(43,273)	(135,294)	936	390,772	629	391,401



08) Financial Statements

Air Berlin PLC
COMPANY BALANCE SHEET
 as at 31 December 2008

	Note	31/12/2008	31/12/2007
		€ 000	€ 000
Assets			
Non-current assets			
Investments in subsidiaries	34b	220,958	143,315
Investments in associates	34c	125	0
Deferred tax asset	34d	19,751	17,435
Positive market value of derivatives	34n	350	182
Long-term loans to subsidiaries	34e	16,384	155,000
Long-term loans to associates	34f	250	0
Other long-term loans	34e	3,500	3,500
Non-current assets		261,318	319,432
Current assets			
Loans to a subsidiary	34e	155,000	0
Receivables from subsidiaries	34g	274,040	123,401
Receivables from associates	34h	148	0
Positive market value of derivatives	34n	2,380	242
Other receivables, current		1,260	954
Prepaid expenses		567	2,033
Cash and cash equivalents		159,978	175,232
Current assets		593,373	301,862
Total assets		854,691	621,294
Equity and liabilities			
Shareholders' equity			
Share capital	34i	16,502	16,502
Share premium	34i	307,501	307,501
Equity component of convertible bond	16	27,344	27,431
Retained earnings		7,122	(34,134)
Total equity		358,469	317,300
Non-current liabilities			
Pension liabilities	34j	0	587
Other non-current liabilities to subsidiaries	34k	192,696	184,007
Negative market value of derivatives	34n	14,715	9,463
Non-current liabilities		207,411	194,057
Current liabilities			
Interest-bearing liabilities		0	100,000
Accrued taxes		2,560	0
Accrued liabilities	34l	2,228	208
Payables to subsidiaries	34m	281,347	104
Trade and other payables, current		2,570	104
Negative market value of derivatives	34n	0	7,369
Other current liabilities		86	2,133
Deferred income		20	19
Current liabilities		288,811	109,937
Total equity and liabilities		854,691	621,294

The financial statements were approved by the Board of Directors and authorised for issue on 25 March 2009 and signed on behalf of the Board:

Joachim Hunold
Chief Executive Officer

Ulf Hüttmeyer
Chief Financial Officer

Air Berlin PLC

COMPANY STATEMENT OF CASH FLOWS

for the year ended 31 December 2008

	Note	31/12/2008	31/12/2007
		€ 000	€ 000
Profit (loss) for the period		41,399	(25,178)
Adjustments to reconcile profit or loss to cash flows from operating activities:			
Share based payments	13	(143)	390
Increase in receivables from subsidiaries		(147,452)	(27,930)
Increase in receivables from associates		(148)	0
Decrease (increase) in other receivables and prepaid expenses		1,159	(2,011)
Deferred tax benefit	34d	(2,403)	(12,029)
Increase in accrued liabilities and provisions		2,020	83
Increase (decrease) in trade accounts payable		2,466	(288)
Increase (decrease) in payables to subsidiaries	34g	273,423	(107)
(Decrease) increase in pension liabilities		(587)	587
(Decrease) increase in other payables and deferred income		(2,046)	2
Movement in derivatives taken through income statement		(4,423)	16,408
Interest expense		16,554	8,332
Interest income		(8,575)	(6,251)
Income tax expense		2,482	0
Cash generated from operations		173,726	(47,992)
Interest paid		(45)	0
Interest received		5,389	5,865
Income taxes received (paid)		78	(241)
Net cash flows from operating activities		179,148	(42,368)
Acquisition of investments in subsidiaries	34b	(77,643)	(3,150)
Acquisition of investments in associates	34c	(125)	0
Long-term loans to subsidiaries	34e	(16,384)	(155,000)
Long-term loans to associates	34f	(250)	0
Short-term loans to subsidiaries	34e	0	(94,785)
Other loans		0	(3,500)
Cash flow from investing activities		(94,402)	(256,435)
Proceeds from long-term borrowings		0	2,000
(Repayment) proceeds from short-term borrowings		(100,000)	100,000
Issue of ordinary shares		0	97,978
Transaction costs related to issue of new shares		0	(5,195)
Issue of convertible bonds		0	220,000
Transaction costs related to convertible bonds		0	(6,391)
Cash flow from financing activities		(100,000)	408,392
Change in cash and cash equivalents		(15,254)	109,589
Cash and cash equivalents at beginning of period		175,232	65,643
Foreign exchange (gains) losses on cash balances		0	0
Cash and cash equivalents at end of period		159,978	175,232
Thereof bank overdrafts used for cash management purposes		0	0
Thereof cash and cash equivalents in the balance sheet		159,978	175,232



08) Financial Statements

Air Berlin PLC
COMPANY STATEMENT OF CHANGES IN EQUITY
 for the year ended 31 December 2008

	Note	Share capital	Share premium	Equity component of convertible bond	Retained earnings	Total equity
		€ 000	€ 000	€ 000	€ 000	€ 000
Balances at 31 December 2006		15,009	214,190	0	(9,346)	219,853
Share based payment					390	390
Net income recognised directly in equity		0	0	0	390	390
Loss for the year					(25,178)	(25,178)
Total recognised income and expense for the period		0	0	0	(24,788)	(24,788)
Issue of ordinary shares		1,493	96,485			97,978
Transaction cost, net of tax			(3,174)			(3,174)
Issue of convertible bond				25,130		25,130
Transaction cost, net of tax				(730)		(730)
Effect of change in tax rate				3,031		3,031
Balances at 31 December 2007		16,502	307,501	27,431	(34,134)	317,300
Balances at 31 December 2007		16,502	307,501	27,431	(34,134)	317,300
Share based payment	13				(143)	(143)
Net loss recognised directly in equity		0	0	0	(143)	(143)
Profit for the year					41,399	41,399
Total recognised income and expense for the period		0	0	0	41,256	41,256
Effect of change in tax rate				(87)		(87)
Balances at 31 December 2008		16,502	307,501	27,344	7,122	358,469

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS AS OF 31 DECEMBER 2008

1. INTRODUCTION

The consolidated financial statements of Air Berlin PLC for the year ended 31 December 2008 comprise Air Berlin PLC and its subsidiaries (together referred to as "Air Berlin" or the "Group") and the Group's interest in associates. Air Berlin is a public limited company incorporated in England and Wales with its registered office in London. The corporate headquarters of Air Berlin are located in Berlin. The Company's ordinary shares are traded on the Frankfurt Stock Exchange.

2. BASIC PRINCIPLES AND PREPARATION OF FINANCIAL STATEMENTS

Both the parent company financial statements and the group financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"). On publishing the parent company financial statements here together with the group financial statements, the Company is taking advantage of the exemption in Article 230 of the Companies Act 1985 not to present its individual income statement and related notes that form a part of these approved financial statements. The Company financial statements are presented on pages 114 to 116.

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 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 comparability of the income statement is limited because LTU and Belair are not included in the prior year comparative figures for the full year ended 31 December 2007 (LTU as of 1 August 2007 and Belair as of 1 November 2007).

The consolidated financial statements have been prepared in Euro. The European Central Bank year end exchange rate was GBP 0.9525 to the Euro. All financial figures presented have been rounded to the nearest thousand currency units, except for share and bond data. The financial statements were authorised and approved for issue by the Board of Directors on 25 March 2009.

Use of estimates

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

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

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



08) Financial Statements

3. BASIS OF CONSOLIDATION

a) Reverse acquisition

The legal reorganisation of the Group in 2005 was accounted for as a reverse acquisition in accordance with IFRS 3, Business Combinations, and the limited partners' capital was reclassified to other capital reserves at that time. The consolidated financial statements are issued under the name of the legal parent (Air Berlin PLC) but are a continuation of the consolidated financial statements of the legal subsidiary Air Berlin GmbH & Co. Luftverkehrs KG and subsidiaries (renamed to: Air Berlin PLC & Co. Luftverkehrs KG), the acquirer for accounting purposes. The equity structure in the consolidated financial statements, however, reflects the equity structure of Air Berlin PLC including the equity instrument issued by the legal parent to effect the combination.

b) Subsidiaries

All subsidiaries under control of Air Berlin are included in the consolidated financial statements. Control exists when Air Berlin has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

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

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

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

- ✈ Air Berlin PLC & Co. Luftverkehrs KG
- ✈ Air Berlin GmbH & Co. Fünfte Flugzeugvermietungs OHG
- ✈ Air Berlin GmbH & Co. Sechste Flugzeugvermietungs OHG
- ✈ Air Berlin GmbH & Co. Siebte Flugzeugvermietungs OHG
- ✈ Air Berlin GmbH & Co. Elfte Flugzeugvermietungs OHG
- ✈ Air Berlin PLC & Co. Airport Service KG
- ✈ Air Berlin PLC & Co. Cabin Service KG
- ✈ Air Berlin PLC & Co. DUS KG
- ✈ Air Berlin PLC & Co. Service Center KG

c) Special purpose entity

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

d) Associates

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

e) Transactions eliminated on consolidation

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

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

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

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

The estimated useful lives of intangible assets are as follows:

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

Landing rights are determined to have indefinite lives, as they do not expire and are not subject to a regular loss in value over time.



08) Financial Statements

b) Property, plant and equipment

Property, plant and equipment are valued at their acquisition or production costs less accumulated depreciation and accumulated impairment losses. Depreciation is based on the Group's accounting policies and calculated according to the straight-line method over the estimated useful lives.

-- AIRCRAFT AND ENGINES

The Group owns aircraft and engines of the type Boeing 737-800, Airbus A319 and A320 as well as Bombardier Q400. The depreciation period is ten years taking into account estimated residual values. The residual values and useful lives are reviewed at each balance sheet date. Judgement is required in estimating the residual values and useful lives of property, plant and equipment. Uncertainty exists in the useful life of aircraft and engines and in the amounts which can be realised through future disposals.

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

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

-- LAND AND BUILDINGS

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

-- OTHER TANGIBLE ASSETS

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

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

c) Subsequent expenditure

Expenditure incurred to replace a component of an item of aircraft, engines and other equipment that is accounted for separately, including major inspection and overhaul expenditure, is capitalised and the replaced item is derecognised. Other subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditure is recognised in the income statement 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 each balance sheet date 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 balance sheet date. 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 income statement.

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 long-term cost of capital for the cash generating unit.

-- FINANCIAL ASSETS

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

e) Inventories

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

f) Trade and other receivables

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

Estimated future cash flows are based on estimates and judgements regarding the credit worthiness of individual receivables, the actual customer structure and an analysis of historical impairment losses. Reminders are sent on a timely basis. After the second reminder, the customer is given a certain amount of time to pay the receivable. If no payment is received at that time, the third reminder is issued along with a legal order to pay, and an allowance for impairment losses of 60 % is allowed for within the expected cash flows. This percentage represents the probability of impairment loss based on past experience.



08) Financial Statements

g) Derivatives

Derivative financial instruments are used for hedging fuel price, interest rate, and currency rate risks arising from operational and financing activities. Hedging transactions are entered into to secure future cash flows. Derivative financial instruments are recognised initially at fair value. All derivatives that do not qualify for hedge accounting are classified as held for trading. Hedge accounting is discontinued prospectively if the hedging instrument expires or is sold, terminated or exercised, if the Group revokes the designation as hedge accounting or if the hedge no longer meets the criteria for hedge accounting. Subsequent to initial recognition, derivative financial instruments are stated at fair value. Any resultant gain or loss is recognised directly in the income statement as profit or loss unless the derivative has been classified as a hedge of a highly probable future cash flow. The effective portion of gains and losses from changes in the fair value of derivatives designated as cash flow hedges are taken to equity in accordance with IAS 39 and are recognised in the profit and loss when the related transaction impacts income or the future cash flow ceases to be considered probable. The ineffective portion of a cash flow hedge is recognised immediately in income. Forward exchange transactions are used to mitigate exchange rate exposure. The fair value of forward exchange contracts is their quoted market price at the balance sheet date, being the present value of the quoted forward price. Commodity swaps and options are used to limit the fuel price risk. The Group uses cross-currency interest rate swaps to convert variable rate liabilities in foreign currency to fixed rate positions in the functional currency.

h) Cash and cash equivalents

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

i) Share capital

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

-- ORDINARY SHARES

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

-- REDEEMABLE "CLASS A" PREFERENCE SHARES

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

-- TREASURY SHARES

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

j) Income taxes

Income tax on the profit or loss for the year and on items taken to equity comprises current and deferred tax. Income tax is recognised in the income statement 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 balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred taxes are calculated in accordance with IAS 12 on the basis of temporary differences between the tax base at the level of the individual company and the respective IFRS book value. No deferred tax is recognised on the initial recognition of goodwill arising from acquisitions. A deferred tax asset is recognised for tax loss carry forwards and other temporary differences resulting in an expected tax benefit in future periods to the extent that it is probable that taxable income will be available in the near future against which the unused tax losses can be utilised. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. 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 balance sheet when the Group has a present legal or constructive obligation as result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and the obligation is measurable. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

l) Interest-bearing liabilities

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

m) Trade and other payables

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

n) Foreign currency

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

Exchange differences arising from interest-bearing liabilities and other financing activities – as well as unrealised exchange rate differences due to the fair value measurement of derivative financial instruments and other unrealised foreign exchange 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.



08) Financial Statements

o) Recognition of income and expenses

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

p) Deferred income

Deferred income in the balance sheet relates mainly to ticket sales and bonus miles resulting from Air Berlin's frequent flyer plan. Air Berlin recognises ticket sales as income at the time the transportation is provided. However, when the fare is for a round-trip and the return flight has not been taken at year end, the unearned revenue is deferred in the consolidated balance sheet under "deferred income" until such time the transportation is provided. Revenue on unclaimed tickets is realised when the expiry date of the ticket has passed. Deferred income is estimated based on actual bookings, historical experience and past general passenger behaviour.

-- FREQUENT FLYER PLAN

The Group operates a frequent flyer plan ("Top Bonus" programme) which allows the customer to collect bonus miles on flights, by doing business with Air Berlin's partners (hotels, car rental agencies, insurance and financial service companies) or by shopping. The expected incremental costs of providing services free of charge for the utilisation of bonus miles are accrued within deferred income based on the number of miles accumulated and past customer behaviour.

q) Leasing

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

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

r) Pensions

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

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

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

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

s) Share-based payment transactions

The fair value of options granted to employees is estimated on the grant date and recognised in the income statement as personnel expense over the vesting period (i.e. the period in which the employees become unconditionally entitled to the options). The corresponding entry is an increase in equity. The fair value was determined using valuation techniques which comply with IFRS 2. The amount recognised as an expense is adjusted to reflect the number of share options expected to vest. Market conditions are included in the calculation of fair value at grant date and do not affect future valuation, whereas vesting conditions are taken into consideration in determining the number of share options expected to vest. Further details to vesting conditions are found in note 13.

t) New pronouncements

The following IFRS standards and interpretations, none of which are expected to have a significant effect on the financial statements, were endorsed by the EU and available for early application but have not been applied by the Group in these financial statements:

- ✈ IFRS 8, Operating Segments, effective for financial years beginning on or after 1 January 2009,
- ✈ IFRIC 13, Customer Loyalty Programmes, effective for financial years beginning on or after 1 July 2008,
- ✈ Amendments to IAS 23, Borrowing Costs, effective for financial years beginning on or after 1 January 2009,
- ✈ Amendments to IFRS 2, Share-based Payment, effective for financial years beginning on or after 1 January 2009,
- ✈ Amendments to IAS 1, Presentation of Financial Statements, effective for financial years beginning on or after 1 January 2009.

Except for IFRIC 13, none of the above are expected to have a significant effect on the Group's financial statements. Currently the Group defers the incremental costs associated with providing services in connection with the bonus miles. As of 2009, the amount deferred per mile will be determined each year based on the fair value of the bonus miles. IFRIC 13 is expected to increase the amount of revenue deferred in connection with the Top Bonus plan per mile accrued. Based on the miles outstanding as of 31 December 2008 this is expected to increase the provision by € 28,570.



08) Financial Statements

u) Financial risk management

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

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

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

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

Risk reporting includes the review and assessment of all risks in the individual departments. This includes the registration of new risks and the reassessment of existing risks regarding their probability of occurrence and potential effect on earnings. In general a quantitative assessment of risks is undertaken. The registered risks are continuously updated using computer software. Extensive risk reporting, which contains information on current risks and assessments, changes in assessments and the appropriate measures is submitted each quarter to the Executive Board.

There were no changes in the Group's exposures to risk or its objectives, policies and processes for identifying, measuring and managing the risk 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 in the middle of the month based on the expected monthly sales.

The sale of passage and freight documents is handled via agencies and the Internet within the guidelines of IATA. Agencies are connected with country-specific clearing systems for the settlement of passage or freight sales. Individual agents are checked by appropriate clearing houses. The credit risk from an individual sales agent is relatively low due to worldwide dispersion. Where the agreement upon which a payment is based does not explicitly state otherwise, claims and liabilities arising between the airlines are usually settled on a bilateral basis or via a clearing house of the International Air Transport Association (IATA). Settlement takes place principally through the balancing of all receivables and liabilities at regular 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 and cash equivalents are held only with banks with the highest credit ratings. Derivative financial instruments are also held with parties with AA ratings or which 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 structure.

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 Group's reputation.

In 2006 a company-wide treasury management system was implemented. It covers and evaluates all matters associated with interest and exchange rates. All new Air Berlin companies (i.e. dba in 2006 and LTU and Belair in 2007) are fully incorporated into the Air Berlin treasury management system. In addition the Group has enhanced its liquidity management through the development of a liquidity management tool which incorporates expected operational, financing and investing cash flows on a weekly basis. The primary focus is on sufficient liquidity, based on comprehensive financial and liquidity planning.

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

Market risk

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

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

Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the return on capital, which the Company defines as net operating income divided by total shareholders' equity. The Board seeks to maintain a balance between the higher returns that might be possible with 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.



08) Financial Statements

v) Financial instruments

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

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

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

The categories "available for sale financial assets" and "held to maturity investments" do not apply to Air Berlin. In addition, no financial assets or financial liabilities are designated as fair value through profit or loss, as the fair value option is not applied at Air Berlin.

The categories of financial assets and financial liabilities are further detailed in note 30h (fair values).

Air Berlin has defined the following classes of financial assets and financial liabilities:

- ✈ Loans and receivables
- ✈ Derivative financial instruments classified as held for trading
- ✈ Derivative financial instruments classified as hedge accounting
- ✈ Financial liabilities measured at amortised cost (includes interest-bearing liabilities and liabilities due to banks from assignment of future lease payments, trade payables and other financial liabilities)
- ✈ Cash and cash equivalents
- ✈ Finance leases

5. ACQUISITIONS

Acquisitions

-- LTU

On 26 March 2007, the Group acquired 100 per cent of the shares of the LTU Group ("LTU") for a purchase price of € 140,000. In addition, prior to acquisition a third party had waived a loan due to them from LTU in exchange for a share of LTU's future profits. This potential liability had not been provided within the accounts of LTU. Air Berlin paid € 15 million to the third party to buy out their rights to the future profits of LTU. In 2008 the Group received a € 2.5 million purchase price reduction, bringing the total cash consideration including transaction costs to € 157,884 (€ 159,787 as at 31 December 2007). The German airline LTU operated 16 medium and 12 long range aircraft and had approximately 2,200 employees as of 31 December 2006. Approval by the Federal Cartel Office ("Bundeskartellamt") was received on 7 August 2007. For consolidation purposes the acquisition date was therefore determined to be 31 July 2007.

Goodwill of € 173,145 (€ 209,420 as at 31 December 2007) has been recorded on this transaction. The purchase price allocation was finalised in 2008.

Assets and liabilities arising from the acquisition of LTU are as follows:

In thousands of Euro	Fair value at acquisition date	Revaluation to purchase accounting	Acquiree's carrying amount
Land and buildings	28,834	(1,854)	30,688
Aircrafts	140,160	(53,555)	193,715
Landing rights	38,300	38,300	0
Trademark LTU	4,575	4,575	0
Customer relationships	3,036	3,036	0
Other tangible assets	37,443	2,396	35,047
Inventories	19,507	0	19,507
Accounts receivable	40,521	0	40,521
Other assets and prepaid expenses	77,106	0	77,106
Cash and cash equivalents	113,997	0	113,997
Deferred tax assets	33,356	11,698	21,658
Interest-bearing liabilities	(191,320)	(1,128)	(190,192)
Accrued liabilities	(181,294)	0	(181,294)
Provisions	(46,809)	(35,468)	(11,341)
Trade payables	(50,011)	0	(50,011)
Liabilities to acquirer	(22,639)	68,585	(91,224)
Other liabilities	(60,023)	0	(60,023)
Net identifiable assets acquired	(15,261)	36,585	(51,846)
Goodwill	173,145		
Cash consideration	157,884		
less:			
Cash and cash equivalents acquired	(113,997)		
Net cash outflow	43,887		
Thereof in 2007	45,790		
Thereof in 2008	(1,903)		



08) Financial Statements

No contingent liabilities were identified at the acquisition date. The fair value adjustments to aircraft and land and buildings reflect the adjustment necessary to record these assets at their fair values at the acquisition date. The fair value of the buildings (two finance leases, discussed in note 17) represents the fair value of the leasehold interest acquired by Air Berlin over the remaining lease term rather than the fair value of the buildings to the owner, as no transfer of ownership takes place at the end of the lease term. The initial valuation of landing rights and trademarks at fair value in connection with the acquisition is discussed further in note 6.

The fair value adjustment to provisions relates to a provision for onerous contracts in connection with the unfulfilled orders of LTU at the acquisition date, which is discussed in note 15.

The liabilities of the acquirer of € 91,224 comprise trading balances of € 22,639 due to Air Berlin and a bond due to Air Berlin of € 68,585. The bond balance was purchased at acquisition from the original bond holders for € 1 and therefore acquisition assets of LTU have been adjusted to reflect that on acquisition the bond has nil fair value to the group. Transaction costs incurred in connection with the acquisition, which have been included in the calculation of goodwill, amount to € 5,384 (€ 4,787 as of 31 December 2007).

The goodwill results from a variety of factors including synergies between the route networks, expected cost savings due to combined fleet utilisation, capacity optimisation and head office cost savings and more effective procurement.

The final purchase price allocation affected the consolidated balance sheet as of 31 December 2007 as follows:

In thousands of Euro	Reported 31.12.2007	Adjustment 31.12.2007	Adjusted 31.12.2007
Landing rights	98,149	10,100	108,249
Trademarks	4,394	(219)	4,175
Customer relationships	0	3,036	3,036
Technical equipment and machinery	86,642	2,396	89,038
Deferred tax assets	(16,103)	19,059	2,956
Goodwill	230,534	(34,372)	196,162

-- BELAIR

On 10 September 2007, Air Berlin PLC acquired 49 per cent of the shares in Belair Airlines AG, Zurich ("Belair") for a purchase price of CHF 1,715. In addition, the Company agreed upon a provision-related, technical € 340 increase in the purchase price of Belair. Belair operates three aircraft of the type Boeing 757 and 767.

Under the Shareholders Agreement Air Berlin did not assume economic control of the airline until 1 November 2007. Due to owning only 49% of the shares a minority interest of € 629 (€ 629 as of 31 December 2007) was recognised on acquisition. Under the agreement the minority interest does not participate in operating or financial decisions and 100 per cent of the profits (losses) of Belair accrue to Air Berlin, therefore no minority interest is recorded in the income statement. Goodwill of € 1,206 (€ 797 as of 31 December 2007) has been recorded on the purchase of Belair.

Assets and liabilities arising from the acquisition of Belair are as follows:

In thousands of Euro	Fair value at acquisition date	Revaluation to purchase accounting	Acquiree's carrying amount
Other tangible assets	1,409	0	1,409
Inventories	784	0	784
Accounts receivable	587	0	587
Other assets and prepaid expenses	1,143	0	1,143
Cash and cash equivalents	10,042	0	10,042
Deferred tax assets	102	0	102
Accrued liabilities	(4,632)	0	(4,632)
Trade payables	(4,640)	0	(4,640)
Liabilities to acquirer	(544)	0	(544)
Other liabilities	(3,017)	0	(3,017)
Net identifiable assets acquired	1,234	0	1,234
Minority interest	(629)		
Goodwill	1,206		
Cash consideration	1,811		
less:			
Cash and cash equivalents acquired	(10,042)		
Net cash inflow	(8,231)		
Thereof in 2007	(8,640)		
Thereof in 2008	409		

Transaction costs incurred in connection with the acquisition have been included in the calculation of goodwill and amount to € 435 (€ 366 as of 31 December 2007). The goodwill results from a variety of factors, including synergies between the route networks.

-- CONDOR

On 20 September 2007, Air Berlin PLC concluded an agreement with the Thomas Cook Group plc ("Thomas Cook"), in which Thomas Cook would transfer its shares in the airline Condor Flugdienst GmbH ("Condor") in a two-step acquisition by means of a share swap. Under the agreement Air Berlin would have acquired 75.1 per cent of the shares in Condor in February 2009 and the remaining 24.9 per cent of the shares in February 2010 in return for newly issued shares of up to 29.99 per cent in Air Berlin as well as a cash settlement, as necessary, so that the total value would amount to between € 380,000 and € 475,000. The transaction was subject to approval by the responsible cartel authorities.

On 11 July 2008, the parties agreed that the existing agreement would be terminated and informed the German Bundeskartellamt (Federal Cartel Office) of their withdrawal of the application for approval.

Transaction costs of € 2,599 incurred in connection with the acquisition and capitalised under prepaid expenses in the Balance Sheet at 31 December 2007. The transaction costs have been fully recognised as expense.



08) Financial Statements

Summary of cash flow from acquisitions

Total cash flows outflows (inflows) from acquisitions during the period were as follows:

In thousands of Euro	2008	2007
LTU	(1,903)	45,790
Belair	409	(8,640)
Condor	0	2,599
	(1,494)	39,749

Disposals

-- BUY.BYE TOURISTIK

With effect from 1 January 2008, the Group, in connection with its concentration on its core business, disposed of 51 % of its share in Buy.by.e Touristik GmbH. The company is no longer included in the basis of consolidation, and instead is shown as a 49 % investment in associates. No gain or loss was realised on the sale. The net proceeds from the sale of the subsidiary, less cash and cash equivalents of € 543, was € -412.

-- LTU PLUS

Also in connection with its concentration on its core business the Group disposed of 100 % of its share in LTU Plus as of 1 July 2008 for proceeds of € 816, less cash and cash equivalents of € 2,645. As a result the company is no longer included in the basis of consolidation as of 1 July 2008. A loss of € -319 was realised on the sale.

-- BLITZ 07-582

On 18 July 2008, the Group disposed of 65 % of its share in the subsidiary Blitz 07-582 GmbH. As such the company is no longer included in the basis of consolidation and instead is shown as a 35 % investment in associates. Proceeds from the sale of the subsidiary amounted to € 19 less cash and cash equivalents of € 25, and a gain of € 3 was realised on the sale. At the same time the share capital of the 35 % associate was increased to € 1,100, of which € 385 is Air Berlin's share, and the articles of incorporation were completely revised. Blitz 07-582 GmbH was renamed to THBG BBI GmbH, whose purpose is the organisation, operation, maintenance and administration of a fuel station, a hydrant system and the transport of aircraft fuel at the airport BBI Schönefeld.

Summary of cash flow from disposals

Proceeds from the sale of subsidiaries, net of cash are summarised as follows:

In thousands of Euro	Proceeds on sale of subsidiaries	Less: Cash	Net proceeds on sale of subsidiaries
Buy.by.e	131	(543)	(412)
Blitz 07	19	(25)	(6)
LTU Plus	816	(2,645)	(1,829)
	966	(3,213)	(2,247)

6. INTANGIBLE ASSETS (ADJUSTED)

In thousands of Euro	Software licences	Goodwill	Landing rights	Trademarks	Customer relationships	Other rights	Total
Acquisition cost							
Balance at 1 January 2007	11,463	20,317	69,949	2,017	0	869	104,615
Additions	5,570	0	0	0	0	0	5,570
Additions through acquisitions	759	175,845	38,300	4,575	3,036	0	222,515
Disposals	(378)	0	0	0	0	(869)	(1,247)
Balance at 31 December 2007	17,414	196,162	108,249	6,592	3,036	0	331,453
Additions	5,147	0	0	0	0	0	5,147
Additions through acquisitions	0	(1,494)	0	0	0	0	(1,494)
Disposals	(444)	0	0	0	0	0	(444)
Balance at 31 December 2008	22,117	194,668	108,249	6,592	3,036	0	334,662
Depreciation							
Balance at 1 January 2007	7,821	0	0	134	0	869	8,824
Depreciation charge for the year	3,766	0	0	501	0	0	4,267
Impairment loss	0	0	0	1,782	0	0	1,782
Disposals	(316)	0	0	0	0	(869)	(1,185)
Balance at 31 December 2007	11,271	0	0	2,417	0	0	13,688
Depreciation charge for the year	5,484	0	0	896	1,075	0	7,455
Impairment loss	0	0	0	0	0	0	0
Disposals	(300)	0	0	0	0	0	(300)
Balance at 31 December 2008	16,455	0	0	3,313	1,075	0	20,843
Carrying amount							
At 1 January 2007	3,642	20,317	69,949	1,883	0	0	95,971
At 31 December 2007	6,143	196,162	108,249	4,175	3,036	0	317,765
At 31 December 2008	5,662	194,668	108,249	3,279	1,961	0	313,819



08) Financial Statements

For the purchase accounting, landing rights and trademarks are valued at their fair values as of the acquisition date. The valuation of landing rights has been determined on a fair value basis and is based on the average cash flows that can be generated by a representative market participant on regulated airports under consideration of a scarcity factor. Significant assumptions used in the calculation of value in use were a discount rate of 10.11 % and cash flow projections for each route with an individual landing right. The valuation of the trademark LTU is based on a licence price analogy (relief from royalty). The estimated trademark-related sales revenues form the basis for the calculation, discounted at a rate of 8.27 %. The estimated revenues for the trademarks were determined separately for charter and single-seat ticket sales on a declining basis over a useful life of 6 years. The valuation of the customer relationships is based on estimated future cash flows over the length of the customer contracts, discounted at a rate of 8.20 %.

The Group carried out an impairment test on both landing rights and goodwill in the fourth quarter of 2008 based on a variety of assumptions and concluded that as the estimated recoverable amount exceeds the carrying amounts, no impairment was required. The recoverable amount was determined for the cash generating unit to which the landing rights and goodwill 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 Euro	Freight	Technical services	Flight services	Total
Goodwill	31,000	0	163,668	194,668
Landing rights	0	0	108,249	108,249

The future cash flows were estimated using the value-in-use perspective based on the most recent mid-term cash flow plan (2 years) approved by management for the existing fleet, extrapolated to perpetuity using a 0.5 % growth rate and discounted to their present value using the pre-tax company-specific weighted average cost of capital of 12.33 %. The calculation of value in use is most sensitive to the assumptions of discount rate and operating margin. The operating margins used in determining value in use (EBITDAR margins of 16.9 % for 2009 and 19.4 % as of 2010) are based on planned business and operational growth, excluding growth arising from purchases of additional fixed assets but including maintenance and repairs and are significantly improved from that experienced in 2007 and 2008. The recoverable amount exceeds the carrying amount by a significant amount. The trading environment is subject to both regulatory and competitive pressures that could have a material impact on the operating performance of the business. EBITDAR margins of 16.6 % would result in a recoverable amount equal to the carrying amount. The discount rate reflects management's estimate of the long-term cost of capital for the cash generating unit.

7. PROPERTY, PLANT AND EQUIPMENT (ADJUSTED)

In thousands of Euro	Land and buildings	Aircrafts and engines	Technical equipment and machinery	Office-equipment	Total
Acquisition cost					
Balance at 1 January 2007	0	1,105,354	51,462	34,289	1,191,105
Additions	0	254,353	22,957	12,491	289,801
Additions through acquisitions	28,834	140,160	33,481	4,612	207,087
Disposals	0	(149,916)	(4,516)	(9,681)	(164,113)
Balance at 31 December 2007	28,834	1,349,951	103,384	41,711	1,523,880
Additions	0	173,977	33,770	7,590	215,337
Currency translation adjustments	0	0	107	0	107
Disposals	0	(49,659)	(7,246)	(12,323)	(69,228)
Balance at 31 December 2008	28,834	1,474,269	130,015	36,978	1,670,096
Depreciation					
Balance at 1 January 2007	0	225,778	7,142	21,291	254,211
Depreciation charge for the year	1,277	69,537	9,483	7,426	87,723
Disposals	0	(11,303)	(2,279)	(8,082)	(21,664)
Balance at 31 December 2007	1,277	284,012	14,346	20,635	320,270
Depreciation charge for the year	3,060	71,959	14,450	6,218	95,687
Currency translation adjustments	0	0	10	0	10
Disposals	0	(3,882)	(5,220)	(6,712)	(15,814)
Balance at 31 December 2008	4,337	352,089	23,586	20,141	400,153
Carrying amount					
At 1 January 2007	0	879,576	44,320	12,998	936,894
At 31 December 2007	27,557	1,065,939	89,038	21,076	1,203,610
At 31 December 2008	24,497	1,122,180	106,429	16,837	1,269,943

Borrowing costs capitalised during 2008 and 2007 are € 1,005 and € 971 respectively, at borrowing rates between 3.80 % and 6.06 %.

Aircraft and engines are pledged as security in connection with the Group's interest-bearing liabilities and liabilities due to banks from assignment of future lease payments.

Tangible assets include land and buildings, aircraft and engines, and technical equipment and machinery which have been capitalised as a result of finance leases.



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

In thousands of Euro	2008	2007
Land and buildings	24,498	27,557
Aircraft and engines	49,182	51,268
Technical equipment and machinery	0	2,176
Office equipment	208	0
	73,888	81,001

Finance leases are explained in more detail in note 17.

8. INVESTMENTS IN ASSOCIATES

In thousands of Euro	Investments
Acquisition cost	
Balance at 1 January 2007	720
Dividends received	(527)
Share of profits	791
Payment received on liquidation	(49)
Balance at 31 December 2007	935
Additions	510
Disposals	(46)
Dividends received	(211)
Share of profits	583
Balance at 31 December 2008	1,771

The Group has the following investments in associates:

	Country	Ownership	
		2008	2007
		%	%
Niki Luftfahrt GmbH, Vienna	Austria	24.0	24.0
SCK DUS GmbH & Co. KG, Düsseldorf (disposed in 2008)	Germany	0.0	24.8
IBERO Tours GmbH, Düsseldorf*	Germany	50.0	50.0
Lee & Lex Flugzeugvermietung GmbH, Vienna	Austria	24.0	24.0
BINOLI GmbH, Berlin (formerly buy.by.e Touristik GmbH)	Germany	49.0	100.0
THBG BBI GmbH, Schönefeld (formerly Blitz 07-582 GmbH)	Germany	35.0	100.0
ILTU Ireland Ltd.** (dissolved in 2008)	Ireland	0.0	50.0

* Accounted for as an associate due to lack of control

** In liquidation at 31 December 2007, liquidated in 2008

In connection with its concentration on its core business, the Group disposed of its 24.8 % share in its associate SCK DUS GmbH & Co. KG in the second quarter of 2008. Net proceeds from the sale of the associate amounted to € 2,328, and a gain of € 2,282 was realised on the sale.

The Group's share of post-acquisition total recognised profit or loss in the above associates for the years ending 31 December 2008 and 2007 is € -9 and € 791, respectively.

The Group has not recognised losses relating to Niki Luftfahrt GmbH totalling € 249 in prior periods, as the Group has no obligation in respect of these losses. Consequently the Group has only recognised subsequent gains of € 595 for the financial year 2007 to the extent that the gains exceed the cumulative losses from prior periods.

Similarly the Group has recognised losses relating to Lee & Lex Flugzeugvermietung GmbH only up to the amount of the Group's net investment in the associate. As a result the Group's long-term loans receivable from Lee & Lex have been written down by € 592 in connection with the recognition of these losses.

In 2007 a payment of € 49 was received on the liquidation of ILTU Ireland Ltd. The associate, which was acquired through the acquisition of LTU, is in liquidation on 31 December 2007.

Summary financial information on associates – 100 per cent:

In thousands of Euro	Assets	Liabilities	Equity	Revenues	Profit (loss)
2008					
Niki Luftfahrt GmbH, Vienna*	*	*	*	*	*
SCK DUS GmbH & Co. KG, Düsseldorf**	3,820	4,809	(989)	8,113	(1,149)
IBERO Tours GmbH, Düsseldorf*	*	*	*	*	*
Lee & Lex Flugzeugvermietung GmbH, Vienna*	*	*	*	*	*
BINOLI GmbH, Berlin*	*	*	*	*	*
THBG BBI GmbH, Schönefeld*	*	*	*	*	*
2007					
Niki Luftfahrt GmbH, Vienna	119,210	115,729	3,481	183,306	3,519
SCK DUS GmbH & Co. KG, Düsseldorf**	3,521	3,361	160	21,822	1,858
IBERO Tours GmbH	1,953	1,113	840	3,075	63
Lee & Lex Flugzeugvermietung GmbH, Vienna	53,971	56,436	(2,465)	6,139	(847)

* Figure is not yet available, therefore the 2007 figures were used in determining at-equity amounts

** According to interim financial statements as of 31 May 2008 (date of sale)



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9. INVENTORIES

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

In thousands of Euro	2008	2007
Raw materials	656	716
Supplies and spares	35,136	28,791
Purchased merchandise	900	1,318
	36,692	30,825

Inventories are measured at the lower of cost and net realisable value. In 2008 inventories were written down by € 1,176 (2007: € 0). In addition, the amount of inventories expensed directly in the income statement for 2008 and 2007 are € 126,278 and € 89,622, respectively.

10. TRADE AND OTHER RECEIVABLES, CURRENT AND NON-CURRENT

In thousands of Euro	Current 2008	Non-current 2008	Total 2008	Current 2007	Non-current 2007	Total 2007
Trade receivables	107,092	0	107,092	110,873	0	110,873
Receivables from related parties	13,911	2,918	16,829	9,235	1,401	10,636
Loans receivable	0	3,500	3,500	0	3,500	3,500
Accrued revenue	2,372	0	2,372	6,507	0	6,507
Security deposits and deposits with suppliers	14,599	29,754	44,353	48,697	448	49,145
Receivables for bonus and claims	40,095	0	40,095	10,581	0	10,581
Receivables from sale of fixed assets	274	0	274	1,326	0	1,326
Other receivables	10,397	781	11,178	11,698	0	11,698
Loans and receivables	188,740	36,953	225,693	198,917	5,349	204,266
Receivables from tax authorities	6,239	0	6,239	10,941	0	10,941
Advanced payments on aircraft and other tangible assets	71,391	71,301	142,692	35,747	95,614	131,361
Other assets	17,057	0	17,057	14,594	0	14,594
	283,427	108,254	391,681	260,199	100,963	361,162

In the fourth quarter of 2008 the Group derecognised trade receivables amounting to € 25,315 in connection with in a one-off "silent" factoring arrangement in accordance with IAS 39. Factoring fees in the amount of € 141 were incurred on the transaction and are recorded under other operating expenses in the income statement.

Security deposits and deposits with suppliers relate primarily to amounts which are held as deposit according to supplier agreements and which are repaid after all obligations from the supplier agreement have been fulfilled. The amounts are carried at amortised cost using the effective interest method.

Receivables from related parties include a loan receivable in the amount of USD 960 (€ 685) and a partial debenture of € 750 (30 debentures at € 25 each) from Lee & Lex Flugzeugvermietungs GmbH (in total € 1,435, 2007: € 1,401). The loan is due on 30 April 2018 and has a yearly interest rate of 5.0%, and the debentures are due on 30 September 2018 and have a yearly

interest rate of 6.0 %. The long-term receivables have been written down by € 592 in connection with the recognition of the Group's share of losses in the associate, as described further in note 8. In addition, a long-term loan of € 1,824 has been granted to THBG BBI GmbH, which is due in 2041 together with accrued interest based on a yearly interest rate of 4.5 %. Accrued interest at 31 December 2008 amounted to € 4. A loan of € 250, due in 2010, was also granted to BINOLI GmbH with a yearly interest rate of 6.0 %.

Other assets mainly include receivables from insurance carriers (2008: € 1,460 and 2007: € 1,894) and suppliers with debit balances (2008: € 11,456 and 2007: € 6,958). Security deposits and deposits with suppliers relate to amounts which are expected to be received in cash, whereas suppliers with debit balances relate to amounts which are expected to be offset against future invoices.

Advanced payments on aircraft and other tangible assets relate primarily to advanced payments, deposits and commitment fees made under the Group's various agreements for the purchase of aircraft, which are detailed in note 32 "Capital commitments" below. Net payments of € 27,497 (2007: € 95,642) were made during the period and € 16,784 was capitalised as aircraft were acquired in 2008 (2007: € 25,627).

The Group's exposure to credit and currency risks and impairment losses related to trade receivables and other financial assets are disclosed in note 30.

11. SHARE CAPITAL AND RESERVES

Share capital and share premium

On 28 March 2007, the Company issued 5,974,282 ordinary shares of € 0.25 at a share price of € 16.40. Gross proceeds on the issue of new shares amounted to € 97,978, which resulted in net proceeds of € 92,783 after deducting transaction costs of € 5,195. The increase in share premium was € 93,311 net of tax.

As of 31 December 2008, the authorised share capital of Air Berlin was € 100,000,000 and £ 50,000 (2007: € 100,000,000 and £ 50,000), divided into 400,000,000 ordinary shares of € 0.25 each and 50,000 A shares of £ 1.00 each (2007: 400,000,000 ordinary shares of € 0.25 each and 50,000 A shares of £ 1.00 each).

Of Air Berlin's authorised share capital, 65,717,103 ordinary shares of € 0.25 each and 50,000 A shares of £ 1.00 each were issued and fully paid up as of 31 December 2008. Included in this amount are 177,600 treasury shares held by Air Berlin (through the Air Berlin Employee Share Trust) in connection with the employee share plan described below. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the shareholders. The A shares are redeemable at the option of Air Berlin only, and the holders of A shares shall not be entitled to any participation in the profits or assets of Air Berlin save on a distribution of assets of Air Berlin among its members on a winding up or other return of capital (other than a redemption or purchase by Air Berlin of its own shares), in which case the holders of A shares shall be entitled, in priority of to any holder of ordinary shares, to receive an amount equal to the aggregate of the capital paid up or credited as paid up on each A share.



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Movements in share capital are summarised below:

In thousand of shares	Ordinary shares		Redeemable "Class A" preference shares	
	2008	2007	2008	2007
On issue at 1 January	65,717	59,743	50	50
Issued for cash (new shares on 28 March 2007)	0	5,974	0	0
On issue at 31 December	65,717	65,717	50	50
Thereof held as treasury shares	178	178	0	0

No shares have been reserved for issue under options.

Other capital reserves

Other capital reserves are comprised of general partners' and limited partners' capital of consolidated partnerships and subscribed capital of consolidated entities which were reclassified to other capital reserves due to the reverse acquisition in 2005.

Treasury shares

In connection with the amendment made to the employee share-based payment scheme discussed below, the Company repurchased the economic ownership (and limited all significant legal aspects of the ownership, such as voting rights) in 177,600 shares of its stock in 2006. The purchase price was € 0.25 per share (par value), resulting in a decrease in retained earnings of € 45.

Hedge accounting reserve

The reserve for hedge accounting contains the effective portion of the cumulative net change in the fair value of derivative financial instruments designated as hedges of probable future cash flows, net of tax.

Foreign currency translation reserve

The reserve for currency translation differences comprises all foreign currency differences arising from the translation of the financial statements of foreign subsidiaries.

Dividends

No dividends on ordinary shares or Class A shares were declared or paid during the period.

Minority interest

As described in note 5, the minority interest of € 629 shown in the balance sheet relates to the 51 per cent of Belair's equity at the acquisition date.

12. EARNINGS PER SHARE (EPS)

The basic (and diluted) earnings per share are determined by dividing the profit or loss for the period by the weighted average number of ordinary shares outstanding during the financial year.

In thousands of Euro and thousands of shares, except EPS	2008	2007
(Loss) profit for the year	(75,019)	20,977
Dividends declared on redeemable "Class A" preference shares	0	0
Profit attributable to ordinary shareholders (basic and diluted)	(75,019)	20,977
Issued ordinary shares at 1 January	65,717	59,743
Effect of shares issued in March 2007	0	4,550
Effect of treasury shares held	(178)	(178)
Weighted average number of ordinary shares outstanding (basic)	65,539	64,115
Effect of share options in issue	0	175
Weighted average number of ordinary shares outstanding (diluted)	65,539	64,290
Basic earnings per share (in €)	(1.14)	0.33
Diluted earnings per share (in €)	(1.14)	0.33

The 50,000 Class A shares (redeemable preference shares) do not entitle the holders to any participation in the profit or loss of Air Berlin, as dividends are discretionary. These shares therefore have not been included in the calculation of the weighted average number of ordinary shares outstanding above.

The conversion of convertible bonds would have had an anti-dilutive effect on earnings per share and is therefore not considered in the calculation of diluted earnings per share.

13. EMPLOYEE SHARE PLAN

The Company introduced a share-based payment scheme in April 2006, which was later amended in November 2006, as part of the remuneration package provided to the Executive Directors and certain senior executives of the Group (each a "Participant"). In April 2006 the Company invited Executive Directors and certain senior executives of the Group (each a "Participant") to subscribe for shares in a one-off award (the "Award"). Participants paid the nominal value for their shares. The Award was made subject to the conditions set out in an agreement entered into between the Company and each Participant. Participants became owners of the shares when they subscribed for them but were unable to sell or otherwise dispose of the shares other than in accordance with the agreement.

The plan was amended on 28 November 2006 so that the Company reacquired the beneficial interest in all of the shares under the Award and placed restrictions on the legal interest in the shares (i.e. voting rights). The beneficial interest in the shares was transferred to Ogier Employee Benefit Trustee Limited as trustee of the Air Berlin Employee Share Trust. The amendment was not treated as a modification.



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Under the terms of the revised Employee Share Plan 2006 the Participant holds (limited) legal title to the shares but will only be able to acquire the beneficial interest to the shares if certain performance conditions are met and if the employee remains with the Company for the entire performance period (vesting period). If the conditions are not met, if the Participant leaves the Company before the end of the vesting period or if the Participant does not transfer payment for the shares within two weeks upon notification by the Company that the conditions have been met, the Company may require the Participant to transfer legal title to the shares to the Company. Participants are not entitled to receive dividends during the performance period. In addition, restrictions have been placed on the Participant's legal interest in the shares (i.e. voting rights) during the performance period. The shares are divided equally in three tranches, each comprising one-third of the shares granted. 50 % of the shares granted under each of the tranches are subject to a performance condition based on return on equity achieved by the Company and 50 % of the shares granted under each of the tranches are subject to performance conditions based on the percentage increase in the Company's share price over a three-year period as follows:

Tranche and three-year performance period (ending 31 December)	Total number of shares in tranche	Threshold return on equity element	Threshold share price growth element
Tranche 1: 2008	59,200	13 %	35 %
Tranche 2: 2009	59,200	14 %	38 %
Tranche 3: 2010	59,200	15 %	40 %

Both performance conditions will be measured in respect of the first, second and third tranches over the performance periods of three consecutive financial years ending on 31 December 2008, 2009 and 2010 respectively.

The right to acquire the beneficial interest in the shares subject to the Employee Share Plan 2006 is exercisable during a two week period following notification by the Company of fulfilment of the performance criteria. The exercise price is € 0.25 per share, the nominal value of the shares.

Neither of the performance conditions were met for the Tranche 1 performance period, which ended 31 December 2008. Therefore, participants will not be able to call for the economic interest in the shares under that tranche and may be required to transfer the legal ownership of those shares to the Air Berlin Employee Share Trust. The equity-settled share-based payment transactions are measured at fair value on the grant date in accordance with IFRS 2. The weighted average fair value of these options was € 8.95 at the measurement date. The fair value of the options granted was determined using the binomial model under the following assumptions:

- ✈ Volatility: 40 %
- ✈ Dividends: 0
- ✈ Risk-free interest rate: 4 %

Volatility was estimated by a peer group analysis in the airline sector, adjusted for a "new issuer" premium.

The number and weighted average exercise price of share options during the period was as follows:

Share options	Number of share options 2008	Weighted average exercise price 2008	Number of share options 2007	Weighted average exercise price 2007
Outstanding at the beginning of the period	174,000	0.25	177,600	0.25
Granted during the period	0	0.25	0	0.25
Forfeited during the period	60,400	0.25	3,600	0.25
Exercised during the period	0	0.25	0	0.25
Expired during the period	0	0.25	0	0.25
Outstanding at the end of the period	113,600	0.25	174,000	0.25
Exercisable at the end of the period	0	0.25	0	0.25

No options were exercised or lapsed during the period.

Total benefit in the income statement relating to the Employee Share Plan was € 143 in 2008 (expense of € 390 in 2007).

14. PENSION LIABILITIES / EMPLOYEE BENEFITS

The Group held provisions for the following employee benefits at 31 December 2008:

In thousands of Euro	Note	2008	2007
Pension liabilities		0	1,205
Provision for anniversary bonuses	15	7,243	7,546
Provision for old age part time (early retirement)	15	4,119	3,556
Total employee benefits		11,362	12,307

The provisions for anniversary bonuses and old age part time (early retirement) are described in note 15.

Defined benefit plans

In 2007, the Company entered into a defined benefit pension plan for its Executive Directors. In addition the Group has a defined benefit pension plan for certain employees of dba. Both pension plans are funded through payments to qualified insurance contracts.

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

In thousands of Euro	2008	2007
Present value of funded obligations	8,306	8,270
Fair value of plan assets	(10,279)	(7,065)
Funded status	(1,973)	1,205
Amount not recognised due to limitation in IAS 19.58(b)	1,973	0
Pension liabilities	0	1,205



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

In thousands of Euro	2008	2007
Defined benefit obligation as at 1 January	8,270	0
Current service cost	1,681	1,770
Past service cost	0	6,644
Benefits paid	(11)	0
Interest on obligation	426	350
Actuarial gains	(2,060)	(494)
Defined benefit obligation as at 31 December	8,306	8,270

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

In thousands of Euro	2008	2007
Fair value of plan assets as at 1 January	7,065	0
Contribution	3,188	7,227
Benefits paid	(11)	0
Expected return on plan assets	56	0
Actuarial losses	(19)	(162)
Fair value of plan assets as at 31 December	10,279	7,065

Plan assets consist exclusively of external contracts with insurance companies in Germany. These insurances could potentially include shares in Air Berlin Plc. However, due to strict requirements in Germany regarding the structure of insurance companies, the percentage of Air Berlin shares held would be minimal.

The actual return on plan assets was € 37 during the period (€ -162 in 2007). No experience adjustments were made during the period.

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

In thousands of Euro	2008	2007
Current service cost	1,681	1,770
Interest on obligation	426	350
Past service cost	0	2,625
Expected return on plan assets	(56)	0
Net actuarial gains recognised in the period	(2,041)	(332)
Effect of the limitation in IAS 19.58(b)	1,973	0
Pension expense	1,983	4,413

The Group expects to contribute € 3,014 to its defined benefit pension plans in 2009.

Principal actuarial assumptions at the reporting date are as follows:

	2008	2007
Discount rate at 31 December	6.3 %	5.00–5.25 %
Expected return on plan assets at 1 January	2.75–4.00 %	2.75–4.00 %
Future salary increases	3.00 %	3.00 %
Cost of living adjustment (future pension increases)	1.00 %	1.00 %

Assumptions regarding future mortality are based on published statistics and mortality tables ("Richttafeln 2005 G" published by Heubeck-Richttafeln-GmbH). The average remaining life expectancy of an individual retiring at age 65 is 20 years for males and 25 years for females.

Defined contribution plans

Through the acquisition of dba in 2006, the Group acquired a defined contribution pension plan covering all employees of dba, to which the Group makes contributions. The net pension expense recorded in the profit and loss in 2008 as a result of the defined contribution plan is € 18 (2007: € 240).

As employees in Germany are covered by and required to contribute to the German social security system, Air Berlin does not have any other employee benefit plans at the balance sheet date. The Group paid contributions into the German social security system of € 27,713 in 2008 (€19,082 in 2007).

15. PROVISIONS

In thousands of Euro	At 1.1.2008	Additions	Utilisation	Balance at 31.12.2008
Repair of damaged aircraft	235	0	(235)	0
Provision for airport fees	1,543	2,902	0	4,445
Provision for anniversary bonuses	7,546	134	(437)	7,243
Provision for old age part time early retirement	3,556	1,032	(469)	4,119
Provision for redundancy costs	0	10,416	0	10,416
Provision for onerous contracts	11,506	0	(11,506)	0
	24,386	14,484	(12,647)	26,223

Thereof € 10,661 relating to the provision for anniversary bonuses and old age part time early retirement was classified as non-current as at 31 December 2008 (2007: € 11,036).

The provision for repair of damaged aircraft relates to the expected cost of repair of aircraft which have been damaged not in the ordinary course of use and have not been repaired as of the balance sheet date. The estimated amount is based on Air Berlin's historical experience and is recognised at the time the aircraft is damaged.

The provision for airport fees relates to a claim in which an airport is seeking fees of € 4,445 in 2008 due to infrastructure measures (€ 1,543 in 2007).



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As a result of the existing collective labour agreement, older employees of LTU (age 55 and above) have the opportunity to take part in the old age part time ("Altersteilzeit") program, which is a form of early retirement in which the employee either works part time for the whole period or works full time during the first few years and not at all in the following years until reaching the official age of retirement. 71 employees have signed such agreements as of the balance sheet date, of which 42 will begin part time in 2009. A discount rate of 6.1 % and an expected salary increase of 2 % was used to calculate the provision. Uncertainties exist as to the life expectancy of the employees and as to the future salary at the time the contract takes effect.

The provision for anniversary bonuses was also calculated using a discount rate of 6.1 % and an expected yearly salary increase of 2 %. Uncertainties exist in the probability that the employees will remain with the Group until they are entitled to receive their anniversary bonus and as to their salaries at that time. The provision was accounted for in accordance with IAS 19.

The provision for redundancy costs is related to the layoff of dba and LTU staff at the offices in Munich and Dusseldorf in connection with the concentration of the business in Berlin. Uncertainties exist relating to the amount and probability of payments. The provision is based on the most likely outcome based on similar cases in Germany.

The provision for onerous contracts relates to expected operating losses in connection with the unfulfilled orders of LTU at the acquisition date. The provision was recorded at its fair value as part of the revaluation to purchase accounting in the purchase price allocation described in note 5. The calculation of this fair value required judgements as to the expected losses on the fulfilment of these orders.

16. INTEREST-BEARING LIABILITIES AND LIABILITIES DUE TO BANKS FROM ASSIGNMENT OF FUTURE LEASE PAYMENTS

This note provides information about the terms and conditions of the Group's interest-bearing loans and borrowings, all of which are measured at amortised cost. More information about the Group's exposure to interest rate, foreign currency and liquidity risk is provided in note 30.

Interest-bearing liabilities

The Group has entered into various interest-bearing liabilities. The carrying amounts for the years 2008 and 2007, classified according to their maturity dates and borrowing rates, are as follows:

In thousands of Euro	Secured / unsecured	Currency	Maturity date	Carrying amount 31.12.2008	Carrying amount 31.12.2007
Interest rate					
Bank loans, fixed rate	Unsecured	EUR	2008	0	104,010
Bank loans, variable rate	Unsecured	USD	2009–2010	26,678	15,763
Bank loans, variable rate	Secured	USD	2011–2013	13,633	16,083
Bank loans, variable rate	Secured	USD	2014–2017	18,753	18,585
Convertible bonds –					
liability component, fixed rate	Unsecured	EUR	2012*	190,696	182,007
Finance lease liabilities	Unsecured	USD	2008–2018	46,391	47,232
Finance lease liabilities	Unsecured	EUR	2008–2022	50,166	54,762
Bank overdrafts	Unsecured			478	108
				346,795	438,550

* first option to redeem the bonds

The bank overdrafts are due in 2008 and 2009 for 2007 and 2008 respectively.

Of this amount € 44,012 (2007: € 122,402) is classified within current liabilities in the balance sheet. Bank loans are collateralised by engines and aircraft in the amount of € 32,386 (2007: € 15,916).

The finance lease liabilities are detailed in note 17 below.

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

In thousands of Euro	2008	2007
Less than one year	44,012	122,402
Between one and five years	243,281	235,498
More than five years	59,502	80,650
	346,795	438,550

Convertible bonds

On 11 April 2007 the Group issued € 220,000 convertible bonds due 2027. The bond issue is made up of 2,200 bonds with a principal amount of € 100,000 each, earning yearly interest of 1.5 %. The initial conversion price is € 22.47 which results in an initial conversion ratio of 4,450 ordinary shares per bond. Gross proceeds from the bond issue amounted to € 220,000. Transaction costs incurred were € 6,391.

The convertible bond was split into its equity and debt components in accordance with IAS 32.

The equity component, less transaction costs net of tax, is shown as a separate line item in equity, and the debt component of the convertible bond is included under interest-bearing liabilities in the balance sheet as follows:

In thousands of Euro	2008	2007
Proceeds from issue of convertible bonds	220,000	220,000
Transaction costs	(6,391)	(6,391)
Net proceeds	213,609	213,609
Amount classified as equity	(39,934)	(39,934)
Accrued interest and amortisation of bond discount	17,021	8,332
Carrying amount at 31 December 2008	190,696	182,007

The equity component, which is shown net of taxes of € 12,590 in the balance sheet, totalled € 27,344 at 31 December 2008 (2007: € 27,431). The effect of the change in the Company's tax rate in 2008 (discussed in note 27 below) amounted to € 87 (in 2007: € 3,031) and was recorded as a decrease (2007: an increase) in the equity component of the convertible bond.

An analysis of this amount is as follows:

Equity component of convertible bond	41,129
Less: transaction costs allocated to equity component	(1,195)
Total amount classified as equity	39,934
Taxes on equity component at 30.18 %	(12,503)
Effect of change in tax rate	(87)
Equity component of convertible bond, net of tax	27,344



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The bonds are convertible into 4,450 ordinary shares per bond at the option of the bondholder at any time beginning 40 days following closing and ending 14 days before maturity (21 May 2007 to 25 March 2027). In addition, the bondholder has the option to require the Company to repurchase the bonds at principal amount plus accrued interest on 11 April 2012, 11 April 2017, and 11 April 2022 or upon change in control. The Company has the option to redeem the bonds in whole at their principal amount plus accrued interest at any time as of 30 April 2014, so long as the trading price of the Air Berlin share exceeds 150 % of the conversion price.

Liabilities due to banks from assignment of future lease payments

The Group entered into financing agreements with commercial banks by which the Group assigned intra-group lease payments to the banks.

The carrying amounts for the years 2008 and 2007, classified according to their maturity dates and borrowing rates, are as follows:

In thousands of Euro	Secured / unsecured	Currency	Maturity date	Carrying amount 31.12.2008	Carrying amount 31.12.2007
Interest rate					
Variable rate	Secured	EUR	2011–2013	76,718	90,717
Variable rate	Secured	USD	2011–2013	68,092	75,912
Fixed rate	Secured	USD	2014–2017	76,092	79,342
Variable rate	Secured	USD	2014–2017	306,936	303,845
Variable rate	Secured	USD	2018–2022	155,636	42,026
				683,474	591,842

Of this amount € 73,011 (2007: € 62,935) is classified within current liabilities in the balance sheet. The assigned intra-group lease payments are secured over aircraft.

Payments for the above-mentioned liabilities due to banks from assignment of future intra-group lease payments are due as follows:

In thousands of Euro	2008	2007
Less than one year	73,011	62,935
Between one and five years	313,950	284,581
More than five years	296,513	244,326
	683,474	591,842

17. LEASING

Operating leases

The Group leases a number of aircraft and one Unix Server under leasing agreements which qualify as operating lease agreements. The leases typically run for a period between five and twelve years and terminate automatically upon expiry of the lease term. Lease payments are denominated in USD and vary depending upon the change in the market rate of interest. No restrictions have been placed on the lessee as a result of these leases.

In addition the Group leases a number of warehouse and office facilities under operating leases. The leases expire between 2009 and 2018, with an option to renew the leases after these dates.

Non-cancellable operating lease rentals are payable as follows:

In thousands of Euro	2008	2007
Less than one year	336,535	315,522
Between one and five years	909,459	799,724
More than five years	218,261	207,973
	1,464,255	1,323,219

During the year ended 31 December 2008, € 383,628 (2007: € 280,797) was recognised as an expense in the income statement in respect of operating leases.

The Group also leases several of its aircraft as lessor under agreements which qualify as operating leases. The lease terms vary from three to twelve years, the latest of which expire in 2019, and lease payments are fixed in USD or EUR.

Future minimum lease payments are receivable as follows:

In thousands of Euro	2008	2007
Less than one year	24,885	13,552
Between one and five years	89,972	54,208
More than five years	84,815	93,735
	199,672	161,495

No contingent rents were recognised as lease income in the period.

Finance leases

The Group leases certain technical equipment under an agreement which qualifies as a finance lease. The finance lease relates to the technical equipment for aircraft leased under operating leases with various leasing terms, the latest of which were phased out in December 2008. The leasing rate is based on flight hours per aircraft, with a guaranteed minimum number of flight hours per aircraft. The leasing rate is adjusted on a yearly basis. No restrictions have been placed on the lessee as a result of these leases. Changes in the terms of the lease agreement resulted in a reduction in the liability and in the net book value of the technical equipment of € 400 in 2008 (€ 387 in 2007).

The Group also leases two aircraft under agreements which qualify as finance leases. The lease agreements are for terms of eleven years, the latest of which expires in 2018. The agreements contain various put and call options relating to the right of the lessee to purchase the aircraft or the right of the lessor to require the lessee to purchase the aircraft on certain dates at prices and conditions set out in the agreements. In addition, the lessor has the right to require the lessee to name a purchaser at the end of the lease term for a fixed price (guaranteed residual value). Lease payments are in USD and vary based on changes in the interest rate component of the lease. The present value of future minimum lease payments was therefore determined by using the expected lease payments based on the preliminary interest rate stated in the lease.

In addition, through the purchase of LTU the Group now leases two airport buildings under agreements which qualify as finance leases. The leases expire in 2011 and 2022. The assets and liabilities were recorded initially at their fair values at 31 July 2007 in connection with the purchase price allocation and depreciated / amortised as of that date.

The net book value of assets capitalised at 31 December 2008 as a result of finance leases is detailed in note 7 above.



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Future minimum lease payments are as follows:

In thousands of Euro	As at 31 December 2008		As at 31 December 2007	
	Future minimum lease payments	Discounted to present value	Future minimum lease payments	Discounted to present value
Less than one year	12,961	12,542	14,092	7,836
Between one and five years	45,170	37,813	48,412	28,054
More than five years	81,602	46,202	87,819	66,104
	139,733	96,557	150,323	101,994

No contingent leasing payments were recorded in profit and loss in 2008 (2007: € 0).

18. TRADE AND OTHER PAYABLES, CURRENT AND NON-CURRENT

In thousands of Euro	Current 2008	Non-current 2008	Total 2008	Current 2007	Non-current 2007	Total 2007
Trade payables	108,764	0	108,764	114,938	0	114,938
Other financial liabilities	174	0	174	3,160	0	3,160
Trade payables and other financial liabilities	108,938	0	108,938	118,098	0	118,098
Accrued liabilities	189,635	31,263	220,898	289,544	26,164	315,708
Receivables with credit balances	4,999	0	4,999	1,867	0	1,867
Payroll tax	5,571	0	5,571	6,834	0	6,834
VAT	4,876	0	4,876	22,569	0	22,569
Social insurance contributions	875	0	875	361	0	361
Other non-financial liabilities	1,227	0	1,227	3,016	0	3,016
	316,121	31,263	347,384	442,289	26,164	468,453

Accrued liabilities include expenses for services provided and goods received before the balance sheet date but not yet invoiced, credit notes and commissions to travel agencies in connection with the sale of tickets, accrued vacation and payroll and accruals for aircraft and engine maintenance checks and overhauls.

Information about the Group's exposure to foreign currency and liquidity risk related to trade payables and other financial liabilities is provided in note 30.

19. ADVANCED PAYMENTS RECEIVED

Advanced payments primarily relate to payments received in advance for single-seat ticket sales for which the scheduled flight is to be provided in the following financial period and for which no revenue has been recorded.

20. REVENUE

In thousands of Euro	2008	2007
Single-seat ticket sales	1,875,517	1,453,364
Bulk ticket sales to charter and package tour operators	1,229,142	861,250
Duty-free	35,154	27,516
Ground and other services	260,879	194,370
	3,400,692	2,536,500

Ground and other services primarily include freight, technical services and ancillary sales.

Segment information

All revenues derive from the principal activity as an airline and include flights, commissions, inflight and related sales. Since Air Berlin's aircraft fleet is employed across its scheduled destinations on an as needed basis, there is no reasonable basis of allocating such assets and related liabilities, income and expenses to geographical segments.

21. OTHER OPERATING INCOME

In thousands of Euro	2008	2007
Gain on disposal of fixed assets, associates and subsidiaries	23,325	1,765
Income from administrative services provided to Niki	1,027	680
Income from insurance claims	1,529	2,946
Other	12,740	9,184
	38,621	14,575

22. EXPENSES FOR MATERIALS AND SERVICES

In thousands of Euro	2008	2007
Fuel for aircraft	874,336	561,751
Catering costs and cost of materials for in-flight sales	123,978	85,708
Airport & handling charges	710,087	596,184
Operating leases for aircraft and equipment	359,523	263,843
Navigation charges	227,896	186,666
Other	64,025	42,283
	2,359,845	1,736,435



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23. PERSONNEL EXPENSES AND STAFF NUMBERS

The aggregate payroll costs were as follows:

In thousands of Euro	2008	2007
Wages and salaries	377,352	262,513
Pension expense	29,714	23,735
Social security	39,198	25,554
	446,264	311,802

Wages and salaries includes an addition to the provision for redundancy costs of € 10,416. Pension expense relates to the defined benefit plan for the Executive Directors of € 1,937 (2007: € 3,084) and the dba pension plan of € 46 (2007: € 1,329), contributions paid to defined contribution plans of € 18 (2007: € 240) and to the German social security system of € 27,713 (2007: € 19,082) during the period. Further details regarding the pension plans are found in note 14 above.

Remuneration of the Executive Directors (key management personnel) is as follows:

In thousands of Euro	2008	2007
Basic remuneration	2,200	2,000
Bonus	1,139	1,800
Share based payment expense	(92)	272
Other	62	84
	3,309	4,156

The highest paid Director received € 1,501 and € 1,992 in total remuneration in 2008 and 2007, respectively. Directors' Remuneration is detailed in the Directors' Remuneration Report on pages 94 to 103.

The average number of persons employed by the Group (including Directors) during the year and the number of employees at year-end, analysed by category and on a full-time basis, were as follows:

	On annual average 2008	On annual average 2007	As at 31 December 2008	As at 31 December 2007
Employees				
Flight and cabin crew	4,826	3,327	4,681	4,792
Sales, operations and administration	3,655	2,504	3,630	3,568
	8,481	5,831	8,311	8,360

24. OTHER OPERATING EXPENSES

In thousands of Euro	2008	2007
Sales commissions paid to agencies	32,250	31,130
Repairs and maintenance of technical equipment	186,777	125,094
Advertising	56,480	51,701
Insurance	20,161	20,848
Hardware and software expenses	44,510	42,627
Bank charges	24,414	16,070
Travel expenses for cabin crews	31,197	19,872
Expenses for premises and vehicles	28,167	19,244
Losses from disposal of fixed assets, associates and subsidiaries	2,508	0
Training and other personnel costs	15,423	15,225
Phone and postage	5,071	5,072
Allowances for receivables	1,310	3,358
Consulting fees	24,944	8,171
Remuneration of the auditor	2,843	2,866
Other	39,842	26,369
	515,897	387,647

Remuneration of the auditor is as follows:

In thousands of Euro	2008	2007
Audit of the annual accounts	128	116
Audit of accounts of subsidiaries of the Company	1,061	895
Other services pursuant to legislation	150	350
Taxation services	182	533
Other services	1,322	972
	2,843	2,866

25. NET FINANCING COSTS

In thousands of Euro	2008	2007
Interest expense on interest-bearing liabilities	(54,919)	(49,464)
Other financial expenses	(614)	(160)
Financial expenses	(55,533)	(49,624)
Interest income on fixed deposits	9,228	11,306
Interest income on loans and receivables	1,708	875
Other financial income	1,625	1,670
Financial income	12,561	13,851
Foreign exchange (losses) gains	(28,989)	225
Net financing costs	(71,961)	(35,548)



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As described in note 4n above, exchange rate differences not arising from interest-bearing liabilities and other financing activities are reclassified to the relevant line items within operating expenses.

Total net foreign exchange gains (losses) are reconciled to foreign exchange gains in profit or loss as follows:

In thousands of Euro	2008	2007
Total net foreign exchange losses recognised in profit or loss	(80,322)	(36,613)
Thereof reclassified to operating expenses	51,333	36,838
Foreign exchange (losses) gains in financial result	(28,989)	225

26. SHARE OF (LOSS) PROFIT OF ASSOCIATES

In thousands of Euro	2008	2007
Niki Luftfahrt GmbH	595	0
Lee & Lex Flugzeugvermietungs GmbH	(604)	0
IBERO Tours GmbH	32	9
Stockheim Air Catering GmbH & Co. KG	(32)	733
ILTU Ireland Ltd.	0	49
	(9)	791

27. INCOME TAX EXPENSES AND DEFERRED TAXES (ADJUSTED)

Profit or loss before tax is primarily attributable to Germany.

Income tax expense is as follows:

In thousands of Euro	2008	2007
Current income tax expense	(4,910)	(3,804)
Deferred income tax (expense) benefit	(12,304)	38,119
Total income tax (expense) benefit	(17,214)	34,315

The corporate tax reform 2008 was finally concluded by the German "Bundesrat" (upper chamber of German parliament) on 6 July 2007. It took effect 1 January 2008. The major changes were to reduce the corporate tax from 25 % to 15 %, to reduce the basis ("Meßzahl") used for calculating the trade tax and to eliminate the deductibility of trade tax. The Group is subject to both corporate tax and trade tax. In accordance with IAS 12 the effect of the resulting change in deferred tax liabilities was recognised in 2007 in the income statement, except to the extent that it relates to items previously charged or credited directly to equity. The amount of deferred tax income resulting from the change in the tax law was € 7,995 as calculated at 31 December 2007. The corporate tax rate for retained and distributed profits was 15 % in 2008 (25 % in 2007). In addition to corporate tax, a solidarity charge is also levied amounting to 5.5 % of the payable corporate tax. Trade tax is no longer deductible for corporate tax purposes in 2008, as it was in 2007, and the effective trade tax varies depending on the municipality in which the company

operates. In 2008, the total tax rate (including corporate tax and trade tax) for the Air Berlin Group amounted to 30.18 % (2007: 38.90 %). As a result of variations in the trade tax, several subsidiaries of the Air Berlin Group have tax rates which differ from the 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.

The trade tax of the Company was adjusted in 2008 due to a change in the structure of the tax pooling agreements, resulting in a slight change in the tax rate of the Company from 30.18 % to 30.42 %. The change in the deferred tax liabilities of the Company was recorded in the income statement in 2008, except to the extent that it relates to items previously charged or credited directly to equity. A gain of € 153 was recognised in the income statement in 2008. The change in tax rate also led to a decrease in the equity component of the convertible bond of € 87.

The reasons for the differences between the tax burden expected on the basis of profit for the period and the recognised income tax expenses are as follows:

In thousands of Euro	2008	2007
Loss before tax	(57,805)	(13,338)
Expected income tax benefit at 30.18 % (2007: 38.90 %)	17,446	5,188
Effect of change in tax rate	153	7,995
Recognition of tax loss carry forwards previously not recognised	1,754	4,747
Effect of tax rates in different jurisdictions	(11,337)	643
Effect of transfer of certain aircraft and related financing to foreign subsidiaries	0	16,877
Write off of deferred tax assets on tax loss carry forwards	(20,777)	0
Non-tax deductible expenses	(5,571)	(834)
Current tax benefits previous years	414	(93)
Other	704	(208)
Total income tax (expense) benefit	(17,214)	34,315

As mentioned above, parts of the Group are subject to trade tax at lower or higher rates than the other Group companies. In addition, foreign subsidiaries are subject to different tax rates. This leads to a tax rate difference in the amount of € -11,337 in 2008 (€ 643 in 2007).

As of 31 December 2008, total tax loss carry forwards for which deferred tax assets were capitalised amounted to € 379,270 for trade tax purposes and € 296,755 for corporate tax purposes (2007: € 366,880 and € 223,898 respectively). As of 31 December 2008, no additional deferred tax assets were capitalised for further loss carry forwards of € 826,635 for corporate tax and € 634,783 for trade tax (2007: € 826,766 and € 574,210 respectively). The tax loss carry forwards are not subject to expiration. However, the usage of tax loss carry forwards may be limited due to minimum tax provisions. According to German Corporate Tax Law (KStG) and Trade Tax Law (GewStG), tax loss carry forwards may be used unlimited up to the amount of € 1,000 of profits for the year. The remaining profits may be off-set with tax loss carry forwards only by 60 % of the profits for the year. Deferred tax assets have been recognised accordingly.



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Deferred tax assets and liabilities are attributable to the following:

In thousands of Euro	2008	2007
Deferred tax assets:		
Finance lease liabilities and deferred income	15,284	15,854
Foreign currency receivables and derivatives	74,946	23,274
Tax loss carry forwards	95,604	103,449
	185,834	142,577
Deferred tax liabilities:		
Aircraft and engines and related liabilities	(70,721)	(71,854)
Land and buildings	(7,692)	(8,653)
Intangible assets	(35,099)	(33,011)
Other assets and prepaid expenses	0	(784)
Technical equipment	(516)	(1,372)
Leasehold improvements	(87)	(86)
Accrued liabilities and provisions	(14,552)	(11,479)
Convertible bond	(9,644)	(12,184)
Foreign currency liabilities and derivatives	(1,343)	(198)
	(139,654)	(139,621)
Offsetting	185,834	142,577
Deferred tax assets, net	46,180	2,956
Deferred tax assets (liabilities), net beginning of period	2,956	(48,955)
Change in deferred tax assets (liabilities)	43,224	51,911
Thereof resulting from purchase price allocation	0	(33,458)
Thereof related to cash flow hedges and items recorded in equity	(55,528)	19,666
Deferred income tax (expense) benefit	(12,304)	38,119

The deferred tax asset on tax loss carry forwards takes into consideration the expected future tax benefits of amortisation of intangible assets in the tax balance sheet.

28. CASH FLOW STATEMENT

The cash flow statement of the Air Berlin Group is presented according to the indirect method. Cash and cash equivalents include cash, bank balances and fixed-term deposits with banks with a maturity of less than three months.

In thousands of Euro	2008	2007
Cash	1,042	349
Bank balances	55,510	85,211
Fixed-term deposits	211,735	383,098
Cash and cash equivalents	268,287	468,658
Bank overdrafts used for cash management purposes	(478)	(108)
Cash and cash equivalents in the statement of cash flows	267,809	468,550

Cash and cash equivalents include restricted cash of € 66,355 as of 31 December 2008 (31 December 2007: € 18,253).

29. DERIVATIVES

Positive and negative market values of derivatives are as follows:

In thousands of Euro	Current 2008	Non-current 2008	Total 2008	Current 2007	Non-current 2007	Total 2007
Positive market values of derivatives classified as held for trading:						
Forward contracts	3,587	0	3,587	13,107	87	13,194
Foreign currency options	2,504	0	2,504	655	1,136	1,791
Commodity swaps	0	0	0	137	0	137
Commodity options	304	0	304	0	0	0
Cross currency interest rate swaps	0	640	640	0	0	0
Total positive market values of derivatives classified as held for trading	6,395	640	7,035	13,899	1,223	15,122
Positive market values of derivatives classified as hedge accounting:						
Forward contracts	34,750	0	34,750	242	0	242
Foreign currency options	5,422	0	5,422	70	0	70
Commodity swaps	0	0	0	67,755	672	68,427
Commodity options	0	0	0	2,396	0	2,396
Cross currency interest rate swaps	0	24	24	0	182	182
Total positive market values of derivatives classified as hedge accounting	40,172	24	40,196	70,463	854	71,317
Total positive market values of derivatives	46,567	664	47,231	84,362	2,077	86,439
Negative market values of derivatives classified as held for trading:						
Forward contracts	2,636	0	2,636	12,144	0	12,144
Foreign currency options	3,192	0	3,192	3,301	1,056	4,357
Commodity options	489	0	489	0	0	0
Cross currency interest rate swaps	6,893	51,109	58,002	0	67,022	67,022
Total negative market values of derivatives classified as held for trading	13,210	51,109	64,319	15,445	68,078	83,523
Negative market values of derivatives classified as hedge accounting:						
Forward contracts	3,077	0	3,077	65,124	12,839	77,963
Foreign currency options	0	0	0	1,391	0	1,391
Commodity swaps	220,283	0	220,283	0	0	0
Commodity options	165	0	165	0	0	0
Cross-currency interest rate swaps	0	7,658	7,658	0	693	693
Total negative market values of derivatives classified as hedge accounting	223,525	7,658	231,183	66,515	13,532	80,047
Total negative market values of derivatives	236,735	58,767	295,502	81,960	81,610	163,570

Hedge accounting is discussed in note 30g below.



08) Financial Statements

30. FINANCIAL RISK MANAGEMENT

a) Credit risk

The carrying amount of financial assets represents the maximum credit exposure.

The maximum exposure to credit at the reporting date was:

In thousands of Euro	Note	Carrying amount 2008	Carrying amount 2007
Loans and receivables	10	225,693	204,266
Positive market values of derivatives classified as held for trading	29	7,035	15,122
Positive market values of derivatives classified as hedge accounting	29	40,196	71,317
Cash and cash equivalents	28	268,287	468,658
		541,211	759,363

The maximum exposure to credit risk for trade receivables at the reporting date by type of customer was:

In thousands of Euro	2008	2007
Receivables from single-seat ticket sales	6,850	4,407
Receivables from charter sales	9,872	18,025
Receivables from credit card companies	21,015	23,218
Receivables from IATA clearing house ("BSP" travel agencies)	17,042	18,441
Other trade receivables	52,313	46,782
	107,092	110,873

Other trade receivables relate primarily to receivables from other airlines for technical services (2008: € 15,782, 2007: € 7,370) and to receivables from cargo services (2008: € 941, 2007: € 9,835).

b) Impairment losses

-- TRADE RECEIVABLES

The aging of trade receivables at the reporting date was:

In thousands of Euro	Gross 2008	Impairment 2008	Gross 2007	Impairment 2007
Not past due	91,247	0	83,180	0
Past due 1–30 days	3,943	3	21,168	1
Past due 31–120 days	4,882	506	8,056	2,089
Past due 121–365 days	6,485	1,176	2,478	1,919
More than one year past due	5,579	3,359	0	0
	112,136	5,044	114,882	4,009

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 (2008: € 91,247; 2007: € 83,180) are considered to contain only a minimal risk of impairment based on past experience. The amount of receivables written off in 2008 was very small (€ 4,444 increase in the allowance for impairment losses and € 1,310 written off directly) compared with total revenues. Receivables past due but not impaired relate primarily to receivables 1–30 days overdue. Due to past experience these receivables do not contain a level of risk significant enough to warrant impairment, as Air Berlin cooperates with collection agencies and credit card companies for ticket sales. Receivables from single seat ticket sales (which would have a higher likelihood of impairment as they are sold to the end customer directly) only make up a small portion of Air Berlin's receivables.

Trade receivables in the balance sheet are shown net of an allowance for impairment losses of € 5,044 (2007: € 4,009).

The movement in the impairment allowance is as follows:

In thousands of Euro	Allowance for impairment losses 2008	Allowance for impairment losses 2007
Balance at 1 January	4,009	1,555
Increase in allowance for impairment losses	4,444	2,706
Release of allowance for impairment losses	(3,409)	(252)
Balance at 31 December	5,044	4,009



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The allowance for impairment losses is used to record impairment losses until the Group determines that the financial asset should be derecognised.

The allowance for impairment losses is based on estimates and judgements regarding the credit worthiness of individual receivables, the actual customer structure and an analysis of historical impairment losses. Reminders are sent on a timely basis. After the second reminder, the customer is given a certain amount of time to pay the receivable. If no payment is received at that time, the third reminder is issued along with a legal order to pay, and an allowance for impairment losses of 60 % is recorded on the receivable. This percentage represents the probability of impairment loss based on past experience. Receivables more than one year past due are written off completely. At the balance sheet date the total allowance for impairment losses was € 5,044 (2007: € 4,009).

In addition to the € 4,444 increase in the allowance for impairment losses (€ 2,454 in 2007), receivables of € 1,310 in 2008 (€ 3,358 in 2007) were written off directly in profit or loss during the period.

-- OTHER LOANS AND RECEIVABLES

None of the other loans and receivables were past due as of 31 December 2008 (2007: 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.

These receivables relate primarily to amounts due from suppliers (deposits and bonus and claims). The Group only enters into contracts with suppliers of high quality and as such does not consider there to be a significant impairment risk relating to these amounts.

Receivables from related parties relate primarily to amounts due from Niki for administrative services provided and to the long-term loans receivable from Lee & Lex. As the receivables are not overdue and payments have been made on time in the past, the Group does not consider an impairment loss to be necessary.

-- CASH AND CASH EQUIVALENTS AND POSITIVE MARKET VALUES OF DERIVATIVES

No impairment has been recorded on bank balances or positive market values of derivatives, as the transactions are only made with parties of the highest credit rating or, in the case of derivative financial instruments, with parties which are known to be reliable based on past experience (past customer behaviour regarding timely payments of amounts due). When no rating is available for a contract partner, collateral may be obtained, for example in the form of guarantees from the parent company, as is the case with one contract partner for fuel derivatives. 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 2008:

In thousands of Euro	Carrying amount	Contractual cash flows	6 months or less	7–12 months	1–2 years	2–5 years	More than 5 years
Non-derivative financial liabilities							
Liabilities due to bank from							
assignment of future lease payments	683,474	792,046	47,588	47,114	93,948	280,308	323,088
Secured bank loans	32,386	37,406	2,764	2,761	5,533	12,001	14,347
Unsecured bank loans	26,678	26,949	20,250	6,699	0	0	0
Finance lease liabilities	96,557	139,733	6,473	6,488	13,055	32,115	81,602
Convertible bonds – liability component	190,696	233,200	3,300	0	3,300	226,600	0
Trade payables and other financial liabilities	108,938	108,938	108,938	0	0	0	0
Bank overdraft	478	478	478	0	0	0	0
Total financial liabilities measured at amortised cost	1,139,207	1,338,750	189,791	63,062	115,836	551,024	419,037
Derivative financial liabilities							
Derivatives classified as hedge accounting:							
Cross-currency interest rate swaps	7,658	5,410	766	1,129	1,970	4,012	(2,467)
Outflow		71,941	3,690	4,738	9,375	26,361	27,777
Inflow		(66,531)	(2,924)	(3,609)	(7,405)	(22,349)	(30,244)
Forward exchange contracts	3,077	3,176	2,954	222	0	0	0
Outflow		187,483	176,483	11,000	0	0	0
Inflow		(184,307)	(173,529)	(10,778)	0	0	0
Commodity swaps	220,283	220,283	151,181	69,102	0	0	0
Outflow		220,283	151,181	69,102	0	0	0
Inflow		0	0	0	0	0	0
Commodity options	165	165	62	103	0	0	0
Outflow		165	62	103	0	0	0
Inflow		0	0	0	0	0	0
Derivatives classified as held for trading:							
Cross-currency interest rate swaps	58,002	79,630	7,269	15,726	17,338	33,823	5,474
Outflow		647,371	40,707	100,461	134,302	306,514	65,387
Inflow		(567,741)	(33,438)	(84,735)	(116,964)	(272,691)	(59,913)
Forward exchange contracts	2,636	2,477	1,106	1,371	0	0	0
Outflow		46,705	32,334	14,371	0	0	0
Inflow		(44,228)	(31,228)	(13,000)	0	0	0
Forward exchange options	3,192	397	397	0	0	0	0
Outflow		108,870	108,870	0	0	0	0
Inflow		(108,473)	(108,473)	0	0	0	0
Commodity options	489	489	113	376	0	0	0
Outflow		489	113	376	0	0	0
Inflow		0	0	0	0	0	0
	1,434,709	1,650,777	353,639	151,091	135,144	588,859	422,044



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In addition to the above contractual cash flows, the Group has capital commitments under purchase arrangements. For more details see note 32.

For 31 December 2007, the maturities were as follows:

In thousands of Euro	Carrying amount	Contractual cash flows	6 months or less	7–12 months	1–2 years	2–5 years	More than 5 years
Non-derivative financial liabilities							
Liabilities due to bank from							
assignment of future lease payments	591,842	757,945	49,724	47,854	94,377	284,308	281,682
Secured bank loans	34,668	45,402	2,997	2,979	5,907	15,840	17,679
Unsecured bank loans	119,773	121,127	104,616	6,726	9,785	0	0
Finance lease liabilities	101,994	150,323	7,238	6,854	12,863	35,549	87,819
Convertible bonds – liability component	182,007	236,500	3,300	0	3,300	229,900	0
Trade payables and other financial liabilities	118,098	118,098	118,098	0	0	0	0
Bank overdraft	108	108	108	0	0	0	0
Total financial liabilities measured at amortised cost	1,148,490	1,429,503	286,081	64,413	126,232	565,597	387,180
Derivative financial liabilities							
Derivatives classified as hedge accounting:							
Cross-currency interest rate swaps	693	71,912	0	7,248	16,112	43,745	4,807
Outflow		603,551	0	74,950	133,981	349,613	45,007
Inflow		(531,639)	0	(67,702)	(117,869)	(305,868)	(40,200)
Forward exchange contracts	77,963	78,099	31,876	29,027	17,196	0	0
Outflow		1,236,646	420,436	415,549	400,661	0	0
Inflow		(1,158,547)	(388,560)	(386,522)	(383,465)	0	0
Forward exchange options	1,391	5,466	2,755	1,955	756	0	0
Outflow		109,399	36,720	37,958	34,721	0	0
Inflow		(103,933)	(33,965)	(36,003)	(33,965)	0	0
Derivatives classified as held for trading:							
Cross-currency interest rate swaps	67,022	7,076	0	251	3,221	3,804	(200)
Outflow		153,117	0	3,325	55,659	77,279	16,854
Inflow		(146,041)	0	(3,074)	(52,438)	(73,475)	(17,054)
Forward exchange options	4,357	(224)	(224)	0	0	0	0
Outflow		6,793	6,793	0	0	0	0
Inflow		(7,017)	(7,017)	0	0	0	0
	1,299,916	1,591,832	320,488	102,894	163,517	613,146	391,787

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 2009 and early 2010.

d) Currency risk

The Group has significant transactions in USD as well as smaller transactions in GBP and CHF. Air Berlin enters into USD currency forwards and options in order to manage functional currency risk which arises on operating costs (e.g. payments regarding aircraft financing and leasing, fuel, maintenance etc.) denominated in USD. Air Berlin generally hedges up to 75 % (2007: 75 %) of the expected cash flow on a 6–18 month (2007: 12–24 month) revolving basis.

The Group's exposure to foreign currency risk was as follows based on the currency values at end of year:

In thousands of currency units	31 December 2008			31 December 2007		
	USD	GBP	CHF	USD	GBP	CHF
Loans and receivables	65,719	1,009	3,058	87,609	2,365	2,821
Cash and cash equivalents	68,871	531	14,007	143,988	19,928	7,707
Liabilities due to bank from						
assignment of future lease payments	(844,422)	0	0	(737,707)	0	0
Secured bank loans	(45,072)	0	0	(50,789)	0	0
Unsecured bank loans	(37,128)	0	0	(23,305)	0	0
Finance lease liabilities	(67,562)	0	0	(69,530)	0	0
Trade payables and						
other financial liabilities	(29,739)	(188)	(4,247)	(57,231)	(537)	(1,584)
Bank overdraft	(100)	(81)	0	0	0	0
Gross balance sheet exposure	(889,433)	1,271	12,818	(706,965)	21,756	8,944
Estimated forecast purchases	(1,805,000)	0	0	(1,778,000)	0	0
Gross exposure	(2,694,433)	1,271	12,818	(2,484,965)	21,756	8,944
Forward exchange contracts						
(hedged volume in USD)	1,139,500	0	0	1,905,000	0	0
Forward exchange options						
(hedged volume in USD)	120,000	0	0	163,000	0	0
Cross currency interest rate swaps						
(hedged volume in USD)	897,914	0	0	875,701	0	0
Net exposure	(537,019)	1,271	12,818	458,736	21,756	8,944

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.



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The following significant exchange rates applied during the year:

Currency units to the Euro	Average rate		Reporting date spot rate	
	2008	2007	2008	2007
USD	1.4708	1.3279	1.3917	1.4721
GBP	0.7963	0.687	0.9525	0.7334
CHF	1.5874	1.646	1.4850	1.6547

-- SENSITIVITY ANALYSIS

A sensitivity analysis was performed on the year-end balances of foreign currency financial assets and liabilities and the fair values of derivative financial instruments existing at year-end. The assumptions used in the calculation of currency risk were the same as those used in the prior year. Assuming that all other variables, in particular interest rates, remain constant, a 10 per cent strengthening of the Euro against the following currencies at 31 December would have increased or decreased equity and profit or loss by the following amounts:

Effect in thousands of Euro	31 December 2008			31 December 2007		
	USD	GBP	CHF	USD	GBP	CHF
Profit or loss	1,340	(121)	(785)	1,989	(2,697)	(491)
Equity	(76,824)	0	0	(142,692)	0	0

A 10 per cent weakening of the Euro against the above currencies at 31 December would have increased (decreased) equity and profit or loss by the following amounts:

Effect in thousands of Euro	31 December 2008			31 December 2007		
	USD	GBP	CHF	USD	GBP	CHF
Profit or loss	(7,058)	148	959	(1,870)	3,296	601
Equity	87,803	0	0	164,495	0	0

e) Interest rate risk

The interest rate profile of the Group is as follows:

In thousands of Euro	Carrying amount	
	2008	2007
Fixed rate instruments		
Financial assets	3,510	1,401
Financial liabilities	(266,788)	(286,017)
Cross-currency interest rate swaps	(64,996)	(67,532)
	(328,274)	(352,148)
Variable rate instruments		
Financial assets	3,500	3,500
Financial liabilities	(666,447)	(642,273)
	(662,947)	(638,773)

The variable rate interest bearing liabilities and liabilities due to banks from assignment of future lease payments, which are generally denominated in USD, expose the Group to variability in interest payments due to changes in interest rates as well as to a foreign currency risk. The interest risk results from the sensitivity of financial assets and financial liabilities with variable interest rates to changes in the market interest rate. Air Berlin uses cross currency interest rate swaps to hedge these risks. The swaps are considered cash flow hedges from their inception until the liability is recorded in the balance sheet, at which point the interest rate swaps are classified as held for trading, with future changes in market value taken to profit or loss. Ineffective amounts are negligible and are therefore not recorded in profit or loss.

-- FAIR VALUE SENSITIVITY ANALYSIS FOR FIXED RATE INSTRUMENTS

The Group does not account for any fixed rate financial instruments at fair value through profit or loss, and the Group does not designate any of its derivatives (interest rate swaps) as fair value hedge accounting instruments. Therefore a change in interest rates (unless they resulted in the hedge becoming ineffective) at the reporting date would only affect profit or loss to the extent that it affects the fair value of interest rate swaps not designated as hedge accounting (held for trading). A change of 100 basis points in interest rates would have increased or decreased equity by € 516 (2007: € 1,374) and profit or loss by € 6,303 (2007: € 5,342) based on a one year impact.

-- CASH FLOW SENSITIVITY ANALYSIS FOR VARIABLE RATE INSTRUMENTS

Assuming that all other variables, in particular foreign currency rates, remain constant, a change of 100 basis points in interest rates would have increased or decreased profit or loss (financial result) by € 1,323 (2007: € 2,203) 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.



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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 25.5 % (2007: 22.2 %) of the Group's entire operating expenses. Air Berlin uses commodity swaps as well as commodity options to hedge the exposure to fuel price increases. At the balance sheet date 2008, the hedged volume was 681,000 tons for the business year 2009 (2007: 733,800 tons for 2008 and 63,500 tons for 2009). The hedging quota was 55.8 % for 2009 (in the prior year: 53.7 % for 2008 and 5.0 % for 2009).

-- SENSITIVITY ANALYSIS

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 by € 23,286 (2007: € 7,087) and had no effect on profit or loss.

The calculation is based on the fair values of commodity derivatives (swaps and options) at the balance sheet date. The assumptions used were the same as in the prior period.

g) Hedge accounting

As an airline, the Air Berlin Group is exposed to currency, interest rate and fuel price risks as well as credit and liquidity risks. Air Berlin uses derivatives to limit these risks.

Air Berlin applies hedge accounting for its hedges of future foreign currency denominated cash flows and its hedges of future cash flows related to the purchase of jet fuel that satisfy the criteria under IAS 39, thus reducing income statement volatility. In addition, as of the third quarter of 2007 Air Berlin applies hedge accounting for its foreign currency options and for several of its hedges of future cash flows resulting from variable USD interest rate payments. These hedging transactions are accounted for as cash flow hedges.

IAS 39 sets out strict requirements on the use of hedge accounting. Air Berlin fulfils those requirements by documenting, at the inception of a hedge, both the relationship between the derivative used as the hedging instrument and the hedged item, as well as the aim and strategy of the hedge. This includes assigning the hedging instruments to the corresponding firm commitments and future transactions and also estimating the degree of effectiveness of the hedging instruments employed. The effectiveness of existing hedge accounting is monitored on an ongoing basis. For hedge accounting, the change in the fair value of the hedging instrument is deferred in equity to the extent the hedge is effective. Accumulated fair value changes from qualifying hedges are removed from equity to profit or loss in the period when the hedged cash flow affects profit or loss (2008 and 2009 for foreign currency and fuel hedges, 2008 to 2014 for cross-currency interest rate hedges).

Air Berlin also uses hedges that do not satisfy the strict hedge accounting criteria of IAS 39. For such derivatives Air Berlin recognises the changes in fair value in profit or loss. The fair values of derivatives are recognised as other assets or reported as other liabilities.

Ineffective amounts are negligible and are therefore not recorded in profit or loss.

The (net) fair values of derivatives for hedging exchange rate, interest rate and fuel price risks at 31 December 2008 and their movement during the period is as follows:

In thousands of Euro	Fair value at 31 December 2007	Transfer to hedge accounting	Change in fair value recognised in profit or loss	Change in fair value recognised in in equity	Removed from equity to profit or loss	Option premium paid	Fair value at 31 December 2008
Cash flow hedges:							
Forward contracts	(77,721)	0	0	52,198	57,196	0	31,673
Foreign currency options	(1,321)	27	0	6,716	0	0	5,422
Cross-currency interest rate swaps	(511)	0	(85)	(14,709)	7,670	0	(7,635)
Commodity swaps (fuel price)	68,427	0	0	(122,899)	(165,811)	0	(220,283)
Commodity options (fuel price)	2,396	0	0	(4,630)	0	2,069	(165)
Held for trading:							
Forward contracts	1,050	0	(98)	0	0	0	952
Foreign currency options	(2,566)	(27)	1,905	0	0	0	(688)
Cross-currency interest rate swaps	(67,022)	0	9,660	0	0	0	(57,362)
Commodity swaps (fuel price)	137	0	(137)	0	0	0	0
Commodity options (fuel price)	0	0	(185)	0	0	0	(185)
	(77,131)	0	11,060	(83,324)	(100,945)	2,069	(248,271)



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The change in fair value of derivatives was as follows in 2007:

In thousands of Euro	Fair value at 31 December 2006	Change in fair value recognised in profit or loss	Change in fair value recognised in equity	Removed from equity to profit or loss	Option premium paid	Fair value at 31 December 2007
Cash flow hedges:						
Forward contracts	(10,824)	0	(94,021)	27,124	0	(77,721)
Foreign currency options	0	0	(1,321)	0	0	(1,321)
Cross-currency interest rate swaps	0	0	(9,144)	8,633	0	(511)
Commodity swaps (fuel price)	(20,157)	0	49,361	39,223	0	68,427
Commodity options (fuel price)	0	0	1,590	0	806	2,396
Held for trading:						
Forward contracts	0	1,050	0	0	0	1,050
Foreign currency options	(62)	(2,504)	0	0	0	(2,566)
Cross-currency interest rate swaps	(15,944)	(51,078)	0	0	0	(67,022)
Commodity options (fuel price)	0	137	0	0	0	137
	(46,987)	(52,395)	(53,535)	74,980	806	(77,131)

All foreign currency options and commodity options (fuel price) entered into during the period meet the qualifications of hedge accounting and are accounted for as cash flow hedges. The change in the intrinsic value is recorded in equity, and the change in the time value is recorded in profit or loss.

As of the third quarter of 2007, the Group has entered into cross-currency interest rate swaps which meet the qualifications of hedge accounting. These are also accounted for as cash flow hedges. Those cross-currency interest rate swaps which do not meet the criteria for hedge accounting continue to be recorded in profit or loss and are classified as held for trading.

Cash flow hedges are expected to impact profit or loss in the same period in which the cash flows are expected to occur, as detailed in section c "liquidity risk" above.

h) Fair values

Fair value is the amount obtainable in an arm's length transaction between knowledgeable willing parties. The fair values of financial assets and liabilities, together with their carrying amounts shown in the balance sheet, are as follows:

In thousands of Euro	Note	31 December 2008		31 December 2007	
		Carrying amount	Fair value	Carrying amount	Fair value
Loans and receivables:					
Total loans and receivables	10	225,693	226,304	204,266	203,930
Positive market values of derivatives classified as held for trading:					
Forward exchange contracts	29	3,587	3,587	13,194	13,194
Forward exchange options	29	2,504	2,504	1,791	1,791
Commodity options (fuel price)	29	304	304	0	0
Cross-currency interest rate swaps	29	640	640	0	0
Positive market values of derivatives classified as hedge accounting:					
Forward exchange contracts	29	34,750	34,750	242	242
Forward exchange options	29	5,422	5,422	70	70
Commodity swaps (fuel price)	29	0	0	68,564	68,564
Commodity options (fuel price)	29	0	0	2,396	2,396
Cross-currency interest rate swaps	29	24	24	182	182
Cash and cash equivalents	28	268,287	268,287	468,658	468,658
Financial liabilities measured at amortised cost:					
Liabilities due to bank from assignment of future lease payments	16	(683,474)	(670,732)	(591,842)	(596,302)
Secured bank loans	16	(32,386)	(31,087)	(34,668)	(34,416)
Unsecured bank loans	16	(26,678)	(26,536)	(119,773)	(119,787)
Finance lease liabilities	16	(96,557)	(106,496)	(101,994)	(103,545)
Convertible bonds – liability component	16	(190,696)	(168,524)	(182,007)	(181,860)
Trade payables and other financial liabilities	18	(108,938)	(108,938)	(118,098)	(118,098)
Bank overdraft	16	(478)	(478)	(108)	(108)
Total financial liabilities measured at amortised cost		(1,139,207)	(1,112,790)	(1,148,490)	(1,154,116)
Negative market values of derivatives classified as hedge accounting:					
Forward exchange contracts	29	(3,077)	(3,077)	(77,963)	(77,963)
Forward exchange options	29	0	0	(1,391)	(1,391)
Commodity swaps (fuel price)	29	(220,283)	(220,283)	0	0
Commodity options (fuel price)	29	(165)	(165)	0	0
Cross-currency interest rate swaps		(7,658)	(7,658)	(693)	(693)
Negative market values of derivatives classified as held for trading:					
Forward exchange contracts	29	(2,636)	(2,636)	(12,144)	(12,144)
Forward exchange options	29	(3,192)	(3,192)	(4,357)	(4,357)
Commodity options (fuel price)	29	(489)	(489)	0	0
Cross-currency interest rate swaps	29	(58,002)	(58,002)	(67,022)	(67,022)
		(893,498)	(866,470)	(552,697)	(558,659)



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The following summarises the major methods and assumptions used in estimating the fair values of financial instruments:

✈ Derivatives

Forward exchange, interest rate and fuel price derivatives are marked to market using listed market prices.

✈ Interest-bearing loans and borrowings

Fair value is calculated based on discounted expected future principal and interest cash flows using current rates.

✈ Trade and other receivables / payables

For receivables/payables with a remaining life of less than one year, the carrying value is deemed to reflect the fair value. All other receivables/payables are discounted to determine the fair value.

✈ Cash and cash equivalents

Due to the short maturity date, the notional amount is deemed to reflect the fair value.

i) Net gain or loss

The net gains (losses) on financial assets and liabilities during the period are as follows:

In thousands of Euro	2008	2007
Loans and receivables	(2,251)	(10,989)
Positive market values of derivatives classified as held for trading	778	1,326
Financial liabilities measured at amortised cost	(38,179)	65,805
Negative market values of derivatives classified as held for trading	(3,741)	(59,593)
	(43,393)	(3,451)

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

No interest income, fee income and fee expense was accrued on impaired financial assets during the period (2007: none).

31. RELATED PARTY TRANSACTIONS

The Group has related party relationships with its Directors and key management as well as with its associates (see note 8). Total remuneration of Directors is included in the Directors' Remuneration Report (see pages 94 to 103). The share-based payment scheme for Executive Directors and certain senior executives of the Group is detailed in note 13.

One of the Executive Directors of the Group controls a voting share of 3.15 % (2007: 3.15 %) of Air Berlin. In addition, a receivable of € 2 is due from one of the Directors and is included in other current assets in the balance sheet as at 31 December 2008 (2007: € 3).

The Chairman of the Board, also a shareholder of the Company with a voting share of 1.52 % (2007: 1.52 %), is the main shareholder of Phoenix Reisen GmbH. The Group had revenues from ticket sales with Phoenix Reisen GmbH in 2008 and 2007 of € 18,197 and € 12,105, respectively. At 31 December 2008 and 2007, € 2,663 and € 993, respectively, are included in the balance sheet in trade receivables.

One of the Non-Executive Directors is General Partner of Sal. Oppenheim jr. & Cie. S.C.A. The Group has arms length banking relationships with the bank.

During the years ending 31 December 2008 and 2007, associates purchased or delivered goods and services from the Group as follows:

In thousands of Euro	2008	2007
IBERO-Tours		
Revenues from ticket sales	0	326
Trade receivables	0	0
Expenses for services	1,177	1,031
Trade payables	13	0
SCK DUS GmbH & Co. KG		
Catering expenses	7,073	19,246
Trade payables	0	539
THBG BBI (formerly Blitz 07-582 GmbH)		
Receivables from related parties, non-current	1,824	0
BINOLI GmbH (formerly Buy.by Touristik)		
Revenues from ticket sales	629	0
Receivables from related parties, non-current	250	0
Trade and other receivables	230	0
Lee & Lex Flugzeugvermietung GmbH		
Receivables from related parties, non-current	844	1,401
Niki Luftfahrt GmbH		
Other operating expenses	810	0
Other income from administrative services	1,027	680
Receivables from related parties, current	13,760	9,232

Other assets from Lee & Lex Flugzeugvermietungs GmbH relate to a loan receivable in the amount of USD 960 (€ 685) and a partial debenture of € 750 (30 debentures at € 25 each), which have been written down by € 592 in connection with the recognition of the Group's share of losses in the associate and are described in more detail in note 10 above.

Transactions with associates are priced on an arm's length basis.

Dividends received from associates in 2008 are € 211 (2007: € 527).



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32. CAPITAL COMMITMENTS

A purchase order for 25 Boeing Dreamliner 787 was entered into on 7 July 2007, with delivery scheduled from 2013 to 2017. An additional purchase order for 15 Boeing 737 aircraft to be delivered between 2011 and 2014 was entered into in December 2007, and a purchase order for 10 Bombardier Type Q400 was entered into in October 2007, with delivery scheduled in 2008 and 2009. The Group's contracts to purchase aircraft are set out as follows:

Date of contract	Supplier	Number of aircraft	Type of aircraft	Delivery dates	Delivered in 2008	Delivered in 2007	Deliveries outstanding 31 Dec. 08	Thereof in 2009
2004	Airbus	60	A320/319/321	2005–2012	9	13	27	8
2006–2007	Boeing	100	B737-700/800	2007–2014	4	1	95	6
7/2007	Boeing	25	B787	2013–2017	0	0	25	0
10/2007	Bombardier	10	Q400	2008–2009	2	0	8	8

33. EXECUTIVE BOARD OF DIRECTORS

Executive Directors	Joachim Hunold	Chief Executive Officer
	Ulf Hüttmeyer	Chief Financial Officer
	Karl Lotz	Chief Operating Officer
	Elke Schütt	Chief Commercial Officer
	Wolfgang Kurth	Chief Maintenance Officer

34. NOTES TO THE COMPANY BALANCE SHEET**a) Significant accounting policies**

The accounting framework and significant accounting policies described in notes 2 and 4 above also apply to the Company financial statements. In addition the following accounting policies were applied:

Investments in subsidiaries and in associates are recorded at cost less accumulated impairment losses and are tested for impairment if an indication of impairment exists.

Receivables from subsidiaries and payables to subsidiaries and to associates are initially measured on the basis of their fair value. Subsequently they are carried at amortised cost using the effective interest method.

The Company has recorded financial assets and financial liabilities in the balance sheet.

Categories of financial assets and financial liabilities which apply to Air Berlin PLC as follows:

- ✈ Loans and receivables
- ✈ Financial assets and liabilities at fair value through profit or loss classified as held for trading in accordance with IAS 39 (derivative financial instruments)
- ✈ Financial liabilities measured at amortised cost (includes trade payables and other financial liabilities as well as interest-bearing liabilities)

The Company has defined the following classes of financial assets and financial liabilities:

- ✈ Loans and receivables,
- ✈ Derivative financial instruments classified as held for trading,
- ✈ Financial liabilities measured at amortised cost (includes interest-bearing liabilities, trade payables and other financial liabilities),
- ✈ Cash and cash equivalents.

b) Investments in subsidiaries

A detailed list of the companies in which the Company has interests, direct and indirect, is found in note 35 to the consolidated financial statements. The Company is general partner of Air Berlin PLC & Co. Luftverkehrs KG.

In thousands of Euro	Investments in subsidiaries
Acquisition cost	
Balance at 31 December 2006	140,165
Additions	3,150
Balance at 31 December 2007	143,315
Additions	77,668
Disposals	(25)
Balance at 31 December 2008	220,958

On 10 September 2007, Air Berlin PLC acquired 49 per cent of the shares in Belair Airlines AG, Zurich ("Belair") for a purchase price of CHF 1,715 (€ 1,027). In addition, the Company agreed upon a provision-related, technical € 340 increase in the purchase price of Belair. The acquisition of Belair is detailed in note 5 to the consolidated financial statements.

In addition, the Company set up the following subsidiaries in 2008: Air Berlin 6. LeaseLux Sàrl, Air Berlin 7. LeaseLux Sàrl, Air Berlin 8. LeaseLux Sàrl, at a total cost of € 38.

On 17 January 2008, the LTU Group transferred 100 per cent of its share in the Leisure Cargo GmbH as of 1 January 2008 to Air Berlin PLC for consideration of € 27,290.

Furthermore, the Company has been assigned trade receivables of € 50,000 to Pegasus Erste Luftfahrtbeteiligungsgesellschaft mbH, Pegasus Zweite Luftfahrtbeteiligungsgesellschaft mbH, Pegasus Dritte Luftfahrtbeteiligungsgesellschaft mbH, Pegasus Vierte Luftfahrtbeteiligungsgesellschaft mbH, Pegasus Fünfte Luftfahrtbeteiligungsgesellschaft mbH, Pegasus Sechste Luftfahrtbeteiligungsgesellschaft mbH and Pegasus Siebte Luftfahrtbeteiligungsgesellschaft mbH. The carrying amount of the subsidiaries was increased.

On 18 July 2008, the PLC disposed of 100 % of its share in the subsidiary Blitz 07-582 GmbH, thereof 35 % to Air Berlin PLC & Co. Luftverkehrs KG. Net proceeds from the sale of the subsidiary amounted to € 29 less cash and cash equivalents of € 25, and a gain of € 4 was realised on the sale.



08) Financial Statements

c) Investments in associates

With effect of 1 January 2008 the Company purchased 49 per cent of the shares in Buy.by.e Touristik GmbH from the LTU Group for a purchase price of € 125. Subsequently, the associate was renamed to Binoli GmbH.

d) Deferred tax assets

Profit or loss before tax is completely attributable to the branch in Germany. Income tax benefit is as follows:

In thousands of Euro	2008	2007
Current income taxes	(2,482)	0
Deferred income taxes	2,403	12,029
Total income tax (expense) benefit	(79)	12,029

The Company is subject to both corporation tax and trade tax in Germany. The corporation tax rate for retained and distributed profits was 15 % in 2008 (25 % in 2007). In addition to corporation tax, a solidarity charge is also levied amounting to 5.5 % of the payable corporation tax. Trade tax is no longer deductible for corporation tax purposes in 2008, as it was in 2007, and the effective trade tax varies depending on the municipality in which the Company operates. In 2008, the total tax rate (including corporation tax and trade tax) for the Company amounted to 30.42 % (2007: 38.9 %).

As described in note 27 above, the corporate tax reform 2008 was finally concluded by the German "Bundesrat" (upper chamber of German parliament) on 6 July 2007. It took effect 1 January 2008. The major changes were to reduce the corporate tax from 25 % to 15 %, to reduce the basis ("Meßzahl") used for calculating the trade tax and to eliminate the deductibility of trade tax. The new Group tax rate (corporate and trade tax) is 30.18 % as of 1 January 2008. The change in the tax law resulted in a decrease in deferred tax income of € 8,362 and an increase in items recorded in equity net of tax of € 3,031 in 2007.

The trade tax of the Company was adjusted in 2008 due to a change in the structure of the tax pooling agreements, resulting in a slight change in the tax rate of the Company from 30.18 % to 30.42 %. The change in the deferred tax liabilities of the Company was recorded in the income statement in 2008, except to the extent that it relates to items previously charged or credited directly to equity. A gain of € 153, which was recognised in the income statement in 2008. The change in tax rate also led to a decrease in the equity component of the convertible bond of € 87.

Deferred tax assets are attributable to the following:

In thousands of Euro	2008	2007
Deferred tax assets		
Accrued liabilities and provisions	453	310
Negative market values of derivatives	4,477	4,951
Tax loss carry forwards	25,296	24,358
Total deferred tax assets	30,226	29,619
Deferred tax liabilities		
Equity component of convertible bond	(9,644)	(12,184)
Positive market values of derivatives	(831)	0
Total deferred tax liabilities	(10,475)	(12,184)
Offsetting	30,226	29,619
Deferred tax assets, net	19,751	17,435
Deferred tax assets, net beginning of period	17,435	15,888
Change in deferred tax assets	2,316	1,547
thereof related to items recorded in equity	87	10,482
Deferred income tax benefit	2,403	12,029

The total tax loss carry forward was € 43,181 (2007: € 70,505) for trade tax purposes and € 120,013 (2007: € 89,987) for corporation tax purposes as at 31 December 2008, resulting in a deferred tax asset on the tax loss carry forwards of € 25,296 (2007: € 24,358). Of this amount, € 12,354 (2007: € 12,352) was recorded directly in equity as a reduction in the IPO costs and in the equity component of the convertible bond, which were also recorded in equity. The remaining € 12,942 (2007: € 12,006) was recorded as deferred tax benefit in the profit or loss.

A reconciliation between the tax burden expected on the basis of profit (loss) for a period and the recognised income tax expenses is as follows:

In thousands of Euro	2008	2007
Profit (loss) before tax	41,478	(37,207)
Expected income tax (expense) benefit at 30.42% (2007: 38.9%)	(12,618)	14,473
Effect of change in tax rate	153	(8,362)
Effect of tax pooling agreements with subsidiaries	11,557	6,283
Effect from non-deductible expenses	(464)	(214)
Recognition of tax loss carry forwards previously not recognised	923	0
Current tax benefits previous years	74	0
Other	296	(151)
Total income tax benefit recognised	(79)	12,029



08) Financial Statements

e) Loans to subsidiaries and other loans receivable

In 2007, a long-term loan was concluded with LTU Beteiligungs- und Holding GmbH (€ 140,000) with a yearly interest rate of 1 %. The loan is due 31 March 2009. It was therefore reclassified to current loans to subsidiaries at the balance sheet date.

Further information on the acquisition of LTU is detailed in note 5 to the consolidated financial statements.

In addition the Company has a long-term loan to LOMA GmbH of € 15,200. The loan is due in 2010 and has a yearly interest rate of 1 %.

A loan of € 3,500, which has a variable interest rate based on the 3-month-EURIBOR, was agreed with Luftfahrtgesellschaft Walter GmbH.

f) Long-term loans to associates

In 2008, a long-term loan was concluded with Binoli GmbH (€ 250). The loan was agreed with an indefinite maturity and with a 6 per cent interest rate. Interest income amounts € 10.

g) Receivables from subsidiaries

Receivables from subsidiaries include € 94,852 trade receivables. In 2008, the Company negotiated profit and loss transfer agreements with AB Luftfahrttechnik Berlin GmbH, AB Luftfahrttechnik Düsseldorf GmbH, Leisure Cargo GmbH and LTU Aircraft Maintenance GmbH, thereof results € 24,321 (2007: € 0).

Cash pooling agreements were concluded in 2008 to bundle the Group's financial activities. At the balance sheet date the trade receivables from cash pooling amounts to € 154,867.

h) Receivables from associates

Receivables from associates include the clearing account with Binoli GmbH € 148 (2007: € 0).

i) Share capital and reserves

The capital structure Air Berlin PLC is that of the Group, except that certain reserves on the consolidated level are not relevant at Company level.

On 28 March 2007 the Company issued a further 5,974,282 ordinary shares of € 0.25 at a share price of € 16.40. Gross proceeds on the issue of new shares amounted to € 97,978, which resulted in net proceeds of € 92,783 after deducting transaction costs of € 5,195. The increase in share premium was € 93,311 net of tax.

A full description of the Company's share capital and reserves is detailed in note 11 to the consolidated financial statements.

The Employee Share Plan is detailed in note 13 to the consolidated financial statements.

j) Pension liabilities

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

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

In thousands of Euro	2008	2007
Present value of funded obligations	3,685	2,918
Fair value of plan assets	(4,701)	(2,331)
Funded status	(1,016)	587
Amount not recognised due to limitation in IAS 19.58(b)	1,016	0
Pension liabilities	0	587

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

In thousands of Euro	2008	2007
Defined benefit obligation as at 1 January	2,918	0
Current service cost	1,410	1,613
Past service cost	0	1,721
Interest on obligation	146	77
Actuarial gains	(789)	(493)
Defined benefit obligation as at 31 December	3,685	2,918

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

In thousands of Euro	2008	2007
Fair value of plan assets as at 1 January	2,331	0
Contribution	2,524	2,497
Expected return on plan assets	(155)	0
Actuarial losses	1	(166)
Fair value of plan assets as at 31 December	4,701	2,331

Plan assets consist exclusively of external contracts with insurance companies in Germany. These insurances could potentially include shares in Air Berlin Plc. However, due to strict requirements in Germany regarding the structure of insurance companies, the percentage of Air Berlin shares held would be minimal.

The actual return on plan assets was € 154 during the period (2007: € -166). No experience adjustment was made during the period.



08) Financial Statements

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

In thousands of Euro	2008	2007
Current service cost	1,410	1,613
Interest on obligation	146	77
Past service cost	0	1,721
Expected return on plan assets	155	0
Net actuarial gains recognised in the period	(790)	(327)
Effect of the limitation in IAS 19 paragraph 58 (b)	1,016	0
Pension expense	1,937	3,084

The Company expects to contribute € 2,570 to its defined benefit pension plan in 2008.

Principal actuarial assumptions at the reporting date are as follows:

	2008	2007
Discount rate at 31 December	6.30 %	5.00 %
Expected return on plan assets at 1 January	2.75 %	2.75 %
Future salary increases	3.00 %	3.00 %
Cost of living adjustment (future pension increases)	1.00 %	1.00 %

Assumptions regarding future mortality are based on published statistics and mortality tables ("Richttafeln 2005 G" published by Heubeck-Richttafeln-GmbH). The average remaining life expectancy of an individual retiring at age 65 is 20 years for males and 25 years for females.

k) Other non-current liabilities to subsidiaries

On 11 April 2007, the Group issued € 220,000 convertible bonds due 2027. The bond issue is made up of 2,200 bonds with a principal amount of € 100,000 each, earning yearly interest of 1.5 %. The initial conversion price is € 22.47 which results in an initial conversion ratio of 4,450 ordinary shares per bond. Gross proceeds from the bond issue amounted to € 220,000. Transaction costs incurred were € 6,391.

The convertible 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 resulting liability of € 190,696 to AB Finance B.V. in the Company balance sheet corresponds to the debt component of the convertible bond in the consolidated balance sheet (note 16) at 31 December 2008 (2007: € 182,007). The disclosures regarding the liquidity risk and maturity analysis in respect of the convertible bond are detailed in note 16 and 30c. Another loan agreement was concluded with AB Finance B.V. (€ 2,000). The loan is due on 11 April 2027 and has a yearly interest rate of LIBOR plus 1 %.

l) Accrued liabilities

Accrued liabilities primarily relate to expenses for services received but not yet invoiced as of the balance sheet date.

m) Payables to subsidiaries

Payables to subsidiaries include € 60 regarding profit and loss transfers and € 281,286 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 shown in the balance sheet, are as follows:

In thousands of Euro	Note	31 December 2008		31 December 2007	
		Carrying amount	Fair value	Carrying amount	Fair value
Long-term loans from subsidiaries	34e	16,384	16,384	155,000	155,000
Long-term loans from associates	34f	250	260	0	0
Other long-term loans	34e	3,500	3,519	3,500	3,499
Short-term loans from subsidiaries	34e	155,000	155,000	0	0
Receivables from subsidiaries	34g	274,040	274,040	123,401	123,401
Receivables from associates	34h	148	148	0	0
Total loans and receivables		449,322	449,351	281,901	281,900
Positive market values of derivatives classified as trading:					
Cross-currency interest rate swaps		350	350	182	182
Forward exchange contracts		2,380	2,380	242	242
Cash and cash equivalents		159,978	159,978	175,232	175,232
Financial liabilities measured at amortised cost:					
Unsecured bank loans		0	0	(100,000)	(100,032)
Non-current liabilities to subsidiaries	34k	(192,696)	(205,729)	(184,007)	(183,857)
Trade payables and payables to subsidiaries	34m	(283,917)	(283,917)	(208)	(208)
Total financial liabilities measured at amortised cost		(476,613)	(489,646)	(284,215)	(284,097)
Negative market values of derivatives classified as trading:					
Cross-currency interest rate swaps		(14,715)	(14,715)	(693)	(693)
Forward exchange contracts		0	0	(16,139)	(16,139)
		120,702	107,698	156,510	156,627



08) Financial Statements

o) Related party transactions

The Company has related party relationships with its Directors and subsidiaries (see note 3 to the consolidated financial statements). Total remuneration of Directors is included in the Directors' Remuneration Report (see pages 94 to 103). One of the Executive Directors of the Group controls a voting share of 3.15 % (2007: 3.15 %) of Air Berlin. In addition, the Chairman of the Board is also a shareholder of the Company with a voting share of 1.52 % (2007: 1.52 %).

The Company had the following transactions with related parties during the year ending 31 December 2008:

In thousands of Euro	2008	2007
Air Berlin PLC & Co. Luftverkehrs KG		
Revenues	3,722	3,329
Receivables from subsidiaries	109,730	25,898
Other operating expenses	675	728
Payables to subsidiaries	216	0
Pegasus 1. – 7. Luftfahrtbeteiligungsgesellschaft mbH		
Revenues	0	17
Receivables from subsidiaries	0	17
Payables to subsidiaries	180	39
Alpha Engine Trading GmbH (formerly Luftfahrttechnischer Betrieb GmbH)		
Payables to subsidiaries	1,996	0
Air Berlin Beteiligungs GmbH		
Payables to subsidiaries	14	0
Belair Airlines AG		
Revenues	24	4
Receivables from subsidiaries	0	551
LTU Beteiligungs- und Holding GmbH		
Receivables from subsidiaries	141,377	140,000
LTU-Group		
Revenues	866	318
Receivables from subsidiaries	92,317	30,518
Payables from subsidiaries	33,927	0
Air Berlin 1. – 8. LeaseLux Sàrl		
Receivables from subsidiaries	49	7
Air Berlin Netherlands B.V.		
Receivables from subsidiaries	2,002	10
Air Berlin Finance B.V.		
Expenses for convertible bonds	12,157	8,462
Other non-current liabilities to subsidiaries	192,696	184,007
Payables to subsidiaries	5,767	65
Air Berlin Technik Ltd.		
Receivables from subsidiaries	2,350	2,350
Air Berlin GmbH & Co. Fünfte Flugzeugvermietungs OHG		
Receivables from subsidiaries	0	79,037
Payables to subsidiaries	35,201	0

In thousands of Euro	2008	2007
(Continuation from page 180)		
Air Berlin GmbH & Co. Sechste Flugzeugvermietungs OHG		
Payables to subsidiaries	26,240	0
Air Berlin GmbH & Co. Siebte Flugzeugvermietungs OHG		
Payables to subsidiaries	5,383	0
Air Berlin GmbH & Co. Elfte Flugzeugvermietungs OHG		
Payables to subsidiaries	52,904	0
Air Berlin Erste Flugzeugvermietungs GmbH		
Receivables from subsidiaries	5,017	0
Air Berlin Dritte Flugzeugvermietungs GmbH		
Receivables from subsidiaries	3,918	7
Air Berlin Vierte Flugzeugvermietungs GmbH		
Receivables from subsidiaries	3,373	0
Air Berlin Achte Flugzeugvermietungs GmbH		
Receivables from subsidiaries	30	0
Air Berlin Finance GmbH		
Receivables from subsidiaries	75	0
Binoli GmbH		
Revenues	10	0
Long-term loans	250	0
dba GmbH		
Payables to subsidiaries	36,148	0
Euconus GmbH		
Receivables from subsidiaries	1	0
Joachim Hunold & Co. Flugzeugvermietungs KG i.L.		
Receivables from subsidiaries	7	6
Executive and Non-Executive Directors		
Personnel expenses	2,520	4,024
Other operating expenses	485	400
Other current liabilities	2	2,000

p) Employees

The Company does not have any employees other than its five Executive Directors (2007: four Directors). Their remuneration is included in note 23 above as well as in the Directors' Remuneration Report on pages 94 to 103.

Payroll costs for the period were as follows:

In thousands of Euro	2008	2007
Basic wages and salaries	2,200	2,000
Bonus	1,139	1,800
Share based payment expense	(92)	272
Other	62	84
	3,309	4,156



08) Financial Statements

The Executive Directors are Participants in the Employee Share Plan 2006, which is described in detail in note 13 above as well as in the Directors' Remuneration Report. In addition, € 1,937 (2007: € 3,084) was paid to a defined benefit plan.

35. SUBSIDIARIES

The following subsidiaries are included in the consolidated financial statements:

Tochtergesellschaften	Country of incorporation	2008	2007
AB Erste Flugzeugvermietungs GmbH	Germany	✈	✈
AB Zweite Flugzeugvermietungs GmbH	Germany	✈	✈
AB Dritte Flugzeugvermietungs GmbH	Germany	✈	✈
AB Vierte Flugzeugvermietungs GmbH	Germany	✈	✈
AB Achte Flugzeugvermietungs GmbH	Germany	✈	✈
AB Neunte Flugzeugvermietungs GmbH	Germany	✈	✈
AB Zehnte Flugzeugvermietungs GmbH	Germany	✈	✈
AB Luftfahrttechnik Berlin GmbH	Germany	✈	✈
AB Luftfahrttechnik Düsseldorf GmbH	Germany	✈	✈
AB Luftfahrttechnik Köln GmbH (formerly LTU Aircraft Maintenance GmbH)	Germany	✈	✈
Air Berlin Beteiligungsgesellschaft mbH	Germany	✈	✈
Air Berlin Finance B.V.	Netherlands	✈	✈
Air Berlin Finance GmbH	Germany	✈	✈
Air Berlin Netherlands B.V. ¹	Netherlands	✈	✈
Air Berlin PLC & Co. Luftverkehrs KG	Germany	✈	✈
Air Berlin PLC & Co. Airport Service KG ¹	Germany	✈	✈
Air Berlin PLC & Co. Cabin Service KG ¹	Germany	✈	✈
Air Berlin PLC & Co. DUS KG ¹	Germany	✈	✈
Air Berlin PLC & Co. Service Center KG ¹	Germany	✈	✈
Air Berlin Switzerland GmbH ¹	Switzerland	✈	✈
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 GmbH & Co. Fünfte Flugzeugvermietungs OHG	Germany	✈	✈
Air Berlin GmbH & Co. Sechste Flugzeugvermietungs OHG	Germany	✈	✈
Air Berlin GmbH & Co. Siebte Flugzeugvermietungs OHG	Germany	✈	✈
Air Berlin GmbH & Co. Elfte Flugzeugvermietungs OHG	Germany	✈	✈
Alpha Engine Trading GmbH (formerly Air Berlin Luftfahrttechnischer Betrieb GmbH)	Germany	✈	✈
Belair Airlines AG ¹	Switzerland	✈	✈
Blitz 07-582 GmbH ²	Germany		✈
Buy.by Touristik GmbH ³	Germany		✈

CHS Cabin & Handling Service GmbH	Germany	✈	✈
CHS Cabin & Handling Service Bayern GmbH ⁴	Germany		✈
CHS Cabin & Handling Service Mitte GmbH ⁴	Germany		✈
CHS Cabin & Handling Service Nord GmbH ⁴	Germany		✈
CHS Cabin & Handling Service Ost GmbH ⁴	Germany		✈
CHS Cabin & Handling Service Süd GmbH ⁴	Germany		✈
CHS Cabin & Handling Service West GmbH ⁴	Germany		✈
CHS Cabin & Handling Service Süd-West GmbH ⁴	Germany		✈
CHS Cabin & Handling Service Nord-West GmbH ⁴	Germany		✈
CHS Cabin & Handling Service NRW-West GmbH ⁴	Germany		✈
CHS Switzerland AG ¹	Switzerland	✈	✈
CHS Holding & Services GmbH ¹	Germany	✈	✈
CHS Netherlands N.V. ¹	Netherlands	✈	✈
CHSC Cabin & Handling Service Center GmbH ⁵	Germany		✈
CHAS Cabin & Handling Airport Service GmbH ⁶	Germany		✈
CHAS International Airport Service GmbH ⁶	Germany		✈
CHAS Italy s.r.l. ¹	Italy	✈	✈
CHAS UK Ltd. ¹	United Kingdom	✈	✈
dba Luftfahrtgesellschaft mbH ¹	Germany	✈	✈
Euconus Flugzeugleasinggesellschaft mbH	Germany	✈	✈
Joachim Hunold & Co. Flugzeugvermietungs KG i.L.	Germany		✈
Leisure Cargo GmbH ¹	Germany	✈	✈
Loma Beteiligungsgesellschaft mbH	Germany	✈	✈
LTU Beteiligungs- und Holding GmbH ¹	Germany	✈	✈
LTU Lufttransport Unternehmen GmbH	Germany	✈	✈
LTU Plus GmbH ⁷	Germany		✈
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, 8}	United Kingdom	✈	✈

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

² In 2008, the Group disposed of 65 per cent of its share in the subsidiary. The company was renamed to "THBG BBI GmbH" and is shown as a 35 per cent investment in associates. The investments in associates are detailed in note 8.

³ In 2008, the Group disposed of 51 per cent of its share in the subsidiary. The company was renamed to "Binoli GmbH" and is shown as a 49 per cent investment in associates. The investments in associates are detailed in note 8.

⁴ In 2008, the company was merged to Air Berlin PLC & Co. Cabin Service KG.

⁵ In 2008, the company was merged to Air Berlin PLC & Co. Service Center KG.

⁶ In 2008, the company was merged to Air Berlin PLC & Co. Airport Service KG.

⁷ The company was sold in July 2008.

⁸ The company is consolidated as a Special Purpose Entity.

Except for Belair Airlines AG (49 %) and the special purpose entity, Air Berlin Employee Share Trust, Air Berlin PLC holds (directly or indirectly) 100 % of the ordinary share capital of the subsidiaries.

Excerpt from the Annual Report 2009, comprising the following:

Independent Auditor's Report

Financial Statements 2009

Notes to the Financial Statements



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

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF AIR BERLIN PLC

We have audited the financial statements of Air Berlin PLC for the year ended 31 December 2009 set out on pages 121 to 187. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 117, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/UKP.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2009 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006;
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006 and under the terms of our engagement

In our opinion:

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 and under the terms of our engagement we are required to report to you if, in our opinion:

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

**Melvyn Eggleton (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor**

Chartered Accountants
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH
Great Britain

18 March 2010

AIR BERLIN PLC
FINANCIAL STATEMENTS 2009

Air Berlin PLC

CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2009

	Note	2009	2008
		€ 000	(adjusted)* € 000
Revenue	19	3,240,344	3,388,520
Other operating income	20	42,443	38,621
Expenses for materials and services	21	(2,193,173)	(2,359,845)
Personnel expenses	22	(440,722)	(446,264)
Depreciation and amortisation	5, 6	(109,144)	(103,142)
Other operating expenses	23	(511,281)	(515,897)
Operating expenses		(3,254,320)	(3,425,148)
Result from operating activities		28,467	1,993
Financial expenses	24	(62,588)	(55,533)
Financial income	24	24,554	12,561
Foreign exchange losses, net	24	(12,938)	(28,989)
Net financing costs		(50,972)	(71,961)
Share of profit (loss) of associates, net of tax	25	808	(9)
Loss before tax		(21,697)	(69,977)
Income tax benefit (expense)	26	12,229	(13,541)
Loss for the period – attributable to owners of Air Berlin PLC		(9,468)	(83,518)
Basic earnings per share in €	11	(0.13)	(1.27)
Diluted earnings per share in €	11	(0.13)	(1.27)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		2009	2008
		€ 000	€ 000
Loss for the period		(9,468)	(83,518)
Foreign currency translation differences		(169)	1,137
Effective portion of changes in fair value of hedging instruments	29g	55,968	(83,324)
Net change in fair value of hedging instruments transferred from equity to profit or loss	29g	148,147	(100,946)
Income tax on other comprehensive income	26	(61,604)	55,528
Other comprehensive income for the period, net of tax		142,342	(127,605)
Total comprehensive income - attributable to owners of Air Berlin PLC		132,874	(211,123)

* The adjustments as of 31 December 2008 relate to the first time adoption of IFRIC 13. For further information see note 4p.



06) Financial Statements

Air Berlin PLC
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
 as at 31 December 2009

	Note	31/12/2009	31/12/2008 (adjusted)*
		€ 000	€ 000
Assets			
Non-current assets			
Intangible assets	5	318,060	313,819
Property, plant and equipment	6	1,209,743	1,269,943
Trade and other receivables	9	106,252	108,254
Deferred tax asset	26	0	54,555
Positive market value of derivatives	28	14	664
Deferred expenses		5,825	0
Investments in associates	7	3,183	1,771
Non-current assets		1,643,077	1,749,006
Current assets			
Inventories	8	38,724	36,692
Trade and other receivables	9	297,663	283,427
Positive market value of derivatives	28	23,720	46,567
Deferred expenses		35,120	25,110
Cash and cash equivalents	27	373,233	268,287
Current assets		768,460	660,083
Total assets		2,411,537	2,409,089
Equity and liabilities			
Shareholders' equity			
Share capital	10	21,379	16,502
Share premium	10	374,319	307,501
Equity component of convertible bond	15	51,598	27,344
Other capital reserves	10	217,056	217,056
Retained earnings		(62,323)	(62,654)
Hedge accounting reserve, net of tax	29	7,218	(135,294)
Foreign currency translation reserve	10	767	936
Equity available to the shareholders of the Company		610,014	371,391
Minority interest		0	629
Total equity		610,014	372,020
Non-current liabilities			
Liabilities due to bank from assignment of future lease payments	15	583,158	610,463
Interest-bearing liabilities	15	273,355	302,783
Provisions	14	10,298	10,661
Trade and other payables	17	36,401	31,263
Deferred tax liabilities	26	4,327	0
Negative market value of derivatives	28	70,853	58,767
Non-current liabilities		978,392	1,013,937
Current liabilities			
Liabilities due to bank from assignment of future lease payments	15	77,228	73,011
Interest-bearing liabilities	15	13,580	44,012
Current tax liabilities		7,526	8,076
Provisions	14	11,177	15,562
Trade and other payables	17	334,926	316,121
Negative market value of derivatives	28	12,756	236,735
Deferred income		78,390	72,795
Advanced payments received	18	287,548	256,820
Current liabilities		823,131	1,023,132
Total equity and liabilities		2,411,537	2,409,089

* The adjustments as of 31 December 2008 relate to the first time adoption of IFRIC 13. For further information see note 4p.
 The financial statements were approved by the Board of Directors and authorised for issue on 18 March 2010 and signed on behalf of the Board:

Joachim Hunold
Chief Executive Officer

Ulf Hüttmeyer
Chief Financial Officer

Air Berlin PLC

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2009

	Note	31/12/2009	31/12/2008 (adjusted)*
		€ 000	€ 000
Loss for the period		(9,468)	(83,518)
Adjustments to reconcile loss to cash flows from operating activities:			
Depreciation and amortisation of non-current assets	5, 6	109,144	103,142
Gain on disposal of tangible and intangible assets	20, 23	(8,394)	(18,851)
Write-off of loans		2,000	0
Gain on disposal of associates		0	(2,282)
Loss on disposal of subsidiaries		0	316
Share based payments		(88)	(143)
Increase in inventories		(2,032)	(5,868)
Decrease in trade accounts receivables		21,479	3,722
Increase in other assets and prepaid expenses		(23,978)	(18,568)
Deferred tax (benefit) expense	26	(17,834)	8,631
Decrease in accrued liabilities and provisions		(4,748)	(92,703)
Increase (decrease) in trade accounts payable		26,689	(4,478)
Increase in other current liabilities		36,502	79,034
Foreign exchange losses	24	12,938	28,989
Interest expense	24	60,222	54,919
Interest income	24	(3,280)	(12,561)
Profit from redemption of convertible bonds	24	(21,273)	0
Income tax expense	7, 26	5,606	4,910
Share of (profit) loss of associates	25	(808)	9
Changes in fair value of derivatives		1,675	(1,662)
Other non-cash changes		(169)	1,234
Cash generated from operations		184,182	44,272
Interest paid		(49,442)	(40,188)
Interest received		1,812	11,317
Income taxes paid		(6,156)	(3,597)
Net cash flows from operating activities		130,396	11,804
Purchase of tangible and intangible assets		(161,738)	(203,700)
Acquisition of subsidiary, net of cash		0	1,494
Purchase of minority interests		(1,182)	0
Proceeds from sale of subsidiary, net of cash		0	(2,247)
Net advanced payments for non-current items	9	(11,782)	(27,497)
Proceeds from sale of tangible and intangible assets		106,044	72,972
Dividends received from associates		0	211
Proceeds from sale of associates		0	2,328
Acquisition of investments in associates	7	(17)	(376)
Cash flow from investing activities		(68,674)	(156,815)
Principal payments on interest-bearing liabilities		(202,791)	(231,256)
Proceeds from long-term borrowings		110,625	170,518
Issue of ordinary shares	10	72,247	0
Transaction costs related to issue of new shares	10	(4,470)	0
Redemption of convertible bonds (issued in 2007)	15	(53,405)	0
Issue of convertible bonds	15	125,000	0
Transaction costs related to convertible bonds	15	(6,339)	0
Cash flow from financing activities		40,867	(60,738)
Change in cash and cash equivalents		102,589	(205,749)
Cash and cash equivalents at beginning of period		267,809	468,550
Foreign exchange gains on cash balances		1,612	5,008
Cash and cash equivalents at end of period	27	372,010	267,809
Thereof bank overdrafts used for cash management purposes		(1,223)	(478)
Thereof cash and cash equivalents in the statement of financial position		373,233	268,287

* The adjustments as of 31 December 2008 relate to the first time adoption of IFRIC 13. For further information see note 4p.



06) Financial Statements

Air Berlin PLC
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
 for the year ended 31 December 2009

	Note	Share capital €000	Share premium €000
Balances at 31 December 2007 (reported)		16,502	307,501
First time adoption IFRIC 13			
Balances at 31 December 2007 (adjusted)		16,502	307,501
Share based payment			
Total transactions with owners		0	0
Loss for the period (adjusted)			
Other comprehensive income			
Total comprehensive income for the period (adjusted)		0	0
Balances at 31 December 2008 (adjusted)		16,502	307,501
Issue of ordinary shares	10	4,877	67,370
Transaction cost, net of tax	10		(3,130)
Share based payment	12		
Acquisition of non-controlling interest	10		
Reimbursement of transaction costs (issue of ordinary shares), net of tax			2,578
Redemption of convertible bonds	15		
Issue of convertible bond, net of tax	15		
Transaction cost, net of tax	15		
Total transactions with owners		4,877	66,818
Loss for the period			
Other comprehensive income			
Total comprehensive income for the period		0	0
Balances at 31 December 2009		21,379	374,319

Equity component of convertible bonds	Other capital reserves	Retained earnings	Hedge accounting reserve, net of tax	Foreign currency translation reserve	Equity available to the owners of Air Berlin PLC	Non-controlling interest	Total equity
€ 000	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000
27,431	217,056	31,889	(6,639)	(201)	593,539	629	594,168
		(10,882)			(10,882)		(10,882)
27,431	217,056	21,007	(6,639)	(201)	582,657	629	583,286
		(143)			(143)		(143)
0	0	(143)	0	0	(143)	0	(143)
		(83,518)			(83,518)		(83,518)
(87)			(128,655)	1,137	(127,605)		(127,605)
(87)	0	(83,518)	(128,655)	1,137	(211,123)	0	(211,123)
27,344	217,056	(62,654)	(135,294)	936	371,391	629	372,020
					72,247		72,247
					(3,130)		(3,130)
		(88)			(88)		(88)
		(553)			(553)	(629)	(1,182)
					2,578		2,578
(10,440)		10,440			0		0
36,548					36,548		36,548
(1,854)					(1,854)		(1,854)
24,254	0	9,799	0	0	105,748	(629)	105,119
		(9,468)			(9,468)		(9,468)
			142,512	(169)	142,343		142,343
0	0	(9,468)	142,512	(169)	132,875	0	132,875
51,598	217,056	(62,323)	7,218	767	610,014	0	610,014



06) Financial Statements

Air Berlin PLC

COMPANY STATEMENT OF FINANCIAL POSITION

as at 31 December 2009

	Note	31/12/2009	31/12/2008
		€ 000	€ 000
Assets			
Non-current assets			
Investments in subsidiaries	34b	470,992	220,958
Investments in associates		0	125
Deferred tax assets	34c	4,856	19,751
Positive market value of derivatives		0	350
Loans to subsidiaries	34d	15,200	16,384
Loans to associates	34e	39	250
Other loans	34d	1,500	3,500
Non-current assets		492,587	261,318
Current assets			
Loans to subsidiaries		185,182	155,000
Receivables from subsidiaries	34f	91,200	274,040
Receivables from associates	34g	149	148
Positive market value of derivatives		58	2,380
Other receivables		4,228	1,260
Deferred expenses		904	567
Cash and cash equivalents		104,295	159,978
Current assets		386,016	593,373
Total assets		878,603	854,691
Equity and liabilities			
Shareholders' equity			
Share capital	34h	21,379	16,502
Share premium	34h	374,319	307,501
Equity component of convertible bond		51,598	27,344
Retained earnings		34,775	7,122
Total equity		482,071	358,469
Non-current liabilities			
Other liabilities	34j	198,089	192,696
Negative market value of derivatives		7,078	14,715
Non-current liabilities		205,167	207,411
Current liabilities			
Accrued taxes		4,815	2,560
Accrued liabilities		1,761	2,228
Payables to subsidiaries	34l	182,720	281,347
Trade and other payables		419	2,570
Negative market value of derivatives		1,435	0
Other liabilities		207	86
Deferred income		8	20
Current liabilities		191,365	288,811
Total equity and liabilities		878,603	854,691

The financial statements were approved by the Board of Directors and authorised for issue on 18 March 2010 and signed on behalf of the Board:

Joachim Hunold
Chief Executive Officer

Ulf Hütsmeyer
Chief Financial Officer

Air Berlin PLC

COMPANY STATEMENT OF CASH FLOWS

for the year ended 31 December 2009

	Note	31/12/2009	31/12/2008
		€ 000	€ 000
Profit for the period		17,301	41,399
Adjustments to reconcile profit to cash flows from operating activities			
Write-off of loans	12	2,000	0
Share based payments		(88)	(143)
Decrease (increase) in receivables from subsidiaries		88,356	(147,452)
Increase in receivables from associates		(1)	(148)
Decrease in other receivables and prepaid expenses		2,659	1,159
Deferred tax benefit	34c	(226)	(2,403)
(Decrease) increase in accrued liabilities and provisions		(467)	2,020
(Decrease) increase in trade accounts payable		(2,150)	2,466
(Decrease) increase in payables to subsidiaries	34f	(99,395)	273,423
Decrease in pension liabilities		0	(587)
Increase (decrease) in other payables and deferred income		110	(2,046)
Foreign exchange losses		129	0
Interest expense		17,945	16,554
Interest income		(3,022)	(8,575)
Profit from redemption of convertible bonds		(21,273)	0
Income tax expense		2,254	2,482
Share of loss of associates		586	0
Changes in fair value of derivatives		(3,530)	(4,423)
Cash generated from operations		1,188	173,726
Interest paid		(6,219)	(45)
Interest received		726	5,389
Income taxes received		0	78
Net cash flows from operating activities		(4,305)	179,148
Acquisition of investments in subsidiaries	34b	(33)	(77,643)
Increase in share capital of subsidiaries	34b	(155,001)	0
Acquisition of investments in associates		0	(125)
Long-term loans to subsidiaries	34d	(28,998)	(16,384)
Long-term loans to associates	34e	(250)	(250)
Cash flow from investing activities		(184,282)	(94,402)
Repayment of short-term borrowings		0	(100,000)
Issue of ordinary shares	10	72,247	0
Transaction costs related to issue of new shares	10	(4,470)	0
Redemption of convertible bonds (issued in 2007)	15	(53,405)	0
Issue of convertible bonds	15	125,000	0
Transaction costs related to convertible bonds	15	(6,339)	0
Cash flow from financing activities		133,033	(100,000)
Change in cash and cash equivalents		(55,554)	(15,254)
Cash and cash equivalents at beginning of period		159,978	175,232
Foreign exchange losses on cash balances		(129)	0
Cash and cash equivalents at end of period		104,295	159,978
Thereof cash and cash equivalents in the statement of financial position		104,295	159,978



06) Financial Statements

Air Berlin PLC
COMPANY STATEMENT OF CHANGES IN EQUITY
 for the year ended 31 December 2009

	Note	Share capital	Share premium	Equity component of convertible bonds	Retained earnings	Total equity
		€000	€000	€000	€000	€000
Balances at 31 December 2007		16,502	307,501	27,431	(34,134)	317,300
Share based payment		0	0	0	(143)	(143)
Total transactions with owners		0	0	0	(143)	(143)
Profit for the period		0	0	0	41,399	41,399
Other comprehensive income		0	0	(87)	0	(87)
Total comprehensive income for the period		0	0	(87)	41,399	41,312
Balances at 31 December 2008		16,502	307,501	27,344	7,122	358,469
Share based payment	12	0	0	0	(88)	(88)
Issue of ordinary shares	10	4,877	67,370	0	0	72,247
Transaction cost, net of tax	10	0	(3,130)	0	0	(3,130)
Reimbursement of transaction costs (issue of ordinary shares), net of tax		0	2,578	0	0	2,578
Issue of convertible bonds, net of tax	15	0	0	36,548	0	36,548
Transaction cost, net of tax	15	0	0	(1,854)	0	(1,854)
Redemption of convertible bonds	15	0	0	(10,440)	10,440	0
Total transactions with owners		4,877	66,818	24,254	10,352	106,301
Profit for the period		0	0	0	17,301	17,301
Total comprehensive income for the period		0	0	0	17,301	17,301
Balances at 31 December 2009		21,379	374,319	51,598	34,775	482,071

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS AS OF 31 DECEMBER 2009

1. INTRODUCTION

The consolidated financial statements of Air Berlin PLC for the year ended 31 December 2009 comprise Air Berlin PLC and its subsidiaries (together referred to as "Air Berlin" or the "Group") and the Group's interest in associates. Air Berlin is a public limited company incorporated in England and Wales with its registered office in London. The corporate headquarters of Air Berlin are located in Berlin. The Company's ordinary shares are traded on the Frankfurt Stock Exchange.

2. BASIC PRINCIPLES AND PREPARATION OF FINANCIAL STATEMENTS

Both the parent company financial statements and the group financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRS"). On publishing the parent company financial statements here together with the group financial statements, the Company is taking advantage of the exemption in Section 408 of the Companies Act 2006 not to present its individual statement of comprehensive income and related notes that form a part of these approved financial statements. The Company financial statements are presented on pages 126 to 128.

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements except for the changes by IFRIC 13 "Customer Loyalty Programmes" which are discussed in note 4p below and IFRS 3 "Business Combinations" and IAS 27 "Consolidated and Separate Financial Statements". The accounting policies have been applied consistently by all Group entities. The financial statements have been prepared on the historical cost basis except that derivative financial instruments are stated at their fair value.

The consolidated financial statements have been prepared in Euro. The European Central Bank year-end exchange rate was GBP 0.8881 to the Euro. All financial figures presented have been rounded to the nearest thousand currency units, except for share and bond data. The financial statements were authorised and approved for issue by the Board of Directors on 18 March 2010.

Going concern

The Groups' business activities, together with the factors likely to affect its future development, performance and position are set out in the Report on Economic Development and the Outlook for the Group on pages 92 to 96.

The financial position of the Group, its cash flows, and liquidity position are described in the Development in Financial Figures on pages 71 to 78. Details for the Group's borrowings are set out in note 15 and 29 of the financial statements. In addition, notes 4u and 28 to the financial statements include the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities, and its exposure to credit and liquidity risk.

The Group meets its day to day working capital requirements through its cash holdings. As discussed in the Report on Economic Development and the Outlook for the Group on pages 92 to 96, the current economic conditions create uncertainty particularly in respect of

fluctuating currency rates, fluctuating jet fuel prices and passenger demand. The Group's forecasts and projections, taking into account of reasonably possible changes in trading performance, show that the Group will generate sufficient cash to meet its liabilities in the foreseeable future.

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

Use of estimates

The preparation of financial statements in conformity with Adopted IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses.



06) Financial Statements

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. Judgements made by management in the application of Adopted IFRSs that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year relate primarily to the estimate of residual values of fixed assets, the impairment test for goodwill and other intangible assets with indefinite lives and the expected utilisation of deferred tax assets and are discussed in note 4b, 4d and 4j below.

3. BASIS OF CONSOLIDATION

a) Subsidiaries

All subsidiaries under the control of Air Berlin are included in the consolidated financial statements. Control exists when Air Berlin has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

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

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

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

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

b) Special purpose entity

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

c) Associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Group's share of the total recognised gains and losses of associates on

an equity accounted basis and are initially recognised at cost, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an associate, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of an associate.

d) Transactions eliminated on consolidation

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

4. SIGNIFICANT ACCOUNTING POLICIES

a) Intangible assets

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

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

The estimated useful lives of intangible assets are as follows:

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

Landing rights are determined to have indefinite lives, as they do not expire and are not subject to a regular loss in value over time.

b) Property, plant and equipment

Property, plant and equipment are valued at their acquisition or production costs less accumulated depreciation and accumulated impairment losses. Depreciation is based on the Group's accounting policies and calculated according to the straight-line method over the estimated useful lives.

-- AIRCRAFT AND ENGINES

The Group owns aircraft and engines of the type Boeing 737-800, Airbus A319 and A320 as well as Bombardier Q400 and engines. The depreciation period is ten years taking into account estimated residual values. The residual values and useful lives are reviewed at the end of each period. Judgement is required in estimating the residual values and useful lives of property, plant and equipment. Uncertainty exists in the useful life of aircraft and engines and in the amounts which can be realised through future disposals.



06) Financial Statements

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

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

-- LAND AND BUILDINGS

Land and buildings relate to two airport buildings leased under finance leases as further discussed in note 16. The buildings are depreciated over their remaining useful lives or the term of the lease.

-- OTHER TANGIBLE ASSETS

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

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

c) Subsequent expenditure

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

d) Impairment

-- NON-FINANCIAL ASSETS

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

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

Judgement is required in determining the cash generating unit, as well as in calculating value in use. The operating margins used in determining value in use are based on planned business and operational growth. The trading environment is subject to both regulatory and competitive pressures that could have a material impact on the operating performance of the business. The discount rate reflects management's estimate of the peer-group long-term cost of capital for the cash generating unit.

-- FINANCIAL ASSETS

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

e) Inventories

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

f) Trade and other receivables

Trade and other receivables are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method less impairment loss, which approximates their fair value. An impairment loss is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Receivables for which collection is doubtful are written down to their realisable value in a separate account. Further details to the allowance for impairment losses are found in note 29a. The allowance for impairment losses is used to record impairment losses until the Group determines that the receivable is irrecoverable. Financial assets are derecognised directly when they are expected to be irrecoverable.

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

g) Derivatives

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

Forward exchange transactions are used to mitigate exchange rate exposure. The fair value of forward exchange contracts is their quoted market price at the end of the period, being the present value of the quoted forward price.

Commodity swaps and options are used to limit the fuel price risk.

The Group uses cross-currency interest rate swaps to convert variable rate liabilities in foreign currencies to fixed rate positions in the functional currency.



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h) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and short-term deposits with an initial maturity of less than three months. Cash and cash equivalents are valued at cost. Bank overdrafts used for cash management purposes are included in cash and cash equivalents for purposes of the cash flow statement. Cash and cash equivalents also include restricted cash as set out in note 27.

i) Share capital

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

-- ORDINARY SHARES

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

-- REDEEMABLE "CLASS A" PREFERENCE SHARES

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

-- TREASURY SHARES

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

j) Income taxes

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

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

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

k) Provisions

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

l) Interest-bearing liabilities

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

m) Trade and other payables

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

n) Foreign currency

Transactions in foreign currencies are translated into the respective functional currencies of Group entities at the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are subsequently translated at the exchange rate at the end of the period. Any differences resulting from the currency translation are recognised in the statement of comprehensive income. Further details to the currency risk are provided in note 29d.

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

o) Recognition of income and expenses

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

p) Deferred income

Deferred income in the statement of financial position relates mainly to ticket sales and bonus miles resulting from Air Berlin's frequent flyer plan.

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

-- FREQUENT FLYER PLAN

The Group operates a frequent flyer plan ("topbonus" programme) which allows the customer to collect bonus miles on flights, by doing business with Air Berlin's partners (hotels, car rental agencies, insurance and financial service companies) or by shopping. Within the scope of the "topbonus" programme of Air Berlin miles earned are valued at the fair value using the deferred-income-method in accordance with IFRIC 13 "Customer Loyalty Programmes". IFRIC 13 was applied from 1 January 2009. The value of one mile was previously valued using the incremental-cost method until 31 December 2008. In accordance with IAS 8 "Accounting policies, changes in accounting estimates and errors", the impact of IFRIC 13 has been applied retrospectively.



06) Financial Statements

The effects of IFRIC 13 are as follows:

In thousands of Euro	01.01.2008			31.12.2008		
	Reported	Adjustment	Adjusted	Reported	Adjustment	Adjusted
Equity	(594,168)	10,882	(583,286)	(391,401)	19,381	(372,020)
Deferred income	(48,079)	(15,584)	(63,663)	(45,039)	(27,756)	(72,795)
Deferred tax asset	2,956	4,702	7,658	46,180	8,375	54,555
Revenue				3,400,692	(12,172)	3,388,520
Income tax expense				(17,214)	3,673	(13,541)
Earnings per share (basic) in €				(1.14)	(0.13)	(1.27)
Earnings per share (diluted) in €				(1.14)	(0.13)	(1.27)

q) Leasing

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

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

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

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

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

r) Pensions

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

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

s) Share-based payment transactions

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

The amount recognised as an expense is adjusted to reflect the number of share options expected to vest. Market conditions are included in the calculation of fair value at grant date and do not affect future valuation, whereas vesting conditions are taken into consideration in determining the number of share options expected to vest. Further details to vesting conditions are found in note 12.

t) New pronouncements

The following IFRS standards and interpretations were issued, endorsed by the EU and are available for early application and have been applied by the Group in the financial statements:

- ✈ Revised IFRS 3, Business Combinations, effective for the financial years beginning on or after 1 July 2009 was already adopted by the Group together with the respective changes in other standards.
- ✈ Amended IAS 27, Consolidated and Separate Financial Statements, effective for the financial years beginning on or after 1 July 2009.

The following IFRS standards and interpretations, none of which are expected to have a significant effect on the financial statements, were issued, endorsed by the EU and are available for early application but have not been applied by the Group in the financial statements:

- ✈ Revised IFRS 1, First-time Adoption of International Financial Reporting Standards, effective for the financial years beginning on or after 1 July 2009.
- ✈ Amendments to IFRS 5, Non-current Assets held for Sale and Discontinued Operations as a result of Improvements to International Financial Reporting Standards 2008, effective for the financial years beginning on or after 1 July 2009.
- ✈ Amendments to IAS 39, Financial Instruments: Recognition and Measurement - Eligible Hedged Items, effective for the financial years beginning on or after 1 July 2009.
- ✈ IFRIC 17, Distribution of Non-cash Assets to Owners, effective for the financial years beginning on or after 1 July 2009.

u) Financial risk management

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

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

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



06) Financial Statements

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

Risk reporting includes the review and assessment of all risks in the individual departments. This includes the registration of new risks and the reassessment of existing risks regarding their probability of occurrence and potential effect on earnings. In general a quantitative assessment of risks is undertaken. The registered risks are continuously updated using respective IT-tools. Extensive risk reporting, which contains information on current risks and assessments, changes in assessments and the appropriate measures is submitted each quarter to the Executive Board.

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

Credit risk

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

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

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

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

Liquidity risk

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

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

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

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

Market risk

Market risk is the risk of changes in market prices, such as foreign exchange rates, interest rates and commodity prices. Changes in market prices can affect the Group's income and expenses or the value of Air Berlin holdings in financial instruments. As an airline Air Berlin is exposed to currency, interest rate and fuel price risks as well as credit and liquidity risks. Air Berlin uses derivatives to limit these risks. A detailed description of the Group's exposure to market risks and the hedging activities to limit these risks is presented in note 29.

Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the return on capital, which the Company defines as net operating income divided by total shareholders' equity. The Board seeks to maintain a balance between higher returns that might be possible with a higher level of borrowings and the advantages and security afforded by a sound capital position. In particular, in reviewing the Company's financing alternatives, the Board, always bearing in mind the shareholders' return on equity, balances a variety of financing options, including share issues, bond issues and traditional bank financing. The Group is not subject to any externally imposed capital requirements.

v) Financial instruments

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

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

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

The categories of financial assets and financial liabilities are further detailed in note 29h.



06) Financial Statements

Air Berlin has defined the following classes of financial assets and financial liabilities:

- ✈ Loans and receivables
- ✈ Derivative financial instruments classified as held for trading
- ✈ Derivative financial instruments classified as hedge accounting
- ✈ Financial liabilities measured at amortised cost (includes interest-bearing liabilities and liabilities due to banks from assignment of future lease payments, trade payables and other financial liabilities)
- ✈ Cash and cash equivalents
- ✈ Finance leases

5. INTANGIBLE ASSETS

In thousands of Euro	Software licences	Goodwill	Landing rights	Trademarks	Customer relationships	Total
Acquisition cost						
Balance at 1 January 2008	17,414	196,162	108,249	6,592	3,036	331,453
Additions	5,147	0	0	0	0	5,147
Adjustments through business combinations	0	(1,494)	0	0	0	(1,494)
Disposals	(444)	0	0	0	0	(444)
Balance at 31 December 2008	22,117	194,668	108,249	6,592	3,036	334,662
Additions	4,107	0	10,000	0	0	14,107
Disposals	(405)	0	0	(6,592)	0	(6,997)
Balance at 31 December 2009	25,819	194,668	118,249	0	3,036	341,772
Depreciation						
Balance at 1 January 2008	11,271	0	0	2,417	0	13,688
Depreciation charge for the year	5,484	0	0	896	1,075	7,455
Disposals	(300)	0	0	0	0	(300)
Balance at 31 December 2008	16,455	0	0	3,313	1,075	20,843
Depreciation charge for the year	5,823	0	0	3,279	759	9,861
Disposals	(400)	0	0	(6,592)	0	(6,992)
Balance at 31 December 2009	21,878	0	0	0	1,834	23,712
Carrying amount						
At 1 January 2008	6,143	196,162	108,249	4,175	3,036	317,765
At 31 December 2008	5,662	194,668	108,249	3,279	1,961	313,819
At 31 December 2009	3,941	194,668	118,249	0	1,202	318,060

The Group performed an impairment test on both landing rights and goodwill in the fourth quarter of 2009 based on a variety of assumptions and concluded that as the estimated recoverable amount exceeds the carrying amounts, no impairment was required. The recoverable amount was determined for the cash generating unit to which the landing rights and goodwill belongs.

The Group has determined three cash generating units for purposes of the impairment test and allocated goodwill to these cash generating units as follows:

In thousands of Euro	Freight	Technical services	Flight services	Total
Goodwill	31,000	0	163,668	194,668
Landing rights	0	0	118,249	118,249

The future cash flows were estimated using the value-in-use method based on the most recent mid-term cash flow plan (2 years) approved by management for the existing fleet, extrapolated to perpetuity using a 0.5% (2008: 0.5%) growth rate and discounted to their present value. The pre-tax peer-group weighted average cost of capital was 10.43% (2008: 12.33%). The plan is based on the passenger volume of 33 – 35 million passengers. The calculation of value in use is most sensitive to the assumptions of discount rate and the number of passengers. The operating margins used in determining value in use are based on planned business and operational growth, excluding growth arising from purchases of additional fixed assets but including maintenance and repairs. The recoverable amount exceeds the carrying amount by a significant amount. The recoverable amount of the cash-generating unit Flight services will be equal to its carrying amount by an adverse change in the weighted average cost of capital of 2.57 percentage points or through a decline in the passenger volume of about 1.2 million passengers. The trading environment is subject to both regulatory and competitive pressures that could have a material impact on the operating performance of the business. The discount rate reflects management's estimate of the peer-group long-term cost of capital for the cash generating unit.



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6. PROPERTY, PLANT AND EQUIPMENT

In thousands of Euro	Land and buildings	Aircrafts and engines	Technical equipment and machinery	Office-equipment	Total
Acquisition cost					
Balance at 1 January 2008	28,834	1,349,951	103,384	41,711	1,523,880
Additions	0	173,977	33,770	7,590	215,337
Currency translation adjustments	0	0	107	0	107
Disposals	0	(49,659)	(7,246)	(12,323)	(69,228)
Balance at 31 December 2008	28,834	1,474,269	130,015	36,978	1,670,096
Additions	322	151,978	24,002	5,687	181,989
Disposals	(7)	(124,361)	(62,100)	(2,243)	(188,711)
Reclassifications	10,923	0	14,735	(25,658)	0
Balance at 31 December 2009	40,072	1,501,886	106,652	14,764	1,663,374
Depreciation					
Balance at 1 January 2008	1,277	284,012	14,346	20,635	320,270
Depreciation charge for the year	3,060	71,959	14,450	6,218	95,687
Currency translation adjustments	0	0	10	0	10
Disposals	0	(3,882)	(5,220)	(6,712)	(15,814)
Balance at 31 December 2008	4,337	352,089	23,586	20,141	400,153
Depreciation charge for the year	3,580	81,563	10,267	3,873	99,283
Currency translation adjustments	0	0	27	0	27
Disposals	(1)	(30,343)	(14,434)	(1,054)	(45,832)
Reclassifications	7,394	0	9,947	(17,341)	0
Balance at 31 December 2009	15,310	403,309	29,393	5,619	453,631
Carrying amount					
At 1 January 2008	27,557	1,065,939	89,038	21,076	1,203,610
At 31 December 2008	24,497	1,122,180	106,429	16,837	1,269,943
At 31 December 2009	24,762	1,098,577	77,259	9,145	1,209,743

Borrowing costs for aircrafts and engines capitalised in 2009 and 2008 are € 543 and € 1,005 respectively, at borrowing rates between 1.51% and 1.72% for 2009 and 3.80% and 6.06% for 2008.

Aircraft and engines are pledged as security in connection with the Group's interest-bearing liabilities and liabilities due to banks from assignment of future lease payments.

Tangible assets include land and buildings, aircraft and engines, and technical equipment and machinery which have been capitalised as a result of finance leases.

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

In thousands of Euro	2009	2008
Land and buildings	21,439	24,498
Aircraft and engines	47,097	49,182
Technical equipment and machinery	2,010	0
Office equipment	0	208
	70,546	73,888

Finance leases are explained in more detail in note 16.

7. INVESTMENTS IN ASSOCIATES

In thousands of Euro	2009	2008
Acquisition cost		
Balance at 1 January	1,771	935
Additions	17	510
Disposals	0	(46)
Dividends received	0	(211)
Share of profits	1,395	583
Balance at 31 December	3,183	1,771

The Group has the following investments in associates:

Ownership	Country	2009	2008
		%	%
Niki Luftfahrt GmbH, Vienna	Austria	24.0	24.0
IBERO Tours GmbH, Düsseldorf*	Germany	50.0	50.0
Lee & Lex Flugzeugvermietung GmbH, Vienna	Austria	24.0	24.0
BINOLI GmbH, Berlin	Germany	49.0	49.0
THBG BBI GmbH, Schönefeld	Germany	35.0	35.0
E190 Flugzeugvermietung GmbH, Vienna	Austria	24.0	0.0

* Accounted for as an associate due to lack of control

The Group's share of recognised profit or loss in the above associates for the years ending 31 December 2009 and 2008 is € 808 and € -9, respectively.

The Group has recognised losses relating to Lee & Lex Flugzeugvermietung GmbH only up to the amount of the Group's net investment in the associate. In connection with the recognition of these losses the Group's long-term loans receivable to Lee & Lex Flugzeugvermietung GmbH have been written off by € 592, thereof € 126 in the year ending 31 December 2009. Similarly the Group has recognised losses relating to Binoli GmbH only up to the amount of the Group's net investment in the associate. In connection with the recognition of the losses the Group's long-term loans receivable to Binoli GmbH have been written off by € 461 for the year ending 31 December 2009.



06) Financial Statements

Summary of financial information on associates – 100 per cent. The figures are determined in accordance with Austrian or German local GAAP:

The latest financial information (2008) disclosed the following amounts:

In thousands of Euro	Assets	Liabilities	Equity	Revenues	Profit (loss)
Niki Luftfahrt GmbH, Vienna	156,846	146,338	10,508	229,479	7,028
IBERO Tours GmbH, Düsseldorf	1,837	896	941	2,816	102
Lee & Lex Flugzeugvermietung GmbH, Vienna	51,979	54,971	(2,992)	7,466	(526)
BINOLI GmbH, Berlin	1,318	2,110	(792)	1,155	(1,197)
THBG BBI GmbH, Schönefeld	5,845	5,364	481	0	(619)

8. INVENTORIES

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

In thousands of Euro	2009	2008
Raw materials	0	656
Supplies and spares	37,102	35,136
Purchased merchandise	1,622	900
	38,724	36,692

Inventories are measured at the lower of cost and net realisable value. In 2009 the impairment of inventories was released by € 137 (2008: inventories were written down by € 1,176). The amount of inventories expensed directly in the statement of comprehensive income is reported in note 21.

9. TRADE AND OTHER RECEIVABLES, CURRENT AND NON-CURRENT

In thousands of Euro	Current 2009	Non-current 2009	Total 2009	Current 2008	Non-current 2008	Total 2008
Trade receivables	95,380	0	95,380	107,092	0	107,092
Receivables from related parties	26,990	2,711	29,701	13,911	2,918	16,829
Loans receivable	0	1,500	1,500	0	3,500	3,500
Accrued receivables	17	0	17	2,372	0	2,372
Security deposits and deposits with suppliers	6,463	30,965	37,428	14,599	29,754	44,353
Receivables for bonus and claims	38,656	0	38,656	40,095	0	40,095
Receivables from sale of fixed assets	37,961	12,123	50,084	274	0	274
Other receivables	12,033	0	12,033	10,397	781	11,178
Loans and receivables	217,500	47,299	264,799	188,740	36,953	225,693
Receivables from tax authorities	2,550	0	2,550	6,239	0	6,239
Advanced payments on aircraft and other tangible assets	62,610	57,037	119,647	71,391	71,301	142,692
Other assets	15,003	1,916	16,919	17,057	0	17,057
	297,663	106,252	403,915	283,427	108,254	391,681

Security deposits and deposits with suppliers relate primarily to amounts which are held as deposit according to supplier agreements and which are repaid after all obligations from the supplier agreement have been fulfilled. The amounts are carried at amortised cost using the effective interest method.

Receivables from related parties relate primarily to NIKI Luftfahrt GmbH. The Group's share in this company is 24%.

The receivables result from trade receivables and clearing accounts.

Other assets mainly include receivables from insurance carriers (2009: € 2,691 and 2008: € 1,460) and suppliers with debit balances (2009: € 6,899 and 2008: € 11,456).

Advanced payments on aircraft and other tangible assets relate primarily to advanced payments, deposits and commitment fees made under the Group's various agreements for the purchase of aircraft, which are detailed in note 31 "Capital commitments" below. Net payments of € 11,782 (2008: € 27,497) were made during the period and € 34,210 was capitalised in 2009 (2008: € 16,784).

The Group's exposure to credit and currency risks and impairment losses related to trade receivables and other financial assets are disclosed in note 29.

10. SHARE CAPITAL AND RESERVES

Share capital and share premium

On 4 June 2009 the Company issued 6,571,700 new shares at a share price of € 3.50. Gross proceeds on the issue of new shares amounted to € 23,000,950.

On 10 June 2009 the Company issued 4,500,000 new shares at a share price of € 3.50. Gross proceeds on the issue of new shares amounted to € 15,750,000.

On 19 October 2009 the Company issued 8,437,393 new shares at a share price of € 3.97. Gross proceeds on the issue of new shares amounted to € 33,496,450. As result of this transaction Leibniz-Service GmbH holds 9.9 % investment in share capital of the Group. Transaction costs incurred in 2009 amounted to € 4,470.



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Share capital of 85,226,196 ordinary shares of € 0.25 each and 50,000 A shares of £ 1.00 each was issued and fully paid up as of 31 December 2009. Included in this amount are 177,600 treasury shares held by Air Berlin (through the Air Berlin Employee Share Trust) in connection with the employee share plan described below. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the shareholders.

The A shares are redeemable at the option of Air Berlin only, and the holders of A shares shall not be entitled to any participation in the profits or assets of Air Berlin save on a distribution of assets of Air Berlin among its members on a winding up or other return of capital (other than a redemption or purchase by Air Berlin of its own shares), in which case the holders of A shares shall be entitled, in priority of to any holder of ordinary shares, to receive an amount equal to the aggregate of the capital paid up or credited as paid up on each A share.

Movements in share capital are summarised below:

In thousands of shares	Ordinary shares		Redeemable "Class A" preference shares	
	2009	2008	2009	2008
On issue at 1 January	65,717	65,717	50	50
Issued for cash	19,509	0	0	0
On issue at 31 December	85,226	65,717	50	50
Thereof held as treasury shares	178	178	0	0

No shares have been reserved for issue under options.

Other capital reserves

Other capital reserves are comprised of general partners' and limited partners' capital of consolidated partnerships and subscribed capital of consolidated entities which were reclassified to other capital reserves due to the reverse acquisition in 2005.

Treasury shares

In connection with the amendment made to the employee share-based payment scheme discussed below, the Company repurchased the beneficial interest (and limited all significant legal aspects of the ownership, such as voting rights) in 177,600 shares of its stock in 2006. The purchase price was € 0.25 per share (par value), resulting in a decrease in retained earnings of € 45.

Hedge accounting reserve

The reserve for hedge accounting contains the effective portion of the cumulative net change in the fair value of derivative financial instruments designated as hedges of probable future cash flows, net of tax.

Foreign currency translation reserve

The reserve for currency translation differences comprises all foreign currency differences arising from the translation of the financial statements of foreign subsidiaries.

Dividends

No dividends on ordinary shares or Class A shares were declared or paid during the period.

Minority interest

The minority interest of € 629 shown in the statement of financial position as at 31 December 2008 relates to the 51 per cent of Belair's equity at the acquisition date. On 26 October 2009 the Group purchased the remaining 51 per cent of Belair's equity. The purchase price equals CHF 1,785 (€ 1,182). The increase in ownership interest in Belair without change in control is accounted for as an equity transaction.

11. EARNINGS PER SHARE

The basic and diluted earnings per share are determined by dividing the loss for the period by the weighted average number of ordinary shares outstanding during the financial year.

In thousands of Euro and thousands of shares, except EPS	2009	2008
Loss for the year	(9,468)	(83,518)
Dividends declared on redeemable "Class A" preference shares	0	0
Profit attributable to ordinary shareholders (basic and diluted)	(9,468)	(83,518)
Issued ordinary shares at 1 January	65,717	65,717
Effect of shares issued in 2009	7,984	0
Effect of treasury shares held	(178)	(178)
Weighted average number of ordinary shares outstanding (basic)	73,523	65,539
Weighted average number of ordinary shares outstanding (diluted)	73,523	65,539
Basic earnings per share (in €)	(0.13)	(1.27)
Diluted earnings per share (in €)	(0.13)	(1.27)

The 50,000 Class A shares (redeemable preference shares) do not entitle the holders to any participation in the profit or loss of Air Berlin, as dividends are discretionary. These shares therefore have not been included in the calculation of the weighted average number of ordinary shares outstanding above.

The conversion of convertible bonds would have had an anti-dilutive effect on earnings per share and is therefore not considered in the calculation of diluted earnings per share.

12. EMPLOYEE SHARE PLAN

The Company introduced a share-based payment scheme in April 2006, which was later amended in November 2006, as part of the remuneration package provided to the Executive Directors and certain senior executives of the Group (each a "Participant"). In April 2006 the Company invited Executive Directors and certain senior executives of the Group (each a "Participant") to subscribe for shares in a one-off award (the "Award"). Participants paid the nominal value for their shares. The Award was made subject to the conditions set out in an agreement entered into between the Company and each Participant. Participants became owners of the shares when they subscribed for them but were unable to sell or otherwise dispose of the shares other than in accordance with the agreement.

The plan was amended on 28 November 2006 so that the Company reacquired the beneficial interest in all of the shares under the Award and placed restrictions on the legal interest in the shares (i.e. voting rights). The beneficial interest in the shares was transferred to Ogier Employee Benefit Trustee Limited as trustee of the Air Berlin Employee Share Trust. The amendment was not treated as a modification.



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Under the terms of the revised Employee Share Plan 2006 the Participant holds (limited) legal title to the shares but will only be able to acquire the beneficial interest to the shares if certain performance conditions are met and if the employee remains with the Company for the entire performance period (vesting period). If the conditions are not met, if the Participant leaves the Company before the end of the vesting period or if the Participant does not transfer payment for the shares within two weeks upon notification by the Company that the conditions have been met, the Company may require the Participant to transfer legal title to the shares to the Company. Participants are not entitled to receive dividends during the performance period. In addition, restrictions have been placed on the Participant's legal interest in the shares (i.e. voting rights) during the performance period. The shares are divided equally in three tranches, each comprising one-third of the shares granted. 50% of the shares granted under each of the tranches are subject to a performance condition based on return on equity achieved by the Company and 50% of the shares granted under each of the tranches are subject to performance conditions based on the percentage increase in the Company's share price over a three-year period as follows:

Tranche and three-year performance period (ending 31 December)	Total number of shares in tranche	Threshold return on equity element	Threshold share price growth element
Tranche 1: 2008	59,200	13%	35%
Tranche 2: 2009	59,200	14%	38%
Tranche 3: 2010	59,200	15%	40%

Both performance conditions will be measured in respect of the first, second and third tranches over the performance periods of three consecutive financial years ending on 31 December 2008, 2009 and 2010 respectively.

The right to acquire the beneficial interest in the shares subject to the Employee Share Plan 2006 is exercisable during a two week period following notification by the Company of fulfilment of the performance criteria. The exercise price is € 0.25 per share, the nominal value of the shares.

Neither of the performance conditions were met for the Tranche 1 performance period, which ended 31 December 2008, and for the Tranche 2 performance period, which ended 31 December 2009. Therefore, participants will not be able to call for the economic interest in the shares under these tranches and may be required to transfer the legal ownership of those shares to the Air Berlin Employee Share Trust. The equity-settled share-based payment transactions are measured at fair value on the grant date in accordance with IFRS 2. The weighted average fair value of these options was € 8.95 at the measurement date. The fair value of the options granted was determined using the binomial model under the following assumptions:

- ✈ Volatility: 40%
- ✈ Dividends: 0
- ✈ Risk-free interest rate: 4%

Volatility was estimated by a peer group analysis in the airline sector, adjusted for a "new issuer" premium.

The number and weighted average exercise price of share options during the period was as follows:

Share options	Number of share options 2009	Weighted average exercise price 2009	Number of share options 2008	Weighted average exercise price 2008
Outstanding at the beginning of the period	113,600	0.25	174,000	0.25
Forfeited during the period	56,800	0.25	60,400	0.25
Outstanding at the end of the period	56,800	0.25	113,600	0.25
Exercisable at the end of the period	0	0.25	0	0.25

No options were exercised or lapsed during the period.

Total benefit in the statement of comprehensive income relating to the Employee Share Plan was € 88 in 2009 (benefit of € 143 in 2008).

13. PENSION LIABILITIES / EMPLOYEE BENEFITS

The Group held provisions for the following employee benefits at 31 December 2009:

In thousands of Euro	2009	2008
Provision for anniversary bonuses	6,825	7,243
Provision for old age part time (early retirement)	4,330	4,119
Total employee benefits	11,155	11,362

The provisions for anniversary bonuses and old age part time (early retirement) are described in note 14.

Defined benefit plans

In 2007, the Company entered into a defined benefit pension plan for its Executive Directors. In addition the Group has a defined benefit pension plan for certain employees of dba. Both pension plans are funded through payments to qualified insurance contracts.

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

In thousands of Euro	2009	2008
Present value of funded obligations	11,594	8,306
Fair value of plan assets	(13,562)	(10,279)
Funded status	(1,968)	(1,973)
Amount not recognised due to limitation in IAS 19.58(b)	1,968	1,973
Pension liabilities	0	0



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

In thousands of Euro	2009	2008
Defined benefit obligation at 1 January	8,306	8,270
Current service cost	1,426	1,681
Benefits paid	(111)	(11)
Interest on obligation	520	426
Actuarial losses / (gains)	1,453	(2,060)
Defined benefit obligation at 31 December	11,594	8,306

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

In thousands of Euro	2009	2008
Fair value of plan assets at 1 January	10,279	7,065
Contribution	3,909	3,188
Benefits paid	(111)	(11)
Expected return on plan assets	431	56
Actuarial losses	(946)	(19)
Fair value of plan assets at 31 December	13,562	10,279

Plan assets consist exclusively of external contracts with insurance companies in Germany. These insurances could potentially include shares in Air Berlin Plc. However, due to strict requirements in Germany regarding the structure of insurance companies, the percentage of Air Berlin shares held would be minimal.

The actual loss on plan assets was € 515 during the period (€ 37 gain in 2008). No experience adjustments were made during the period.

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

In thousands of Euro	2009	2008
Current service cost	1,426	1,681
Interest on obligation	520	426
Expected return on plan assets	(431)	(56)
Net actuarial losses / (gains) recognised in the period	2,399	(2,041)
Effect of the limitation in IAS 19.58(b)	(5)	1,973
Pension expense	3,909	1,983

The Group expects to contribute € 3,610 to its defined benefit pension plans in 2010.

Principal actuarial assumptions at the reporting date are as follows:

	2009	2008
Discount rate at 31 December	5.39%	6.30%
Expected return on plan assets at 1 January	4.00–4.30%	2.75–4.00%
Future salary increases	0.00–2.00%	3.00%
Cost of living adjustment (future pension increases)	1.00%	1.00%

Assumptions regarding future mortality are based on published statistics and mortality tables ("Richttafeln 2005 G" published by Heubeck-Richttafeln-GmbH). The average remaining life expectancy of an individual retiring at age 65 is 20 years for males and 25 years for females.

Defined contribution plans

Through the acquisition of dba in 2006, the Group acquired a defined contribution pension plan covering all employees of dba, to which the Group makes contributions. The net pension expense recorded in the profit and loss in 2009 as a result of the defined contribution plan is € 5 (2008: € 18).

As employees in Germany are covered by and required to contribute to the German social security system, Air Berlin does not have any other employee benefit plans at the end of the period. The Group paid contributions into the German social security system of € 26,687 in 2009 (€27,713 in 2008).

14. PROVISIONS

In thousands of Euro	Balance at 1.1.2009	Additions	Utilisation	Release	Balance at 31.12.2009
Provision for airport fees	4,445	936	0	0	5,381
Provision for anniversary bonuses	7,243	48	(466)	0	6,825
Provision for old age part time	4,119	947	(736)	0	4,330
Provision for redundancy costs	10,416	0	(4,460)	(1,018)	4,938
	26,223	1,931	(5,662)	(1,018)	21,474

Thereof € 10,298 relating to the provision for anniversary bonuses and old age part time was classified as non-current as at 31 December 2009 (2008: € 10,661).

As a result of the existing collective labour agreement, older employees of LTU (age 55 and above) have the opportunity to take part in the old age part time ("Altersteilzeit") program, till the end of the reporting period. The program is a form of early retirement in which the employee works full time during the first few years and not at all in the following years until reaching the official age of retirement. 69 employees have signed such agreements as of the end of the period. A discount rate of 4.9% and an expected salary increase of 2.0% was used to calculate the provision. Uncertainties exist as to the life expectancy of the employees and as to the future salary at the time the contract takes effect.

The provision for anniversary bonuses was calculated using a discount rate of 5.6% and an expected yearly salary increase of 2%. Uncertainties exist in the probability that the employees will remain with the Group until they are entitled to receive their anniversary bonus and as to their salaries at that time. The provision was accounted for in accordance with IAS 19.

The provision for redundancy costs is related to the layoff of dba and LTU staff at the offices in Munich and Dusseldorf in connection with the concentration of the business in Berlin. Uncertainties exist relating to the amount and probability of payments. The provision is based on the most likely outcome based on similar cases in Germany.



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15. INTEREST-BEARING LIABILITIES AND LIABILITIES DUE TO BANKS FROM ASSIGNMENT OF FUTURE LEASE PAYMENTS

This note provides information about the terms and conditions of the Group's interest-bearing loans and borrowings, all of which are measured at amortised cost. More information about the Group's exposure to interest rate, foreign currency and liquidity risk is provided in note 29.

Interest-bearing liabilities

The Group has entered into various interest-bearing liabilities. The carrying amounts for the years 2009 and 2008, classified according to their maturity dates and borrowing rates, are as follows:

In thousands of Euro	Secured / unsecured	Currency	Maturity date	Carrying amount 31.12.2009	Carrying amount 31.12.2008
Bank loans, variable rate	Unsecured	USD	n/a	0	26,678
Bank loans, variable rate	Secured	USD	n/a	0	13,633
Bank loans, variable rate	Secured	USD	n/a	0	18,753
Convertible bonds – liability component, fixed rate (issued in 2007)	Unsecured	EUR	2012*	123,592	190,696
Convertible bonds – liability component, fixed rate (issued in 2009)	Unsecured	EUR	2014	72,497	0
Finance lease liabilities	Unsecured	USD	2010–2018	41,134	46,391
Finance lease liabilities	Unsecured	EUR	2010–2022	48,489	50,166
Bank overdrafts	Unsecured			1,223	478
				286,935	346,795

* first option to redeem the bonds

Of this amount € 13,580 (2008: € 44,012) is classified within current liabilities in the statement of financial position. The finance lease liabilities are detailed in note 16 below. The bank overdrafts are due in the following year respectively.

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

In thousands of Euro	2009	2008
Less than one year	13,580	44,012
Between one and five years	230,633	243,281
More than five years	42,722	59,502
	286,935	346,795

Convertible bonds I

On 11 April 2007 the Group issued € 220,000 convertible bonds due 2027. The bond issue is made up of 2,200 bonds with a principal amount of € 100 each, earning yearly interest of 1.5%. The initial conversion price is € 22.47 which results in an initial conversion ratio of 4,450 ordinary shares per bond. Gross proceeds from the bond issue amounted to € 220,000. Transaction costs incurred were € 6,391.

The convertible bond was split into its equity and debt components in accordance with IAS 32. The equity component, less transaction costs net of tax, is shown as a separate line item in equity.

In the second half of 2009 the Group redeemed 840 convertible bonds with a principle amount of € 84,000 in total.

Payments related to the redemption amount to € 53,405. The profit from the redemption equals € 21,273 and is presented as part of the financial income in the statement of comprehensive income.

The equity component of the redeemed convertible bonds of € 10,758 less transaction costs net of tax of (€ 317) was transferred to the retained earnings within equity.

The equity component, which is shown net of taxes of € 7,838 in the statement of financial position, totalled € 16,904 as at 31 December 2009 (2008: € 27,344).

The bonds are convertible into 4,450 ordinary shares per bond at the option of the bondholder at any time beginning 40 days following closing and ending 14 days before maturity (21 May 2007 to 25 March 2027). In addition, the bondholder has the option to require the Company to repurchase the bonds at principal amount plus accrued interest on 11 April 2012, 11 April 2017, and 11 April 2022 or upon change in control. The Company has the option to redeem the bonds in whole at their principal amount plus accrued interest at any time as of 30 April 2014, so long as the trading price of the Air Berlin share exceeds 150% of the conversion price.

Convertible bonds II

On 20 August 2009 the Group issued € 125,000 convertible bonds due in 5 years. The bond issue is made up of 2,500 bonds with a principal amount of € 50 each, earning yearly interest of 9.0 %. The initial conversion price is € 4.01 which results in an initial conversion ratio of 12,469 ordinary shares per bond. Proceeds from the bond issue amount to € 125,000. Transaction costs incurred in 2009 were € 6,338.

The convertible bond was split into its equity and debt component in accordance with IAS 32. The equity component, less transaction costs net of tax, is shown as a separate line item within equity.

The debt component of the convertible bond is included under interest-bearing liabilities in the statement of financial position as follows:

In thousands of Euro	2009
Proceeds from issue of convertible bonds	125,000
Transaction costs	(6,338)
Net proceeds	118,662
Amount classified as equity	(49,549)
Accrued interest and amortisation of bond discount	3,384
Carrying amount at 31 December 2009	72,497



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The equity component comprises of:

In thousands of Euro	2009
Equity component of convertible bond	52,196
Transaction costs allocated to equity component	(2,647)
Total amount classified as equity	49,549
Taxes on equity component	(14,855)
Equity component of convertible bond, net of tax at 31 December 2009	34,694

The bonds are convertible into 12,469 ordinary shares per bond at the option of the bondholder at any time beginning 17 November 2009 and ending 10 days before maturity (inclusive) or in case of early redemption ending 10 days before the determined redemption date (inclusive). In addition, the bondholder has the option to require the Company to repurchase the bonds at principal amount plus accrued interest on 30 October 2011 or upon change in control. The Company has the option to redeem the bonds in whole at their principal amount plus accrued interest at any time as of 30 October 2011, so long as the trading price of the Air Berlin share exceeds 150% of the conversion price.

Liabilities due to banks from assignment of future lease payments

The Group entered into financing agreements with commercial banks by which the Group assigned intra-group lease payments to the banks.

The carrying amounts for the years 2009 and 2008, classified according to their maturity dates and borrowing rates, are as follows:

In thousands of Euro	Secured / unsecured	Currency	Maturity date	Carrying amount 31.12.2009	Carrying amount 31.12.2008
Interest rate					
Variable rate	Secured	EUR	2011–2013	62,453	76,718
Variable rate	Secured	USD	2011–2022	532,548	530,664
Fixed rate	Secured	USD	2015	65,385	76,092
				660,386	683,474

Of this amount € 77,228 (2008: € 73,011) is classified within current liabilities in the statement of financial position. The assigned intra-group lease payments are secured over aircrafts.

Payments for the above-mentioned liabilities due to banks from assignment of future lease payments are due as follows:

In thousands of Euro	2009	2008
Less than one year	77,228	73,011
Between one and five years	299,174	313,950
More than five years	283,984	296,513
	660,386	683,474

16. LEASING

Operating leases

The Group leases a number of aircraft, engines and one Unix Server under leasing agreements which qualify as operating lease agreements. The leases typically run for a period of up to twelve years and terminate automatically upon expiry of the lease term. Lease payments are denominated in USD and vary depending upon the change in the market rate of interest. No restrictions have been placed on the lessee as a result of these leases.

In addition the Group leases a number of warehouse and office facilities under operating leases. The leases expire between 2010 and 2018, with an option to renew the leases after these dates.

Non-cancellable operating lease rentals are payable as follows:

In thousands of Euro	2009	2008
Less than one year	341,012	336,535
Between one and five years	868,604	909,459
More than five years	399,359	218,261
	1,608,975	1,464,255

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

During the year ended 31 December 2009, € 381,836 (2008: € 383,628) was recognised as an expense in the statement of comprehensive income in respect of operating leases.

The Group also leases several of its aircraft as lessor under agreements which qualify as operating leases. The lease terms vary from three to twelve years, the latest of which expire in 2019. Lease payments are in USD.

Future minimum lease payments are receivable as follows:

In thousands of Euro	2009	2008
Less than one year	19,929	24,885
Between one and five years	73,129	89,972
More than five years	67,626	84,815
	160,684	199,672

Finance leases

The Group leases certain technical equipment under an agreement which qualifies as a finance lease. The finance lease relates to technical equipment for aircraft leased under operating leases with various leasing terms, the latest of which phase out in 2015. The Group also leases two aircrafts under agreements which qualify as finance leases. The lease agreements are for terms of eleven years, the latest of which expires in 2018. The agreements contain various put and call options relating to the right of the lessee to purchase the aircraft or the right of the lessor to require the lessee to purchase the aircraft on certain dates at prices and conditions set out in the agreements. In addition, the lessor has the right to require the lessee to name a purchaser at the end of the lease term for a fixed price (guaranteed residual value). Lease payments are in USD and vary based on changes in the interest rate component of the lease. The present value of future minimum lease payments was therefore determined by using the expected lease payments based on the preliminary interest rate stated in the lease.



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In addition the Group leases two airport buildings under agreements which qualify as finance leases. The leases expire in 2011 and 2022.

The net book value of assets capitalised at 31 December 2009 as a result of finance leases is detailed in note 6 above.

No contingent leasing payments were recorded in profit and loss in 2009 (2008: € 0).

Future minimum lease payments are as follows:

In thousands of Euro	At 31 December 2009		At 31 December 2008	
	Future minimum lease payments	Discounted to present value	Future minimum lease payments	Discounted to present value
Less than one year	13,107	12,599	12,961	12,542
Between one and five years	40,987	34,302	45,170	37,813
More than five years	72,527	42,722	81,602	46,202
	126,621	89,623	139,733	96,557

17. TRADE AND OTHER PAYABLES, CURRENT AND NON-CURRENT

In thousands of Euro	Current 2009	Non-current 2009	Total 2009	Current 2008	Non-current 2008	Total 2008
Trade payables	95,233	0	95,233	108,764	0	108,764
Other financial liabilities	205	0	205	174	0	174
Trade payables and other financial liabilities	95,438	0	95,438	108,938	0	108,938
Accrued liabilities	208,391	36,401	244,792	189,635	31,263	220,898
Receivables with credit balances	5,259	0	5,259	4,999	0	4,999
Payroll tax	5,692	0	5,692	5,571	0	5,571
VAT	17,938	0	17,938	4,876	0	4,876
Social insurance contributions	699	0	699	875	0	875
Other non-financial liabilities	1,509	0	1,509	1,227	0	1,227
	334,926	36,401	371,327	316,121	31,263	347,384

Accrued liabilities include expenses for services provided and goods received before the end of the period but not yet invoiced, credit notes and commissions to travel agencies in connection with the sale of tickets, accrued vacation and payroll and accruals for aircraft and engine maintenance checks and overhauls.

Information about the Group's exposure to foreign currency and liquidity risk related to trade payables and other financial liabilities is provided in note 29.

18. ADVANCED PAYMENTS RECEIVED

Advanced payments primarily relate to payments received in advance for single-seat ticket sales for which the scheduled flight is to be provided in the following financial period and for which no revenue has been recorded.

19. REVENUE (ADJUSTED)

In thousands of Euro	2009	2008 (adjusted)
Single-seat ticket sales	1,845,382	1,863,345
Bulk ticket sales to charter and package tour operators	1,121,111	1,229,142
Duty-free	33,083	35,154
Ground and other services	240,768	260,879
	3,240,344	3,388,520

Ground and other services primarily include freight, technical services and ancillary sales.

Segment information

The company is managed by the Board of Directors as a single business unit in one geographical area and one service. The key figures and ratios presented to the Board of Directors in managing the company are: Result from operating activities, Net Debt, Revenues, passengers, Yield and block hours. The financial measures are IFRS measures and are shown in the primary statements. Resource allocation decisions are made based on the entire route network and the deployment of the entire fleet. Revenues derive nearly completely from the principal activity as an airline and include flights, commissions, inflight and related sales that are generated in Europe. Since Air Berlin's aircraft fleet is employed across its scheduled destinations on an as needed basis all assets and liabilities are allocated to the one segment. The Board has also determined that there is no reasonable basis of allocating assets and related liabilities, income and expenses to geographical areas other than Europe or to individual groups of customers.

20. OTHER OPERATING INCOME

In thousands of Euro	2009	2008
Gain on disposal of fixed assets, associates and subsidiaries	17,686	23,325
Income from write-off of liabilities	5,879	0
Income from insurance claims	1,243	1,529
Other	17,635	13,767
	42,443	38,621

21. EXPENSES FOR MATERIALS AND SERVICES

In thousands of Euro	2009	2008
Fuel for aircraft	715,352	874,336
Catering costs and cost of materials for in-flight sales	108,284	123,978
Airport & handling charges	697,098	710,087
Operating leases for aircraft and equipment	366,032	359,523
Navigation charges	219,745	227,896
Other	86,662	64,025
	2,193,173	2,359,845



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The expenses for operating leases for aircraft and equipment include expenses of € 45,289 that do not directly relate to the lease of assets.

22. PERSONNEL EXPENSES AND STAFF NUMBERS

The aggregate payroll costs were as follows:

In thousands of Euro	2009	2008
Wages and salaries	370,081	377,352
Pension expense	30,601	29,714
Social security	40,040	39,198
	440,722	446,264

Pension expense relates to the defined benefit plan for the Executive Directors of € 3,364 (2008: € 1,937) and the dba pension plan of € 545 (2008: € 46), contributions paid to defined contribution plans of € 5 (2008: € 18) and to the German social security system of € 26,687 (2008: € 27,713) during the period. Further details regarding the pension plans are found in note 13 above.

Remuneration of the Executive Directors is as follows:

In thousands of Euro	2009	2008
Basic remuneration	2,027	2,200
Bonus	1,164	1,139
Share based payment expense	(60)	(92)
Other	67	62
	3,198	3,309

The highest paid Director received € 1,621 in total remuneration in 2009 and € 1,501 in 2008, respectively. Directors' Remuneration is detailed in the Directors' Remuneration Report on pages 104 to 115.

The average number of persons employed by the Group (including Directors) during the year and the number of employees at year-end, analysed by category and on a full-time basis, were as follows:

	On annual average 2009	On annual average 2008	At 31 December 2009	At 31 December 2008
Employees				
Flight and cabin crew	4,553	4,826	4,489	4,681
Sales, operations and administration	3,670	3,655	3,789	3,630
	8,223	8,481	8,278	8,311

23. OTHER OPERATING EXPENSES

In thousands of Euro	2009	2008
Sales commissions paid to agencies	18,319	32,250
Repairs and maintenance of technical equipment	187,313	186,777
Advertising	53,548	56,480
Insurance	19,815	20,161
Hardware and software expenses	53,057	44,510
Bank charges	25,498	24,414
Travel expenses for cabin crews	27,991	31,197
Expenses for premises and vehicles	30,203	28,167
Loss from disposal of fixed assets, associates and subsidiaries	5,764	2,508
Training and other personnel expenses	11,969	15,423
Phone and postage	4,845	5,071
Allowances for receivables	2,467	1,310
Consulting fees	22,497	24,944
Remuneration of the auditor	3,055	2,843
Other	44,940	39,842
	511,281	515,897

Remuneration of the auditor is as follows:

In thousands of Euro	2009	2008
Audit of the annual accounts	110	128
Audit of accounts of subsidiaries of the Company	1,152	1,061
Other services pursuant to legislation	284	150
Taxation services	164	182
Other services	1,345	1,322
	3,055	2,843

24. NET FINANCING COSTS

In thousands of Euro	2009	2008
Interest expense on interest-bearing liabilities	(60,222)	(54,919)
Other financial expenses	(2,366)	(614)
Financial expenses	(62,588)	(55,533)
Interest income on fixed deposits	1,380	9,228
Interest income on loans and receivables	40	1,708
Other financial income	1,861	1,625
Income on redemption of convertible bonds	21,273	0
Financial income	24,554	12,561
Foreign exchange losses	(12,938)	(28,989)
Net financing costs	(50,972)	(71,961)



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As described in note 4n above, exchange rate differences not arising from interest-bearing liabilities and other financing activities are reclassified to the relevant line items within operating expenses.

Total net foreign exchange gains (losses) are reconciled to foreign exchange losses in profit or loss as follows:

In thousands of Euro	2009	2008
Total net foreign exchange gains (losses) recognised in profit or loss	37,776	(80,322)
Thereof reclassified to operating expenses	(50,714)	51,333
Foreign exchange losses in financial result	(12,938)	(28,989)

25. SHARE OF PROFIT (LOSS) OF ASSOCIATES

In thousands of Euro	2009	2008
Niki Luftfahrt GmbH	1,686	595
Lee & Lex Flugzeugvermietungs GmbH	(126)	(604)
IBERO Tours GmbH	51	32
Stockheim Air Catering GmbH & Co. KG*	0	(32)
Binoli GmbH	(586)	0
THBG BBI GmbH	(217)	0
	808	(9)

* The investment was disposed as at 31 May 2008.

26. INCOME TAX EXPENSES AND DEFERRED TAXES (ADJUSTED)

Profit or loss before tax is primarily attributable to Germany.

Income tax expense is as follows:

In thousands of Euro	2009	2008 (adjusted)
Current income tax expense	(5,606)	(4,910)
Deferred income tax benefit (expense)	17,835	(8,631)
Total income tax benefit (expense)	12,229	(13,541)

The current income tax expense of the Air Berlin Group includes corporate tax, a solidarity charge in addition to corporate tax, trade tax and foreign income taxes. The current income tax expense of € 5,606 (2008: 4,910) includes € 380 of prior year income tax expenses (2008: income tax income for prior years of € 414).

The tax rate for the Air Berlin Group equals 30.18% (2008: 30.18%). It consists of corporate tax rate and solidarity charge of 15.83% and trade tax of 14.35%. The calculation of the trade tax rate includes the effect of the different trade tax rates depending on the municipality in which the Company operates.

As a result of variations in the tax rate in different jurisdictions, several subsidiaries have tax rates which differ from the Air Berlin Group tax rate. The difference to the Group tax rate is shown as "effect of tax rates in different jurisdictions" in the tax rate reconciliation in amount of € 7,635 (2008: € (11,337)). The reasons for the differences between the tax burden expected on the basis of profit for the period and the recognised income tax expenses are as follows:

In thousands of Euro	2009	2008 (adjusted)
Loss before tax	(21,697)	(69,977)
Expected income tax benefit at 30.18% (2008: 30.18%)	6,548	21,119
Effect of change in tax rate	0	153
Recognition of tax loss carry forwards previously not recognised	0	1,754
Effect of tax rates in different jurisdictions	7,635	(11,337)
Movement in deferred tax assets on tax loss carry forwards	6,701	(20,777)
Non-tax deductible expenses	(8,105)	(5,571)
Current tax (expenses) benefits previous years	(380)	414
Other	(170)	704
Total income tax benefit (expense)	12,229	(13,541)

As of 31 December 2009, total tax loss carry forwards for which deferred tax assets were capitalised amounted to € 312,399 for trade tax purposes and € 261,347 for corporate tax purposes (2008: € 379,270 and € 296,755 respectively). As of 31 December 2009, no additional deferred tax assets were capitalised for further loss carry forwards of € 595,330 for trade tax and € 845,663 for corporate tax (2008: € 634,783 and € 826,635). The tax loss carry forwards are not subject to expiration.

Deferred tax assets and liabilities are attributable to the following:

In thousands of Euro	2009	2008 (adjusted)
Deferred tax assets:		
Finance lease liabilities and deferred income	21,860	23,659
Foreign currency receivables and derivatives	18,058	74,946
Tax loss carry forward	79,617	95,604
	119,535	194,209
Deferred tax liabilities:		
Aircraft and engines and related liabilities	(67,367)	(70,721)
Land and buildings	(6,694)	(7,692)
Intangible assets	(28,472)	(35,099)
Technical equipment	(387)	(516)
Leasehold improvements	(83)	(87)
Accrued liabilities and provisions	(86)	(14,552)
Convertible bond	(20,410)	(9,644)
Foreign currency liabilities and derivatives	(363)	(1,343)
	(123,862)	(139,654)
Offsetting	119,535	194,209
Deferred tax (liabilities) assets, net	(4,327)	54,555
Deferred tax assets, net beginning of period	54,555	7,658
Change in deferred tax position	(58,882)	46,897
Thereof related to cash flow hedges and items recorded in equity	76,717	(55,528)
Deferred income tax benefit (expense)	17,835	(8,631)

The deferred tax asset on tax loss carry forwards takes into consideration the expected future tax benefits.



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Income tax recognised in equity

In thousands of Euro	Before tax	2009 Tax (expense) benefit	Net of Tax	Before tax	2008 Tax (expense) benefit	Net of Tax
Transaction costs on issuance of new shares	(4,470)	1,340	(3,130)	0	0	0
Refund of transaction costs on issuance of new shares	4,184	(1,606)	2,578	0	0	0
Convertible bond and related transaction costs	49,549	(14,855)	34,694	0	0	0
	49,263	(15,121)	34,142	0	0	0

Income tax recognised in other comprehensive income

In thousands of Euro	Before tax	2009 Tax (expense) benefit	Net of tax	Before tax	2008 Tax (expense) benefit	Net of tax
Foreign currency translation differences for foreign operations	(169)	0	(169)	1,137	0	1,137
Fair value of hedging instruments	204,115	(61,604)	142,511	(184,270)	55,528	(128,742)
	203,946	(61,604)	142,342	(183,133)	55,528	(127,605)

27. CASH FLOW STATEMENT

The cash flow statement of the Air Berlin Group is presented according to the indirect method. Cash and cash equivalents include cash, bank balances and fixed-term deposits with banks with a maturity of less than three months.

In thousands of Euro	2009	2008
Cash	650	1,042
Bank balances	84,204	55,510
Fixed-term deposits	288,379	211,735
Cash and cash equivalents	373,233	268,287
Bank overdrafts used for cash management purposes	(1,223)	(478)
Cash and cash equivalents in the statement of cash flows	372,010	267,809

Cash and cash equivalents include restricted cash of € 80,749 as of 31 December 2009 (31 December 2008: € 66,355).

28. DERIVATIVES

Positive and negative market values of derivatives are as follows:

In thousands of Euro	Current 2009	Non-current 2009	Total 2009	Current 2008	Non-current 2008	Total 2008
Positive market values of derivatives classified as held for trading:						
Forward contracts	954	0	954	3,587	0	3,587
Foreign currency options	525	0	525	2,504	0	2,504
Commodity options	269	0	269	304	0	304
Cross currency interest rate swaps	0	14	14	0	640	640
Total positive market values of derivatives classified as held for trading	1,748	14	1,762	6,395	640	7,035
Positive market values of derivatives classified as hedge accounting:						
Forward contracts	9,450	0	9,450	34,750	0	34,750
Foreign currency options	2,493	0	2,493	5,422	0	5,422
Commodity swaps	7,513	0	7,513	0	0	0
Commodity options	2,517	0	2,517	0	0	0
Cross currency interest rate swaps	0	0	0	0	24	24
Total positive market values of derivatives classified as hedge accounting	21,973	0	21,973	40,172	24	40,196
Total positive market values of derivatives	23,721	14	23,735	46,567	664	47,231
Negative market values of derivatives classified as held for trading:						
Forward contracts	851	0	851	2,636	0	2,636
Foreign currency options	0	0	0	3,192	0	3,192
Commodity options	0	0	0	489	0	489
Cross currency interest rate swaps	6,587	66,430	73,017	6,893	51,109	58,002
Total negative market values of derivatives classified as held for trading	7,438	66,430	73,868	13,210	51,109	64,319
Negative market values of derivatives classified as hedge accounting:						
Forward contracts	4,484	0	4,484	3,077	0	3,077
Foreign currency options	731	0	731	0	0	0
Commodity swaps	104	0	104	220,283	0	220,283
Commodity options	0	0	0	165	0	165
Cross-currency interest rate swaps	0	4,423	4,423	0	7,658	7,658
Total negative market values of derivatives classified as hedge accounting	5,319	4,423	9,742	223,525	7,658	231,183
Total negative market values of derivatives	12,757	70,853	83,610	236,735	58,767	295,502

Hedge accounting is discussed in note 29g below.



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29. FINANCIAL RISK MANAGEMENT

a) Credit risk

The carrying amount of financial assets represents the maximum credit exposure.

The maximum exposure to credit at the reporting date was:

In thousands of Euro	Note	Carrying amount 2009	Carrying amount 2008
Loans and receivables	9	264,799	225,693
Positive market values of derivatives classified as held for trading	28	1,762	7,035
Positive market values of derivatives classified as hedge accounting	28	21,973	40,196
Cash and cash equivalents	27	373,233	268,287
		661,757	541,211

The maximum exposure to credit risk for trade receivables at the reporting date by type of customer was:

In thousands of Euro	2009	2008
Receivables from single-seat ticket sales	9,669	6,850
Receivables from charter sales	12,308	9,872
Receivables from credit card companies	21,860	21,015
Receivables from IATA clearing house ("BSP" travel agencies)	15,688	17,042
Other trade receivables	35,855	52,313
	95,380	107,092

Other trade receivables relate primarily to receivables from other airlines for technical services (2009: € 8,794, 2008: € 15,782) and to receivables from cargo services (2009: € 14,305, 2008: € 941).

b) Impairment losses

-- TRADE RECEIVABLES

The aging of trade receivables at the reporting date was:

In thousands of Euro	Gross 2009	Impairment 2009	Gross 2008	Impairment 2008
Not past due	72,547	948	91,247	0
Past due 1–30 days	5,224	2,056	3,943	3
Past due 31–120 days	13,821	1,057	4,882	506
Past due 121–365 days	8,097	1,091	6,485	1,176
More than one year past due	7,694	6,851	5,579	3,359
	107,383	12,003	112,136	5,044

Trade receivables are analysed for a possible impairment loss according to historical data on impairment losses as discussed below. Receivables which are neither past due nor impaired are generally considered to contain only a small risk of impairment based on past experience. The consideration is the same for receivables that are 1–30 days overdue. However, due to the worldwide crises in financial markets and the impact on the world economy, which affected Air Berlin's customers, the impairment losses increased in the reporting period.

The movement in the impairment allowance is as follows:

In thousands of Euro	Allowance for impairment losses 2009	Allowance for impairment losses 2008
Balance at 1 January	5,044	4,009
Increase in allowance for impairment losses	9,426	4,444
Release of allowance for impairment losses	(2,467)	(3,409)
Balance at 31 December	12,003	5,044

The allowance for impairment losses is used to record impairment losses until the Group determines that the financial asset should be derecognised.

The allowance for impairment losses is based on estimates and judgements regarding the credit worthiness of individual receivables, the actual customer structure and an analysis of historical impairment losses. A companywide credit control process is implemented. The third notice is issued along with a court order, and an allowance for impairment losses of 60% is recorded on the receivable. This percentage represents the probability of impairment loss based on past experience. Receivables more than one year past due are written off completely. At the balance sheet date the allowance for impairment losses is € 12,003 (2008: € 5,044).

-- OTHER LOANS AND RECEIVABLES

None of the other loans and receivables were past due as of 31 December 2009 (2008: none), and there were no renegotiations of payment terms during the period which would otherwise have resulted in overdue receivables. Impairment losses of € 2,000 (2008: none) have been recorded on other financial assets.

These receivables relate primarily to amounts due from suppliers (deposits and bonus and claims). The Group only enters into contracts with suppliers of high quality and as such does not consider there to be a significant impairment risk relating to these amounts.

Receivables from related parties relate primarily to amounts due from Niki for administrative services provided and clearing accounts and to the long-term loans receivable from Lee & Lex. As the receivables are not overdue and payments have been made on time in the past, the Group does not consider an impairment loss to be necessary.

-- CASH AND CASH EQUIVALENTS AND POSITIVE MARKET VALUES OF DERIVATIVES

No impairment has been recorded on bank balances or positive market values of derivatives, as the transactions are only made with parties of the highest credit rating or, in the case of derivative financial instruments, with parties that are known to be reliable based on past experience (past customer behaviour regarding timely payments of amounts due). The Group considers its net position in determining its impairment risk on bank balances and positive market values of derivatives.



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c) Liquidity risk

The following are the contractual undiscounted maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements as at 31 December 2009:

In thousands of Euro	Carrying amount	Contractual cash flows	6 months or less	7–12 months	1–2 years	2–5 years	More than 5 years
Non-derivative financial liabilities							
Liabilities due to bank from							
assignment of future lease payments	660,386	728,098	45,705	45,397	103,819	233,090	300,087
Finance lease liabilities	89,623	126,621	6,554	6,554	12,820	28,166	72,527
Convertible bonds – liability component	196,089	320,558	7,665	5,625	13,290	293,978	0
Trade payables and							
other financial liabilities	95,438	95,438	95,438	0	0	0	0
Bank overdraft	1,223	1,223	1,223	0	0	0	0
Total financial liabilities measured at amortised cost	1,042,759	1,271,938	156,585	57,576	129,929	555,234	372,614
Derivative financial liabilities							
Derivatives classified as hedge accounting:							
Cross-currency interest rate swaps	4,423	4,531	632	632	1,265	2,002	0
Outflow		17,140	2,392	2,391	4,784	7,573	0
Inflow		(12,609)	(1,760)	(1,759)	(3,519)	(5,571)	0
Forward exchange contracts	4,484	4,735	4,735	0	0	0	0
Outflow		251,234	251,234	0	0	0	0
Inflow		(246,499)	(246,499)	0	0	0	0
Foreign currency options	731	2,645	2,645	0	0	0	0
Outflow		85,944	85,944	0	0	0	0
Inflow		(83,299)	(83,299)	0	0	0	0
Commodity swaps	104	104	104	0	0	0	0
Outflow		104	104	0	0	0	0
Inflow		0	0	0	0	0	0
Derivatives classified as held for trading:							
Cross-currency interest rate swaps	73,017	77,186	15,142	12,060	21,281	29,028	(325)
Outflow		622,677	74,716	70,495	135,182	313,807	28,477
Inflow		(545,491)	(59,574)	(58,435)	(113,901)	(284,779)	(28,802)
Forward exchange contracts	851	668	508	160	0	0	0
Outflow		44,278	38,724	5,554	0	0	0
Inflow		(43,610)	(38,216)	(5,394)	0	0	0
	1,126,369	1,361,807	180,351	70,428	152,475	586,264	372,289

In addition to the contractual cash flows above, the Group has capital commitments under purchase arrangements for aircrafts. For more details see note 31.

For 31 December 2008, the maturities were as follows:

In thousands of Euro	Carrying amount	Contractual cash flows	6 months or less	7–12 months	1–2 years	2–5 years	More than 5 years
Non-derivative financial liabilities							
Liabilities due to bank from							
assignment of future lease payments	683,474	792,046	47,588	47,114	93,948	280,308	323,088
Secured bank loans	32,386	37,406	2,764	2,761	5,533	12,001	14,347
Unsecured bank loans	26,678	26,949	20,250	6,699	0	0	0
Finance lease liabilities	96,557	139,733	6,473	6,488	13,055	32,115	81,602
Convertible bonds – liability component	190,696	233,200	3,300	0	3,300	226,600	0
Trade payables and other financial liabilities	108,938	108,938	108,938	0	0	0	0
Bank overdraft	478	478	478	0	0	0	0
Total financial liabilities measured at amortised cost	1,139,207	1,338,750	189,791	63,062	115,836	551,024	419,037
Derivative financial liabilities							
Derivatives classified as hedge accounting:							
Cross-currency interest rate swaps	7,658	5,410	766	1,129	1,970	4,012	(2,467)
Outflow		71,941	3,690	4,738	9,375	26,361	27,777
Inflow		(66,531)	(2,924)	(3,609)	(7,405)	(22,349)	(30,244)
Forward exchange contracts	3,077	3,176	2,954	222	0	0	0
Outflow		187,483	176,483	11,000	0	0	0
Inflow		(184,307)	(173,529)	(10,778)	0	0	0
Commodity swaps	220,283	220,283	151,181	69,102	0	0	0
Outflow		220,283	151,181	69,102	0	0	0
Inflow		0	0	0	0	0	0
Commodity options	165	165	62	103	0	0	0
Outflow		165	62	103	0	0	0
Inflow		0	0	0	0	0	0
Derivatives classified as held for trading:							
Cross-currency interest rate swaps	58,002	79,630	7,269	15,726	17,338	33,823	5,474
Outflow		647,371	40,707	100,461	134,302	306,514	65,387
Inflow		(567,741)	(33,438)	(84,735)	(116,964)	(272,691)	(59,913)
Forward exchange contracts	2,636	2,477	1,106	1,371	0	0	0
Outflow		46,705	32,334	14,371	0	0	0
Inflow		(44,228)	(31,228)	(13,000)	0	0	0
Foreign currency options	3,192	397	397	0	0	0	0
Outflow		108,870	108,870	0	0	0	0
Inflow		(108,473)	(108,473)	0	0	0	0
Commodity options	489	489	113	376	0	0	0
Outflow		489	113	376	0	0	0
Inflow		0	0	0	0	0	0
	1,434,709	1,650,777	353,639	151,091	135,144	588,859	422,044



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The amounts disclosed in the maturity analysis are the contractual undiscounted cash flows, including future interest payments. Amounts in USD are translated at the relevant year-end exchange rate, and variable interest payments are calculated using the year-end basis rates.

The Group intends to meet its obligations primarily through cash balances held and cash inflows from operations and in the case of purchases of new aircraft (not included above) through future borrowings which are already in place for aircraft deliveries in 2010 and early 2011.

d) Currency risk

The Group has significant transactions in USD as well as smaller transactions in GBP and CHF. Air Berlin enters into USD currency forwards and options in order to manage functional currency risk which arises on operating costs (e.g. payments regarding aircraft financing and leasing, fuel, maintenance etc.) denominated in USD. Air Berlin generally hedges up to 75% (2008: 75%) of the expected cash flow on a 6–18 month (2008: 6–18 month) revolving basis.

The Group's exposure to foreign currency risk was as follows based on the currency values at end of year:

In thousands of currency units	31 December 2009			31 December 2008		
	USD	GBP	CHF	USD	GBP	CHF
Loans and receivables	58,547	4,248	1,907	65,719	1,009	3,058
Cash and cash equivalents	66,599	526	23,901	68,871	531	14,007
Liabilities due to bank from						
assignment of future lease payments	(861,382)	0	0	(844,422)	0	0
Secured bank loans	0	0	0	(45,072)	0	0
Unsecured bank loans	0	0	0	(37,128)	0	0
Finance lease liabilities	(59,258)	0	0	(67,562)	0	0
Trade payables and						
other financial liabilities	(18,265)	(732)	(2,000)	(29,739)	(188)	(4,247)
Bank overdraft	0	0	0	(100)	(81)	0
Total exposure of balance positions	(813,759)	4,042	23,808	(889,433)	1,271	12,818
Estimated forecast purchases	(1,834,600)	0	0	(1,805,000)	0	0
Gross exposure	(2,648,359)	4,042	23,808	(2,694,433)	1,271	12,818
Forward exchange contracts						
(hedged volume in USD)	644,850	0	0	1,139,500	0	0
Foreign currency options						
(hedged volume in USD)	366,500	0	0	120,000	0	0
Cross currency interest rate swaps						
(hedged volume in USD)	780,807	0	0	897,914	0	0
Net exposure	(856,202)	4,042	23,808	(537,019)	1,271	12,818

The estimated forecast purchases shown above are for a twelve-month period. The volume hedged through forward exchange contracts and forward exchange options is for estimated forecast purchases for up to two years. The volume hedged through cross currency interest rate swaps is the nominal amount of the interest-bearing liabilities in USD.

The following significant exchange rates applied during the year:

Currency units to the Euro	Average rate		Reporting date spot rate	
	2009	2008	2009	2008
USD	1.3948	1.4708	1.4406	1.3917
GBP	0.8909	0.7963	0.8881	0.9525
CHF	1.5100	1.5874	1.4836	1.4850

-- SENSITIVITY ANALYSIS

A sensitivity analysis was performed on the year-end balances of foreign currency financial assets and liabilities and the fair values of derivative financial instruments existing at year-end. The assumptions used in the calculation of currency risk were the same as those used in the prior year. Assuming that all other variables, in particular interest rates, remain constant, a 10 per cent strengthening of the Euro against the following currencies at 31 December would have increased or decreased equity and profit or loss by the following amounts:

Effect in thousands of Euro	31 December 2009			31 December 2008		
	USD	GBP	CHF	USD	GBP	CHF
Profit or loss	1,956	(414)	(1,459)	1,340	(121)	(785)
Equity	(50,699)	0	0	(76,824)	0	0

A 10 per cent weakening of the Euro against the above mentioned currencies at 31 December would have increased (decreased) equity and profit or loss by the following amounts:

Effect in thousands of Euro	31 December 2009			31 December 2008		
	USD	GBP	CHF	USD	GBP	CHF
Profit or loss	(2,584)	506	1,783	(7,058)	148	959
Equity	64,948	0	0	87,803	0	0

e) Interest rate risk

The interest rate profile of the Group is as follows:

In thousands of Euro	Carrying amount	
	2009	2008
Fixed rate instruments		
Financial assets	3,890	3,510
Financial liabilities	(65,384)	(266,788)
Cross-currency interest rate swaps	(77,426)	(64,996)
	(138,920)	(328,274)
Variable rate instruments		
Financial assets	1,500	3,500
Financial liabilities	(595,001)	(666,447)
	(593,501)	(662,947)



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The variable rate interest bearing liabilities and liabilities due to banks from assignment of future lease payments, which are generally denominated in USD, expose the Group to variability in interest payments due to changes in interest rates as well as to a foreign currency risk. The interest risk results from the sensitivity of financial assets and financial liabilities with variable interest rates to changes in the market interest rate. Air Berlin uses cross currency interest rate swaps to hedge these risks. The swaps are considered cash flow hedges from their inception until the liability is recorded in the statement of financial position, at which point the interest rate swaps are classified as held for trading, with future changes in market value taken to profit or loss.

-- FAIR VALUE SENSITIVITY ANALYSIS FOR FIXED RATE INSTRUMENTS

The Group does not account for any fixed rate financial instruments at fair value through profit or loss, and the Group does not designate any of its derivatives (interest rate swaps) as fair value hedge accounting instruments. Therefore a change in interest rates (unless they resulted in the hedge becoming ineffective) at the reporting date would only affect profit or loss to the extent that it affects the fair value of interest rate swaps not designated as hedge accounting (held for trading). A change of 100 basis points in interest rates would have increased or decreased equity by € 274 (2008: € 516) and profit or loss by € 14,313 (2008: € 6,303) based on a one year impact.

-- CASH FLOW SENSITIVITY ANALYSIS FOR VARIABLE RATE INSTRUMENTS

Assuming that all other variables, in particular foreign currency rates, remain constant, a change of 100 basis points in interest rates would have increased or decreased profit or loss (financial result) by € 1,152 (2008: € 1,323) and had no effect on equity over the twelve-month period, based on the balance sheet amounts at the reporting date and taking into consideration the effect of interest rate swaps.

f) Fuel price risk

The fuel price (jet fuel) plays an important role as far as the business performance of the Group is concerned. Fuel expense amounted to 22.0% (2008: 25.5%) of the Group's entire operating expenses. Air Berlin uses commodity swaps as well as commodity options to hedge the exposure to fuel price increases. At the end of the period 2009, the hedged volume was 523,500 tons for the business year 2010 (2008: 681,000 tons for 2009). The hedging quota was 40.3% for 2010 (in the prior year: 55.8% for 2009).

-- SENSITIVITY ANALYSIS

Assuming that all other variables, in particular foreign currency rates, remain constant, a 10% increase in the fuel price at the reporting date would have increased equity by € 18,585 (2008: € 23,286) and profit or loss by € 797 (2008: € 0). A 10% decrease in the fuel price at the reporting date would have decreased equity by € 17,250 (2008: € 23,286) and profit or loss by € 2,237 (2008: € 0).

The calculation is based on the fair values of commodity derivatives (swaps and options) at the end of the period. The assumptions used were the same as in the prior period.

g) Hedge accounting

As an airline, the Air Berlin Group is exposed to currency, interest rate and fuel price risks as well as credit and liquidity risks. Air Berlin uses derivatives to limit these risks.

Air Berlin applies hedge accounting for its hedges of future foreign currency denominated cash flows and its hedges of future cash flows related to the purchase of jet fuel that satisfy the criteria under IAS 39, thus reducing income statement volatility. In addition, as of the third quarter of 2007 Air Berlin applies hedge accounting for its foreign currency options and for several of its hedges of future cash flows resulting from variable USD interest rate payments. These hedging transactions are accounted for as cash flow hedges.

IAS 39 sets out strict requirements on the use of hedge accounting. Air Berlin fulfils those requirements by documenting, at the inception of a hedge, both the relationship between the derivative used as the hedging instrument and the hedged item, as well as the aim and strategy of the hedge. This includes assigning the hedging instruments to the corresponding firm commitments and future transactions and also estimating the degree of effectiveness of the hedging instruments employed. The effectiveness of existing hedge accounting is monitored on an ongoing basis. For hedge accounting, the change in the fair value of the hedging instrument is deferred in equity to the extent the hedge is effective. Accumulated fair value changes from qualifying hedges are removed from equity to profit or loss in the period when the hedged cash flow affects profit or loss (2009 and 2010 for foreign currency and fuel hedges, 2009 to 2015 for cross-currency interest rate hedges).

Air Berlin also uses hedges that do not satisfy the strict hedge accounting criteria of IAS 39. For such derivatives Air Berlin recognises the changes in fair value in profit or loss. The fair values of derivatives are presented in a separate line in the statement of financial position.

The fair values of derivatives for hedging exchange rate, interest rate and fuel price risks at 31 December 2009 and their movement during the period are as follows:

In thousands of Euro	Fair value at 31 December 2008	Transfer to hedge accounting	Change in fair value recognised in profit or loss	Change in fair value recognised in in equity	Removed from equity to profit or loss	Option premium paid	Fair value at 31 December 2009
Cash flow hedges, (net):							
Forward contracts	31,673	0	0	12,732	(39,439)	0	4,966
Foreign currency options	5,422	0	1,232	(370)	(4,522)	0	1,762
Cross-currency interest rate swaps	(7,635)	0	(1,102)	943	3,370 ¹	0	(4,424)
Commodity swaps (fuel price)	(220,283)	0	0	40,358	187,334	0	7,409
Commodity options (fuel price)	(165)	0	(1,027)	2,305	1,404	0	2,517
Held for trading, (net):							
Forward contracts	952	0	(849)	0	0	0	103
Foreign currency options	(688)	0	1,213	0	0	0	525
Cross-currency interest rate swaps	(57,362)	0	(12,270)	0	(3,370) ¹	0	(73,002)
Commodity options (fuel price)	(185)	0	454	0	0	0	269
	(248,271)	0	(12,349)	55,968	144,777	0	(59,875)

¹ Reclassification from cash flow hedges to held for trading in 2009.



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The change in fair value of derivatives was as follows in 2008:

In thousands of Euro	Fair value at 31 December 2007	Transfer to hedge accounting	Change in fair value recognised in profit or loss	Change in fair value recognised in in equity	Removed from equity to profit or loss	Option premium paid	Fair value at 31 December 2008
Cash flow hedges, (net):							
Forward contracts	(77,721)	0	0	52,198	57,196	0	31,673
Foreign currency options	(1,321)	27	0	6,716	0	0	5,422
Cross-currency interest rate swaps	(511)	0	(85)	(14,709)	7,670	0	(7,635)
Commodity swaps (fuel price)	68,427	0	0	(122,899)	(165,811)	0	(220,283)
Commodity options (fuel price)	2,396	0	0	(4,630)	0	2,069	(165)
Held for trading, (net):							
Forward contracts	1,050	0	(98)	0	0	0	952
Foreign currency options	(2,566)	(27)	1,905	0	0	0	(688)
Cross-currency interest rate swaps	(67,022)	0	9,660	0	0	0	(57,362)
Commodity swaps (fuel price)	137	0	(137)	0	0	0	0
Commodity options (fuel price)	0	0	(185)	0	0	0	(185)
	(77,131)	0	11,060	(83,324)	(100,945)	2,069	(248,271)

All foreign currency options and commodity options (fuel price) entered into during the period meet the qualifications of hedge accounting and are accounted for as cash flow hedges. The change in the intrinsic value is recorded in equity, and the change in the time value is recorded in profit or loss.

Hedge accounting concerning the cross-currency interest rate swaps are accounted for as cash flow hedges. Those cross-currency interest rate swaps which do not meet the criteria for hedge accounting continue to be recorded in profit or loss and are classified as held for trading.

Cash flow hedges are expected to impact profit or loss in the same period in which the cash flows are expected to occur, as detailed in section c "liquidity risk" above.

h) Fair values

Fair value is the amount obtainable in an arm's length transaction between knowledgeable willing parties. The fair values of financial assets and liabilities, together with their carrying amounts shown in the statement of financial position, are as follows:

In thousands of Euro	Note	31 December 2009		31 December 2008	
		Carrying amount	Fair value	Carrying amount	Fair value
Loans and receivables:					
Total loans and receivables	9	264,799	264,799	225,693	226,304
Positive market values of derivatives classified as held for trading:					
Forward exchange contracts	28	954	954	3,587	3,587
Foreign currency options	28	525	525	2,504	2,504
Commodity options (fuel price)	28	269	269	304	304
Cross-currency interest rate swaps	28	14	14	640	640
Positive market values of derivatives classified as hedge accounting:					
Forward exchange contracts	28	9,450	9,450	34,750	34,750
Foreign currency options	28	2,493	2,493	5,422	5,422
Commodity swaps (fuel price)	28	7,513	7,513	0	0
Commodity options (fuel price)	28	2,517	2,517	0	0
Cross-currency interest rate swaps	28	0	0	24	24
Total positive market values of derivatives at fair value through profit and loss		23,735	23,735	47,231	47,231
Cash and cash equivalents	27	373,233	373,233	268,287	268,287
Financial liabilities measured at amortised cost:					
Liabilities due to bank from assignment of future lease payments	15	(660,386)	(654,341)	(683,474)	(670,732)
Secured bank loans	15	0	0	(32,386)	(31,087)
Unsecured bank loans	15	0	0	(26,678)	(26,536)
Finance lease liabilities	15	(89,623)	(97,497)	(96,557)	(106,496)
Convertible bonds – liability component	15	(196,089)	(219,043)	(190,696)	(168,524)
Trade payables and other financial liabilities	17	(95,438)	(95,438)	(108,938)	(108,938)
Bank overdraft	15	(1,223)	(1,223)	(478)	(478)
Total financial liabilities measured at amortised cost		(1,042,759)	(1,067,542)	(1,139,207)	(1,112,790)
Negative market values of derivatives classified as hedge accounting:					
Forward exchange contracts	28	(4,484)	(4,484)	(3,077)	(3,077)
Foreign currency options	28	(731)	(731)	0	0
Commodity swaps (fuel price)	28	(104)	(104)	(220,283)	(220,283)
Commodity options (fuel price)	28	0	0	(165)	(165)
Cross-currency interest rate swaps	28	(4,423)	(4,423)	(7,658)	(7,658)
Negative market values of derivatives classified as held for trading:					
Forward exchange contracts	28	(851)	(851)	(2,636)	(2,636)
Foreign currency options	28	0	0	(3,192)	(3,192)
Commodity options (fuel price)	28	0	0	(489)	(489)
Cross-currency interest rate swaps	28	(73,017)	(73,017)	(58,002)	(58,002)
Total negative market values of derivatives at fair value through profit and loss		(83,610)	(83,610)	(295,502)	(295,502)
		(464,602)	(489,385)	(893,498)	(866,470)



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The following summarises the major methods and assumptions used in estimating the fair values of financial instruments:

Derivatives

Forward exchange, interest rate and fuel price derivatives are carried at fair value, by valuation model. The valuation is performed using the quoted prices that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e. derived from prices). Therefore, all the derivative financial instruments of Air Berlin relate to the Level 2 of the three level hierarchy as defined in IFRS 7.27A.

Interest-bearing loans and borrowings

Fair value is calculated based on discounted expected future principal and interest cash flows using current rates.

Trade and other receivables / payables

For receivables/payables with a remaining life of less than one year, the carrying value is deemed to reflect the fair value. All other receivables/payables are discounted to determine the fair value.

Cash and cash equivalents

Due to the short maturity date, the notional amount is deemed to reflect the fair value.

i) Net gain or loss

The net gains (losses) on financial assets and liabilities during the period are as follows:

In thousands of Euro	2009	2008
Loans and receivables	(14,655)	(7,259)
Cash and cash equivalents	1,612	5,008
Derivatives	19,034	(2,963)
Financial liabilities measured at amortised cost	16,450	(38,179)
	22,441	(43,393)

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

No interest income, fee income and fee expense was accrued on impaired financial assets during the period (2008: none).

30. RELATED PARTY TRANSACTIONS

The Group has related party relationships with its Directors and key management as well as with its associates (see note 7).

Total remuneration of Directors is included in the Directors' Remuneration Report (see pages 104 to 115). The share-based payment scheme for Executive Directors and certain senior executives of the Group is detailed in note 12.

One of the Executive Directors of the Group controls a voting share of 2.64% (2008: 3.15%) of Air Berlin. In addition, a receivable of € 25 is due from one of the Directors and is included in other current assets in the statement of financial position as at 31 December 2009 (2008: € 2).

The Chairman of the Board, also a shareholder of the Company with a voting share of 1.58% (2008: 1.52%), is the main shareholder of Phoenix Reisen GmbH. The Group had revenues from ticket sales with Phoenix Reisen GmbH in 2009 and 2008 of € 18,679 and € 18,197, respectively. At 31 December 2009 and 2008, € 729 and € 2,663, respectively, are included in the statement of financial position in trade receivables.

During the years ending 31 December 2009 and 2008, associates purchased or delivered goods and services from the Group as follows:

In thousands of Euro	2009	2008
IBERO-Tours		
Other income from cost transfer	9	0
Expenses for services	87	1,177
Trade payables	0	13
SCK DUS GmbH & Co. KG		
Catering expenses	0	7,073
THBG BBI		
Receivables from related parties, non-current	1,908	1,824
BINOLI GmbH		
Revenues from ticket sales	0	629
Other income from cost transfer	380	0
Receivables from related parties, non-current	39	250
Receivables from related parties, current	148	0
Trade and other receivables	9	230
Lee & Lex Flugzeugvermietung GmbH		
Receivables from related parties, non-current	698	844
Receivables from related parties, current	66	0
Niki Luftfahrt GmbH		
Revenues	245	0
Other operating expenses	0	810
Other income from administrative services	2,381	1,027
Other income from cost transfer	6,000	0
Receivables from related parties, current	26,778	13,760

Transactions with associates are priced on an arm's length basis.

In 2009 no dividends have been received from associates (2008: € 211).

31. CAPITAL COMMITMENTS

The Group's contracts to purchase aircraft are set out as follows:

Date of contract	Supplier	Number of aircraft	Type of aircraft	Delivery dates	Delivered in 2009	Delivered in 2008	Deliveries outstanding 31 Dec. 09	Thereof in 2010
2004	Airbus	60	A320/319/321	2005–2012	8	9	19	13
2006–2007	Boeing	97	B737-700/800	2007–2014	7	4	82	9
7/2007	Boeing	25	B787	2013–2017	0	0	25	0
10/2007	Bombardier	10	Q400	2008–2009	8	2	0	0



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32. EXECUTIVE BOARD OF DIRECTORS

Executive Directors	Joachim Hunold	Chief Executive Officer
	Ulf Hüttmeyer	Chief Financial Officer
	Christoph Debus	Chief Commercial Officer, since 1 June 2009

33. SUBSEQUENT EVENTS

On 17 February 2010 Air Berlin PLC & Co. Luftverkehrs KG acquired a further 25.9% of the share capital of NIKI Luftfahrt GmbH (NIKI) for a purchase price of € 21,000 from Privatstiftung Lauda (private Lauda foundation). The Group interest in the share capital of NIKI would be 49.9%. As a result of the analyses of the transaction, Air Berlin has to account for it in accordance with IFRS 3 Business Combinations, provided Air Berlin receives approval from the antitrust agency.

In connection with the increase of its shareholding, Air Berlin PLC & Co. Luftverkehrs KG provides the private Lauda foundation a loan of 40.5 million Euro. The private Lauda foundation has the option of repaying the loan in three years with cash or through the transfer of the remaining 50.1% of NIKI Luftfahrt GmbH's shares.

The initial accounting of this business combination was incomplete at the time when the financial statements were authorised for issue, therefore, the disclosures about the major classes of consideration transferred, assets and liabilities acquired, recognized goodwill, accounting for non-controlling interest as well as disclosures for the business combination achieved in stages could not be made.

In March 2010 Air Berlin has reduced the number of firm orders of Boeing 787 aircraft from 25 to 15 and the number of options from 10 to 5. Furthermore the delivery of 9 Boeing 737 aircraft was rescheduled to 2015. These aircraft were originally scheduled for delivery in 2010 or 2011.

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

a) Significant accounting policies

The accounting framework and significant accounting policies described in notes 2 and 4 above also apply to the Company financial statements. In addition the following accounting policies were applied:

Investments in subsidiaries and in associates are recorded at cost less accumulated impairment losses and are tested for impairment if an indication of impairment exists.

Receivables from subsidiaries and payables to subsidiaries and to associates are initially measured on the basis of their fair value. Subsequently they are carried at amortised cost using the effective interest method.

The Company has recorded financial assets and financial liabilities in the statement of financial position.

Categories of financial assets and financial liabilities which apply to Air Berlin PLC are as follows:

- ✈ Loans and receivables
- ✈ Financial assets and liabilities at fair value through profit or loss classified as held for trading in accordance with IAS 39 (derivative financial instruments)
- ✈ Financial liabilities measured at amortised cost (includes trade payables and other financial liabilities as well as interest-bearing liabilities)

The Company has defined the following classes of financial assets and financial liabilities:

- ✈ Loans and receivables
- ✈ Derivative financial instruments classified as held for trading
- ✈ Financial liabilities measured at amortised cost (includes interest-bearing liabilities, trade payables and other financial liabilities)
- ✈ Cash and cash equivalents

b) Investments in subsidiaries

A detailed list of the companies in which the Company has interests, direct and indirect, is found in note 35 to the consolidated financial statements. The Company is general partner of Air Berlin PLC & Co. Luftverkehrs KG.

In thousands of Euro	2009	2008
Acquisition cost		
Balance at 1 January 2008	220,958	143,315
Additions	33	77,668
Disposals	0	(25)
Increase in subsidiaries capital	250,001	0
Balance at 31 December	470,992	220,958

In the reporting period the Company assigned trade receivables of € 95,000 and cash contributions of € 155,000 to Pegasus Erste Luftfahrtbeteiligungsgesellschaft mbH, Pegasus Zweite Luftfahrtbeteiligungsgesellschaft mbH, Pegasus Dritte Luftfahrtbeteiligungsgesellschaft mbH, Pegasus Vierte Luftfahrtbeteiligungsgesellschaft mbH, Pegasus Fünfte Luftfahrtbeteiligungsgesellschaft mbH, Pegasus Sechste Luftfahrtbeteiligungsgesellschaft mbH and Pegasus Siebte Luftfahrtbeteiligungsgesellschaft mbH. The carrying amount of the subsidiaries was increased by these amounts.

c) Deferred tax assets

Profit or loss before tax is completely attributable to Germany.

Income tax expense is as follows:

In thousands of Euro	2009	2008
Current income tax expense	(2,099)	(2,482)
Deferred income tax benefit	226	2,403
Total income tax expense	(1,873)	(79)

The current income tax expense of the Company includes corporate tax, a solidarity charge in addition to corporate tax and trade tax. The current income tax expense includes € 157 of prior year income tax benefit (2008: € 74).



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The tax rate of the Company equals 29.98% (2008: 30.42%). It consists of corporate tax rate and solidarity charge of 15.83% and trade tax of 14.15%. The calculation of the trade tax rate includes the effect of the different trade tax rates depending on the municipality in which the Company operates.

Reconciliation between the tax expense expected on the basis of profit for a period and the recognised income tax expense is as follows:

In thousands of Euro	2009	2008
Profit before tax	19,172	41,478
Expected income tax expense at 29.98% (2008: 30.42%)	(5,748)	(12,618)
Effect of change in tax rate	245	153
Recognition of tax loss carry forwards previously not recognised	0	923
Effect of tax pooling agreements with subsidiaries	9,084	11,557
Write down of deferred tax assets on tax loss carry forwards	(2,865)	0
Effect from non-deductible expenses	(2,552)	(464)
Current tax benefits from previous years	157	74
Other	(194)	296
Total income tax expense recognised	(1,873)	(79)

The total tax loss carry forward was € 20,136 (2008: € 43,181) for trade tax purposes and € 120,986 (2008: € 120,013) for corporate tax purposes as at 31 December 2009. As of 31 December 2009, no additional deferred tax assets were capitalised for further loss carry forwards of € 15,126 for corporate tax and (2008: € 0). The tax loss carry forwards are not subject to expiration.

Deferred tax assets are attributable to the following:

In thousands of Euro	2009	2008
Deferred tax assets		
Accrued liabilities and provisions	1,041	453
Negative market values of derivatives	2,552	4,477
Tax loss carry forwards	21,690	25,296
Total deferred tax assets	25,283	30,226
Deferred tax liabilities		
Convertible bond	(20,410)	(9,644)
Positive market values of derivatives	(17)	(831)
Total deferred tax liabilities	(20,427)	(10,475)
Offsetting	25,283	30,226
Deferred tax assets, net	4,856	19,751
Deferred tax assets, net beginning of period	19,751	17,435
Change in deferred tax assets	(14,895)	2,316
thereof related to items recorded in equity	15,121	87
Deferred income tax benefit	226	2,403

The deferred tax asset on tax loss carry forwards takes into consideration the expected future tax benefits.

Income tax recognised in equity

In thousands of Euro	2009			2008		
	Before tax	Tax (expense) benefit	Net of Tax	Before tax	Tax (expense) benefit	Net of Tax
Transaction costs on issuance of new shares	(4,470)	1,340	(3,130)	0	0	0
Refund of transaction costs on issuance of new shares	4,184	(1,606)	2,578	0	0	0
Convertible bond and related transaction costs	49,549	(14,855)	34,694	0	0	0
	49,263	(15,121)	34,142	0	0	0

d) Loans to subsidiaries and other loans receivable

In these positions are included:

A long-term loan was concluded with LTU Beteiligungs- und Holding GmbH (€ 140,000) with a yearly interest rate of 1%.

The loan was extended till 31 December 2010. In addition the Company has a long-term loan to LOMA GmbH of € 15,200.

The loan is due in 2010 and has a yearly interest rate of 1%.

A loan of € 3,500, which has a variable interest rate based on the 3-month-EURIBOR, was agreed with Luftfahrtgesellschaft Walter GmbH. The loan was impaired in the reporting period to € 1,500.

The company signed a non-limited loan with AB Luftfahrttechnik Düsseldorf GmbH (€ 26,700) with a yearly interest rate of 1%.

The loan can be called with a notice period of one month to the end of a month.

e) Long-term loans to associates

The company entered into two loans with Binoli GmbH of € 250 each. The loans were agreed with an indefinite maturity and a 6 per cent interest rate. Due to the at-equity accounting concerning investments in associates the investment in Binoli GmbH was written off to zero and the loans have been written down by € 461 (see note 7).

f) Receivables from subsidiaries

Receivables from subsidiaries due to profit and loss transfer agreements are included with € 21,228 (2008: € 24,321).

Cash pooling agreements were concluded to bundle the Group's financial activities. At the end of the period the receivables from cash pooling amounts to € 29,470 (2008: € 154,867).

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

g) Receivables from associates

Receivables from associates include the clearing account with Binoli GmbH € 149 (2008: € 148).

h) Share capital and reserves

The capital structure of Air Berlin PLC is that of the Group, except that certain reserves on the consolidated level are not relevant at Company level.

A full description of the Company's share capital and reserves is detailed in note 10 to the consolidated financial statements.

The Employee Share Plan is detailed in note 12 to the consolidated financial statements.

i) Pension liabilities

In 2007 Air Berlin PLC entered into a defined benefit pension plan for its Executive Directors. The pension plan is funded



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through payments to a qualifying insurance contract.

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

In thousands of Euro	2009	2008
Present value of funded obligations	6,364	3,685
Fair value of plan assets	(7,816)	(4,701)
Funded status	(1,452)	(1,016)
Amount not recognised due to limitation in IAS 19.58(b)	1,452	1,016
Pension liabilities	0	0

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

In thousands of Euro	2009	2008
Defined benefit obligation at 1 January	3,685	2,918
Current service cost	1,322	1,410
Interest on obligation	230	146
Actuarial losses / (gains)	1,127	(789)
Defined benefit obligation at 31 December	6,364	3,685

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

In thousands of Euro	2009	2008
Fair value of plan assets at 1 January	4,701	2,331
Contribution	3,364	2,524
Expected return on plan assets	200	(155)
Actuarial (losses) / gains	(449)	1
Fair value of plan assets at 31 December	7,816	4,701

Plan assets consist exclusively of external contracts with insurance companies in Germany. These insurances could potentially include shares in Air Berlin Plc. However, due to strict requirements in Germany regarding the structure of insurance companies, the percentage of Air Berlin shares held would be minimal.

The actual loss on plan assets was € 249 during the period (2008: gain: € 154). No experience adjustment was made during the period.

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

In thousands of Euro	2009	2008
Current service cost	1,322	1,410
Interest on obligation	230	146
Expected return on plan assets	(200)	155
Net actuarial (gains) / losses recognised in the period	1,576	(790)
Effect of the limitation in IAS 19 paragraph 58 (b)	436	1,016
Pension expense	3,364	1,937

The Company expects to contribute € 3,249 to its defined benefit pension plan in 2010.

Principal actuarial assumptions at the reporting date are as follows:

	2009	2008
Discount rate at 31 December	5.39%	6.30%
Expected return on plan assets at 1 January	4.30%	2.75%
Future salary increases	0.00%	3.00%
Cost of living adjustment (future pension increases)	1.00%	1.00%

Assumptions regarding future mortality are based on published statistics and mortality tables ("Richttafeln 2005 G" published by Heubeck-Richttafeln-GmbH). The average remaining life expectancy of an individual retiring at age 65 is 20 years for males and 25 years for females.

j) Other non-current liabilities to subsidiaries

The Group issued two convertible bonds with a volume of € 220,000 (issued in 2007) and € 125,000 (issued in 2009).

Air Berlin is accounting for these bonds in the same way as the Group. For further information see note 15.

The convertible bonds were issued by AB Finance B.V., and the proceeds were transferred to Air Berlin PLC with the same conditions as the bonds.

During the reporting period the company redeemed convertible bonds issued in 2007 with a nominal volume of € 84,000 and transferred them to AB Finance B.V. to pay back the respective loan. The disclosures regarding the liquidity risk and maturity analysis in respect of the convertible bonds are detailed in note 15 and 29c. Another loan agreement was concluded with AB Finance B.V. (€ 2,000). The loan is due on 11 April 2027 and has a yearly interest rate of LIBOR plus 1%.

k) Accrued liabilities

Accrued liabilities primarily relate to expenses for services received but not yet invoiced as of the end of the period.

l) Payables to subsidiaries

Payables to subsidiaries include € 14,181 (2008: € 60) regarding profit and loss transfers and € 159,340 (2008: 281,311) regarding cash pooling agreements.

m) Fair values

Fair value is the amount obtainable in an arm's length transaction between knowledgeable willing parties. The carrying amounts of financial assets and liabilities approximate their fair values.



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The fair values of financial assets and liabilities, together with their carrying amounts shown in the statement of financial position, are as follows:

In thousands of Euro	Note	31 December 2009		31 December 2008	
		Carrying amount	Fair value	Carrying amount	Fair value
Long-term loans from subsidiaries	34d	15,200	15,200	16,384	16,384
Long-term loans from associates	34e	39	39	250	260
Other long-term loans	34d	1,500	1,500	3,500	3,519
Short-term loans from subsidiaries	34d	185,182	185,182	155,000	155,000
Receivables from subsidiaries	34f	91,200	91,200	274,040	274,040
Receivables from associates	34g	149	149	148	148
Total loans and receivables		293,270	293,270	449,322	449,351
Positive market values of derivatives classified as held trading		58	58	2,730	2,730
Cash and cash equivalents		104,295	104,295	159,978	159,978
Financial liabilities measured at amortised cost:					
Non-current liabilities to subsidiaries	34j	(198,089)	(198,089)	(192,696)	(205,729)
Trade payables and payables to subsidiaries	34l	(183,139)	(183,139)	(283,917)	(283,917)
Total financial liabilities measured at amortised cost		(381,228)	(381,228)	(476,613)	(489,646)
Negative market values of derivatives classified as held for trading		(8,513)	(8,513)	(14,715)	(14,715)
		7,882	7,882	120,702	107,698

n) Related party transactions

The Company has related party relationships with its Directors and subsidiaries (see note 3 to the consolidated financial statements). Total remuneration of Directors is included in the Directors' Remuneration Report (see pages 104 to 115). One of the Executive Directors of the Group controls a voting share of 2.64% (2008: 3.15%) of Air Berlin. In addition, the Chairman of the Board is also a shareholder of the Company with a voting share of 1.58% (2008: 1.52%).

The Company had the following transactions with related parties during the year ending 31 December 2009:

In thousands of Euro	2009	2008
Air Berlin PLC & Co. Luftverkehrs KG		
Revenues	4,155	3,722
Interest income	477	0
Receivables from subsidiaries	24,427	109,730
Other operating expenses	540	675
Payables to subsidiaries	5,436	216
Pegasus 1. – 7. Luftfahrtbeteiligungsgesellschaft mbH		
Revenues	17	0
Payables to subsidiaries	181	180
Alpha Engine Trading GmbH (formerly Luftfahrttechnischer Betrieb GmbH)		
Receivables from subsidiaries	660	0
Payables to subsidiaries	2,655	1,996
Air Berlin Beteiligungs GmbH		
Payables to subsidiaries	13	14
Belair Airlines AG		
Revenues	0	24
LTU Beteiligungs- und Holding GmbH		
Interest income	1,416	0
Receivables from subsidiaries	142,818	141,377
Payables to subsidiaries	24	0
AB Luftfahrttechnik Berlin GmbH		
Interest income	36	0
Receivables from subsidiaries	37,443	17,116
Payables to subsidiaries	13,417	2,636
AB Luftfahrttechnik Düsseldorf GmbH		
Interest income	182	0
Receivables from subsidiaries	26,700	1,060
Payables to subsidiaries	14,403	1,802
AB Luftfahrttechnik Köln GmbH		
Receivables from subsidiaries	903	777
LTU Lufttransport Unternehmen GmbH		
Receivables from subsidiaries	15,000	51,613
Payables to subsidiaries	0	27,039



06) Financial Statements

Leisure Cargo GmbH		
Receivables from subsidiaries	2,256	5,367
Payables to subsidiaries	0	2,450
Loma Beteiligungsgesellschaft mbH		
Interest income	332	866
Receivables from subsidiaries	15,717	16,384
Air Berlin 1. – 8. LeaseLux Sàrl		
Receivables from subsidiaries	1,282	49
Air Berlin Netherlands B.V.		
Interest income	47	0
Receivables from subsidiaries	1,937	2,002
Payables to subsidiaries	2,001	0
Air Berlin Finance B.V.		
Expenses from convertible bonds	17,189	12,157
Receivables from subsidiaries	174	0
Payables to subsidiaries	198,364	198,463
Air Berlin Technik Ltd.		
Interest income	47	0
Receivables from subsidiaries	2,397	2,350
Air Berlin Fünfte Flugzeug GmbH		
Interest expenses	264	0
Payables to subsidiaries	89,563	35,201
Air Berlin Sechste Flugzeug GmbH		
Interest expenses	78	0
Payables to subsidiaries	26,866	26,240
Air Berlin Siebte Flugzeug GmbH		
Receivables from subsidiaries	2,641	0
Payables to subsidiaries	5,148	5,383
Air Berlin GmbH & Co. Elfte Flugzeugvermietungs OHG ²		
Payables to subsidiaries	0	52,904
Air Berlin Erste Flugzeugvermietungs GmbH		
Receivables from subsidiaries	5,301	5,017
Payables to subsidiaries	819	0
Air Berlin Dritte Flugzeugvermietungs GmbH		
Receivables from subsidiaries	4,111	3,918
Payables to subsidiaries	544	0

Air Berlin Vierte Flugzeugvermietungs GmbH		
Receivables from subsidiaries	3,533	3,373
Payables to subsidiaries	455	0
Air Berlin Achte Flugzeugvermietungs GmbH		
Receivables from subsidiaries	60	30
Air Berlin Finance GmbH		
Receivables from subsidiaries	0	75
Binoli GmbH ¹		
Income	0	10
Long-term loans	0	250
AB Finance II GmbH		
Interest expenses	105	0
Receivables from subsidiaries	3,000	0
Payables to subsidiaries	20,919	36,148
Euconus GmbH		
Receivables from subsidiaries	10	1
JFK Stiftung		
Receivables from subsidiaries	1,182	0
Joachim Hunold & Co. Flugzeugvermietungs KG i.L.		
Receivables from subsidiaries	0	7

1 In 2009 associated company.

2 In 2009 the company was merged to Air Berlin Fünfte Flugzeug GmbH.

o) Employees

The Company has four employees besides the three Executive Directors four employees (2008: five Directors). Their remuneration is included in note 22 above as well as in the Directors' Remuneration Report on pages 104 to 115.

The Executive Directors are Participants in the Employee Share Plan 2006, which is described in detail in note 12 above as well as in the Directors' Remuneration Report. In addition, € 3,364 (2008: € 1,937) was paid to a defined benefit plan.



06) Financial Statements

35. SUBSIDIARIES

The following subsidiaries are included in the consolidated financial statements:

Subsidiaries	Country of incorporation	2009	2008
AB Erste Flugzeugvermietungs GmbH	Germany	✈	✈
AB Zweite Flugzeugvermietungs GmbH	Germany	✈	✈
AB Dritte Flugzeugvermietungs GmbH	Germany	✈	✈
AB Vierte Flugzeugvermietungs GmbH	Germany	✈	✈
AB Achte Flugzeugvermietungs GmbH	Germany	✈	✈
AB Neunte Flugzeugvermietungs GmbH	Germany	✈	✈
AB Zehnte Flugzeugvermietungs GmbH	Germany	✈	✈
AB Luftfahrttechnik Berlin GmbH	Germany	✈	✈
AB Luftfahrttechnik Düsseldorf GmbH	Germany	✈	✈
AB Luftfahrttechnik Köln GmbH	Germany	✈	✈
Air Berlin Beteiligungsgesellschaft mbH	Germany	✈	✈
Air Berlin Finance B.V. ¹	Netherlands	✈	✈
Air Berlin Finance GmbH	Germany	✈	✈
Air Berlin Finance II GmbH (formerly: dba Luftfahrtgesellschaft mbH) 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. Cabin Service KG ¹	Germany	✈	✈
Air Berlin PLC & Co. DUS KG ¹	Germany	✈	✈
Air Berlin PLC & Co. Service Center KG ¹	Germany	✈	✈
Air Berlin Switzerland GmbH ¹	Switzerland	✈	✈
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 Fünfte Flugzeug GmbH (formerly: Air Berlin GmbH & Co. Fünfte Flugzeugvermietungs OHG)	Germany	✈	✈
Air Berlin Sechste Flugzeug GmbH (formerly: Air Berlin GmbH & Co. Sechste Flugzeugvermietungs OHG)	Germany	✈	✈
Air Berlin Siebte Flugzeug GmbH (formerly: Air Berlin GmbH & Co. Siebte Flugzeugvermietungs OHG)	Germany	✈	✈
Air Berlin Zwölfte Flugzeug GmbH	Germany	✈	
Air Berlin GmbH & Co. Elfte Flugzeugvermietungs OHG ²	Germany		✈
Alpha Engine Trading GmbH	Germany	✈	✈
Belair Airlines AG ¹	Switzerland	✈	✈
CHS Cabin & Handling Service GmbH	Germany	✈	✈
CHS Switzerland AG ¹	Switzerland	✈	✈
CHS Holding & Services GmbH ¹	Germany	✈	✈
CHS Netherlands N.V. ¹	Netherlands	✈	✈
CHAS Italy s.r.l. ¹	Italy	✈	✈
CHAS UK Ltd. ¹	United Kingdom	✈	✈
Euconus Flugzeugleasinggesellschaft mbH	Germany	✈	✈
JFK Stiftung	Switzerland	✈	
Leisure Cargo GmbH ¹	Germany	✈	✈
Loma Beteiligungsgesellschaft mbH	Germany	✈	✈
LTU Beteiligungs- und Holding GmbH ¹	Germany	✈	✈
LTU Lufttransport Unternehmen GmbH	Germany	✈	✈
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, 3}	United Kingdom	✈	✈

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

² In 2009 the company was merged to Air Berlin Fünfte Flugzeug GmbH.

³ The company is consolidated as a Special Purpose Entity.

Except for the special purpose entity, Air Berlin Employee Share Trust, Air Berlin PLC holds (directly or indirectly) 100% of the share capital of the subsidiaries as of 31 December 2009.

Excerpt from the Interim Financial Report for the second quarter and the first six months of the financial year 2010 (Unaudited), comprising the following:

Consolidated Statements for the period ended 30 June 2010

Notes to the consolidated Financial Statements as of 30 June 2010



03) Financial Statements

Air Berlin PLC

CONSOLIDATED INCOME STATEMENT (UNAUDITED)

for the period ended 30 June 2010

	1/10-6/10	1/09-6/09	4/10-6/10	4/09-6/09
	€ 000	€ 000	€ 000	€ 000
Revenue	1,567,912	1,496,969	876,990	836,245
Other operating income	16,617	9,567	12,532	5,277
Expenses for materials and services	(1,180,477)	(1,065,055)	(644,628)	(561,046)
Personnel expenses	(229,792)	(218,884)	(116,712)	(111,158)
Depreciation and amortisation	(48,384)	(53,254)	(22,759)	(26,508)
Other operating expenses	(252,770)	(239,065)	(133,671)	(125,202)
Operating expenses	(1,711,423)	(1,576,258)	(917,770)	(823,914)
Result from operating activities	(126,894)	(69,722)	(28,248)	17,608
Financial expenses	(34,200)	(30,727)	(17,779)	(14,660)
Financial income	1,605	1,582	727	657
Gains (Losses) on foreign exchange and derivatives, net	(40,015)	(13,318)	(22,662)	2,816
Net financing costs	(72,610)	(42,463)	(39,714)	(11,187)
Share of profit of associates, net of tax	3,059	883	(227)	883
(Loss) Profit before tax	(196,445)	(111,302)	(68,189)	7,304
Income tax benefit (expense)	45,971	29,946	11,310	(217)
(Loss) Profit for the period				
– all attributable to the shareholders of the Company	(150,474)	(81,356)	(56,879)	7,087
Basic earnings per share in €	(1.77)	(1.23)	(0.67)	0.11
Diluted earnings per share in €	(1.77)	(1.23)	(0.67)	0.11



03) Financial Statements

Air Berlin PLC

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

for the period ended 30 June 2010

	1/10-6/10	1/09-6/09
	€ 000	€ 000
Loss for the period	(150,474)	(81,356)
Foreign currency translation reserve	940	(164)
Effective portion of changes in fair value of hedging instruments	74,268	31,849
Net change in fair value of hedging instruments transferred from equity to profit or loss	(30,120)	115,312
Income tax on other comprehensive income	(13,326)	(44,407)
Other comprehensive income for the period, net of tax	31,762	102,590
Total comprehensive income – all attributable to the shareholders of the Company	(118,712)	21,234



03) Financial Statements

Air Berlin PLC

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)

as of 30 June 2010

	30/06/2010	31/12/2009
	€ 000	€ 000
Assets		
Non-current assets		
Intangible assets	317,788	318,060
Property, plant and equipment	923,265	1,209,743
Trade and other receivables	133,715	106,252
Deferred tax asset	35,090	0
Positive market value of derivatives	14,121	14
Deferred expenses	14,113	5,825
Investments in associates	5,531	3,183
Non-current assets	1,443,623	1,643,077
Current assets		
Inventories	41,759	38,724
Trade and other receivables	333,711	297,663
Positive market value of derivatives	91,555	23,720
Deferred expenses	49,372	35,120
Assets held for sale	100,500	0
Cash and cash equivalents	394,939	373,233
Current assets	1,011,836	768,460
Total assets	2,455,459	2,411,537



03) Financial Statements

Air Berlin PLC

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)

as of 30 June 2010

	30/06/2010	31/12/2009
	€ 000	€ 000
Equity and liabilities		
Shareholders' equity		
Share capital	21,379	21,379
Share premium	373,923	374,319
Equity component of convertible bond	51,598	51,598
Other capital reserves	217,056	217,056
Retained earnings	(212,781)	(62,323)
Hedge accounting reserve, net of tax	38,040	7,218
Foreign currency translation reserve	1,707	767
Total equity – all attributable to the shareholders of the Company	490,922	610,014
Non-current liabilities		
Liabilities due to bank from assignment of future lease payments	452,183	583,158
Interest-bearing liabilities	280,688	273,355
Provisions	10,128	10,298
Trade and other payables	41,466	36,401
Deferred tax liabilities	0	4,327
Negative market value of derivatives	10,261	70,853
Non-current liabilities	794,726	978,392
Current liabilities		
Liabilities due to bank from assignment of future lease payments	140,751	77,228
Interest-bearing liabilities	14,757	13,580
Current tax liabilities	7,176	7,526
Provisions	2,895	11,177
Trade and other payables	413,804	334,926
Negative market value of derivatives	45,489	12,756
Deferred income	68,245	78,390
Advanced payments received	476,694	287,548
Current liabilities	1,169,811	823,131
Total equity and liabilities	2,455,459	2,411,537



03) Financial Statements

Air Berlin PLC

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

for the period ended 30 June 2009

	Share capital € 000	Share premium € 000	Equity component of convertible bond € 000	Other capital reserves € 000	Retained earnings € 000	Hedge accounting reserve, net of tax € 000	Foreign currency translation reserve € 000	Equity attributable to the shareholders of the Company € 000	Minority interest € 000	Total equity € 000
Balances at 31 December 2008	16,502	307,501	27,344	217,056	(62,654)	(135,294)	936	371,391	629	372,020
Share based payment					67			67		67
Issue of ordinary Shares	2,768	35,983						38,751		38,751
Transaction cost, net of tax		(818)						(818)		(818)
Total transactions with shareholders	2,768	35,165			67			38,000		38,000
Loss for the period					(81,356)			(81,356)		(81,356)
Other comprehensive income						102,754	(164)	102,590		102,590
Total comprehensive income					(81,356)	102,754	(164)	21,234		21,234
Balances at 30 June 2009	19,270	342,666	27,344	217,056	(143,943)	(32,540)	772	430,625	629	431,254
Balances at 31 December 2009	21,379	374,319	51,598	217,056	(62,323)	7,218	767	610,014	0	610,014
Share based payment					16			16		16
Transaction costs, net of tax		(396)						(396)		(396)
Total transactions with shareholders		(396)			16			(380)		(380)
Loss for the period					(150,474)			(150,474)		(150,474)
Other comprehensive income						30,822	940	31,762		31,762
Total comprehensive income					(150,474)	30,822	940	(118,712)		(118,712)
Balances at 30 June 2010	21,379	373,923	51,598	217,056	(212,781)	38,040	1,707	490,922	0	490,922



03) Financial Statements

Air Berlin PLC

CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

for the period ended 30 June 2010

	30/06/2010	30/06/2009
	€ 000	€ 000
Loss for the period	(150,474)	(81,356)
Adjustments to reconcile profit or loss to cash flows from operating activities:		
Depreciation and amortisation of non-current assets	48,384	53,254
Gain on disposal of non-current assets	(8,125)	(3,705)
Share based payments	16	67
Increase in inventories	(3,035)	(1,418)
Increase in trade accounts receivables	(46,325)	(32,094)
Increase in other assets and prepaid expenses	(26,203)	(20,415)
Deferred tax benefit	(52,573)	(38,482)
(Decrease) increase in provisions	(8,452)	61,151
Increase (decrease) in trade accounts payables	59,423	(20,725)
Increase in other current liabilities	182,579	121,683
Losses on foreign exchange and derivatives, net	40,015	10,071
Interest expense	34,156	30,314
Interest income	(1,592)	(1,582)
Income tax expense	6,602	8,536
Share of profit of associates	(3,059)	(883)
Other non-cash changes	940	(164)
Cash generated from operations	72,277	84,252
Interest paid	(28,744)	(24,463)
Interest received	835	1,366
Income taxes paid	(6,952)	(22)
Net cash flows from operating activities	37,416	61,133
Purchases of non-current assets	(18,536)	(109,086)
Net-advanced payments for non-current items	(3,657)	(3,383)
Proceeds from sale of tangible and intangible assets	177,038	76,759
Acquisitions of investments in associates	0	(17)
Cash flow from investing activities	154,845	(35,727)
Principal payments on interest-bearing liabilities	(177,548)	(113,069)
Proceeds from long-term borrowings	0	86,288
Issue of ordinary shares	0	38,751
Transaction costs related to issue of ordinary shares	(565)	(1,171)
Investments from TUI Travel PLC	0	64,817
Cash flow from financing activities	(178,113)	75,616
Change in cash and cash equivalents	14,148	101,022
Cash and cash equivalents at beginning of period	372,010	267,809
Foreign exchange gains on cash balances	7,498	2,715
Cash and cash equivalents at end of period	393,656	371,546
thereof bank overdrafts used for cash management purposes	(1,283)	(2,410)
thereof cash and cash equivalents in the statement of financial position	394,939	373,956

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 30 JUNE 2010

(Euro/USD/CHF in thousands, except share data)

1. REPORTING ENTITY

The consolidated interim financial statements of Air Berlin PLC for the six months ended 30 June 2010 comprise Air Berlin PLC ("the Company") and its subsidiaries (together referred to as "Air Berlin" or the "Group") and the Group's interest in associates. Air Berlin PLC is a company incorporated in England and Wales with its registered office in London. The corporate headquarters of Air Berlin are located in Berlin. The Company's ordinary shares are traded on the Frankfurt Stock Exchange.

The group financial statements as at, and for, the year ended 31 December 2009 prepared in accordance with IFRSs as adopted by the EU and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS, are available from the Company's registered office and at ir.airberlin.com.

Statutory accounts for 2009 have been delivered to the registrar of Companies in England and Wales. The auditors have reported on those accounts and their report (i) was unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 408 of the Companies act 2006.

The comparability of the figures of the current reporting period versus the figures of the prior year is restricted due to the transfer of the TUIfly routes at the end of October 2009.

2. STATEMENT OF COMPLIANCE

These consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standard (IFRS) IAS 34 "Interim Financial Reporting" as adopted by the EU. They have been neither reviewed nor audited and do not include all of the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 31 December 2009.

This condensed set of financial statements was approved by the directors on 24 August 2010.

3. ACCOUNTING POLICIES AND CHANGES IN ACCOUNTING

This interim report up to 30 June 2010 has been drawn up in accordance with IAS 34 and in compliance with the standards and interpretations applicable from 1 January 2010 as adopted by the EU. The Group has used the same accounting and valuation methods as for the consolidated financial statements for the year ended 31 December 2009.

4. ESTIMATES

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates. In preparing these consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of uncertainty related to estimates were the same as those that applied to the consolidated financial statements as at and for the year ended 31 December 2009.



03) Financial Statements

5. SEASONALITY

The aviation industry is subject to seasonal fluctuations. Due to holiday travellers, the summer months generally show the highest revenue from ticket sales. The Group attempts to minimise seasonal impacts by expanding the number of business travelers. For the twelve months ended 30 June 2010 the Group had revenue of € 3,311,287 (twelve months ended 30 June 2009: € 3,375,226) and loss for the period after tax of € 78,586 (twelve months ended 30 June 2009: loss for the period after tax of € 104,570). Furthermore, for the twelve months ended 30 June 2010 the EBIT amounted to € -28,707 (twelve months ended 30 June 2009: € -148).

6. NON-CURRENT ASSETS

During the six months ended 30 June 2010 the Group acquired fixed assets with a cost of € 37,905 (six months ended 30 June 2009: € 133,540). Assets with a carrying amount of € 177,916 were disposed of during the six months ended 30 June 2010 (six months ended 30 June 2009: € 72,871). This amount includes three Airbus A320, one Airbus A319 and three Boeing 737-800 aircrafts, which were disposed of in the second quarter of 2010.

Assets held for sale

On 25 March 2010 Air Berlin decided to sell eight of its own aircrafts. In the second quarter four of these aircrafts have been sold. The sale of the remaining four aircrafts is expected in the third quarter. The fair value less costs to sell of the aircrafts held for sale exceeds its carrying amounts.

The liabilities due to bank from assignment of future lease payments concerning the already sold aircrafts have been settled. Non-current liabilities due to bank from assignment of future lease payments relating to financing of the remaining aircrafts held for sale have been reclassified to current liabilities. These liabilities will be settled on disposal of the aircrafts.

7. SHARE CAPITAL

Of Air Berlin's authorized share capital, 85,226,196 ordinary shares of € 0,25 each and 50,000 A shares of £1,00 each were issued and fully paid up as of 30 June 2010. Included in this amount are 177,600 treasury shares held by Air Berlin (through the Air Berlin Employee Share Trust).

8. REVENUE

in thousands of Euro	1/10-6/10	1/09-6/09	4/10-6/10	4/09-6/09
Single-seat ticket sales	956,297	844,130	537,599	478,466
Bulk ticket sales to charter and package tour operators	468,616	525,977	259,221	293,530
Ground and other services	126,780	111,283	70,866	55,215
Duty free / in-flight sales	16,219	15,579	9,304	9,034
	1,567,912	1,496,969	876,990	836,245

Air Berlin recognizes ticket sales as income at the time when the transportation is provided. When the fare is for a round-trip and the return flight has not yet been provided at the reporting date, the unearned revenue is deferred in the consolidated balance sheet under "deferred income" until such time the transportation is provided.



03) Financial Statements

Segment information

The company is managed by the Board of Directors as a single business unit in one geographical area and one service. The key figures and ratios presented to the Board of Directors in managing the company are: Result from operating activities, net debt, revenues, passengers, yield and block hours. The financial measures are IFRS measures and are shown in the primary statements. Resource allocation decisions are made based on the entire route network and the deployment of the entire fleet. Revenues derive nearly completely from the principal activity as an airline and include flights, commissions, in-flight and related sales that are generated in Europe. Since Air Berlin's fleet is employed across its scheduled destinations on an as needed basis all assets and liabilities are allocated to the one segment. The Board has also determined that there is no reasonable basis of allocating assets and related liabilities, income and expenses to geographical areas other than Europe or to individual groups of customers.

9. OTHER OPERATING INCOME

in thousands of Euro	1/10-6/10	1/09-6/09	4/10-6/10	4/09-6/09
Gain on disposal of long-term assets, net	8,741	3,705	8,489	399
Income from services provided to Niki and cost transfer	2,989	1,065	2,557	714
Income from insurance claims	767	341	215	241
Other	4,120	4,456	1,271	3,923
	16,617	9,567	12,532	5,277

10. EXPENSES FOR MATERIALS AND SERVICES

in thousands of Euro	1/10-6/10	1/09-6/09	4/10-6/10	4/09-6/09
Fuel for aircraft	334,699	366,076	186,080	191,614
Catering costs and cost of materials for in-flight sales	54,037	51,805	29,366	28,618
Airport & handling charges	376,328	325,233	204,010	174,776
Operating leases for aircraft and equipment	246,846	178,475	129,785	90,760
Navigation charges	120,669	102,943	68,465	57,082
Other	47,898	40,523	26,922	18,196
	1,180,477	1,065,055	644,628	561,046

The expenses for operating leases for aircraft and equipment include expenses of € 58,016 (2009: € 15,225) that do not directly relate to the lease of assets.



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11. PERSONNEL EXPENSES

in thousands of Euro	1/10-6/10	1/09-6/09	4/10-6/10	4/09-6/09
Wages and salaries	191,900	183,246	98,665	93,142
Social security	22,355	23,947	7,110	13,214
Pension expense	15,537	11,691	10,937	4,802
	229,792	218,884	116,712	111,158

12. DEPRECIATION AND AMORTISATION

in thousands of Euro	1/10-6/10	1/09-6/09	4/10-6/10	4/09-6/09
Depreciation and amortisation	48,384	53,254	22,759	26,508

13. OTHER OPERATING EXPENSES

in thousands of Euro	1/10-6/10	1/09-6/09	4/10-6/10	4/09-6/09
Repairs and maintenance of technical equipment	91,669	91,974	49,440	46,328
IT expenses	30,079	26,154	14,997	12,434
Advertising	29,978	24,556	16,246	13,042
Expenses for premises and vehicles	16,415	12,588	8,382	7,255
Travel expenses for cabin crews	14,887	14,233	7,690	7,278
Bank charges	10,935	12,079	6,322	7,191
Sales commissions paid to agencies	9,974	9,568	5,144	5,008
Insurances	8,500	9,887	3,823	4,535
Auditing and consulting	6,324	11,116	4,476	6,484
Training and other personnel costs	5,865	5,656	3,293	3,273
Phone and postage	2,723	2,172	1,422	1,034
Allowances for receivables	1,199	1,077	582	560
Other	24,222	18,005	11,854	10,780
	252,770	239,065	133,671	125,202



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14. FINANCIAL RESULT

in thousands of Euro	1/10-6/10	1/09-6/09	4/10-6/10	4/09-6/09
Financial expenses				
Interest paid on interest bearing liabilities	(34,156)	(30,314)	(17,765)	(14,491)
Other financing expenses	(44)	(413)	(14)	(169)
	(34,200)	(30,727)	(17,779)	(14,660)
Financial income				
Interest received on fixed deposits	483	1,028	256	401
Other	1,122	554	471	256
	1,605	1,582	727	657
Gains (losses) on foreign exchange and derivatives, net	(40,015)	(13,318)	(22,662)	2,816
Total	(72,610)	(42,463)	(39,714)	(11,187)

Foreign exchange gains or losses result from actual exchange rate differences at the settlement date (realised gains or losses), from the revaluation of interest-bearing liabilities, liabilities due to bank from assignment of future lease payments and other financial assets and liabilities which are to be settled in a foreign currency at the balance sheet date as well as from changes in the fair value of derivatives. Realised exchange rate gains or losses not arising from interest-bearing liabilities and other financing activities are reclassified to the various income and expense line items from which they arose within operating results.

15. INCOME TAX / DEFERRED TAX

Profit or loss before tax is primarily attributable to Germany. The income tax benefit (expense) for the period is as follows:

in thousands of Euro	1/10-6/10	1/09-6/09	4/10-6/10	4/09-6/09
Current income taxes	(6,602)	(8,536)	(5,530)	(1,384)
Deferred income taxes	52,573	38,482	16,840	1,167
Total income tax benefit (expense)	45,971	29,946	11,310	(217)

16. CASH FLOW STATEMENT

in thousands of Euro	30/06/2010	30/06/2009
Cash	1,098	1,077
Bank balances	128,473	91,679
Fixed-term deposits	265,368	281,200
Cash and cash equivalents	394,939	373,956
Bank overdrafts used for cash management purposes	(1,283)	(2,410)
Cash and cash equivalents in the statement of cash flows	393,656	371,546

Cash and cash equivalents include restricted cash of € 86,902 as of 30 June 2010 (30 June 2009: € 148,774).



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17. RELATED PARTY TRANSACTIONS

The Group has related party relationships with its Directors and associates.

One of the Executive Directors of the Group controls a voting share of 2.64 % of Air Berlin (30 June 2009: 2.89 %).

The Chairman of the Board, also a shareholder of the Company with a voting share of 1.58 % (30 June 2009: 1.76 %), is the controlling shareholder of Phoenix Reisen GmbH. The Group had revenues from ticket sales with Phoenix Reisen GmbH during the first six months of 2010 of € 9,496 (30 June 2009: € 8,331). At 30 June 2010 € 104 (30 June 2009: € 1,237) are included in trade receivables line.

During the six-month period ended 30 June 2010 the Group had transactions with associates as follows:

in thousands of Euro	30/06/2010	30/06/2009
IBERO-Tours GmbH		
Expenses for services	540	12
THBG BBI GmbH		
Receivables from related parties	1,891	1,866
Interest Income	42	0
Binoli GmbH		
Revenues from ticket sales	18	1,733
Trade receivables	10	49
Receivables from related parties	241	500
Interest Income	15	0
Lee & Lex Flugzeugvermietung GmbH		
Receivables from related parties	848	837
Niki Luftfahrt GmbH		
Revenues	127	0
Other income from administrative services	1,389	1,065
Other income from cost transfer	1,600	0
Receivables from related parties	30,894	19,668

Transactions with associates are priced on an arm's length basis.

In connection with the concentration on core business, the group disposed of its 50.0 % share in IBERO-Tours GmbH, Düsseldorf, in the second quarter of 2010.



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18. CAPITAL COMMITMENTS

The Group's contracts to purchase aircrafts are set out as follows:

Date of contract	Supplier	Number of aircrafts ordered	Type of aircraft	Delivery dates	Delivered Jan to Jun 2009	Delivered Jan to Jun 2010	Deliveries outstanding at 30 Jun 2010	Thereof Jul to Dec 2010
2004	Airbus	60	A319/320/321	2005-2012	3	8	11	5
2006-2007	Boeing	97	B737-700/800	2007-2015	4	4	81	5
2007	Boeing	15	B787	2015-2019	0	0	15	0

19. SUBSEQUENT EVENTS**Acquisition of NIKI Luftfahrt GmbH**

On 17 February 2010 Air Berlin PLC & Co. Luftverkehrs KG acquired a further 25.9% of the share capital of NIKI Luftfahrt GmbH (NIKI) for a purchase price of € 21,000 from Privatstiftung Lauda (private Lauda foundation). The Group interest in the share capital of NIKI is 49.9%. As a result of the analyses of the transaction, Air Berlin has to account for it in accordance with IFRS 3 Business Combinations. The transaction was finalized on 5 July 2010.

In connection with the increase of its shareholding, Air Berlin PLC & Co. Luftverkehrs KG provides the private Lauda foundation a loan of € 40,500. The private Lauda foundation has the option of repaying the loan in three years with cash or through transfer of the remaining 50.1% of NIKI Luftfahrt GmbH's shares.

The initial accounting of this business combination was incomplete at the time when these interim financial statements were authorized for issue, therefore, the disclosures about the major classes of consideration transferred, assets and liabilities acquired, recognized goodwill, accounting for non-controlling interest as well as disclosures for the business combination achieved in stages could not be made.

20. EXECUTIVE DIRECTORS

Joachim Hunold	Chief Executive Officer
Ulf Hüttmeyer	Chief Financial Officer
Christoph Debus	Chief Commercial Officer

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