

AIR BERLIN PLC

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



€ 170,000,000
6.75% Fixed Rate Notes due 2019
Issue price: 100 per cent.

and

CHF 100,000,000
5.625% Fixed Rate Notes due 2019
Issue price: 100 per cent.

This prospectus (the **Prospectus**) will be published in electronic form on the website of the Luxembourg Stock Exchange (<http://www.bourse.lu>) and on the website of Air Berlin PLC (<http://www.airberlingroup.com>).

The € 170,000,000 6.75% Fixed Rate Notes due 2019 (the **Euro Notes**) were issued on 9 May 2014 by Air Berlin PLC (the **Issuer** or **Air Berlin PLC**) at an issue price of 100 per cent. of the principal amount of the Euro Notes. The CHF 100,000,000 5.625% Fixed Rate Notes due 2019 (the **CHF Notes** and together with the Euro Notes, the **Notes**) were issued on 9 May 2014 by Air Berlin PLC at an issue price of 100 per cent. of the principal amount of the CHF Notes.

Application has been made to list the Notes on the official list of the Luxembourg Stock Exchange and to admit the Notes to trading on the Euro MTF market of the Luxembourg Stock Exchange. The Euro MTF market is a multilateral trading facility and not a regulated market within the meaning of Directive 2004/39/EC on markets in financial instruments (**MiFID**).

This Prospectus includes all information on the terms of the Notes. It constitutes a prospectus for the purpose of Part IV of the Luxembourg Law of 10 July 2005 on Prospectuses for Securities, as amended.

The Notes have not been, and will not be, registered under the U.S. Securities Act of 1933, as amended (the **U.S. Securities Act**) and the Notes are in bearer form that are subject to U.S. tax law requirements. Subject to certain exceptions, the Notes may not be offered, sold or delivered within the United States of America (**United States**) or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the U.S. Securities Act (**Regulation S**)).

This Prospectus serves for listing purposes only and does not constitute, and may not be used for, an offer to buy, subscribe or sell any of the Notes, and no Notes are being offered or sold pursuant to this Prospectus.

The Euro Notes have been assigned the following securities codes: ISIN XS1051719786, Common Code 105171978, WKN AB100L. The CHF Notes have been assigned the following security codes: ISIN XS1051723895, Common Code 105172389, WKN AB100N.

An investment in the Notes involves certain risks. Prospective investors should consider carefully the factors described under the heading “Risk Factors” beginning on page 20.

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.

NOTICE

This Prospectus serves for listing purposes only and does not constitute, and may not be used for, an offer to buy, subscribe or sell any of the Notes, and no Notes are being offered or sold pursuant to this Prospectus. The Notes have not been and will not be registered under the U.S. 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 U.S. Securities Act and applicable state securities laws.

The Managers (as specified under “*Subscription, Offer and Sale*” on page 140 of this Prospectus) nor BNP Paribas Trust Corporation UK Limited (the **Trustee**) have 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 Managers or the Trustee as to the accuracy or completeness of the information contained in this Prospectus.

This Prospectus contains industry related data taken or derived from industry and market research reports published by third parties (**External Data**) in the following sections of this Prospectus: Element B.4b of the “Summary”, under “Risks relating to the the airline industry” and “Air Berlin depends on the uninterrupted operation of its own and third-party automated systems and technology” in the section “Risk Factors” and under “Recent developments” in the section “Description of the Issuer”. Commercial publications generally state that the information they contain is originated from sources assumed to be reliable, but that the accuracy and completeness of such information is not guaranteed and that the calculations contained therein are based on a series of assumptions. The External Data have not been independently verified by the Issuer. The External Data was accurately reproduced by the Issuer in the Prospectus, and as far as the Issuer is aware and is able to ascertain, no facts have been omitted that would render the reproduced External Data inaccurate or misleading. The Issuer does not have access to the underlying facts and assumptions of numerical and market data and other information contained in publicly available sources. Consequently, numerical and market data or other information cannot be verified by the Issuer.

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 and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer, the Managers or the Trustee.

This Prospectus is not intended to provide the basis of any credit or other evaluation nor should be considered as a recommendation by the Issuer, the Managers or the Trustee that any recipient of this Prospectus 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. This Prospectus does not constitute an offer or invitation by or on behalf of the Issuer, the Managers or the Trustee to any person to subscribe for or to purchase any Notes.

Neither the delivery of this Prospectus nor any 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. The Managers and the Trustee do 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.

FORWARD-LOOKING STATEMENTS

This Prospectus contains certain forward-looking statements. A forward-looking statement is any statement that does not relate to historical facts or events or facts or events as of the date of this Prospectus and includes statements using the words “believes”, “anticipates”, “intends”, “expects” or other similar terms. This applies in particular to statements relating to, among other things, the future financial performance, plans and expectations regarding developments in the business and management of the Issuer, the general economic and regulatory conditions and similar factors affecting the Issuer.

These forward-looking statements are subject to a number of risks, uncertainties, assumptions and other factors that may cause the actual results, including the financial position and profitability of the Issuer, to be materially different from or worse than those expressed or implied by these forward-looking statements. Accordingly, prospective investors are strongly advised to read the following sections of this Prospectus: “Summary”, “Risk Factors” and “Description of the Issuer”. These sections include more detailed descriptions of factors that might have an impact on the Issuer’s business and the market in which the Issuer and its subsidiaries and affiliates taken as a whole (the **Air Berlin Group** or **Air Berlin**) operate. The Issuer does not assume any obligation to update or revise such forward-looking statements and to adapt them to future events or developments or to publicly release any revisions the Issuer may make to these forward-looking statements that may result from events or circumstances arising after the date of this Prospectus.

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SUMMARY

Summaries are made up of disclosure requirements known as “Elements”. These Elements are numbered in Sections A – E (A.1 – E.7).

This summary contains all the Elements required to be included in a summary for this type of securities and Issuer. Because some Elements are not required to be addressed, there may be gaps in the numbering sequence of the Elements.

Even though an Element may be required to be inserted in the summary because of the type of securities and Issuer, it is possible that no relevant information can be given regarding the Element. In this case a short description of the Element is included in the summary with the mention of “not applicable”.

Section A – Introduction and warnings

Element	Description of Element	Disclosure requirement
A.1	Warnings	<ul style="list-style-type: none"> • This summary should be read as an introduction to this prospectus (the Prospectus). • Any decision to invest in the €170,000,000 6.75% Fixed Rate Notes due 2019 (the Euro Notes) or the CHF 100,000,000 5.625% Fixed Rate Notes due 2019 (the CHF Notes and together with the Euro Notes, the Notes) should be based on consideration of this Prospectus as a whole by the investor. • Where a claim relating to the information contained in this Prospectus is brought before a court, the plaintiff investor might, under the national legislation of its member state to the Agreement on the European Economic Area (EEA), have to bear the costs of translating this Prospectus before the legal proceedings are initiated. • Civil liability attaches only to those persons who have tabled this summary including any translation thereof, but only if this summary is misleading, inaccurate or inconsistent when read together with the other parts of this Prospectus or it does not provide, when read together with the other parts of this Prospectus, key information in order to aid investors when considering whether to invest in the Notes.
A.2	Consent to the use of the prospectus	Not applicable. Air Berlin does not give its consent to the use of this Prospectus for any offering or sale of the Notes. This Prospectus serves for listing purposes only and does not constitute, and may not be used for, an offer to buy, subscribe or sell any of the Notes, and no Notes are being offered or sold pursuant to this Prospectus.

Section B – Issuer

Element	Description of Element	Disclosure requirement
B.1	Legal and commercial name of the Issuer	The legal name of the issuer is Air Berlin PLC (hereinafter Air Berlin PLC or the Issuer and together with its subsidiaries and its affiliates the Air Berlin Group or Air Berlin). Its commercial name is Air Berlin.
B.2	Domicile, legal form, legislation, country of incorporation	Air Berlin PLC is incorporated and registered in England and Wales as a public limited company under the Companies Act.
B.4b	Known Trends affecting the Issuer and the industry in which it operates	According to the Financial Forecast Report of the International Air Transport Association (IATA) of March 2014, profits of European airlines are expected to increase from US\$0.4 billion in 2012 to US\$1.2 billion in 2013 and US\$3.1 billion in 2014. IATA forecasts that airline financial performance continues to improve, that airlines have reported improving profits, the economic cycle is turning upwards and that oil prices remain in the range of the past few years. Further, IATA projects a significant improvement in airline profits this year compared to 2013. On the downside, IATA also states that the crisis in Ukraine

Element	Description of Element	Disclosure requirement
		<p>has increased geo-political risk and put upward pressure on oil prices. ¹</p> <p>For Air Berlin the first three months of 2014 continued to be characterised by high economic risks, especially in the Eurozone, despite recent signs of recovery in part of Europe, extraordinary costs such as the German air travel tax, costs resulting from the repeated delays in opening the airport Berlin Brandenburg (BER) as well as the tariff increases at Spanish airports given that Spanish destinations traditionally play an important role in Air Berlin's business. The operating result was below the levels of the first three months of 2013 despite the progress achieved in implementing the Turbine turnaround programme and the equity of Air Berlin Group calculated in accordance with the International Financial Reporting Standards (IFRS) still was negative as at 31 March 2014. The calculation of the shareholders' equity as of the reporting date in accordance with IFRS represents a snapshot as of the end of the first quarter. The negative equity is not expected to have an effect on the operations of Air Berlin. In accordance with IFRS, Air Berlin Group qualifies as a "going concern".</p> <p>Trading and, accordingly, revenue in the first quarter 2014 declined slightly as expected due to the traditionally weak period for airlines and efficiency improvements not becoming visible yet.</p> <p>The total number of passengers transported in the first three months of 2014 amounted to 5.86 million (compared to 5.92 million in the first three months of 2013). The total number of passengers transported in 2013 amounted 31.5 million (compared to 33.3 million in 2012).</p> <p>Air Berlin achieved revenue passenger kilometres in the amount of 9.53 billion in the first three months of 2014 as compared to 9.55 billion in the first three months of 2013, which is a slightly decrease by 0.02%. Flight revenue (including taxes and security fees) per passenger in the first three months of 2014 declined to € 111.45 compared to € 116.16 in the first three months of 2013.</p> <p>With respect to costs, the air travel tax amounted to € 30.8 million in the first three months of 2014. Price competition made passing on these costs to customers extremely difficult. The operating income before interest, tax, depreciation amortization and rent (EBITDAR) amounted to € -37.0 million in the first three months of 2014 compared to € -31.5 million in the first three-months period of 2013. Additionally, the operating loss at the EBIT (earnings before interest and taxes) level decreased from € 188.4 million in the first three months of 2013 to € 182.8 million in the first three months of 2014.</p> <p>In the first three months of 2014, the net result was € -209.8 million compared with € -196.3 million reported for the first three months of 2013.</p> <p>In response to a weakening demand in Europe and in order to return to profitability, Air Berlin has launched its restructuring programme "Turbine" on 15 January 2013.</p> <p>The two-year Turbine programme provides for internal structural changes, further adjustments to the route network, a reduction of the fleet to 143 aircraft and a reduction of approximately 900 jobs (which is almost 10% of all employees of Air Berlin) as well as negotiations with major stakeholders such as airports, caterers, lessors and maintenance providers with a view to seek their agreement resulting in a reduction of costs.</p> <p>As of 31 March 2014, the operating fleet has been reduced to 143 aircraft (140 aircraft as of 31 December 2013, compared to an operating fleet size of 163 aircraft as at 31 December 2011) and by the end of March 2014 a head count reduction by approximately 601 full time jobs has been achieved. Redundancies have occurred and further redundancies cannot be excluded.</p> <p>The Turbine programme reached its targeted contribution of € 200 million in terms of costs and revenues in 2013 and the turnaround effect of approximately € 400 million in total for 2013 and 2014 will be achieved. However, due to</p>

¹ Source: IATA "Financial Forecast" report dated March 2014.

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		several effects including, among others, the tariff increase at Spanish airports and the continuing adverse effect of the German air travel tax, the progress achieved under the turnaround programme Turbine was offset and the turnaround effect will not be sufficient. Due to the continuing difficult economic environment, the limitation of growth prospects for the European airline industry associated with the continuing economic risks in Europe and the increased competitive situation, Air Berlin is seeking to implement further measures beyond those of the Turbine programme in the current financial year. Air Berlin has assembled an additional package of measures and is currently in the process of defining a strategic realignment, which may affect its underlying business model. Air Berlin plans to enhance its fleet and network optimisation efforts and to develop a new revenue management system in order to achieve further improvements in its operating efficiency and to generate new sources of revenue as well as synergy effects.																																																																																																									
B.5	Description of the Group and the Issuer's position within the Group	Air Berlin PLC is the parent company of Air Berlin Group which comprises the second-largest airline in the Germany, Austria and Switzerland market and Europe's seventh-largest airline in terms of passenger numbers.																																																																																																									
B. 9	Profit forecast or estimate	Not applicable; no profit forecast or estimate is made in this Prospectus.																																																																																																									
B.10	Qualifications in the audit report on the historical financial information	Not applicable; KPMG LLP issued unqualified auditor's reports on the consolidated financial statements of Air Berlin PLC and its subsidiaries for the financial years ended 31 December 2012 and 31 December 2013, respectively.																																																																																																									
B.12	<p>Selected historical key financial information (references to the "Company" shall be read as references to the Issuer)</p> <p>Selected Income statement data</p> <table border="0" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 50%;"></th> <th colspan="2" style="text-align: center;">Three months ended 31 March</th> <th colspan="2" style="text-align: center;">Year ended 31 December</th> </tr> <tr> <th></th> <th style="text-align: center;">2014</th> <th style="text-align: center;">2013</th> <th style="text-align: center;">2013</th> <th style="text-align: center;">2012</th> </tr> <tr> <th></th> <th style="text-align: center;">(unaudited)</th> <th style="text-align: center;">(unaudited)</th> <th style="text-align: center;">(audited)</th> <th style="text-align: center;">(audited)</th> </tr> <tr> <th></th> <th colspan="4" style="text-align: center;">(€ million)</th> </tr> </thead> <tbody> <tr> <td colspan="5">Income statement data:</td> </tr> <tr> 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Element	Description of Element	Disclosure requirement			
	Selected Balance sheet data				
		As of 31 March		As of 31 December	
		2014	2013	2013	2012
		(unaudited)	(unaudited)	(audited)	(audited)
		(€ million)			
	Balance sheet data:				
	Assets				
	Non-current assets				
	Intangible assets	414.4	421.0	415.9	421.0
	Property, plant and equipment	489.1	585.9	497.8	597.9
	Trade and other receivables	124.8	79.9	115.3	79.8
	Deferred tax asset	17.0	38.0	17.1	28.7
	Positive market value of derivatives	0.2	0	0.1	0
	Net defined benefit asset	3.5	4.0	3.5	4.0
	Deferred expenses	53.8	45.8	55.7	47.6
	At equity investments	6.7	4.8	6.7	4.8
	Non-current assets	1,109.4	1,179.4	1,112.1	1,183.8
	Current assets				
	Inventories	54.2	50.1	53.0	49.9
	Trade and other receivables	528.9	538.8	406.0	451.7
	Positive market value of derivatives	2.8	26.2	14.4	12.5
	Deferred expenses	64.0	62.9	46.6	46.6
	Assets held for sale	0	145.2	30.3	145.2
	Cash and cash equivalents	273.0	470.2	223.1	327.9
	Current assets	922.8	1,293.4	773.4	1,033.8
	Total assets	2,032.2	2,472.8	1,885.5	2,217.6
	Equity and liabilities				
	Shareholders' equity				
	Share capital	29.3	29.3	29.3	29.3
	Share premium	435.1	435.1	435.1	435.1
	Equity component of convertible bond	0.6	0.6	0.6	0.6
	Other capital reserves	217.1	217.1	217.1	217.1
	Retained earnings	(1,072.0)	(743.0)	(862.2)	(546.7)
	Hedge accounting reserve, net of tax	(9.3)	4.5	(5.9)	(8.6)
	Foreign currency translation reserve	3.3	3.3	3.2	3.4
	Remeasurement of the net defined benefit obligation	(3.2)	0	(3.2)	0
	Total equity – all attributable to the shareholders of the Company	(399.1)	(53.1)	(186.1)	130.2
	Non-current liabilities				
	Interest-bearing liabilities due to aircraft financing	172.9	265.2	178.4	267.0
	Interest-bearing liabilities	686.8	763.8	605.3	621.1
	Provisions	4.3	9.2	4.4	9.2
	Trade and other payables	72.5	67.1	72.4	70.4
	Deferred tax liabilities	24.5	27.4	29.7	30.8
	Negative market value of derivatives	0.7	0.6	0.6	0.5
	Non-current liabilities	961.7	1,133.4	890.7	998.9
	Current liabilities				
	Interest bearing liabilities due to aircraft financing	53.7	159.8	76.9	158.9
	Interest-bearing liabilities	160.7	9.6	158.5	51.1
	Tax liabilities	3.7	4.6	3.7	4.5
	Provisions	25.3	15.5	25.8	14.2
	Trade and other payables	430.8	483.0	441.0	426.8
	Negative market value of derivatives	19.3	25.1	23.1	38.6
	Deferred income	21.1	27.1	23.0	28.7
	Advanced payments received	755.2	667.8	428.9	365.6
	Current liabilities	1,469.6	1,392.5	1,180.8	1,088.5
	Total equity and liabilities	2,032.2	2,472.8	1,885.5	2,217.6
	A statement that there has been no material adverse change in the prospects of the Issuer since the date of its last published	There has been no material adverse change in the prospects of Air Berlin PLC since 31 December 2013.			

Element	Description of Element	Disclosure requirement
	audited financial statements or a description of any material adverse change	
	A description of significant changes in the Issuer's financial or trading position subsequent to the period covered by the historical financial information	There has been no significant change in the financial or trading position of Air Berlin PLC since 31 March 2014.
B.13	Recent events	<p>On 18 December 2012, Air Berlin PLC & Co. Luftverkehrs KG (Air Berlin KG) and Etihad Airport Services L.L.C. agreed that Air Berlin's frequent flyer programme "topbonus" shall be carved-out from Air Berlin and operated by Topbonus Ltd., a company that has its head office in Berlin and in which Etihad Airport Services L.L.C. has a majority stake of 70% and Air Berlin a stake of 30%. Topbonus Ltd. shall continue to operate and further develop the frequent flyer programme on the basis of a commercial agreement with Air Berlin. Through this transaction, which closed on 19 December 2012, Air Berlin generated revenues of €184.4 million.</p> <p>Effective 7 January 2013, Hartmut Mehdorn resigned as CEO of Air Berlin PLC and was succeeded by Wolfgang Prock-Schauer as new CEO.</p> <p>On 15 January 2013, Air Berlin launched the two-year restructuring programme "Turbine" which is designed to establish the simplest and most cost-efficient organisation possible in conjunction with streamlined processes with a view to improve the operating performance and to achieve sustainable profitability. The "Turbine" programme led to further adjustments to the route network and a further reduction of flights and flight frequency as well as a reduction of its fleet to 143 aircraft as of 31 March 2014 and will entail a cut of about 900 jobs of which a reduction by 601 jobs has been achieved by the end of March 2014. Furthermore, an optimised stationing concept has been, and will continue to be, implemented and a new more efficient boarding procedure as well as improved hand baggage regulations have been introduced.</p> <p>On 6 March 2013, Air Berlin issued € 140 million 6.00% Convertible Bonds due 2019 through Air Berlin Finance B.V. convertible into ordinary registered shares of Air Berlin PLC and guaranteed by Air Berlin PLC.</p> <p>On 14 August 2013, Air Berlin and Minsheng Commercial Aviation Limited signed a Letter of Intent for up to eleven aircraft. The transaction comprises a sale and leaseback of five used Airbus A319 and A320 family aircraft owned by Air Berlin KG or its affiliates, which was executed in the fourth quarter of 2013, a sale and leaseback of one new Boeing 737-800 aircraft which was also executed in the fourth quarter of 2013, a sale of one new Boeing 737-800 aircraft which was executed in the first quarter of 2014 as well as the sale and leaseback of one new Airbus A321 aircraft with sharklets and a sale of one new Boeing 737-800 aircraft, each of the two foregoing transactions was executed on 30 June 2014. In addition, Minsheng Commercial Aviation Limited has an option to buy two additional Boeing 737 aircraft from Air Berlin KG or its affiliates and place them into the Chinese market.</p> <p>On 20 December 2013, Air Berlin KG, Air Berlin PLC & Co. Service Center KG (Air Berlin Service Center KG) and CHS Holding and Services GmbH, an affiliate of Air Berlin KG, entered into a cooperation agreement with the Austrian call center service provider Competence Call Center Holding GmbH (CCC). Under the cooperation agreement, certain call center services performed by the client service business department of Air Berlin KG and the service center business, Air Berlin Service Center KG, will be performed by a joint venture company located in Berlin. The joint venture company was established by Air Berlin and CCC then acquired 80% of the shares in the joint venture company while Air Berlin has retained 20%. On 20 December 2013, the joint venture company took over the client services business department from Air Berlin KG followed by a transfer of the service center business of Air Berlin Service Center KG to the joint venture company on 9 January 2014. Overall, approximately 179 employees were transferred from Air Berlin KG and Air Berlin Service Center KG to the joint venture company. In the medium term it is envisaged that CCC will take over all customer services</p>

Element	Description of Element	Disclosure requirement
		<p>functions from Air Berlin and will operate exclusively for Air Berlin as call center service provider.</p> <p>On 21 January 2014, Air Berlin issued € 75 million 8.25% fixed rate notes due 2018. The notes constitute a further issuance of Air Berlin's outstanding € 150 million 8.25% fixed rate notes due 2018, which were issued on 19 April 2011.</p> <p>On 27 April 2014, Etihad Airways PJSC (Etihad Airways) committed to subscribe to € 300 million subordinated cumulative convertible bonds to be issued by Air Berlin Finance B.V. and guaranteed by Air Berlin PLC, convertible into ordinary registered shares of Air Berlin PLC, with no maturity date and a coupon of 8% p.a. (the Convertible Bonds). The first tranche in an amount of € 100 million was issued on 20 May 2014, the issue of the second tranche is scheduled for 28 August 2014 and the third tranche for 27 November 2014. The Convertible Bonds are accounted for as equity capital of the Air Berlin Group under the International Financial Reporting Standards (IFRS). With reference to the Convertible Bonds, the EU Commission has issued an information request under Art. 11 of Council Regulation (EC) No 139/2004 (EC Merger Regulation) concerning the potential acquisition of control by Etihad Airways. If the EU Commission would ultimately arrive at the conclusion that Etihad Airways acquired control over Air Berlin, Etihad Airways would be obliged to make a formal filing with the EU Commission. Etihad Airways may in such case be prevented from subscribing to the second and third tranche of the Convertible Bonds or from granting additional financial or commercial support, until the acquisition of control has been authorised by the EU Commission.</p> <p>In connection with Air Berlin's exchange offer in the period from 28 April 2014 until 7 May 2014, holders of the bond due 1 November 2014 (€ 150 million) tendered notes in the total amount of € 8.5 million for exchange and holders of the bond due 10 November 2015 (€ 200 million) tendered notes in the total amount of € 4.1 million, whereupon € 7.294 million Euro Notes and CHF 7.275 million CHF Notes were issued on 9 May 2014 in exchange for the notes tendered. The remaining amount of the Euro Notes and CHF Notes (i.e. € 162.706 million Euro Notes and CHF 92.725 million CHF Notes) was issued on 9 May 2014 on the basis of a private placement with professional investors.</p>
B.14	Please refer to Element B.5	
	Dependence upon other entities within the group	The Issuer being the parent company of the Air Berlin Group is dependent on the performance of its subsidiaries including in particular Air Berlin PLC & Co. Luftverkehrs KG as main operating company of Air Berlin Group as well as on NIKI Luftfahrt GmbH (NIKI) as further operating entity.
B.15	A description of the Issuer's principal activities	Air Berlin PLC is the parent company of an air carrier group whose main operating company is Air Berlin PLC & Co. Luftverkehrs KG. Air Berlin offers scheduled flights on a wide range of short-, medium- and long-haul routes. As of 31 March 2014, Air Berlin flew to 115 domestic German and international destinations. In total, Air Berlin flew to 92 destinations in Europe (including destinations in Turkey), 7 in North Africa along with a further 16 destinations overseas in Africa, North America, the Caribbean and Asia. As of 31 December 2013, Air Berlin flew to 141 domestic German and international destinations, of which 119 destinations were in Europe (including destinations in Turkey), 7 destinations in North Africa and a further 15 destinations overseas in Africa, North America, the Caribbean and Asia. Air Berlin's European destinations are located primarily in, or in close proximity to, major European cities that are attractive to leisure and business travellers alike. Air Berlin's major competitors are easyJet and Ryanair within Europe as well as Deutsche Lufthansa in Germany, Europe and for intercontinental destinations.
B.16	Controlling persons	Not applicable. The Issuer is, to its knowledge, not controlled.
B.17	Credit ratings assigned to the Issuer or its debt securities	Not applicable. The Issuer and its debt securities are not rated.

Section C – Securities

Element	Description of Element	Disclosure requirement
C.1	Type and class of securities being admitted to trading/security identification number	<p>The Notes are bearer notes governed by English law which are unsubordinated and unsecured.</p> <p>The Euro Notes have been assigned the following security codes: ISIN XS1051719786, Common Code 105171978, WKN AB100L.</p> <p>The CHF Notes have been assigned the following security codes: ISIN XS1051723895, Common Code 105172389, WKN AB100N.</p>
C.2	Currency of the securities issue	<p>The Euro Notes are denominated in euro.</p> <p>The CHF Notes are denominated in Swiss francs.</p>
C.5	Restrictions on free transferability	Not applicable. The Notes are freely transferable.
C.8	Rights attached to securities/ranking of the securities/limitations to the rights attached to the securities	<p>General description of the Notes</p> <p>The Notes are fixed rate notes that entitle the holders of the notes (the Noteholders) to interest payments and to the repayment of the principal at maturity.</p> <p>Status of the Notes</p> <p>The obligations under the Notes constitute direct, unconditional, unsubordinated and, subject to a negative pledge, unsecured obligations of the Issuer which rank <i>pari passu</i> among themselves and at least <i>pari passu</i> with all other direct, unconditional, unsubordinated and unsecured obligations of the Issuer, save for such obligations which may be preferred by the provisions of law that are mandatory and of general application.</p> <p>Negative Pledge by the Issuer</p> <p>The Terms and Conditions of the Notes contain a negative pledge provision.</p> <p>Additional Covenants</p> <p>The Terms and Conditions of the Notes restrict the ability of Air Berlin PLC and certain restricted subsidiaries of Air Berlin PLC to, among other things: incur, assume or guarantee additional indebtedness; pay dividends on, repurchase or make other distributions in respect of, capital stock or make other restricted payments; issue or sell redeemable or preferred shares; and create certain liens, make certain loans or investments.</p> <p>Furthermore, Air Berlin PLC undertakes (also with respect to certain restricted subsidiaries of Air Berlin PLC) to observe certain limitations regarding transactions with affiliates and not to enter into any merger transaction or the sale of all or substantially all of its assets unless certain conditions are fulfilled.</p> <p>Each of the covenants is subject to a number of important exceptions and qualifications.</p> <p>Withholding Tax and Additional Amounts</p> <p>Subject to its right to early redeem the Notes for tax reasons as described below, 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 United Kingdom 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.</p> <p>Redemption</p> <p>Unless previously redeemed in whole or in part or purchased and cancelled, the Notes will be redeemed at their principal amount on the respective Maturity Date.</p> <p>Early Redemption for Tax Reasons</p> <p>If, as a result of any change in, or amendment to, the tax laws or regulations of the United Kingdom applying to the Issuer, certain withholding taxes are levied</p>

Element	Description of Element	Disclosure requirement																
		<p>on payments of principal or interest in respect of the Notes and the Issuer is obliged to pay additional amounts to the Noteholders, the Issuer may redeem the Notes in whole, but not in part.</p> <p>Events of Default</p> <p>The Terms and Conditions of the Notes provide for events of default including non-payment of principal or interest for 15 days, breach of other obligations under the Notes (which breach, if in the opinion of the Trustee (as defined in C.9) capable of remedy, is not remedied within 60 days), the Issuer (or one of certain defined subsidiaries of the Issuer) defaults on certain payment obligations of the Issuer or any such subsidiary under any other financial indebtedness subject to a threshold of € 20 million or the Issuer or any such subsidiary threatens to stop meeting or announces its inability to meet its financial obligations or ceases its payments generally and certain events related to insolvency of the Issuer or the winding-up of the Issuer.</p> <p>Change of Control</p> <p>The Terms and Conditions of the Notes contain a change of control provision pursuant to which, upon the occurrence of a change of control in relation to the Issuer, the Noteholders are entitled to require redemption of some or all of the Notes.</p> <p>Furthermore, upon the occurrence of a change of control in relation to the Issuer, the Issuer may redeem all outstanding Notes at a redemption price equal to 103% of the principal amount.</p> <p>Investor Loan Event</p> <p>The Terms and Conditions of the Notes contain a provision pursuant to which, if Etihad Airways does not subscribe for the € 300 million perpetual subordinated cumulative convertible guaranteed bonds by 31 December 2014, the Noteholders are entitled to require redemption of some or all of the Notes.</p> <p>Optional Redemption</p> <p>On or after 9 May 2017, the Issuer may redeem all or part of the Notes at the following redemption prices plus accrued and unpaid interest and additional amounts, if any, to the date of redemption if redeemed during the twelve-months period beginning on 9 May of the years indicated below:</p> <p><u>Euro Notes:</u></p> <table data-bbox="627 1317 1209 1462"> <thead> <tr> <th data-bbox="627 1317 687 1346">Year</th> <th data-bbox="1018 1317 1209 1346">Redemption Price</th> </tr> </thead> <tbody> <tr> <td data-bbox="627 1361 683 1391">2017</td> <td data-bbox="1018 1361 1121 1391">104.650%</td> </tr> <tr> <td data-bbox="627 1397 683 1426">2018</td> <td data-bbox="1018 1397 1121 1426">102.650%</td> </tr> <tr> <td data-bbox="627 1433 683 1462">2019</td> <td data-bbox="1018 1433 1121 1462">100.000%</td> </tr> </tbody> </table> <p><u>CHF Notes:</u></p> <table data-bbox="627 1518 1209 1664"> <thead> <tr> <th data-bbox="627 1518 687 1547">Year</th> <th data-bbox="1018 1518 1209 1547">Redemption Price</th> </tr> </thead> <tbody> <tr> <td data-bbox="627 1563 683 1592">2017</td> <td data-bbox="1018 1563 1121 1592">104.350%</td> </tr> <tr> <td data-bbox="627 1599 683 1628">2018</td> <td data-bbox="1018 1599 1121 1628">102.250%</td> </tr> <tr> <td data-bbox="627 1635 683 1664">2019</td> <td data-bbox="1018 1635 1121 1664">100.000%</td> </tr> </tbody> </table> <p>At any time prior to 9 May 2017, the Issuer may on any one or more occasions redeem all or a part of the Euro Notes or the CHF Notes at a redemption price equal to 100% of the principal amount of the Euro Notes and/or CHF Notes redeemed plus an applicable premium as of the date of redemption, and accrued and unpaid interest and additional amounts, if any, to the date of redemption.</p> <p>Meeting of Noteholders</p> <p>The Terms and Conditions of the Notes contain provisions for convening meetings of the Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not vote on the relevant resolution and Noteholders who voted in a manner contrary to the majority.</p>	Year	Redemption Price	2017	104.650%	2018	102.650%	2019	100.000%	Year	Redemption Price	2017	104.350%	2018	102.250%	2019	100.000%
Year	Redemption Price																	
2017	104.650%																	
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2019	100.000%																	

Element	Description of Element	Disclosure requirement
C.9	Please refer to Element C.8.	
	Interest/Due dates/ Yield/Representative of debt security holders	<p>Euro Notes:</p> <p>Interest</p> <p>The Euro Notes bear interest at a fixed rate of 6.75% per annum from (and excluding) 9 May 2014. Interest is payable semi-annually in arrears on 9 May and 9 November of each year.</p> <p>Maturity Date</p> <p>9 May 2019.</p> <p>Yield</p> <p>6.86% p.a. at the date of issue. The yield is calculated in accordance with the ICMA (International Capital Market Association) method and on the basis of the Issue Price and will not take into account any transaction costs or other surcharges.</p> <p>CHF Notes:</p> <p>Interest</p> <p>The CHF Notes bear interest at a fixed rate of 5.625% per annum from 9 May 2014. Interest is payable semi-annually in arrears on 9 May and 9 November of each year.</p> <p>Maturity Date</p> <p>9 May 2019.</p> <p>Yield</p> <p>5.70% p.a. at the date of issue. The yield is calculated in accordance with the ICMA method and on the basis of the Issue Price and will not take into account any transaction costs or other surcharges.</p> <p>Name of representative of holders of Euro Notes and CHF Notes</p> <p>BNP PARIBAS Trust Corporation UK Limited is acting as trustee (the Trustee) and has been appointed pursuant to a trust deed on 9 May 2014 (the Trust Deed).</p>
C.10	Please refer to Element C. 9.	
	Derivative component in interest payment	Not applicable. The Notes are fixed rate notes and therefore there is no derivative component in the interest payment.
C.11	Admission to trading of securities	Application has been made to list the Notes on the official list of the Luxembourg Stock Exchange and to admit the Notes to trading on the Euro MTF market of the Luxembourg Stock Exchange. The Euro MTF market is not a regulated market within the meaning of Directive 2004/39/EC on markets in financial instruments (MiFID). The Notes have been included into trading on the Open Market (<i>Freiverkehr</i>) of the Frankfurt Stock Exchange, which is not a regulated market for purposes of MiFID.

Section D – Risks

Element	Description of Element	Disclosure requirement
D.2	Information on the key risks of the Issuer	<p>Investors investing in Notes should carefully consider the following risks, in addition to the other information contained in this Prospectus, when deciding whether to invest in the Notes. The following risks, alone or together with additional risks and uncertainties not currently known to the Issuer or that the Issuer might currently deem immaterial, could materially adversely affect the Air Berlin Group's business, financial condition and results of operations and thus the ability of Air Berlin PLC to fulfil its obligations under the Notes.</p> <p>The order in which the risk factors are presented is not an indication of the likelihood of the risks actually occurring, the significance or degree of the risks or the scope of any potential impairment to the Air Berlin Group's business. The</p>

Element	Description of Element	Disclosure requirement
		<p>risks mentioned could materialise individually or cumulatively.</p> <p>Risks relating to the airline industry</p> <ul style="list-style-type: none"> • 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. The recovery of the global economy remains slow and uncertain, which also affects Germany, and the overall demand for air transportation in Germany has been, and could be further, negatively impacted by deterioration in the health of the global economy. • Air Berlin's business is significantly affected by the air travel tax levied in Germany. Other air carriers may choose to absorb, in whole or in part, the additional cost where Air Berlin may not be able to do the same. If, as a result of passing on such additional costs to passengers, Air Berlin becomes less competitive in an already intensely competitive market or if Air Berlin bears such costs because it is not able to fully pass on the cost increase resulting from the air travel tax to passengers, in either case this may have a material adverse effect on Air Berlin's revenues and results of operations. • The airline industry is highly competitive and Air Berlin faces competition from, among others, low-cost carriers, legacy carriers, other established commercial and charter airlines, travel conglomerates with integrated airlines and new entrants. This competition could increase further. Should competitors increase their market share at Air Berlin's expense, Air Berlin's business prospects and profits could be materially adversely affected. • Weather conditions have had a material adverse effect on the airline industry in the past and may do so again. • 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. • Terrorist attacks, military, civil and political conflicts and their aftermath have had a material adverse effect on the airline industry in the past and may do so again. • Air carriers are exposed to the risk of losses from air crashes or similar disasters. • The airline industry is characterised by high fixed costs (such as costs for the use of airport infrastructure and services; take-off, landing and air traffic control fees as well as other air traffic charges; maintenance, financing, lease and fuel costs; depreciation expenses) and by revenues that generally exhibit substantially greater elasticity than costs and that are dependent on 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 related operating licences and air traffic rights are strictly regulated. If a competent authority should come to the conclusion that Air Berlin KG, NIKI or Belair Airlines AG (Belair) no longer satisfy any of the requirements for relevant air traffic rights or the relevant operating licence (e.g. with respect to ownership and control restrictions, it could initiate proceedings that could result in severe consequences, and ultimately in the loss of traffic rights or the suspension or revocation of the operating licence. This would have a materially adverse effect for Air Berlin. The EU Commission has requested the LBA for information regarding the conditions for granting an operating licence of Air Berlin KG in respect of ownership and control in Air Berlin pursuant to Art. 4 lit. f of the Regulation 1008/2008. In addition, the LBA is assessing Air

Element	Description of Element	Disclosure requirement
		<p>Berlin KG's compliance with legal requirements with regard to its operating licence, in particular the ownership and control requirements. If this request by the EU Commission to the LBA, or the assessment by the LBA itself, resulted in administrative proceedings in relation to or against Air Berlin KG, NIKI or Belair with a view to suspending or revoking their operating licences, or to suspending their intra-EU traffic rights, this could have a materially adverse effect on Air Berlin and, if adversely determined, would jeopardise Air Berlin's existence as an air carrier and the continuation of its business.</p> <ul style="list-style-type: none"> • Access to suitable airports and meeting the requirements needed to serve these airports could be limited or could become more difficult in the future which may adversely affect Air Berlin. • Airport, transit, landing and air traffic control fees and security charges, along with other costs airlines must pay to ensure air traffic security, may increase further. • Further regulations and/or new court decisions on passenger compensation could significantly increase costs. • The inclusion of aviation in the EU emissions trading scheme could lead to a further increase of costs and the countries opposed to the inclusion of international aviation in the EU emissions trading scheme could impose trade or other sanctions against the EU and EU air carriers. If carriers from such countries are not included in the EU emissions trading scheme, this may result in a competitive disadvantage to Air Berlin. Any of these factors could have a material adverse effect on Air Berlin's business. • Airlines are dependent on third-party service and facility providers as well as wet lease arrangements (i.e. leasing an aircraft with personnel). <p>Risks relating to Air Berlin</p> <ul style="list-style-type: none"> • Air Berlin PLC is dependent on the financial and operational performance of its subsidiaries and payments of dividends, if any, and intercompany payments (both advances and repayments) from these subsidiaries to meet its debt obligations, including its ability to fulfil its obligations under the Notes. The claims of the Noteholders to the assets of the subsidiaries of Air Berlin PLC that generate the Issuer's income are structurally subordinated to the creditors of these subsidiaries. • Air Berlin will have to maintain and expand financial and other resources; among other things, Air Berlin will have to be able to achieve significant anticipated revenue and other income targets, additional cost savings, earnings and cash flow through 2014 and corresponding favourable financial results in 2014. If Air Berlin is not able to achieve the anticipated cost savings in the time envisioned and generate sufficient earnings and cash flow, there is significant uncertainty as to whether Air Berlin will be able to continue as a going concern, and therefore service its interest and principal payment obligations on the Notes when they come due. • Air Berlin faces risks in connection with its membership in the global airline alliance oneworld® and its strategic cooperation with Etihad Airways. • Air Berlin has set up efficiency improvement and restructuring programmes the implementation of which may not be successful which could have a material adverse effect on Air Berlin's business, financial condition and results of operations. • Air Berlin relies on maintaining high aircraft utilisation rates to maximise its revenue, which makes Air Berlin vulnerable to delays. • Air Berlin will require future financing for payments of a significant number of confirmed aircraft orders and refinancing of existing indebtedness and in future may incur additional indebtedness for the financing of new aircraft. Air Berlin is dependent on its ability to ensure the provisioning of financial services and on the performance of the providers of financial services, such as lenders, lessors, payment and credit card service providers, and hedging

Element	Description of Element	Disclosure requirement
		<p>counterparties. Whether Air Berlin will be able to obtain financial services or the necessary financings at suitable terms depends on a number of factors, including prevailing interest rates, conditions in the capital markets, and Air Berlin's creditworthiness. Obtaining financing and other financial services could become more difficult or more expensive, or could prove impossible. All of the above factors could have a material adverse effect on Air Berlin's business, financial condition and results of operations.</p> <ul style="list-style-type: none"> • There is no certainty that Air Berlin will be able to acquire sufficient number of new aircraft on reasonable economic terms. • In addition to other high fixed costs (such as fuel costs and the costs for the use of the airport infrastructure), Air Berlin has significant financing costs for its outstanding indebtedness under its aircraft lease and financing contracts and the interest payments under its outstanding bonds including the Notes. If Air Berlin is not able to generate sufficient revenues to meet its fixed costs obligations, this would have a material adverse effect on Air Berlin's financial conditions. • The consumer organisation in North Rhine-Westphalia (<i>Verbraucherzentrale Nordrhein-Westfalen</i>) has instituted action against Air Berlin (and similarly against four other German airlines and one internet booking operator) claiming in essence that the practice of requiring full payment at the time of booking is against German law if this payment is due more than four weeks prior to the date of departure, whereby specifically at the case at hand, the booking of the flight triggering the payment obligation occurred 109 calendar days before the date of the flight. If Air Berlin were to be required to change its practice of requiring full payment for a flight at the time of booking it would have a material adverse effect on Air Berlin's financial condition and competitiveness. • Air Berlin may not be able to charge additional amounts for the use of credit cards or other payment instruments by consumers as from 13 June 2014. • Air Berlin has been affected, and may in future be further significantly affected, by any continuing delays in opening the airport Berlin Brandenburg (BER) or by any difficulties in operating it. As a consequence, Air Berlin's flight network operations may be further damaged and further growth may be restricted which could materially and adversely affect its business. As the Berlin airport is one of Air Berlin's main hubs, the adverse consequences of such delays or difficulties have, and are likely to continue to have, a particularly strong adverse effect on Air Berlin compared to its competitors. • After the carve-out of its frequent flyer programme topbonus, Air Berlin is dependent upon topbonus management to develop and maintain an attractive frequent flyer programme. Should such programme not be so developed or maintained as anticipated, it could have an adverse effect on the ability of Air Berlin to obtain or retain customer loyalty. • Air Berlin is dependent on cooperative relations with its employees and employee representatives. • Air Berlin depends on the uninterrupted operation of its own and third-party automated systems and technology. • 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. • Route planning is subject to uncertainties due to costs involved in establishing new routes on which the passenger load factors initially tend to be lower than those on established routes. Investments in new routes may not be successful and the route network may need to be restructured. • Air Berlin's operations and investor confidence are dependent on its 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.

Element	Description of Element	Disclosure requirement
		<ul style="list-style-type: none"> • Air Berlin's revenue and profits are subject to seasonal fluctuations. The level of Air Berlin's aircraft utilisation and profitability fluctuates during the year, with traditionally the majority of its profits being generated in the summer season. When flight cancellations and other factors that adversely affect aircraft utilisation occur, especially during the summer season, they may have a particularly strong adverse effect on Air Berlin's business, financial condition and results of operations. • Air Berlin is dependent on the German market. Air Berlin's business is likely to be adversely affected by any circumstance causing a reduction in demand or change in competitive behaviour with respect to air transportation services involving German destinations, including, but not limited to, adverse changes in local economic conditions. • Air Berlin is dependent on the performance of wet lessors. • Air Berlin is dependent on financing institutions, in particular a number of lessors for its leased aircraft, a limited number of financial institutions for its future aircraft financing commitments and on hedging counterparties and other financial services providers. Should any provider of financial services fail to honour its commitment or should any internal or external events occur which affect the ability of any such party to perform its obligations, this could have a material adverse effect on Air Berlin's operations and financial condition. • Air Berlin is subject to the default risk of sublessees to whom Air Berlin has leased or subleased aircraft. • Air Berlin may be obliged to reimburse benefits from airports if the conditions granted by such airports are deemed to constitute improper state aid. • Air Berlin PLC and Air Berlin KG act as guarantors under a number of payment guarantees for the benefit of certain parties, including financing institutions and aircraft manufacturers and thereby guarantee full and punctual payment of obligations of certain Air Berlin Group members under certain finance and purchase agreements. • The EU Commission has commenced an investigation concerning the potential acquisition of control over Air Berlin by Etihad Airways and with reference to the Convertible Bonds, the EU Commission has issued an information request to Air Berlin under Art. 11 of Council Regulation (EC) No 139/2004 (EC Merger Regulation) concerning the potential acquisition of control by Etihad Airways. As a result of such merger control proceedings, Etihad Airways may be prevented from subscribing to the second and third tranche of the Convertible Bonds or from granting additional financial or commercial support, until the acquisition of control has been authorised by the EU Commission. Any further consequences or any other restrictions on, or prohibitions of, other arrangements between Air Berlin and Etihad Airways, are dependent on the findings of the EU Commission. They could have a material adverse effect on the business, financial condition and results of operations of Air Berlin.
D.3	Information on the key risks of the securities	<ul style="list-style-type: none"> • The Notes may not be a suitable investment for all investors and each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. • The claims of the Noteholders under the Notes will be structurally subordinated to the creditors of the subsidiaries of the Issuer. • The Terms and Conditions of the Notes contain restrictions that may limit the flexibility of Air Berlin to pursue business opportunities and to engage in certain activities and pay dividends but will not prevent Air Berlin from incurring additional debt under certain circumstances. • An investment in the Notes is subject to market price, interest rate and inflation risks. The market price of the Notes depends on various factors, such as changes of the creditworthiness of the Issuer, interest rate levels, the policy of central banks, overall economic developments, inflation rates or the

Element	Description of Element	Disclosure requirement
		<p>supply and demand for the Notes. Disadvantageous changes to such factors may adversely affect the value of the Notes.</p> <ul style="list-style-type: none"> • Payments under the Notes may be subject to withholding tax risk in connection with the EU Savings Directive. • There may be no liquid secondary market for the Notes and Noteholders may not be able to sell the Notes in the secondary market. • If the Issuer would be obliged to pay additional amounts in respect of any Notes due to any withholding tax or similar duty in respect of the Notes, 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. • Dealing in the Notes may become subject to a common Financial Transaction Tax (FTT) which has been proposed by the European Commission. Prospective Noteholders are advised to seek their own professional advice in relation to the FTT. • When the Notes are purchased or sold, several types of incidental costs (including transaction fees and commissions) are incurred in addition to the purchase or sale price of the Notes. These incidental costs may significantly reduce or eliminate any profit from holding the Notes. • The Terms and Conditions of the Notes and the Trust Deed contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not vote on the relevant resolution and Noteholders who voted in a manner contrary to the majority. <p>The Terms and Conditions of the Notes and the Trust Deed also provide that the Trustee may, without the consent of Noteholders, agree to (i) any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of the provisions of Notes or (ii) determine without the consent of the Noteholders that any Event of Default shall not be treated as such or (iii) the substitution of another company as principal debtor under any Notes in place of the Issuer, in the circumstances described in the Terms and Conditions of the Notes and the Trust Deed.</p> <ul style="list-style-type: none"> • If the Issuer exercises its substitution right, the substitution may, for German tax purposes, be treated as an exchange of the original Notes for new notes for Noteholders subject to German taxation. In this case, any gain from such exchange would be subject to tax and the Noteholders might not be able to enforce their right to indemnification against the Issuer and the Substitute Debtor. • The Terms and Conditions of the Notes are based on English law in effect as at the issue date the Notes. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the issue date.

Section E – Offer

Element	Description of Element	Disclosure requirement
E.2b	Reasons for the offer and use of proceeds	The Issuer intends to use the net proceeds of the aggregate principal amount of the Notes in an amount of the equivalent of approximately € 150 million for general corporate purposes and the remaining amount (to the extent not issued in the exchange offer for the € 150 million 11.5 per cent. notes due 2014 issued by Air Berlin PLC (ISIN DE000AB100C2) and the € 200 million 8.5 per cent. notes due 2015 issued by Air Berlin PLC (ISIN DE000AB100A6)) for the refinancing of existing indebtedness.

Element	Description of Element	Disclosure requirement
E.3	Terms and conditions of the offer	Not applicable. This Prospectus serves for listing purposes only.
E.4	Material interests (including conflicting interests) in the issue	Anoa Capital S.A., quirin bank AG and Close Brothers Seydler Bank AG (the Managers) were entitled to customary fees, partly depending on the success of the issuance of the Notes. Furthermore, the auditors of the Issuer and legal advisors were entitled to customary fees. The Managers and their 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 issue of the Notes has an interest material to the issue.
E.7	Estimated expenses	Not applicable. 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.

RISK FACTORS

The Issuer believes that the following factors may affect its ability to fulfil its obligations under the Notes. Should one or more of the risks described below materialise, this may have a material adverse effect on the cash flows, results of operations and financial condition of the Issuer. Moreover, if any of these risks occur, the likelihood that the Issuer will be in a position to fulfil its payment obligations under the Notes may decrease and the market value of the Notes may deteriorate, in which case the holders of the Notes (the **Noteholders**) could lose all or part of their investments.

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 order in which the risks are presented does not reflect the likelihood of their occurrence or the magnitude or significance of the individual risk. In addition, investors should be aware that the risks described might combine and thus intensify one another.

The Issuer believes that the factors described below represent the principal risks inherent in investing in the Notes, but the inability of the Issuer to pay interest, principal or other amounts on or in connection with the Notes may occur for other reasons which may not be considered significant risks by the Issuer based on information currently available to the Issuer or which it may not currently be able to anticipate. Prospective investors should also read the detailed information set out elsewhere in this Prospectus and reach their own views prior to making any investment decision. An investment in the Notes is only suitable for investors who are in a position to fully assess the risks relating to such an investment and who have sufficient financial means to absorb any potential loss stemming therefrom.

RISKS RELATING TO THE ISSUER

Risks relating to the airline industry

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

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

The recovery of the global economy remains slow and uncertain, which also affects Germany, and the overall demand for air transportation in Germany has been, and could be further, negatively impacted by deterioration in the health of the global economy.

In its March 2014 report, the International Air Transport Association (**IATA**) stated that the net profits of European airlines in 2013 and 2014 are expected to increase from 2012 levels: from US\$ 0.4 billion in 2012 to US\$ 1.2 billion in 2013 and US\$3.1 billion in 2014. IATA forecasts that airline financial performance continues to improve, that airlines have reported improving profits, the economic cycle is turning upwards and that oil prices remain in the range of the past few years. Further, IATA projects a

significant improvement in airline profits this year compared to 2013. On the downside, IATA also states that the crisis in Ukraine has increased geo-political risk and put upward pressure on oil prices.²

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

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

Air travel tax levied in Germany

On 15 September 2010 the German Air Travel Tax Act (*Luftverkehrsteuergesetz*, LuftVStG) entered into force, creating an air travel tax. The tax applies to all bookings from 1 September 2010 for flights departing from 1 January 2011. The tax currently amounts to € 7.50, € 23.43 or € 42.18 per passenger depending on the destination of the flight. Since 5 September 2010 global flight reservation systems have been applying the air travel tax to Air Berlin flights. To the extent possible, Air Berlin considers it necessary to pass on the resulting cost increase to passengers and/or restructure the network so that optimal passing through can be achieved. At a time when there is significant pressure on consumers' budgets, the increased cost of air travel may lead customers to reduce their use of air transportation further or, where possible, to switch to nearby foreign airports.

The air travel tax costs of Air Berlin amounted to € 165.6 million in 2011, € 154.7 million in 2012 and € 142.9 million in 2013, resulting in increased cost and cost distortions in the competitive environment. Price competition made passing on the costs of the air travel tax extremely difficult.

Other air carriers may choose to absorb, in whole or in part, the additional cost where Air Berlin may not be able to do the same. If, as a result of passing on such additional costs to passengers, Air Berlin became less competitive in an already intensely competitive market or if Air Berlin bore such costs because it is not able to fully pass on the cost increase resulting from the air travel tax to passengers, in either case this might 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 low-cost carriers, legacy carriers, other established commercial and charter airlines, travel conglomerates with integrated airlines and new entrants. Due to over-capacity in the airline industry and the difficult economic environment, competition is expected to increase further. This development will be further intensified by the assimilation of the business models of airlines, i. e. low-cost carriers will, due to the increase of costs, not be able to differentiate themselves from other airlines solely by low prices and full-service carriers will have to reduce costs and the scope of services with a view to offer certain routes, flights or categories of tickets at lower prices. 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.

Some of Air Berlin's competitors have large home markets, traffic hubs with large catchment areas (i.e. the relevant surrounding areas from which passengers travel to use a given airport), extensive flight schedules and financial resources, economical cost structures and/or well-known brands. Air Berlin's competitors may seek to protect or gain market share through fare matching or price discounting or by offering more attractive flight schedules or services. Some competitors may be able to offer lower fares than Air Berlin by, for example, providing passengers with fewer services or by drawing upon sources of

² Source: IATA "Financial Forecast" report dated March 2014.

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.

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

Weather conditions may result in substantial additional costs or loss of revenue. Inclement weather can lead to flight cancellations, aircraft de-icing, increased waiting times, additional heating for cabins as well as increased fuel consumption due to cold weather. For example in December 2010 alone, approximately 800 Air Berlin flights were cancelled due to weather conditions. The recurrence of similar weather conditions or the existence of comparable conditions, especially in European airspace, could materially and adversely affect Air Berlin and the airline industry. Conversely, elevated temperatures in core markets of Air Berlin during the holiday season may reduce demand for leisure travel to foreign destinations and result in lower revenue.

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

Activity from volcanoes, or other natural or man-made disasters (such as the repeated volcanic activity in Iceland in 2010 and 2011 or the earthquake, the tsunami and the related nuclear catastrophe in Japan in March 2011), in particular if such disaster occurs in the European airspace and/or at, or in the region around, any of Air Berlin's major flight destinations, could materially and adversely affect the business, financial condition and results of operations of Air Berlin and the airline industry. The relevant insurance is not available on the market at this time on economically viable terms.

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

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

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

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

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

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

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

Regulation (EC) No. 2027/97, as amended by Regulation (EC) No. 889/2002, governs air carrier liability with respect to passengers. This regulation increased the potential exposure of air carriers, such as Air Berlin PLC & Co. Luftverkehrs KG (**Air Berlin KG**), NIKI Luftfahrt GmbH (**NIKI**) and Belair Airlines AG (**Belair**), to civil liability and although Air Berlin has extended its liability insurance to meet the requirements of the regulation, no assurance can be given that 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 control fees as well as other 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 tax, safety and environmental regulations, could impose significantly higher costs on Air Berlin's business activities and could materially and adversely affect Air Berlin and the airline industry.

Commercial passenger air transport and related operating licences and air traffic rights are strictly regulated. A breach of applicable rules could lead in particular to operating licences and air traffic rights being suspended or revoked.

Air Berlin KG, the main operating company of Air Berlin, is authorised to operate by virtue of an operating licence and an air operator certificate issued by the German Federal Civil Aviation Authority (*Luftfahrt-Bundesamt*, **LBA**). These authorisations are subject to Air Berlin KG's ongoing compliance with applicable current and future statutes, rules and regulations pertaining to German air carriers. The operating licence of Belair granted by the Swiss Federal Office of Civil Aviation (*Bundesamt für die Zivilluftfahrt*) and of NIKI granted by the Austrian Ministry for Transport, Innovation and Technology) are also subject to ongoing compliance with applicable current and future statutes, rules and regulations pertaining to Swiss and Austrian air carriers, respectively.

In addition, Air Berlin Group and its activities are 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, EU Member States and the EU, on the one hand, and other states, on the other hand, govern airline operations and impose requirements on air carriers. In particular, these multilateral and bilateral agreements impose restrictions on the allocation of traffic rights which are necessary to fly into and land in, as well as fly over, non-EU member states. Under these agreements air traffic rights are generally only granted by one party to air carriers owned and controlled primarily by the other party to the agreement or its nationals.

Amendments to, and changes in the interpretation of, existing statutes, rules, regulations and 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.

If a competent authority should come to the conclusion that Air Berlin KG, NIKI or Belair no longer satisfy any of the requirements mentioned above, including any ownership and control requirements, it could initiate proceedings that could result in severe consequences, and ultimately in the loss of traffic rights or the suspension or revocation of the operating licence. This could have a materially adverse effect for Air Berlin.

The EU Commission has requested the LBA for information regarding the conditions for granting an operating licence of Air Berlin KG in respect of ownership and control in Air Berlin pursuant to Art. 4 lit. f of the Regulation 1008/2008. In addition, the LBA is assessing Air Berlin KG's compliance with legal requirements with regard to its operating licence, in particular the ownership and control requirements pursuant to Art. 4 lit. f of the Regulation 1008/2008 in conjunction with Section 20 of the German Air Traffic Act (*Luftverkehrsgesetz*). If this request by the EU Commission to the LBA, or the assessment by the LBA itself, resulted in administrative proceedings in relation to or against Air Berlin KG, NIKI or Belair with a view to suspending or revoking their operating licences, or to suspending their intra-EU traffic rights, this could have a materially adverse effect on Air Berlin and, if adversely determined, would jeopardise Air Berlin's existence as an air carrier and the continuation of its business.

Access to suitable airports and meeting the requirements needed to serve these airports could be limited or become more difficult in the future

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 on the basis of Council Regulation (EEC) No 95/93 of 18 January 1993, lastly amended by Regulation (EC) No 545/2009 of the European Parliament and of the Council of 18 June 2009. Established airlines at certain airports have been granted priority rights (known as grandfather rights) in relation to slot allocations. The procedure may be subject to further change in the future. 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 or to obtain more favourable slots and may be forced to restrict the use of its aircraft. The provisions governing the use of slots generally specify that rights of use may lapse if the slots are unused either temporarily or in the long term. Should Air Berlin fail to use its slots, whether for technical or commercial reasons, this could result in the loss of slots.

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

Airport, transit, landing and air traffic control 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 costs. 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.

Further regulations and/or new court decisions on passenger compensation could significantly increase costs

The European Union has passed legislation for compensating airline passengers who have been denied boarding or whose flight has been cancelled or subject to delays (Regulation (EC) No. 261/2004). This legislation, which came into force in February 2005, imposes fixed levels of compensation to be paid to passengers in the event of cancelled flights, except when the airline can prove that such a cancellation was caused by extraordinary circumstances, which could not have been avoided even if all reasonable measures had been taken. In its *Sturgeon* judgment (Joined Cases C-402/07 and C-432/07), the European Court of Justice (ECJ) has extended this right of passengers to monetary compensation to cases where passengers reach their final destination three hours or more after the scheduled arrival time. The *Sturgeon* judgment has recently been confirmed by the ECJ (judgment of 23 October 2012, Joined Cases C-581/10 and C-629/10). 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.

On 5 February 2014, the European Parliament voted at the first reading on a new draft regulation relating to passenger rights, which was published by the European Commission on 13 March 2013. The draft revised rules are designed to strengthen and extend passenger rights to obtain compensation in case flights are delayed or passengers are stranded upon a bankruptcy of an airline as well as passenger rights in connection with the luggage. With respect to the additional passenger rights in case of delayed or rescheduled flights, the revised rules provide, among others, that airlines may reject a compensation payment only on the basis of an exhaustive list of defined extraordinary circumstances. Furthermore, passengers who have a return ticket may not be denied boarding at the return journey if they did not use their ticket for the outward journey. For these reasons, 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 and the countries opposed to the inclusion of international aviation in the emissions trading scheme could impose trade or other sanctions against the EU and EU air carriers

On 13 October 2003 Directive No. 2003/87/EC establishing a scheme for greenhouse gas emission allowance trading within the Community and amending Council Directive 96/61/EC (the **ETS-Directive**) entered into force. The ETS-Directive was (amongst others) amended by Directive No. 2008/101/EC of the European Parliament and of the Council of 19 October 2008 pursuant to which all flights that arrive or depart from an airport situated in the territory of an EU Member State were included in the EU emissions trading scheme (ETS) from 1 January 2012. 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.

The ETS-Directive and the inclusion of the aviation section therein has been implemented into German law by way of the German Greenhouse Gas Emission Act (*Treibhausgas-Emissionshandelsgesetz*, **TEHG**) on 21 July 2011. Under the TEHG and the ETS-Directive, a certain number of allowances are granted to airlines free of charge based on historical emissions and their shares of the total aviation market; further allowances are auctioned by Member States. The number of allowances available for free allocation and auctioning is reduced from 97% to 95% of the historical aviation emissions in the second trading period (for the aviation sector) starting on 1 January 2013 and ending on 31 December 2020. According to this legislation aircraft operators are obliged to surrender a number of allowances equal to the total emissions during the preceding calendar year from their aviation activities to the competent authorities.

Air Berlin anticipates that it will not be granted a sufficient number of free of charge allowances as will be necessary for the discharge of its duties under the TEHG and will hence need to purchase additional allowances in the open market. The number and cost of such allowances that Air Berlin will have to buy

on the free market or acquire through auctions is based on the difference between the allowances awarded free of charge and those to be surrendered in each year, and the price for those allowances.

The inclusion of the aviation sector in the ETS is likely to have a substantial negative impact on the European airline industry, including Air Berlin, despite the relatively young age of its aircraft fleet. There can be no assurance that Air Berlin will be able to obtain sufficient allowances, or that the cost of any additional allowances necessary will not have a material adverse effect on Air Berlin's business, operating results and financial condition. Air Berlin's hedging instruments do not fully protect it against the adverse effects of increases in the price of aviation allowances. In addition to the financial impact, inclusion in the ETS imposes administrative burdens (monitoring and reporting obligations) on the participants.

While a challenge to the inclusion of the aviation business into the ETS on grounds of international law has been rejected by the European Court of Justice (ECJ) in 2011 (Case C-366/10), a number of non-EU countries, including China, India, Russia and the United States, remain strongly opposed to the inclusion of international aviation in the ETS. As a result of various political consultations and discussions Decision No. 377/2013/EU of the European Parliament and of the Council of 24 April 2013 determined a temporary (for the time being: one year) derogation from the enforcement of the ETS-Directive. However, the derogation only concerns aircraft operators in respect of activity to and from airports in countries outside the EU that are not members of EFTA, dependencies and territories of States in the EEA or countries that have signed a Treaty of Accession with the EU. Aviation activities within the EU, EFTA and the EEA remain, therefore, still subject to the ETS-Directive.

In October 2013 the assembly of the International Civil Aviation Organisation (ICAO), a specialised agency of the United Nations, agreed to develop by 2016 a global market-based mechanism (MBM) addressing international aviation emissions and apply it by 2020. Until then countries or groups of countries, such as the EU, can implement interim measures. On 30 April 2014 Regulation (EU) No. 421/2014 of the European Parliament and of the Council entered into force amending the EU Emissions trading scheme Directive (2003/87/EC), in view of the implementation by 2020 of an international agreement applying a single global market-based measure to international aviation emissions. The new regulation is intended to maintain the momentum reached within the ICAO and to facilitate progress at the upcoming 39th session in 2016. It also extends the temporary derogation from the ETS for flights to and from countries outside the EEA from 1 January to 31 December 2016. Moreover, the European Commission has proposed not to auction 900 million emission rights in the following 36 months but only in 2019 and 2020. Such self-induced shortage (backloading) which has been approved by the national governments of the EU member states is intended to support the prices for the emission rights which have almost collapsed over the last months. A failure to reach such MBM as contemplated could lead to various reactions of the mentioned States and could, thus, have a material adverse effect on Air Berlin's business because of ETS related costs of Air Berlin and/or various retaliatory or discriminatory acts against Air Berlin and other EU airlines in such States. As compared to many of its competitors Air Berlin has a particular focus on the European regional airspace, the amendment to the EU ETS proposed by the EU Commission could result in a competitive disadvantage for Air Berlin.

Airlines are dependent on third-party service and facility providers as well as wet lease arrangements

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, operators of booking systems and call centres, caterers, check-in staff and baggage-handling and fuel service providers as well as wet lease arrangements. If any third-party services or facilities on which Air Berlin relies in conducting its business are restricted, temporarily halted (for example, as a result of technical problems or strikes), cease permanently or are not available at commercially acceptable terms, this could have a material adverse effect on Air Berlin's business, financial condition and results of operations. This material adverse effect could also occur as a result of the loss or expiration of any of Air Berlin's contracts with third-party service or facility providers and the inability to negotiate replacement contracts with other service or facility providers at comparable rates or to enter

into such contracts in any new markets Air Berlin accesses. In addition, the efficiency, timeliness and quality of contract performance by third-party providers are largely beyond Air Berlin's direct control.

Risks relating to Air Berlin

Air Berlin PLC is dependent on the financial and operational performance of its subsidiaries and the claims of the Noteholders to the assets of the subsidiaries of Air Berlin PLC that generate the Issuer's income are structurally subordinated to the creditors of these subsidiaries.

The Issuer's principal business is that of holding shares in its subsidiaries. As a holding company, the Issuer conducts all or essentially all of its operations through its subsidiaries and is dependent on the financial performance of its subsidiaries and payments of dividends, if any, and intercompany payments (both advances and repayments) from these subsidiaries to meet its debt obligations, including its ability to fulfil its obligations under the Notes.

Generally, creditors of a subsidiary, including trade creditors, secured creditors and creditors holding indebtedness and guarantees issued by the subsidiary and preferred shareholders (if any) of the subsidiary, will be entitled to the assets of that subsidiary before any of those assets can be distributed to its direct or indirect shareholders (including the Issuer) upon its liquidation or winding-up. The Issuer's subsidiaries may have other liabilities, including secured liabilities and contingent liabilities, which could be substantial. See the risk factor "*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*" below.

Since the Noteholders are not creditors of these subsidiaries, their claims to the assets of the subsidiaries that generate the Issuer's income (and consequently, their right to receive payments under the Terms and Conditions of the Notes) are structurally subordinated to the creditors of these subsidiaries. In the event that other members of the Issuer's Group are unable to remit funds to the Issuer, the Issuer's ability to fulfil its commitments to the Noteholders to make payments under the Guarantee may be adversely affected.

Air Berlin may not be able to continue as a going concern

Air Berlin will have to maintain and expand financial and other resources; among other things, Air Berlin will have to be able to achieve significant anticipated revenue and other income targets, additional cost savings, earnings and cash flow through 2014 and beyond and corresponding financial results. If Air Berlin is not able to achieve the anticipated cost savings in the time envisioned and generate sufficient earnings and cash flow, there is significant uncertainty as to whether Air Berlin PLC will be able to continue as a going concern, and therefore service its interest and principal payment obligations on the Notes when they come due.

Air Berlin faces risks in connection with its membership in the global airline alliance oneworld® and its strategic cooperation with Etihad Airways

Air Berlin's membership in the oneworld® alliance and the codeshare agreements entered into in connection with the oneworld® membership as well as its cooperation with Etihad Airways PJSC (**Etihad Airways**) have increased the number of destinations in which Air Berlin is represented. However, oneworld® is subject to competition from other airline alliances and other airline alliances may have a bigger flight network than oneworld®. Furthermore, other alliances could increase their market positions through mergers or other arrangements. In addition, member airlines of oneworld® may decide to leave the oneworld® alliance or may otherwise cease to be a member of the alliance, and oneworld® may not be able to attract new or replacement members. If as a result of any such event, oneworld® loses market share or dissolves completely, this could have a negative effect for the flight network and the ranges of routes and connecting flights Air Berlin is able to offer to its customers and could have a material adverse effect on the business, financial conditions and results of operations of Air Berlin.

Furthermore, on 24 January 2012 Etihad Airways became the largest single shareholder of Air Berlin holding shares with, together with its then existing 2.99% interest, a voting interest of 29.21% based on an agreement entered into between Etihad Airways and Air Berlin PLC on 19 December 2011, which is

the basis of Air Berlin's cooperation with Etihad Airways. The cooperation comprises, among others, code sharing, reciprocal frequent flyer programmes as well as ground handling and cargo transportation agreements. In connection with the acquisition of the new shares, Air Berlin through one of its group companies entered into a US\$255 million facility agreement with Etihad Airways as lender which as of 31 December 2013 has a principal amount outstanding of US\$133.9 million. On 27 April 2014, the term of the facility agreement with Etihad Airways has been extended from 31 December 2016 to 31 December 2021.

In addition, on 18 December 2012 Air Berlin KG entered into a joint venture with Etihad Airport Services L.L.C. with respect to Air Berlin's frequent flyer programme "topbonus" which was carved-out from Air Berlin and is now operated by Topbonus Ltd. in which Air Berlin KG currently has a share of 30% and Etihad Airport Services LLC has a share of 70%. The cooperation with Etihad Airways and Etihad Airport Services L.L.C. is an important part of Air Berlin's business model and the routes and flight network that can be used by customers of Air Berlin.

Furthermore, on 27 April 2014, Etihad Airways committed to subscribe to Air Berlin's € 300 million subordinated cumulative convertible guaranteed bonds, convertible into ordinary registered shares of Air Berlin PLC, with no maturity date and a coupon of 8%. The issue is planned to take place in three tranches in 2014; the first tranche in an amount of € 100 million was issued on 20 May 2014. The issue of the second tranche is scheduled for 28 August 2014 and the third tranche for 27 November 2014. The perpetual convertible bonds are accounted for as equity capital of the Air Berlin Group under the International Financial Reporting Standards (IFRS).

Therefore, any termination or failure of this cooperation would have a materially adverse effect on Air Berlin's business, operations and financial position.

Air Berlin has set up efficiency improvement and restructuring programmes the implementation of which may not be successful

Due to various additional burdens, and negative factors which have been exacerbated, in 2012 such as the recession in Europe, the repeated delays in opening the airport Berlin Brandenburg, the German air travel tax (*Luftverkehrssteuer*) by which Air Berlin is considerably more burdened than other airlines and the continuing high fuel prices, Air Berlin has, following its programme "Shape & Size" (which was comprised of approximately 450 single measures), taken further restructuring measures and launch the turnaround programme "Turbine" on 15 January 2013 to improve the operating performance and to achieve sustainable profitability.

The two-year "Turbine" programme aims for establishing the simplest and most cost-efficient organisation possible in conjunction with streamlined processes and includes, among others, further adjustments to the route network, a reduction of the operating fleet to 143 aircraft (from initially 163 aircraft which, under the "Shape & Size" programme, were reduced to 155 aircraft as per 31 December 2012 and which, as of 31 March 2014, were further reduced to 143 aircraft) and a reduction of approximately 900 jobs (which is almost 10% of all employees of Air Berlin). The possibility of further redundancies cannot be excluded. This may result in a significant amount of disputes with employees including litigation before employment courts. Furthermore, the "Turbine" programme is planning for internal structural changes and negotiations with major stakeholders such as airports, caterers, lessors and maintenance providers with a view to seek their agreement resulting in a reduction of costs. In addition, Air Berlin has assembled an additional package of measures and is currently in the process of defining a strategic realignment. Air Berlin plans to enhance its fleet and network optimisation efforts and to develop a new revenue management system in order to achieve further improvements in its operating efficiency and to generate new sources of revenue as well as synergy effects.

Should Air Berlin be unable to fully implement, or realise the benefits of, these programmes and measures, or should these programmes fail to meet Air Berlin's expectations, this could have a material adverse effect on its business, financial condition and results of operations. Please refer to the risk factor "*Air Berlin may not be able to continue as a going concern*" above.

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. Please refer to the risk factor "*Further regulations and/or new court decisions on passenger compensation could significantly increase costs*" above.

Air Berlin is dependent on financial services and will require future financing for payments of a significant number of confirmed aircraft orders and refinancing of existing indebtedness and in the future may incur additional indebtedness for the financing of new aircraft

Air Berlin is dependent on its ability to ensure the provisioning of financial services, such as loan financings, lease financings, operating leasing, payment and credit card services, and hedging products.

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

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

Whether Air Berlin will be able to borrow the necessary funds or to place aircraft into sale and leaseback structures at suitable terms to obtain financing for the purpose of refinancing existing debt or raising additional debt, to ensure necessary payment and credit card services (including debt collection services), and to enter into fuel, currency, interest rate and other hedging agreements with suitable counterparties depends on a number of factors, including prevailing interest rates, conditions in the capital markets, and Air Berlin's creditworthiness. Obtaining financing could become more difficult or more expensive (including due to new or additional collateral requirements), or could prove impossible.

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

There is no certainty that Air Berlin will be able to acquire sufficient new aircraft on reasonable economic terms

Air Berlin may need to order new or otherwise acquire aircraft to retain its competitiveness. Furthermore, to the extent that Air Berlin elects to secure aircraft within the aviation market, there can be no certainty that it will be able to acquire sufficient number of aircraft on reasonable economic terms.

In addition to other high fixed costs, Air Berlin has significant financing costs for its outstanding indebtedness

In addition to other high fixed costs (such as fuel costs and the costs for the use of the airport infrastructure), Air Berlin has significant financing costs for its outstanding indebtedness under aircraft lease and financing contracts and interest payments under its outstanding bonds including the Notes. If Air Berlin is not able to generate sufficient revenues to meet its fixed costs obligations, this would have a material adverse effect on Air Berlin's financial conditions.

Air Berlin may be significantly affected if it had to discontinue the practice of requiring full payment for a flight if booked more than three months before the date of travel

In May 2013, Air Berlin together with all other major German airlines received a letter from the consumer organisation in North Rhine-Westphalia (*Verbraucherzentrale Nordrhein-Westfalen e.V.*) demanding Air Berlin to discontinue the practice of requiring full payment for a flight if booked more than three months before the date of travel. It is contended that payment upon booking of the flight, which may be months in advance of departure is not in accordance with applicable law. On 25 June 2013, the Verbraucherzentrale Nordrhein-Westfalen instituted action for unfair competition (*unlauterer Wettbewerb*) against Air Berlin PLC & Co. KG with the district court (*Landgericht*) of Berlin demanding from Air Berlin to refrain from collecting from consumers the full payment for a flight any earlier than four weeks before the date of flight to avoid a fine of up to € 250,000 to be ordered in each case of non-compliance. In the particular case chosen by the claimant, the consumer bought the flight ticket 109 calendar days before the flight and, thus, the particular request brought by the claimant mentions only payment earlier than 109 days. However, the reasoning of statement of claim extends the argument to full payment any earlier than four weeks before the date of flight and suggests paying by instalments as in case of tour operators. Air Berlin does not share this view and does not intend to discontinue this practice. The court of first instance dismissed the action against Air Berlin and another air carrier. However, the outcome of this matter cannot be determined conclusively at this time, as the consumer organisation in North Rhine-Westphalia appealed against the decision and in three parallel cases courts of first instance have ruled in favour of the plaintiff. Furthermore, it cannot be ruled out that any new legislation relating to such booking practice will be introduced. In the event the aforementioned widespread practice in the German aviation market would be held by a court, or become, unlawful, the results of any such action could have a substantial and material adverse effect on Air Berlin's financial condition.

Air Berlin may not be able to charge additional amounts for the use of credit cards or other payment instruments by consumers as from 13 June 2014

On 13 June 2014 the German Act implementing the European Directive on Consumer Rights (Directive 2011/83/EU) entered into force. Under the new law, contractual clauses under which additional amounts are charged for the use of credit cards or other payment instruments by consumers are void if the relevant amount exceeds the actual costs incurred by the payee for such payment instrument. Air Berlin may not be able to demand such payment charges in the same amount as before the new law entered into force. Further, Air Berlin may not be able to implement alternative pricing structures. These factors may adversely affect Air Berlin's financial condition and liquidity position.

Air Berlin may be significantly affected by any continuing delays in opening the airport Berlin Brandenburg or by any difficulties in operating it

Air Berlin has been affected, and may in future be further significantly affected by any continuing delays in opening the airport Berlin Brandenburg (**BER**) or by any difficulties in operating it. The opening of BER had been scheduled for October 2011 and then announced to occur on 3 June 2012. It has been postponed several times since, and a new scheduled opening date has not yet been officially established. While this cannot yet be fully quantified, the repeated delays in opening the airport have given rise to considerable burdens on Air Berlin including additional costs and other damages. Should the delays in opening continue, or should the airport experience difficulties in operating, Air Berlin's flight network operations may be further damaged and further growth may be restricted which could materially and adversely affect its business.

As the Berlin airport is one of Air Berlin's main hubs, the adverse consequences of such delays or difficulties have, and are likely to continue to have, a particularly strong adverse effect on Air Berlin compared to its competitors.

After the carve-out of its frequent flyer programme topbonus, Air Berlin is dependent upon topbonus management to develop and maintain an attractive frequent flyer programme

As a result of the carve-out of topbonus, Air Berlin's frequent flyer programme, such programme is managed independently of Air Berlin. As topbonus remains Air Berlin's frequent flyer programme, it is dependent upon topbonus management to develop and maintain an attractive frequent flyer programme. Should such programme not be so developed or maintained as anticipated, it could have an adverse effect on the ability of Air Berlin to obtain or retain customer loyalty.

Air Berlin is dependent on cooperative relations with its employees and employee representatives and the application of new or other collective bargaining agreements or changes in law relating to the application of collective bargaining agreements may result in higher costs for Air Berlin

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. It is possible that the cut of 900 jobs in connection with the "Turbine" programme will adversely affect the cooperative relations of Air Berlin with its employees and employee representatives, which may have a material adverse effect on Air Berlin's business and operations.

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 or unions may try to enforce the application of more costly agreements to Air Berlin or its labour suppliers resulting in higher direct or indirect labour cost. For example, due to two separate collective bargaining agreements on remuneration (*Vergütungstarifvertrag*) for the cockpit staff and the cabin staff of Air Berlin entered into between Air Berlin and Vereinigung Cockpit e.V. and ver.di Vereinte Dienstleistungsgewerkschaft, respectively, the base salaries are going to increase, in case of the cockpit staff, from the level as of the end of 2013 until 2016 by approximately 10.9 per cent., in case of the cabin staff, from the level as of the end of 2013 until 2014 by approximately 6.1 per cent, and, in case of the groundhandling staff, from the level as of the end of 2013 until 2014 by approximately 3.0 per cent.

Furthermore, changes in law relating to salaries of airline employees and collective bargaining agreements may result in higher costs for Air Berlin. In particular, there is a risk that NIKI, to which currently no collective bargaining agreement applies and whose leased personnel (*Leiharbeitskräfte*) is subject to a general collective bargaining agreement, becomes subject to a future more costly collective bargaining agreement for the aviation business sector as a result of changes in Austrian law or the interpretation of existing law by Austrian courts. This may result in an increase of costs for both direct employees of NIKI and its leased personnel (*Leiharbeitskräfte*).

As a result of or in connection with the above, Air Berlin may be subject to a significant further increase of salaries of its staff and/or strikes by its own employees or strikes affecting the entire airline industry or other industrial action (see the risk factor “*Airlines are dependent on third-party service and facility providers as well as wet lease arrangements*” above), and there can be no assurance that labour relations will not have a material adverse effect on Air Berlin’s ability to remain or become competitive.

All of this can have a material adverse effect on its business, financial condition and results of operations.

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

Air Berlin’s ability to manage ticket sales, receive and process reservations, manage its traffic network, perform flight operations and engage in other critical business tasks is dependent on the efficient and uninterrupted operation of its computer and communication systems (including back-up facilities for a breakdown of Air Berlin’s operations control centre), and on the systems used by third parties in the course of their cooperation with Air Berlin. For instance, Air Berlin uses tablet PCs in the cockpits of its aircraft which replace paper documents such as flight maps, manuals and other board documents and which operate on the basis of an individualised software and a related complex IT infrastructure for the exchange of data. In case of a failure of this system, the operation of the entire fleet may need to be stopped.

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 Air Berlin’s booking system operating by a third party service provider and 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.

From 2010 to 2012 fuel prices have risen significantly³. The average price of Brent crude oil is expected to be in the region of US\$108.0 per barrel in 2014⁴, which would be less than the average price of Brent crude oil in 2012 and broadly at the same level as in 2013 but still at a high level compared to, for instance, US\$79.4 per barrel in 2010. If due to political developments or for general economic reasons the prices for aviation fuel increase, this would have a material adverse effect on Air Berlin’s results of operations and financial condition.

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

³ Source: IATA “Financial Forecast” report dated June 2013.

⁴ Source: IATA “Financial Forecast” report dated March 2014.

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

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

Route planning is subject to uncertainties and investments in new routes may not be successful

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

Investments in new routes may not be successful and the route network may need to be restructured. Currently, Air Berlin is in the process of implementing the "Turbine" programme, which aims to increase its efficiency and productivity and to achieve sustainable profitability. The programme provides for, *inter alia*, a reduction of the number of aircraft employed in its operating fleet from 163 (as of 31 December 2011) to 143 and reduced frequencies of certain flights or the cancellation of low-performing routes. Should Air Berlin be unable to implement fully the "Turbine" programme, or should the programme fail to meet Air Berlin's expectations, 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 traditionally the majority of its profits being generated in the summer season. When flight cancellations and other factors that adversely affect aircraft utilisation occur, especially during the summer season, they may have a particularly strong adverse effect on Air Berlin's business, financial condition and results of operations.

Air Berlin is dependent on the German market

Passengers originating (in relation to the seat-only business, i.e. the selling of seats on a per-seat basis as opposed to sales in bulk or charter sales) in Germany on Air Berlin's routes accounted for 63.0% of Air Berlin's total passenger volume in 2013 (64.4% in 2012). Air Berlin's business is likely to be adversely affected by any circumstance causing a reduction in demand or change in competitive behaviour with respect to air transportation services involving German destinations, including, but not limited to, adverse changes in local economic conditions.

Air Berlin is dependent on the performance of wet lessors

Air Berlin has entered, and may enter in the future, into wet lease agreements (i.e. leasing an aircraft with personnel) with other air operators for the wet-lease of aircraft to Air Berlin. A considerable number of aircraft operated under those wet lease agreements are leased to the respective wet lessor on a dry lease basis (i.e. leasing an aircraft without personnel) by Air Berlin KG. In case of a default or insolvency of a wet lessor Air Berlin may therefore be exposed not only to the risk of the passenger transport services by such wet lessor not being provided at short notice but also that Air Berlin will remain obligated under the corresponding financings or dry leases notwithstanding such default and will not have the ongoing lease income for those aircraft which are subject to dry leases to such wet lessor.

Air Berlin is dependent on a number of financing institutions, in particular lessors for its leased aircraft, a limited number of financial institutions for its future aircraft financing commitments and hedging counterparties and other financial services providers.

As of 31 December 2013, approximately 91.4% (based on 140 operational aircraft) of Air Berlin's aircraft fleet is leased from aircraft lessors and as of 31 March 2014, approximately 91.6% (based on 143 operational aircraft) of its aircraft fleet is leased from aircraft lessors.

Air Berlin is dependent on financing and leasing commitments from a limited number of institutions to finance aircraft purchases or provide general financing. Furthermore, Air Berlin is dependent on hedging arrangements with hedging counterparties for Air Berlin's fuel, interest, currency and other hedging activities, and on payment and credit card services by various service providers.

Should any provider of financial services fail to honour its commitment or should any internal or external events occur which affect the ability of any such party to perform its obligations such as a deepening of the financial crisis generally or by individual defaults or insolvency of any such party, this could have a material adverse effect on Air Berlin's operations and financial condition.

Air Berlin is subject to the default risk of sublessees to whom Air Berlin has leased or subleased aircraft.

Air Berlin has leased or sub-leased 8 aircraft to parties which are not members of the Air Berlin Group as of 31 March 2014. The default of any such sublessee may expose Air Berlin to liability vis-à-vis the owner or financier of the affected aircraft and may lead to the loss of rental income from such sublease.

Air Berlin may be obliged to reimburse benefits from airports if the conditions granted by such airports are deemed to constitute improper state aid.

Airports at which Air Berlin operates currently face, or may face in the future, state aid procedures by the European Commission alleging that the conditions granted by such airports to airlines, including Air Berlin, constitute improper state aid. If and to the extent that the view of the European Commission prevails in such case, Air Berlin can be obliged to reimburse any benefit received. Air Berlin estimates the risk arising from current state aid procedures known to Air Berlin not to exceed €15 million.

Liabilities of Air Berlin PLC and Air Berlin KG as guarantors

Air Berlin PLC and Air Berlin KG act as guarantors under a number of payment guarantees for the benefit of certain parties, including financing institutions and aircraft manufacturers and thereby guarantee full and punctual payment of obligations of certain Air Berlin Group members under certain finance and purchase agreements.

The EU Commission has commenced an investigation concerning the potential acquisition of control over Air Berlin by Etihad Airways

On 27 April 2014, Etihad Airways committed to subscribe to € 300 million subordinated cumulative convertible bonds to be issued by Air Berlin Finance B.V. and guaranteed by Air Berlin PLC, convertible into ordinary registered shares of Air Berlin PLC, with no maturity date and a coupon of 8% p.a. (the **Convertible Bonds**). The first tranche in an amount of € 100 million was issued on 20 May 2014, the issue of the second tranche is scheduled for 28 August 2014 and the third tranche for 27 November 2014. With reference to the Convertible Bonds, the EU Commission has issued an information request to Air Berlin under Art. 11 of Council Regulation (EC) No 139/2004 (EC Merger Regulation) concerning the potential acquisition of control by Etihad Airways. The outcome of the merger control proceedings cannot be determined yet. If the EU Commission would ultimately arrive at the conclusion that Etihad Airways acquired control over Air Berlin, Etihad would be obliged to make a formal filing with the EU Commission. Etihad Airways may in such case be prevented from subscribing to the second and third tranche of the Convertible Bonds or from granting additional financial or commercial support, until the acquisition of control has been authorised by the EU Commission. Any further consequences or any other restrictions on, or prohibitions of, other arrangements between Air Berlin and Etihad Airways, are dependent on the findings of the EU Commission. They could have a material adverse effect on the business, financial condition and results of operations of Air Berlin.

RISKS RELATING TO THE NOTES

The Notes may not be a suitable investment for all investors

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

- (i) have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained in this Prospectus or any applicable supplement;
- (ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;
- (iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including where the currency for principal or interest payments is different from the potential investor's currency;

- (iv) understand thoroughly the Terms and Conditions of the Notes 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.

The claims of the Noteholders under the Notes will be structurally subordinated to the creditors of the subsidiaries of the Issuer.

Generally, creditors of a subsidiary, including lessors and trade creditors, secured creditors and creditors holding indebtedness and guarantees issued by the subsidiary and preferred shareholders (if any) of the subsidiary, will have priority with respect to the assets and earnings of that subsidiary over the claims of creditors of its parent entity. In the event of any foreclosure, dissolution, winding-up, liquidation, reorganisation, administration or other bankruptcy or insolvency proceeding of any subsidiary of the Issuer, holders of their indebtedness and their trade creditors will generally be entitled to payment of their claims from the assets of those subsidiaries before any assets are made available for distribution to the Issuer. As such, the claims of the Noteholders under the Notes will be structurally subordinated to the creditors (including lessors and trade creditors) of the Issuer.

The Terms and Conditions of the Notes contain restrictions that may limit the flexibility of Air Berlin to pursue business opportunities and to engage in certain activities and pay dividends but will not prevent Air Berlin from incurring additional debt under certain circumstances

The Terms and Conditions of the Notes restrict the ability of Air Berlin and certain restricted subsidiaries of Air Berlin PLC to, among other things: incur, assume or guarantee additional indebtedness; pay dividends on, repurchase or make distributions in respect of, capital stock or make other restricted payments; issue or sell redeemable or preferred shares; create certain liens; and make certain loans or investments. Furthermore, Air Berlin PLC undertakes (also with respect to certain restricted subsidiaries of Air Berlin PLC) to observe certain limitations regarding transactions with affiliates and not to enter into any merger transaction or the sale of all or substantially all of its assets unless certain conditions are fulfilled. These covenants will limit the ability of Air Berlin and its subsidiaries to finance future operations and capital needs and their ability to pursue business opportunities and activities that may be in their interest. On the other hand, all of these limitations will be subject to exceptions and qualifications. Therefore, Air Berlin and its subsidiaries will still be able to incur more debt, which could increase the risks associated with their existing indebtedness. See “*Terms and Conditions of the Notes*”.

Market price risks

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

Interest Rate risks

An investment in the Notes involves the risk that subsequent changes in market interest rates may adversely affect the value of the Notes. The Notes entitle their holders to the payment of a fixed rate of interest on the specified interest payment dates. If the market interest rates rise the interest amounts the Noteholders receive could be less than the amount they would have received had they invested in a security with a floating rate of interest. The market value of fixed rate securities such as the Notes can decrease if potential investors perceive that they can achieve a greater return on an investment by investing in alternative products.

Inflation

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

EU Savings Directive

Under Council Directive 2003/48/EC on the taxation of savings income (the **EU Savings Directive**), 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. 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). Luxembourg has announced that it will no longer apply the withholding tax system as from 1 January 2015 and will provide details of payment of interest (or similar income) as from this date. A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

On 24 March 2014, the European Council adopted the Council Directive 2014/48/EU amending the EU Savings Directive (the **Amending Directive**). The Amending Directive broadens the scope of the requirements described above. Member States have until 1 January 2016 to adopt the national legislation necessary to comply with the Amending Directive. The changes made under the Amending Directive include extending the scope of the EU Savings Directive to payments made to, or collected for, certain other entities and legal arrangements. They also broaden the definition of “interest payment” to cover income that is equivalent to interest. Investors who are in any doubt as to their position should consult their professional advisors.

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 list the Notes on the official list of the Luxembourg Stock Exchange and to admit the Notes to trading on the Euro MTF market of the Luxembourg Stock Exchange. In addition, the Notes have been included into trading on the Open Market (*Freiverkehr*) of the Frankfurt Stock Exchange.

However, there can be no assurance that a liquid market for the Notes will develop or, if it does develop, that it will continue. If a market does develop, it may not be liquid. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. Illiquidity may have a severely adverse effect on the market value of the Notes and investors wishing to sell the Notes might therefore suffer losses.

Early redemption for tax reasons

In the event that the Issuer would be obliged to increase the amounts payable in respect of any Notes due to any withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed, the Issuer may

redeem all outstanding Notes in accordance with the Terms and Conditions. Noteholders may be exposed to risks connected to the reinvestment of cash proceeds from the 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.

The proposed Financial Transaction Tax

The European Commission has published a proposal for a Directive for a common Financial Transaction Tax (FTT) in certain participating Member States, which may also impact persons not in participating Member States. The proposed FTT has very broad scope and could apply to certain dealings in financial instruments (including secondary market transactions).

The FTT could apply to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in financial instruments where at least one party is a financial institution, and either (i) at least one party is established or deemed to be established in a participating Member State or (ii) the financial instruments are issued in a participating Member State. The proposed Directive remains subject to negotiation between the participating Member States and is the subject of legal challenge. It may therefore be altered prior to any implementation, the timing of which remains unclear. Prospective Noteholders are advised to seek their own professional advice in relation to the FTT.

Transaction costs

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

Modification, Waiver and Substitution of Issuer

The Trust Deed contains provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not vote on the relevant resolution and Noteholders who voted in a manner contrary to the majority.

The Terms and Conditions of the Notes and the Trust Deed also provide that the Trustee may, without the consent of Noteholders, (i) agree to any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of the provisions of the Notes or the Trust Deed (ii) determine that any Event of Default shall not be treated as such or (iii) agree to the substitution of another company as principal debtor under the Notes and the Trust Deed in place of the Issuer, in the circumstances described in the Terms and Conditions of the Notes and the Trust Deed. If the Issuer exercises such substitution right, the substitution may, for German tax purposes, be treated as an exchange of the original Notes for new notes for Noteholders subject to German taxation. In this case, any gain from such exchange would be subject to tax and the Noteholders might not be able to enforce their right to indemnification against the Issuer and the substitute debtor.

Change of law

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

TERMS AND CONDITIONS OF THE NOTES

The issue of the €170,000,000 6.75 per cent. fixed rate notes due 2019 (the **Euro Notes**) and the CHF 100,000,000 5.625 per cent. fixed rate notes due 2019 (the **CHF Notes**) (the CHF Notes together with the Euro Notes, the **Notes**) was authorised by a resolution of the Board of Directors of Air Berlin plc (the **Issuer**) passed on 27 April 2014.

The Notes are constituted by a trust deed dated 9 May 2014 (the **Trust Deed**) between the Issuer and BNP Paribas Trust Corporation UK Limited (the **Trustee**, which expression shall include all persons for the time being appointed as the trustee or trustees under the Trust Deed) as trustee for the holders of the Notes (as defined below). The statements set out in these Terms and Conditions of the Notes (the **Conditions**) include summaries of, and are subject to, the detailed provisions of the Trust Deed, which includes the forms of the Notes and the interest coupons relating to them (the **Coupons**). The Noteholders and the holders of the Coupons (the **Couponholders**) are entitled to the benefit of, and are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and those provisions applicable to them which are contained in the Paying Agency Agreement dated on or about 9 May 2014 (the **Agency Agreement**) relating to the Notes between the Issuer, the Trustee and BNP Paribas Securities Services, Luxembourg Branch (the **Principal Paying Agent**, which expression shall include any successor as principal paying agent under the Agency Agreement and, together with any other paying agents for the time being appointed under the Agency Agreement, the **Paying Agents**, which expression shall include their successors as Paying Agents under the Agency Agreement). Copies of each of the Trust Deed and the Agency Agreement are available for inspection by prior appointment during normal business hours at the office for the time being of the Trustee (currently being at BNP Paribas Trust Corporation UK Limited, 55 Moorgate, London EC2R 6PA), and at the specified offices of the Paying Agents.

Any reference in these Conditions to a **Series** of Notes or of Noteholders shall be a reference to the Euro Notes or the CHF Notes, as the case may be, or to the respective holders thereof. The expressions **Euro Notes** and **CHF Notes** shall, in these Conditions, unless the context otherwise requires include any Further Notes issued pursuant to Condition 16 and forming a single series with the Euro Notes or the CHF Notes, as the case may be.

As used herein:

CHF Noteholders means the holders of the CHF Notes;

Euro Noteholders means the holders of the Euro Notes; and

Noteholders means the CHF Noteholders and the Euro Noteholders.

Capitalised terms used but not defined in these Conditions shall have the meanings attributed to them in the Trust Deed unless the context otherwise requires or unless otherwise stated.

1. FORM, DENOMINATION, TITLE, STATUS AND SUBSIDIARIES

1.1 Form and Denomination

The Notes are in bearer form. The Euro Notes are issued in denominations of €1,000 each, with Coupons attached on issue. The CHF Notes are issued in denominations of CHF5,000 each, with Coupons attached on issue.

1.2 Title

Title to the Notes and Coupons passes by delivery. A holder of any Note or Coupon will (except as otherwise required by law or as ordered by a court of competent jurisdiction) be treated as the absolute owner of any relevant Note or Coupon (as the case may be) for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest in it, any writing on it, or its theft or loss) and no person will be liable for so treating the holder.

1.3 Status

The Notes and Coupons constitute direct, unsecured, unconditional and unsubordinated obligations of the Issuer and rank and will rank at all times pari passu and rateably, without any preference among themselves, and equally with all other existing and future unsecured and unsubordinated obligations of the Issuer but, in the event of insolvency, save for such obligations that may be preferred by provisions of law that are mandatory and of general application.

1.4 Subsidiaries

As of the Closing Date, all of the Issuer's subsidiaries will be "Restricted Subsidiaries." However, under Condition 3.9, the Board of Directors will be permitted to designate certain Subsidiaries as "Unrestricted Subsidiaries", which will not be subject to any of the restrictive covenants in the Conditions.

2. NEGATIVE PLEDGE

The Issuer will not, and will not permit any Restricted Subsidiary to, directly or indirectly, create, incur or suffer to exist any Lien upon any of its property or assets (including Capital Stock of a Restricted Subsidiary of the Issuer), whether owned on the Closing Date or acquired after that date, or any interest therein or any income or profits therefrom, which Lien is securing any Indebtedness (such Lien, the **Initial Lien**), except (1) Permitted Liens or (2) Liens on property or assets that are not Permitted Liens if the Notes are directly secured equally and rateably with, or prior to, in the case of Liens with respect to Subordinated Indebtedness, the Indebtedness secured by such Initial Lien for so long as such Indebtedness is so secured.

Any such Lien created in favour of the Notes will be automatically and unconditionally released and discharged upon the release and discharge of the Initial Lien to which it relates.

3. CERTAIN COVENANTS

3.1 Limitation on Incurrence of Indebtedness and Issuance of Disqualified Stock

The Issuer will not, and will not cause or permit any of its Restricted Subsidiaries to, incur any Indebtedness (including Acquired Debt) and the Issuer will not issue any Disqualified Stock and will not permit any of its Restricted Subsidiaries to issue any shares of preferred stock; provided, however that the Issuer and any Restricted Subsidiary may incur Indebtedness (including Acquired Debt) or issue Disqualified Stock if, for the Issuer's most recently ended four full fiscal quarters for which internal financial statements are available immediately preceding the date on which such additional Indebtedness is incurred or such Disqualified Stock is issued, as the case may be,

- (a) the Fixed Charge Coverage Ratio would have been at least 2.0 to 1.0, and
- (b) the Consolidated Leverage Ratio would have been not greater than 3.0 to 1.0,

in each case, determined on a pro forma basis (including a pro forma application of the net proceeds thereof) as if the additional Indebtedness had been incurred or the Disqualified Stock had been issued, as the case may be, at the beginning of such four quarter period.

This Condition 3.1 will not prohibit the incurrence of any Permitted Debt.

For purposes of determining compliance with this Condition 3.1, in the event that an item of Indebtedness meets the criteria of more than one of the categories of Permitted Debt, the Issuer, in its sole discretion, will be permitted to classify such item of Indebtedness on the date of its incurrence and only be required to include the amount and type of such Indebtedness in one of such paragraphs and will be permitted on the date of such incurrence to divide and classify an item of Indebtedness in more than one of the types of Indebtedness, and from time to time to reclassify all or a portion of such item of Indebtedness, in any manner that complies with this Condition 3.1, provided that Indebtedness incurred pursuant to paragraph (a) of the definition of Permitted Debt may not be reclassified.

For purposes of determining compliance with any euro-denominated restriction on the incurrence of Indebtedness, the Euro-equivalent principal amount of Indebtedness denominated in a different currency shall be utilised, calculated based on the relevant currency exchange rate in effect on the date such Indebtedness was incurred, in the case of term Indebtedness, or first committed, in the case of revolving credit Indebtedness; provided, however, that (a) if such Indebtedness denominated in non euro currency is subject to a Currency Exchange Protection Agreement with respect to euro, the amount of such Indebtedness expressed in euro will be calculated so as to take account of the effects of such Currency Exchange Protection Agreement; and (b) the Euro-equivalent of the principal amount of any such Indebtedness outstanding on the Closing Date shall be calculated based on the relevant currency exchange rate in effect on the Closing Date. The principal amount of any refinancing Indebtedness incurred in the same currency as the Indebtedness being refinanced will be the Euro-equivalent of the Indebtedness refinanced, as applicable, determined on the date such Indebtedness was originally incurred, in the case of term Indebtedness, or first committed, in the case of revolving credit Indebtedness, except that to the extent that:

- (a) such Euro-equivalent was determined based on a Currency Exchange Protection Agreement, in which case the refinancing Indebtedness will be determined in accordance with the preceding sentence; and
- (b) the principal amount of the refinancing Indebtedness exceeds the principal amount of the Indebtedness being refinanced, in which case the Euro-equivalent of such excess will be determined on the date such refinancing Indebtedness is being incurred.

Notwithstanding any other provision of this Condition 3.1, the maximum amount of Indebtedness that the Issuer or any Restricted Subsidiary may incur pursuant to this Condition 3.1 shall not be deemed to be exceeded solely as a result of fluctuations in exchange rates or currency values.

The amount of any Indebtedness outstanding as of any date will be:

- (a) in the case of any Indebtedness issued with original issue discount, the amount of the liability in respect thereof determined in accordance with IFRS;
- (b) the principal amount of the Indebtedness, in the case of any other Indebtedness;
- (c) in respect of Indebtedness of another Person secured by a Lien on the assets of the specified Person, the lesser of:
 - (i) the Fair Market Value of such assets at the date of determination; and
 - (ii) the amount of the Indebtedness of the other Person; and
- (d) if obligations in respect of letters of credit (including *Avale*), bankers' acceptances or other similar instruments are incurred pursuant to any Credit Facility and are being treated as incurred pursuant to paragraph (a), (p), (q) or (w) of the definition of Permitted Debt and the letters of credit (including *Avale*), bankers' acceptances or other similar instruments relate to other Indebtedness, then such other Indebtedness shall not be included.

3.2 Limitation on Restricted Payments

The Issuer will not, and will not cause or permit any of its Restricted Subsidiaries to, directly or indirectly, make any Restricted Payments; provided that the Issuer or any Restricted Subsidiary may make a Restricted Payment (other than an Investment, directly or indirectly, in any parent company) unless, at the time of any such Restricted Payment:

- (a) no Potential Event of Default (as defined in the Trust Deed) or Event of Default (as defined in Condition 10) has occurred and is continuing or would occur as a consequence of such Restricted Payment;
- (b) the Issuer would, at the time of such Restricted Payment and after giving pro forma effect thereto as if such Restricted Payment had been made at the beginning of the

applicable four quarter period, have been permitted to incur at least €1.00 of additional Indebtedness pursuant to Condition 3.1; and

- (c) such Restricted Payment, together with the aggregate amount of all other Restricted Payment made by the Issuer and its Restricted Subsidiaries since the Closing Date (excluding Permitted Payments other than paragraphs (a) and (l) of the definition of Permitted Payments), is less than the sum, without duplication, of:
- (i) 50% of the Consolidated Net Income of the Issuer for the period (taken as one accounting period) from the beginning of the fiscal quarter commencing immediately prior to the Closing Date to the end of the Issuer's most recently ended fiscal quarter for which internal financial statements are available at the time of such Restricted Payment (or, if such Consolidated Net Income for such period is a deficit, less 100% of such deficit); plus
 - (ii) 100% of the aggregate net cash proceeds and the Fair Market Value of marketable securities or other property received by the Issuer since the Closing Date as a contribution to its common equity capital or from the issue or sale of Equity Interests of the Issuer (other than Disqualified Stock and Excluded Contributions) or from the issue or sale of convertible or exchangeable Disqualified Stock of the Issuer or convertible or exchangeable debt securities of the Issuer, in each case that have been converted into or exchanged for Equity Interests of the Issuer (other than Equity Interests and convertible or exchangeable Disqualified Stock or debt securities sold to a Restricted Subsidiary of the Issuer); plus
 - (iii) to the extent that any Restricted Payment that was made after the Closing Date is (I) sold, disposed of or otherwise cancelled, liquidated or repaid, 100% of the aggregate amount received in cash and the Fair Market Value of the property and marketable securities received by the Issuer or any Restricted Subsidiary (other than from the Issuer or a Restricted Subsidiary), or (II) made in an entity that subsequently becomes a Restricted Subsidiary, 100% of the Fair Market Value of the Restricted Payment of the Issuer and its Restricted Subsidiaries as of the date such entity becomes a Restricted Subsidiary; plus
 - (iv) upon the full and unconditional release of a Restricted Payment that is a Guarantee made by the Issuer or one of its Restricted Subsidiaries to any Person, an amount equal to the amount of such Guarantee.

The preceding provisions will not prohibit any Permitted Payment.

The amount of all Restricted Payments (other than cash) will be the Fair Market Value on the date of the Restricted Payment of the asset(s) or securities proposed to be transferred or issued by the Issuer or such Restricted Subsidiary, as the case may be, pursuant to the Restricted Payment.

3.3 Limitation on Restrictions on Distributions from Restricted Subsidiaries

The Issuer will not, and will not permit any Restricted Subsidiary to, create or otherwise cause or permit to exist or become effective any consensual encumbrance or consensual restriction on the ability of any Restricted Subsidiary to:

- (A) pay dividends or make any other distributions in cash or otherwise on its Capital Stock or pay any Indebtedness or other obligations owed to the Issuer or any Restricted Subsidiary, or with respect to any other interest or participation in, or measured by, its profits, or pay any Indebtedness owed to the Issuer or any other Restricted Subsidiary;
- (B) make any loans or advances to the Issuer or any Restricted Subsidiary; or
- (C) sell, lease or transfer any of its property or assets to the Issuer or any Restricted Subsidiary,

provided that (x) the priority of any preferred stock in receiving dividends or liquidating distributions prior to dividends or liquidating distributions being paid on common stock and (y) the subordination of (including the application of any standstill requirements to) loans or advances made to the Issuer or any Restricted Subsidiary to other Indebtedness incurred by the Issuer or any Restricted Subsidiary shall not be deemed to constitute such an encumbrance or restriction.

The provisions of the preceding paragraph will not prohibit:

- (1) any encumbrance or restriction pursuant to (a) any Credit Facility or (b) any other agreement or instrument, in each case, in effect at or entered into on the Closing Date;
- (2) any encumbrance or restriction pursuant to an agreement or instrument of a Person or relating to any Capital Stock or Indebtedness of a Person, entered into on or before the date on which such Person was acquired by or merged, consolidated or otherwise combined with or into the Issuer or any Restricted Subsidiary, or on which such agreement or instrument is assumed by the Issuer or any Restricted Subsidiary in connection with an acquisition of assets (other than Capital Stock or Indebtedness incurred as consideration in, or to provide all or any portion of the funds utilised to consummate, the transaction or series of related transactions pursuant to which such Person became a Restricted Subsidiary or was acquired by the Issuer or was merged, consolidated or otherwise combined with or into the Issuer or any Restricted Subsidiary entered into or in connection with such transaction) and outstanding on such date; provided that, for the purposes of this paragraph (2), if another Person is the Successor (as defined in Condition 3.6), any Restricted Subsidiary thereof or agreement or instrument of such Person or any such Restricted Subsidiary shall be deemed acquired or assumed by the Issuer when such Person becomes the Successor;
- (3) any encumbrance or restriction pursuant to an agreement or instrument effecting a refinancing of Indebtedness incurred pursuant to, or that otherwise refinances, an agreement or instrument referred to in paragraph (1) or (2) of this Condition 3.3 or this paragraph (3) (an **Initial Agreement**) or contained in any amendment, supplement or other modification to an agreement referred to in paragraph (1) or (2) of this Condition 3.3 or this paragraph (3); *provided, however*, that the encumbrances and restrictions with respect to such Restricted Subsidiary contained in any such agreement or instrument are no less favourable in any material respect to the Noteholders taken as a whole than the encumbrances and restrictions contained in the Initial Agreement or Initial Agreements to which such refinancing or amendment, supplement or other modification relates (as determined in good faith by the Issuer);
- (4) any encumbrance or restriction:
 - (a) that restricts in a customary manner the subletting, assignment or transfer of any property or asset that is subject to a lease, license or similar contract, or the assignment or transfer of any lease, license or other contract;
 - (b) contained in mortgages, charges, pledges or other security agreements permitted under these Conditions or securing Indebtedness of the Issuer or a Restricted Subsidiary permitted under these Conditions to the extent such encumbrances or restrictions restrict the transfer of the property or assets subject to such mortgages, charges, pledges or other security agreements; or
 - (c) pursuant to customary provisions restricting dispositions of real property interests set forth in any reciprocal easement agreements of the Issuer or any Restricted Subsidiary;
- (5) any encumbrance or restriction pursuant to purchase money obligations and Capital Lease Obligations permitted under these Conditions, in each case, that impose encumbrances or restrictions on the property so acquired, or any encumbrance or

restriction pursuant to a joint venture agreement that imposes restrictions on the distribution or transfer of the assets or Capital Stock of the joint venture;

- (6) any encumbrance or restriction with respect to a Restricted Subsidiary (or any of its property or assets) imposed pursuant to an agreement entered into for the direct or indirect sale or disposition to a Person of all or substantially all the Capital Stock or assets of such Restricted Subsidiary (or the property or assets that are subject to such restriction) pending the closing of such sale or disposition;
- (7) customary provisions in leases, licenses, joint venture agreements and other similar agreements and instruments entered into in the ordinary course of business;
- (8) encumbrances or restrictions arising or existing by reason of applicable law or any applicable rule, regulation or order, or required by any regulatory authority;
- (9) any encumbrance or restriction on cash or other deposits or net worth imposed by customers under agreements entered into in the ordinary course of business;
- (10) any encumbrance or restriction pursuant to agreements governing Hedging Obligations;
- (11) any encumbrance or restriction arising pursuant to an agreement or instrument relating to any Indebtedness permitted to be incurred subsequent to the Closing Date pursuant to the provisions of Condition 3.1 if the encumbrances and restrictions contained in any such agreement or instrument taken as a whole are not materially less favourable to the Noteholders than is customary in comparable financings (as determined in good faith by the Issuer);
- (12) restrictions effected in connection with a Qualified Receivables Transaction that, in the good faith determination of the Issuer, are necessary or advisable to effect such Qualified Receivables Transaction; or
- (13) any encumbrance or restriction existing by reason of any lien permitted under Condition 2.1.

3.4 Limitation on Sales of Assets and Subsidiary Stock

The Issuer will not, and will not permit any Restricted Subsidiary to, consummate any Asset Disposition unless:

- (1) the consideration the Issuer or such Restricted Subsidiary receives for such Asset Disposition is not less than the Fair Market Value of the assets sold; and
- (2) at least 75% of the consideration the Issuer or such Restricted Subsidiary receives in respect of such Asset Disposition consists of:
 - (i) cash (including any Net Available Cash received from the conversion within 180 days of such Asset Disposition of securities, notes or other obligations received in consideration of such Asset Disposition);
 - (ii) Cash Equivalents;
 - (iii) the assumption by the purchaser of (x) any liabilities recorded on the Issuer's or such Restricted Subsidiary's balance sheet or the notes thereto (or, if incurred since the date of the latest balance sheet, that would be recorded on the next balance sheet) (other than Subordinated Indebtedness), as a result of which neither the Issuer nor any of the Restricted Subsidiaries remains obligated in respect of such liabilities or (y) Indebtedness of a Restricted Subsidiary that is no longer a Restricted Subsidiary of the Issuer as a result of such Asset Disposition, if the Issuer and each other Restricted Subsidiary is released from any guarantee of such Indebtedness as a result of such Asset Disposition;
 - (iv) any Capital Stock or assets of the kind referred to in paragraph (3) or (4) in the second paragraph of this covenant;

- (v) consideration consisting of Indebtedness of the Issuer received from Persons who are not the Issuer or any Restricted Subsidiary, but only to the extent that such Indebtedness has been extinguished;
- (vi) any Designated Non-Cash Consideration received by the Issuer or any Restricted Subsidiary, having an aggregate Fair Market Value, taken together with all other Designated Non-Cash Consideration received pursuant to this covenant that is at any one time outstanding, not to exceed the greater of 0.5% of Total Assets and €10 million (with the Fair Market Value of each issue of Designated Non-Cash Consideration being measured at the time received and without giving effect to subsequent changes in value); or
- (vii) a combination of the consideration specified in paragraphs (i) through (vi) of this paragraph (2).

If the Issuer or any Restricted Subsidiary consummates an Asset Disposition, the Net Available Cash of the Asset Disposition, within 365 days of the later of (i) the date of the consummation of such Asset Disposition and (ii) the receipt of such Net Available Cash, may be used by the Issuer or such Restricted Subsidiary to:

- (1) (i) prepay, repay, purchase or redeem any Indebtedness of the Issuer or a Restricted Subsidiary of the Issuer incurred under paragraph (a) of the definition of “Permitted Debt”; provided, however, that, in connection with any prepayment, repayment or purchase of Indebtedness pursuant to this paragraph (i), the Issuer or such Restricted Subsidiary will retire such Indebtedness and will cause the related commitment (if any) to be permanently reduced in an amount equal to the principal amount so prepaid, repaid, purchase or redeemed; or (ii) prepay, repay, purchase or redeem any Pari Passu Indebtedness (other than Indebtedness owed to the Issuer or any Restricted Subsidiary), provided that the Issuer shall prepay, repay, purchase or redeem Pari Passu Indebtedness pursuant to this paragraph (ii) only if the Issuer makes (at such time or in compliance with this covenant) an offer to holders to purchase their Notes in accordance with the provisions set forth below for an Asset Disposition Offer for an aggregate principal amount of Notes equal to the proportion that (x) the total aggregate principal amount of Notes outstanding bears to (y) the sum total aggregate principal amount of the Notes outstanding plus the total aggregate principal amount outstanding of such Pari Passu Indebtedness (other than the Notes);
- (2) acquire all or substantially all of the assets of, or any Capital Stock of, another Similar Business, if, after giving effect to any such acquisition of Capital Stock, the Similar Business is or becomes a Restricted Subsidiary;
- (3) make a capital expenditure;
- (4) acquire other assets (other than Capital Stock and cash or Cash Equivalents) that are used or useful in a Similar Business;
- (5) consummate any combination of the foregoing; or
- (6) enter into a binding commitment to apply the Net Available Cash pursuant to any of the above paragraphs (2), (3) or (4) of this paragraph, *provided* that, a binding commitment shall be treated as a permitted application of the Net Available Cash from the date of such commitment until the earlier of (x) the date on which such investment is consummated, (y) the 180th day following the expiration of the aforementioned 365 day period, if the investment has not been consummated by that date.

The amount of such Net Available Cash not so used as set forth in this paragraph constitutes “Excess Proceeds”. Pending the final application of any such Net Available Cash, the Issuer may temporarily reduce revolving credit borrowings or otherwise invest such Net Available Cash in any manner that is not prohibited by the terms of these Conditions.

On the 365th day after an Asset Disposition, if the aggregate amount of Excess Proceeds exceeds €25 million, the Issuer will be required within 10 Business Days thereof to make an offer (**Asset Disposition Offer**) to all Noteholders and, to the extent the Issuer elects, to all holders of other outstanding Pari Passu Indebtedness, to purchase the maximum principal amount of Notes and any such Pari Passu Indebtedness to which the Asset Disposition Offer applies that may be purchased out of the Excess Proceeds, at an offer price in respect of the Notes in an amount equal to (and, in the case of any Pari Passu Indebtedness, an offer price of no more than) 100% of the principal amount of the Notes and 100% of the principal amount of Pari Passu Indebtedness, in each case, plus accrued and unpaid interest, if any, to, but not including, the date of purchase, in accordance with the procedures set forth in the Conditions or the agreements governing the Pari Passu Indebtedness, as applicable, in minimum denominations of €1,000 with respect to the Euro Notes and in minimum denominations of CHF5,000, with respect to CHF Notes.

To the extent that the aggregate amount of Notes and Pari Passu Indebtedness so validly tendered and not properly withdrawn pursuant to an Asset Disposition Offer is less than the Excess Proceeds, the Issuer may use any remaining Excess Proceeds for general corporate purposes, subject to the other covenants contained in these Conditions. If the aggregate principal amount of the Notes surrendered in any Asset Disposition Offer by Noteholders and other Pari Passu Indebtedness surrendered by holders or lenders, collectively, exceeds the amount of Excess Proceeds, the Excess Proceeds shall be allocated among the Notes and Pari Passu Indebtedness to be purchased on a pro rata basis on the basis of the aggregate principal amount of tendered Notes and Pari Passu Indebtedness. For the purposes of calculating the principal amount of any such Indebtedness not denominated in euro, such Indebtedness shall be calculated by converting any such principal amounts into their Euro-equivalent determined as of a date selected by the Issuer that is within the Asset Disposition Offer Period (as defined below). Upon completion of any Asset Disposition Offer, the amount of Excess Proceeds shall be reset at zero.

To the extent that any portion of Net Available Cash payable in respect of any series of the Notes is denominated in a currency other than the currency in which the relevant Notes are denominated, the amount thereof payable in respect of such Notes shall not exceed the net amount of funds in the currency in which such Notes are denominated that is actually received by the Issuer upon converting such portion of the Net Available Cash into such currency.

The Asset Disposition Offer, in so far as it relates to the Notes, will remain open for a period of not less than 20 Business Days following its commencement (the **Asset Disposition Offer Period**). No later than five Business Days after the termination of the Asset Disposition Offer Period (the **Asset Disposition Purchase Date**), the Issuer will purchase the principal amount of Notes and, to the extent it elects, Pari Passu Indebtedness required to be purchased by it pursuant to this covenant (the **Asset Disposition Offer Amount**) or, if less than the Asset Disposition Offer Amount has been so validly tendered, all Notes and Pari Passu Indebtedness validly tendered in response to the Asset Disposition Offer.

On or before the Asset Disposition Purchase Date, the Issuer will, to the extent lawful, accept for payment, on a pro rata basis to the extent necessary, the Asset Disposition Offer Amount of Notes and Pari Passu Indebtedness or portions of Notes and Pari Passu Indebtedness so validly tendered and not properly withdrawn pursuant to the Asset Disposition Offer, or if less than the Asset Disposition Offer Amount has been validly tendered and not properly withdrawn, all Notes and Pari Passu Indebtedness so validly tendered and not properly withdrawn and in minimum denominations of €1,000 with respect to the Euro Notes and in minimum denominations of CHF5,000 with respect to the CHF Notes. The Issuer will deliver to the Trustee an Officers' Certificate stating that such Notes or portions thereof were accepted for payment by the Issuer in accordance with the terms of this Condition 3.4. The Issuer or the Paying Agent, as the case may be, will promptly (but in any case not later than five Business Days after termination of the Asset Disposition Offer Period) mail or deliver to each tendering holder of Notes an amount equal to the purchase price of the Notes so validly tendered and not properly withdrawn by such holder, and accepted by the Issuer for purchase.

The Issuer will comply with any securities laws or regulations to the extent applicable in connection with the repurchase of Notes pursuant to the Conditions. To the extent that the provisions of any securities laws or regulations conflict with provisions of this Condition 3.4, the Issuer will comply with the applicable securities laws and regulations and will not be deemed to have breached its obligations under these Conditions by virtue of any conflict.

3.5 Limitation on Affiliate Transactions

The Issuer will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly, enter into or conduct any transaction or series of related transactions (including the purchase, sale, lease or exchange of any property or the rendering of any service) with any Affiliate of the Issuer (any such transaction or series of related transactions being an **Affiliate Transaction**) involving aggregate value in excess of €5 million unless:

- (1) the terms of such Affiliate Transaction taken as a whole are not materially less favourable to the Issuer or such Restricted Subsidiary, as the case may be, than those that could be obtained in a comparable transaction at the time of such transaction or the execution of the agreement providing for such transaction in arm's-length dealings with a Person who is not such an Affiliate;
- (2) in the event such Affiliate Transaction involves an aggregate value in excess of €25 million, the terms of such transaction or series of related transactions have been approved by a resolution of the majority of the disinterested members of the Board of Directors of the Issuer resolving that such transaction complies with paragraph (1) above; and
- (3) in the event such Affiliate Transaction involves an aggregate consideration in excess of €75 million, the Issuer has received a written opinion (a Fairness Opinion) from an Independent Financial Advisor copied to the Trustee that such Affiliate Transaction is fair, from a financial standpoint, to the Issuer and its Subsidiaries or that the terms are not materially less favourable than those that could reasonably have been obtained in a comparable transaction at such time on an arm's-length basis from a Person that is not an Affiliate.

The provisions of the preceding paragraph will not apply to:

- (1) any Restricted Payment permitted to be made pursuant to Condition 3.2, any Permitted Payments or any Permitted Investment (other than Permitted Investments as defined in paragraphs (c), (n) or (o));
- (2) any issuance or sale of Capital Stock, options, other equity-related interests or other securities, or other payments, awards or grants in cash, securities or otherwise pursuant to, or the funding of, or entering into, or maintenance of, any employment, consulting, collective bargaining or benefit plan, program, agreement or arrangement, related trust or other similar agreement and other compensation arrangements, options, warrants or other rights to purchase Capital Stock of the Issuer, any Restricted Subsidiary or any parent company of the Issuer, restricted stock plans, long-term incentive plans, stock appreciation rights plans, participation plans or similar employee benefits or consultants' plans (including valuation, health, insurance, deferred compensation, severance, retirement, savings or similar plans, programs or arrangements) or indemnities provided on behalf of officers, employees, directors or consultants approved by the Board of Directors of the Issuer, in each case in the ordinary course of business;
- (3) any Management Advances and any waiver or transaction with respect thereto;
- (4) any transaction between or among the Issuer and any Restricted Subsidiary (or entity that becomes a Restricted Subsidiary as a result of such transaction), or between or among Restricted Subsidiaries or any Receivables Entity;
- (5) the payment of reasonable fees and reimbursement of expenses to, and customary indemnities and employee benefit and pension expenses provided on behalf of, directors,

officers, consultants or employees of the Issuer, any Restricted Subsidiary of the Issuer or any parent company of the Issuer (whether directly or indirectly and including through any Person owned or controlled by any of such directors, officers or employees);

- (6) (i) the Transactions, (ii) the entry into and performance of obligations of the Issuer or any of its Restricted Subsidiaries under the terms of any transaction pursuant to or contemplated by, and any payments pursuant to or for purposes of funding, any agreement or instrument in effect as of or on the Closing Date, as these agreements and instruments may be amended, modified, supplemented, extended, renewed, replaced or refinanced from time to time in accordance with the other terms of this covenant or to the extent not more disadvantageous to the Noteholders in any material respect, and (iii) the entry into and performance of any registration rights or other listing agreement;
- (7) the execution, delivery and performance of any arrangement pursuant to which the Issuer or any of its Restricted Subsidiaries is required or permitted to file a consolidated tax return, or the formation and maintenance of any consolidated group for tax, accounting or cash pooling or management purposes in the ordinary course of business;
- (8) transactions with customers, clients, suppliers or purchasers or sellers of goods or services, in each case in the ordinary course of business, which are fair to the Issuer or the relevant Restricted Subsidiary in the reasonable determination of the Board of Directors or an officer of the Issuer or the relevant Restricted Subsidiary, or are on terms no less favourable than those that could reasonably have been obtained at such time from an unaffiliated party;
- (9) any transaction in the ordinary course of business between or among the Issuer or any Restricted Subsidiary and any Affiliate of the Issuer or similar entity that would constitute an Affiliate Transaction solely because the Issuer or a Restricted Subsidiary or any Affiliate of the Issuer or a Restricted Subsidiary owns an equity interest in or otherwise controls such Affiliate or similar entity;
- (10) issuances or sales of Capital Stock (other than Disqualified Stock) of the Issuer or options, warrants or other rights to acquire such Capital Stock or indebtedness permitted to be incurred pursuant to paragraph (v) of the definition of "Permitted Debt";
- (11) any transactions provided that the Issuer or a Restricted Subsidiary delivers to the Trustee a letter from an Independent Financial Advisor stating that such transaction is fair to the Issuer or such Restricted Subsidiary from a financial point of view;
- (12) pledges of Capital Stock of Unrestricted Subsidiaries; and
- (13) any transaction effected as part of a Qualified Receivables Transaction.

3.6 Merger

The Issuer shall not consolidate, merge or amalgamate with or into (whether or not the Issuer is the surviving corporation), or sell, assign or convey, transfer, lease, or otherwise dispose of, in one transaction or a series of transactions, all or substantially all of its assets to another Person, unless:

- (a) the resulting, surviving or transferee Person, if other than the Issuer (the **Successor**), shall be a Person organised and existing under the laws of the United Kingdom or any other member state of the Pre-Expansion European Union and shall expressly assume, by way of a deed supplemental to the Trust Deed (a **Supplemental Trust Deed**), executed and delivered to the Trustee, in a form satisfactory to the Trustee, all the obligations of the Issuer in respect of the Notes and under the Trust Deed and these Conditions;
- (b) immediately after giving effect to such transaction (and treating any Indebtedness which becomes an obligation of the Issuer or the Successor, as applicable, as a result of such transaction as having been incurred by the Issuer or the Successor) no Event of Default or Potential Event of Default shall have occurred and be continuing; and

- (c) the Issuer shall have delivered to the Trustee (i) an Officers' Certificate stating that such consolidation, merger, amalgamation or sale, assignment, conveyance, transfer, lease or other disposition and such Supplemental Trust Deed (if any) comply with the provisions of this covenant (in particular, as to the matters referred to in paragraph (b) above) and (ii) an opinion(s) of independent legal advisers of recognised standing as to all relevant laws in a form(s) satisfactory to the Trustee and opining as to the matters referred to in paragraph (a) above.

The Trustee shall be obliged to enter into the Supplemental Trust Deed referred to in (a) above upon receipt of the Officers' Certificate and legal opinion referred to in (c) above.

The Successor shall succeed to, and, upon execution of the Supplemental Trust Deed, be substituted for and may exercise every right and power of, the Issuer under the Trust Deed. The Supplemental Trust Deed shall, if so expressed, operate to release the Issuer or any previous substitute hereunder from all obligations and covenants under the Trust Deed and the Notes.

Nothing contained in the foregoing restrictions on merger, consolidation, amalgamation and asset transfers shall prohibit any Restricted Subsidiary of the Issuer from consolidating or amalgamating with, merging with or into, or transferring all or part of its properties and assets to another Restricted Subsidiary of the Issuer provided that, after giving effect to any such merger, consolidation, amalgamation or asset transfer, no Event of Default or Potential Event of Default shall have occurred and be continuing or would result therefrom as certified to the Trustee in an Officers' Certificate of the Issuer.

3.7 Use of Proceeds

The Issuer shall apply the net proceeds of the issuance of the Notes in connection with the Exchange Offer and/or general corporate purposes.

3.8 Reporting

For so long as the Notes are outstanding, to the extent the shares of the Issuer (or any Successor) no longer listed on the regulated market (*regulierter Markt*) of the Frankfurt Stock Exchange and the sub-segment thereof with further post-admission obligations (Prime Standard) (as may be modified from time to time, the then **Current Reporting Standards**) or any other EU regulated market such that the Issuer continues to be subject to disclosure obligations substantially the same, in terms of timing and content, as the Current Reporting Standards, the Issuer will deliver to the Trustee in electronic form, annual and interim reports certified by the Chief Executive Officer or Chief Financial Officer as if it were still subject to the Current Reporting Standards.

3.9 Definitions

For purposes of these Conditions, the following definitions shall apply:

Acquired Debt means, with respect to any specified Person:

- (a) Indebtedness of any other Person existing at the time such other Person is merged with or into or became a Restricted Subsidiary of such specified Person, whether or not such Indebtedness is incurred in connection with, or in contemplation of, such other Person merging with or into, or becoming a Restricted Subsidiary; and
- (b) Indebtedness secured by a Lien encumbering any asset acquired by such specified Person.

Affiliate of any specified Person means any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person. For purposes of this definition, control, as used with respect to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of such Person, whether through the ownership of voting securities, by agreement or otherwise. For purposes of this definition, the terms **controlling**, **controlled by** and **under common control** with have correlative meanings.

Appointee has the meaning set out in the Trust Deed.

Asset Disposition means any direct or indirect sale, lease (other than an operating lease entered into in the ordinary course of business), transfer, issuance or other disposition, or a series of related sales, leases (other than operating leases entered into in the ordinary course of business), transfers, issuances or dispositions that are part of a common plan, of shares of Capital Stock of a Restricted Subsidiary (other than directors' qualifying shares), property or other assets (each referred to for the purposes of this definition as a **disposition**) by the Issuer or any of its Restricted Subsidiaries, including any disposition by means of a merger, consolidation or similar transaction. Notwithstanding the preceding provisions of this definition, the following items shall not be deemed to be Asset Dispositions:

- (a) a disposition by a Restricted Subsidiary to the Issuer or by the Issuer or a Restricted Subsidiary to a Restricted Subsidiary;
- (b) a disposition of cash or Cash Equivalents;
- (c) a disposition of inventory, trading stock, aircraft, airframes, engines, flight simulators, ground support equipment, air frame or engine parts (including spare parts), rotables or consumables (including, without limitation, passenger and cargo transportation and related on-board or ground products and services and jet fuel) or other equipment or assets in the ordinary course of business;
- (d) a disposition of obsolete, damaged, retired, surplus or worn out equipment or assets or equipment, facilities or other assets that are no longer useful in the conduct of the business of the Issuer and its Restricted Subsidiaries and any transfer, termination, unwinding or other disposition of hedging instruments or arrangements not for speculative purposes;
- (e) transactions permitted under Condition 3.6 or a transaction that constitutes a Change of Control;
- (f) an issuance of Capital Stock by a Restricted Subsidiary to the Issuer or to another Restricted Subsidiary or as part of or pursuant to an equity incentive or compensation plan approved by the Board of Directors, an issuance or sale of Disqualified Stock by a Restricted Subsidiary that is permitted under Covenant 3.1 or the issuance of directors' qualifying shares and shares issued to individuals as required by applicable law;
- (g) any dispositions of Capital Stock, properties or assets in a single transaction or series of related transactions with a Fair Market Value of less than the greater €25 million and 1% of Total Assets;
- (h) any Restricted Payment that does not violate Condition 3.2, a Permitted Investment or any transaction specifically excluded from the definition of Restricted Payment;
- (i) the granting of Liens not prohibited by Condition 2;
- (j) dispositions of receivables in connection with the compromise, settlement or collection thereof in the ordinary course of business or in bankruptcy or similar proceedings and exclusive of factoring or similar arrangements or any sale of assets received by the Issuer or a Restricted Subsidiary upon the foreclosure of a Lien granted in favour of the Issuer or any Restricted Subsidiary;
- (k) the licensing or sub-licensing of intellectual property or other general intangibles and licenses, sub-licenses, leases or subleases of other property, in each case, in the ordinary course of business;
- (l) foreclosure, condemnation, taking by eminent domain or any similar action with respect to any property or other assets;
- (m) the sale or discount (with or without recourse, and on customary or commercially reasonable terms) of accounts receivable or notes receivable arising in the ordinary

course of business, or the conversion or exchange of accounts receivable for notes receivable;

- (n) sales or dispositions of receivables in connection with any Qualified Receivables Transaction or any factoring transaction or in the ordinary course of business;
- (o) any issuance, sale or disposal of Capital Stock, Indebtedness or other securities of an Unrestricted Subsidiary;
- (p) any disposition of Capital Stock of a Restricted Subsidiary pursuant to an agreement or other obligation with or to a Person (other than the Issuer or a Restricted Subsidiary) from whom such Restricted Subsidiary was acquired, or from whom such Restricted Subsidiary acquired its business and assets (having been newly formed in connection with such acquisition), made as part of such acquisition and in each case comprising all or a portion of the consideration in respect of such sale or acquisition;
- (q) any surrender or waiver of contract rights or the settlement, release or surrender of contract, tort or other claims of any kind;
- (r) sales, transfers or other dispositions of Investments in a joint venture to the extent required by, or made pursuant to, customary buy/sell arrangements between the joint venture parties set forth in joint venture arrangements and similar binding agreements; *provided* that any cash or Cash Equivalents received in such sale, transfer or disposition is applied in accordance with Condition 3.4;
- (s) any disposition with respect to property built, owned or otherwise acquired by the Issuer or any Restricted Subsidiary pursuant to customary sale and lease-back transactions, asset securitisations and other similar financings permitted by these Conditions; and
- (t) any disposition of assets or Capital Stock to a Person who is providing services related to such assets, the provision of which have been or are to be outsourced by the Issuer or any Restricted Subsidiary to such Person; provided, however, that the Board of Directors of the Issuer shall certify that in the opinion of the Board of Directors, the outsourcing transaction will be economically beneficial to the Company and its Restricted Subsidiaries (considered as a whole); and provided, further, that the assets underlying any such disposition shall have a recorded value of less than 2.5% of the Total Assets and shall have generated less than €100 million of revenues for the last fiscal year.

Board of Directors means:

- (a) with respect to a corporation, the board of directors of the corporation or any committee thereof duly authorized to act on behalf of such board;
- (b) with respect to a partnership, the board of directors of the general partner of the partnership;
- (c) with respect to a limited liability company, the managing member or members or any controlling committee of managing members thereof; and
- (d) with respect to any other Person, the board or committee of such Person serving a similar function.

Business Day means each day that is not a Saturday, Sunday or other day on which banking institutions in Frankfurt, Germany, Zurich, Switzerland (with respect to the CHF Notes only), Luxembourg or London, United Kingdom are authorised or required by law to close.

Capital Lease Obligation means, at the time any determination is to be made, the amount of the liability in respect of a capital lease that would at that time be required to be capitalised on a balance sheet (excluding the notes thereto) prepared in accordance with IFRS, as in effect as of the Closing Date, and the Stated Maturity thereof shall be the date of the last payment of rent or any other amount due under such lease prior to the first date upon which such lease may be prepaid by the lessee without payment of a penalty.

Capital Stock means:

- (a) in the case of a corporation, corporate stock;
- (b) in the case of an association or business entity, any and all shares, interests, participations, rights or other equivalents (however designated) of corporate stock;
- (c) in the case of a partnership or limited liability company, partnership interests (whether general or limited) or membership interests; and
- (d) any other interest or participation that confers on a Person the right to receive a share of the profits and losses of, or distributions of assets of, the issuing Person, but excluding from all of the foregoing any debt securities convertible into Capital Stock, whether or not such debt securities include any right of participation with Capital Stock.

Cash Equivalents means:

- (a) direct obligations (or certificates representing an interest in such obligations) issued by, or unconditionally guaranteed by, the government of a member state of the Pre-Expansion European Union, the United States of America, Switzerland, Australia or Canada (including, in each case, any agency or instrumentality thereof), as the case may be, the payment of which is backed by the full faith and credit of the relevant member state of the Pre-Expansion European Union or the United States of America, Switzerland, Australia or Canada, as the case may be, and which are not callable or redeemable at the Issuer's option;
- (b) overnight bank deposits, time deposit accounts, certificates of deposit, banker's acceptances and money market deposits with maturities (and similar instruments) of 12 months or less from the date of acquisition issued by (i) any commercial bank or trust company that has issued such deposits or acceptances to the Issuer or any of its Restricted Subsidiaries on or during the six months prior to the Closing Date or (ii) any commercial bank or trust company that has capital, surplus and undivided profits aggregating in excess of €250,000 (or the foreign currency equivalent thereof as of the date of such investment) and whose long-term debt is rated "Baa3" or higher by Moody's or "BBB-" or higher by S&P or the equivalent rating category of another internationally recognized rating agency;
- (c) repurchase obligations with a term of not more than 30 days for underlying securities of the types described in paragraphs (a) and (b) above entered into with any financial institution meeting the qualifications specified in paragraph (b) above;
- (d) commercial paper having one of the two highest ratings obtainable from Moody's or S&P and, in each case, maturing within one year after the date of acquisition; and
- (e) money market funds at least 95% of the assets of which constitute Cash Equivalents of the kinds described in paragraphs (a) through (d) of this definition.

Change of Control means the occurrence of the following events (i) any person or persons, acting together, acquires or acquire or become(s) entitled to control more than 50 per cent. of the votes that may ordinarily be cast on a poll at a general meeting of the Issuer (other than as a result of a Newco Scheme); or (ii) an offer is made to all (or as nearly as may be practicable all) shareholders of the Issuer (or all (or as nearly as may be practicable all) such shareholders of the Issuer other than the offeror(s) and/or any associate (as defined in Section 988(1) of the Companies Act) of the offeror(s)), to acquire all or a majority of the issued ordinary share capital of the Issuer or if any person proposes a scheme of arrangement or analogous proceeding with regard to such acquisition (other than a Newco Scheme) and (such offer or scheme of arrangement or analogous proceeding having become or been declared unconditional in all respects or having become effective) the right to cast more than 50% of the votes which may ordinarily be cast on a poll at a general meeting of the Issuer has or will become unconditionally vested in the offeror(s) or such person, as the case may be and/or any associate (as defined in

Section 988(1) of the Companies Act) of the offeror(s) or such person, as the case may be; or (iii) the sale, lease, transfer, conveyance or other disposition (other than by way of merger, consolidation or other business combination transaction), in one or a series of related transactions, of all or substantially all of the assets of the Issuer and its Restricted Subsidiaries taken as a whole to a Person.

Closing Date means 9 May 2014.

Consolidated EBITDA means, with respect to any specified Person for any period, the Consolidated Net Income of such Person for such period plus the following to the extent deducted in calculating such Consolidated Net Income, without duplication:

- (a) provision for taxes and deferred taxes based on income or profits of such Person and its Restricted Subsidiaries for such period; plus
- (b) the Fixed Charges of such Person and its Restricted Subsidiaries for such period; plus
- (c) depreciation, amortisation (including, without limitation, amortisation of intangibles and deferred financing fees) and other non-cash charges and expenses (including without limitation write-downs and impairment of property, plant, equipment and intangibles and other long-lived assets and the impact of purchase accounting on the Issuer and its Restricted Subsidiaries for such period) of the Issuer and its Restricted Subsidiaries (excluding any such non-cash charge or expense to the extent that it represents an accrual of or reserve for cash charges or expenses in any future period or amortisation of a prepaid cash charge or expense that was paid in a prior period) for such period; plus
- (d) any expenses, charges or other costs related to the issuance of any Capital Stock, or any Permitted Investment, acquisition, disposition, recapitalisation or listing or the incurrence of Indebtedness permitted to be incurred under Condition 3.1 (or the refinancing thereof) whether or not successful, including (i) such fees, expenses or charges related to any such incurrence of Indebtedness and (ii) any amendment or other modification of any such Indebtedness; plus
- (e) any foreign currency transaction losses of the Issuer and its Restricted Subsidiaries; plus
- (f) the amount of any minority interest expense consisting of subsidiary income attributable to minority equity interests of third parties in any non-wholly owned Restricted Subsidiary of such Person in such period or any prior period, except to the extent of dividends declared or paid on, or other cash payments in respect of, Equity Interests held by such parties; plus
- (g) any (x) non-cash restructuring charges and (y) any cash restructuring charges in an aggregate amount not exceed to €20 million in any fiscal year; plus
- (h) any non-cash charges or reserves in respect of any integration; minus
- (i) any foreign currency transaction gains of the Issuer and its Restricted Subsidiaries; minus
- (j) non-cash items increasing such Consolidated Net Income for such period (other than any non-cash items increasing such Consolidated Net Income pursuant to paragraphs (a) through (k) of the definition of Consolidated Net Income), other than the reversal of a reserve for cash charges in a future period in the ordinary course of business;

in each case, on a consolidated basis and determined in accordance with IFRS.

Consolidated Leverage Ratio means, as of any date of determination, the ratio of (x) Consolidated Net Leverage at such date to (y) the aggregate amount of Consolidated EBITDA for the period of the most recent four consecutive fiscal quarters ending prior to the date of such determination for which internal consolidated financial statements of the Issuer are available; provided, however, that for the purposes of calculating Consolidated EBITDA for such period, if, as of such date of determination:

- (a) acquisitions that have been made by the Issuer or any of its Restricted Subsidiaries, including through mergers, consolidations, amalgamations or otherwise, or by any Person or any of its Restricted Subsidiaries acquired by the Issuer or any of its Restricted Subsidiaries, and including all related financing transactions and including increases in ownership of Restricted Subsidiaries, during the four-quarter reference period or subsequent to such reference period and on or prior to the Calculation Date, or that are to be made on the Calculation Date, will be given pro forma effect (as determined in good faith by a responsible accounting or financial officer of the Issuer) as if they had occurred on the first day of the four-quarter reference period;
- (b) the Consolidated EBITDA attributable to discontinued operations, as determined in accordance with IFRS, and operations or businesses (and ownership interests therein) disposed of prior to the Calculation Date, will be excluded;
- (c) the Fixed Charges attributable to discontinued operations, as determined in accordance with IFRS, and operations or businesses (and ownership interests therein) disposed of prior to the Calculation Date, will be excluded, but only to the extent that the obligations giving rise to such Fixed Charges will not be obligations of the specified Person or any of its Restricted Subsidiaries following the Calculation Date;
- (d) any Person that is a Restricted Subsidiary on the Calculation Date will be deemed to have been a Restricted Subsidiary at all times during such four-quarter period;
- (e) any Person that is not a Restricted Subsidiary on the Calculation Date will be deemed not to have been a Restricted Subsidiary at any time during such four-quarter period; and
- (f) if any Indebtedness bears a floating rate of interest and such Indebtedness is to be given pro forma effect, the interest expense on such Indebtedness will be calculated as if the rate in effect on the Calculation Date had been the applicable rate for the entire period (taking into account any Hedging Obligation applicable to such Indebtedness if such Hedging Obligation has a remaining term as at the Calculation Date in excess of 12 months, or, if shorter, at least equal to the remaining term of such Indebtedness).

For the purposes of this definition and the definition of Consolidated EBITDA, the pro forma calculation may include anticipated expense and cost reductions and synergies as determined reasonably and in good faith by a responsible financial or accounting Officer of the Issuer; provided that the aggregate amount of all adjustments to Consolidated EBITDA made in respect of such anticipated expense and cost reductions and synergies shall not exceed 10% of such Person's pro forma Consolidated EBITDA for such period after giving effect to all other pro forma adjustments but before giving effect to such anticipated expense and cost reductions and synergies.

Consolidated Net Income means, with respect to any specified Person for any period, the aggregate of the net income (loss) of such Person and its Restricted Subsidiaries for such period, on a consolidated basis, determined in accordance with IFRS and without any reduction in respect of preferred stock dividends; provided that:

- (a) the net income or loss of any Person that is not a Restricted Subsidiary or that is accounted for by the equity method of accounting will be included only to the extent of the amount of dividends or similar distributions paid in cash to the specified Person or a Restricted Subsidiary which is a Restricted Subsidiary of such Person;
- (b) solely for the purpose of determining the amount available for Restricted Payments under Condition 3.2(c)(i), any net income or loss of any Restricted Subsidiary will be excluded if such Restricted Subsidiary is subject to restrictions, directly or indirectly, on the payment of dividends or the making of distributions by such Restricted Subsidiary, directly or indirectly, to the Issuer by operation of the terms of such Restricted Subsidiary's charter or any agreement, instrument, judgment, decree, order, statute or governmental rule or regulation applicable to such Restricted Subsidiary or its

shareholders (other than (a) restrictions that have been waived or otherwise released, (b) restrictions pursuant to the Notes and (c) contractual restrictions in effect on the Closing Date with respect to such Restricted Subsidiary and other restrictions with respect to such Restricted Subsidiary that, taken as a whole, are not materially less favourable to the Noteholders than such restrictions in effect on the Closing Date, except that the Issuer's equity in the net income of any such Restricted Subsidiary for such period will be included in such Consolidated Net Income up to the aggregate amount of cash or Cash Equivalents actually distributed or that could have been distributed by such Restricted Subsidiary during such period to the Issuer or another Restricted Subsidiary as a dividend or other distribution (subject, in the case of a dividend to another Restricted Subsidiary, to the limitation contained in this paragraph);

- (c) any net gain or loss realised upon the sale or other disposition of any asset or disposed operations of the Issuer or any Restricted Subsidiaries (including pursuant to any sale leaseback transaction) which is not sold or otherwise disposed of in the ordinary course of business (as determined in good faith by the Issuer) will be excluded;
- (d) any one time non-cash charges or any amortisation or depreciation resulting from purchase accounting, in each case, in relation to any acquisition of, or merger or consolidation with, another Person or business or resulting from any reorganisation or restructuring involving the Issuer or its Restricted Subsidiaries will be excluded;
- (e) the cumulative effect of a change in accounting principles will be excluded;
- (f) (i) any extraordinary, exceptional or unusual gain, loss or charge (in each case as determined in good faith by the Issuer), or (ii) any extraordinary, exceptional or nonrecurring gains or losses or any charges in respect of any restructuring, redundancy or severance (in each case as determined in good faith by the Issuer) will be excluded;
- (g) any unrealised gains or losses in respect of Hedging Obligations or any ineffectiveness recognised in earnings related to qualifying hedge transactions or the fair value or changes therein recognised in earnings for derivatives that do not qualify as hedge transactions, in each case, in respect of Hedging Obligations will be excluded;
- (h) any non-cash compensation charge or expenses arising from any grant of stock, stock options or other equity-based awards will be excluded;
- (i) any goodwill or other intangible asset impairment charges will be excluded;
- (j) all deferred financing costs written off and premium paid in connection with any early extinguishment of Indebtedness and any net gain or loss from any write-off or forgiveness of Indebtedness will be excluded; and
- (k) all expenses incurred directly in connection with any early extinguishment of Indebtedness will be excluded.

Consolidated Net Leverage means the sum of the aggregate outstanding Indebtedness of any Person and its Restricted Subsidiaries (excluding Hedging Obligations) net of cash and Cash Equivalents.

Contingent Obligations means, with respect to any Person, any obligation of such Person directly guaranteeing any operating lease, dividend or other obligation that, in each case, does not constitute Indebtedness (**primary obligations**) of any other Person (the **primary obligor**), including any obligation of such Person, whether or not contingent:

- (a) to purchase any such primary obligation or any property constituting direct or indirect security therefor;
- (b) to advance or supply funds:
 - (i) for the purchase or payment of any such primary obligation; or

- (ii) to maintain the working capital or equity capital of the primary obligor or otherwise to maintain the net worth or solvency of the primary obligor; or
- (c) to purchase property, securities or services primarily for the purpose of assuring the owner of any such primary obligation of the ability of the primary obligor to make payment of such primary obligation against loss in respect thereof.

Credit Facilities means, with respect to the Issuer or any of its Restricted Subsidiaries, one or more debt facilities, instruments or arrangements (including commercial paper facilities and overdraft facilities) or commercial paper facilities or indentures or trust deeds or note purchase agreements, in each case, with banks, other institutions, funds or investors, providing for revolving credit loans, term loans, bonds, notes debentures or other corporate debt instruments or other Indebtedness, in each case, as amended, restated, modified, renewed, refunded, replaced, restructured, refinanced, repaid, increased or extended in whole or in part from time to time (and whether in whole or in part and whether or not with the original administrative agent and lenders or another administrative agent or agents or trustees or other banks or institutions and whether provided under another credit or other agreements, indentures, financing agreements or otherwise) and in each case including all agreements, instruments and documents executed and delivered pursuant to or in connection with the foregoing (including any notes and issued pursuant thereto and any Guarantee and collateral agreement, patent and trademark security agreement, mortgages or letter of credit applications and other Guarantees, pledges, agreements, security agreements and collateral documents). Without limiting the generality of the foregoing, the term **Credit Facilities** shall include any agreement or instrument (a) changing the maturity of any Indebtedness incurred thereunder or contemplated thereby, (b) adding Restricted Subsidiaries of the Issuer as additional borrowers, issuers or guarantors thereunder, (c) increasing the amount of Indebtedness incurred thereunder or available to be borrowed thereunder or (d) otherwise altering the terms and conditions thereof.

Currency Exchange Protection Agreement means, in respect of any Person, any foreign exchange contract, currency swap agreement, currency option, cap, floor, ceiling or collar or agreement or other similar agreement or arrangement designed to protect such Person against fluctuations in currency exchange rates as to which such Person is a party.

Designated Non-Cash Consideration means the Fair Market Value of the Restricted Subsidiaries in connection with an Asset Disposition that is so designated as Designated Non-Cash Consideration pursuant to an Officers' Certificate of the Issuer, setting forth the basis of such valuation, less the amount of cash or Cash Equivalents received in connection with a subsequent payment, redemption, retirement, sale or other disposition of such Designated Non-Cash Consideration. A particular item of Designated Non-Cash Consideration will no longer be considered to be outstanding when and to the extent it has been paid, redeemed or otherwise retired or sold or otherwise disposed of in compliance with Condition 3.4.

Disqualified Stock means any Capital Stock that, by its terms (or by the terms of any security into which it is convertible, or for which it is exchangeable, in each case, at the option of the holder of the Capital Stock), or upon the happening of any event, matures or is mandatorily redeemable, pursuant to a sinking fund obligation or otherwise, or redeemable at the option of the holder of the Capital Stock, in whole or in part, on or prior to the date that is 90 days after the date on which the Notes mature. Notwithstanding the preceding sentence, any Capital Stock that would constitute Disqualified Stock solely because the holders of the Capital Stock have the right to require the issuer thereof to repurchase such Capital Stock upon the occurrence of a Change of Control will not constitute Disqualified Stock if the terms of such Capital Stock provide that the issuer thereof may not repurchase or redeem any such Capital Stock pursuant to such provisions unless such repurchase or redemption complies with Condition 3.2. For purposes hereof, the amount of Disqualified Stock which does not have a fixed repurchase price shall be calculated in accordance with the terms of such Disqualified Stock as if such Disqualified Stock were purchased on any date on which Indebtedness shall be required to be determined pursuant to

these Conditions, and if such price is based upon, or measured by, the Fair Market Value of such Disqualified Stock, such Fair Market Value to be determined as set forth herein.

Equity Interests means Capital Stock and all warrants, options or other rights to acquire Capital Stock (but excluding any debt security that is convertible into, or exchangeable for, Capital Stock).

Equity Ratio means, with respect to any specified Person as of any date of determination, the ratio of (x) the aggregate of shareholder's equity as determined in accordance with IFRS (whether taking the form of a debt or equity instrument) at such date to (y) Total Assets of the Issuer as such date.

Euro-equivalent means, with respect to any monetary amount in a currency other than euro, at any time of determination thereof by the Issuer, the amount of euro obtained by converting such currency other than euro involved in such computation into euro at the spot rate for the purchase of euro with the applicable currency other than euro as displayed on the appropriate page of the Telekurs screen (or if the agreed page is replaced or the service ceases to be available, such source as may be selected in good faith by the Board of Directors or a member of the senior management of the Issuer) on the date of such determination.

Exchange Offer means the exchange offer for the Outstanding Notes by the Issuer expected to be settled on the Closing Date.

Excluded Contributions means the net cash proceeds received by the Issuer after the Closing Date from:

- (a) capital contributions to its equity (other than through the issuance of Disqualified Stock); and
- (b) the sale (other than to a Restricted Subsidiary) of Capital Stock (other than Disqualified Stock) of the Issuer; and

in each case designated as "Excluded Contributions" pursuant to an Officers' Certificate of the Issuer (which shall be designated no later than the date on which such Excluded Contribution has been received by the Issuer), the net cash proceeds of which are excluded from the calculation set forth in Condition 3.2(c)(ii).

Fair Market Value means the value that would be paid by a willing buyer to an unaffiliated willing seller in a transaction not involving distress of either party, determined in good faith by the Issuer's Chief Executive Officer or Chief Financial Officer.

Fixed Charge Coverage Ratio means, with respect to any specified Person for any period, the ratio of the Consolidated EBITDA of such Person and its Restricted Subsidiaries for such period to the Fixed Charges of the Issuer for such period. In the event that such Person or any of its Restricted Subsidiaries incurs, assumes, guarantees, repays, repurchases, redeems, defeases or otherwise discharges any Indebtedness (other than ordinary working capital borrowings) or issues, repurchases or redeems preferred stock subsequent to the commencement of the period for which the Fixed Charge Coverage Ratio is being calculated and on or prior to the date on which the event for which the calculation of the Fixed Charge Coverage Ratio is made (for the purposes of this definition, the **Calculation Date**), then the Fixed Charge Coverage Ratio will be calculated giving pro forma effect (as determined in good faith by a responsible accounting or financial officer of the Issuer) to such incurrence, assumption, guarantee, repayment, repurchase, redemption, defeasance or other discharge of Indebtedness, or such issuance, repurchase or redemption of preferred stock, and the use of the proceeds therefrom, as if the same had occurred at the beginning of the applicable four-quarter reference period provided, however, that the pro forma calculation shall not give effect to (a) any Indebtedness incurred on the Calculation Date pursuant to the provisions described in the definition of Permitted Debt or (b) the discharge on the Calculation Date of any Indebtedness to the extent that such discharge results from the proceeds of Indebtedness incurred pursuant to the provisions described in the definition of Permitted Debt; provided further that the amount of Indebtedness outstanding under any

revolving credit facility shall be determined based on the average daily balance outstanding during such period).

In addition, for purposes of calculating the Fixed Charge Coverage Ratio:

- (a) acquisitions that have been made by the Issuer or any of its Restricted Subsidiaries, including through mergers, consolidations, amalgamations or otherwise, or by any Person or any of its Restricted Subsidiaries acquired by the Issuer or any of its Restricted Subsidiaries, and including all related financing transactions and including increases in ownership of Restricted Subsidiaries, during the four-quarter reference period or subsequent to such reference period and on or prior to the Calculation Date, or that are to be made on the Calculation Date, will be given pro forma effect (as determined in good faith by a responsible accounting or financial officer of the Issuer) as if they had occurred on the first day of the four-quarter reference period;
- (b) the Consolidated EBITDA attributable to discontinued operations, as determined in accordance with IFRS, and operations or businesses (and ownership interests therein) disposed of prior to the Calculation Date, will be excluded;
- (c) the Fixed Charges attributable to discontinued operations, as determined in accordance with IFRS, and operations or businesses (and ownership interests therein) disposed of prior to the Calculation Date, will be excluded, but only to the extent that the obligations giving rise to such Fixed Charges will not be obligations of the specified Person or any of its Restricted Subsidiaries following the Calculation Date;
- (d) any Person that is a Restricted Subsidiary on the Calculation Date will be deemed to have been a Restricted Subsidiary at all times during such four-quarter period;
- (e) any Person that is not a Restricted Subsidiary on the Calculation Date will be deemed not to have been a Restricted Subsidiary at any time during such four-quarter period; and
- (f) if any Indebtedness bears a floating rate of interest and such Indebtedness is to be given pro forma effect, the interest expense on such Indebtedness will be calculated as if the rate in effect on the Calculation Date had been the applicable rate for the entire period (taking into account any Hedging Obligation applicable to such Indebtedness if such Hedging Obligation has a remaining term as at the Calculation Date in excess of 12 months, or, if shorter, at least equal to the remaining term of such Indebtedness).

For the purposes of this definition and the definition of Consolidated EBITDA, the pro forma calculation may include anticipated expense and cost reductions and synergies as determined reasonably and in good faith by a responsible financial or accounting Officer of the Issuer; provided that the aggregate amount of all adjustments to Consolidated EBITDA made in respect of such anticipated expense and cost reductions and synergies shall not exceed 10% of such Person's pro forma Consolidated EBITDA for such period after giving effect to all other pro forma adjustments but before giving effect to such anticipated expense and cost reductions and synergies.

Fixed Charges means, with respect to any specified Person for any period, the sum, without duplication, of:

- (a) the consolidated interest expense (net of interest income) of such Person and its Restricted Subsidiaries for such period, whether or not, paid, received or accrued, including, without limitation, amortisation of debt discount (but not deferred financing fees, debt issuance costs, commissions, fees and expenses), non-cash interest expense (but excluding any non-cash expense attributable to the movement in the mark to market valuation of Hedging Obligations or other derivative instruments), the interest component of deferred payment obligations, the interest component of all payments associated with Capital Lease Obligations, commissions, discounts and other fees and charges incurred in respect of letter of credit or bankers' acceptance financings; plus

- (b) the consolidated interest expense of such Person and its Restricted Subsidiaries that was capitalised during such period; plus
- (c) any interest on Indebtedness of another Person that is guaranteed by such Person or one of its Restricted Subsidiaries or secured by a Lien on assets of such Person or one of its Restricted Subsidiaries; plus
- (d) net payments and receipts (if any) pursuant to interest rate Hedging Obligations (excluding amortisation of fees) with respect to Indebtedness; plus
- (e) the product of (i) all dividends, whether paid or accrued and whether or not in cash, on any series of preferred stock of any Restricted Subsidiary, other than dividends on Equity Interests payable to the Issuer or a Restricted Subsidiary, times (ii) a fraction, the numerator of which is one and the denominator of which is one minus the then current combined national, state and local statutory tax rate of such Person, expressed as a decimal, as estimated in good faith by a responsible accounting or financial officer of the Issuer; minus
- (f) (i) accretion or accrual of discounted liabilities other than Indebtedness, (ii) any expense resulting from the discounting of any Indebtedness in connection with the application of purchase accounting in connection with any acquisition, and (iii) interest with respect to Indebtedness of any holding company of such Person appearing upon the balance sheet of such Person solely by reason of push-down accounting under IFRS.

Guarantee means a guarantee other than by endorsement of negotiable instruments for collection or deposit in the ordinary course of business, of all or any part of any Indebtedness (whether arising by agreements to keep-well, to take or pay or to maintain financial statement conditions, pledges of assets or otherwise).

Hedging Obligations means, with respect to any specified Person, the obligations of such Person (and any of its Restricted Subsidiaries) under:

- (a) interest rate swap agreements, (whether from fixed to floating or from floating to fixed), interest rate cap agreements and interest rate collar agreements;
- (b) other agreements or arrangements designed to manage interest rates or interest rate risk; and
- (c) other agreements or arrangements designed to protect such Person against fluctuations in currency exchange rates, including Currency Exchange Protection Agreements, or commodity prices (including fuel prices).

IFRS means International Financial Reporting Standards as adopted by the European Union and, as regards the Issuer financial statements, as applied in accordance with the provisions of the Companies Act 2006, both as in effect as of the Closing Date.

Indebtedness means, with respect to any specified Person, any indebtedness of such Person (excluding accrued expenses and trade payables):

- (a) in respect of borrowed money;
- (b) evidenced by bonds, notes, debentures or similar instruments for which such Person is responsible or liable;
- (c) representing reimbursement obligations in respect of letters of credit, bankers' acceptances or similar instruments (except to the extent such reimbursement obligations (i) are incurred in the ordinary course of business or (ii) relate to trade payables and such obligations are satisfied within 30 days of incurrence), provided that any counter-indemnity or reimbursement obligation under a letter of credit incurred other than in the ordinary course of business shall be considered Indebtedness only to the extent that the underlying obligation in respect of which the letter of credit has been issued would also be Indebtedness;

- (d) representing Capital Lease Obligations;
- (e) representing the balance deferred and unpaid of the purchase price of any property or services due more than one year after such property is acquired or such services are completed; and
- (f) representing any Hedging Obligations,

if and to the extent any of the preceding items (other than letters of credit and Hedging Obligations) would appear as a liability upon a balance sheet (excluding the notes thereto) of the specified Person prepared in accordance with IFRS.

In addition, the term “Indebtedness” includes all Indebtedness of others secured by a Lien on any asset of the specified Person (whether or not such Indebtedness is assumed by the specified Person) and, to the extent not otherwise included, the Guarantee by the specified Person of any Indebtedness of any other Person.

The term **Indebtedness** shall not include:

- (a) anything accounted for as an operating lease under IFRS as in effect on the Closing Date and any guarantee solely in connection with, and in respect of any operating lease;
- (b) Contingent Obligations in the ordinary course of business;
- (c) in connection with the purchase by the Issuer or any Restricted Subsidiary of any business, any post-closing payment adjustments to which the seller may become entitled to the extent such payment is determined by a final closing balance sheet or such payment depends on the performance of such business after the closing; *provided, however*, that, at the time of closing, the amount of any such payment is not determinable and, to the extent such payment thereafter becomes fixed and determined and due and payable, the amount is paid within 30 days thereafter;
- (d) for the avoidance of doubt, any compensation or other obligations to management or employees pursuant to any deferred compensation, incentive or similar plan, any contingent obligations in respect of workers' compensation claims, early retirement or termination obligations, pension fund obligations or contributions or similar claims, insurance, tour operator, airport or other claims arising in the ordinary course of business, obligations or contributions or social security or wage Taxes;
- (e) Indebtedness pursuant to performance bonds, mined land reclamation bonds or advance payment bonds issued in respect of the obligations of any Restricted Subsidiary for the supply of goods or services or any environmental clean up or restoration obligations arising in the ordinary course of business for such Restricted Subsidiary and not in connection with the borrowing of money, in each case, to the extent that no demand has been made in respect of such Indebtedness;
- (f) the accretion or amortisation of original issue discount, the payment of interest on any Indebtedness in the form of additional indebtedness and the reclassification of preferred stock as indebtedness due to a change in accounting principles.

Independent Financial Advisor means an investment banking or accounting firm of international standing or any third party appraiser of international standing.

Investments means, with respect to any Person, all direct or indirect investments by such Person in other Persons (including Affiliates) in the forms of loans (including Guarantees or other obligations, but excluding advances or extensions of credit to customers or suppliers made in the ordinary course of business), advances or capital contributions (excluding commission, travel and similar advances to officers and employees made in the ordinary course of business), purchases or other acquisitions for consideration of Indebtedness, Equity Interests or other securities, together with all items that are or would be classified as Investments on a balance sheet (excluding the notes) prepared in accordance with IFRS. Except as otherwise provided in these Conditions, the amount of an Investment will be determined at the time the Investment is made

and without giving effect to subsequent changes in value and, to the extent applicable, shall be determined based on the equity value of such Investment.

Investor means Etihad Airways P.J.S.C. or any of its Affiliates or direct or indirect Subsidiaries or funds or limited partnerships managed or advised by Etihad Airways P.J.S.C. or any of its Affiliates or direct or indirect Subsidiaries or any trust, fund, company or partnership owned, managed or advised by Etihad Airways P.J.S.C. or any of its Affiliates or direct or indirect Subsidiaries or any limited partner of any such trust, fund, company or partnership.

Investor Loan means the perpetual subordinated cumulative convertible bonds (i) to be issued by a subsidiary of the Issuer and guaranteed, on a subordinated basis (in particular, in the event of the insolvency or bankruptcy of the Issuer), by the Issuer and (ii) to be subscribed for by the Investor.

Lien means, with respect to any asset, any mortgage, lien, pledge, charge, security interest or encumbrance of any kind in respect of such asset, whether or not filed, recorded or otherwise perfected under applicable law, including any conditional sale or other title retention agreement or any lease in the nature thereof.

Management Advances means loans or advances made to, or Guarantees with respect to loans or advances made to, directors, officers, employees, managers or consultants of the Issuer or any Restricted Subsidiary:

- (a) in respect of travel, entertainment or moving related expenses incurred in the ordinary course of business;
- (b) in respect of moving related expenses incurred in connection with any closing or consolidation of any facility or office; or
- (c) in addition to (a) and (b) above, any amount not exceeding €2 million in the aggregate outstanding at any time.

Moody's means Moody's Investors Service, Inc.

Material Subsidiary means any Restricted Subsidiary that meets either of the following conditions:

- (a) the Issuer's and its Restricted Subsidiaries' proportionate share of the total assets (after intercompany eliminations) of the Restricted Subsidiary exceeds 5% of the total assets of the Issuer and its Restricted Subsidiaries on a consolidated basis as of the end of the most recently completed fiscal year; or
- (b) the Issuer's and its Restricted Subsidiaries' proportionate share of the Consolidated EBITDA of the Restricted Subsidiary exceeds 5% of the Consolidated EBITDA of the Issuer and its Restricted Subsidiaries on a consolidated basis for the most recently completed fiscal year.

An Officers' Certificate of the Issuer whether or not addressed to the Trustee stating that in their opinion a Restricted Subsidiary is or is not or was or was not at any particular time or throughout any specified period a Material Subsidiary may be relied upon by the Trustee without further enquiry or evidence and, if relied upon by the Trustee, shall, in the absence of manifest error, be conclusive and binding on all parties.

Net Available Cash from an Asset Disposition means cash payments received (including any cash payments received by way of deferred payment of principal pursuant to a note or instalment receivable or otherwise and net proceeds from the sale or other disposition of any securities received as consideration, but only as and when received, but excluding any other consideration received in the form of assumption by the acquiring person of Indebtedness or other obligations relating to the properties or assets that are the subject of such Asset Disposition or received in any other non-cash form) therefrom, in each case net of:

- (a) all legal, accounting, investment banking, title and recording tax expenses, commissions and other fees and expenses incurred, and all Taxes paid or required to be paid or accrued as a liability under IFRS (after taking into account any available tax credits or deductions and any tax sharing agreements), as a consequence of such Asset Disposition;
- (b) all payments made on any Indebtedness which is secured by any assets subject to such Asset Disposition, in accordance with the terms of any Lien upon such assets, or which must by its terms, or in order to obtain a necessary consent to such Asset Disposition, or by applicable law, be repaid out of the proceeds from such Asset Disposition;
- (c) all distributions and other payments required to be made to minority interest holders (other than any direct or indirect parent of the Issuer, the Issuer or any of their respective Restricted Subsidiaries) in Restricted Subsidiaries or joint ventures as a result of such Asset Disposition; and
- (d) the deduction of appropriate amounts required to be provided by the seller as a reserve, on the basis of IFRS, against any liabilities associated with the assets disposed of in such Asset Disposition and retained by the Issuer or any Restricted Subsidiary after such Asset Disposition.

Newco Scheme means a scheme of arrangement or analogous proceeding (**Scheme of Arrangement**):

- (a) which effects the interposition of a limited liability company (**Newco**) between the shareholders of the Issuer immediately prior to the Scheme of Arrangement (the **Existing Shareholders**) and the Issuer; and
- (b) in respect of which the Issuer and the Trustee agree, with effect immediately after the implementation of such Scheme of Arrangement to the substitution of Newco in place of the Issuer as principal debtor in respect of the Notes and the Trust Deed subject to and in accordance with Condition 12.3 below,

provided that:

- (a) only ordinary shares of Newco or depositary or other receipts or certificates representing ordinary shares of Newco are issued to Existing Shareholders;
- (b) immediately after completion of the Scheme of Arrangement the only shareholders of Newco or, as the case may be, the only holders of depositary or other receipts or certificates representing ordinary shares of Newco, are Existing Shareholders in or substantially in the same proportions as such Existing Shareholders held ordinary shares in the Issuer immediately prior to the Scheme of Arrangement;
- (c) immediately after completion of the Scheme of Arrangement, Newco is (or one or more wholly-owned Subsidiaries of Newco are) the only shareholder (or shareholders) of the Issuer;
- (d) all Subsidiaries of the Issuer immediately prior to the Scheme of Arrangement (other than Newco, if Newco is then a Subsidiary of the Issuer) are Subsidiaries of the Issuer (or of Newco) immediately after completion of the Scheme of Arrangement;
- (e) immediately after completion of the Scheme of Arrangement, the Issuer (or Newco) holds, directly or indirectly, the same percentage of the ordinary share capital and equity share capital of those Subsidiaries as was held by the Issuer immediately prior to the Scheme of Arrangement; and
- (f) immediately after completion of the relevant Scheme of Arrangement the ordinary shares of Newco or depositary or other receipts or certificates representing ordinary shares of Newco are admitted to listing on such regulated, regularly operating, recognised stock exchange or securities market as the Issuer or Newco may determine.

Obligations means any principal, interest, penalties, fees, indemnifications, reimbursements, damages and other liabilities payable under the documentation governing any Indebtedness.

Officer means, with respect to any Person, (a) the Chief Executive Officer, the Chief Financial Officer, the Treasurer, the Secretary or any Vice-President of that Person or if such Person is owned or managed by a single entity, of such entity or (b) any other individual designated as an Officer by the Board of Directors of such Person.

Officers' Certificate means a certificate signed by two Officers.

Outstanding Notes means together the €150 million 11.5 per cent. notes due 2014 issued by Air Berlin PLC (ISIN DE000AB100C2) and the €200 million 8.5 per cent. notes due 2015 issued by Air Berlin PLC (ISIN DE000AB100A6).

Pari Passu Indebtedness means any Indebtedness of the Issuer that ranks equally in right of payment with the Notes.

Permitted Debt means:

- (a) the incurrence by the Issuer and any Restricted Subsidiary of Indebtedness under Credit Facilities in an aggregate principal amount at any time outstanding under this paragraph (a) not to exceed €150 million, and any refinancing of such Indebtedness, *plus* in the case of any refinancing of any Indebtedness permitted under this paragraph (a) or any portion thereof, the aggregate amount of fees, underwriting discounts, premiums and other costs and expenses incurred in connection with such refinancing;
- (b) Indebtedness outstanding on the Closing Date and which remains outstanding after giving effect to the use of proceeds of the Notes;
- (c) the incurrence by the Issuer of Indebtedness represented by the Notes issued on the Closing Date;
- (d) the incurrence by the Issuer or any Restricted Subsidiary of Indebtedness represented by Capital Lease Obligations, mortgage financings or purchase money obligations, in each case, incurred for the purpose of financing all or any part of the purchase price or cost of design, construction, installation or improvement of property, plant or equipment used in the business of the Issuer or any of its Restricted Subsidiaries, in an aggregate principal amount, including all Permitted Refinancing Indebtedness incurred to renew, refund, refinance, replace, defease or discharge any Indebtedness incurred pursuant to this paragraph (d), not to exceed €20 million at any time outstanding;
- (e) the incurrence by the Issuer or any of its Restricted Subsidiaries of Permitted Refinancing Indebtedness in exchange for, or the net proceeds of which are used to renew, refund, refinance, replace, defease or discharge any Indebtedness (other than intercompany Indebtedness) that was permitted to be incurred under Condition 3.1 or paragraphs (b), (c), (e), (o) or (u) of this definition;
- (f) the incurrence by the Issuer or any Restricted Subsidiary of intercompany Indebtedness between or among the Issuer or any Restricted Subsidiary; *provided* that:
 - (i) if the Issuer is the obligor on such Indebtedness, such Indebtedness must be unsecured and ((A) except in respect of the intercompany current liabilities incurred in the ordinary course of business in connection with the cash management operations of the Issuer and its Restricted Subsidiaries and (B) only to the extent legally permitted (the Issuer and its Restricted Subsidiaries having completed all procedures required in the reasonable judgment of directors of officers of the obligee or obligor to protect such Persons from any penalty or civil or criminal liability in connection with the subordination of such Indebtedness)) expressly subordinated to the prior payment in full in cash of all Obligations then due with respect to the Notes; and

- (ii) (A) any subsequent issuance or transfer of Equity Interests that results in any such Indebtedness being held by a Person other than the Issuer or a Restricted Subsidiary and (B) any sale or other transfer of any such Indebtedness to a Person that is not either the Issuer or a Restricted Subsidiary, will be deemed, in each case, to constitute an incurrence of such Indebtedness by the Issuer or such Restricted Subsidiary, as the case may be, that was not permitted by this paragraph (f);
- (g) the incurrence by the Issuer or any Restricted Subsidiary of Hedging Obligations for bona fide hedging purposes of the Issuer and its Restricted Subsidiaries and not for speculative purposes;
- (h) the Guarantee by the Issuer or any Restricted Subsidiary of Indebtedness of the Issuer or any Restricted Subsidiary to the extent that the guaranteed Indebtedness was permitted to be incurred by another provision of this covenant; *provided* that if the Indebtedness being guaranteed is subordinated to the Notes, then the Guarantee must be subordinated to the same extent as the Indebtedness guaranteed;
- (i) the incurrence by the Issuer or any of its Restricted Subsidiaries of Indebtedness in respect of workers' compensation claims, self-insurance obligations, captive insurance companies, bankers' acceptances, performance and surety bonds in the ordinary course of business;
- (j) the incurrence by the Issuer or any of its Restricted Subsidiaries of Indebtedness arising from the honouring by a bank or other financial institution of a check, draft or similar instrument inadvertently drawn against insufficient funds, so long as such Indebtedness is covered within five Business Days;
- (k) the incurrence by the Issuer and its Restricted Subsidiaries of Indebtedness arising from agreements of the Issuer or a Restricted Subsidiary providing for indemnification, obligations in respect of earn-outs or other adjustments of purchase price or, in each case, similar obligations, in each case, incurred or assumed in connection with the acquisition or disposition of any business or assets or Person or any Equity Interests of a Restricted Subsidiary;
- (l) the incurrence by the Issuer and its Restricted Subsidiaries of Indebtedness in respect of (A) self-insurance obligations, performance or appeal bonds, mined land reclamation bonds, indemnity, surety, judgment, advance payment, customs, VAT or other tax or other guarantees or other similar bonds, instruments or obligations and completion guarantees and warranties provided by the Issuer or a Restricted Subsidiary or relating to liabilities, obligations or guarantees incurred in the ordinary course of business, (B) letters of credit (including *Avale*), bankers' acceptances, guarantees or other similar instruments or obligations issued or relating to liabilities or obligations incurred in the ordinary course of business and not in connection with the borrowing of money; *provided, however*, that upon the drawing of such letters of credit or other instrument, such obligations are reimbursed within 30 days following such drawing and (C) any customary cash management, cash pooling or netting or setting off arrangements;
- (m) Indebtedness of the Issuer or any of its Restricted Subsidiaries in respect of Management Advances;
- (n) customer deposits and advance payments received in the ordinary course of business from customers for goods and services purchased in the ordinary course of business;
- (o) Indebtedness of any Person (i) outstanding on the date on which such Person becomes a Restricted Subsidiary or is merged, consolidated, amalgamated or otherwise combined with (including pursuant to any acquisition of assets and assumption of related liabilities) the Issuer or any of its Restricted Subsidiaries or (ii) incurred to provide all or a portion of the funds utilised to consummate the transaction or series of transactions pursuant to

which such Person became a Restricted Subsidiary of the Issuer or was otherwise acquired by the Issuer or any of its Restricted Subsidiaries; provided, however, with respect to this paragraph (o), that at the time of the acquisition or other transaction pursuant to which such Indebtedness was deemed to be incurred either (x) (A) the Issuer would have been able to incur €1.00 of additional Indebtedness pursuant to the first paragraph of Condition 3.1 after giving pro forma effect to the incurrence of such Indebtedness pursuant to this paragraph (o) or (B) the Fixed Charge Coverage Ratio of the Issuer would not be less than it was immediately prior to giving pro forma effect to the incurrence of such Indebtedness pursuant to this paragraph (o) or (y) the Equity Ratio of the Issuer would have been at least 1.0 to 3.0 after giving pro forma effect to the incurrence of such Indebtedness pursuant to this paragraph (o);

- (p) reserved;
- (q) Indebtedness incurred by any Restricted Subsidiaries under local overdraft and other local working capital facilities;
- (r) Indebtedness of the Issuer and its Restricted Subsidiaries in connection with (i) any Qualified Receivables Transaction in an aggregate principal amount not to exceed, at any one time outstanding, €20 million, *provided* that the Issuer and its Restricted Subsidiaries may incur additional Indebtedness in connection with any Qualified Receivables Transaction in excess thereof so long as such additional Indebtedness, when taken together with any other Indebtedness incurred pursuant to paragraph (a) of this paragraph and then outstanding, will not exceed €50 million, and (ii) any recourse obligation incurred in connection with the sale of trade receivables not to exceed €20 million, *provided* that at such time as the obligation under any such sold trade receivable has been paid by the obligor thereunder or, in the event such obligor does not pay and the Issuer or a Restricted Subsidiary satisfies such obligation, at the time of such satisfaction, the amount available for additional sales of receivables pursuant to this (r) (ii) shall be increased by the amount of such payment or obligation satisfied;
- (s) Indebtedness in an aggregate outstanding principal amount that, when taken together with any Permitted Refinancing Indebtedness in respect thereof and the principal amount of all other Indebtedness incurred pursuant to this paragraph (s) and then outstanding, will not exceed 100% of the net proceeds received by the Issuer from the sale (other than to a Restricted Subsidiary) its Capital Stock (other than in connection with Disqualified Stock or an Excluded Contribution) or otherwise contributed to the equity (other than through the issuance of Disqualified Stock or an Excluded Contribution) of the Issuer, subsequent to the Closing Date; *provided, however*, that (i) any such net proceeds that are so received or contributed shall be excluded for purposes of making Restricted Payments under Condition 3.2 and paragraphs (b) and (d) of the definition of Permitted Payments to the extent the Issuer and its Restricted Subsidiaries incur Indebtedness in reliance thereon and (ii) any net proceeds that are so received or contributed shall be excluded for purposes of incurring Indebtedness pursuant to this paragraph (s) to the extent the Issuer or any of its Restricted Subsidiaries makes a Restricted Payment under Condition 3.2 and paragraphs (b) and (d) of the definition of Permitted Payments in reliance thereon;
- (t) Indebtedness incurred by the Issuer or any Restricted Subsidiary in respect of assets acquired pursuant to any aircraft purchase agreements or aircraft engine purchase agreements or spare parts, consumables and rotables purchase agreements or information technology purchase agreements directly attributable to the operation of aircraft, together with any pre-delivery payments, bank financing, lease financing or financing similar to, or any refinancing of, any of the foregoing;
- (u) Indebtedness incurred pursuant to drawings, which may occur from time to time, be repaid and then redrawn, pursuant to any agreement in existence or contemplated as part

of the Transactions on the Closing Date with one or more direct or indirect shareholders of the Issuer, including the Investor Loan;

- (v) Subordinated Shareholder Debt; and
- (w) Any reimbursement or other obligation arising under letters of credit or guarantee facilities (including *Avale*) incurred in the ordinary course of business.

Permitted Liens means, with respect to any Person:

- (a) Liens on assets or property of any Restricted Subsidiary securing any Indebtedness of the such Restricted Subsidiary or any other Restricted Subsidiary or a Guarantee of such Indebtedness;
- (b) pledges, deposits or Liens under workmen's compensation laws, unemployment insurance laws, social security laws or similar legislation, or insurance related obligations (including pledges or deposits securing liability to insurance carriers under insurance or self-insurance arrangements), or in connection with bids, tenders, completion guarantees, contracts (other than for borrowed money) or leases, or to secure utilities, licenses, public or statutory obligations, or to secure surety, indemnity, judgment, appeal or performance bonds, guarantees of government contracts (or other similar bonds, instruments or obligations), or as security for contested taxes or import or customs duties or for the payment of rent, or other obligations of like nature, in each case incurred in the ordinary course of business;
- (c) Liens imposed by law, including carriers', warehousemen's, mechanics', landlords', materialmen's and repairmen's or other similar Liens, in each case for sums not yet overdue for a period of more than 60 days or that are bonded or being contested in good faith by appropriate proceedings;
- (d) Liens for taxes, assessments or other governmental charges not yet delinquent or which are being contested in good faith by appropriate proceedings; provided that appropriate reserves required pursuant to IFRS have been made in respect thereof;
- (e) Liens in favour of issuers of surety, performance or other bonds, guarantees or letters of credit or bankers' acceptances (not issued to support Indebtedness for borrowed money) issued pursuant to the request of and for the account of the Issuer or any Restricted Subsidiary in the ordinary course of its business;
- (f) encumbrances, ground leases, easements (including reciprocal easement agreements), survey exceptions, or reservations of, or rights of others for, licenses, rights of way, sewers, electric lines, telegraph and telephone lines and other similar purposes, or zoning, building codes or other restrictions (including minor defects or irregularities in title and similar encumbrances) as to the use of real properties or Liens incidental to the conduct of the business of the Issuer and its Restricted Subsidiaries or to the ownership of its properties which do not in the aggregate materially adversely affect the value of said properties or materially impair their use in the operation of the business of the Issuer and its Restricted Subsidiaries;
- (g) Liens on assets or property of the Issuer or any Restricted Subsidiary securing Hedging Obligations permitted under paragraph (g) of the definition of "Permitted Debt";
- (h) leases, licenses, subleases and sublicenses of assets (including real property and intellectual property rights), in each case entered into in the ordinary course of business;
- (i) Liens arising out of judgments, decrees, orders or awards not giving rise to an Event of Default so long as any appropriate legal proceedings which may have been duly initiated for the review of such judgment, decree, order or award have not been finally terminated or the period within which such proceedings may be initiated has not expired;
- (j) Liens on assets or property of the Issuer or any Restricted Subsidiary for the purpose of securing Capital Lease Obligations, mortgage financings or purchase money obligations,

or securing the payment of all or a part of the purchase price of, or securing other Indebtedness incurred to finance or refinance the acquisition, improvement or construction of, assets or property acquired or constructed in the ordinary course of business; provided that (i) the aggregate principal amount of Indebtedness secured by such Liens is otherwise permitted to be incurred under Condition 3.1 and (ii) any such Lien may not extend to any assets or property of the Issuer or any Restricted Subsidiary other than assets or property acquired, improved, constructed or leased with the proceeds of such Indebtedness and any improvements or accessions to such assets and property;

- (k) Liens arising by virtue of any statutory or common law provisions relating to banker's Liens, rights of set-off or similar rights and remedies as to deposit accounts or other funds maintained with a depository or financial institution;
- (l) Liens arising from Uniform Commercial Code financing statement filings (or similar filings in other applicable jurisdictions) regarding operating leases entered into by the Issuer and its Restricted Subsidiaries in the ordinary course of business;
- (m) Liens existing on, or provided for or required to be granted under written agreements existing on, the Closing Date;
- (n) Liens on property, other assets or shares of stock of a Person at the time such Person becomes a Restricted Subsidiary (or at the time the Issuer or a Restricted Subsidiary acquires such property, other assets or shares of stock, including any acquisition by means of a merger, consolidation or other business combination transaction with or into the Issuer or any Restricted Subsidiary); provided, that such Liens are limited to all or part of the same property, other assets or stock (plus improvements, accession, proceeds or dividends or distributions in connection with the original property, other assets or stock) that secured (or, under the written arrangements under which such Liens arose, could secure) the obligations to which such Liens relate;
- (o) Liens on assets or property of the Issuer or any Restricted Subsidiary securing Indebtedness or other obligations of such Restricted Subsidiary owing to the Issuer or another Restricted Subsidiary, or Liens in favour of the Issuer or any Restricted Subsidiary;
- (p) Liens securing Permitted Refinancing Indebtedness incurred to refinance Indebtedness that was previously so secured, and permitted to be secured under the Conditions; provided that any such Lien is limited to all or part of the same property or assets (plus improvements, accessions, proceeds or dividends or distributions in respect thereof) that secured (or, under the written arrangements under which the original Lien arose, could secure) the Indebtedness being refinanced or is in respect of property that is or could be the security for or subject to a Permitted Lien hereunder;
- (q) any interest or title of a lessor under any Capital Lease Obligation or operating lease;
- (r) (i) mortgages, liens, security interest, restrictions, encumbrances or any other matters of record that have been placed by any government, statutory or regulatory authority, developer, landlord or other third party on property over which the Issuer or any Restricted Subsidiary of the Issuer has easement rights or on any leased property and subordination or similar arrangements relating thereto and (ii) any condemnation or eminent domain proceedings affecting any real property;
- (s) any encumbrance or restriction (including put and call arrangements) with respect to Capital Stock of, or assets owned by, any joint venture or similar arrangement pursuant to any joint venture or similar agreement;
- (t) Liens on property or assets under construction (and related rights) in favour of a contractor or developer or arising from progress or partial payments by a third party relating to such property or assets;

- (u) Liens on Receivables incurred in connection with a Qualified Receivables Transaction;
- (v) Liens securing or arising by reason of any netting or set-off arrangement entered into in the ordinary course of banking or other trading activities;
- (w) Liens arising out of conditional sale, title retention, hire purchase, consignment or similar arrangements for the sale of goods entered into in the ordinary course of business;
- (x) Liens securing Indebtedness or other obligations of a Receivables Entity;
- (y) limited recourse Liens in respect of the ownership interests in, or assets owned by, any joint ventures which are not Restricted Subsidiaries securing obligations of such joint ventures;
- (z) Liens created for the benefit of or to secure, directly or indirectly, the Notes;
- (aa) Liens on aircraft, aircraft equipment or lease receivables in respect of aircraft or aircraft equipment of the Issuer or any Restricted Subsidiary of the Issuer (including by means of special purpose entities owning aircraft or aircraft equipment); and
- (bb) Liens provided that the maximum amount of Indebtedness secured in the aggregate at any one time pursuant to this paragraph (bb) does not exceed €5 million.

Permitted Investments means:

- (a) any Investment in the Issuer or in a Restricted Subsidiary (other than a Receivables Entity);
- (b) any Investment in cash and Cash Equivalents;
- (c) any Investment by the Issuer or any Restricted Subsidiary in a Person, if as a result of such Investment:
 - (i) such Person becomes a Restricted Subsidiary; or
 - (ii) such Person is merged, consolidated or amalgamated with or into, or transfers or conveys substantially all of its assets to, or is liquidated into, the Issuer or a Restricted Subsidiary (other than a Receivables Entity);
- (d) any Investments received in compromise or resolution of (i) obligations of trade creditors or customers that were incurred in the ordinary course of business of the Issuer or any of its Restricted Subsidiaries, including pursuant to any plan of reorganisation or similar arrangement upon the bankruptcy or insolvency of any trade creditor or customer; or (ii) litigation, arbitration or other disputes;
- (e) Investments in receivables owing to the Issuer or any Restricted Subsidiary created or acquired in the ordinary course of business;
- (f) Investments represented by Hedging Obligations, which obligations are permitted by paragraph (g) of the definition of Permitted Debt;
- (g) Investments in the Notes and any other Indebtedness of the Issuer or any Restricted Subsidiary;
- (h) any Guarantee of Indebtedness permitted to be incurred under Condition 3.1;
- (i) any Investment existing on, or made pursuant to binding commitments existing on, the Closing Date and any Investment consisting of an extension, modification or renewal of any Investment existing on, or made pursuant to a binding commitment existing on, the Closing Date; provided that the amount of any such Investment may be increased (i) as required by the terms of such Investment as in existence on the Closing Date or (ii) as otherwise permitted pursuant to these Conditions;
- (j) Investments acquired after the Closing Date as a result of the acquisition by the Issuer or any Restricted Subsidiary of another Person, including by way of a merger,

amalgamation or consolidation with or into the Issuer or any of its Restricted Subsidiaries after the Closing Date to the extent that such Investments were not made in contemplation of such acquisition, merger, amalgamation or consolidation and were in existence on the date of such acquisition, merger, amalgamation or consolidation;

- (k) pledges or deposits with respect to leases or utilities provided to third parties in the ordinary course of business;
- (l) any Investment to the extent made using as consideration Capital Stock of the Issuer (other than Disqualified Stock) or Capital Stock of any holding company of the Issuer;
- (m) Management Advances;
- (n) other Investments in any Person having an aggregate Fair Market Value (measured on the date each such Investment was made and without giving effect to subsequent changes in value), when taken together with all other Investments made pursuant to this paragraph (n) that are at the time outstanding (net of the amount of any cash distribution, dividends, payments or other returns in respect of such Investments) not to exceed the greater of €50 million and 3.5% of Total Assets; *provided, however*, that if an Investment is made pursuant to this paragraph in a Person that is not a Restricted Subsidiary and such Person subsequently becomes a Restricted Subsidiary or is subsequently designated a Restricted Subsidiary, such Investment shall thereafter be deemed to have been made pursuant to paragraphs (a) or (c) above and not this paragraph (n);
- (o) Investments in joint ventures of the Issuer or any of its Restricted Subsidiaries in an aggregate amount when taken together with all other Investments made pursuant to this paragraph (o) that are at any time outstanding (net of the amount of any cash distribution, dividends, payments or other returns in respect of such investments) not to exceed €25 million; *provided, however*, that if any Investment pursuant to this paragraph (o) is made in any Person that is not a Restricted Subsidiary at the date of the making of such Investment and such Person becomes a Restricted Subsidiary after such date, such Investment shall thereafter be deemed to have been made pursuant to paragraph (a) or (c) above and shall cease to have been made pursuant to this paragraph (o) for so long as such Person continues to be a Restricted Subsidiary;
- (p) any Investment in connection with a Qualified Receivables Transaction, including Investments of funds held in accounts permitted or required by the arrangements governing such Qualified Receivables Transaction or any related Indebtedness;
- (q) any direct or indirect Investments in any aircraft, aircraft engines, spare parts, rotables, consumables and information technology systems; and
- (r) the acquisition of assets or Capital Stock solely in exchange for the issuance of Equity Interests (other than Disqualified Stock) of the Issuer.

Permitted Payment means:

- (a) the payment of any dividend or the consummation of any redemption within 60 days after the date of declaration of the dividend or giving of the redemption notice, as the case may be, if at the date of declaration or notice, the dividend or redemption payment would have complied with the provisions of these Conditions;
- (b) the making of any Restricted Payment in exchange for, or out of or with the net cash proceeds of the substantially concurrent sale or issuance (other than to a Restricted Subsidiary of the Issuer) of, Equity Interests of the Issuer (other than Disqualified Stock) or from the substantially concurrent contribution of common equity capital to the Issuer provided that the amount of any such net cash proceeds that are utilised for any such Restricted Payment will be excluded from the calculation of amounts under Condition 3.2(c)(ii) and shall not constitute Excluded Contributions;

- (c) the repurchase, redemption, defeasance or other acquisition or retirement for value of Indebtedness of the Issuer that is contractually subordinated to the Notes with the net cash proceeds from an incurrence of Permitted Refinancing Indebtedness;
- (d) the repurchase, redemption or other acquisition or retirement for value of any Equity Interests of the Issuer or any Restricted Subsidiary held by any current or former officer, director, employee or consultant of the Issuer or any of its Restricted Subsidiaries pursuant to any equity subscription agreement, stock option agreement, restricted stock grant, shareholders' agreement or similar agreement; *provided* that the aggregate price paid for all such repurchased, redeemed, acquired or retired Equity Interests may not exceed €2 million in any calendar year (with unused amounts in any calendar year being carried over to the succeeding calendar years subject to a maximum of €3 million per calendar year); and *provided, further*, that such amount in any calendar year may be increased by an amount not to exceed (A) the cash proceeds from the sale of Equity Interests of the Issuer or a Restricted Subsidiary received by the Issuer or a Restricted Subsidiary during such calendar year, in each case to members of management, directors or consultants of the Issuer, any of its Restricted Subsidiaries or any of its direct or indirect parent companies and (B) the cash proceeds of key man life insurance policies of the Issuer or a Restricted Subsidiary received by the Issuer or a Restricted Subsidiary after the Closing Date less any amount previously applied to the making of Restricted Payments pursuant to this paragraph (d), in each case, to the extent the cash proceeds have not otherwise been applied to the making of Restricted Payments pursuant to Condition 3.2(c)(ii) or paragraph (b) of this definition;
- (e) the repurchase of Equity Interests deemed to occur upon the exercise of stock options to the extent such Equity Interests represent a portion of the exercise price of those stock options;
- (f) the declaration and payment of regularly scheduled or accrued dividends to holders of any class or series of Disqualified Stock of the Issuer or any preferred stock of any Restricted Subsidiary issued on or after the Closing Date in accordance with Condition 3.2;
- (g) payments of cash, dividends, distributions, advances or other Restricted Payments by the Issuer or any of its Restricted Subsidiaries to allow the payment of cash in lieu of the issuance of fractional shares upon (x) the exercise of options or warrants or (y) the conversion or exchange of Capital Stock of any such Person;
- (h) any payments pursuant to a tax sharing agreement between the Issuer and any other Person or a Restricted Subsidiary and any other Person with which the Issuer or any of its Restricted Subsidiaries files a consolidated tax return or with which the Issuer or any of its Restricted Subsidiaries is part of a group for tax purposes (including a fiscal unity) or any tax advantageous group contribution made pursuant to applicable legislation; provided, however, that any such tax sharing agreement does not permit or require payments in excess of the amounts of tax that would be payable by the Issuer and its Restricted Subsidiaries on a standalone basis;
- (i) advances or loans to (A) any future, current or former officer, director, employee or consultant of the Issuer or a Restricted Subsidiary to pay for the purchase or other acquisition for value of Equity Interests of the Issuer (other than Disqualified Stock), or any obligation under a forward sale agreement, deferred purchase agreement or deferred payment arrangement pursuant to any management equity plan or stock option plan or any other management or employee benefit or incentive plan or other agreement or arrangement or (B) any management equity plan or stock option plan or any other management or employee benefit or incentive plan or unit trust or the trustees of any such plan or trust to pay for the purchase or other acquisition for value of Equity Interests of the Issuer (other than Disqualified Stock); provided that the total aggregate amount of

Restricted Payments made under this paragraph (i) does not exceed €1.5 million in any calendar year;

- (j) the payment of any dividend (or, in the case of any partnership or limited liability company, any similar distribution) by a Restricted Subsidiary to the holders of its Equity Interests (other than the Issuer or any Restricted Subsidiary) on no more than a pro rata basis;
- (k) Restricted Payments that are made with Excluded Contributions;
- (l) any purchase, repurchase, redemption, defeasance or other acquisition or retirement for value of Indebtedness of the Issuer that is subordinated in right of payment to the Notes (other than any Indebtedness so subordinated and held by Affiliates of the Issuer) upon a Change of Control to the extent required by the agreements governing such Indebtedness at a purchase price not greater than 103.000% of the principal amount of such Indebtedness, but only if the Issuer shall have complied with its obligations hereunder;
- (m) so long as no Event of Default or Potential Event of Default has occurred and is continuing, other Restricted Payments in an aggregate amount not to exceed €5 million at any time outstanding;
- (n) the payment of any fees and purchases of Receivables and related assets in connection with a Qualified Receivables Transaction or other factoring transaction; and
- (o) any Restricted Payment made in connection with the Transactions.

Permitted Refinancing Indebtedness means any Indebtedness of the Issuer or any of its Restricted Subsidiaries issued in exchange for, or the net proceeds of which are used to renew, refund, refinance, replace, exchange, defease or discharge other Indebtedness of the Issuer or any of its Restricted Subsidiaries (other than intercompany Indebtedness (other than any proceeds loan)); provided that:

- (a) the aggregate principal amount (or accreted value, if applicable), or if issued with original issue discount, aggregate issue price) of such Permitted Refinancing Indebtedness does not exceed the principal amount (or accreted value, if applicable, or if issued with original issue discount, aggregate issue price) of the Indebtedness renewed, refunded, refinanced, replaced, exchanged, defeased or discharged (plus all accrued interest on the Indebtedness and the amount of all fees and expenses, including premiums, incurred in connection therewith);
- (b) such Permitted Refinancing Indebtedness has (i) a final maturity date that is either (A) no earlier than the final maturity date of the Indebtedness being renewed, refunded, refinanced, replaced, exchanged, defeased or discharged or (B) after the final maturity date of the Notes and (ii) has a Weighted Average Life to Maturity that is equal to or greater than the Weighted Average Life to Maturity of the Indebtedness being renewed, refunded, refinanced, replaced, defeased or discharged;
- (c) if the Indebtedness being renewed, refunded, refinanced, replaced, defeased or discharged is expressly, contractually, subordinated in right of payment to the Notes, such Permitted Refinancing Indebtedness is subordinated in right of payment to the Notes on terms at least as favourable to the Noteholders as those contained in the documentation governing the Indebtedness being renewed, refunded, refinanced, replaced, exchanged, defeased or discharged; and
- (d) if the Issuer was the obligor on the Indebtedness being renewed, refunded, refinanced, replaced, defeased or discharged, such Indebtedness is incurred by the Issuer.

Person means any individual, corporation, partnership, joint venture, association, joint-stock company, trust, unincorporated organization, limited liability company or government or other entity.

Pre-Expansion European Union means the European Union as of 1 January 2004, including the countries of Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, Sweden and the United Kingdom, but not including any country which became or becomes a member of the European Union after 1 January 2004.

Purchase Money Note means a promissory note of a Receivables Entity evidencing the deferred purchase price of Receivables (and related assets) and/or a line of credit, which may be irrevocable, from the Issuer or any Restricted Subsidiary in connection with a Qualified Receivables Transaction with a Receivables Entity, which deferred purchase price or line is repayable from cash available to the Receivables Entity, other than amounts required to be established as reserves pursuant to agreements, amounts paid to investors in respect of interest, principal and other amounts owing to such investors and amounts owing to such investors and amounts paid in connection with the purchase of newly generated Receivables.

Qualified Receivables Transaction means any transaction or series of transactions that may be entered into by the Issuer or any of its Restricted Subsidiaries pursuant to which the Issuer or any of its Restricted Subsidiaries may sell, convey or otherwise transfer to (a) a Receivables Entity (in the case of a transfer by the Issuer or any of its Restricted Subsidiaries) and (b) any other Person (in the case of a transfer by a Receivables Entity), or may grant a security interest in, any Receivables (whether now existing or arising in the future) of the Issuer or any of its Restricted Subsidiaries, and any assets related thereto including, without limitation, all collateral securing such Receivables, all contracts and all guarantees or other obligations in respect of such accounts receivable, the proceeds of such Receivables and other assets which are customarily transferred, or in respect of which security interests are customarily granted, in connection with asset securitisations involving Receivables.

Receivable means a right to receive payment arising from a sale or lease of goods or the performance of services by a Person pursuant to an arrangement with another Person pursuant to which such other Person is obligated to pay for goods and services under terms that permit the purchase of such goods and services on credit and shall include, in any event, any items of property that would be classified as an “account”, “chattel paper”, “payment intangible”, or “instrument” under the Uniform Commercial Code and any “supporting obligations” as so defined.

Receivables Entity means a Wholly Owned Subsidiary (or another Person formed for the purpose of engaging in a Qualified Receivables Transaction in which the Issuer or any Restricted Subsidiary makes an Investment and to which the Issuer or any Restricted Subsidiary transfers Receivables and related assets) in which the Issuer or any Restricted Subsidiary makes an Investment and to which the Issuer or any Restricted Subsidiary transfers Receivables and related assets which engages in no activities other than in connection with the financing of Receivables and which is designated by the Board of Directors of the Issuer (as provided below) as a Receivables Entity:

- (a) no portion of the Indebtedness or any other obligations (contingent or otherwise) or which:
 - (i) is guaranteed by the Issuer or any Restricted Subsidiary (excluding guarantees of Obligations (other than the principal of, and interest on, Indebtedness) pursuant to Standard Securitisation Undertakings);
 - (ii) is recourse to or obligates the Issuer or any Restricted Subsidiary in any way other than pursuant to Standard Securitisation Undertakings; or
 - (iii) subjects any property or asset of the Issuer or any Restricted Subsidiary, directly or indirectly, contingently or otherwise, to the satisfaction thereof, other than pursuant to Standard Securitisation Undertakings;

- (b) with which neither the Issuer nor any Restricted Subsidiary has any material contract, agreement, arrangement or understanding (except in connection with a Purchase Money Note or Qualified Receivables Transaction) other than on terms no less favourable to the Issuer or such Restricted Subsidiary than those that might be obtained at the time from Persons that are not Affiliates of the Issuer, other than fees payable in the ordinary course of business in connection with servicing Receivables; and to which neither the Issuer nor any Restricted Subsidiary has any obligation to maintain or preserve such entity's financial condition or cause such entity to achieve certain levels or operating results.

Any such designation by the Board of Directors of the Issuer shall be evidenced to the Trustee by promptly filing with the Trustee a certified copy of the resolution of the Board of Directors of the Issuer giving effect to such designation and an Officers' Certificate certifying that such designation complied with the foregoing conditions.

Restricted Investment means an Investment other than a Permitted Investment.

Restricted Payment means:

- (a) any purchase, redemption or acquisition or retirement for value (including, without limitation, in connection with any merger or consolidation involving the Issuer) of any Equity Interests of the Issuer or any direct or indirect parent company or entity of the Issuer;
- (b) any payment on or with respect to, or purchase, redemption, defeasance or acquisition or retirement for value of any Indebtedness of the Issuer that is contractually subordinated in right of payment to the Notes, except (i) a payment of interest or principal at the Stated Maturity thereof or (ii) the purchase, repurchase, redemption, defeasance or other acquisition or retirement of Indebtedness purchased in anticipation of satisfying a scheduled sinking fund obligation, principal instalment or scheduled maturity, in each case due within one year of the date of such purchase, repurchase, redemption, defeasance or other acquisition or retirement; and
- (c) any Restricted Investment.

Restricted Subsidiary means any Subsidiary of the Issuer other than an Unrestricted Subsidiary.

Senior Secured Indebtedness means, with respect to any Person as of any date of determination, any Indebtedness for borrowed money that is Incurred under the first paragraph of Condition 3.2 or paragraphs (a), (b) or (s) of the definition of "Permitted Debt" and any Refinancing Indebtedness in respect thereof, in each case secured by a Lien on the assets or property of such Person (excluding Indebtedness to the extent secured on a junior priority basis).

Similar Business means any businesses, services or activities engaged in by the Issuer or any of its Restricted Subsidiaries on the Closing Date and any businesses, services and activities engaged in by the Issuer or any of its Subsidiaries that are related, complementary, incidental, ancillary or similar to any of the foregoing or are extensions or developments of any thereof.

S&P means Standard & Poor's Rating Group.

Standard Securitisation Undertakings means representations, warranties, covenants and indemnities entered into by the Issuer or any Restricted Subsidiary which are reasonably customary in securitisation of Receivables transactions

Stated Maturity means, with respect to any instalment of interest or principal on any series of Indebtedness, the date on which the payment of interest or principal was scheduled to be paid in the documentation governing such Indebtedness as of the Closing Date, and will not include any contingent obligations to repay, redeem or repurchase any such interest or principal prior to the date originally scheduled for the payment thereof.

Subordinated Indebtedness means, with respect to any Person, any Indebtedness (whether outstanding on the Closing Date or thereafter Incurred) which is expressly subordinated in right of payment to the Notes.

Subordinated Shareholder Debt means Indebtedness incurred pursuant to any agreement with one or more direct or indirect shareholders of the Issuer; provided that such Indebtedness (i) does not mature or require any amortisation, redemption, or other repayment of principal or any sinking fund payment prior to the first anniversary of the latest of the Maturity Dates (other than through conversion or exchange of such funding into Capital Stock (other than Disqualified Stock) of the Issuer or any parent company, (ii) does not require payment of cash interest, cash withholding amount or other cash gross-ups, or any similar cash amount or the making of any such payment prior to the first anniversary of the latest of the Maturity Dates and (iii) is subordinated and junior in right of payment to the Notes pursuant to its terms.

Subsidiary means, with respect to any specified Person:

- (a) any corporation, association or other business entity of which more than 50% of the total voting power of shares of Capital Stock entitled (without regard to the occurrence of any contingency and after giving effect to any voting agreement or stockholders' agreement that effectively transfers voting power) to vote in the election of directors, managers or trustees of the corporation, association or other business entity is at the time owned or controlled, directly or indirectly, by that Person or one or more of the other Subsidiaries of that Person (or a combination thereof); and
- (b) any partnership or limited liability company of which (i) more than 50% of the capital accounts, distribution rights, total equity and voting interests or general and limited partnership interests, as applicable, are owned or controlled, directly or indirectly, by such Person or one or more of the other Subsidiaries of that Person or a combination thereof, whether in the form of membership, general, special or limited partnership interests or otherwise, and (ii) such Person or any Subsidiary of such Person is a controlling general partner or otherwise controls such entity.

Tax means any tax, duty, levy, impost, assessment or other governmental charge (including penalties, interest and any other additions thereto, and, for the avoidance of doubt, including any withholding or deduction for or on account of Tax). **Taxes** and **Taxation** shall be construed to have corresponding meanings.

Total Assets means the total assets of the Issuer and its Restricted Subsidiaries, calculated on a consolidated basis in accordance with IFRS as shown on the most recent balance sheet (excluding the notes thereto) of the Issuer.

Transactions shall mean (i) the issuance of and subscription by the Investor of the Investor Loan, (ii) the Exchange Offer, and (iii) any other measure required in connection with the implementation of these measures.

Unrestricted Subsidiary means:

- (a) any Subsidiary of the Issuer that at the time of determination is an Unrestricted Subsidiary (as designated by the Board of Directors of the Issuer in the manner provided below); and
- (b) any Subsidiary of an Unrestricted Subsidiary.

The Board of Directors of the Issuer may designate any Subsidiary of the Issuer (including any newly acquired or newly formed Subsidiary of the Issuer or a Person becoming a Subsidiary of the Issuer through merger, consolidation or other business combination, or Investment therein) to be an Unrestricted Subsidiary only if:

- (i) such Subsidiary or any of its Subsidiaries does not own any Capital Stock or Indebtedness of, or own or hold any Lien on any property of, the Issuer or any other Subsidiary of the Issuer which is not a Subsidiary of the Subsidiary to be so designated or otherwise an Unrestricted Subsidiary; and
- (ii) such designation and the Investment of the Issuer in such Subsidiary complies with Condition 3.2.

Any such designation by the Board of Directors of the Issuer shall be evidenced to the Trustee by filing with the Trustee a copy of the resolution of the Board of Directors of the Issuer giving effect to such designation and an Officers' Certificate certifying that such designation complies with the foregoing conditions.

The Board of Directors of the Issuer may designate any Unrestricted Subsidiary to be a Restricted Subsidiary *provided* that immediately after giving effect to such designation (1) no Event of Default or Potential Event of Default would result therefrom and (2)(x) the Issuer could Incur at least €1.00 of additional Indebtedness under the first paragraph of the covenant described under the first paragraph of Condition 3.1 or (y) the Fixed Charge Coverage Ratio would not be less than it was immediately prior to giving effect to such designation, in each case, on a *pro forma* basis taking into account such designation. Any such designation by the Board of Directors shall be evidenced to the Trustee by promptly filing with the Trustee a copy of the resolution of the Board of Directors giving effect to such designation or an Officers' Certificate certifying that such designation complied with the foregoing provisions.

Uniform Commercial Code means the New York Uniform Commercial Code.

Weighted Average Life to Maturity means, when applied to any Indebtedness at any date, the number of years obtained by dividing:

- (a) the sum of the products obtained by multiplying (i) the amount of each then remaining instalment, sinking fund, serial maturity or other required payments of principal, including payment at final maturity, in respect of the Indebtedness, by (ii) the number of years (calculated to the nearest one-twelfth) that will elapse between such date and the making of such payment; by
- (b) the then outstanding principal amounts of such Indebtedness.

Wholly Owned Subsidiary means a Restricted Subsidiary, all of the Capital Stock of which (other than director's qualifying shares or shares required by any applicable law or regulation to be held by a Person other than the Issuer or another Wholly Owned Subsidiary) is owned by the Issuer or another Wholly Owned Subsidiary.

3.10 Certificates to the Trustee

The Issuer has undertaken in the Trust Deed to deliver to the Trustee annually an Officer's Certificate of the Issuer as to there not having occurred an Event of Default or Potential Event of Default since the date of the last such Certificate, or, if such an event had occurred, as to the details of such event. The Trustee will be entitled to rely on any such Certificate and shall not be obliged independently to monitor compliance by the Issuer or any Restricted Subsidiary with the covenants set forth in Condition 2 and this Condition 3 (Covenants) and need not enquire further as regards the circumstances existing on the date of such Certificate.

The Trust Deed provides that any Officer's Certificate of the Issuer as to any term, amount or designation referred to in these Conditions or as to any of the ratios contained in this Condition 3 (or as to any other figure required for any other purpose in connection with these Conditions of the Trust Deed (unless expressly otherwise stated)) may, in the absence of manifest error, be relied upon by the Trustee and, if so relied upon, shall be conclusive and binding on the Issuer, the Noteholders and the Couponholders.

4. INTEREST

4.1 Rate of Interest and Interest Payment Dates

The Euro Notes shall bear interest at the rate of 6.75 per cent. per annum calculated by reference to the aggregate principal amount thereof from (and including) the Closing Date to (but excluding) the Euro Notes Maturity Date (as defined in Condition 6.1).

The CHF Notes shall bear interest at the rate of 5.625 per cent. per annum calculated by reference to the aggregate principal amount thereof from (and including) the Closing Date to (but excluding) the CHF Notes Maturity Date (as defined in Condition 6.1).

Interest shall be payable semi-annually in arrears on 9 May and 9 November in each year (each such date, an Interest Payment Date). The first payment of interest shall be made on 9 November 2014.

4.2 Accrual of Interest

Each Note will cease to bear interest from the due date for redemption or repayment thereof unless, upon due presentation thereof, payment of principal in respect of the Note is improperly withheld or refused, in which event interest will continue to accrue as provided in the Trust Deed.

4.3 Calculation of Interest

Interest in respect of any period other than an Interest Period (the **Calculation Period**) shall be calculated on the basis of the Day Count Fraction.

4.4 Definitions

As used in this Condition:

Day Count Fraction means with regard to the calculation of interest on any Note for any 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).

Interest Period means the period beginning on (and including) the Closing Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date.

5. PAYMENTS

5.1 Principal

Payment of principal in respect of the Notes and payment of accrued interest payable on redemption of the Notes other than on an Interest Payment Date will be made against presentation and surrender (or in the case of partial payment only, endorsement) of the relevant Note, at the specified office of any Paying Agent.

5.2 Interest and other Amounts

- (a) Payments of interest due on an Interest Payment Date will be made against presentation and surrender (or in the case of partial payment only, endorsement) of the relevant Coupons, at the specified office of any of the Paying Agents as provided herein.
- (b) Payments of all amounts other than as provided in Condition 5.1 and 5.2(a) will be made as provided in these Conditions.

5.3 Coupons

Each Note should be presented for payment together with all relative unmatured Coupons, failing which the full amount of any relative missing unmatured Coupon (or, in the case of payment not being made in full, the proportion of the full amount of the missing unmatured Coupon which the amount so paid bears to the total amount due) will be deducted from the amount due for payment. Each amount so deducted will, for the purposes of Condition 9, be treated as an amount of principal and will be paid in the manner mentioned above against presentation and surrender (or, in the case of part payment only, endorsement) of the relative missing Coupon at any time before the expiry of 10 years after the Relevant Date in respect of the relevant Note (whether or not the Coupon would otherwise have become void pursuant to Condition 9) or, if later, five years after the date on which the Coupon would have become void pursuant to Condition 9, but not thereafter.

Relevant Date means, in respect of any Note or Coupon, whichever is the later of (i) the date on which payment in respect of it first becomes due and (ii) if the full amount is payable and is not received by the Principal Paying Agent or the Trustee on or prior to such due date, the date on which, the full amount having been so received, notice to that effect shall have been given to the Noteholders.

5.4 Payments

Payments will be made by transfer to an account maintained by the payee with a branch of a bank in a city where banks have access to the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET2) System (the **TARGET 2 System**).

5.5 Payments subject to fiscal laws

All payments in respect of the Notes are subject in all cases to any applicable fiscal or other laws and regulations, but without prejudice to Condition 8. No commissions or expenses shall be charged to the Noteholders in respect of such payments.

5.6 Business Days

A Noteholder will only be entitled to present a Note or Coupon for payment on a Presentation Date and shall not be entitled to any interest or other payment for any delay (i) if the due date for payment is not a Presentation Date, or (ii) if the Noteholder is late in surrendering the relevant Note.

Business Day means a day on which commercial banks and foreign exchange markets settle payments in euro or CHF and are open for general business (including dealing in foreign exchange and foreign currency deposits) in Luxembourg.

Presentation Date means a day which (subject to Condition 9):

- (a) is or falls after the relevant due date;
- (b) is a Business Day in the place of the specified office of the Paying Agent at which the Note or Coupon is presented for payment;
- (c) in the case of payment by credit or transfer to a euro as referred to above, is a TARGET2 Settlement Day; and
- (d) in case of payment by credit or transfer to a CHF account as referred to above, is a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in Zurich.

TARGET2 Settlement Day means any day on which the TARGET2 System is open.

5.7 Fractions

When making payments to Noteholders or Couponholders, if the relevant payment is not of an amount which is a whole multiple of the smallest unit of the relevant currency in which such payment is to be made, such payment will be rounded down to the nearest unit.

6. REDEMPTION

6.1 Redemption at Maturity

- (a) Unless previously redeemed in whole or in part or purchased and cancelled, the Euro Notes shall be redeemed at their principal amount on 9 May 2019 (the **Euro Notes Maturity Date**); and
- (b) Unless previously redeemed in whole or in part or purchased and cancelled, the CHF Notes shall be redeemed at their principal amount on 9 May 2019 (the **CHF Notes Maturity Date**, together with the Euro Notes Maturity Date (the **Maturity Dates**)).

6.2 Early Redemption for Reasons of Taxation

If the Issuer satisfies the Trustee that as a result of any change in, or amendment to, the tax laws or regulations of the United Kingdom, or any political subdivision or any authority thereof 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 Closing Date, the Issuer has or will become obliged to pay Additional Amounts (as defined in Condition 8) on the next succeeding Interest Payment Date (as defined in Condition 4.1), the Notes may be redeemed, in whole but not in part, at the option of the Issuer, at any time upon not more than 60 days' nor less than 30 days' prior notice of redemption given to the Trustee, the Principal Paying Agent and, pursuant to Condition 15, 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 Condition 15. 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. Prior to giving such notice, the Issuer shall deliver to the Trustee an Officer's Certificate stating that the requirement referred to above is satisfied, and the Trustee shall be entitled to accept the certificate as sufficient evidence of such satisfaction, in which event it shall be conclusive and binding on the Noteholders and the Couponholders.

6.3 Early Redemption for reasons of a Relevant Event

In the event that a Relevant Event (as defined below) occurs, each Noteholder will have the option (unless, prior to the giving of the Put Event Notice referred to below, the Issuer gives notice to redeem the Notes in accordance with Condition 6.2) 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.

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

An **Investor Loan Event** shall occur if the Investor Loan is not subscribed for by the Investor in an aggregate principal amount of at least €300 million by 31 December 2014.

For the purposes of this Condition 6.3, **Relevant Event** means a Change of Control or an Investor Loan Event.

Without undue delay upon the Issuer becoming aware that Relevant Event has occurred, the Issuer shall give notice (a **Put Event Notice**) to the Trustee and the Noteholders in accordance with Condition 15. The Put Event Notice shall specify the nature of the Relevant Event and the circumstances giving rise to the Relevant Event, as relevant, and the procedure for exercising the option set out in this Condition 6.3.

In order to exercise such option, the Noteholder must deliver such Notes during normal business hours to the specified office of the Principal Paying Agent together with 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. No option so exercised may be revoked or withdrawn without the prior consent of the Issuer.

The **Optional Redemption Date** is the seventh day after the last day of the Put Period, if such a day falls on a Business Day, on the next Business Day if not.

No later than 90 days following the occurrence of a Change of Control, the Issuer may, upon not less than 10 days' and no more than 30 days' prior notice given to the Trustee, the Principal Paying Agent and the Noteholders, redeem all outstanding Notes at a redemption price equal to 103.000% of the principal amount together with the interest accrued to, but excluding the date of such redemption.

6.4 Optional Redemption

6.4.1 CHF Notes

On and after 9 May, 2017, the Issuer may redeem all or a part of the CHF Notes upon not less than 30 nor more than 60 days' notice to the Noteholders pursuant to Condition 15, at the following redemption prices plus accrued and unpaid interest and Additional Amounts, if any, to the date of redemption if redeemed during the twelve-month period beginning on 9 May of the years indicated below:

<u>Year</u>	<u>Redemption Price</u>
2017	104.350%
2018	102.250%
2019	100.000%

At any time prior to 9 May, 2017, the Issuer may on any one or more occasions redeem all or a part of the CHF Notes upon not less than 30 nor more than 60 days' notice to the Noteholders pursuant to Condition 15, at a redemption price equal to 100% of the principal amount of the CHF Notes redeemed, plus the CHF Applicable Premium (as defined below) as of the date of redemption, and accrued and unpaid interest and Additional Amounts, if any, to the date of redemption.

As used in this paragraph 6.4.1:

CHF Applicable Premium means, with respect to a CHF Note at any redemption date, the excess of (a) the present value at such redemption date of (1) the redemption price of such CHF Note on 9 May, 2017; *plus* (2) all required remaining scheduled interest payments due on such CHF Note through 9 May, 2017 (but in each case excluding accrued and unpaid interest to the redemption date), computed using a discount rate equal to the Swiss Government Bond Rate plus 50 basis points, calculated on a semi-annual basis (assuming a 360-day year, consisting of twelve 30-day months) over (b) the principal amount of such CHF Note on such redemption date; and

Swiss Government Bond Rate means the yield to maturity at the time of computation of direct obligations of the Swiss Confederation (*Staatsanleihen*) with a constant maturity (as officially compiled and published in the most recent financial statistics that has become publicly available at least two Business Days (but not more than five Business Days) prior to the redemption date (or, if such financial statistics are not so published or available, any publicly available source of similar market data selected by the Issuer in good faith)) most nearly equal to the period from the redemption date to 9 May, 2017; provided, however, that if the period from the redemption date to 9 May, 2017 is not equal to the constant maturity of a direct obligation of the Swiss Confederation for which a weekly average yield is given, the Swiss Government Bond Rate shall be obtained by linear interpolation (calculated to the nearest one-twelfth of a year) from the weekly average yields of direct obligations of the Swiss Confederation for which such yields are given, except that if the period from such redemption date to 9 May, 2017 is less than one year, the weekly average yield on actually traded direct obligations of the Swiss Confederation adjusted to a constant maturity of one year shall be used.

6.4.2 Euro Notes

On and after 9 May, 2017, the Issuer may redeem all or a part of the Euro Notes upon not less than 30 nor more than 60 days' notice to the Noteholders pursuant to Condition 15, at the following redemption prices plus accrued and unpaid interest and Additional Amounts, if any, to the date of redemption if redeemed during the twelve-month period on beginning 9 May of the years indicated below:

<u>Year</u>	<u>Redemption Price</u>
2017	104.650%

Year	Redemption Price
2018	102.650%
2019	100.000%

At any time on or prior to 9 May, 2017, the Issuer may on any one or more occasions redeem all or a part of the Euro Notes upon not less than 30 nor more than 60 days' notice to the Noteholders pursuant to Condition 15, at a redemption price equal to 100% of the principal amount of the Euro Notes redeemed, plus the Euro Applicable Premium as of the date of redemption, and accrued and unpaid interest and Additional Amounts, if any, to the date of redemption.

As used in this paragraph 6.4.2:

Euro Applicable Premium means, with respect to a Euro Note at any redemption date, the excess of (a) the present value at such redemption date of (1) the redemption price of such Euro Note on the 9 May, 2017; *plus* (2) all required remaining scheduled interest payments due on such Euro Note through 9 May, 2017 (but in each case excluding accrued and unpaid interest to the redemption date), computed using a discount rate equal to the Euro Bund Rate plus 50 basis points, calculated on a semi-annual basis (assuming a 360-day year, consisting of twelve 30-day months) over (b) the principal amount of such Euro Note on such redemption date; and

Euro Bund Rate means, as of any redemption date, the rate per annum equal to the equivalent yield to maturity as of such redemption date of the Comparable German Bund Issue, assuming a price of the Comparable German Bund Issue (expressed as a percentage of its principal amount) equal to the Comparable German Bund Price for such relevant date, where:

- (i) **Comparable German Bund Issue** means the German Bundesanleihe security selected by any Reference German Bund Dealer as having a fixed maturity most nearly equal to the period from such redemption date to the Euro Note Maturity Date (as defined in Condition 6.1), and that would be utilised, at the time of selection and in accordance with customary financial practice, in pricing new issues of euro denominated corporate debt securities in a principal amount approximately equal to the then outstanding principal amount of the relevant series of Euro Notes and of a maturity most nearly equal to the Euro Note Maturity Date; *provided, however*, that, if the period from such redemption date to the Euro Note Maturity Date is less than one year, a fixed maturity of one year shall be used;
- (ii) **Comparable German Bund Price** means, with respect to any relevant date, the average of all Reference German Bund Dealer Quotations for such date (which, in any event, must include at least two such quotations), after excluding the highest and lowest such Reference German Bund Dealer Quotations, or if the Issuer obtains fewer than four such Reference German Bund Dealer Quotations, the average of all such quotations;
- (iii) **Reference German Bund Dealer** means any dealer of German Bundesanleihe securities appointed by the Issuer in good faith; and

Reference German Bund Dealer Quotations means, with respect to each Reference German Bund Dealer and any relevant date, the average as determined by the Issuer of the bid and offered prices for the Comparable German Bund Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Issuer by such Reference German Bund Dealer at 3:30 p.m. Frankfurt am Main, Germany time on the third Business Day preceding the relevant date.

6.4.3 In the case of a partial redemption of Notes, the Notes to be redeemed (**Redeemed Notes**) will be selected individually by lot not more than 30 days prior to the date fixed for redemption. A list of the serial numbers of such Redeemed Notes will be published in accordance with Condition 13 not less than 15 days prior to the date fixed for redemption.

6.5 Purchase

Subject to the requirements (if any) of any stock exchange on which the Notes may be admitted to listing and trading at the relevant time and subject to compliance with applicable laws and regulations, the Issuer or any of its Restricted Subsidiaries may at any time purchase Notes (provided that all unmatured Coupons relating to them are purchased therewith or attached thereto) in the open market or otherwise at any price. Notes purchased by the Issuer or any Restricted Subsidiary may, at the option of the Issuer or such Restricted Subsidiary, be held, resold or surrendered to the Principal Paying Agent for cancellation.

6.6 Cancellation

All Notes which are (a) redeemed or (b) purchased by or on behalf of the Issuer or any of its Restricted Subsidiaries and surrendered for cancellation in accordance with Condition 6.4 will be cancelled (together with all relative unmatured Coupons attached to the Notes or surrendered with the Notes) and may not be reissued or resold.

7. PRINCIPAL PAYING AGENT

7.1 Appointment; Specified Offices

The initial Principal Paying Agent and its initial specified office is:

BNP Paribas Securities Services, Luxembourg Branch

33 rue de Gasperich, L-5826 Hesperange

Postal address: L-2085 Luxembourg

Fax: +352 2696 9757

Attention: Corporate Trust Services

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

7.2 Variation or Termination of Appointment

The Issuer reserves the right at any time with the prior written consent of the Trustee to vary or terminate the appointment of the Principal Paying Agent and to appoint another Principal Paying Agent or one or more other additional paying agents.

The Issuer shall at all times maintain:

- (a) a Principal Paying Agent; and
- (b) a paying agent (which may be the Principal Paying Agent) in an EU Member State that will not be obliged to withhold or deduct tax pursuant to any law implementing the Council Directive 2003/48/EC on the taxation of savings income.

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 Condition 15.

7.3 Agents of the Issuer

The Principal Paying Agent and any other 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.

8. 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 by any political subdivision or any authority thereof or therein 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 if:

- (a) these are to be paid otherwise than by withholding or deduction at the source of payments under the Notes; or
- (b) these 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
- (c) these are imposed or levied pursuant to or as a consequence of (i) an international treaty to which the United Kingdom is a party or (ii) a regulation or a directive on the basis of or as a consequence of such international treaty; or
- (d) these are deducted or withheld pursuant to (i) any European Union Directive (as amended from time to time) 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 statutory or administrative provisions implementing, or complying with, or introduced to conform with, such Directive, Regulation, treaty or understanding; or
- (e) these 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
- (f) these 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
- (g) these could be reclaimed pursuant to a double taxation treaty or the fiscal laws of the United Kingdom or be dischargeable at source due to community law (EU) provisions; or
- (h) these would not have to be paid by a Noteholder if it could have obtained tax exemption, tax restitution or tax rebate in a reasonable way; or
- (i) these are payable by reason of a change in law or practice that becomes effective (i) more than 30 days after the relevant payment of principal or interest becomes due, or to the extent that payment is made later, (ii) more than 30 days after the Issuer effects payment in full of all due and payable amounts and notice thereof is published in accordance with Condition 15, whichever occurs later; or
- (j) these are payable because the Noteholder (i) has some fiscally relevant connection to the United Kingdom other than the mere holding of the Note, or (ii) receives payment of principal or interest under the Notes through or by involvement of an paying agent situated in the United Kingdom or a respective successor provision); or
- (k) these are withheld or deducted by an agent or any other person located outside of the United Kingdom after payment by the Issuer in the course of the transfer of such amounts to the Noteholder;
- (l) such deduction would not be payable, if a Noteholder or any other person acting on his behalf had presented the requested form of certificate or had made the requested declaration of non-residence or other similar claim for exemption (including to the

relevant tax authority) upon the presentation or making of which that Noteholder would have been able to avoid such deduction or claim refund of the deducted amount; or;

- (m) any combination of the above items (a)-(l) applies.

Any reference in these Conditions to any amounts in respect of the Notes shall be deemed also to refer to any Additional Amounts which may be payable under this Condition or under any undertakings given in addition to, or in substitution for, this Condition pursuant to the Trust Deed.

9. PRESCRIPTION

Claims against the Issuer in respect of principal and interest shall become void unless presentation for payment is made as required by Condition 5 within a period of 10 years in the case of principal and five years in the case of interest from the appropriate Relevant Date.

10. EVENTS OF DEFAULT

The Trustee at its discretion may, and if so requested in writing by the holders of at least one-quarter in principal amount of the Notes (which for this purpose and the purpose of any Extraordinary Resolution (as defined in the Trust Deed) referred to in this Condition 10 means the Notes of all Series together as if they were a single Series with the principal amount of any Series of Notes not denominated in euro converted into euro at the relevant currency exchange rate (as more particularly described in the Trust Deed) then outstanding or if so directed by an Extraordinary Resolution of the Noteholders shall, subject in each case to being indemnified and/or secured and/or prefunded by the Noteholders to its satisfaction, give notice in writing to the Issuer that each Note of each Series is, and each such Note shall accordingly immediately thereby become, due and repayable at its principal amount together with accrued interest (if any) to, but excluding, the date of payment, if any of the following events (each an **Event of Default**) shall have occurred and is continuing:

- (a) the Issuer fails to pay principal or interest on the Notes of any Series within 15 calendar days from the relevant due date; or
- (b) the Issuer fails to duly perform any other obligation or provision under the Trust Deed or the Notes of any Series (other than an obligation for the payment of principal and interest in respect of the Notes of any Series) and such failure is not capable of remedy or, if such failure is in the opinion of the Trustee capable of remedy, such failure continues for more than 60 calendar days after notice of such default shall have been given to the Issuer by the Trustee; or
- (c) the Issuer or any Material Subsidiary fails to fulfil any payment obligation equal to or exceeding €20,000,000 (or its equivalent in another currency) when due or, as the case may be, within an applicable grace period, under any monies borrowed or raised or guaranteed by the Issuer or such Material Subsidiary or for which the Issuer or such Material Subsidiary has otherwise assumed liability; or
- (d) the Issuer or any Material Subsidiary threatens to stop meeting or announces its inability to meet its financial obligations or ceases its payments generally; or
- (e) a court opens insolvency proceedings against the Issuer, or a supervisory or other authority which has jurisdiction over the Issuer 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 offers or makes an arrangement for the benefit of its creditors generally; or
- (f) the Issuer is dissolved or liquidated, unless in the case of the Issuer (i) such dissolution or liquidation is made in connection with a merger, consolidation or other combination with any other entity or in connection with a solvent reorganisation and (ii) such other entity, if applicable, assumes all obligations of the Issuer under the Notes; or

- (g) the Issuer ceases or threatens to cease to carry on its business, unless in the case of the Issuer (i) such event occurs in connection with a merger, consolidation or other combination with any other entity or in connection with a solvent reorganisation and (ii) such other entity, if applicable, assumes all obligations of the Issuer under the Notes; or
- (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 Conditions and this situation is not cured within 90 days

provided that in the case of paragraph (b) or (h) above, the Trustee shall have certified that in its opinion such event is materially prejudicial to the interests of the Noteholders.

11. REPLACEMENT OF NOTES AND COUPONS

If any Note or Coupon is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of any Paying Agent subject to all applicable laws and stock exchange requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Notes or Coupons must be surrendered before replacements will be issued.

12. MEETINGS OF NOTEHOLDERS, MODIFICATION, WAIVER AND SUBSTITUTION

12.1 Meetings of Noteholders

The Trust Deed contains provisions for convening meetings of Noteholders of any Series to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of the Notes of such Series or any provisions of the Trust Deed (subject as provided below and in the Trust Deed). Such a meeting may be convened by the Issuer or the Trustee and shall be convened by the Issuer if requested in writing by Noteholders of a Series of Notes holding not less than 10% in principal amount of the Notes of such Series for the time being outstanding. The quorum for any meeting in respect of any Series of Notes convened to consider an Extraordinary Resolution will be one or more persons holding or representing a clear majority in principal amount of the Notes of such Series for the time being outstanding, or at any adjourned meeting one or more persons being or representing Noteholders of such Series whatever the principal amount of the Notes of such Series so held or represented, unless the business of such meeting includes consideration of proposals, *inter alia*:

- (a) to modify the maturity of such Notes or the dates on which interest is payable in respect of such Notes;
- (b) to modify the circumstances in which the Issuer or Noteholders of such Series are entitled to redeem such Notes pursuant to Condition 6;
- (c) to reduce or cancel the principal amount of, or interest on, such Notes or to reduce the amount payable on redemption of such Notes;
- (d) to modify the basis for calculating the interest payable in respect of such Notes; or
- (e) to change the currency of such Notes or any payment in respect of such Notes,

(each, a **Series Reserved Matter**) in which case the necessary quorum will be one or more persons holding or representing not less than two-thirds, or at any adjourned meeting not less than one-third, in principal amount of the Notes of such Series for the time being outstanding.

To be passed at a meeting of the Noteholders, an Extraordinary Resolution requires a majority in favour consisting of more than 50 per cent. of the votes cast, save for with respect to a Series Reserved Matter, for which an Extraordinary Resolution requires a majority in favour consisting of more than 75 per cent. of the votes cast.

Any Extraordinary Resolution duly passed at any meeting of the Noteholders of a Series shall, subject as provided below, be binding on all Noteholders of such Series (whether or not they were present at the meeting at which such resolution was passed) and on all Couponholders.

Notwithstanding the provisions of the immediately preceding paragraph, any Extraordinary Resolution to direct the Trustee to accelerate the Notes pursuant to Condition 10, to direct the Trustee to take any enforcement action or to effect any modification that is not a Series Reserved Matter (each a **Collective Series Resolution**) shall only be capable of being passed at a single meeting of the holders of the Notes of all Series then outstanding. Any such meeting to consider a Collective Series Resolution may be convened by the Issuer or the Trustee or by Noteholders of any Series.

The quorum at any such meeting for passing a Collective Series Resolution is one or more persons holding or representing a clear majority in principal amount of the Notes of all Series for the time being outstanding, or at any adjourned such meeting one or more persons holding or representing Notes whatever the principal amount of the Notes of any Series so held or represented. A Collective Series Resolution passed at any meeting of the Noteholders of all Series shall be binding on all Noteholders of all Series, whether or not they are present at the meeting, and on all related Couponholders in respect of such Series of Notes.

The Trust Deed provides that, in regard to Series Reserved Matters, (i) a resolution in writing signed by or on behalf of the holders of not less than 75 per cent. of the aggregate principal amount of Notes outstanding or (ii) consents given by way of electronic consents through the relevant clearing system(s) (in a form satisfactory to the Trustee) by or on behalf of the holder(s) of not less than 75 per cent. of the aggregate principal amount of Notes outstanding shall, in each case, for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Noteholders duly convened and held.

The Trust Deed provides that, in regard to all other matters, (i) a resolution in writing signed by or on behalf of the holders of more than 50 per cent. of the aggregate principal amount of Notes outstanding or (ii) consents given by way of electronic consents through the relevant clearing system(s) (in a form satisfactory to the Trustee) by or on behalf of the holder(s) of more than 50 per cent. of the aggregate principal amount of Notes outstanding shall, in each case, for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Noteholders duly convened and held.

12.2 Modification and Waiver

The Trustee may agree, without the consent of the Noteholders or the Couponholders of any Series, to:

- (a) any modification of any of the provisions of the Trust Deed, any trust deed supplemental to the Trust Deed, the Agency Agreement, any agreement supplemental to the Agency Agreement, the Notes, the Coupons or these Conditions which in the Trustee's opinion is of a formal, minor or technical nature or is made to correct a manifest error or to comply with mandatory provisions of law; and
- (b) any other modification (save in respect of a Series Reserved Matter) to the Trust Deed, any Supplemental Trust Deed, the Agency Agreement, any agreement supplemental to the Agency Agreement, the Notes, the Coupons or these Conditions and any waiver or authorisation of any breach or proposed breach, of any of the provisions of the Trust Deed, any trust deed supplemental to the Trust Deed, the Agency Agreement, any agreement supplemental to the Agency Agreement, the Notes, the Coupons or these Conditions which is, in the opinion of the Trustee, not materially prejudicial to the interests of the Noteholders of any Series.

The Trustee may, without the consent of the Noteholders or Couponholders of any Series, determine any Event of Default or a Potential Event of Default (as defined in the Trust Deed) should not be treated as such, provided that in the opinion of the Trustee, the interests of Noteholders of any Series will not be materially prejudiced thereby.

Any such modification, authorisation, waiver or determination shall be binding on all the Noteholders of all Series and the related Couponholders and, if the Trustee so requires, such modification shall be notified to the Noteholders promptly in accordance with Condition 15.

12.3 Substitution

The Trust Deed contains provisions permitting the Trustee to agree, without the consent of the Noteholders or Couponholders of any Series, to the substitution of any other company in place of the Issuer, or of any previous substituted company, as the principal debtor under the Notes, the Coupons and the Trust Deed subject to the Trustee being satisfied that the interests of the Noteholders of any Series will not be materially prejudiced by the substitution and certain other conditions set out in the Trust Deed being complied with. In the case of such a substitution the Trustee may agree, without the consent of the Noteholders or the Couponholders of any Series, to a change of law governing the Notes, the Coupons and/or the Trust Deed provided that such change would not in the opinion of the Trustee be materially prejudicial to the interests of the Noteholders of any Series. Any such substitution shall be binding on all Noteholders of all Series and the related Couponholders and shall be notified promptly to the Noteholders in accordance with Condition 15.

In the case of a Scheme of Arrangement which effects the interposition of a Newco between the Existing Shareholders and the Issuer, the Issuer may, at its option, substitute such Newco in place of the Issuer as principal obligor in respect of the Notes and the Trust Deed and in such event the Trustee shall (at the expense of the Issuer) be obliged to concur in effecting such substitution, provided that the Trustee shall not be obliged so to concur if in the opinion of the Trustee doing so would impose new or more onerous duties or obligations upon it or expose it to further liabilities or reduce its protections and provided further that (i) the Issuer and Newco shall make such amendments to the Trust Deed and the Conditions (including, without limitation, the Events of Default) as are necessary, in the opinion of the Trustee to ensure that the Trust Deed, the Conditions and the Events of Default provide at least the same protections and benefits to the Trustee and the Noteholders following the implementation of such Scheme of Arrangement as they provided to the Trustee and the Noteholders prior to the implementation of the Scheme of Arrangement, *mutatis mutandis*; and (ii) any such substitution is subject to certain other conditions set out in the Trust Deed being complied with.

12.4 Entitlement of the Trustee

In connection with the exercise of its functions (including but not limited to those referred to in this Condition) and the exercise or performance of any right, power, trust, authority, duty or discretion under or in relation to these Conditions (including, without limitation, in relation to any modification, waiver, authorisation, determination or substitution as referred to above) the Trustee shall have regard to the interests of the Noteholders of each Series as a class but shall not have regard to any interests arising from circumstances particular to individual Noteholders or Couponholders (whatever their number) and, in particular but without limitation, shall not have regard to the consequences of the exercise or performance of its trusts, powers or discretions for individual Noteholders or Couponholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof, and the Trustee shall not be entitled to require, nor shall any Noteholder or Couponholder be entitled to claim, from the Issuer, the Trustee or any other person any indemnification or payment in respect of any tax consequences of any such exercise upon individual Noteholders or Couponholders except to the extent already provided for in Condition 7 and/or any undertaking given in addition to, or in substitution for, Condition 7 pursuant to the Trust Deed.

13. ENFORCEMENT

The Trustee may at any time, at its discretion and without notice, take such proceedings against the Issuer as it may think fit to enforce the provisions of the Trust Deed, the Notes and the Coupons, but it shall not be bound to take any such proceedings or any other action in relation to

the Trust Deed, the Notes or the Coupons unless (i) it shall have been so directed by an Extraordinary Resolution of the Noteholders with Notes of all Series taken together as a single series (and converted to euro as aforesaid) or so requested in writing by the holders of at least one-quarter in principal amount of the Notes then outstanding (taken together and converted to euro as aforesaid) and (ii) it shall have been indemnified and/or secured and/or prefunded to its satisfaction. No Noteholder or Couponholder shall be entitled to proceed directly against the Issuer unless the Trustee, having become bound so to proceed, fails so to do within a reasonable period and the failure shall be continuing.

14. THE TRUSTEE

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including relieving it from taking proceedings unless indemnified and/or secured by the Issuer or indemnified and/or secured and/or prefunded by the Noteholders to its satisfaction. The Trustee is entitled to enter into business transactions with the Issuer and any entity related to the Issuer without accounting for any profit and to act as trustee for the holders of any other securities issued or guaranteed by, or relating to, the Issuer, to exercise and enforce its rights, comply with its obligations and perform its duties under or in relation to any such transactions or, as the case may be, any such trusteeship without regard to the interests of, or consequences for, the Noteholders or Couponholders and to retain and not be liable to account for any profit made or any other amount or benefit received thereby or in connection therewith.

The Trustee may rely without liability to Noteholders or Couponholders on a report, confirmation or certificate or any advice of any accountants, financial advisers or financial institution, whether or not addressed to it and whether their liability in relation thereto is limited (by its terms or by any engagement letter relating thereto entered into by the Trustee or in any other manner) by reference to a monetary cap, methodology or otherwise. The Trustee shall be obliged to accept and be entitled to rely on any such report, confirmation or certificate or advice where the Issuer procures delivery of the same pursuant to its obligation to do so under a condition hereof or any provision of the Trust Deed and such report, confirmation or certificate or advice shall be binding on the Issuer, the Trustee and the Noteholders in the absence of manifest error.

15. NOTICES

All notices regarding the Notes will be valid if published in one leading daily newspaper in the United Kingdom (which is expected to be the Financial Times) or, if in the opinion of the Trustee such publication shall not be practicable, in an English language daily newspaper of general circulation in Europe. The Issuer shall also ensure that all notices are duly published in a manner which complies with the applicable laws, rules and regulations of any stock exchange or other relevant authority on which the Notes are for the time being listed and/or admitted to trading. Any such notice shall be deemed to have been given on the date of such publication or, if required to be published in more than one newspaper or in more than one manner, on the date of the first such publication in all the required newspapers or in each required manner. If publication as provided above is not practicable, notice will be given in such other manner, and shall be deemed to have been given on such date, as the Trustee may approve.

Couponholders will be deemed for all purposes to have notice of the contents of any notice given to the Noteholders in accordance with this Condition.

16. FURTHER ISSUES

The Issuer may from time to time without the consent of the Noteholders and the Couponholders create and issue further notes of any Series (**Further Notes**) either having the same terms and conditions in all respects as the outstanding Notes of any Series or in all respects except for the first payment of interest on them and so that such further issue shall be consolidated and form a single series with the outstanding notes of any Series. Reference in these Conditions to the Notes of any Series include (unless the context requires otherwise or unless otherwise specified herein) any other notes issued pursuant to this Condition 16 and forming a single series with the Notes of such Series.

17. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

18. GOVERNING LAW AND JURISDICTION

18.1 Governing Law

The Trust Deed, the Agency Agreement, the Notes and the Coupons and any non-contractual obligations arising out of or in connection therewith are governed by, and shall be construed in accordance with, English law.

18.2 Jurisdiction

The courts of England are to have jurisdiction to settle any disputes which may arise out of or in connection with the Trust Deed, the Notes and the Coupons and accordingly any legal action or proceedings arising out of or in connection with the Trust Deed, the Notes or the Coupons (the **Proceedings**) may be brought in such courts. The Issuer has in the Trust Deed irrevocably submitted to the jurisdiction of such courts and has waived any objection to Proceedings in such courts whether on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum. These submissions are made for the benefit of the Trustee and each of the Noteholders and the Couponholders and shall not limit the right of any of them to take Proceedings in any other court of competent jurisdiction nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not).

SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE REPRESENTED BY THE GLOBAL NOTES

The following is a summary of the provisions to be contained in the Trust Deed to constitute the Notes and in the Global Notes which will apply to, and in some cases modify, the Terms and Conditions of the Notes while the Notes are represented by the Global Notes.

1. Exchange

The Permanent Global Note will be exchangeable in whole but not in part (free of charge to the holder) for definitive Notes only:

1. upon the happening of any of the events defined in the Trust Deed as “Events of Default”;
2. if either Euroclear Bank S.A./N.V. (**Euroclear**) or Clearstream Banking, *société anonyme* (**Clearstream Luxembourg**) is closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so and no alternative clearing system satisfactory to the Trustee is available; or
3. if the Issuer would suffer a disadvantage as a result of a change in laws or regulations (taxation or otherwise) or as a result of a change in the practice of Euroclear and/or Clearstream Luxembourg which would not be suffered were the Notes in definitive form and an Officer’s certificate to such effect is given to the Trustee.

Thereupon (in the case of 1 and 2 above) the holder of the Permanent Global Note (acting on the instructions of one or more of the Accountholders (as defined below)) or the Trustee may give notice to the Issuer and (in the case of 3 above) the Issuer may give notice to the Trustee and the Noteholders, of its intention to exchange the Permanent Global Note for definitive Notes on or after the Exchange Date (as defined below).

On or after the Exchange Date the holder of the Permanent Global Note may or, in the case of 3 above, shall surrender the Permanent Global Note to or to the order of the Principal Paying Agent. In exchange for the Permanent Global Note the Issuer will deliver, or procure the delivery of, definitive Notes in bearer form, serially numbered, in the denomination of €1,000 each with interest coupons (**Coupons**) attached on issue in respect of interest which has not already been paid on the Permanent Global Note (in exchange for the whole of the Permanent Global Note)

For these purposes, **Exchange Date** means a day specified in the notice requiring exchange falling not less than 60 days after that on which such notice is given and on which banks are open for business in the city in which the specified office of the Principal Paying Agent is located and (except in the case of 2 above) in the city in which the relevant clearing system is located.

Upon (a) any exchange of a part of the Temporary Global Note for a part of the Permanent Global Note or (b) the purchase by or on behalf of the Issuer or any subsidiary of the Issuer and cancellation of a part of the Permanent Global Note in accordance with the Terms and Conditions of the Notes, the portion of the principal amount hereof so exchanged or so purchased and cancelled shall be endorsed by or on behalf of the Principal Paying Agent on behalf of the Issuer on part II of the schedule thereto, whereupon the principal amount hereof shall be increased or, as the case may be, reduced for all purposes by the amount so exchanged or so purchased and cancelled and endorsed. Upon the exchange of the whole of the Permanent Global Note for

definitive Notes the Permanent Global Note shall be surrendered to or to the order of the Principal Paying Agent and cancelled and, if the holder of the Permanent Global Note requests, returned to it together with any relevant definitive Notes.

2. Payments

Until the entire principal amount of the Permanent Global Note has been extinguished, the Permanent Global Note shall (subject as hereinafter and in the Trust Deed provided) in all respects be entitled to the same benefits as the definitive Notes and shall be entitled to the benefit of and be bound by the Trust Deed. Payments of principal and interest in respect of Notes represented by the Permanent Global Note will be made against presentation for endorsement and, if no further payment falls to be made in respect of the Notes, surrender of the Permanent Global Note to the order of the Principal Paying Agent or such other Paying Agent as shall have been notified to the Noteholders for such purposes. Upon any payment of principal or interest on the Permanent Global Note the amount so paid shall be endorsed by or on behalf of the Principal Paying Agent on behalf of the Issuer on part I of the schedule thereto.

Upon any payment of principal and endorsement of such payment on part I of the schedule thereto, the principal amount of the Permanent Global Note shall be reduced for all purposes by the principal amount so paid and endorsed.

All payments of any amounts payable and paid to the bearer of the Permanent Global Note shall be valid and, to the extent of the sums so paid, effectual to satisfy and discharge the liability for the moneys payable thereon and on the relevant definitive Notes and Coupons.

3. Accountholders

For so long as all of the Notes are represented by one or both of the Temporary Global Note and Permanent Global Notes and such Global Note(s) is/are held on behalf of Euroclear and/or Clearstream Luxembourg, each person who is for the time being shown in the records of Euroclear or Clearstream Luxembourg as the holder of a particular principal amount of such Notes (each an **Accountholder**) (in which regard any certificate or other document issued by Euroclear or Clearstream Luxembourg as to the principal amount of such Notes standing to the account of any person shall, in the absence of manifest error, be conclusive and binding for all purposes) shall be treated as the holder of such principal amount of such Notes for all purposes (including for the purposes of any quorum requirements of, or the right to demand a poll at, meetings of the Noteholders) other than with respect to the payment of principal and interest on such Notes, the right to which shall be vested, as against the Issuer and the Trustee, solely in the bearer of the relevant Global Note in accordance with and subject to its terms and the terms of the Trust Deed. Each Accountholder must look solely to Euroclear or Clearstream Luxembourg for its share of each payment made to the bearer of the relevant Global Note.

4. Notices

For so long as all of the Notes are represented by one or both of the Temporary Global Note and the Permanent Global Note and such Global Note(s) is/are held on behalf of Euroclear and/or Clearstream Luxembourg notices to Noteholders may be given by delivery of the relevant notice to Euroclear and/or Clearstream Luxembourg for communication to the relative Accountholders rather than by publication as required by Condition 15 provided that, so long as the Notes are listed and admitted to trading on any Stock Exchange, all requirements of such Stock Exchange have been complied with. Any such notice shall be deemed to have been given to the Noteholders on the second day after the day after the day on which such notice is delivered to Euroclear and/or Clearstream Luxembourg.

Whilst any of the Notes held by a Noteholder are represented by a Global Note, notices to be given by such Noteholder may be given by such Noteholder to the Principal Paying Agent through Euroclear and/or Clearstream Luxembourg in such manner as the Principal Paying Agent and Euroclear and/or Clearstream Luxembourg may approve for this purpose.

5. Prescription

Claims against the Issuer in respect of principal and interest on the Notes represented by a the Temporary Global Note or the Permanent Global Note will be prescribed after 10 years (in the case of principal) and five years (in the case of interest) from the Relevant Date (as defined in Condition 5 (Payments)).

6. Cancellation

Cancellation of any Note represented by a Global Note and required by the Conditions of the Notes to be cancelled following its redemption or purchase will be effected by endorsement by or on behalf of the Principal Paying Agent of the reduction in the principal amount of the relevant Global Note on the relevant part of the schedule thereto.

7. Put Option

For so long as all of the Notes are represented by one or both of the Global Notes and such Global Note(s) is/are held on behalf of Euroclear and/or Clearstream Luxembourg, the option of the Noteholders provided for in Condition 6.3 may be exercised by an Accountholder giving notice to the Principal Paying Agent in accordance with the standard procedures of Euroclear and/or Clearstream Luxembourg (which may include notice being given on his instructions by Euroclear and/or Clearstream Luxembourg or any common depositary for them to the Principal Paying Agent by electronic means) of the principal amount of the Notes in respect of which any such option is exercised and at the same time presenting or procuring the presentation of the relevant Global Note to the Principal Paying Agent for notation accordingly within the time limits set forth in that Condition.

8. Redemption at the option of the Issuer

For so long as all of the Notes are represented by one or both of the Temporary Global Note and the Permanent Global Note and such Global Note(s) is/are held on behalf of Euroclear and/or Clearstream Luxembourg, no selection of Notes by lot will be required under Condition 6.4 in the event that the Issuer exercises its call option pursuant to Condition 6.4 in respect of less than the aggregate principal amount of the Notes outstanding at such time. In such event, the standard procedures of Euroclear and/or Clearstream Luxembourg shall operate to determine which interests in the Global Note(s) are to be subject to such option.

9. Euroclear and Clearstream Luxembourg

References in the Global Notes and this summary to Euroclear and/or Clearstream Luxembourg shall be deemed to include references to any other clearing system approved by the Trustee.

DESCRIPTION OF THE ISSUER

Overview

Air Berlin PLC 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 PLC's registered office is The Hour House, 32 High Street, Rickmansworth, Hertfordshire WD3 1ER, with the telephone number +49 (0)30 3434 1500. Air Berlin PLC's registered number is 5643814.

On 1 October 2009, the Companies Act 2006 (the **2006 Act**) came into force in England and Wales. Pursuant to a provision of the 2006 Act, an English incorporated company's objects and purpose are unrestricted in scope unless that company's articles of association expressly provide otherwise. As a consequence of the 2006 Act, Air Berlin resolved to delete its former objects and purpose clause from its constitutional documents. As a result, Air Berlin's objects and purpose are unrestricted in scope. The articles of association of the Issuer were last amended on 18 June 2014.

Air Berlin PLC's issued share capital is comprised of 116,800,508 registered ordinary shares of € 0.25 each and 50,000 A shares of £1.00 each which were issued and fully paid up as of 31 December 2013. Included in this amount are 177,600 treasury shares of € 0.25 each with an aggregate nominal value of € 44.400 held by Air Berlin PLC through the Air Berlin Employee Share Trust in connection with an expired employee share plan. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the shareholders. The A shares are redeemable at the option of the Issuer 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 the Issuer of its own shares), in which case the holders of A shares shall be entitled, in priority of any holder of ordinary shares, to receive an amount equal to the aggregate of the capital paid up or credited as paid up on each A share.

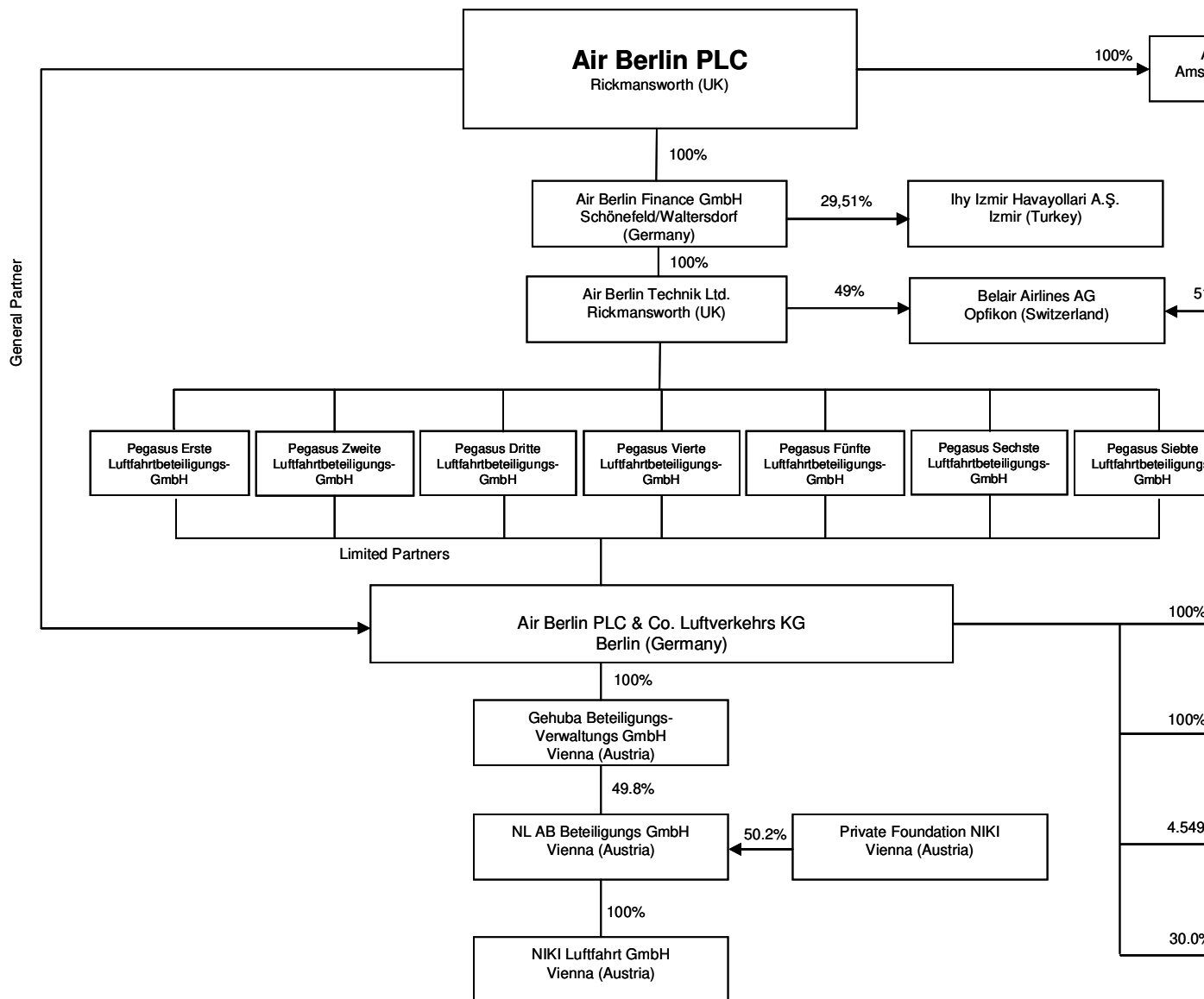
On 24 January 2012, Etihad Airways became the biggest single shareholder of Air Berlin holding shares issued by way of a capital increase with, together with its existing 2.99% interest, a voting interest of 29.21% based on an agreement entered into between Etihad Airways and Air Berlin PLC on 19 December 2011. In connection with the acquisition of the new shares, Air Berlin through one of its group companies entered into a US\$255 million facility agreement with Etihad Airways as lender which as of 31 December 2013 has a principal amount outstanding of US\$133.9 million. On 27 April 2014, the term of the facility agreement with Etihad Airways has been extended from 31 December 2016 to 31 December 2021.

Air Berlin PLC is the parent company of an air carrier group (together **Air Berlin** or **Air Berlin Group**) whose main operating company is Air Berlin PLC & Co. Luftverkehrs KG (**Air Berlin KG**). Air Berlin Group comprises the second largest airline in the Germany, Austria and Switzerland market and Europe's seventh-largest airline in terms of passenger numbers.⁵ Air Berlin offers scheduled flights on a wide range of short-, medium- and long-haul routes. As of 31 March 2014, Air Berlin flew to 115 domestic German and international destinations. In total, Air Berlin flew to 92 destinations in Europe (including destinations in Turkey), 7 in North Africa along with a further 16 destinations overseas in Africa, North America, the Caribbean and Asia. As of 31 December 2013, Air Berlin flew to 141 domestic German and international destinations, comprising 119 destinations in Europe (including destinations in Turkey), 7 in North Africa and further 15 destinations overseas in Africa, North America, the Caribbean and Asia. Air Berlin's European destinations are located primarily in, or in close proximity to, major European

⁵ Issuer's Director's 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.

cities that are attractive to leisure and business travellers alike. In 2013, Air Berlin transported 31.5 million passengers (2012: 33.3 million) and generated revenue of € 4,146.8 million (2012: € 4,311.7 million). Air Berlin's major competitors are easyJet and Ryanair within Europe as well as Deutsche Lufthansa in Germany, Europe and for intercontinental destinations. Air Berlin's aggregate outstanding financial indebtedness as of 31 March 2014 amounted to € 1,074.0 million.

Group Structure



The corporate structure chart has been designed to reflect certain structures and participations of the Air Berlin Group. The companies shown in the chart are selected based on strict criteria such as size or strategic significance and the chart does not reflect all subsidiaries or participations of the Air Berlin Group.

Air Berlin sells seats on its flights through all major distribution channels. Most seats are booked directly by customers through Air Berlin's website, its 24-hour service centre or third-party travel agencies. Some seats also are sold up to a year in advance of the flight departure date under agreements with charter and package tour operators, who then resell the seats to their customers, generally as part of package tours.

The Air Berlin network combines both business and leisure travel destinations and is attractive to both leisure and business travellers through serving a balanced mix of airports in tourist destinations and airports in or in close proximity to major European cities and by offering customers a number of extra services 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.

As of 31 March 2014, Air Berlin's fleet is comprised of 143 aircraft and as of 31 December 2013 140 aircraft, and is one of the youngest fleets among the top ten carriers by passengers in Europe, with an average age of 5.4 years as of 31 December 2013 and of 5.7 years as of 31 March 2014.

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

	Three months ended 31 March		Year ended 31 December	
	2014 (unaudited) ⁽¹⁾	2013 (unaudited) ⁽¹⁾	2013	2012
Aircraft of the operating fleet	143	149	140	155
Flights	46,662	45,065	231,836	250,406
Destinations	115	120	171	174
Capacity (thousands of passengers)	7,795	7,513	38,894	41,789
Passengers (in thousands)	5,860	5,919	31,536	33,346
ASKs in billion ⁽²⁾	11,65	11,16	57.25	60.40
RPKs in billion ⁽³⁾	9,53	9,55	48.57	48.72
Passenger load factor ⁽⁴⁾	-	-	-	79.80%
Load factor ⁽⁵⁾	81.8%	85.6%	84.85%	83.55%
Number of block hours ⁽⁶⁾	96,235	95,112	485,604	520,407

(1) The data for the three months ended 31 March 2014 have been derived from Air Berlin's management accounts.

(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. Beginning as of January 2013, Air Berlin does not disclose the passenger load factor anymore. Instead, Air Berlin discloses the load factor. Please refer to footnote 5 below.

(5) The load factor is the ratio of RPK to ASK.

(6) A block hour is defined as the flight time plus any taxi time at origin as well as destination.

In the three-months period ended 31 March 2014, the total number of passengers transported by Air Berlin declined 1.0% to 5,859.7 (compared to 5,919.1 in the first three months of 2013). For the same period, the load factor deteriorated from 85.6 to 81.8 per cent (an decrease of 3.8 percentage points). Accumulated capacity for the first three months of 2014 rose by 3.8 per cent as compared to the first three months of 2013.

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

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

- 2006 Air Berlin acquires dba Luftfahrtgesellschaft mbH, expanding its footprint in the business travel sector with additional slots at strategically important airports.
- 2007 Air Berlin acquires LTU Lufttransport Unternehmen GmbH (LTU) and enters the long-haul market. LTU operated 16 medium- and twelve long-range aircraft and had approximately 2,200 employees as of 31 December 2006.
- Air Berlin acquires 49% of the Swiss carrier Belair Airlines AG (**Belair**), with its strong base of tour operators and international traffic rights.
- 2008 Air Berlin launches the "Jump" cost-reduction programme to improve profitability throughout the Air Berlin Group. Starting with the winter flight schedule 2008/2009, Air Berlin implements measures to optimise capacity, flight schedules, route network and fleet and to streamline the organisation. Aircraft with high fuel consumption are taken out of service, while unprofitable routes are discontinued. At the same time, more flights are offered to destinations with high demand.
- 2009 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.
- Air Berlin becomes the first airline in the world with approval to use GLS (GPS landing system) for normal flight operations which greatly reduces time spent in holding patterns and on diversions.
- 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 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 granted in July 2010 is slightly less than three years and the private Lauda foundation has the option to repay the loan including interest in cash or transfer its entire indirect interest in NIKI to Air Berlin KG instead. NIKI has been fully consolidated in the financial statements of Air Berlin PLC since 5 July 2010. On 15 November 2011 the private Lauda foundation exercises its option to transfer its entire interest in NIKI to Air Berlin KG and thereby discharges its repayment obligation under the loan.
- 2011 Effective 1 April 2011, the wholly-owned subsidiary LTU is merged into Air Berlin PLC & Co. Luftverkehrs KG. Furthermore, all maintenance activities previously conducted by three separate entities in Berlin, Düsseldorf and Cologne are consolidated by merger into airberlin technik GmbH.

In reaction to various factors causing certain destinations to become unprofitable, including in particular high fuel prices, the newly introduced air travel tax, lower passenger numbers and the decrease of passenger demand as well as in order to increase its profitability, Air Berlin launches the comprehensive 'Shape & Size' programme in August 2011. The programme is designed to achieve a significant contribution through network and fleet optimisation. As part of this programme, Air Berlin plans, *inter alia*, to reduce its operating fleet of 163 aircraft as of 30 September 2011 to 152 by the summer of 2012. With a reduction in flight hours of only 4%, productivity per aircraft is expected to increase by approximately 200 hours per year. On the basis of this package of measures and further cost cutting and revenue enhancing measures, Air Berlin intends to achieve an improvement of operating results of € 200 million.

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

2012

On 24 January 2012, Etihad Airways becomes the biggest single shareholder of Air Berlin PLC holding shares issued by way of a capital increase with, together with its existing 2.99% interest, a voting interest of 29.21% based on an agreement entered into between Etihad Airways and Air Berlin PLC on 19 December 2011. Air Berlin PLC receives about €73 million for the 31,574,312 shares issued for the capital increase, based on a price of €2.31 per share. In connection with the acquisition of the new shares, Air Berlin through one of its group companies entered into a US\$255 million facility agreement with Etihad Airways as lender which as of 31 December 2013 has a principal amount outstanding of US\$133.9 million.

With effect from 20 March 2012, Air Berlin KG joins the global airline alliance oneworld®. At the same time, the Austrian airline NIKI, also a member of Air Berlin group, joins oneworld® as an affiliate member.

On 18 December 2012, Air Berlin KG and Etihad Airport Services L.L.C. agree that Air Berlin's frequent flyer programme "topbonus" shall be carved-out from Air Berlin and operated by Topbonus Ltd., a company that has its head office in Berlin and in which Etihad Airport Services L.L.C. has a majority stake of 70% and Air Berlin a stake of 30%. Topbonus Ltd. shall continue to operate and further develop the frequent flyer programme on the basis of a commercial agreement with Air Berlin. Through this transaction, which closed on 19 December 2012, Air Berlin generates revenues of €184.4 million.

2013

Effective 7 January 2013, Hartmut Mehdorn resigns as CEO of Air Berlin PLC and was succeeded by Wolfgang Prock-Schauer as new CEO. On 12 March 2013 Hartmut Mehdorn stepped down from his position as Non-Executive Director of the Board of Directors.

On 15 January 2013, Air Berlin launches the two-year restructuring programme "Turbine" which is designed to establish the simplest and most cost-efficient organisation possible in conjunction with streamlined processes with a view to improve the operating performance and to achieve sustainable profitability. The "Turbine" programme provides for further adjustments to the route network and a further reduction of flights and flight frequency as well as a reduction of its fleet to 143 aircraft and will entail a reduction of approximately 900 jobs. Furthermore, the "Turbine" programme comprises internal structural changes and negotiations with e.g. major stakeholders such as airports, caterers, lessors and maintenance providers with a view to seek their agreement resulting in a reduction of costs.

2014 On 27 April 2014, the term of the facility agreement with Etihad Airways has been extended from 31 December 2016 to 31 December 2021.

On the same date, Etihad Airways committed to subscribe to € 300 million subordinated cumulative convertible bonds to be issued by Air Berlin Finance B.V. and guaranteed by Air Berlin PLC, convertible into ordinary registered shares of Air Berlin PLC, with no maturity date and a coupon of 8% p.a. The issue is planned to take place in three tranches in 2014; the first tranche in an amount of € 100 million was issued on 20 May 2014, the issue of the second tranche is scheduled for 28 August 2014 and the third tranche for 27 November 2014. The perpetual subordinated cumulative convertible guaranteed bonds are accounted for as equity capital of the Air Berlin Group under the International Financial Reporting Standards (IFRS).

Trend information

There has been no material adverse change in the prospects of Air Berlin since 31 December 2013.

Recent Developments

According to the Financial Forecast Report of the International Air Transport Association (IATA) of March 2014, profits of European airlines are expected to increase from US\$0.4 billion in 2012 to US\$1.2 billion in 2013 and US\$3.1 in 2014. IATA forecasts that airline financial performance continues to improve, that airlines have reported improving profits, the economic cycle is turning upwards and that oil prices remain in the range of the past few years. Further, IATA projects a significant improvement in airline profits this year compared to 2013. On the downside, IATA also states that the crisis in Ukraine has increased geo-political risk and put upward pressure on oil prices.⁶

For Air Berlin the first three months of 2014 continued to be characterised by high economic risks, especially in the eurozone, despite recent signs of recovery in part of Europe, extraordinary costs such as the German air travel tax, costs resulting from the repeated delays in opening the airport Berlin Brandenburg (BER) as well as the tariff increases at Spanish airports given that Spanish destinations traditionally play an important role in Air Berlin's business. The operating result was below the levels of the first three months of 2013 despite the progress achieved in implementing the Turbine turnaround programme and the equity of Air Berlin Group calculated in accordance with the International Financial Reporting Standards (IFRS) still was negative as at 31 March 2014. The calculation of the shareholders' equity as of the reporting date in accordance with IFRS represents a snapshot as of the end of the first quarter. The negative equity is not expected to have an effect on the operations of Air Berlin. In accordance with IFRS, Air Berlin Group qualifies as a "going concern".

Trading and, accordingly, revenue in the first quarter 2014 declined slightly as expected due to the traditionally weak period for airlines and efficiency improvements not becoming visible yet

The total number of passengers transported in the first three months of 2014 amounted to 5.86 million (compared to 5.92 million in the first three months of 2013). The total number of passengers transported in 2013 amounted 31.5 million (compared to 33,3 million in 2012).

Air Berlin achieved revenue passenger kilometres in the amount of 9.53 billion in the first three months of 2014 as compared to 9.55 billion in the first three months of 2013, which is a slightly decrease by 0.02%. Flight revenue (including taxes and security fees) per passenger in the first three months of 2014 declined to € 111.5 compared to € 116.2 in the first three months of 2012.

⁶ Source: IATA "Financial Forecast" report dated March 2014.

With respect to costs, the air travel tax amounted to € 30.8 million in the first three months of 2014. Price competition made passing on these costs to customers extremely difficult. The operating income before interest, tax, depreciation amortization and rent (EBITDAR) amounted to € 37.0 million in the first three months of 2013 compared to € 31.5 million in the first three-months period of 2013. Additionally, the operating loss at the EBIT (earnings before interest and taxes) level decreased from € 188.4 million in the first three months of 2013 to € 182.8 million in the first three months of 2014.

In the first first three months of 2014, the net result was € -209.8 million compared with € -196.3 million reported for the first three months of 2013.

The air travel tax is a continuing negative factor that has affected Air Berlin's competitive situation. Moreover, price-conscious customers in particular purchase fewer tickets when the air travel tax and increased costs result in increased ticket prices.

In response to a weakening demand in Europe and due to various additional burdens, and negative factors which have been exacerbated in 2012 such as the recession in Europe, the repeated delays in opening the airport Berlin Brandenburg (BER), the German air travel tax by which Air Berlin is considerably more burdened than other airlines and the continuing high fuel prices, Air Berlin enhanced its 2012 "Shape & Size" programme with further restructuring measures, the turnaround programme "Turbine". The programme was announced on 15 January 2013 and has the aim to improve Air Berlin Group's operating performance and to achieve sustainable profitability.

The two-year "Turbine" programme aims for establishing the simplest and most cost-efficient organisation possible in conjunction with streamlined processes and includes, among others, further adjustments to the route network, a reduction of the fleet to 143 aircraft and a reduction of approximately 900 jobs (which is almost 10% of all employees of Air Berlin). Redundancies have occurred and further redundancies cannot be excluded. The "Turbine" programme provides for internal structural changes and negotiations with major stakeholders such as airports, caterers, lessors and maintenance providers with a view to seek their agreement resulting in a reduction of costs.

As of 31 March 2014, the operating fleet has been reduced to 143 aircraft (140 aircraft as of 31 December 2013, compared to an operating fleet size of 163 aircraft as at 31 Dezember 2011) and by the end of March 2014 a head count reduction by approximately 601 full time jobs has been achieved. A further reduction in the number of employees will, where feasible, be continued in the second half of 2014. The Turbine programme reached its targeted contribution of € 200 million in terms of costs and revenues in 2013 and the turnaround effect of approximately € 400 million in total for 2013 and 2014 will be achieved. However, due to several effects including, among others, the tariff increase at Spanish airports and the continuing adverse effect of the German air travel tax, the progress achieved under the turnaround programme "Turbine" was offset and the turnaround effect will not be sufficient. Due to the continuing difficult economic environment, the limitation of growth prospects for the European airline industry associated with the continuing economic risks in Europe and the increased competitive situation, Air Berlin is seeking to implement further measures beyond those of the Turbine programme in the current financial year. Air Berlin has assembled an additional package of measures and is currently in the process of defining a strategic realignment, which may affect its underlying business model. Air Berlin plans to enhance its fleet and network optimisation efforts and to develop a new revenue management system in order to achieve further improvements in its operating efficiency and to generate new sources of revenue as well as synergy effects.

On 14 August 2013, Air Berlin and Minsheng Commercial Aviation Limited signed a Letter of Intent for up to eleven aircraft. The transaction comprises a sale and leaseback of five used Airbus A319 and A320 family aircraft owned by Air Berlin KG or its affiliates, which was executed in the fourth quarter of 2013, a sale and leaseback of one new Boeing 737-800 aircraft, which was also executed in the fourth quarter of 2013, a sale of one new Boeing 737-800 aircraft which was executed in the first quarter of 2014 as well as the sale and leaseback of one new Airbus A321 family aircraft with sharklets and a sale of one new Boeing 737-800 aircraft, each of the two foregoing transactions was executed on 30 June 2014. In

addition, Minsheng Commercial Aviation Limited will have an option to buy two additional Boeing 737 aircraft from Air Berlin KG or its affiliates and place them into the Chinese market.

Furthermore, an optimised stationing concept has been, and will continue to be, implemented and a new more efficient boarding procedure as well as improved hand baggage regulations have been introduced.

On 20 December 2013, Air Berlin KG, Air Berlin PLC & Co. Service Center KG (**Air Berlin Service Center KG**) and CHS Holding and Services GmbH, an affiliate of Air Berlin KG, entered into a cooperation agreement with the Austrian call center service provider Competence Call Center Holding GmbH (CCC). Under the cooperation agreement, certain call center services performed by the client service business department of Air Berlin KG and the service center, Air Berlin Service Center KG, will be performed by a joint venture company located in Berlin. The joint venture company was established by Air Berlin and CCC then acquired 80% of the shares in the joint venture company while Air Berlin has retained 20%. On 20 December 2013, the joint venture company took over the client services business department from Air Berlin KG followed by a transfer of the service center business of Air Berlin Service Center KG to the joint venture company on 9 January 2014. Overall, approximately 179 employees were transferred from Air Berlin KG and Air Berlin Service Center KG to the joint venture company. In the medium term it is envisaged that CCC will take over all customer services functions from Air Berlin and will operate exclusively for Air Berlin as call center service provider.

On 21 January 2014, Air Berlin issued € 75 million 8.25% fixed rate notes due 2018. The notes constitute a further issuance of Air Berlin's outstanding € 150 million 8.25% fixed rate notes due 2018, which were issued on 19 April 2011.

On 27 April 2014, Etihad Airways committed to subscribe to € 300 million subordinated cumulative convertible bonds to be issued by Air Berlin Finance B.V. and guaranteed by Air Berlin PLC, convertible into ordinary registered shares of Air Berlin PLC, with no maturity date and a coupon of 8% p.a. (the **Convertible Bonds**). The issue is planned to take place in three tranches in 2014; the first tranche in an amount of € 100 million was issued on 20 May 2014, the issue of the second tranche is scheduled for 28 August 2014 and the third tranche for 27 November 2014. The Convertible Bonds are accounted for as equity capital of the Air Berlin Group under the International Financial Reporting Standards (IFRS). With reference to the Convertible Bonds, the EU Commission has issued an information request under Art. 11 of Council Regulation (EC) No 139/2004 (EC Merger Regulation) concerning the potential acquisition of control by Etihad Airways. If the EU Commission would ultimately arrive at the conclusion that Etihad Airways acquired control over Air Berlin, Etihad Airways would be obliged to make a formal filing with the EU Commission. Etihad Airways may in such case be prevented from subscribing to the second and third tranche of the Convertible Bonds or from granting additional financial or commercial support, until the acquisition of control has been authorised by the EU Commission.

In connection with Air Berlin's exchange offer in the period from 28 April 2014 until 7 May 2014, holders of the bond due 1 November 2014 (€ 150 million) tendered notes in the total amount of € 8.5 million for exchange and holders of the bond due 10 November 2015 (€ 200 million) tendered notes in the total amount of € 4.1 million, whereupon € 7.294 million Euro Notes and CHF 7.275 million CHF Notes were issued in exchange for the notes tendered. The remaining amount of the Euro Notes and CHF Notes (i.e. € 162.706 million Euro Notes and CHF 92.725 million CHF Notes) was issued on 9 May 2014 on the basis of a private placement with professional investors.

Material Contracts

In March 2012, Air Berlin through one of its group companies entered into a US\$255 million facility agreement (the **Original Facility**) with Etihad Airways as lender. The Original Facility was secured by an assignment of certain rights, including down-payments, of Air Berlin under purchase agreements with the airframe and engine manufacturer for the delivery of aircraft and was guaranteed by Air Berlin PLC.

In July 2012, Air Berlin KG entered into a US\$50 million term loan facility agreement as part of the overall commitment under the Original Facility (**Term Loan Facility**). The Term Loan Facility was

secured by share pledges over the shares in two other Air Berlin companies, which were holding two aircraft in total. The Term Loan Facility was guaranteed by Air Berlin PLC.

In February 2013, the Term Loan Facility was fully prepaid (and the related share pledges were released).

After further partial repayments of the Original Facility in 2013 and a subsequent re-increase of the commitment of Etihad Airways under the Original Facility to the original amount of US\$255 million in December 2013, the borrowings outstanding under the Original Facility amount to US\$133.9 million as of 31 December 2013. On 27 April 2014, the term of the facility agreement with Etihad Airways has been extended from 31 December 2016 to 31 December 2021. In December 2012, the main operating unit of the issuer, Air Berlin KG carved out its frequent flyer programme "topbonus" to a newly formed entity, Topbonus Ltd., and entered into a commercial agreement (the **Commercial Agreement**) with Topbonus Ltd. on the future operation of the frequent flyer programme and a transitional services agreement. As consideration for the transaction Topbonus Ltd. paid Air Berlin KG an amount of € 200m to Air Berlin KG.

The consideration paid by Topbonus Ltd. was financed through an equity contribution from a Etihad Airport Services LLC (**Etihad Airport**) of € 36.4 million, an equity contribution from Air Berlin KG of approximately € 14.3 million as well as a loan of € 148 million under a one-year € 150 million revolving credit facility (the **Facility**) with Etihad Airport.

As a result of the foregoing Etihad Airport holds 70% of the issued share capital in Topbonus Ltd., while Air Berlin KG holds a 30% interest. Air Berlin KG has guaranteed Etihad Airport the obligations of Topbonus Ltd. under the Facility pro rata to its shareholding and has pledged its shares in Topbonus Ltd. to Etihad Airport as a security for any claims under the guarantee.

Under the Commercial Agreement, Topbonus Ltd shall award topbonus miles to existing and future members of the "topbonus programme" (the **Members**) for flights made with Air Berlin KG and eligible partner airlines. Air Berlin KG will pay a compensation to Topbonus Ltd. for each mile awarded. Members can redeem topbonus miles collected into, inter alia, reward flights with Air Berlin KG, in which case Topbonus Ltd will purchase the flight tickets from Air Berlin KG at a pre-agreed price. Both Air Berlin KG (with respect to the acquisition of award miles) and Topbonus Ltd. (with respect to the acquisition of reward flights) have made certain minimum commitments. The Commercial Agreement has an initial term of 15 years.

Business model

Air Berlin's business model is currently under review in connection with the strategic realignment process and may therefore change. Under the current business model Air Berlin offers its customers primarily travel at attractively priced fares. Air Berlin combines a hub-and-spoke system with point-to-point scheduled flights, serving a mix of airports in tourist destinations as well as airports in, or in close proximity to, major European cities. Air Berlin focuses on various customer segments, in particular, tour operators, individual leisure and business travellers, and corporate accounts.

Strategy

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

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

Strategic mix of destinations served. Air Berlin serves a mix of airports in tourist destinations and airports in or in close proximity to major European cities to satisfy both leisure and business travellers. Air Berlin also intends to continue to review its network in order to opportunistically allocate capacity to

more profitable routes. Air Berlin's membership in the oneworld® alliance and the codeshare agreements entered into in connection with the oneworld® membership as well as its cooperation with Etihad Airways have also increased the number of destinations in which Air Berlin has a presence. By combining the flight networks of Air Berlin and Etihad Airways, the number of available flights increased to include 210 destinations in 80 countries.

Leveraging efficient customer segmentation and multi-channel distribution platform. Air Berlin believes that its business model allows for an advantageous combination of different customer segments. While tour operators and private travellers on scheduled flights have always been a focus point of Air Berlin, this has been complimented by growth in Air Berlin's business passenger segment.

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

Corporate agreements with business travellers. The number of agreements with corporate customers amounted to 1,506 in 2011, to 1,529 as of 31 December 2012 and to 870 as of 31 December 2013. As of 31 March 2014, the number of agreements with corporate customers amounted to 945. The number of business point clients (i.e. originally the smaller companies with up to 500 flights per year) was 9,516 in 2011, 11,693 in 2012 and 13,606 in 2013, in each case as of 31 December, and 14,075 as of 31 March 2014. The decreasing number of agreements with corporate customers and the increasing number of business point clients in 2013 are due to the fact that all new or renewed agreements with corporate customers have been recorded as business point clients irrespective of the number of flights per year. The overall number of agreements with business customers has increased in 2013.

In addition to the Air Berlin Corporate and Flex fare schemes, Air Berlin offers a loyalty reward scheme, business points, aimed at small- and medium-sized businesses. With this programme Air Berlin intends to further increase its percentage of business travellers, developing new and further strengthening existing corporate relationships. In 2012, Air Berlin entered into 2,201 new business point agreements under this scheme and in 2013 1,913 new business point agreements have been entered into by Air Berlin. 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. As part of the "Turbine" programme, Air Berlin will continue to monitor its costs closely, with particular focus on:

- Aircraft operating expenses. Taking into account rental payments and anticipated maintenance expenses Air Berlin monitors its aircraft average age and seeks for the optimal composition of new and older aircraft. Air Berlin will continue to closely monitor its aircraft operating expenses and will make appropriate adjustments as necessary.
- Airport costs. Airport costs, such as landing charges and ground-handling fees, represent a large proportion of Air Berlin's cost base. Air Berlin intends to continue to focus on airports with large catchment areas allowing for large passenger volume and aims to benefit from its scale by negotiating favourable terms with airport operators as well as with other providers of ground services.
- Personnel costs. Air Berlin intends to continue to closely monitor its personnel costs.
- Customer service costs. While focusing on providing its passengers with an attractively priced and comfortable travel experience, Air Berlin intends to continue to closely monitor the effect of costs incurred in providing additional services. Air Berlin intends to continue to provide additional services and to introduce new services where the costs of these services are more than outweighed by the higher demand for Air Berlin's flights and increased customer satisfaction.

Business operations

Route network

Overview

As of 31 March 2014, Air Berlin flies to 115 destinations (and as of 31 December 2013 to 141 destinations) in, among other countries, Germany, Spain, Austria, the United Kingdom, Switzerland, Italy, Greece, Egypt, Portugal, Turkey, Hungary, Tunisia, the Netherlands, Morocco, France, Denmark, Finland, Sweden, Norway, Israel, the Russian Federation, the United States, Thailand and the United Arab Emirates. By connecting German airports, international holiday regions and major European cities, Air Berlin's flight network offers attractive flights for both leisure and business travellers. In addition, Air Berlin's comprehensive airport coverage at 25 airports throughout Germany as of 31 December 2013 and 19 airports as of 31 March 2014, makes its flights accessible for travellers throughout the country.

Airports

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

- whether there is reserve capacity available to accommodate Air Berlin's future growth;
- whether the airport can respond flexibly to Air Berlin's needs; and
- flight restrictions.

In 2013, Air Berlin transported 31.3 million passengers between 171 airports. The following table sets forth Air Berlin's ten most important destination airports in 2012 and in 2013 in terms of the number of passenger arrivals and departures, including for connecting flights, and the percentage increase/decrease in passenger numbers at these airports compared with 2012 and 2013, respectively:

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

Airport	Number of passengers carried in 2013	Increase/ Decrease in percentage 2013/2012
Berlin	9,070,730	10.4
Dusseldorf	6,700,110	1.4
Palma de Mallorca	6,461,867	(5.6)
Munich	3,817,479	(1.2)
Vienna	3,763,375	(7.3)
Hamburg	2,540,270	(15.3)
Stuttgart	1,843,265	(6.4)
Cologne	1,832,985	(5.1)

Airport	Number of passengers carried in 2013	Increase/ Decrease in percentage 2013/2012
Zurich	1,828,571	(10.6)
Nuremberg	1,341,127	(29.1)
Other	21,536,205	(9.1)
Total	60,735,984	(5.3)

Hubs

Air Berlin has two hub airports, namely Düsseldorf International Airport and Berlin Tegel Airport and six focus airports, namely Palma de Mallorca International Airport, Vienna International Airport, Hamburg Airport, Munich Airport, Stuttgart Airport and Zürich Airport. In addition to its two hubs, Air Berlin will, in particular, focus on the development of feeder services. With its subsidiary NIKI, Vienna has become a strategically important gateway to Eastern Europe. In addition, the new Berlin Brandenburg Airport (BER) is being built as a major new hub for Europe with an expected capacity of up to 45 million passengers a year. While initially the opening of BER was scheduled for October 2011, it has been postponed several times since, and a new scheduled opening date has not yet been announced by the airport management.

Route management

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

In August 2011, Air Berlin launched "Shape & Size", a comprehensive programme to increase the Air Berlin Group's efficiency and productivity. The programme focused mainly on marketing and distribution, cost reduction, flight routing and maintenance to reduce costs and to increase productivity calculated by dividing aircraft block hours by the number of aircraft days p.a. by 7%. On 15 January 2013, Air Berlin announced that the "Shape & Size" programme is supplemented by the "Turbine" programme which is designed to establish the simplest and most cost-efficient organisation possible in conjunction with streamlined processes with a view to achieve sustainable profitability. The "Turbine" programme entails further adjustments to the route network and a further reduction of flights, flight frequency and the fleet. The number of flight plan routes in summer 2014 was reduced by 16 city pairs in comparison to the previous year while the frequency on the remaining 451 routes rose by 3.4 per cent and profitable routes were selectively expanded.

Fleet

Air Berlin is committed to operating a modern fleet and places significant emphasis on low fuel consumption and noise emissions and minimising environmental impact.

Fleet as of 31 December 2013 and 31 March 2014

With an average age of 5.7 years as of 31 March 2014 and an average age of 5.4 years as of 31 December 2013 (increased from 5.1 as of 31 December 2012), Air Berlin continues to have one of the youngest fleets among the top ten carriers by passengers in Europe although over progression of the

turnaround programme “Turbine” the average age is expected to increase with the disposal of new aircraft.

The following table provides an overview of Air Berlin Groups’s aircraft fleet as of 31 December 2013 and 31 March 2014:

Aircraft model	As of 31 December 2013	As of 31 March 2014
A319	8	9
A320	39	40
A321	16	16
A330-200	14	14
Boeing 737-700	11	11
Boeing 737-800	35	35
Q400	10	11
E-190	7	7
Total	140	143

The “Turbine” programme provides for a network and fleet optimisation entailing, *inter alia*, a reduction of its operating fleet from 155 aircraft as of 31 December 2012 to 143 which represents a reduction of 7.7% since 2012. Air Berlin's operating fleet comprised 163 aircraft as of 31 December 2011. As of 31 March 2014, the operating fleet is comprised of 143 aircraft and as of 31 December 2013, the operating fleet comprised of 140 aircraft. Air Berlin signed several contracts with the manufacturers with respect to changes of its delivery stream of aircraft by postponing certain of the new deliveries to the years 2015 and 2016, such changes resulting in a further decrease of delivery positions in 2013 and 2014.

Ticket sales and distribution

Fare structure

Air Berlin’s “YourFare” fare structure offers customers a choice of different fare categories.

Distribution channels

Air Berlin sells seats on its flights through all major distribution channels which includes its internet website, its 24-hour service centre, its airport ticket counters, charter and package tour operators, travel agencies and online travel websites.

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	Three months 31 March		Year ended 31 December	
	2014	2013	2013	2012
	(as a percentage of total ticket sales)			
Individual ticket sales	72.41%	70.35%	70.06%	68.8%
Air Berlin website	35.27%	33.59%	32.95%	22.2%
Air Berlin Service Centre / In-house sales	1.70%	2.35%	2.19%	3.1%
Air Berlin ticket counter	0.66%	0.88%	0.71%	1.0%
Travel agencies	34.78%	33.53%	34.21%	41.3%
Other airlines	4.63%	4.57%	3.89%	1.3%
Charter and tour organisers	27.59%	29.65%	29.94%	31.2%
Total ticket sales	100.0%	100.0%	100.0%	100.0%

Single-seat ticket sales

In 2013, Air Berlin generated € 2.673,1million, or 70.06%, 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 relationships with charter and package tour operators assist in securing a basic level of utilisation across its fleet, as seats may be sold to tour operators up to a year in advance of the departure date. Air Berlin oftentimes negotiates fixed seat contingents and price schedules with tour operators. 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 reasonably priced 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 ("FlyFlex").** 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, originally 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 further support 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.

topbonus

topbonus, is the frequent flyer programme established by Air Berlin, which, after its carve-out in December 2012, is operated by Topbonus Ltd., a company that has its head office in Berlin and in which Etihad Airport Services L.L.C. has a majority stake of 70% and Air Berlin a stake of 30%. Topbonus Ltd. shall continue to operate and further develop the frequent flyer programme on the basis of a commercial agreement with Air Berlin.

topbonus 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 25,000 status miles or 24 flights within twelve months, they attain "Silver" status. After collecting 40,000 status miles or 60 flights within twelve months, they become Gold members and collecting 100,000 status miles they received "Platinum" status. Silver, Gold or Platinum members are entitled to special privileges, including priority check-in, free seat reservations and additional free luggage benefits. Further, member benefits include among others, companion tickets in the economy class for 50% of the regular mileage amount, business class upgrades and double award miles on certain routes. As a result of Air Berlin's oneworld® membership, topbonus members are able to collect points with oneworld's® other quality carriers. The oneworld® alliance has three status levels which correspond to the topbonus status levels.

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, Budget, Europcar, Hertz, Holiday Autos, Sixt and Sunny Cars.

- Other partners, including American Express Membership Rewards, Any Miles, Binoli, Deutsche Postbank, ERGO Direkt, FAZ, Shell and Die Welt.

Strategic growth

oneworld®

With effect from 20 March 2012, Air Berlin and oneworld® signed a memorandum of understanding, according to which Air Berlin joined the global alliance oneworld® which has 15 members (Air Berlin, American Airlines (including US Airways), British Airways, Cathay Pacific Airways, Finnair, Iberia, Japan Airlines, LAN, Malaysia Airlines, Qatar Airlines, Qantas, Royal Jordanian, TAM, S7 Airlines and SkriLankan Airlines) and about 25 affiliate members. As a result of oneworld® membership, Air Berlin passengers have access to a global airline network. As of 1 May 2014, as published by oneworld®, the global alliance serves some 990 destinations in some 150 countries. The total fleet of about 3,320 aircraft, providing more than 14,000 flights per day and currently transporting approximately 507 million passengers per year, with a total economic power of approximately US\$142.6 million measured by annual revenue.

As a result of oneworld® membership, topbonus members are able to collect points with oneworld's® other quality carriers while frequent flyer cardholders of oneworld's® established airlines will be able to earn and redeem rewards when flying with Air Berlin.

Strategic co-operation

On 24 January 2012, Etihad Airways became the biggest single shareholder of Air Berlin holding shares issued by way of a capital increase with, together with its existing 2.99% interest, a voting interest of 29.21% based on an agreement entered into between Etihad Airways and Air Berlin on 19 December 2011. In connection with the acquisition of the new shares, Air Berlin through one of its group companies entered into a US\$255 million facility agreement with Etihad Airways as lender, which as of 31 December 2013 has a principal amount outstanding of US\$133.9 million, to support fleet development and future network growth. On 27 April 2014, the term of the facility agreement with Etihad Airways has been extended from 31 December 2016 to 31 December 2021.

On 27 April 2014, Etihad Airways committed to subscribe to Air Berlin's € 300 million subordinated cumulative convertible guaranteed bonds, convertible into ordinary registered shares of Air Berlin PLC, with no maturity date and a coupon of 8%. The issue is planned to take place in three tranches in 2014; the first tranche in an amount of € 100 million was issued on 20 May 2014, the issue of the second tranche is scheduled for 28 August 2014 and the third tranche for 27 November 2014. The perpetual convertible bonds are accounted for as equity capital of the Air Berlin Group under the International Financial Reporting Standards (IFRS). Air Berlin and Etihad Airways cooperate on certain areas such as code sharing on certain flights, reciprocal frequent flyer programmes, cargo transportation and handling etc.

Revenue management

Air Berlin uses revenue management in an effort to maximise unit revenue (revenue per available seat kilometre). Air Berlin's main revenue management activities comprise inventory management, pricing and fare class optimisation. Inventory management includes forecasts (i.e. estimated loads per flight), optimisation (i.e. maximising revenue potential through an allocation of seats at each fare level and minimising spoilage) and controls (e.g. with respect to overbooking, limitation of low fare bucket availability for high demand flights and dilution management). Pricing focuses on fare management (i.e. monitoring the competition and the pricing strategy), fare segmentation (i.e. the structure of the fares, number of booking classes and fare families and pricing methods) and fare spreads among fare buckets or fare families. Finally, fare class optimisation includes activities such as price to inventory class valuations and taking benefit from the relationship across the network.

Air Berlin uses a leading industry automated system designed to maximise seat availability, at all times prior to departure, by recovering, and making available for sale, inventory that is unlikely to result in

passenger being carried. Termed 'Flight Firming', the system manages two distinct aspects of all passenger reservations – ticket time limits and duplicate space – from the day they are created.

Group management is being incorporated into Air Berlin's revenue management department. This centralised point of group evaluation, inventory and pricing decisions is designed to allow for more competitive sales quotes to be provided and to achieve a marked increase in the accepted volume and materialisation rates for groups, and at the same time a decrease in the response time to customers.

In 2012 Air Berlin established a pricing department, which complements the functions of revenue management. The responsibilities of the pricing department include implementation of pricing strategies, maintaining price competitiveness in all markets, as well as the filing of fares.

Furthermore, in 2012 Air Berlin implemented a fare families pricing concept, designed to cater to the different needs of all passenger market segments. For example, the "Fly Deal" and "Fly Classic" families are for price sensitive customers who want the lowest possible price. Any extras, such as checked baggage or personal check-in at the airport, need to be purchased separately. The "Fly Flex" tariffs are designed with full flexibility around the needs of the business traveller. Not only does this give customers more value and choice, but it also allows airberlin to generate an ancillary revenue stream from this fare family.

Today 85% of Air Berlin's fare products worldwide, which cater for corporate, individual, student and group travel, are distributed electronically and displayed in all global distribution systems.

The pricing department uses a state-of-art fare manager system. This provides the ability for dynamic daily monitoring of market fares and allows timely and efficient response to market changes. The system is a robust single database for all Air Berlin fares and facilitates internal decision flow process.

The revenue management and pricing divisions are supported by the management information systems department. This department generates reports and analytics on flown and advance booking data at various level of detail, as well as tracking of revenue related key performance indicator (KPI) trends.

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.

Maintenance is performed by licenced maintenance providers and Air Berlin PLC's subsidiary airberlin technik GmbH, which does not only service the Air Berlin Group's own fleet, but also provides services to other airlines.

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 (**LBA**), the German Federal Civil Aviation 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 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 the Amadeus IT platform as its reservation system for booking channels other than tour operator allotment and, subject to availability, as its departure control system. Air Berlin KG has terminated the use of the Amadeus IT platform effective 12 February 2016 and, by then at the latest, Air Berlin will use the reservation system of the technology provider Sabre based on a long-term agreement between Air Berlin KG and Sabre Inc. dated 26 September 2013.

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.

Regulatory environment

The air transport industry has historically been subject to significant governmental regulation both internationally and domestically. Air Berlin KG 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 territory and 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 a certain territory or to land at a specific destination, granted by individual states to other states in bilateral air service or air traffic agreements. The other states, in turn, grant the rights they have received in bilateral agreements to their local air carriers. In addition to bilateral traffic rights, some traffic rights are directly granted in horizontal and multilateral agreements.

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

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

The International Air Transport Association (**IATA**), the international trade organisation of the airlines with 240 members, provides a forum for the coordination of fares on international routes and for international cooperation in areas such as technical safety, security, navigation services, flight operations and the development of communication standards and administrative procedures.

Bilateral agreements and EU multilateral air transport agreements

Germany is currently a party to approximately 140 bilateral air traffic agreements. These agreements govern the designation of airlines and airports for the operation of specified routes, airline capacity and fare-approval procedures. In addition, the EU and its Member States have concluded air transport agreements, amongst others, with the United States, Canada, Switzerland, Iceland, Norway, Morocco, Georgia, Jordan, Moldova, the states of Western Balkans (Albania, Bosnia and Herzegovina, the former Yugoslav Republic of Macedonia, Montenegro, Serbia and United Nations Interim Administration Mission in Kosovo (UNMIK)), and Israel. Further agreements (for example with Tunisia) are under negotiation or awaiting signature.

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 in particular the Air Transport Agreement between the EU, its Member States and the United States, require that airlines be able to demonstrate majority or substantial ownership and control by nationals of their home state, or a Member State of the European Union. If, at any time, Air Berlin KG were to become not majority owned or controlled by German citizens or corporations, or, where the relevant agreement requires majority ownership and control by EU nationals, EU citizens and corporations, the contracting States to the relevant bilateral or multilateral agreements could deny Air Berlin's traffic rights under such agreements. The same is generally true for NIKI and Belair and their traffic rights granted under Austrian and Swiss law and the respective bilaterals.

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

European Union

Historically, air traffic between the EU Member States has been regulated by bilateral air traffic agreements. This bilateral regime was progressively liberalised through a series of measures aimed at establishing common rules for the licensing of air carriers within the European Union and permitting EU-licensed air carriers to operate services freely between points within the European Union. In order to qualify for an EU licence, Article 4 of Regulation (EC) No. 1008/2008 of the European Parliament and of the Council as of 24 September 2008 (Regulation 1008/2008) requires airlines, among other things, to have their principal place of business in a Member State, be principally engaged in air transport activities, be directly or indirectly owned at least as to 50% and effectively controlled by Member States and/or nationals of Member States and to have persons of good repute as managers. Pursuant to Article 8 Paragraph 1 of Regulation 1008/2008 airlines must be able to demonstrate to the competent licencing authority that they meet the requirements for a licence at all times. Air Berlin PLC's Articles of Association allow Air Berlin to ensure compliance with these requirements at all times.

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

Aviation Agreement of 2002 and by virtue of the decisions by the Joint Community/Switzerland Air Transport Committee set up under this agreement.

Regulatory requirements

Operational aspects

Operating licence. Air Berlin KG as a German air carrier is subject to the operational requirements set out in Regulation 1008/2008 and the German Air Traffic Act (*Luftverkehrsgesetz*). According to Article 3 of Regulation 1008/2008 and Section 20 Paragraph 4 of the German Air Traffic Act, air carriers that are subject to EU air traffic regulation rules require an operating licence for the transportation of passengers, mail and/or freight in commercial air traffic. The LBA, the competent German air traffic authority, granted Air Berlin an operating licence (*Betriebsgenehmigung*) under the number D-051 EG dated 1 November 2008. This licence is valid in every Member State of the European Union and is recognised in Air Berlin's non EU international operations. Belair holds operating licence (*Betriebsbewilligung*) CH.AOC BB.1032 according to Regulation 1008/2008 in connection with Article 27 of the Swiss Federal Act of Aviation and Articles 103 et seqq. of the Ordinance on Aviation, granted by the Swiss Federal Office of Civil Aviation (*Bundesamt für die Zivilluftfahrt*) on 1 December 2010. NIKI holds operating licence (*Betriebsbewilligung*) GZ.BMVIT 51.194/0013-II/L1/2005 according to Regulation 1008/2008 and in connection with Austrian law, granted by the Ministry for Transport, Innovation and Technology on 12 August 2005.

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 air operator certificates (*Luftverkehrsbetreiberzeugnisse*). Air Berlin KG holds AOC No. D-051 AOC dated 28 June 2013 and Belair holds AOC No. CH-1032 dated 1 April 2012. NIKI holds AOC No. A-084 dated 12 January 2011.

Traffic rights

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

Traffic rights within the EEA. According to Article 15 Paragraphs 1 and 2 of Regulation 1008/2008, no permit or authorisation by EU Member States is required for the operation of intra-community air services by EU licensed air carriers. Therefore, and based on the Agreement on the European Economic Area (EEA) and the Air Traffic Agreement between the EU and Switzerland, Air Berlin KG and NIKI are generally allowed to exercise traffic rights within the EEA and Switzerland to any potential destination both with regard to scheduled and chartered flights.

Scheduled flights outside the EEA (including Switzerland). Scheduled flights to destinations outside the EEA require an airline licence (*Flugliniengenehmigung*) under Section 21 Paragraph 1 of the German Air Traffic Act. The LBA has granted Air Berlin KG such licences as required for its operations. Belair and NIKI have been granted equivalent licences (*Streckenkonzession*) by the Swiss Federal Civil Aviation Authority (*Bundesamt für Zivilluftfahrt*) and (*Linienfluggenehmigung*) by Austro Control, respectively, for destinations in which they provide scheduled flights outside the EEA.

Charter flights outside the EEA (including Switzerland). Charter flight services to destinations outside the EEA require a general flight authorisation (*Allgemeine Ausflugerlaubnis*) under Section 2 Paragraph 6 of the German Air Traffic Act. Air Berlin KG holds the necessary general flight authorisation required for its business.

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 airport slots. A slot represents a general authorisation to take off and land at a specific airport at a particular time during a specified time period. Slot allocation at primary airports, including 16 German airports, is governed by Council Regulation (EEC) No. 95/93 of 18 January 1993, recently amended by Regulation (EC) No. 545/2009 of the European Parliament and of the Council of 18 June 2009.

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

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

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

The European Commission is currently working on another revision of the regulations related to slot allocation to improve optimal use of airport capacity and infrastructure, to enhance competitiveness of operators and to improve environmental performance of airports and air transport. On 1 December 2011, the European Commission has published a proposal for a recast of Regulation (EEC) No 95/93. Under this proposal, airlines would, in particular, be expressly allowed to trade slots with each other at EU airports in a transparent way. At the same time, priority for the allocation of slots for the next corresponding flight schedule season would only be given to the carriers that have used at least 85% (instead of 80%) of the allocated series of slots. The proposal is currently in the legislative process.

Ownership and business requirements

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

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

Fares

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

Germany introduced an Air Travel Tax Act (*Luftverkehrsteuergesetz*, LuftVStG) on 15 September 2010, designed to raise € 1 billion annually. The tax applies to all bookings from 1 September 2010 for flights departing from 1 January 2011. The tax currently amounts to € 7.50 (short distance), € 23.43 (medium

distance) or € 42.18 (long distance) per passenger depending on the destination of the flight. The Air Travel Tax Act allows the Federal Ministry of Finance (*Bundesministerium der Finanzen*) to reduce the tax rate for the beginning of each calendar year, taking into account the income generated from the inclusion of aviation in the EU emissions trading scheme in the previous year. Similar taxes have been introduced, amongst others, by Austria and the United Kingdom.

To the extent possible, Air Berlin is forced to pass on the resulting cost increase to passengers. The imposition of air travel tax is currently subject to various challenges in court as it raises questions of EU and German constitutional law. The outcome of these proceedings can not be predicted.

Airport and air traffic control charges

Airport operators currently charge fees for incoming and outgoing flights based on a number of criteria. The European Union has passed Directive 2009/12/EC with a view to setting common principles for the levying of airport charges at European airports. It provides for non-discriminatory pricing while allowing for the structuring of airport charges for issues of public and general interest, including environmental issues. Germany has implemented the directive in 2012 by passing Section 19b of the German Air Traffic Act.

Moreover, the so-called Single European Sky Regulations set forth in Council Regulations (EC) No. 549/2004, 550/2004, 551/2004 and 552/2004, as revised and extended by Regulation (EC) No 1070/2009, harmonised the legal framework for air traffic control services in Europe. Measures for the development of a common scheme for charges related to air navigation services were laid down in Commission Regulation (EC) No. 1794/2006, as amended by Commission Regulation (EU) No. 1191/2010 of 16 December 2010. Except for the charges of Eurocontrol, the services are still being charged on the basis of national legislation. The European Commission has promulgated Commission Regulation (EU) No. 691/2010 laying down a performance scheme for air navigation services and network functions. The Regulation obliges the European Commission and the national supervisory authorities to adopt EU-wide performance targets and performance plans, respectively. Performance plans drawn up by national authorities must contain targets consistent with the EU performance targets. These performance targets have been established by Commission Decision 2011/121/EU of 21 February 2011.

Environmental issues

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

Inclusion of aviation in the EU emissions trading scheme

Pursuant to Directive 2008/101/EC, from 1 January 2012 all flights that arrive at or depart from an airport situated in the territory of an EU Member State are included in the EU emissions trading scheme (**ETS**). Under the Directive, the total quantity of allowances to be allocated to aircraft operators in the year 2012 will be equivalent to 97% of the historical aviation emissions. For each year of the current trading period (2013-2020), this quantity is reduced to the equivalent of 95% of the historical aviation emissions. As a consequence of the reduction of the total quantity of allowances, the number of allowances to be allocated free of charge will be equally reduced. In addition, the percentage of allowances that will be auctioned (presently 15%) may be increased in the future, leading to a further reduction in the number of allowances to be allocated free of charge. The Directive has been implemented into German law by way of an amendment of the German Greenhouse Gas Emission Act (*Treibhausgas-Emissionshandelsgesetz*) on 21 July 2011. Under the legislation, each aircraft operator must surrender a number of allowances equal to the total emissions during the preceding calendar year from its aviation activities by 30 April each year.

This legislation is likely to have a substantial negative impact on the European airline industry, including Air Berlin, despite the relatively young age of Air Berlin's fleet. Air Berlin anticipates that it will not be granted a sufficient number of free of charge allowances as will be necessary for the discharge of its duties under the Directive and relevant implementing legislation and will hence need to purchase additional allowances in an auction or in the open market. There can be no assurance that Air Berlin will be able to obtain sufficient carbon allowances or that the cost of the allowances will not have a material adverse effect on Air Berlin's business, operating results or financial condition. Air Berlin's hedging instruments do not fully protect it against the adverse effects of increases in the price of aviation allowances.

A challenge to the inclusion of the aviation business into the ETS on grounds of international law has been rejected by the European Court of Justice (ECJ) in 2011 (Case C-366/10). Nevertheless, a number of non-EU countries, including China, India, Russia and the United States, remain strongly opposed to the inclusion of international aviation in the ETS. In November 2012, the Council of the International Civil Aviation Organization (ICAO), a specialised agency of the United Nations, agreed to establish a special High-level Group to provide near-term recommendations on several policy issues concerning ICAO's ongoing research into the feasibility of a global market-based measure scheme for emissions from international aviation appropriate to international aviation, as well as its development of a policy framework to guide the general application of any proposed market-based measures to international air transport activity. As a result, by Decision No. 377/2013/EU of 24 April 2013 the European Parliament and the Council derogated temporarily from Directive 2003/87/EC establishing a scheme for greenhouse gas emission allowance trading within the Community. The derogation concerns aircraft operators in respect of activity to, and from aerodromes in countries outside the EU that are not members of EFTA, dependencies and territories of states in the EEA or countries that have signed a Treaty of Accession with the EU.

Air Berlin currently intends to make use of the derogation and return relevant allowances.

In October 2013 the assembly of ICAO agreed to develop by 2016 a global market-based mechanism (MBM) addressing international aviation emissions and apply it by 2020. Until then countries or groups of countries, such as the EU, can implement interim measures. On 30 April 2014 Regulation (EU) No. 421/2014 of the European Parliament and of the Council entered into force amending the EU Emissions trading scheme Directive (2003/87/EC), in view of the implementation by 2020 of an international agreement applying a single global market-based measure to international aviation emissions. The new regulation is intended to maintain the momentum reached within the ICAO and to facilitate progress at the upcoming 39th session in 2016. It also extends the temporary derogation from the ETS for flights to and from countries outside the EEA from 1 January to 31 December 2016. Moreover, the European Commission has proposed not to auction 900 million emission rights in the following 36 months but only in 2019 and 2020. Such self-induced shortage (backloading) which has been approved by the national governments of the EU member states is intended to support the prices for the emission rights which have almost collapsed over the last months.

Security

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

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

Passenger compensation and Montreal Convention liability regime

The European Union has passed legislation for compensating airline passengers who have been denied boarding or whose flight has been cancelled or subject to delays (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 in particular 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 whose flight has been cancelled or is 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. On 5 February 2014, the European Parliament voted at the first reading on a new draft regulation relating to passenger rights, which was published by the European Commission on 13 March 2013. The draft revised rules are designed to strengthen and extend passenger rights to obtain compensation in case flights are delayed or passengers are stranded upon a bankruptcy of an airline as well as passenger rights in connection with the luggage.

The Sturgeon judgment of the ECJ of 19 November 2009 in Joined Cases C-402/07 and C-432/07 reinterpreted Regulation (EC) No. 261/2004 so as to read into it an obligation on airlines to pay compensation of between € 250 and € 600 for flight delays exceeding three hours. The Sturgeon judgment has recently been confirmed by the ECJ (judgment of 23 October 2012, Joined Cases C-581/10 and C-629/10). The financial consequences of the Sturgeon decision are significant.

In 2013, the ECJ confirmed that the extraordinary circumstances defence only applies to the obligation to pay compensation, and does not exempt the air carrier from the obligation to provide assistance (judgment of 31 January 2013, Case C-12/11). It further held that the Regulation does not recognise a defence in case of “particularly extraordinary” events going beyond “extraordinary circumstances”, which would exempt the air carrier from its obligation to provide assistance. In addition, no temporal or monetary limitations generally apply to the obligation. Should the air carrier fail to comply with its obligation to provide assistance, compensation claimed by the passenger is, however, limited to the reimbursement of the amounts which, in the light of the specific circumstances of each case, proved necessary, appropriate and reasonable to make up for the shortcomings of the air carrier.

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 generally claim up to 1,131 Special Drawing Rights (SDRs) for lost, damaged or delayed luggage. This compares with the previous weight-based compensation system under the 1929 Warsaw Convention, which continues to apply to cargo. Finally, in case of a passenger’s death or bodily injury the Montreal Convention establishes strict carrier liability for damages of up to 113,100 SDRs for each passenger while the carrier’s liability for damages caused by delay in the carriage of persons is limited to 4,694 SDRs 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. Under Regulation (EC) No 2027/97 (as amended by Regulation (EC) No 889/2002) the rules of the Montreal Convention apply to all flights, whether domestic or international, operated by EU air carriers.

Intellectual property

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

Insurance

Air Berlin is exposed to the risk of losses that may be incurred in the event of an aircraft accident or terrorist incident. Any such accident or incident could involve not only repair or replacement of a damaged aircraft and its consequent temporary or permanent loss from service, but also significant

potential claims of injured passengers and survivors of deceased passengers. Air Berlin currently maintains passenger liability insurance, employer liability insurance, aircraft insurance for aircraft loss or damage, insurance for pilots' loss of licence and other business insurance in amounts per occurrence that are consistent with industry standards and that meet the requirements, particularly with respect to its minimum coverage obligations, under German law and international air transport treaties. Although Air Berlin currently believes its insurance coverage is adequate, there can be no assurance that the amount of such coverage will not need to be increased, that insurance premiums will not increase significantly or that Air Berlin will not be forced to bear substantial losses from accidents. See "Risk Factors – Risks relating to the airline industry – Air carriers are exposed to the risks of losses from air crashes or similar disasters".

Investments

The cash flow from investing activities increased from an outflow of € -62.5 million in the financial year 2011 ended on 31 December 2011 by € 230.5 million to an inflow of € 168.0 million in the financial year 2012 ended on 31 December 2012. This was primarily due to investments in aircraft in the financial year 2011, having fallen to a large extent in the financial year 2012 due to the reduced level of maintenance costs as a result of a reduction of the fleet. This was partially offset by higher investment in IT infrastructure. In total, the payments for investments in long-term assets as well as the related repayments fell to € 54.4 million in the financial year 2012 after € 175.8 million in the financial year 2011. € 20.2 million in the financial year 2012 was invested in Topbonus Ltd. and a joint venture. This was partially offset by proceeds in the amount of € 41.9 million in the financial year 2012 (financial year 2011: € 114.2 million) from the sale of long-term assets and from aircraft, and € 200 million from the sale of a majority stake in the frequent flyer programme "topbonus".

Cash flow from financing activities increased from € 87.6 million in the financial year 2011 by € 56.8 million, or 64.8%, to € 144.4 million in the financial year 2012. This increase resulted primarily from the capital increase in 2012 which generated proceeds of € 67.4 million (net of transaction costs of € 5.5 million). In addition, on a net basis and after transaction costs, proceeds from the issuance of interest-bearing financial liabilities amounted to € 83.2 million in the financial year 2012 after € 228.5 million in the financial year 2011. The redemption of convertible bonds in the financial year 2012 resulted in a cash outflow of € 6.2 million after an outflow of € 140.9 million in the financial year 2011.

Cash flows from investing activities amounted to € 160.0 million in the financial year 2013 ended on 31 December 2013 after € 168.0 million in the financial year 2012 (as mentioned above, this included proceeds from the sale of topbonus). Since the fleet has been further reduced as in the financial year 2012, the investment in aircraft was largely held at the level of the maintenance expenses in the financial year 2013. Accordingly, the payments for investments in non-current assets were subject to a minor change only. Overall, these payments and advance payments for non-current assets amounted to € 36.6 million in the financial year 2013 after € 54.4 million in the financial year 2012. In relation to the aircraft disposals, the related proceeds in 2013 were significantly higher than in the financial year 2012 and increased from € 41.9 million to € 198.3 million.

Cash flows from financing activities was € -92.1 million in the financial year 2013 after € 144.4 million in the financial year 2012. Payments for the redemption of interest-bearing liabilities in the amount of € 320.4 million in the financial year 2013 (financial year 2012: € 180.8 million) were offset by proceeds from the issue of interest-bearing liabilities in the amount of € 91.5 million (financial year 2012: € 265.5 million). In the financial year 2012, there were proceeds of € 67.4 million from a capital increase, net of transaction costs, and, in the financial year 2013, the issue of convertible bonds, net of transaction costs, provided € 136.7 million in proceeds. In the financial year 2012, € 6.2 million in convertible bonds were repurchased.

Payments for investments in non-current assets amounted to € 9.0 million in the first quarter of 2014 ended on 31 March 2014, while proceeds from the sale of non-current assets totalled € 31.8 million.

Cash flows from investing activities came to € 22.8 million after € -3.3 million in the first quarter 2013 ended on 31 March 2013. Cash flows from financing activities amounted to a cash inflow of € 49.6 million. The increase in the 8.25% €150 million fixed rate notes due 2018 on 21 January 2014 originally issued on 19 April 2011 resulted in net proceeds of € 73,8 million. This was offset by a € 24.2 million repayment of financial liabilities. As a result of a net cash inflow of € 50.0 million, net cash and cash equivalents at the end of the first three months of the financial year 2014 amounted to € 272.9 million.

All major investments in non-current assets were made in Germany and Austria during the last three financial years.

Capital expenditures and other investments

The following table breaks down Air Berlin's capital expenditures for the years indicated⁽¹⁾:

	Three months ended		Year ended 31 December		
	31 March				
	2014	2013	2013	2012	2011
	(unaudited)	(unaudited)	(audited)	(audited)	(audited)
			(€ million)		
Land and buildings ⁽²⁾	0.1	0.1	0.6	1.5	0.9
Aircraft and engines ⁽³⁾	0.1	1.2	1.2	2.0	138.5
Technical equipment and machinery ⁽⁴⁾	6.1	2.2	44.0	30.4	11.3
Office equipment	0.5	2.5	4.3	3.4	4.3
Total	6.8	6.0	50.1	37.3	155.0

(1) For the purpose of this table, capital expenditures means outgoing payments and does not include additions through acquisitions of companies.

(2) Relates to finance leases for aircraft hangars.

(3) Includes capitalised maintenance expenses.

(4) Includes aircraft-related expenditures, such as spare parts and aircraft modifications.

Future capital expenditures of Air Berlin comprise expenditures for the acquisition of aircraft, spare parts, technical equipment, machinery and office equipment. With respect to the future acquisition of spare parts, technical equipment, machinery and office equipment, Air Berlin has not yet determined a specific volume or entered into material specific commitments. In the period from 1 April to 30 June 2014 three Boeing 737-800 aircraft and one Airbus A321 were delivered. With respect to future acquisitions of aircraft, the following commitments have been entered into for the period from 1 July 2014 until 31 December 2014:

Type of aircraft	Outstanding deliveries July until December 2014
Boeing B737-800	
Airbus A320	1
Airbus A321	0
	0
Total	1

For the year 2015 and beyond, the aircraft purchase agreements provide for the purchase of certain aircraft. The details are as follows:

Type of aircraft	Number of aircraft for 2015 and onwards
Boeing B737-800	20
Boeing B787	15
Airbus A320	0
Airbus A321	10
Total	45

With respect to the aircraft which Air Berlin may acquire through the exercise of purchase rights, the delivery of these aircraft are subject to confirmation of availability by the airframe manufacturer.

As of 31 December 2014, if all of the above aircraft were to be delivered, the total financial obligations of Air Berlin in respect of such aircraft and engines based on list prices would be approximately US\$ 6,152 million in nominal terms. Substantial confidential price and payment term concessions would be applied to the relevant list prices to arrive at the final purchase price for each of the above aircraft.

Real estate

All business premises used by the Issuer and its subsidiaries are leased.

SELECTED FINANCIAL DATA

The financial information contained in the following tables is extracted or derived from the audited consolidated financial statements of Air Berlin as of and for the financial years ended 31 December 2013 and 2012 and the unaudited interim financial statements of Air Berlin as of and for the three-months period ended 31 March 2014. These consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards as adopted by the EU (IFRS).

KPMG has audited and issued unqualified auditor's reports with respect to the consolidated financial statements for the financial years ended 31 December 2013 and 2012. The aforementioned IFRS financial statements of Air Berlin PLC and the auditor's reports are included in this prospectus beginning on page F-2. The unaudited interim financial statements of the Group as of and for the three-months period ended 31 March 2014 were prepared in accordance with Section 37w(3) of the German Securities Trading Act (Wertpapierhandelsgesetz) and in accordance with IFRS. The same accounting and valuation principles that were used for the consolidated financial statements as of and for the financial year ended 31 December 2013 were applied. The unaudited interim financial statements of the Air Berlin Group remain subject to review within the full year audit.

Where financial data in the following tables is labeled "audited," this means that it has been taken from the audited financial statements mentioned above. The label "unaudited" is used in the following tables to indicate financial data that has not been taken from the audited financial statements mentioned above but was taken either from the Group's unaudited interim financial statements or the Group's accounting or controlling records, or is based on calculations of these figures. All of the financial data presented in the tables and the text below are shown in millions of euro (€million) and commercially rounded to one decimal point, except as otherwise stated.

The percentage changes that are stated in the text and the tables have been commercially rounded to one decimal point, unless stated otherwise. In respect of financial data set out in this prospectus, a dash ("-") signifies that the relevant figure is not available, while a zero ("0") signifies that the relevant figure is available but has been rounded to zero.

The following selected financial information should be read together with the consolidated financial statements including the related notes contained in this prospectus and additional financial information contained elsewhere in this prospectus.

Selected consolidated financial information (references to the “Company” shall be read as references to the Issuer)

Selected Income statement data

	Three months ended 31 March		Year ended 31 December	
	2014	2013	2013	2012
	(unaudited)	(unaudited) restated	(audited)	(audited) restated
	(€ million)			
Income statement data:				
Revenue	761.8	791.9	4,146.8	4,311.7
Other operating income	3.1	7.8	59.8	264.2
Expenses for materials and services	(633.3)	(681.2)	(3,174.5)	(3,288.8)
Personnel expenses	(125.4)	(122.5)	(488.2)	(488.8)
Depreciation and amortisation	(17.7)	(18.7)	(85.2)	(74.1)
Other operating expenses	(171.3)	(165.7)	(690.6)	(654.0)
Operating expenses	(947.7)	(988.1)	(4,438.4)	(4,505.7)
Result from operating activities	(182.8)	(188.4)	(231.9)	70.2
Financial expenses	(21.1)	(20.6)	(87.9)	(77.2)
Financial income	0.2	1.4	7.1	1.1
(Losses) Gains on foreign exchange and derivatives, net	(9.6)	(5.8)	6.8	2.6
Net financing costs	(30.5)	(25.0)	(74.0)	(73.6)
Share of profit of at equity investments, net of tax	0	0	0.6	0.2
Loss before tax	(213.4)	(213.4)	(305.2)	(3.2)
Income tax benefit	3.6	17.1	(10.3)	10.0
Profit (loss) for the period – all attributable to the shareholders of the Company	(209.8)	(196.3)	(315.5)	6.8

Selected Balance sheet data

	As of 31 March		As of 31 December	
	2014	2013	2014	2012
	(unaudited)	(unaudited) restated	(audited)	(audited) restated
	(€ million)			
Balance sheet data:				
Assets				
Non-current assets				
Intangible assets	414.4	421.0	415.9	421.0
Property, plant and equipment	489.1	585.9	497.8	597.9
Trade and other receivables	124.8	79.9	115.3	79.8
Deferred tax asset	17.0	38.0	17.1	28.7
Positive market value of derivatives	0.2	0	0.1	0
Net defined benefit asset	3.5	4.0	3.5	4.0
Deferred expenses	53.8	45.8	55.7	47.6
At equity investments	6.7	4.8	6.7	4.8
Non-current assets	1,109.4	1,179.4	1,112.1	1,183.8
Current assets				
Inventories	54.2	50.1	53.0	49.9
Trade and other receivables	528.9	538.8	406.0	451.7
Positive market value of derivatives	2.8	26.2	14.4	12.5
Deferred expenses	64.0	62.9	46.6	46.6
Assets held for sale	0	145.2	30.3	145.2
Cash and cash equivalents	273.0	470.2	223.1	327.9
Current assets	922.8	1,293.4	773.4	1,033.8
Total assets	2,032.2	2,472.8	1,885.5	2,217.6
Equity and liabilities				
Shareholders' equity				
Share capital	29.3	29.3	29.3	29.3
Share premium	435.1	435.1	435.1	435.1
Equity component of convertible bond	0.6	0.6	0.6	0.6
Other capital reserves	217.1	217.1	217.1	217.1
Retained earnings	(1,072.0)	(743.0)	(862.2)	(546.7)
Hedge accounting reserve, net of tax	(9.3)	4.5	(5.9)	(8.6)
Foreign currency translation reserve	3.3	3.3	3.2	3.4
Remeasurement of the net defined benefit obligation	3.2	0	(3.2)	0
Total equity - all attributable to the shareholders of the Company	(399.1)	(53.1)	(186.1)	130.2
Non-current liabilities				
Interest-bearing liabilities due to aircraft financing	172.9	265.2	178.4	267.0
Interest-bearing liabilities	686.8	763.8	605.3	621.1
Provisions	4.3	9.2	4.4	9.2
Trade and other payables	72.5	67.1	72.4	70.4
Deferred tax liabilities	24.5	27.4	29.7	30.8

	As of 31 March		As of 31 December	
	2014 (unaudited)	2013 (unaudited) restated (€ million)	2014 (audited)	2012 (audited) restated
Negative market value of derivatives	0.7	0.6	0.6	0.5
Non-current liabilities	961.7	1,133.4	890.7	998.9
Current liabilities				
Interest bearing liabilities due to aircraft financing	53.7	159.8	76.9	158.9
Interest-bearing liabilities	160.7	9.6	158.5	51.1
Tax liabilities	3.7	4.6	3.7	4.5
Provisions	25.3	15.5	25.8	14.2
Trade and other payables	430.8	483.0	441.0	426.8
Negative market value of derivatives	19.3	25.1	23.1	38.6
Deferred income	21.1	27.1	23.0	28.7
Advanced payments received	755.2	667.8	428.9	365.6
Current liabilities	1,469.6	1,392.5	1,180.8	1,088.5
Total equity and liabilities	2,032.2	2,472.8	1,885.5	2,217.6

MANAGEMENT, CORPORATE GOVERNANCE AND SIGNIFICANT SHAREHOLDERS

Board of Directors

Executive Director

Wolfgang Prock-Schauer – Chief Executive Officer

Wolfgang Prock-Schauer was born on 12 November 1956 in Horn, Austria. After graduating from Vienna University of Economics and Business, he started his career in 1981 at Austrian Airlines, where, as Executive Vice President, he was responsible for network management, strategic planning and alliances, and integration of the airlines Lauda Air and Tyrolean, amongst other duties. In 2003, he moved to India to become the CEO of Jet Airways. During his tenure, Jet Airways was, in 2005, taken public and its long-haul business and global network expanded. From 2009 to 2012, Wolfgang Prock-Schauer was CEO of British Midland International, where he introduced numerous productivity improvements. With effect from 7 January 2013, Wolfgang Prock-Schauer has assumed the role of Chief Executive Officer at Air Berlin PLC. Since 1 October 2012 he also has held the post of Chief Strategy and Planning Officer (CSPO) and will continue fulfilling this function until further notice.

Wolfgang Prock-Schauer who, in addition to his role as CEO, had assumed the role of Chief Commercial Officer (CCO) on an interim basis after Paul Gregorowitsch has left Air Berlin with effect from 1 December 2013 until Götz Ahmelmann has taken over this position as from 1 July 2014 (please see below under “Chief Commercial Officer”).

Non-Executive Directors

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

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

James Hogan – Vice Chairman of the Board, Chief Executive Officer of Etihad Airways

James Hogan was born on 28 November 1956 in Melbourne, Australia. He started his career in 1975 at Ansett Airlines, and subsequently held senior positions with bmi, Hertz, Forte Hotels and Gulf Air. At Hertz, his roles included directorships of the marketing, sales and operations divisions. In 1995, based in London, he joined the executive management committee as Vice President, Marketing & Sales for Europe, Middle East and Africa. He returned to bmi in 1999 as chief operating officer and was a member of the Board. In 2001, he was appointed chief executive of the Tesna consortium, before joining Gulf Air in 2002, where he served as president and chief executive for four years. James Hogan was appointed president and chief executive officer of Etihad Airways on 10 September 2006. Mr Hogan is a fellow of the Royal Aeronautical Society and a former non-executive director, and member of the Board’s Audit Committee, of Gallaher PLC. In 2010, he served as the chairman of the Aviation Travel and Tourism Governors at the World Economic Forum. He currently serves on the Executive Committee of the World Travel and Tourism Council and the International Air Transport Association (IATA) Board of Governors, and following the acquisition of a majority shareholding in Air Berlin PLC, on 24 January 2012, he was appointed as vice chairman of the Board of Directors.

Joachim Hunold – Former CEO of Air Berlin PLC

Joachim Hunold was born on 5 September 1949 in Dusseldorf, Germany. Mr. Hunold studied law and began his career in aviation in 1978 with Braathens Air Transport, Dusseldorf. From 1982 until 1990 he held the position of Sales and Marketing Director with the LTU Group. In April 1991, Mr. Hunold was one of the founders of Air Berlin GmbH & Co. Luftverkehrs KG (as successor to Air Berlin Inc.) and headed the Air Berlin Group, initially as the Managing Partner and, with the creation of the new holding company structure, as its CEO, effective from 1 January 2006. On 1 September 2011, Joachim Hunold resigned as CEO of Air Berlin PLC but remains a non-executive member of its Board of Directors.

Andries B. van Luijk – Former Executive Vice-President Passenger Sales and Services of KLM and Chairman of the KLM-NWA joint venture

Andries B. van Luijk was born on 16 September 1945 in The Hague. He studied Economics at Rotterdam University and graduated in Management Studies from the Institute for Social Studies in The Hague. Mr. van Luijk holds a degree in Business Administration. Andries B. van Luijk, who is of Dutch nationality, began his career in 1969 working for KLM Royal Dutch Airlines. Until 1999, he held a number of different positions all over the world for the airline, including the position as Executive Vice-President Passenger Sales and Services. In cooperation with NWA he created and managed the KLM-NWA joint venture as Chairman. Andries B. van Luijk joined the Board on 1st October 2013.

James Rigney – Chief Financial Officer of Etihad Airways

James Rigney was born on 29 May 1967 in Melbourne, Australia. He is a chartered accountant and holds a Bachelor of Business and a Masters Degree in business administration from RMIT University in Melbourne, Australia. He began his career at KPMG and also worked at Heller Business Finance before entering the airline industry. Prior to joining Gulf Air in 2002, Mr Rigney held a number of senior strategic and commercial positions within the Ansett Group. Mr Rigney joined Etihad Airways from Gulf Air, where, as Head of Corporate Strategy, he played a role in the team responsible for the creation and implementation of the Project Falcon program between 2003 and 2005, repositioning the business on a commercial platform. James Rigney was appointed to the position of Chief Financial Officer at Etihad Airways in October 2006 bringing two decades of expertise to the airline. Mr Rigney is responsible for finance, treasury, information technology, supply chain and property at Etihad Airways. He was formerly a member of the Board of Abu Dhabi Aircraft Technologies (ADAT) and was appointed to the Board on 24 January 2012.

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

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

Dr Lothar Steinebach – Former CFO of Henkel AG & Co. KGaA

Dr Lothar Steinebach was born on 25 January 1948 in Wiesbaden. He studied law at Johannes Gutenberg University, Mainz and graduated with the Second State Examination in Law at Wiesbaden in 1977. He holds a Master of Laws (LL.M.) degree from University Michigan, Ann Arbor, USA and completed his doctorate in law (Dr. iur.) in 1982. Dr Steinebach worked for a total of 32 years for Henkel AG & Co. KGaA; from 2003 to 2012 he was a board member in the position of Chief Financial Officer. In addition, from 2007 he was responsible for the purchasing, IT and legal departments. Dr Steinebach joined the Board on 1 October 2013.

Nicholas Teller – Chairman of E.R. Capital Holding GmbH & CIE. KG

Nicholas Teller was born on 16 June 1959, in London, England. He studied at the University of Birmingham (Bachelor of Commerce). His career began in 1982 with Commerzbank in London. In 1994 he was appointed branch director of Commerzbank Prague and later to executive management with the Hamburg branch. From 2002 to 2003, Mr. Teller was a regional board member and was a member of the management board of Commerzbank AG between 1 April 2003 and 31 May 2008. On 1 August 2008, he was appointed chief executive officer of E.R. Capital Holding GmbH & Cie. KG in Hamburg. Since 7 May 2014 Nicholas Teller stepped down from his position as chief executive officer becoming Chairman of E.R. Capital Holding GmbH & Cie. KG. In addition, until June 2010 he was a member of the management board of Eurex Zürich AG and is currently a member of the board of directors of the American Chamber of Commerce in Germany e.V. Mr. Teller joined the Board in May 2006.

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

Ali Sabancı was born on 5 May 1969 in Adana, Turkey. 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. Sabancı was appointed head of projects in Sabancı Holding, going on to become the Executive Vice President of Strategy and Business Development in 2001. In March 2004, Mr. Sabancı resigned from his duties at Sabancı Holding and joined ESAS Holding. He is a member of the board of ESAS Holding and chairman of Pegasus Airlines. Mr. Sabancı joined the Board in May 2009.

Johannes Zurnieden – Managing Director of Phoenix Reisen GmbH, Bonn

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

Management Board

Wolfgang Prock-Schauer – Chief Executive Officer

With respect to the information about Wolfgang Prock-Schauer, please refer to the section “Board of Directors, Executive Director” above.

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.

Ulf Hüttmeyer's service agreement contains a change of control clause which provides for a special termination right also in case that his position, his central responsibilities or reporting lines are changed.

Marco Ciomperlik – Chief Restructuring Officer

Born on 10 May 1975, Marco Ciomperlik has been employed by the Air Berlin Group since 2010. After a number of years in leading positions at Deutsche Bank and as the head of restructuring projects at Roland Berger Strategy Consultants, he then became Chief Financial Officer at airberlin technik. In

2011, Mr Ciomperlik took over the position of Chief Executive Officer at airberlin technik. On 27 April 2014, Marco Ciomperlik was appointed as Chief Restructuring Officer and, as of May 2014, as member of the Management Board. He is coordinating and controlling the restructuring and turnaround process at Air Berlin from May 2014.

Helmut Himmelreich – Chief Operating Officer

Helmut Himmelreich was born on 15 July 1952 in Wallendorf, Germany. For about 25 years Mr. Himmelreich worked for LTU Fluggesellschaft GmbH & Co. KG in different areas, where he last acted as Accountable Manager Operations, Air Traffic and Maintenance. From 2003 until 2007 he was Technical Director at Swiss International Air Lines Ltd. where he was responsible for different areas as well as the reorientation of technical operations, the development of international line maintenance and engineering. As Senior Executive Vice President responsible for Aircraft Services in the Executive Board at SR Technics he also oversaw the restructuring and reorientation of technical services companies in Ireland and Bahrain, among others. On 1 March 2010 Helmut Himmelreich was appointed Chief Maintenance Officer of Air Berlin PLC & Co. Luftverkehrs KG. In November 2011 Helmut Himmelreich was appointed Chief Operating Officer (COO) of Air Berlin PLC. Helmut Himmelreich resigned as of 1 August 2014.

Air Berlin is in the process of undertaking the search for a new COO. In the interim the Chief Restructuring Officer Marco Ciomperlik will assume this role.

Dr Martina Niemann – Chief Human Resources Officer

Martina Niemann was born on 13 March 1964 in Walsum (now Duisburg), Germany. After graduating in economics from Freie Universität Berlin, Dr Niemann started her professional career as the manager of a capital investment company. Following two years with Deutsche Lufthansa Dr Niemann moved to the position of Head of Controlling for the travel agency sector of the Kaufhof group. Since 1995 she held a number of leading positions at Deutsche Bahn AG. She was responsible, among other areas, for human resources reporting and analysis and was in charge of the area of workforce deployment and the group's labour market. Before moving to Air Berlin, Dr Niemann was Head of Remuneration and Welfare Policy for the group. On 15 February 2012 Dr Martina Niemann was appointed Chief Human Resources Officer (CHO) of Air Berlin PLC.

Götz Ahmelmann – Chief Commercial Officer as of 1 July 2014

Götz Ahmelmann was born on 12 March 1971 in Kiel. From 1992 to 1997 Götz Ahmelmann went through a vocational training course for commercial aviation management at Deutsche Lufthansa AG. Simultaneously he studied Business Management at the University of Hagen with a focus on marketing, organisation & planning as well as psychology. In the years 2003 to 2005 he acquired an international Masters degree (IMPM) from McGill University. Starting his career at Deutsche Lufthansa in 1996 Mr. Ahmelmann subsequently held a number of managerial functions in various commercial sectors including Director Corporate Strategy and Commercial Director Hub Frankfurt. From 2007 until 2012 Mr. Ahmelmann held the role of Vice President Alliances and Cooperations. Before joining Air Berlin, Götz Ahmelmann headed the Sales, Marketing and Ground Operations unit for Deutsche Lufthansa AG in Europe as Vice President Sales and Services. As of 1 July 2014, Götz Ahmelmann has been appointed as Air Berlin's new Chief Commercial Officer (CCO). He has taken over this position from Wolfgang Prock-Schauer who, in addition to his roles as CEO and Chief Strategy and Planning Officer, had assumed these responsibilities on an interim basis after Paul Gregorowitsch left Air Berlin with effect from 1 December 2013.

John Shepley – Chief Strategy and Planning Officer on an interim basis

On 27 April 2014, the Board of Directors resolved that John Shepley, who was born on 26 February 1963, be appointed as Chief Strategy and Planning Officer (CSPO) on an interim basis. Starting from 28 April 2014, he is responsible for the network management, revenue management and pricing as well as alliances and cooperation taking over these responsibilities from Wolfgang Prock-Schauer. For such purposes, John Shepley, who previously was with Etihad Airways as Senior Vice President Network

Management, will be seconded to Air Berlin until the search for a new permanent Chief Strategy and Planning Officer, which has commenced, has been completed and a new Chief Strategy and Planning Officer is appointed. John Shepley joined Etihad Airways in November 2006 as Vice President Network Management and was before with Australia's Jetstar Airways, where he was General Manager Network and Schedules Planning. He has more than 20 years' experience in aviation, including senior positions with Ansett Australia, Air New Zealand and Gulf Air in sales, airports, revenue management, planning and alliance areas.

The details of those companies and partnerships outside Air Berlin of which Directors and members of the Management Board 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/member of the Management Board	Current directorships and partnerships	Previous directorships and partnerships
Wolfgang Prock-Schauer	Belair Airlines AG Ihy Izmir Havayollari A. Ş. NL AB Beteiligungs GmbH Topbonus Ltd. NIKI Privatstiftung	Jet Airways (India), CEO bmi, British Midland International, BMI Regional and BMI baby
Hans-Joachim Körber	Sysco Corporation WEPA Industrieholding SE DAW SE LP Holding GmbH	Metro AG Kaufhof Warenhaus AG Real Holding GmbH Bertelsmann AG Skandinaviska Enskilda Banken AB Esprit Holdings Limited
James Hogan	Etihad Airways PJSC, President and CEO Jet Airways (India), Limited, Director Executive Committee of the World Travel and Tourism Council (WTTC) International Air Transport Association (IATA) Board of Governors Fellow Royal Aeronautical Society	British Midland plc Gallagher Plc Aviation Travel and Tourism Governors at the World Economic Forum

Name of Director/ member of the Management Board	Current directorships and partnerships	Previous directorships and partnerships
Joachim Hunold	Hermes Europe GmbH Düsseldorfer Turn- und Sportverein Fortuna 1895 e.V.	LTU Lufttransport Unternehmen GmbH Neue Dorint GmbH dba Luftfahrtgesellschaft Belair Airlines AG ALBA Group plc & Co. KG (former INTERSEROH SE)
James Rigney	Etihad Airways PJSC, CFO Jet Airways (India), Limited, Director	Abu Dhabi Aircraft Technologies (ADAT)
Ali Sabancı	ESAS Holding A.Ş. Pegasus Hava Taşımacılığı A. Ş. AFM Uluslararası Film Prodüksiyon Ticaret ve Sanayi Anonim Şirketi Kültür ve Gös. Mer. İş A. Ş. MARS Sinema ve Sportif Tesisler. İşletmeciliği A. Ş. Mars Entainment Group A. Ş. MARS MEDYA SARAY BAHÇE ALIŞVERİŞ MERKEZİ TİC.A.Ş. EAG Gayrimenkul Noktacom Medya İnternet Hizmetleri Sanayi ve Ticaret A.Ş. Callpex Çağrı Merkezi ve Müşteri Hiz. A. Ş. ÇİT Kurumsal Danışmanlık ve Yatırım Tic. AŞ CBG Kurumsal Danışmanlık ve Yatırım Tic. AŞ Ayakkabı Dünyası Mağazacılık ve İnşaat A.Ş. Akbackoğlu Kundura Sanayi ve Ticaret A.Ş.	Ihy İzmir Havayollari A. Ş. RM Arşiv Yönetim Hiz. A. Ş.
Heinz-Peter Schlüter	TRIMET SE, CEO TRIMET ALUMINIUM SE TRIMET France SAS Scheidt & Bachmann GmbH	None
Lothar Steinebach	ALTANA AG Carl Zeiss AG Ralf Schmitz GmbH & Co. KGaA	Henkel AG & Co. KGaA, CFO Henkel group

Name of Director/ member of the Management Board	Current directorships and partnerships	Previous directorships and partnerships
	ThyssenKrupp AG Diem Client Partner AG, Switzerland	companies: Henkel Adhesives Middle East E.C., Bahrain; Henkel (China) Investment Co. Ltd., China; Henkel & Cie AG, Switzerland; Henkel Central Eastern Europe GmbH (Chairman), Austria; Henkel Consumer Goods Inc. (Chairman), USA; Henkel Ltd., Great Britain; Henkel of America Inc. (Chairman), USA; Henkel Technologies Egypt SAE, Egypt; Türk Henkel Kimya Sanayi ve Ticaret AS (Chairman), Turkey LSG Lufthansa Service Holding AG
Nicholas Teller	E.R. Capital Holding GmbH & CIE. KG, Chairman and Partner Commerzbank AG, Member of the Supervisory Board SHL Telemedizin GmbH American Chamber of Commerce in Germany e.V.	BRE Bank Eurex Zürich AG Eurex Clearing AG Eurex Frankfurt AG Next Generation Finance Invest AG, Zug
Andries B. van Luijk	Jet Airways, Advisor to the Chairman Deerns (Consulting Engineers), Member of the Advisory Board Jet Air WW AG, Chairman of the Board MI Airline, Chairman of the Supervisory Board Orfeo Clinic, Chairman of the Supervisory Board	Aalberts Industries N.V., Member of the Supervisory Board
Johannes Zurnieden	Phoenix Reisen GmbH Avia Consult GmbH Quality Group GmbH DRS Deutscher Reisepreis-Sicherungsverein VvaG	None

Name of Director/ member of the Management Board	Current directorships and partnerships	Previous directorships and partnerships
Ulf Hüttmeyer	Member of the Regionalbeirat Ost Commerzbank AG	LTU Lufttransport Unternehmen GmbH Belair Airlines AG
Götz Ahmelmann	None	Deutsche Lufthansa AG, Head of European Sales and Services SunExpress, Member of the Board Jettainer, Member of the Advisory Board
Helmut Himmelreich	None	SR Technics
Marco Ciomperlik	None	None
Martina Niemann	None	None
John Shepley	None	None

The business address of each of the Directors and members of the Management Board 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 of Directors comprises the Chairman (who was considered independent on appointment), ten non-executive directors and one executive director. 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.

As of 1 October 2012, the operative management of Air Berlin is entrusted to a newly established body, the Management Board. The Board of Directors will focus on the strategic management of Air Berlin.

The Non-Executive Directors provide a wealth of experience and skills that are key to the formulation and development of Air Berlin's strategy. The Board is satisfied that the Chairman and each of the Non-Executive Directors committed sufficient time during 2013 to fulfilling their duties as members of the Board. The Chairman's main external commitments did not significantly change during the year.

As Air Berlin is not listed in the United Kingdom, it is not required to comply with the obligation under the UK Listing Rules to disclose in its annual audited financial statements the extent of its compliance with corporate governance standards set forth in the UK Corporate Governance Code, nor is it required to comply with German corporate governance standards. Air Berlin complies voluntarily with many of the provisions of the UK Corporate Governance Code. Air Berlin has therefore not applied the UK Corporate Governance Code but has had regard to its principles.

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

Audit Committee

As of 31 December 2012, the Audit Committee comprised the two independent non-executive directors Heinz-Peter Schlüter (as chairman) and Nicholas Teller. With effect from 3 January 2013 until 22 June 2013, Austin Reid was appointed as independent member of the Board and member of the Audit Committee. On 23 June 2013 Austin Reid stepped down from the Board of Directors and thus ceased to be a member of the Audit Committee. With effect from 1 October 2013 Dr Lothar Steinebach was appointed as independent member of the Board and chairman of the Audit Committee. In the period from 24 June 2013 until 30 September 2013 Dr Hans-Joachim Körber as Chairman of the Board of Directors took part in and ran the Audit Committee meetings.

A representative of the Air Berlin's external auditors and the Chief Financial Officer attend the meetings of the Audit Committee. Board members or senior executives may attend the meetings upon invitation from the Audit Committee. Furthermore, Air Berlin's external auditors, the head of internal audit and officers responsible for risk assurance may request a meeting with the Audit Committee.

The Audit Committee met five times in each of the years 2012 and 2013. 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 controls. The Audit Committee's tasks include reviewing the Air Berlin's annual financial statements and other financial information before their publication, including trading statements and formal announcements relating to the Air Berlin's performance, determining the scope of the annual audit, and advising on the shareholders' appointment of external auditors. Additionally, the Audit Committee generally oversees Air Berlin's relationship with its auditors and is responsible for monitoring the effectiveness of the Air Berlin's risk management and external and internal control systems, including the results of internal audits. The Audit Committee is informed on a regular basis of significant audit findings and progress and has unlimited access to Air Berlin's and the Air Berlin Group's management, books and records. At least once a year, the Audit Committee is entitled to meet with the external auditors without the presence of executive management and the internal auditors.

The Audit Committee reviews the scope of the non-audit work undertaken by the auditors and the fees related to such work to ensure that the auditors' impartiality is not or may not become impaired. Furthermore, it is part of the duties of the Audit Committee to ask the auditors to articulate the steps they have taken to ensure independence and objectivity. 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. The Audit Committee's chairman attends Air Berlin's annual general meeting in order to answer any questions on the Audit Committee's activities and responsibilities.

Principal Shareholders

The shareholdings of principal shareholders of Air Berlin as of 15 July 2014 are set out below:

Major Shareholders	Holdings in %
Etihad Airways PJSC	29.21
ESAS Holding A.S.	12.02
Hans-Joachim Knieps	4.98
Leibniz-Service GmbH /TUI Travel PLC	3.37
Werner Huehn	2.51
Joachim Hunold (Non-Executive Director Air Berlin PLC)	1.95
Severin Schulte	1.69
Johannes Zurnieden (Non-Executive Director Air Berlin PLC)	1.16
Heinz-Peter Schlüter (Non-Executive Director Air Berlin PLC)	1.03
Reidun Lundgren (Metolius Foundation, Ringerike GmbH & Co. Luftfahrtbeteiligungs KG)	0.68
Hans-Joachim Körber (Non-Executive Director, Chairman of the Board of Directors of Air Berlin PLC)	0.17

TAXATION

The following is a general overview of certain tax considerations relating to the purchasing, holding and disposing of Notes. It does not purport to be a complete analysis of all tax considerations relating to the Notes. In particular, this discussion does not consider any specific facts or circumstances that may apply to a particular Noteholder. The discussions that follow for each jurisdiction are based upon the applicable laws in force and their interpretation on the date of this Prospectus. These tax laws and interpretations are subject to change that may occur after such date, even with retroactive or retrospective effect. The information contained in this section is limited to taxation issues and prospective Noteholders should not apply any information set out below to other areas, including (but not limited to) the legality of transactions involving the Notes.

Prospective Noteholders should consult their own tax advisors as to the particular tax consequences of subscribing, purchasing, holding and disposing the Notes, including the application and effect of any federal, state or local taxes, under the tax laws of the Federal Republic of Germany, the Grand Duchy of Luxembourg and the United Kingdom and each country of which they are residents or citizens.

FEDERAL REPUBLIC OF 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 generally subject to withholding tax, provided that the Notes are held in custody with a German custodian, who is required to deduct the withholding tax from such interest payments (the Disbursing Agent).

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

The withholding tax regime also applies to any gains from the sale or redemption of Notes realised by private Noteholders holding the Notes as private (and not as business) assets in custody with a Disbursing Agent. The withholding tax is, as a rule, imposed on the excess of the proceeds from the sale or redemption after deduction of expenses directly connected to the sale/redemption over the acquisition costs of the Notes. If the Notes have not been kept in custodial account with same Disbursing Agent since the acquisition and the acquisition data is not proved with the statutory requirements, 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 plus interest accrued (if any). 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 private Noteholder might be obliged to pay the respective withholding tax amount to the Disbursing Agent.

In computing any German tax to be withheld, the Disbursing Agent may generally deduct from the basis of the withholding tax negative investment income realised by the individual Holder of the Notes via the Disbursing Agent (e.g. losses from the sale of other securities with the exception of shares). The Disbursing Agent may also deduct Accrued Interest on the Notes or other securities paid separately upon the acquisition of the respective security via the Disbursing Agent. In addition, subject to certain requirements and restrictions the Disbursing Agent may credit foreign withholding taxes levied on investment income in a given year regarding securities held by the individual Holder in the custodial account with the Disbursing Agent. The withholding tax is as a rule not applied, if the total investment income of a private Noteholder is not exceeding the lump sum deduction (*Sparer-Pauschbetrag*) of € 801 (€ 1,602 for married couples filing jointly) and the Holder files a corresponding exemption certificate (*Freistellungsauftrag*) with the Disbursing Agent. No withholding tax will be deducted if the Holder of the Notes has submitted to the Disbursing Agent a certificate of non-assessment (*Nichtveranlagungsbescheinigung*) issued by the competent local tax office. 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 Disbursing Agent. Exceptions apply e.g. where the Notes are held as business assets of a German permanent establishment or held via a German permanent representative.

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

GRAND DUCHY OF LUXEMBOURG

The comments below do not relate to any form of Luxembourg taxation other than taxation withheld at source with respect to the Notes.

Withholding taxation in Luxembourg

Non-Residents

Under the Luxembourg tax law currently in effect and subject to the application of the Luxembourg laws dated 21 June 2005 (the **Laws**) implementing the EU Savings Directive (Council Directive 2003/48/EC) and several agreements concluded between Luxembourg and certain dependant territories of the European Union, there is no withholding tax on payments of interest (including accrued but unpaid interest) made to a Luxembourg non-resident Noteholder. There is also no Luxembourg withholding tax upon repayment of the principal, or subject to the application of the Laws, upon redemption or exchange of the Notes.

Under the Laws, a Luxembourg based paying agent (within the meaning of the EU Savings Directive) is required, since 1 July 2005, to withhold tax on interest and other similar income (including reimbursement premium received at maturity) paid by it to (or under certain circumstances, to the benefit of) an individual or a residual entity (a **Residual Entity**) in the sense of Article 4.2. of the EU Savings Directive (i.e. an entity without legal personality except for (i) a Finnish *avoin yhtiö and kommandiittiyhtiö / öppet bolag and kommanditbolag* and (ii) a Swedish *handelsbolag and kommanditbolag*, and whose profits are not taxed under the general arrangements for the business taxation and that is not, or has not opted to be considered as, an undertaking for collective investment in

transferable securities (a UCITs) recognised in accordance with Council Directive 85/611/EEC, as replaced by Council Directive 2009/65/EC), resident or established in another Member State of the European Union, unless the beneficiary of the interest payment elects for an exchange of information. The same regime applies to payments to individuals or Residual Entities resident in any of the following territories: Aruba, the British Virgin Islands, Curaçao, Guernsey, Isle of Man, Jersey, Montserrat and Sint Maarten.

The withholding tax is currently 35 per cent.

On 18 March 2014, the Luxembourg government has submitted to the Luxembourg Parliament the draft law N°6668 putting an end to the withholding tax system as from 1 January 2015 and implementing the automatic exchange of information on payments of interest (or similar income) under the EU Savings Directive for any payment made as from 1 January 2015. This draft law is in line with the announcement of the Luxembourg officials on 10 April 2013.

On 20 March 2014, the European Council decided to pass the amended EU Savings Directive, which will amend and broaden the scope of the requirements described above. On the same European Council meeting, Austria and Luxembourg confirmed that they will endorse the amendment to the EU Savings Directive and will provide the required information on interest payments to the tax authorities of other EU Member States under the automatic information exchange as of 1 January 2015 and will abolish the withholding system.

Residents

Under the Luxembourg law dated 23 December 2005, as amended (the **Law**), a 10 per cent. withholding tax is levied as of 1 January 2006 on interest payments (or similar income) made by a Luxembourg paying agent to or for the immediate benefit of a Luxembourg resident individual. This withholding tax also applies on accrued interest received upon disposal, redemption or repurchase of the Notes. Such withholding tax will be in full discharge of income tax if the beneficial owner is an individual acting in the course of the management of his/her private wealth.

Further, a Luxembourg resident individual who acts in the course of the management of his/her private wealth and who is the beneficial owner of an interest payment made by a paying agent established outside Luxembourg in a Member State of the European Union or of the European Economic Area or in a jurisdiction having concluded an agreement with Luxembourg in connection with the EU Savings Directive, may also opt for a final 10 per cent. levy. In such case, the 10 per cent. levy is calculated on the same amounts as for the payments made by Luxembourg resident paying agents. The option for the 10 per cent. levy must cover all interest payments made by the paying agent to the Luxembourg resident beneficial owner during the entire civil year

In each case here described above, responsibility for the withholding tax will be assumed by the Luxembourg paying agent.

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 published 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 Luxembourg 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 Luxembourg for the purposes of Council Directive 2001/34/EC and any Luxembourg legislation giving effect to that Directive on the Euro MTF market of the Luxembourg Stock Exchange; and (ii) admitted to trading on the Euro MTF market of the Luxembourg 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 (and any person by or through whom interest on the Notes is paid 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 as regards the payment of interest, 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 Condition 8 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, HM Revenue & Customs have powers to obtain information and documents relating to the Notes, including in relation to issues of and other transactions in the Notes, interest, payments treated as interest and other payments derived from the Notes. This may include details of the beneficial owners of the Notes, of the persons for whom the Notes are held and of the persons to whom payments derived from the Notes are or may be paid. Information may be obtained from a range of persons including persons who effect or are a party to such transactions on behalf of others, registrars and administrators of such transactions, persons who make, receive or are entitled to receive payments derived from the Notes and persons by or through whom interest and payments treated as interest are paid or credited. Information obtained by HM Revenue & Customs may be provided to tax authorities in other countries.

Stamp Duty and SDRT

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

EU SAVINGS DIRECTIVE

Under Council Directive 2003/48/EC on the taxation of savings income (the **EU Savings Directive**), 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. 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). Luxembourg has announced that it will no longer apply the withholding tax system as from 1 January 2015 and will provide details of payment of interest (or similar income) as from this date. A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

On 24 March 2014, the European Council adopted the Council Directive 2014/48/EU amending the EU Savings Directive (the **Amending Directive**). The Amending Directive broadens the scope of the requirements described above. Member States have until 1 January 2016 to adopt the national legislation necessary to comply with the Amending Directive. The changes made under the Amending Directive include extending the scope of the EU Savings Directive to payments made to, or collected for, certain other entities and legal arrangements. They also broaden the definition of “interest payment” to cover income that is equivalent to interest.

THE PROPOSED FINANCIAL TRANSACTION TAX

The European Commission has published a proposal for a Directive for a common Financial Transaction Tax (FTT) in certain participating Member States. The proposed FTT has very broad scope and could apply to certain dealings in financial instruments (including secondary market transactions).

The FTT could apply to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in financial instruments where at least one party is a financial institution, and either (i) at least one party is established or deemed to be established in a participating Member State or (ii) the financial instruments are issued in a participating Member State. The proposed Directive remains subject to negotiation between the participating Member States and is the subject of legal challenge. It may therefore be altered prior to any implementation, the timing of which remains unclear.

SUBSCRIPTION, OFFER AND SALE

Pursuant to a subscription agreement (the **Subscription Agreement**) dated 27 April 2014, Anoa Capital S.A. (the **Sole Bookrunner**), quirin bank AG (the **Senior-Lead Manager**) and Close Brothers Seydler Bank AG (the **Co-Lead Manager** and together with the Sole Bookrunner and the Senior-Lead Manager, the **Managers**) had agreed to subscribe or procure subscribers for the Notes under a best efforts arrangement. On 8 May 2014, 170,000 Euro Notes in an aggregate principal amount of € 170,000,000 and 20,000 CHF Notes in an aggregate principal amount of CHF 100,000,000 were placed with professional investors outside the United States (in reliance on Regulation S under the U.S. Securities Act of 1933) by way of a tender offer and a private placement in compliance with applicable selling restrictions as follows:

Euro Notes in an aggregate principal amount of € 7,294,000 and CHF Notes in an aggregate principal amount of CHF 7,275,000 were issued on 9 May 2014 in exchange for notes tendered in connection with Air Berlin's exchange offer in the period from 28 April 2014 until 7 May 2014. The remaining amount of the Euro Notes and CHF Notes (i.e. Euro Notes in aggregate principal amount of € 162,706,000 and CHF Notes in an aggregate principal amount of CHF 92,725,000) was issued on 9 May 2014 on the basis of a private placement against payment of cash.

This Prospectus serves for listing purposes only and does not constitute, and may not be used for, an offer to buy, subscribe or sell any of the Notes, and no Notes are being offered or sold pursuant to this Prospectus. The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the "U.S. 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 U.S. Securities Act and applicable state securities laws.

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.

GENERAL INFORMATION

LISTING

Application has been made to list the Notes on the official list of the Luxembourg Stock Exchange and to admit the Notes to trading on the Euro MTF market of the Luxembourg Stock Exchange. The Euro MTF market is not a regulated market within the meaning of Directive 2004/39/EC on markets in financial instruments (**MiFID**). The Notes have been included into trading on the Open Market (*Freiverkehr*) of the Frankfurt Stock Exchange, which is not a regulated market for purposes of MiFID.

USE OF PROCEEDS

The Issuer intends to use the net proceeds of the aggregate principal amount of the Notes in an amount of the equivalent of approximately €150 million for general corporate purposes and the remaining amount (to the extent not issued in the exchange offer for the €150 million 11.5 per cent. notes due 2014 issued by Air Berlin PLC (ISIN DE000AB100C2) and the €200 million 8.5 per cent. notes due 2015 issued by Air Berlin PLC (ISIN DE000AB100A6)) and the refinancing of existing indebtedness.

RESOLUTION REGARDING THE ISSUE OF THE NOTES

On 27 April 2014, the Board of Directors of the Issuer resolved on the issue of the Notes.

CLEARING SYSTEM

The Notes were accepted for clearing and settlement through Clearstream Banking, *société anonyme* (**Clearstream Luxembourg**) and Euroclear Bank SA/NV (**Euroclear**). The ISIN for the Euro Notes is XS1051719786, the Common Code for the Notes is 105171978 and the German Securities Identification Number (WKN) is AB100L. The CHF Notes have been assigned the following security codes: ISIN XS1051723895, Common Code 105172389, WKN AB100N. The address of Euroclear is 1 Boulevard du Roi Albert I, B-1210 Brussels, Belgium and the address of Clearstream Luxembourg is 42 Avenue JF Kennedy, L-185S, Luxembourg.

TRUSTEE AND PRINCIPAL PAYING AGENT

The Issuer has appointed BNP Paribas Trust Corporation UK Limited, 55 Moorgate, London EC2R 6PA, United Kingdom as Trustee and BNP Paribas Securities Services Luxembourg Branch, 33 rue de Gasperich, L-5826 Hesperange as principal paying agent (the **Principal Paying Agent**).

U.S. TAX

The Notes 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 Managers were 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 Managers and their 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 issue of the Notes has an interest material to the issue.

SIGNIFICANT CHANGE IN THE FINANCIAL OR TRADING POSITION

There has been no significant change in the financial or trading position of the Issuer or any of its subsidiaries since 31 March 2014.

LEGAL AND ARBITRATION PROCEEDINGS

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

In May 2013, Air Berlin together with all other major German airlines received a letter from the consumer organisation in North Rhine-Westphalia (*Verbraucherzentrale Nordrhein-Westfalen e.V.*) demanding Air Berlin to discontinue the practice of requiring full payment for a flight if booked more than three months before the date of travel. It is contended that payment upon booking of the flight, which may be months in advance of departure is not in accordance with applicable law. On 25 June 2013, the Verbraucherzentrale Nordrhein-Westfalen instituted action for unfair competition (*unlauterer Wettbewerb*) against Air Berlin PLC & Co. KG with the district court (*Landgericht*) of Berlin demanding from Air Berlin to refrain from collecting from consumers the full payment for a flight any earlier than four weeks before the date of flight to avoid a fine of up to € 250,000 to be ordered in each case of non-compliance. In the particular case chosen by the claimant, the consumer bought the flight ticket 109 calendar days before the flight and, thus, the particular request brought by the claimant mentions only payment earlier than 109 days. However, the reasoning of statement of claim extends the argument to full payment any earlier than four weeks before the date of flight and suggests paying by instalments as in case of tour operators. Air Berlin does not share the view taken by Verbraucherzentrale Nordrhein-Westfalen and vigorously defends itself in this matter. The court of first instance has dismissed the action against Air Berlin and another air carrier. However, the outcome of this matter cannot be conclusively determined at this time, as the consumer organisation in North Rhine-Westphalia appealed against the decision and in three parallel cases courts of first instance have ruled in favour of the plaintiff. The defendants are expected to appeal against the negative decisions.

The operator of the Berlin Tegel (**TXL**) airport, Berliner Flughafengesellschaft mbH (**BFG**), requires from the local Ground Handling provider Globe Ground GmbH & Co. KG (**Globe Ground**) concession fees, based on an individual agreement. Globe Ground in turn charges those fees to Air Berlin KG. Globe Ground assigned such claims against Air Berlin KG to BFG, who sued Air Berlin in 2008 for not having paid concession fees in the amount of € 13.2 million between 2007 and 2011. In the subsequent period Air Berlin KG furthermore refused to pay concession fees required by BFG and charged by WISAG Aviation Service Holding GmbH (Air Berlin KG's new Ground Handling provider at TXL airport since January 2012) to Air Berlin KG in the amount of € 5.4 million. The result of the current litigation will be crucial for this subsequent period. Air Berlin KG considers the concession fee illegal because it alone opens the access to the market "airport", without receiving any consideration. The Court of First Instance (*Landgericht Berlin*) as well as the Court of Appeal (*Kammergericht Berlin*) dismissed the claim. The Federal Court (*Bundesgerichtshof*) cancelled the judgment and referred the case back to the Court of Appeal. The Court of Appeal dismissed the claim again. BFG subsequently filed leave to appeal (*Nichtzulassungsbeschwerde beim Bundesgerichtshof*).

Air Berlin has been informed that the LBA has received an information request by the EU Commission regarding the conditions for granting an operating licence of Air Berlin KG in respect of ownership and control in Air Berlin pursuant to Art. 4 lit. f of the Regulation 1008/2008. Since April 2014, the LBA has requested Air Berlin to provide information necessary for its response to the EU Commission. The LBA is also assessing Air Berlin KG's compliance with legal requirements with regard to its operating licence, in particular the ownership and control requirements pursuant to Art. 4 lit. f of the Regulation 1008/2008 in conjunction with Section 20 of the German Air Traffic Act (*Luftverkehrsgesetz*), in parallel to the EU Commission. Please also refer to the second risk factor on pages 23 et seq. relating to commercial passenger, air transport, related operating licences and air traffic rights as well as to "Ownership and business requirements" on page 113.

AUDITORS

The auditors of the Issuer are KPMG LLP (which have been appointed at the annual general meeting of Air Berlin on 6 June 2013 replacing KPMG Audit Plc), Chartered Accountants, whose address is One Snowhill, Snow Hill Queensway, Birmingham B46GH, United Kingdom. KPMG LLP are and KPMG Audit Plc were 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 financial year ended on 31 December 2012 and KPMG LLP for the financial year ended 31 December 2013.

The interim financial report for the first quarter of the financial year 2014 is unaudited.

DOCUMENTS ON DISPLAY

For so long as any Notes remain outstanding, copies of the following documents are available free of charge through the Issuer's website (<http://www.airberlingroup.com>):

- (i) the Prospectus;
- (ii) the 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 2013 and 31 December 2012 and, following publication, for each financial year thereafter, in each case together with the auditor's report prepared in connection therewith; and
- (iv) the unaudited consolidated financial statements of the Issuer, including the notes to such financial statements, for the three months ended 31 March 2014 and, following publication, for each quarterly period thereafter.

The Prospectus also is available through the website of the Luxembourg Stock Exchange (www.bourse.lu).

The Trust Deed dated 9 May 2014 between the Issuer and BNP Paribas Trust Corporation UK Limited as Trustee and the paying agency agreement dated 9 May 2014 between the Issuer, the Trustee and BNP Paribas Securities Services, Luxembourg Branch as Principal Paying Agent are available for inspection by appointment during normal business hours at the office for the time being of the Trustee (currently being at BNP Paribas Trust Corporation UK Limited, 55 Moorgate, London EC2R 6PA, United Kingdom) and at the office of the Principal Paying Agent being BNP Paribas Securities Services Luxembourg Branch, 33 rue de Gasperich, L-5826 Hesperange.

Financial notices concerning the Issuer and intended for the Noteholders are published on the website of the Luxembourg Stock Exchange (www.bourse.lu).

HISTORICAL FINANCIAL INFORMATION

Excerpt from the Annual Report 2013, comprising the following:

Independent Auditor's Report

Financial Statements 2013

Notes to the Financial Statements

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

We have audited the financial statements of Air Berlin PLC for the year ended 31 December 2013 set out on pages 119 to 180. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006. This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 111, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the FRC's website at www.frc.org.uk/auditscopeukprivate.

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 2013 and of the group's loss for the year then ended;
- ▶ the group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- ▶ the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- ▶ the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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

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

Phil Charles (Senior Statutory Auditor)

for and on behalf of: KPMG LLP, Statutory Auditor

Chartered Accountants
St. Nicholas House
Park Row
Nottingham NG1 6FQ
Great Britain
30 April 2014

Air Berlin PLC
CONSOLIDATED INCOME STATEMENT
for the period ended 31 December 2013

	Note	1/13-12/13 € 000	1/12-12/12 € 000
Revenue	20	4,146,794	4,311,676
Other operating income (including in 2012 a net gain of disposal of topbonus of EUR 184,400)	5, 21	59,753	264,192
Expenses for materials and services	22	(3,174,504)	(3,288,763)
Personnel expenses	23	(488,164)	(488,761)
Depreciation and amortisation	6, 7	(85,191)	(74,145)
Other operating expenses	24	(690,569)	(654,046)
Operating expenses		(4,438,428)	(4,505,715)
Result from operating activities		(231,881)	70,153
Financial expenses	25	(87,898)	(77,217)
Financial income	25	7,124	1,068
Result on foreign exchange and derivatives, net	25	6,786	2,575
Net financing costs		(73,988)	(73,574)
Share of at equity investments, net of tax	26	637	247
Result before tax		(305,232)	(3,174)
Income tax result	27	(10,280)	9,987
Result for the period – all attributable to the shareholders of the Company		(315,512)	6,813
Basic earnings per share in €	13	(2.71)	0.06
Diluted earnings per share in €	13	(2.71)	0.06

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

	Note	1/13-12/13 € 000	1/12-12/12 € 000
Result for the period		(315,512)	6,813
Foreign currency translation reserve		(237)	490
Effective portion of changes in fair value of hedging instruments		(29,607)	(18,876)
Net change in fair value of hedging instruments transferred from equity to profit or loss		33,242	(54,459)
Remeasurement of net defined liability		(3,188)	0*
Income tax on other comprehensive income	27	(937)	21,971
Other comprehensive income for the period, net of tax		(727)	(50,874)
Total comprehensive income – all attributable to the shareholders of the Company		(316,239)	(44,061)

* Retrospective application of the revised version of IAS 19 has no material impact on prior year figures.

Air Berlin PLC
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as of 31 December 2013

	Note	31/12/2013	31/12/2012
		€ 000	€ 000
Assets			
Non-current assets			
Intangible assets	6	415,893	421,044
Property, plant and equipment	7	497,846	597,890
Trade and other receivables	10	115,301	79,770
Deferred tax asset	27	17,063	28,666
Positive market value of derivatives	29	105	0
Net defined benefit asset	14	3,455	4,015
Deferred expenses	11	55,744	47,597
At equity investments	8	6,666	4,847
Non-current assets		1,112,073	1,183,829
Current assets			
Inventories	9	53,043	49,867
Trade and other receivables	10	406,027	451,736
Positive market value of derivatives	29	14,350	12,467
Deferred expenses	11	46,620	46,571
Assets held for sale	7	30,309	145,206
Cash and cash equivalents	28	223,063	327,936
Current assets		773,412	1,033,783
Total assets		1,885,485	2,217,612

Air Berlin PLC
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as of 31 December 2013

	Note	31/12/2013	31/12/2012
		€ 000	€ 000
Equity and liabilities			
Shareholders' equity			
Share capital	12	29,273	29,273
Share premium	12	435,085	435,085
Equity component of convertible bond	16	597	597
Other capital reserves	12	217,056	217,056
Retained earnings		(862,175)	(546,663)
Hedge accounting reserve, net of tax		(5,904)	(8,602)
Foreign currency translation reserve	12	3,192	3,429
Remeasurement of the net defined benefit obligation	14	(3,188)	0*
Total equity – all attributable to the shareholders of the Company		(186,064)	130,175
Non-current liabilities			
Interest-bearing liabilities due to aircraft financing	16	178,391	267,044
Interest-bearing liabilities	16	605,265	621,066
Provisions	15	4,356	9,153
Trade and other payables	18	72,405	70,357
Deferred tax liabilities	27	29,707	30,786
Negative market value of derivatives	29	577	531
Non-current liabilities		890,701	998,937
Current liabilities			
Interest-bearing liabilities due to aircraft financing	16	76,863	158,946
Interest-bearing liabilities	16	158,542	51,084
Tax liabilities		3,716	4,514
Provisions	15	25,777	14,234
Trade and other payables	18	440,967	426,778
Negative market value of derivatives	29	23,098	38,601
Deferred income		22,957	28,718
Advanced payments received	19	428,928	365,625
Current liabilities		1,180,848	1,088,500
Total equity and liabilities		1,885,485	2,217,612

* Retrospective application of the revised version of IAS 19 has no material impact on prior year figures.

The financial statements were approved by the Board of Directors and authorised for issue on 30 April 2014 and signed on behalf of the Board:



WOLFGANG PROCK-SCHAUER
 CHIEF EXECUTIVE OFFICER

Air Berlin PLC
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the period ended 31 December 2013

	Share capital	Share premium	Equity component of convertible bonds	Other capital reserves	Retained earnings	Hedge accounting reserve, net of tax	Foreign currency translation reserve	Reassessment of the net defined benefit obligation*	Equity attributable to the shareholders of the Company
	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000
Balances at 31 December 2011	21,379	373,923	1,343	217,056	(554,221)	42,762	2,939	0	105,181
Issue of ordinary shares	7,894	65,043							72,937
Transaction costs on issue of shares, net of tax		(3,881)							(3,881)
Redemption of convertible bonds			(746)		746				0
Total transactions with shareholders	7,894	61,162	(746)	0	746	0	0	0	69,056
Profit for the period					6,813				6,813
Other comprehensive income						(51,364)	490		(50,874)
Total comprehensive income	0	0	0	0	6,813	(51,364)	490	0	(44,061)
Balances at 31 December 2012	29,273	435,085	597	217,056	(546,663)	(8,602)	3,429	0	130,175
Total transactions with shareholders	0	0	0	0	0	0	0	0	0
Loss for the period					(315,512)				(315,512)
Other comprehensive income						2,698	(237)	(3,188)	(727)
Total comprehensive income	0	0	0	0	(315,512)	2,698	(237)	(3,188)	(316,239)
Balances at 31 December 2013	29,273	435,085	597	217,056	(862,175)	(5,904)	3,192	(3,188)	(186,064)

* Retrospective application of the revised version of IAS 19 has no material impact on prior year figures.

Air Berlin PLC
CONSOLIDATED STATEMENT OF CASH FLOWS
for the period ended 31 December 2013

	Note	31/12/2013	31/12/2012
		€ 000	€ 000
Result for the period		(315,512)	6,813
Adjustments to reconcile profit or loss to cash flows from operating activities:			
Depreciation and amortisation of non-current assets	6, 7	85,190	74,145
Gain on disposal of topbonus	5	0	(184,400)
Gain on disposal of non-current assets	21, 24	(11,289)	(33,076)
Increase in inventories		(3,176)	(4,343)
Increase in trade accounts receivables		(4,634)	(58,918)
Increase in other assets and prepaid expenses		(11,441)	(33,475)
Deferred tax expense (benefit)	27	9,587	(13,944)
Increase in provisions		7,306	11,893
Increase in trade accounts payable		18,556	36,730
Increase (Decrease) in other current liabilities		55,643	(30,332)
Result on foreign exchange and derivatives, net	25	(6,786)	(2,575)
Interest expense	25	86,898	75,227
Interest income	25	(7,125)	(1,068)
Income tax expense	26	693	3,957
Share of profit of associates	8	(637)	(247)
Other non-cash changes		(197)	187
Cash generated from operations		(96,924)	(153,426)
Interest paid		(79,645)	(68,716)
Interest received		7,002	477
Income taxes paid		(1,491)	(2,171)
Net cash flows from operating activities		(171,058)	(223,836)
Purchases of non-current assets		(32,212)	(30,032)
Net advanced payments for non-current items	10	(4,338)	(24,361)
Proceeds from sale of tangible and intangible assets		198,328	41,872
Proceeds from disposal of topbonus	5	0	200,000
Dividends received from at equity investments		0	704
Acquisition of at equity investments		(1,819)	(20,186)
Cash flow from investing activities		159,959	167,997
Principal payments on interest-bearing liabilities		(320,358)	(180,833)
Proceeds from long-term borrowings		91,525	265,549
Transaction costs related to issue of long-term borrowings		0	(1,497)
Proceeds from issue (redemption) of convertible bonds	16	140,000	(6,162)
Transaction costs related to issue of convertible bonds	16	(3,263)	0
Issue of ordinary shares	13	0	72,937
Transaction costs related to issue of ordinary shares	13	0	(5,546)
Cash flow from financing activities		(92,096)	144,448
Change in cash and cash equivalents		(103,195)	88,609
Cash and cash equivalents at beginning of period		327,821	238,384
Foreign exchange losses on cash balances		(1,620)	828
Cash and cash equivalents at end of period	28	223,006	327,821
thereof bank overdrafts used for cash management purposes		(57)	(115)
thereof cash and cash equivalents in the statement of financial position		223,063	327,936

Air Berlin PLC
COMPANY STATEMENT OF FINANCIAL POSITION
as at 31 December 2013

	Note	31/12/2013	31/12/2012
		€ 000	€ 000
Assets			
Non-current assets			
Investments in subsidiaries	34b	966,200	720,924
At equity investments		0	261
Deferred tax asset	34c	0	15,034
Positive market value of derivatives		14	0
Loans to subsidiaries	34d	0	140,000
Net defined benefit asset	34h	2,719	2,862
Deferred expenses	34f	14,450	0
Non-current assets		983,383	879,081
Current assets			
Loans to subsidiaries	34d	0	58,677
Receivables from subsidiaries	34e	9,802	135,652
Receivables from at equity investments		0	149
Positive market value of derivatives		3,351	696
Trade and other receivables		2,340	464
Deferred expenses	34f	3,232	337
Cash and cash equivalents		4,321	118,067
Current assets		23,046	314,042
Total assets		1,006,429	1,193,123

Air Berlin PLC
COMPANY STATEMENT OF FINANCIAL POSITION
as at 31 December 2013

	Note	31/12/2013	31/12/2012
		€ 000	€ 000
Equity and liabilities			
Shareholders' equity			
Share capital	34g	29,273	29,273
Share premium	34g	435,085	435,085
Equity component of convertible bond		597	597
Retained earnings		(167,869)	(58,960)
Remeasurement of the net defined benefit obligation		(1,277)	0*
Total equity – all attributable to the shareholders of the Company		295,809	405,995
Non-current liabilities			
Interest-bearing liabilities		343,699	487,362
Other liabilities to subsidiaries	34i	164,551	2,000
Deferred tax liabilities	34c	641	0
Non-current liabilities		508,891	489,362
Current liabilities			
Interest-bearing liabilities		155,724	7,716
Tax liabilities		1,705	1,681
Trade and other payables		7,617	8,617
Payables to subsidiaries	34k	33,286	277,535
Negative market value of derivatives		3,397	2,217
Current liabilities		201,729	297,766
Total equity and liabilities		1,006,429	1,193,123

* Retrospective application of the revised version of IAS 19 has no material impact on prior year figures.

The financial statements were approved by the Board of Directors and authorised for issue on 30 April 2014 and signed on behalf of the Board:



WOLFGANG PROCK-SCHAUER
 CHIEF EXECUTIVE OFFICER

Air Berlin PLC
COMPANY STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2013

	Share capital € 000	Share premium € 000	Equity component of convertible bonds € 000	Retained earnings € 000	Remeasure- ment of the net defined benefit obligation* € 000	Total equity € 000
Balances at 31 December 2011 (restated)	21,379	373,923	1,343	(45,307)	0	351,338
Issue of ordinary shares	7,894	65,043				72,937
Transaction costs on issue of shares, net of tax		(3,881)				(3,881)
Redemption of convertible bonds			(746)	746		0
Total transactions with shareholders	7,894	61,162	(746)	746	0	69,056
Loss for the period				(14,399)		(14,399)
Total comprehensive income	0	0	0	(14,399)	0	(14,399)
Balances at 31 December 2012	29,273	435,085	597	(58,960)	0	405,995
Total transactions with shareholders	0	0	0	0	0	0
Loss for the period				(108,909)		(108,909)
Other comprehensive income					(1,277)	(1,277)
Total comprehensive income	0	0	0	(108,909)	(1,277)	(110,186)
Balances at 31 December 2013	29,273	435,085	597	(167,869)	(1,277)	295,809

* Retrospective application of the revised version of IAS 19 has no material impact on prior year figures.

Air Berlin PLC
COMPANY STATEMENT OF CASH FLOWS
for the year ended 31 December 2013

	Note	31/12/2013	31/12/2012
		€ 000	€ 000
Result for the period		(108,909)	(14,399)
Adjustments to reconcile profit or loss to cash flows from operating activities:			
Decrease in receivables from subsidiaries		140,778	13,335
(Increase) Decrease in other assets and prepaid expenses		(13,409)	2,905
Deferred tax expense (benefit)	34c	15,674	(13,369)
(Decrease) in trade accounts payable and other liabilities		(999)	(3,820)
Increase in net defined benefit asset		(1,134)	(2,139)
(Decrease) in payables to subsidiaries	34k	(220,096)	(44,622)
Net change of derivatives		(1,429)	3,376
Interest expense		59,075	46,309
Interest income		(7,132)	(2,471)
Income tax expense		23	1,307
Share of profit at equity investments		(1,331)	(7,055)
Cash generated from operations		(138,889)	(20,643)
Interest paid		(52,996)	(40,957)
Interest received		1,172	62
Income taxes paid		0	0
Net cash flows from operating activities		(190,713)	(61,538)
Disposal of investments in subsidiaries		440	22
Increase in share capital of subsidiaries	34b	(61,599)	0
Repayments of loans given to subsidiaries	34d	0	557
Repayments of loans given to at equity investments		148	50
Dividends received from subsidiaries		1,331	6,249
Dividends received from at equity investments		0	704
Acquisition of at equity investments		(30)	0
Cash flow from investing activities		(59,710)	7,582
Issue of ordinary shares		0	72,937
Transaction costs related to issue of ordinary shares	12	0	(5,546)
Issue (Redemption) of convertible bonds	16	140,000	(6,162)
Transaction costs related to issue of convertible bonds	16	(3,263)	0
Proceeds from issue of corporate bonds	16	0	50,500
Payment of transaction costs related to issue of corporate bonds	16	0	(1,497)
Cash flow from financing activities		136,737	110,232
Change in cash and cash equivalents		(113,686)	56,276
Cash and cash equivalents at beginning of period		118,067	61,798
Foreign exchange losses on cash balances		(60)	(7)
Cash and cash equivalents at end of period		4,321	118,067
thereof cash and cash equivalents in the statement of financial position		4,321	118,067

NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS AS OF 31 DECEMBER 2013

1. INTRODUCTION

The consolidated financial statements of Air Berlin PLC for the year ended 31 December 2013 comprise Air Berlin PLC and its subsidiaries (together referred to as "airberlin" or the "Group") and the Group's interest in at equity investments. Air Berlin PLC is a public limited company incorporated in England and Wales with its registered office in London. The corporate headquarters of airberlin are located in Berlin. The Company's ordinary shares are traded on the Frankfurt Stock Exchange.

2. BASIC PRINCIPLES AND PREPARATION OF FINANCIAL STATEMENTS

Both the parent Company financial statements and the Group financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the European Union. On publishing the parent Company financial statements here together with the Group financial statements, the Company is taking advantage of the exemption in Section 408 of the Companies Act 2006 not to present its individual statement of comprehensive income and related notes that form a part of these approved financial statements. The Company financial statements are presented on pages 124 to 127.

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

The consolidated financial statements have been prepared in Euro. The European Central Bank year end exchange rate was GBP 0.8337 to the Euro. All financial figures presented have been rounded to the nearest thousand currency units, except for share data and subsequent events. The financial statements were authorised and approved for issue by the Board of Directors on 30 April 2014.

Going concern

The Groups' business activities, together with the factors likely to affect its future development, performance and position are set out in the Report on Forecasts and the Outlook of the Group on pages 66 to 68.

The financial position of the Group, its cash flows, and liquidity position are described in the Development in Financial Figures on pages 39 to 45. Details for the Group's borrowings are set out in note 16 and 30 of the financial statements. In addition, notes 4t and 30 to the financial statements include the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities, and its exposure to credit and liquidity risk.

The Group meets its day to day working capital requirements through its cash holdings. As discussed in the Report on Forecasts and the Outlook of the Group on pages 66 to 68, the current economic conditions create uncertainty particularly in respect of fluctuating currency rates, fluctuating jet fuel prices, passenger demand and yield. Financing is in place for our committed plane deliveries for the next twelve months. The Group's forecasts and projections sensitised for significant deviations from the forecast currency rate, jet fuel price, passenger demand and yield, show that the Group will generate sufficient cash through funding and operating cash flows to meet its liabilities in the foreseeable future. Achievability of these forecast are also dependent on the success of the „Turbine“ program. Furthermore Air Berlin PLC issued a perpetual bond of EUR 300,000 in April 2014 and received an firm underwriting for a corporate bond with an additional minimum cash inflow of EUR 150.000 (note 33).

Taking into account the above factors, the directors have concluded that there is a reasonable expectation that the Group has adequate resources to continue as a going concern for the foreseeable future. The going concern basis is used in preparing the accounts.

Use of estimates

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

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

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

3. BASIS OF CONSOLIDATION

a) Subsidiaries

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

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

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

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

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

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

All of the German subsidiaries identified in note 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. Verwaltungs KG
- ▶ Air Berlin PLC & Co. Service Center KG

b) Special purpose entity

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

c) Investments in associates and jointly controlled entities (at equity investments)

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

The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of at equity investments using the equity method and are initially recognised at cost, from the date that significant influence commences until the date that significant influence ceases.

When the Group's share of losses exceeds its interest in an at equity investment, the Group's carrying amount is reduced to zero and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee.

d) Transactions eliminated on consolidation

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

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

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

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

The estimated useful lives of intangible assets are as follows:

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

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

b) Property, plant and equipment

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

— AIRCRAFT

The Group owns aircraft of the type Boeing 737-700 and 800, Airbus A319, A320 and A321 as well as Embraer E190. The depreciation period is ten years taking into account estimated residual values. The residual values and useful lives are reviewed at the end of each period.

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

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

— OTHER TANGIBLE ASSETS

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

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

c) Subsequent expenditure

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

d) Impairment

— NON-FINANCIAL ASSETS

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

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

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

— FINANCIAL ASSETS

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

e) Inventories

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

f) Trade and other receivables

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

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

g) Derivatives

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

Forward exchange transactions are used to mitigate exchange rate exposure. Commodity swaps and options are used to limit the fuel price risk. Interest collars and swaps are used to mitigate interest rate change risks. For further information see note 30e.

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 Air Berlin PLC consists of ordinary shares and redeemable Class A shares. In addition the Company holds treasury shares.

— ORDINARY SHARES

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

— REDEEMABLE "CLASS A" PREFERENCE SHARES

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

— TREASURY SHARES

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

j) Income taxes

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

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

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

k) Provisions

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

l) Interest-bearing liabilities

Interest-bearing liabilities are recognised initially at fair value, less attributable transaction costs. Subsequent to initial recognition, interest-bearing liabilities are stated at amortised cost using the effective interest method. The fair value option is not applied.

m) Trade and other payables

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

n) Foreign currency

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

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

o) Recognition of income and expenses

Revenue relates primarily to transportation services provided and duty-free sales. Flight revenue is recognised at the point where the flight is flown whilst a return portion of the ticket is deferred until the return flight is flown. Revenue on unclaimed tickets is recognised when the ticket expires. Other revenue and operating income is recognised when the corresponding service has been provided or when the risks and rewards associated with the right of ownership are transferred to the buyer (for example duty-free sales). Revenue is measured at the fair value of the consideration received taking into account the amount of any sales deductions (for example air passenger duty, VAT and discounts). Rebates and discounts offered are deducted from revenue and are recognised at the point when the flight to which the rebate or discount relates is flown.

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

p) Deferred income and expenses

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

When the fare is for a round-trip and the return flight has not been taken at year end, the unearned revenue is deferred in the consolidated statement of financial position under “deferred income” until such time the transportation is provided.

— FREQUENT FLYER PLAN (TOPBONUS)

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

Up to December 2012, the frequent flyer plan miles earned are valued at fair value using the deferred-income-method in accordance with IFRIC 13. Following the sale of the frequent flyer plan (see note 5), the liability to provide awards now falls to topbonus Ltd in return for a payment from airberlin to topbonus Ltd. This payment is deducted from flight revenue.

q) Leasing

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

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

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

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

The Group carries out sale and leaseback transactions. If the leaseback transaction is an operating lease, and the sale price is below fair value of the asset, any profit or loss is recognised immediately in the statement of comprehensive income in accordance with IAS 17. Except if the loss is compensated for by future lease payments below market price, it is deferred and amortized in proportion to the lease payments over the lease term (see note 4p).

r) Pensions

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

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

Actuarial gains and losses are recognised in other comprehensive income in the period in which they are incurred.

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

s) New pronouncements– not yet adopted

Some new standards, alignments of standards and interpretations were issued and endorsed by the EU for the financial years beginning on or after 1 January 2014 but have not been applied by the Group in preparing the financial statements. None of these is expected to have a significant effect on the financial statements of the Group. The adoption of IFRS 10, 11 and 12 in 2014 will have no material impact on the consolidated entities at the current structure of the Group.

t) Financial risk management

The Group has exposure to the following risks:

- ▶ Credit risk
- ▶ Liquidity risk
- ▶ Market risk

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

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

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

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

Credit risk

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

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

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

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

Liquidity risk

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

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

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

Market risk

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

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

Capital management

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

The Group is not subject to any externally imposed capital requirements.

u) Financial instruments

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

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

- ▶ Loans and receivables
- ▶ Financial assets and liabilities at fair value through profit or loss classified as held for trading in accordance with IAS 39 (derivative financial instruments)
- ▶ Financial assets and liabilities at fair value classified as hedging instruments in accordance with IAS 39 (derivative financial instruments)
- ▶ Financial liabilities measured at amortised cost (includes trade payables and other financial liabilities as well as interest-bearing liabilities)

The categories of financial assets and financial liabilities are further detailed in note 30g.

airberlin has defined the following classes of financial assets and financial liabilities:

- ▶ Loans and receivables
- ▶ Derivative financial instruments classified as held for trading
- ▶ Derivative financial instruments classified as hedge accounting
- ▶ Financial liabilities measured at amortised cost (includes interest-bearing liabilities trade payables and other financial liabilities)

5. TOPBONUS TRANSACTION

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

airberlin disposed its frequent flyer plan topbonus (see note 4p) to topbonus Ltd for EUR 200,000. As no assets and liabilities of the Group were sold as part of this transaction, a profit of EUR 200,000 was generated on this sale. As the Group has a 30 % interest in topbonus Ltd the unrealised profit has been derecognised to the extent of the Group's investment in topbonus generating net income amounting to EUR 184,400 which has been accounted for as part of other operating income in the statement of comprehensive income (note 21).

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

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

Furthermore, the Group issued to topbonus Ltd a financial guarantee for one-year period for the loan amounting to EUR 45,000. The financial guarantee has been recognized at its estimated fair value of EUR 1,125 in the financial expenses in the 2012 statement of comprehensive income. Group's shares of topbonus Ltd are pledged to the lender in case the Group cannot service the financial guarantee.

Related to the transaction the Group incurred expenses of EUR 4,324, which have been classified within other operating expenses in 2012. The transactions with topbonus in 2013 are disclosed within note 31.

6. INTANGIBLE ASSETS

In thousands of Euro	Software, licenses	Goodwill	Landing rights	Trademarks	Customer relationships	Total
Acquisition cost						
Balance at 1 January 2012	42,622	196,460	176,249	8,500	0	423,831
Additions	33,449	0	0	0	0	33,449
Currency translation adjustments	0	303	0	0	0	303
Disposals	(660)	0	0	0	0	(660)
Balance at 31 December 2012	75,411	196,763	176,249	8,500	0	456,923
Additions	8,189	0	0	0	0	8,189
Currency translation adjustments	0	(68)	0	0	0	(68)
Disposals	(93)	0	0	0	0	(93)
Balance at 31 December 2013	83,507	196,695	176,249	8,500	0	464,951
Amortisation						
Balance at 1 January 2012	27,823	0	0	0	0	27,823
Amortisation charge for the year	8,715	0	0	0	0	8,715
Disposals	(659)	0	0	0	0	(659)
Balance at 31 December 2012	35,879	0	0	0	0	35,879
Amortisation charge for the year	13,262	0	0	0	0	13,262
Disposals	(83)	0	0	0	0	(83)
Balance at 31 December 2013	49,058	0	0	0	0	49,058
Carrying amount						
At 1 January 2012	14,799	196,460	176,249	8,500	0	396,008
At 31 December 2012	39,532	196,763	176,249	8,500	0	421,044
At 31 December 2013	34,449	196,695	176,249	8,500	0	415,893

The Group performed an impairment test on landing rights, goodwill and trademarks in the fourth quarter of 2013 based on a variety of assumptions and concluded that as the estimated recoverable amount exceeds the carrying amounts, no impairment was required. The recoverable amount was determined for the cash-generating unit to which the landing rights, the goodwill and the trademarks belong.

The Group has determined three cash-generating units for purposes of the impairment test and allocated goodwill to these cash generating units as follows:

In thousands of Euro	Freight	Technical services	Flight services	Total
Goodwill	31,000	0	165,695	196,695
Landing rights	0	0	176,249	176,249
Trademarks	0	0	8,500	8,500

Flight services is the most significant cash-generating unit with significant intangibles allocated to it. For flight services, the future cash flows were estimated using the value-in use method based on the most recent five year cash flow plan approved by management, sensitised for the purposes of the Impairment test and extrapolated to perpetuity using a 0.5 % growth rate (2012: identical) and discounted to their present value. The pre-tax peer-group weighted average cost of capital was 9.39 % (2012: 9.01 %). The discount rate reflects management's estimate of the peer-group long-term cost of capital for the cash-generating unit. The underlying management cash flow forecast is most sensitive to the assumptions of seat load factor, yield, fuel price and USD exchange rate. The underlying sensitized cashflow forecasts are below the average market expectations published by third parties. Due to this year's operating loss the value-in-use valuation has been sense checked by also estimating the value of the Flight Services CGU using the valuation techniques allowed under fair value less costs to sell methodology. This estimate confirmed the reasonableness of the value-in-use valuation. The Group is therefore satisfied that the recoverable amount of the flight services CGU is greater than the carrying value of the related assets.

7. PROPERTY, PLANT AND EQUIPMENT

In thousands of Euro	Land and buildings	Aircraft and engines	Technical equipment and machinery	Office equipment	Total
Acquisition cost					
Balance at 1 January 2012	34,869	993,597	105,806	14,148	1,148,420
Additions	1,526	2,030	30,429	3,353	37,338
Disposals	(22,803)	(30,322)	(13,823)	(2,128)	(69,076)
Reclassification held for sale	0	(172,454)	0	0	(172,454)
Balance at 31 December 2012	13,592	792,851	122,412	15,373	944,228
Additions	585	1,197	43,997	4,306	50,085
Disposals	0	(202,378)	(8,184)	(3,681)	(214,243)
Reclassification held for sale	0	89,000	0	0	89,000
Balance at 31 December 2013	14,177	680,670	158,225	15,998	869,070
Depreciation					
Balance at 1 January 2012	16,172	273,885	32,360	7,088	329,505
Depreciation charge for the year	1,193	49,003	11,678	3,556	65,430
Disposals	(7,405)	(3,117)	(6,837)	(3,990)	(21,349)
Reclassification held for sale	0	(27,248)	0	0	(27,248)
Balance at 31 December 2012	9,960	292,523	37,201	6,654	346,338
Depreciation charge for the year	956	50,169	16,916	4,005	72,046
Disposals	0	(48,773)	(3,262)	(3,185)	(55,220)
Reclassification held for sale	0	8,061	0	0	8,061
Balance at 31 December 2013	10,916	301,980	50,855	7,474	371,225
Carrying amount					
At 1 January 2012	18,697	719,712	73,446	7,060	818,915
At 31 December 2012	3,632	500,328	85,211	8,719	597,890
At 31 December 2013	3,261	378,691	107,370	8,524	497,846

Aircraft are pledged as security in connection with the Group's interest-bearing liabilities due to aircraft financing. Capital commitments for property, plant and equipment amount to 3.4 bn USD (2012: 3.8 bn USD).

Tangible assets include aircraft 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	2013	2012
Land and buildings	0	0
Aircraft	38,755	40,481
Technical equipment and machinery	1,589	1,828
	40,344	42,669

Finance leases are explained in more detail in note 16.

Assets held for Sale

This position includes one aircraft, which is expected to be sold by airberlin. When publishing these financial statements the transactions was finally settled. The sale price of the aircraft held for sale exceeded its carrying amount.

Non-current liabilities due to aircraft financing relating to financing of the aircraft held for sale have been classified to current liabilities. These liabilities were be settled on disposal of the aircraft.

8. AT EQUITY INVESTMENTS

In thousands of Euro	2013	2012
Acquisition cost		
Balance at 1 January	4,847	184
Acquisition	1,819	20,186
Offset of unrealised profit on disposal of frequent flyer plan	0	(15,600)
Reclassification from other assets to at equity investments	(637)	534
Disposals	0	0
Share of profit	637	247
Dividends	0	(704)
Balance at 31 December	6,666	4,847

Offset of unrealized profit on disposal of frequent flyer plan in 2012 refers to the disposal of the frequent flyer plan and is explained in more detail in note 5 and 3d.

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

9. INVENTORIES

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

In thousands of Euro	2013	2012
Supplies and spares	52,237	48,733
Purchased merchandise	806	1,134
	53,043	49,867

Inventories are measured at the lower of cost and net realisable value. In 2013 the impairment of inventories was utilised by EUR 8,386 (2012: EUR 6,826). The amount of inventories expensed directly in the statement of comprehensive income is reported in note 22 (fuel for aircraft and catering cost).

10. TRADE AND OTHER RECEIVABLES

In thousands of Euro	2013			2012		
	Current	Non-current	Total	Current	Non-current	Total
Trade receivables	188,827	0	188,827	184,193	0	184,193
Receivables from related parties	14,702	2,364	17,066	21,564	1,607	23,171
Accrued receivables	259	0	259	2,721	0	2,721
Security deposits and deposits with suppliers	15,166	29,768	44,934	14,033	29,700	43,733
Receivables for bonus and claims	49,526	0	49,526	47,624	0	47,624
Other receivables	32,680	1,526	34,206	38,296	1,071	39,367
Loans and receivables	301,160	33,658	334,818	308,431	32,378	340,809
Receivables from tax authorities	11,084	0	11,084	10,723	0	10,723
Advanced payments	44,463	81,643	126,106	94,344	47,392	141,736
Other assets	49,320	0	49,320	38,238	0	38,238
	406,027	115,301	521,328	451,736	79,770	531,506

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

Other assets mainly include suppliers with debit balances (2013: EUR 8,051 and 2012: EUR 20,756).

Advanced payments relate primarily to advanced payments, deposits and commitment fees made under the Group's various agreements for the purchase of aircraft. Net payments of EUR 34,251 (2012: EUR 24,361) were made during the period and EUR 19,967 was capitalised (2012: EUR 41,156). The advanced payments are pledged as security in connection with the loan of the Etihad Airways PJSC (note 31).

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. DEFERRED EXPENSES

In thousands of Euro	2013			2012		
	Current	Non-current	Total	Current	Non-current	Total
Lease rate prepayments	17,402	15,029	32,431	18,527	683	19,210
Deferred losses from sale-and-leaseback transactions and smoothing of leasing rates	7,827	30,381	38,208	8,535	36,692	45,227
Other	21,391	10,334	31,725	19,509	10,222	29,731
	46,620	55,744	102,364	46,571	47,597	94,168

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

12. SHARE CAPITAL AND RESERVES

Share capital and share premium

Share capital of 116,800,508 ordinary shares of EUR 0.25 each and 50,000 A shares of € 1.00 each is issued and fully paid up. Included in this amount are 177,600 treasury shares held by airberlin (through the Air Berlin Employee Share Trust) in connection with an expired employee share plan. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the shareholders.

The A shares are redeemable at the option of airberlin only, and the holders of A shares shall not be entitled to any participation in the profits or assets of airberlin save on a distribution of assets of airberlin among its members on a winding up or other return of capital (other than a redemption or purchase by airberlin of its own shares), in which case the holders of A shares shall be entitled, in priority of any holder of ordinary shares, to receive an amount equal to the aggregate of the capital paid up or credited as paid up on each A share.

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

Other capital reserves

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

Treasury shares

In connection with an expired share-based payment scheme, the Company repurchased the beneficial interest (and limited all significant legal aspects of the ownership, such as voting rights) in 177,600 shares of its stock. The purchase price was EUR 0.25 per share (par value), resulting in a decrease in retained earnings of EUR 45.

Hedge accounting reserve

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

Foreign currency translation reserve

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

Dividends

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

13. EARNINGS PER SHARE

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

In thousands of Euro and thousands of shares, except EPS	2013	2012
Result for the period	(315,512)	6,813
Dividends declared on redeemable Class A preference shares	0	0
Result attributable to ordinary shareholders (basic and diluted)	(315,512)	6,813
Issued ordinary shares at 1 January	116,801	85,226
Issuance of shares	0	31,574
Effect of treasury shares held	(178)	(178)
Weighted average number of ordinary shares outstanding (basic)	116,623	114,552
Weighted average number of ordinary shares outstanding (diluted)	116,623	114,552
Basic earnings per share (in EUR)	(2.71)	0.06
Diluted earnings per share (in EUR)	(2.71)	0.06

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

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

14. PENSION LIABILITIES / EMPLOYEE BENEFITS

The Group held provisions for the following employee benefits at 31 December 2013:

In thousands of Euro	2013	2012
Provision for anniversary bonuses	2,075	8,514
Pension liabilities	2,421	1,239
Total employee benefits	4,496	9,753

The provision for anniversary bonuses is 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 AB Finance II GmbH (former: dba). Both pension plans are funded through payments to qualified insurance contracts.

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

In thousands of Euro	2013	2012
Present value of funded obligations	25,520	20,542
Fair value of plan assets	(26,555)	(23,318)
Funded status	(1,035)	(2,776)
Pension liabilities	2,420	1,239
Net defined benefit asset	(3,455)	(4,015)

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

In thousands of Euro	2013	2012
Defined benefit obligation at 1 January	20,542	16,437
Current service cost	1,941	692
Benefits paid	(578)	(334)
Interest on obligation	754	755
Actuarial losses	2,861	2,992
Defined benefit obligation at 31 December	25,520	20,542

Sensitivities of the defined benefit obligation are as follows:

In thousands of Euro	2013
Defined benefit obligation at 31 December	25,520
Defined benefit obligation at 0.5 percentage points lower interest rate	27,865
Defined benefit obligation at 0.5 percentage points higher interest rate	23,461

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

In thousands of Euro	2013	2012
Fair value of plan assets at 1 January	23,318	18,553
Contribution	3,211	4,122
Benefits paid	(556)	(334)
Expected return on plan assets	909	832
Actuarial losses	0	145
Actual loss on plan assets	(327)	0
Fair value of plan assets at 31 December	26,555	23,318

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

The amount recognised as pension expense in profit and loss and the other comprehensive income is as follows:

In thousands of Euro	2013	2012
Current service cost	1,941	692
Interest on obligation	754	755
Expected return on plan assets	(909)	(832)
Net actuarial losses recognised in the period	0	2,847
Pension expense recognized in profit and loss	1,786	3,462
Net actuarial losses recognised in the period	2,861	0
Actual loss on plan assets	327	0
Pension expense recognized in other comprehensive income	3,188	0

The Group expects to contribute EUR 3,190 to its defined benefit pension plans in 2014.

Principal actuarial assumptions at the reporting date are as follows:

in %	2012	2011
Discount rate at 31 December	2.77–3.22	3.57–3.93
Expected return on plan assets at 1 January	NA	4.00–4.30
Future salary increases	0.00–2.00	0.00–2.00
Cost of living adjustment (future pension increases)	1.00	1.00

Assumptions regarding future mortality are based on published statistics and mortality tables ("Richttafeln 2005 G" published by Heubeck-Richttafeln-GmbH). The average remaining life expectancy of an individual retiring at age 65 is 20 years for males and 25 years for females.

Defined contribution plans

Through the acquisition of AB Finance II GmbH (former: dba) in 2006, the Group acquired a defined contribution pension plan covering all employees of AB Finance II GmbH (former: dba), to which the Group makes contributions. Furthermore Air Berlin PLC & Co. Luftverkehrs KG contracted a defined contribution plan with its pilots and cabin crew. The net pension expense recorded in profit and loss in 2013 as a result of the defined contribution plans is EUR 9,382 (2012: EUR 11,705). As employees in Germany are covered by and required to contribute to the German social security system, airberlin does not have any other employee benefit plans at the end of the period. The Group paid contributions into the German social security system of EUR 28,719 in 2013 (2012: EUR 29,679).

15. PROVISIONS

In thousands of EUR	Balance at 1/1/2013	Additions	Utilisation	Compensation	Balance at 31/12/2013
Provision for legal dispute	9,003	11,554	0	0	20,557
Provision for onerous contract	2,500	0	1,724	0	776
Provision for financial guarantee	1,125	1,125	0	1,125	0
Provision for anniversary bonuses	8,514	271	(564)	(6,146)	2,075
Provision for redundancy costs	1,006	4,304	(1,006)	0	4,304
Provision for pensions	1,239	1,821	(406)	(233)	2,421
	23,387	19,075	(232)	(5,254)	30,133

Thereof EUR 4,356 relating to the provision for pensions and anniversary bonuses was classified as non-current as of 31 December 2013 (2012: EUR 9,153).

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

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

Older employees (age 55 and above) have the opportunity to take part in an old age part time programme. The programme is a form of early retirement in which the employee works full time during the first few years and not at all in the following years until reaching the official age of retirement. 41 (2012: 56) employees have signed such agreements as of the end of the period. A discount rate of 0.7 % (2012: 1.0 %) and an expected salary increase of 0.7 % (2012: 2.0 %) were used to calculate the provision. Uncertainties exist as to the life expectancy of the employees and as to the future salary at the time the contract takes effect. The provision of 2,581 was compensated by security funds of EUR 4,134 (2012: EUR 5,218).

The provision for anniversary bonuses was calculated using a discount rate of 0,7 % (2012: 2.6 %) and an expected yearly salary increase of 2.0 % (2012: 2.0 %). Uncertainties exist in the probability that the employees will remain with the Group until they are entitled to receive their anniversary bonus and as to their salaries at that time. In 2013 the Group renegotiated the anniversary bonus agreements. They agreed to limit the agreement to the next five years and to terminate the agreement afterwards. The provision was accounted for in accordance with IAS 19.

The provision for redundancy costs is related to redundancy payments in the ordinary course of business.

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

This note provides information about the terms and conditions of the Group's interest-bearing loans and borrowings, all of which are measured at amortised cost. More information about the Group's exposure to interest rate, foreign currency and liquidity risk is provided in note 30.

Interest-bearing liabilities

The Group has entered into various interest-bearing liabilities. The carrying amounts for the years 2013 and 2012 are as follows:

In thousands of EUR	Secured/ unsecured	Currency	Maturity	Carrying amount 31/12/2013	Carrying amount 31/12/2012
Corporate bonds I	Unsecured	EUR	2015	199,301	198,038
Corporate bonds II	Unsecured	EUR	2018	149,237	148,494
Corporate bonds III	Unsecured	EUR	2014	150,886	148,546
Convertible bonds I	Unsecured	EUR	2017*	4,852	4,852
Convertible bonds III	Unsecured	EUR	2019*	145,374	0
Finance lease liabilities	Secured	EUR	2014–2022	899	1,251
Loans from related parties	Secured	USD	2015–2016	98,699	155,696
Loans	Unsecured	USD	2014–2015	14,502	15,158
Bank overdrafts	Unsecured	EUR		57	115
				763,807	672,150

* first option to redeem the bonds

Of this amount EUR 158,542 (2012: EUR 51,084) is classified within current liabilities in the statement of financial position. The bank overdrafts are due in the following year respectively. The finance lease liabilities are detailed in note 17.

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

In thousands of EUR	2013	2012
Less than one year	158,542	51,084
Between one and five years	460,318	475,013
More than five years	144,947	146,053
	763,807	672,150

CORPORATE BONDS I

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

CORPORATE BONDS II

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

CORPORATE BONDS III

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

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

CONVERTIBLE BONDS I

On 11 April 2007 the Group issued EUR 220,000 of convertible bonds due 2027. The bond issue is made up of 2,200 bonds with a principal amount of EUR 100 each, earning yearly interest of 1.5 %. The initial conversion price is EUR 22.47 which results in an initial conversion ratio of 4,450 ordinary shares per bond. Gross proceeds from the bond issue amounted to EUR 220,000. Transaction costs incurred were EUR 6,391.

The convertible bond was split into its equity and debt components in accordance with IAS 32. The equity component, less transaction costs net of tax, is shown as a separate line item in equity.

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

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

The equity component in the statement of financial position totalled EUR 597 (2012: EUR 597).

The bonds are convertible into 4,450 ordinary shares per bond at the option of the bondholder at any time beginning 40 days following closing and ending 14 days before maturity (21 May 2007 to 25 March 2027). In addition, the bondholder has the option to require the Company to repurchase the bonds at principal amount plus accrued interest on 11 April 2012, 11 April 2017, and 11 April 2022 or upon change in control. The Company has the option to redeem the bonds in whole at their principal amount plus accrued interest at any time as of 30 April 2014, so long as the trading price of the airberlin share exceeds 150 % of the conversion price.

CONVERTIBLE BONDS III

On 6 March 2013 the Group issued € 140,000 convertible bond due in 6 years. The bond issue is made up of 1,400 bonds with a principal amount of € 100 each, earning yearly interest of 6.0 %. The initial conversion price is € 2.82 which results in an initial conversion ratio of 35,460 ordinary shares per bond. Proceeds from the bond issue amount to € 140,000. Transactions costs incurred were € 3,263.

The convertible bond was recognized as a full in debt in accordance with IAS 32. The debt component of the convertible bond is split into an embedded derivative and a host contract. Both are included under interest bearing liabilities in the statement of financial position as follows:

In thousands of EUR	31/12/2013
Proceeds from issue of convertible bonds	140,000
Transaction costs	(3,263)
Net proceeds	136,737
Accrued interest	1,697
Fair valuation on the embedded derivative	6,940
Carrying amount on 31 December 2013	145,374
thereof the host contract	129,474
thereof the embedded derivative	15,900

LOANS FROM RELATED PARTIES

Loans from related parties are disclosed in note 31.

Interest-bearing liabilities due to aircraft financing

The Group entered into various financing agreements with commercial banks to finance aircraft. The loans are secured over aircraft. The carrying amounts for the years 2013 and 2012 are as follows:

In thousands of EUR	Secured/ unsecured	Currency	Maturity	Carrying amount 31/12/2013	Carrying amount 31/12/2012
Interest rate					
Variable rate	Secured	EUR	2014–2023	61,480	68,219
Variable rate	Secured	USD	2014–2020	101,986	239,550
Fixed rate	Secured	EUR	2014–2015	19,236	21,889
Fixed rate	Secured	USD	2014–2023	43,303	64,286
Finance lease liabilities	Secured	USD	2014–2018	29,249	32,046
				255,254	425,990

Of this amount EUR 76,863 (2012: EUR 158,946) is classified within current liabilities in the statement of financial position. The finance lease liabilities are detailed in note 17.

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

In thousands of EUR	2013	2012
Less than one year	76,863	158,946
Between one and five years	125,619	138,474
More than five years	52,772	128,570
	255,254	425,990

17. LEASING

Operating leases

The Group leases various aircraft, engines, some warehouse and office facilities and other assets under leasing agreements which qualify as operating lease agreements. The leases typically run for a period of up to 11 years and terminate automatically upon expiry of the lease term. The leases expire between 2014 and 2025, with an option to renew the leases after these dates. No restrictions have been placed on the lessee as a result of these leases.

Non-cancellable operating lease rentals are payable as follows:

In thousands of EUR	2013	2012
Less than one year	451,596	522,321
Between one and five years	1,536,860	1,570,827
More than five years	828,259	790,115
	2,816,715	2,883,262

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

During the year ended 31 December 2013, EUR 489,238 (2012: EUR 505,852) was recognised as an expense in the statement of comprehensive income in respect of operating leases.

The Group also leases assets as lessor under agreements which qualify as operating leases. The contracts expire in 2014-2017.

Future minimum lease payments are receivable as follows:

In thousands of EUR	2013	2012
Less than one year	17,913	24,984
Between one and five years	47,945	53,158
More than five years	0	0
	65,858	78,142

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 2018.

The Group also leases two aircraft under agreements which qualify as finance leases. The lease agreements are for terms of eleven years, the latest of which expires in 2018. The agreements contain various put and call options relating to the right of the lessee to purchase the aircraft or the right of the lessor to require the lessee to purchase the aircraft on certain dates at prices and conditions set out in the agreements. In addition, the lessor has the right to require the lessee to name a purchaser at the end of the lease term for a fixed price (guaranteed residual value). Lease payments are in USD and vary based on changes in the interest rate component of the lease. The present value of future minimum lease payments was therefore determined by using the expected lease payments based on the preliminary interest rate stated in the lease.

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

The net book value of assets capitalised at 31 December 2013 as a result of finance leases is detailed in note 7.

No contingent leasing payments were recorded in profit and loss in 2013 (2012: EUR 0).

Future minimum lease payments are as follows:

In thousands of EUR	At 31 December 2013		At 31 December 2012	
	Future minimum lease payments	Discounted to present value	Future minimum lease payments	Discounted to present value
Less than one year	3,300	3,198	3,158	3,097
Between one and five years	34,000	26,051	31,747	26,424
More than five years	0	0	0	0
	37,300	29,249	34,905	29,521

18. TRADE AND OTHER PAYABLES

In thousands of EUR	2013			2012		
	Current	Non-current	Total	Current	Non-current	Total
Trade payables	113,005	0	113,005	94,391	0	94,391
Other financial liabilities	3,419	0	3,419	5,469	0	5,469
Trade payables and other financial liabilities	116,424	0	116,424	99,860	0	99,860
Accrued liabilities	308,897	72,405	381,302	312,320	70,357	382,677
Receivables with credit balances	2,668	0	2,668	776	0	776
Payroll tax	6,672	0	6,672	6,270	0	6,270
VAT	1,321	0	1,321	4,131	0	4,131
Social insurance contributions	1,107	0	1,107	1,046	0	1,046
Other non-financial liabilities	3,881	0	3,881	2,375	0	2,375
	440,970	72,405	513,375	426,778	70,357	497,135

Accrued liabilities include expenses for services provided and goods received before the end of the period but not yet invoiced, credit notes and commissions to travel agencies in connection with the sale of tickets, accrued vacation and payroll and accruals for aircraft and engine maintenance checks and overhauls.

Information about the Group's exposure to foreign currency and liquidity risk related to trade payables and other financial liabilities is provided in note 30.

19. ADVANCED PAYMENTS RECEIVED

Advanced payments primarily relate to payments received in advance for single-seat ticket sales for which the scheduled flight is to be provided in the following financial period and for which no revenue has been recorded.

20. REVENUE

In thousands of EUR	2013	2012
Flight revenue	3,815,537	4,006,684
Ground and other services	305,758	272,975
Duty-free/in-flight sales	25,499	32,017
	4,146,794	4,311,676

Ground and other services primarily include freight, technical services and ancillary sales. See note 5 for the impact of the topbonus transaction 2012.

Segment information

The Group is managed by the Board of Directors as a single business unit in one geographical area and performing one service. The key figures and ratios presented to the Board of Directors in managing the Group are: Result from operating activities, EBITDAR, net debt, revenues, passengers, yield and block hours. 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. The vast majority of revenues derive from the principal activity as an airline and include flights, commissions, in-flight and related sales that are generated in Europe. Since airberlin's aircraft fleet is employed across its scheduled destinations on an as needed basis all assets and liabilities are allocated to the one segment. The Board has also determined that there is no reasonable basis of allocating assets and related liabilities, income and expenses to geographical areas other than Europe or to individual groups of customers.

21. OTHER OPERATING INCOME

In thousands of EUR	2013	2012
Gain on disposal frequent flyer plan, net (see note 5)	0	184,400
Income from indemnities received	34,404	33,200
Gain on disposal of long-term assets, net	11,289	33,076
Income from subleases	4,022	2,809
Income from insurance claims	852	1,582
Other	9,186	9,125
	59,753	264,192

In 2012 gain on disposal of long-term assets included gains on a reclassification of a finance lease to operate lease of EUR 24,022. This reclassification related to an airport building.

Indemnity income in 2012 included the settlement of nominal EUR 30,316 with a maturity up to 8 years which has been sold to Etihad Airways PJSC for a present value of EUR 25,769. This amount has been settled in full by Etihad Airways PJSC (note 32).

22. EXPENSES FOR MATERIALS AND SERVICES

In thousands of EUR	2013	2012
Fuel for aircraft	1,067,154	1,128,625
Airport and handling charges	835,591	864,547
Operating leases for aircraft and equipment	579,342	592,164
Navigation charges	257,755	260,650
Air transportation tax	142,873	154,727
Catering costs and cost of materials for in-flight sales	129,194	128,830
Other	162,595	159,220
	3,174,504	3,288,763

The expenses for operating leases for aircraft and equipment include expenses of EUR 125,517 (2012: EUR 120,636) that do not directly relate to the lease of assets.

The expenses from material and services have been reduced by EUR 24,000 (2012: EUR: 31,833) received from Etihad Airways PJSC for airberlin's share of the joint procurement program (note 31).

23. PERSONNEL EXPENSES AND STAFF NUMBERS

The aggregate payroll costs were as follows:

In thousands of EUR	2013	2012
Wages and salaries	406,556	402,823
Pension expense	39,921	43,638
Social security	41,687	42,300
	488,164	488,761

Pension expense relates to the defined benefit plan for the Executive Directors and senior management of EUR 1,721 (2012: EUR 2,074) and the AB Finance II GmbH (former: dba) pension plan of EUR 39 (2012: EUR 168), contributions paid to defined contribution plans of EUR 3,212 (2012: EUR 11,705) and to social security systems of EUR 28,719 (2012: EUR 29,691) during the period. Further details regarding the pension plans are found in note 14.

Remuneration of the Executive Directors is as follows:

In thousands of EUR	2013	2012
Basic remuneration	708	2,125
Bonus	62	924
Other	20	121
	790	3,170

The highest paid Director received EUR 790 in total remuneration in 2013 (2012: EUR 1,009). Directors' Remuneration is detailed in the Directors' Remuneration Report on pages 89 to 108.

Since October 2012 the operative management of the company is entrusted to a newly established body, the Management Board. The total remuneration for the management board in the reporting period was EUR 3,282 (2012: 848), thereof EUR 389 (2012: 0 EUR) as pension claims.

The average number of persons employed by the Group (including Directors) during the year and the number of employees at year-end, analysed by category and on a full-time basis, were as follows:

Employees	On annual average 2013	On annual average 2012	At 31 December 2013	At 31 December 2012
Flight and cabin crew	4,700	4,852	4,705	4,793
Sales, operations and administration	4,291	4,463	4,200	4,491
	8,991	9,315	8,905	9,284

24. OTHER OPERATING EXPENSES

In thousands of EUR	2013	2012
Repairs and maintenance of technical equipment	242,150	215,771
Sales and distribution expenses (incl. commissions)	123,210	109,159
Advertising	48,893	59,423
Expenses for premises and vehicles	45,685	41,221
Travel expenses for cabin crews	30,253	33,561
Bank charges	26,307	30,168
Consulting fees	34,481	27,466
Insurance	18,506	18,300
Training and other personnel expenses	16,253	16,478
IT related expenses	14,919	20,056
Phone and postage	5,116	5,991
Allowances for receivables	4,738	2,822
Remuneration of the auditor	1,540	2,752
Other	78,518	70,878
	690,569	654,046

Remuneration of the auditor is as follows:

In thousands of EUR	2013	2012
Audit of the annual accounts	144	184
Audit of accounts of subsidiaries of the Company	917	1,245
Audit related services	371	232
Other services pursuant to legislation	0	20
Taxation services	15	42
Other services	93	1,029
	1,540	2,752

25. NET FINANCING COSTS

In thousands of EUR	2013	2012
Interest expense on interest-bearing liabilities	(79,960)	(76,352)
Expense on valuation of liability from embedded derivative at fair value	(6,940)	0
Other financial expenses	(999)	(865)
Financial expenses	(87,899)	(77,217)
Interest income on fixed deposits	160	377
Interest income on loans and receivables	34	167
Other financial income	6,931	524
Financial income	7,125	1,068
Profit on foreign exchange and derivatives, net	6,786	2,575
Net financing costs	(73,988)	(73,574)

As described in note 4n, exchange rate differences not arising from interest-bearing liabilities and other financing activities are reclassified to the relevant line items within operating expenses.

Total net foreign exchange gains (losses) are reconciled to foreign exchange gains or (losses) in profit or loss as follows:

In thousands of EUR	2013	2012
Total net foreign exchange gains (losses) recognised in profit or loss	(15,843)	66,619
Thereof reclassified to operating expenses/income	25,802	(63,352)
Foreign exchange gains in financial result	9,959	3,267

26. SHARE OF PROFIT OF AT EQUITY INVESTMENTS

In thousands of EUR	2013	2012
E190 Flugzeugvermietung GmbH	0	0
Follow Me Entertainment GmbH	0	24
Binoli GmbH	0	782
THBG BBI GmbH	637	(559)
Flughafen Düsseldorf Tanklager GmbH	0	0
	637	247

27. INCOME TAX EXPENSES AND DEFERRED TAXES

Loss before tax is primarily attributable to Germany and Austria.

Income tax benefit is as follows:

In thousands of EUR	2013	2012
Current income tax expense	(693)	(3,957)
Deferred income tax expense (2012: benefit)	(9,587)	13,944
Total income tax expense (2012: benefit)	(10,280)	9,987

The current income tax expense of the airberlin group includes corporate tax, a solidarity charge in addition to corporate tax, trade tax and foreign income taxes. The current income tax expense of EUR 693 (2012: EUR 3,957) includes EUR 2,289 of prior year income tax benefits (2012: expenses of EUR 110,0).

The tax rate for the airberlin group equals 30.18 % (2012: 30.18 %). It consists of corporate tax rate and solidarity charge of 15.83 % and trade tax of 14.35 %. The calculation of the trade tax rate includes the effect of the different trade tax rates depending on the municipality in which the Company operates.

As a result of variations in the tax rate in different jurisdictions, several subsidiaries have tax rates which differ from the airberlin group tax rate. The difference to the Group tax rate is shown as "effect of tax rates in different jurisdictions" in the tax rate reconciliation in the amount of EUR 7,651 (2012: EUR 4,556).

Subsequent to the restatement of the Group's deferred tax position as at 31 December 2011, deferred tax assets on tax losses has been recognised only to a significant restricted level as at 31 December 2012. Notwithstanding the Group's recent history of losses there have been several positive factors which have contributed to achieving appropriate convincing evidence for recognising certain amounts of deferred tax assets on tax losses as at 31 December 2012. These factors have in particular been:

- ▶ The impact of the restructuring program "Turbine 2013"
- ▶ The increasing positive contribution from airberlin's partnership with Etihad Airways PJSC
- ▶ The potential to restructure airberlin's tax strategy and thereby utilise tax losses

As at 31 December 2013, it is still the management's view that certain tax losses can be utilised by either future profits or using adequate tax structuring strategies. The aforementioned positive factors will have a positive impact on the group's profits in 2014 too. Nevertheless, deferred tax assets on tax losses were also as at 31 December 2013 only recognised up to a very restricted level.

Deferred tax assets on tax losses have mainly been recognised for setting off against deferred tax liabilities.

The reasons for the differences between the tax benefit expected on the basis of loss for the period and the recognised income tax benefits are as follows:

In thousands of EUR	2013	2012
Loss before tax	(305,232)	(3,175)
Expected income tax benefit at 30.18 % (2011: 30.18 %)	92,119	958
Effect of tax rates in different jurisdictions	7,651	4,556
Movement in deferred tax assets on tax loss carry forwards	(57,296)	(21,879)
Tax-free income and non-tax deductible expenses	(28,494)	(16,953)
Adjustment to tax audits	(27,563)	0
Deferred tax benefit due to prior years	2,289	0
Current tax expenses for previous years	0	(110)
Other	1,014	(343)
Total income tax (expense) benefit	(10,280)	9,987

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

As of 31 December 2013, total tax loss carry forwards for which deferred tax assets were recognised amounted to EUR 271,996 for trade tax purposes and EUR 345,859 for corporate tax purposes (2012: EUR 198,753 and EUR 221,559 respectively). Thereof EUR 271,996 (2012: EUR 103,753) for trade tax purposes and EUR 251,702 (2012: EUR 129,559) for corporate tax purposes have been recognized to offset deferred tax liabilities. Tax loss carry forwards amounting to EUR 94,787 are forecasted to be recovered through future taxable profits or by using adequate tax structuring strategies (2012 EUR 95,000 were forecasted to be recovered through future taxable profits). As of 31 December 2013, additional deferred tax assets have not been recognised for further loss carry forwards of EUR 679,007 for trade tax and EUR 631,341 for corporate tax (2012: EUR 456,966 and EUR 462,654). The tax loss carry forwards are not subject to expiration.

Taking into account the results of a tax audit, amended tax computations have resulted in a significant decrease in the deferred tax assets on the position "Accrued liabilities and provisions".

Deferred tax assets and liabilities are attributable to the following assets and liabilities:

In thousands of EUR	2013	2012
Deferred tax assets:		
Foreign currency receivables and derivatives	6,474	9,418
Intangible assets	1,099	1,221
Technical equipment	383	266
Accrued liabilities and provisions	3,581	38,977
Tax loss carry forwards	86,160	55,957
	97,697	105,839
Deferred tax liabilities:		
Finance lease liabilities and deferred income	(3,487)	(3,224)
Aircraft and related liabilities	(43,385)	(44,468)
Intangible assets	(49,791)	(45,378)
Leasehold improvements	(56)	(67)
Accrued liabilities and provisions	(9,079)	(8,365)
Convertible bonds, corporate bonds	(1,786)	(3,949)
Foreign currency liabilities and derivatives	(2,757)	(2,508)
	(110,341)	(107,959)
Offsetting	97,697	105,839
Deferred tax assets (liabilities), net	(12,644)	(2,120)
Deferred tax assets (liabilities), net beginning of period	(2,120)	(39,700)
Change in deferred tax position	(10,524)	(37,580)
Thereof related to cash flow hedges and items recorded in equity	937	(23,636)
Deferred income tax benefit	(9,587)	13,944

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

In thousands of EUR	2013	2012
Deferred tax asset	17,063	28,666
Deferred tax liabilities	(29,707)	(30,786)
	(12,644)	(2,120)

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

Income tax recognised in equity

	2013			2012		
	Before tax	Tax benefit	Net of tax	Before tax	Tax benefit	Net of tax
Transaction costs on issuance of new shares	0	0	0	(5,546)	1,665	(3,881)
	0	0	0	(5,546)	1,665	(3,881)

Income tax recognised in the statement of other comprehensive income

In thousands of EUR	2013			2012		
	Before tax	Tax expense	Net of tax	Before tax	Tax expense	Net of tax
Foreign currency translation differences for foreign operations	(237)	0	(237)	490	0	490
Fair value of hedging instruments	3,635	(937)	2,698	(73,335)	21,969	(51,364)
	3,398	(937)	2,461	(72,798)	21,969	(50,874)

28. CASH FLOW STATEMENT

The cash flow statement of the airberlin group is presented according to the indirect method. Cash and cash equivalents include cash, bank balances and fixed-term deposits with banks with a maturity of less than three months.

In thousands of EUR	2013	2012
Cash	148	209
Bank balances	117,274	145,540
Fixed-term deposits	105,641	182,187
Cash and cash equivalents	223,063	327,936
Bank overdrafts used for cash management purposes	(57)	(115)
Cash and cash equivalents in the statement of cash flows	223,007	327,821

Cash and cash equivalents include restricted cash of EUR 105,131 as of 31 December 2013 (2012: EUR 104,034).

29. DERIVATIVES

Positive and negative market values of derivatives are as follows:

In thousands of EUR	2013			2012		
	Current	Non-current	Total	Current	Non-current	Total
Derivatives classified as hedge accounting:						
Positive market values	14,350	0	14,350	10,830	0	10,830
Negative market values	(23,013)	0	(23,013)	(29,859)	0	(29,859)
	(8,663)	0	(8,663)	(19,029)	0	(19,029)
related underlying:						
Fuel price	13,252	0	13,252	2,741	0	2,741
Foreign exchange rate	(21,915)	0	(21,915)	(21,772)	0	(21,772)
	(8,663)	0	(8,663)	(19,029)	0	(19,029)
Derivatives classified as held for trading:						
Positive market values	0	105	105	1,637	0	1,637
Negative market values	(85)	(577)	(662)	(8,743)	(531)	(9,274)
	(85)	(472)	(557)	(7,106)	(531)	(7,637)
related underlying:						
Fuel price	(37)	0	(37)	0	0	(0)
Foreign exchange rate	(48)	0	(48)	(1,629)	(531)	(2,160)
Interest rate	(0)	(472)	(472)	(5,477)	0	(5,477)
	(85)	(472)	(557)	(7,106)	(531)	(7,637)

Hedge accounting

As an airline, the airberlin group is exposed to currency, interest rate and fuel price risks as well as credit and liquidity risks. airberlin uses derivatives to limit these risks.

airberlin applies cashflow hedge accounting for its hedges of future foreign currency denominated cash flows and its hedges of future cash flows related to the purchase of jet fuel that satisfy the criteria under IAS 39, thus reducing income statement volatility.

IAS 39 sets out strict requirements on the use of hedge accounting. airberlin fulfils those requirements by documenting, at the inception of a hedge, both the relationship between the derivative used as the hedging instrument and the hedged item, as well as the aim and strategy of the hedge. This includes assigning the hedging instruments to the corresponding firm commitments and future transactions and also estimating the degree of effectiveness of the hedging instruments employed. The effectiveness of existing hedge accounting is monitored on an ongoing basis. For hedge accounting, the change in the fair value of the hedging instrument is deferred in equity to the extent the hedge is effective. Accumulated fair value changes from qualifying hedges are removed from equity to profit or loss in the period when the hedged cash flow affects profit or loss.

airberlin also uses hedges that do not satisfy the strict hedge accounting criteria of IAS 39. For such derivatives airberlin recognises the changes in fair value in profit or loss. The fair values of derivatives are presented in a separate line in the statement of financial position.

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

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.

Master netting or similar agreements

The Group enters into derivative transactions under master netting agreements. In general, under such agreements the amounts owed by each counterparty on a single day in respect of all transactions outstanding in the same currency are aggregated into a single net amount that is payable by one party to the other. In certain circumstances – e.g. when a credit event such as default occurs, all outstanding transactions under the agreement are terminated, the termination value is assessed and only a single net amount is payable in settlement of all transactions.

These agreements do not meet the criteria for offsetting in the statement of financial position. This is because the Group does not have any currently legally enforceable right to offset recognised amounts, because the right to offset is enforceable only on the occurrence of future events such as default on the bank loans or other credit events.

The following table sets out the carrying amounts of recognised financial instruments that are subject to the above agreements as at 31 December 2013:

Description	Gross amounts of recognised financial assets/liabilities	Gross amounts of recognised financial instruments offset in the statement of financial position	Net amounts of financial instruments in the statement of financial position	Related financial instruments that are not offset	Cash collateral received/pledged	Net amount
Derivatives with positive market value	20,490	(6,035)	14,455	(10,331)	0	4,124
Derivatives with negative market value	(29,710)	6,035	(23,675)	10,331	0	(13,345)

The following table sets out the carrying amounts of recognised financial instruments that are subject to the above agreements as at 31 December 2012:

Description	Gross amounts of recognised financial assets/liabilities	Gross amounts of recognised financial instruments offset in the statement of financial position	Net amounts of financial instruments in the statement of financial position	Related financial instruments that are not offset	Cash collateral received/pledged	Net amount
Derivatives with positive market value	20,230	(7,763)	12,467	(9,315)	0	3,152
Derivatives with negative market value	(46,895)	7,763	(39,132)	9,315	0	(29,817)

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 EUR	Note	2013	2012
Loans and receivables	10	334,818	340,809
Positive market values of derivatives classified as held for trading	29	105	1,637
Positive market values of derivatives classified as hedge accounting	29	14,350	10,829
Cash and cash equivalents	28	223,063	327,936
		572,336	681,211

b) Impairment losses**— TRADE RECEIVABLES**

The aging of trade receivables at the reporting date was:

In thousands of EUR	2013		2012	
	Gross	Impairment	Gross	Impairment
Not past due	170,391	0	135,067	0
Past due 1–30 days	2,671	32	22,979	309
Past due 31–120 days	2,446	15	17,616	1,262
Past due 121–365 days	2,533	906	3,404	387
More than one year past due	23,350	11,611	19,192	12,101
	201,391	12,564	198,259	14,058

Trade receivables are analysed for a possible impairment loss according to historical data on impairment losses as discussed below. Receivables which are neither past due nor impaired are generally considered to contain only a small risk of impairment based on past experience. The consideration is the same for receivables that are 1 – 30 days overdue.

The movement in the impairment allowance is as follows:

In thousands of EUR	2013	2012
Balance at 1 January	14,058	14,423
Increase in allowance for impairment losses	1,017	4,651
Release of allowance for impairment losses	(2,511)	(5,016)
Balance at 31 December	12,564	14,058

The allowance for impairment losses is used to record impairment losses until the Group determines that the financial asset should be derecognised.

The allowance for impairment losses is based on estimates and judgements regarding the creditworthiness of individual receivables, the actual customer structure and an analysis of historical impairment losses. A company-wide credit control process is implemented. Once the third notice is issued along with a court order, an allowance for impairment losses of 60 % is recorded on the receivable. This percentage represents the probability of impairment loss based on past experience. At the balance sheet date the allowance for impairment losses is EUR 12,564 (2012: EUR 14,058).

— OTHER LOANS AND RECEIVABLES

None of the other loans and receivables were past due as of 31 December 2013 (2012: 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 (2012: EUR none).

These receivables relate primarily to amounts due from suppliers (deposits, bonus and claims). The Group only enters into contracts with suppliers of high quality and as such does not consider there to be a significant impairment risk relating to these amounts.

Receivables from related parties relate primarily to receivables related to the joint procurement program with Etihad Airways PJSC and clearing accounts from E190 Flugzeugvermietung GmbH. As the receivables are not overdue and payments have been made on time in the past, the Group does not consider an impairment loss to be necessary.

— CASH AND CASH EQUIVALENTS AND POSITIVE MARKET VALUES OF DERIVATIVES

No impairment has been recorded on bank balances or positive market values of derivatives, as the transactions are only made with parties of the highest credit rating or, in the case of derivative financial instruments, with parties that are known to be reliable based on past experience (past customer behaviour regarding timely payments of amounts due). The Group considers its net position in determining its impairment risk on bank balances and positive market values of derivatives.

c) Liquidity risk

The following are the contractual undiscounted maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements as at 31 December 2013:

In thousands of EUR	Note	Contractual cash flows	12 months	1 – 5 years	More than 5 years
Non-derivative financial liabilities					
Interest-bearing liabilities due to aircraft financing	16	(278,708)	(81,915)	(140,719)	(56,073)
Interest bearing liabilities	16	(923,558)	(219,562)	(557,202)	(146,794)
Trade payables and other financial liabilities	18	(116,424)	(116,424)	0	0
Total non-derivative financial liabilities		(1,318,690)	(417,901)	(697,921)	(202,867)
Derivatives					
Derivatives with positive market values	29				
Outflow		(120,122)	(120,122)	0	0
Inflow		130,202	130,202	0	0
Derivatives with negative market values	29				
Outflow		(668,638)	(668,439)	(199)	0
Inflow		649,336	649,336	0	0
Total derivatives		(9,222)	(9,023)	(199)	0

For 31 December 2012, the maturities were as follows:

In thousands of EUR	Note	Contractual cash flows	12 months	1 – 5 years	More than 5 years
Non-derivative financial liabilities					
Interest-bearing liabilities due to aircraft financing	16	(458,149)	(160,308)	(188,723)	(109,118)
Interest bearing liabilities	16	(833,906)	(99,810)	(577,925)	(156,171)
Trade payables and other financial liabilities	18	(99,860)	(99,860)	0	0
Total non-derivative financial liabilities		(1,391,915)	(359,978)	(766,648)	(265,289)
Derivatives					
Derivatives with positive market values	29				
Outflow		(218,668)	(218,668)	0	0
Inflow		229,794	229,794	0	0
Derivatives with negative market values	29				
Outflow		(703,474)	(702,663)	(811)	0
Inflow		671,888	671,888	0	0
Total derivatives		(20,460)	(19,649)	(811)	0

The amounts disclosed in the maturity analysis are the contractual undiscounted cash flows, including future interest payments. Amounts in USD are translated at the relevant year-end exchange rate, and variable interest payments are calculated using the year-end basis rates.

The Group intends to meet its obligations primarily through cash balances held and cash inflows from operations and in the case of purchases of new aircraft (not included above) through future borrowings which are already in place for aircraft deliveries in 2014 and early 2015.

d) Currency risk

The Group has significant transactions in USD as well as smaller transactions in GBP and CHF. airberlin enters into USD currency forwards and options in order to manage functional currency risk which arises on operating costs (e.g. payments regarding aircraft financing and leasing, fuel, maintenance etc.) denominated in USD. The Group applies cashflow hedge accounting for most foreign exchange derivatives. airberlin generally hedges at least 75 % of the expected cash flow on a 1–3 month revolving basis and at least 35 % of the expected cash flow on a 4–12 month revolving basis (2012: identical).

The Group's exposure to foreign currency risk was as follows based on the currency values at end of year:

In thousands of currency units	2013			2012		
	USD	GBP	CHF	USD	GBP	CHF
Loans and receivables	77,121	748	418	73,159	142	335
Cash and cash equivalents	66,090	391	12,125	80,230	1,177	17,929
Interest-bearing liabilities due to aircraft financing	(240,706)	0	0	(443,161)	0	0
Interest-bearing liabilities	(156,116)	0	0	(221,000)	0	0
Trade payables and other financial liabilities	(101,857)	(675)	(3,066)	(72,351)	(1,697)	(693)
Total exposure of balance positions	(355,467)	464	9,477	(583,123)	(378)	17,571
Estimated forecast purchases	(2,128,673)	19,854	(44,409)	(2,056,673)	0	(62,298)
Gross exposure	(2,484,140)	20,319	(34,932)	(2,639,796)	0	(54,334)
Hedged volume	1,463,000	0	13,400	1,266,587	0	0
Net exposure	(1,021,140)	20,319	(21,532)	(1,373,209)	(139)	(54,334)

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 following significant exchange rates applied during the year:

Currency units to the EUR	Average rate		Reporting date spot rate	
	2013	2012	2013	2012
USD	1.3281	1.2848	1.3791	1.3194
GBP	0.8493	0.8109	0.8337	0.8161
CHF	1.2311	1.2053	1.2276	1.2072

— SENSITIVITY ANALYSIS

A sensitivity analysis was performed on the year-end balances of foreign currency financial assets and liabilities and the fair values of derivative financial instruments existing at year-end. The assumptions used in the calculation of currency risk were the same as those used in the prior year. Due to options used for hedging purposes the sensitivity is not a linear function of the underlying foreign exchange rates. Assuming that all other variables, in particular interest rates, remain constant, a 10 per cent strengthening of the Euro against the following currencies at 31 December would have increased/(decreased) equity and profit or loss by the following amounts:

Currency units to the EUR	2013			2012		
	USD	GBP	CHF	USD	GBP	CHF
Profit or loss	22,715	(51)	(1,694)	31,683	42	(1,780)
Equity	(82,424)	0	0	(95,270)	0	0

A 10 per cent weakening of the Euro against the above mentioned currencies at 31 December would have increased/(decreased) equity and profit or loss by the following amounts:

Currency units to the EUR	2013			2012		
	USD	GBP	CHF	USD	GBP	CHF
Profit or loss	(26,867)	62	2,071	(53,345)	(51)	1,059
Equity	96,605	0	0	63,685	0	0

e) Interest rate risk

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

In thousands of EUR	Carrying amount	
	2013	2012
Fixed rate instruments		
Financial assets	2,364	1,607
Financial liabilities	(832,925)	(788,456)
Interest rate instruments	(472)	(5,477)
	(831,032)	(792,326)
Variable rate instruments		
Financial liabilities	(192,772)	(309,684)
	(192,772)	(309,684)

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

In thousands of EUR		
	2013	2012
Variable rate financial liabilities net of nominal value of interest rate instruments	(62,687)	(251,451)
	(62,687)	(251,451)

The variable rate interest-bearing liabilities and interest-bearing liabilities due to aircraft financing, which are generally -denominated in USD, expose the Group to variability in interest payments due to changes in interest rates as well as to a foreign currency risk. The interest risk results from the sensitivity of financial assets and financial liabilities with variable interest rates to changes in the market interest rate.

— **FAIR VALUE SENSITIVITY ANALYSIS**

The Group does not account for any fixed rate financial instruments at fair value through profit or loss, and the Group does not designate any of its interest rate derivatives as fair value hedge accounting instruments. Due to the use of options for hedging purposes the sensitivity is not a linear function of the interest rate. A change of +/- 100 basis points in interest rates would have increased or decreased equity by EUR 0 (2012: EUR 0) and increased profit or loss by EUR 952 (2012: EUR 5,187) respectively decreased by EUR 1,468 (2012: 5,534) based on a one year impact.

— **CASH FLOW SENSITIVITY ANALYSIS**

Assuming that all other variables, in particular foreign currency rates, remain constant, a change of 100 basis points in interest rates would have increased or decreased profit or loss (financial result) by EUR 627 (2012: EUR 2,515) 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 derivatives.

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 24.0 % (2012: 25.0 %) of the Group's entire operating expenses. airberlin uses commodity swaps as well as commodity options to hedge the exposure to fuel price increases. airberlin applies cashflow hedge accounting for most of its commodity derivatives. At the end of the period 2013, the hedged volume was 645,500 tons for the 2014 financial year (2012: 547,000 tons for 2013). The hedging quota was 48.3 % for 2014 (in the prior year: 42.3 % for 2013).

— **SENSITIVITY ANALYSIS**

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

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

Effect in thousands of EUR	2013		2012	
	+ 10 %	-10 %	+ 10 %	- 10 %
Profit or loss	(2,694)	(6,409)	4,059	(166)
Equity	42,135	(29,917)	29,318	(33,068)

g) Categories and fair values

The fair values of the financial assets and liabilities, the carrying amount disclosed and the relevant category as of 31 December 2013 are as follows:

In thousands of EUR	Note	Loans & receivables	Held for trading	Hedge-Accounting	Financial liabilities at amortised costs/at fair value	Total carrying amount	Fair value at 31 December 2013
Trade receivables and other assets	16	334,818	0	0	0	334,818	334,818
Derivatives classified as held for trading with positive market values	29	0	105	0	0	105	105
Derivatives classified as hedge accounting with positive market values	29	0	0	14,350	0	14,350	14,350
Cash and cash equivalents	28	223,063	0	0	0	223,063	223,063
		557,881	105	14,350	0	572,336	572,336
Derivatives classified as held for trading with negative market values	29	0	(662)	0	0	(662)	(662)
Derivatives classified as hedge accounting with negative market values	29	0	0	(23,013)	0	(23,013)	(23,013)
Financial liabilities at amortised costs	16	0	0	0	(1,106,172)	(1,106,172)	(1,087,106)
Financial liabilities at fair value	16	0	0	0	(15,900)	(15,900)	(15,900)
Finance lease liabilities	17	0	0	0	(29,249)	(29,249)	(27,880)
Bank overdrafts used for cash management purposes	28	0	0	0	(57)	(57)	(57)
		0	(662)	(23,013)	(1,151,378)	(1,175,053)	(1,154,618)

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

In thousands of EUR	Note	Loans & receivables	Held for trading	Hedge-Accounting	Financial liabilities at amortised costs	Total carrying amount	Fair value at 31 December 2012
Trade receivables and other assets	16	340,809	0	0	0	340,809	340,809
Derivatives classified as held for trading with positive market values	29	0	1,637	0	0	1,637	1,637
Derivatives classified as hedge accounting with positive market values	29	0	0	10,830	0	10,830	10,830
Cash and cash equivalents	28	327,936	0	0	0	327,936	327,936
		668,745	1,637	10,830	0	681,212	681,212
Derivatives classified as held for trading with negative market values	29	0	(9,274)	0	0	(9,274)	(9,274)
Derivatives classified as hedge accounting with negative market values	29	0	0	(29,859)	0	(29,859)	(29,859)
Financial liabilities at amortised costs	16	0	0	0	(1,198,000)	(1,198,000)	(1,135,683)
Finance lease liabilities	17	0	0	0	(33,298)	(33,298)	(29,520)
Bank overdrafts used for cash management purposes	28	0	0	0	(115)	(115)	(115)
		0	(9,274)	(29,859)	(1,231,413)	(1,270,546)	(1,204,451)

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments:

Derivatives

Forward exchange, interest rate and fuel derivatives are carried at fair value and are internally valued regularly by the use of option pricing models and the discounted cashflow method. The valuation is – performed using the quoted prices that are observable for the asset or liability, either directly (i.e. as prices) or indirectly – (i.e. derived from prices). Therefore, all the derivative financial instruments of airberlin relate to the level 2 of the three level-hierarchy as defined in IFRS 13.93.

Convertible bond embedded derivative

The Group identified an embedded derivative in the convertible bond issued 6 March 2013. The embedded derivative is classified as a level 2 of the three level-hierarchy as defined in IFRS 13.93.

The development of the embedded derivative:

In thousands of EUR

Recognition embedded derivative 6 March 2013	(8,960)
Fair value through profit and loss	(6,940)
Fair value 31 December 2013	(15,900)

Interest-bearing loans and borrowings

Fair value is calculated based on discounted expected future principal and interest cash flows using current rates.

Trade and other receivables/payables

For receivables/payables with a remaining life of less than one year, the carrying value is deemed to reflect the fair value. All other receivables/payables are discounted to determine the fair value.

Cash and cash equivalents

Due to the short maturity date, the notional amount is deemed to reflect the fair value.

h) Net gain or loss

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

In thousands of EUR

	2013	2012
Loans and receivables	(1,023)	(3,977)
Cash and cash equivalents	(1,620)	828
Derivatives	(26,840)	72,391
Financial liabilities measured at amortised cost	15,336	7,863
Financial liabilities measured at fair value	(6,940)	0
	(28,027)	77,105

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

No interest income, fee income and fee expense was accrued on impaired financial assets during the period (2012: none).

31. RELATED PARTY TRANSACTIONS

Transactions with directors of the group

The Group has related party relationships with its Directors and its at equity investments (see note 9). Total remuneration of Directors is included in the Directors' Remuneration Report (see pages 89 to 108).

Members of the Board of Directors control a voting share of 4.31 % of Air Berlin PLC (prior year: 4.42 %).

One of the non-executive directors, also a shareholder of the Company, is the controlling shareholder of Phoenix Reisen GmbH. The Group had revenues from ticket sales with Phoenix Reisen GmbH of € 6,573 (prior year: € 12,930). At 31 December 2013, € 75 (prior year: € 598) are included in the trade receivables line.

Transactions with major shareholder

The Group received secured loans that are shown as interest-bearing liabilities from a major shareholder – Etihad Airways PJSC. The outstanding amount at 31 December 2013 equals € 98,699 including accrued interest. Relating to the loan interest expenses of € 8,689 have been accounted for in the income statement in 2013. Etihad Airways PJSC and airberlin cooperate in miscellaneous operative areas e.g. procurement and maintenance. airberlin entered into a code-share-agreement with Etihad Airways PJSC. The Group paid commissions of € 8,135 to Etihad Airways PJSC and received from Etihad Airways PJSC commissions of € 8,166. At 31 December 2013 € 1,209 are included in the trade and other receivables line. The amount of € 489 is included in the trade and other payables line. The Group received € 24,000 related to the joint procurement program which have been allocated to expenses for materials and services. At 31 December 2013 € 12,308 are included in the trade and other receivables line. Additionally the Group purchased business class seats from Etihad Airways PJSC for € 15,219.

Transactions with at equity investments

During the year ended 31 December 2013 respectively 2012 the Group had transactions with associates as follows:

In thousands of Euro

In thousands of EUR	2013	2012
THBG BBI GmbH		
Receivables from related parties	2,364	1,622
Interest income	121	86
BINOLI GmbH		
Receivables from related parties	167	44
Revenues from ticket sales	9,520	745
E190 Flugzeugvermietung GmbH		
Receivables from related parties	2,394	4,587
Expenses for leasing	7,765	6,235
IHY IZMIR HAVAYOLLARI A.S.		
Income from leasing	2,899	652
Topbonus Ltd		
Receivables from related parties	136	0
Payables to related parties	4,982	0
Revenues from ticket sales	5,172	0
Expenses for miles	24,955	0

Transactions with associates are priced on an arm's length basis.

In 2013 EUR 0 dividends have been received from at equity investments (2012: 704).

32. EXECUTIVE BOARD OF DIRECTORS

Wolfgang Prock-Schauer	Chief Executive Officer	(since 7 January 2013)
Hartmut Mehdorn	Chief Executive Officer	(until 7 January 2013)

33. SUBSEQUENT EVENTS

On 21 January 2014 the Group has increased the aggregate principal amount of its bond placed on 19 April 2011 with a coupon of 8.25% per annum from EUR 150,000 by EUR 75,000 to the aggregate principal amount of EUR 225,000. The notes were issued at 101.50% of their principal amount.

On 27 April 2014 the group has issued a perpetual bond to its shareholder Etihad Airways PJSC in the total amount of EUR 300,000. The drawdown of the bond is divided in three tranches each EUR 100,000 and will be paid out at 20 May 2014, 28 August 2014 and 27 November 2014. The perpetual bond has no maturity and bears an interest coupon of 8.0 % per annum. Interest coupons can be deferred indefinite at the discretion of the Group. The perpetual bond bears a conversion right to convert the bonds into ordinary shares at a conversion price of EUR 1.79. The perpetual bond will be recognized as equity in the Group's consolidated statement of financial position.

The Group received a third party firm underwriting for the issue of a corporate bond amounting to a minimum of EUR 250,000, thereof EUR 100,000 are to be used to redeem all outstanding bonds and be transferred into the new bond. The maturity of the bond will be May 2017 with a maximum interest rate of 6.75 %.

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

a) Significant accounting policies

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

Investments in subsidiaries and in at equity investments are recorded at cost less accumulated impairment losses and are tested for impairment if an indication of impairment exists.

Receivables from subsidiaries and payables to subsidiaries and to at equity investments are initially measured on the basis of their fair value. Subsequently they are carried at amortised cost using the effective interest method.

The Company has recorded financial assets and liabilities in the statement of financial position.

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

- ▶ Loans and receivables
- ▶ Financial assets and liabilities at fair value through profit or loss classified as held for trading in accordance with IAS 39 (derivative financial instruments)
- ▶ Financial liabilities measured at amortised cost (includes trade payables and other financial liabilities as well as interest-bearing liabilities)

The Company has defined the following classes of financial assets and liabilities:

- ▶ Loans and receivables
- ▶ Derivative financial instruments classified as held for trading
- ▶ Financial liabilities measured at amortised cost (includes interest-bearing liabilities, trade payables and other financial liabilities)
- ▶ Cash and cash equivalents

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.

During the year the group streamlined its structure. As part of the reorganisation, the shareholdings in certain directly held subsidiaries were transferred from the company to other subsidiary undertakings. At the same time intercompany loans previously made by the company were capitalised.

In thousands of EUR	2013	2012
Acquisition cost		
Balance at 1 January	720,924	720,946
Acquisition	30	0
Cash capital contribution to subsidiaries' equity	7,000	0
Contribution of intercompany loans to subsidiaries' equity	184,523	0
Contribution of intercompany receivables and payables into to subsidiaries' equity, net	53,344	0
Contribution of at equity investments to subsidiaries' equity	409	0
Disposals	(31)	(22)
Balance at 31 December	966,199	720,924

c) Deferred tax assets

Profit or loss before tax is completely attributable to Germany.

Income tax benefit (expense) is as follows:

In thousands of EUR	2013	2012
Current income tax expense	(23)	(1,306)
Deferred income tax benefit	(15,675)	(13,369)
Total income tax benefit	(15,698)	(12,061)

Current income taxes of the Company include corporate tax, a solidarity charge in addition to corporate tax and trade tax. The current income tax expense includes EUR 452 of prior year income tax benefit (2012: EUR 1 expense).

The tax rate of the Company equals 30.03 % (2012: 30.03 %). It consists of corporate tax rate and solidarity charge of 15.83 % and trade tax of 14.20 %. The calculation of the trade tax rate includes the effect of the different trade tax rates depending on the municipality in which the Company operates.

Subsequent to the restatement of the Company's deferred tax position as at 31 December 2011, deferred tax assets on tax losses has been recognised only to a significant restricted level as at 31 December 2012. Notwithstanding the Company's recent history of losses there have been several positive factors which have contributed to achieving appropriate convincing evidence for recognising certain amounts of deferred tax assets on tax losses as at 31 December 2012. These factors have in particular been:

- ▶ The impact of the restructuring program "Turbine 2013"
- ▶ The increasing positive contribution from airberlin's partnership with Etihad Airways PJSC
- ▶ The potential to restructure airberlin's tax strategy and thereby utilise tax losses

Although it is still the management's view that the aforementioned factors will have a positive impact on the year 2014 as well, it has decided not to recognise any deferred tax asset on the tax losses at all at Company's level.

The reasons for the differences between the tax benefit expected on the basis of loss for the period and the recognised income tax benefits are as follows:

In thousands of EUR	2013	2012
Loss before tax	(93,594)	(26,460)
Expected income tax benefit at 30.03 % (2012: 30.03 %)	28,106	7,946
Effect of tax pooling agreements with subsidiaries	(3,464)	262
(Write down)/Recognition of deferred tax assets on tax loss carry forwards	(17,589)	12,985
Effect of differences in tax base (from non-deductible expenses)	(23,528)	(9,637)
Current tax expenses for previous years	452	(1)
Other	325	506
Total income tax (expense) benefit	(15,698)	12,061

As of 31 December 2013, total tax loss carry forwards for which deferred tax assets were recognised amounted to EUR 0 (2012: EUR 0) for trade tax purposes and EUR 0 (2012: EUR 111,147) for corporate tax purposes. Thereof EUR 0 (2012: EUR 0) for trade tax purposes and EUR 0 (2012: EUR 16,147) for corporate tax purposes have been recognised to offset deferred tax liabilities. Tax loss carry forwards amounting to EUR 0 for corporate tax purposes are forecasted to be recovered through future taxable profits (2012: EUR 95,000).

As of 31 December 2013, no additional deferred tax assets were capitalised for further loss carry forwards of EUR 42,275 for trade tax and EUR 383,337 for corporate tax (2012: EUR 49,991 for trade tax and EUR 452,127 for corporate tax). The tax loss carry forwards are not subject to expiration.

Deferred tax assets and liabilities are attributable to the following assets and liabilities:

In thousands of EUR	2013	2012
Deferred tax assets:		
Accrued liabilities and provisions	1,136	937
Negative market values of derivatives	992	646
Tax loss carry forwards	0	17,589
	2,128	19,172
Deferred tax liabilities:		
Convertible bonds, corporate bonds	(1,786)	(3,949)
Positive market values of derivatives	(983)	(189)
	(2,769)	(4,138)
Offsetting	2,128	19,172
Deferred tax assets, net	(641)	15,034
Deferred tax assets, net beginning of period	15,034	0
Change in deferred tax position	(15,675)	(15,034)
Thereof related to items recorded in equity	0	1,665
Deferred income tax benefit (expense)	(15,675)	(13,369)

Income tax recognised in equity

	2013			2012		
	Before tax	Tax benefit	Net of tax	Before tax	Tax benefit	Net of tax
Transaction costs on issuance of new shares	0	0	0	(5,546)	1,665	(3,881)
	0	0	0	(5,546)	1,665	(3,881)

d) Loans to subsidiaries

Loans to subsidiaries were contributed to the equity of subsidiaries (note 34b). As of 31 December 2013 there are no further loans to subsidiaries outstanding.

As of 31 December 2012 loans were outstanding to Air Berlin PLC & Co. Luftverkehrs KG (EUR 155,200) and Air Berlin Technik GmbH (EUR 25,130).

e) Receivables from subsidiaries

Receivables due to profit and loss transfer agreements are included with EUR 7,825 (2012: EUR 6,571).

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

f) Deferred expenses

Deferred expenses mainly consist of prepaid expenses for aircraft leasing agreements.

g) 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 12 to the consolidated financial statements.

h) Pensions

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

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

In thousands of EUR	2013	2012
Present value of funded obligations	10,717	7,776
Fair value of plan assets	(13,436)	(10,638)
Funded status	(2,719)	(2,862)
Amount not recognised due to limitation in IAS 19.58(b)	0	0
Net defined benefit asset	(2,719)	(2,862)

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

In thousands of EUR	2013	2012
Defined benefit obligation at 1 January	7,776	6,432
Current service cost	1,614	422
Interest on obligation	274	297
Actuarial losses	1,053	625
Defined benefit obligation at 31 December	10,717	7,776

Sensitivities of the defined benefit obligation are as follows:

In thousands of EUR	2013
Defined benefit obligation at 31 December 2013	10,717
Defined benefit obligation at 0.5 percentage points lower interest rate	11,560
Defined benefit obligation at 0.5 percentage points higher interest rate	9,971

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

In thousands of EUR	2013	2012
Fair value of plan assets at 1 January	10,638	7,155
Contribution	2,599	3,460
Expected return on plan assets	423	347
Actuarial losses	0	(324)
Actual loss on plan assets	(224)	0
Fair value of plan assets at 31 December	13,436	10,638

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

The actual loss on plan assets was EUR 224 during the period (2012: loss EUR 1,505).

The amount recognised as pension expense in profit or loss and other comprehensive income is as follows:

In thousands of EUR	2013	2012
Current service cost	1,614	422
Interest on obligation	274	297
Expected return on plan assets	(423)	(347)
Net actuarial losses recognised in the period	0	948
Pension expense recognized in profit and loss	1,465	1,321
Net actuarial losses recognised in the period	1,053	0
Actual loss on plan assets	224	0
Pension expense recognized in other comprehensive income	1,277	0

The Company expects to contribute EUR 2,588 to its defined benefit pension plans in 2014.

Principal actuarial assumptions at the reporting date are as follows:

in %	2013	2012
Discount rate at 31 December	2.77	3.57
Expected return on plan assets at 1 January	NA	4.30
Future salary increases	0.00	0.00
Cost of living adjustment (future pension increases)	1.00	1.00

Assumptions regarding future mortality are based on published statistics and mortality tables ("Richttafeln 2005 G" published by Heubeck-Richttafeln-GmbH). The average remaining life expectancy of an individual retiring at age 65 is 20 years for males and 25 years for females.

i) Other liabilities to subsidiaries

The Company issued three convertible bonds in 2007, 2009 and 2013 and is accounting for these bonds in the same way as the Group. For further information see note 16.

The convertible bonds were issued by AB Finance B.V., and the proceeds were transferred to Air Berlin PLC with the same conditions as the bonds.

The remaining outstanding convertible bonds issued in 2009 have been completely redeemed during the reporting period and transferred to AB Finance B.V. to repay the respective loan. The Company also redeemed several convertible bonds issued in 2007 and transferred them to AB Finance B.V. to repay the respective loan. Disclosures regarding this and the disclosures regarding the liquidity risk and maturity analysis in respect of the convertible bonds are detailed in note 16 and 30c to the consolidated financial statements.

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

Furthermore the Company issued three corporate bonds and is accounting for these bonds in the same way as the Group. For further information see note 16.

j) Accrued liabilities

Accrued liabilities primarily relate to expenses for services received but not yet invoiced as of the end of the period.

k) Payables to subsidiaries

Payables to subsidiaries include EUR 25,380 (2012: EUR 29) regarding profit and loss transfers, EUR 384 (2012: 154,901) regarding cash pooling agreements and EUR 9,373 (2012: 0) related to deferred purchase price payments of aircraft.

l) Fair values

Fair value is the amount obtainable in an arm's length transaction between knowledgeable willing parties. The carrying amounts of financial assets and liabilities approximate their fair values. The fair values of financial assets and liabilities, together with their carrying amounts as at 31 December shown in the statement of financial position, are as follows:

In thousands of EUR	Note	2013		2012	
		Carrying amount	Fair value	Carrying amount	Fair value
Loans to subsidiaries	34d	0	0	198,677	198,677
Receivables from subsidiaries	34e	9,802	9,802	135,652	135,652
Receivables from at equity investments		0	0	149	149
Total loans and receivables		9,802	9,802	334,478	334,478
Positive market values of derivatives classified as held for trading		3,365	3,365	696	696
Cash and cash equivalents		4,321	4,321	118,067	118,067
Interest-bearing liabilities	16	(499,423)	(527,925)	(495,078)	(511,350)
Payables to subsidiaries	35k	(197,837)	(197,837)	(279,535)	(279,535)
Trade and other payables		(7,618)	(7,618)	(8,617)	(8,617)
Total financial liabilities measured at amortised cost		(704,878)	(733,380)	(783,230)	(799,502)
Negative market values of derivatives classified		(3,397)	(3,397)	(2,217)	(2,217)
		(690,787)	(719,289)	(332,206)	(348,478)

m) Related party transactions

The Company has related party relationships with its Directors and subsidiaries (see note 31 to the consolidated financial statements). Total remuneration of Directors is included in the Directors' Remuneration Report (see pages 88 to 96). Members of the Board of Directors control a voting share of 4.31 % of Air Berlin PLC (prior year: 4.42 %).

In thousands of EUR	2013	2012
Air Berlin PLC & Co. Luftverkehrs KG		
Revenues	10,463	10,609
Interest income	2,170	2,121
Other operating expenses	15,760	1,171
Receivables from subsidiaries	1,613	228,991
Payables to subsidiaries	1,730	102,417
Pegasus 1. – 7. Luftfahrtbeteiligungsgesellschaft mbH		
Revenues	27	20
Interest income	0	29
Payables to subsidiaries	0	182
Alpha Engine Trading (merged to Air Berlin PLC& & Co. Luftverkehrs KG)		
Payables to subsidiaries	0	50
airberlin technik GmbH		
Revenues	464	138
Interest income	239	255
Interest expense	25,380	0
Receivables from subsidiaries	46	62,569
Payables to subsidiaries	25,380	1,303
Leisure Cargo GmbH		

Revenues	41	0
Interest income	7,824	0
Receivables from subsidiaries	7,829	5,263
Payables to subsidiaries	2	0
Air Berlin 1. – 9. LeaseLux Sàrl		
Revenues	218	27
Receivables from subsidiaries	2	3,241
Payables to subsidiaries	8,535	244
Air Berlin Netherlands B.V. (liquidated)		
Interest income	0	0
Payables to subsidiaries	0	55
Air Berlin Finance B.V.		
Revenues	84	0
Expenses from convertible bonds	103	76
Interest expenses	0	46
Receivables from subsidiaries	9,415	0
Payables to subsidiaries	155,960	15,197
Air Berlin Technik Ltd.		
Interest income	21	22
Payables from subsidiaries	26	2,480
Air Berlin Fünfte Flugzeug GmbH		
Revenues	1	1
Interest expenses	0	1
Receivables from subsidiaries	0	10
Payables to subsidiaries	0	117,225
Air Berlin Sechste Flugzeug GmbH		
Revenues	1	12
Interest expenses	0	0
Payables to subsidiaries	0	27,380
Air Berlin Siebte Flugzeug GmbH		
Interest income	1	9
Receivables from subsidiaries	0	0
Payables to subsidiaries	0	3,003
Air Berlin Zwölfte Flugzeug GmbH		
Revenues	1	18
Receivables from subsidiaries	0	37
Payables to subsidiaries	0	1,317
Air Berlin Erste Flugzeugvermietungs GmbH (merged to Air Berlin PLC& Co. Luftverkehrs KG)		
Receivables from subsidiaries	0	5,300
Payables to subsidiaries	0	806
Air Berlin Dritte Flugzeugvermietungs GmbH		
Revenues	5	0
Receivables from subsidiaries	0	4,109
Payables to subsidiaries	0	1,237
Air Berlin Vierte Flugzeugvermietungs GmbH		
Revenues	5	0
Receivables from subsidiaries	0	3,588

Air Berlin Achte Flugzeugvermietungs GmbH		
Revenues	5	0
Receivables from subsidiaries	0	60
Air Berlin Finance GmbH		
Revenues	1	0
Receivables from subsidiaries	112	81
AB Finance II GmbH		
Revenues	72	0
Interest expenses	0	0
Receivables from subsidiaries	7	2,993
Payables to subsidiaries	0	2,653
JFK Stiftung		
Receivables from subsidiaries	0	1,182
Belair Airlines AG		
Dividends received	819	6,249
Revenues	494	0
Receivables from subsidiaries	61	0
CHS Holding Service GmbH		
Revenues	26	0
Receivables from subsidiaries	3	0
Air Berlin PLC & Co. Verwaltungs KG		
Revenues	48	0
Receivables from subsidiaries	3	0
Air Berlin PLC & Co. Service Center KG		
Revenues	113	0
Receivables from subsidiaries	10	0
Air Berlin PLC & Co. Airport Service KG		
Revenues	89	0
Receivables from subsidiaries	7	0
Niki Luftfahrt GmbH		
Revenues	1,166	0
Interest expenses	9	0
Receivables from subsidiaries	95	0
Payables to subsidiaries	9,372	0

n) Employees

The Company employed the one Director (2012: five Directors). The Directors remuneration is included in note 22 to the consolidated financial statements above as well as in the Directors' Remuneration Report on pages 88 to 96.

Additionally the company employs the established Management Board (note 23). Furthermore the company employs 11 non-director employees.

35. CONSOLIDATED ENTITIES

The following entities are included in the consolidated financial statements:

Subsidiaries	Country of incorporation	2013	2012
AB Erste Flugzeugvermietungs GmbH (merged to Air Berlin PLC & Co. Luftverkehrs KG)	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	○	○
Air Berlin Crew Operations GmbH (merged to Air Berlin PLC & Co. Luftverkehrs KG)	Germany	○	○
Air Berlin Finance B.V. ^{1,2}	Netherlands	○	○
Air Berlin Finance GmbH	Germany	○	○
Air Berlin Finance II GmbH ²	Germany	○	○
Air Berlin Netherlands B.V. (liquidated) ²	Netherlands	○	○
Air Berlin PLC & Co. Luftverkehrs KG	Germany	○	○
Air Berlin PLC & Co. Airport Service KG	Germany	○	○
Air Berlin PLC & Co. Verwaltungs KG	Germany	○	○
Air Berlin PLC & Co. Service Center KG	Germany	○	○
airberlin technik GmbH	Germany	○	○
airberlin technik Slovakia s.r.o.	Slovakia	○	○
Air Berlin Technik Ltd. ^{1,2}	United Kingdom	○	○
Air Berlin 1. LeaseLux Sàrl ²	Luxembourg	○	○
Air Berlin 2. LeaseLux Sàrl ²	Luxembourg	○	○
Air Berlin 3. LeaseLux Sàrl ²	Luxembourg	○	○
Air Berlin 4. LeaseLux Sàrl ²	Luxembourg	○	○
Air Berlin 5. LeaseLux Sàrl ²	Luxembourg	○	○
Air Berlin 6. LeaseLux Sàrl ²	Luxembourg	○	○
Air Berlin 7. LeaseLux Sàrl ²	Luxembourg	○	○
Air Berlin 8. LeaseLux Sàrl ²	Luxembourg	○	○
Air Berlin 9. LeaseLux Sàrl ²	Luxembourg	○	○
Air Berlin Fünfte Flugzeug GmbH	Germany	○	○
Air Berlin Sechste Flugzeug GmbH	Germany	○	○
Air Berlin Siebte Flugzeug GmbH	Germany	○	○
Air Berlin Zwölfte Flugzeug GmbH	Germany	○	○
Air Berlin Americas Inc.	USA	○	○
Alpha Engine Trading GmbH (merged to Air Berlin PLC & Co. Luftverkehrs KG)	Germany	○	○
Bairs GmbH (liquidated) ²	Switzerland	○	○
Belair Airlines AG ²	Switzerland	○	○
CHS Switzerland AG ²	Switzerland	○	○
CHS Holding & Services GmbH ²	Germany	○	○
Euconus Flugzeugleasinggesellschaft mbH (merged to Air Berlin Fünfte Flugzeug GmbH)	Germany	○	○
Gehuba Beteiligungs-Verwaltungs GmbH	Austria	○	○

JFK Stiftung ²	Switzerland	○	○
Leisure Cargo GmbH ²	Germany	○	○
NIKI Luftfahrt GmbH	Austria	○	○
NL AB Beteiligungs GmbH	Austria	○	○
Pegasus Erste Luftfahrtbeteiligungsgesellschaft mbH ²	Germany	○	○
Pegasus Zweite Luftfahrtbeteiligungsgesellschaft mbH ²	Germany	○	○
Pegasus Dritte Luftfahrtbeteiligungsgesellschaft mbH ²	Germany	○	○
Pegasus Vierte Luftfahrtbeteiligungsgesellschaft mbH ²	Germany	○	○
Pegasus Fünfte Luftfahrtbeteiligungsgesellschaft mbH ²	Germany	○	○
Pegasus Sechste Luftfahrtbeteiligungsgesellschaft mbH ²	Germany	○	○
Pegasus Siebte Luftfahrtbeteiligungsgesellschaft mbH ²	Germany	○	○
Air Berlin Employee Share Trust ^{1,3}	United Kingdom	○	○

¹ Shares held directly by Air Berlin PLC as of 31 December 2013 (the remaining subsidiaries are held indirectly through other Group companies).

² Shares held directly by Air Berlin PLC as of 31 December 2012 (the remaining subsidiaries are held indirectly through other Group companies).

³ The company is consolidated as a special purpose entity.

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

Excerpt from the Annual Report 2012, comprising the following:

Independent Auditor's Report

Financial Statements 2012

Notes to the Financial Statements

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

We have audited the financial statements of Air Berlin PLC for the year ended 31 December 2012 set out on pages 107 to 167. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 103, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion:

- ▶ the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2012 and of the group's profit for the year then ended;
- ▶ the group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- ▶ the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- ▶ the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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

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

Philip Charles (Senior Statutory Auditor)

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

Chartered Accountants

St. Nicholas House

Park Row

Nottingham

NG 1 6FQ

Great Britain

15 March 2013

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

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

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

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

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

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

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

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

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

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

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

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



WOLFGANG PROCK-SCHAUER
 CHIEF EXECUTIVE OFFICER

Air Berlin PLC
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the period ended 31 December 2012

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

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

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

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

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

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

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

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

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

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



WOLFGANG PROCK-SCHAUER
 CHIEF EXECUTIVE OFFICER

Air Berlin PLC
COMPANY STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2012

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

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

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

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

1. INTRODUCTION

The consolidated financial statements of Air Berlin PLC for the year ended 31 December 2012 comprise Air Berlin PLC and its subsidiaries (together referred to as "airberlin" or the "Group") and the Group's interest in at equity investments. Air Berlin PLC is a public limited company incorporated in England and Wales with its registered office in London. The corporate headquarters of airberlin are located in Berlin. The Company's ordinary shares are traded on the Frankfurt Stock Exchange.

2. BASIC PRINCIPLES AND PREPARATION OF FINANCIAL STATEMENTS

Both the parent Company financial statements and the Group financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the European Union. On publishing the parent Company financial statements here together with the Group financial statements, the Company is taking advantage of the exemption in Section 408 of the Companies Act 2006 not to present its individual statement of comprehensive income and related notes that form a part of these approved financial statements. The Company financial statements are presented on pages 112 to 115.

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

The consolidated financial statements have been prepared in Euro. The European Central Bank year end exchange rate was GBP 0.8161 to the Euro. All financial figures presented have been rounded to the nearest thousand currency units, except for share data and subsequent events. The financial statements were authorised and approved for issue by the Board of Directors on 15 March 2013.

Going concern

The Groups' business activities, together with the factors likely to affect its future development, performance and position are set out in the Report on Forecasts and the Outlook of the Group on pages 68 to 72.

The financial position of the Group, its cash flows, and liquidity position are described in the Development in Financial Figures on pages 42 to 47. Details for the Group's borrowings are set out in note 17 and 31 of the financial statements. In addition, notes 4t and 31 to the financial statements include the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities, and its exposure to credit and liquidity risk.

The Group meets its day to day working capital requirements through its cash holdings. As discussed in the Report on Forecasts and the Outlook of the Group on pages 68 to 72, the current economic conditions create uncertainty particularly in respect of fluctuating currency rates, fluctuating jet fuel prices, passenger demand and yield. Financing is in place for our committed plane deliveries for the next twelve months. The Group's forecasts and projections sensitised for significant deviations from the forecast currency rate, jet fuel price, passenger demand and yield, show that the Group will generate sufficient cash through funding and operating cash flows to meet its liabilities in the foreseeable future. Achievability of these forecasts is also dependent on the success of the Turbine 2013 program (note 34). Furthermore Air Berlin PLC issued a convertible bond of EUR 140,000 in February 2013 to strengthen its cash position (note 34).

Taking into account the above factors, the directors have concluded that there is a reasonable expectation that the Group has adequate resources to continue as a going concern for the foreseeable future. The going concern basis is used in preparing the accounts.

Use of estimates

The preparation of financial statements in conformity with IFRS as adopted by the European Union requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements

about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

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

Prior year adjustment

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

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

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

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

3. BASIS OF CONSOLIDATION

a) Subsidiaries

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

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

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

- ▶ the fair value of the consideration transferred; plus
- ▶ the recognised amount of any non-controlling interests in the acquiree; plus

- ▶ if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
- ▶ the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

The subsidiaries listed in note 36 are included in the consolidated financial statements.

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

All of the German subsidiaries identified in note 36 are required to present financial statements under German statutory law except for the following companies, as they are exempt due to Article 264b German Commercial Code:

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

b) Special purpose entity

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

c) Investments in associates and jointly controlled entities (at equity investments)

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

The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of at equity investments using the equity method and are initially recognised at cost, from the date that significant influence commences until the date that significant influence ceases.

When the Group's share of losses exceeds its interest in an at equity investment, the Group's carrying amount is reduced to zero and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee.

d) Transactions eliminated on consolidation

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

4. SIGNIFICANT ACCOUNTING POLICIES

a) Intangible assets

Goodwill is recognised where the cost of a business combination exceeds the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. Other identifiable intangible assets acquired through a business combination

are capitalised at fair value and subsequently measured at cost less accumulated amortisation charges and impairment losses. Goodwill and other intangible assets with indefinite useful lives are not amortised but are tested for impairment annually or more frequently if there is an indication that the asset may be impaired.

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

The estimated useful lives of intangible assets are as follows:

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

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

b) Property, plant and equipment

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

— AIRCRAFT

The Group owns aircraft of the type Boeing 737-700 and 800, Airbus A319, A320 and A321, Bombardier Q400 as well as Embraer E190. The depreciation period is ten years taking into account estimated residual values. The residual values and useful lives are reviewed at the end of each period.

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

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

— OTHER TANGIBLE ASSETS

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

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

c) Subsequent expenditure

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

d) Impairment

— NON-FINANCIAL ASSETS

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

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

Judgement is required in determining the cash-generating unit, as well as in calculating value in use. The operating margins used in determining value in use are based on planned business and operational growth. The trading environment is subject to both regulatory and competitive pressures that could have a material impact on the operating performance of the business. The discount rate reflects management's estimate of the peer-group long-term cost of capital for the cash-generating unit. Key assumptions are the seat load factor, yield, fuel price and USD exchange rate.

— FINANCIAL ASSETS

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

e) Inventories

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

f) Trade and other receivables

Trade and other receivables are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method less impairment loss, which approximates their fair value. An impairment loss is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Receivables for which collection is doubtful are written down to their realisable value in a separate account. Further details to the allowance for impairment losses are found in note 31b. The allowance for impairment losses is used to record impairment losses until the Group determines that the receivable is irrecoverable. Financial assets are derecognised directly when they are expected to be irrecoverable.

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

g) Derivatives

Derivative financial instruments are used for hedging fuel price, interest rate, and currency rate risks arising from operational and financing activities. Hedging transactions are entered into to eliminate uncertainty over future cash flows. Derivative financial instruments are recognised initially at fair value. All derivatives that do not qualify for hedge accounting are classified

as held for trading. Hedge accounting is discontinued prospectively if the hedging instrument expires, is sold, is terminated or exercised, if the Group revokes the designation as hedge accounting or if the hedge no longer meets the criteria for hedge accounting. Subsequent to initial recognition, derivative financial instruments are stated at fair value. Any resultant gain or loss is recognised directly in the statement of comprehensive income as profit or loss unless the derivative has been classified as a hedge of a highly probable future cash flow. The effective portion of gains and losses from changes in the fair value of derivatives designated as cash flow hedges are taken to equity in accordance with IAS 39 and are recognised in profit or loss when the related transaction impacts income or the future cash flow ceases to be considered probable. The ineffective portion of a cash flow hedge is recognised immediately in profit or loss.

Forward exchange transactions are used to mitigate exchange rate exposure. Commodity swaps and options are used to limit the fuel price risk. The Group uses cross-currency interest rate swaps to convert variable rate liabilities in foreign currency to fixed rate positions in the functional currency. For further information see note 31e.

h) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and short-term deposits with an initial maturity of less than three months. Cash and cash equivalents are valued at cost. Bank overdrafts used for cash management purposes are included in cash and cash equivalents for purposes of the cash flow statement. Cash and cash equivalents also include restricted cash as set out in note 29.

i) Share capital

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

— ORDINARY SHARES

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

— REDEEMABLE "CLASS A" PREFERENCE SHARES

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

— TREASURY SHARES

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

j) Income taxes

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

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

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

end of the period. Judgement is required in estimating the probability of utilisation of deferred tax assets; uncertainty exists in the amount and timing of future taxable income.

k) Provisions

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

l) Interest-bearing liabilities

Interest-bearing liabilities are recognised initially at fair value, less attributable transaction costs. Subsequent to initial recognition, interest-bearing liabilities are stated at amortised cost using the effective interest method. The fair value option is not applied.

m) Trade and other payables

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

n) Foreign currency

Transactions in foreign currencies are translated into the respective functional currencies of Group entities at the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are subsequently translated at the exchange rate at the end of the period. Any differences resulting from the currency translation are recognised in the statement of comprehensive income. Further details of currency risk are provided in note 31d.

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

o) Recognition of income and expenses

Revenue relates primarily to transportation services provided and duty-free sales. Flight revenue is recognised at the point where the flight is flown whilst a return portion of the ticket is deferred until the return flight is flown. Revenue on unclaimed tickets is recognised when the ticket expires. Other revenue and operating income is recognised when the corresponding service has been provided or when the risks and rewards associated with the right of ownership are transferred to the buyer (for example duty-free sales). Revenue is measured at the fair value of the consideration received taking into account the amount of any sales deductions (for example air passenger duty, VAT and discounts). Rebates and discounts offered are deducted from revenue and are recognised at the point when the flight to which the rebate or discount relates is flown.

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

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

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

p) Deferred income and expenses

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

Deferred income in the statement of financial position relates mainly to ticket sales and in 2011 airberlin's frequent flyer plan. airberlin recognises ticket sales as income at the time the transportation is provided. However, when the fare is for a round-trip and the return flight has not been taken at year end, the unearned revenue is deferred in the consolidated statement of financial position under "deferred income" until such time the transportation is provided.

— FREQUENT FLYER PLAN (TOPBONUS)

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

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

q) Leasing

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

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

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

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

The Group carries out sale and leaseback transactions. If the leaseback transaction is an operating lease, and the sale price is below fair value of the asset, any profit or loss is recognised immediately in the statement of comprehensive income in accordance with IAS 17. Except if the loss is compensated for by future lease payments below market price, it is deferred and amortized in proportion to the lease payments over the lease term (see note 4p).

r) Pensions

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

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

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

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

s) New pronouncements – not yet adopted

Some new standards, alignments of standards and interpretations were issued and endorsed by the EU for the financial years beginning on or after 1 January 2013 but have not been applied by the Group in preparing the financial statements. None of these is expected to have a significant effect on the financial statements of the Group, except for IFRS 9, Financial Instruments, that is compulsory to adopt for the Group's financial year 2015.

t) Financial risk management

The Group has exposure to the following risks:

- ▶ Credit risk
- ▶ Liquidity risk
- ▶ Market risk

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

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

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

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

Credit risk

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

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

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

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

Liquidity risk

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

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

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

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

Market risk

Market risk is the risk of changes in market prices, such as foreign exchange rates, interest rates and commodity prices. Changes in market prices can affect the Group's income and expenses or the value of airberlin holdings in financial instruments. As an airline airberlin is exposed to currency, interest rate and fuel price risks as well as credit and liquidity risks. airberlin uses derivatives to limit these risks. A detailed description of the Group's exposure to market risks and the hedging activities to limit these risks is presented in note 31.

Capital management

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

The Group is not subject to any externally imposed capital requirements.

u) Financial instruments

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

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

- ▶ Loans and receivables
- ▶ Financial assets and liabilities at fair value through profit or loss classified as held for trading in accordance with IAS 39 (derivative financial instruments)
- ▶ Financial assets and liabilities at fair value classified as hedging instruments in accordance with IAS 39 (derivative financial instruments)
- ▶ Financial liabilities measured at amortised cost (includes trade payables and other financial liabilities as well as interest-bearing liabilities)

The categories of financial assets and financial liabilities are further detailed in note 31g.

airberlin has defined the following classes of financial assets and financial liabilities:

- ▶ Loans and receivables
- ▶ Derivative financial instruments classified as held for trading
- ▶ Derivative financial instruments classified as hedge accounting
- ▶ Financial liabilities measured at amortised cost (includes interest-bearing liabilities trade payables and other financial liabilities)

5. BUSINESS COMBINATION ATMS

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

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

6. TOPBONUS TRANSACTION

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

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

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

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

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

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

7. INTANGIBLE ASSETS

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

The Group performed an impairment test on landing rights, goodwill and trademarks in the fourth quarter of 2012 based on a variety of assumptions and concluded that as the estimated recoverable amount exceeds the carrying amounts, no impairment was required. The recoverable amount was determined for the cash-generating unit to which the landing rights, the goodwill and the trademarks belong.

The Group has determined three cash-generating units for purposes of the impairment test and allocated goodwill to these cash generating units as follows:

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

Flight services is the most significant cash-generating unit with significant intangibles allocated to it. For flight services, the future cash flows were estimated using the value-in-use method based on the most recent five year cash flow plan approved by management for the existing fleet, sensitised for the purposes of the Impairment test and extrapolated to perpetuity using a 0.5% growth rate (2011: identical) and discounted to their present value. The pre-tax peer-group weighted average cost of capital was 9.01% (2011: 9.51%). The discount rate reflects management's estimate of the peer-group long-term cost of capital for the cash-generating unit. The underlying management cashflow forecast is most sensitive to the assumptions of seat load factor, yield, fuel price and USD exchange rate. The underlying sensitized cashflow forecasts are below the average market expectations published by third parties. The Group is satisfied that there is no reasonably possible change in any key assumptions which would result in the determination of the recoverable amount being below the cash-generating unit's carrying amount.

8. PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

Finance leases are explained in more detail in note 18.

Assets held for Sale

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

9. AT EQUITY INVESTMENTS

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

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

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

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

10. INVENTORIES

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

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

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

11. TRADE AND OTHER RECEIVABLES

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

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

Other assets mainly include suppliers with debit balances (2012: EUR 20,756 and 2011: EUR 30,627).

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

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

12. DEFERRED EXPENSES

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

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

13. SHARE CAPITAL AND RESERVES

Share capital and share premium

Share capital of 116,800,508 ordinary shares (before issue of new shares 85,226,196) of EUR 0.25 each and 50,000 A shares of £ 1.00 each is issued and fully paid up. Included in this amount are 177,600 treasury shares held by airberlin (through the Air Berlin Employee Share Trust) in connection with an expired employee share plan. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the shareholders. The A shares are redeemable at the option of airberlin only, and the holders of A shares shall not be entitled to any participation in the profits or assets of airberlin save on a distribution of assets of airberlin among its members on a winding up or other return of capital (other than a redemption or purchase by airberlin of its own shares), in which case the holders of A shares shall be entitled, in priority of any holder of ordinary shares, to receive an amount equal to the aggregate of the capital paid up or credited as paid up on each A share.

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

Other capital reserves

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

Treasury shares

In connection with an expired share-based payment scheme, the Company repurchased the beneficial interest (and limited all significant legal aspects of the ownership, such as voting rights) in 177,600 shares of its stock. The purchase price was EUR 0.25 per share (par value), resulting in a decrease in retained earnings of EUR 45.

Hedge accounting reserve

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

Foreign currency translation reserve

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

Dividends

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

14. EARNINGS PER SHARE

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

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

* restated

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

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

15. PENSION LIABILITIES/EMPLOYEE BENEFITS

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

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

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

Defined benefit plans

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

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

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

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

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

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

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

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

The actual gain on plan assets was EUR 2,243 during the period (2011: loss EUR 55). No experience adjustments were made during the period.

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

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

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

Principal actuarial assumptions at the reporting date are as follows:

in %	2012	2011
Discount rate at 31 December	3.57–3.93	4.63
Expected return on plan assets at 1 January	4.00–4.30	4.00–4.30
Future salary increases	0.00–2.00	0.00–2.00
Cost of living adjustment (future pension increases)	1.00	1.00

Assumptions regarding future mortality are based on published statistics and mortality tables ("Richttafeln 2005 G" published by Heubeck-Richttafeln-GmbH). The average remaining life expectancy of an individual retiring at age 65 is 20 years for males and 25 years for females.

Defined contribution plans

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

As employees in Germany are covered by and required to contribute to the German social security system, airberlin does not have any other employee benefit plans at the end of the period. The Group paid contributions into the German social security system of EUR 29,679 in 2012 (2011: EUR 29,541).

16. PROVISIONS

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

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

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

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

Older employees (age 55 and above) have the opportunity to take part in an old age part time programme. The programme is a form of early retirement in which the employee works full time during the first few years and not at all in the following years until reaching the official age of retirement. 56 (2011: 62) employees have signed such agreements as of the end of the period. A discount rate of 1.0% (2011: 3.4%) and an expected salary increase of 2.0% (2011: 2.0%) were used to calculate the provision. Uncertainties exist as to the life expectancy of the employees and as to the future salary at the time the contract takes effect. The provision was compensated by security funds of EUR 5,218 (2011: EUR 4,686).

The provision for anniversary bonuses was calculated using a discount rate of 2.6% (2011: 4.8%) and an expected yearly salary increase of 2.0% (2011: 2.0%). Uncertainties exist in the probability that the employees will remain with the Group until they are entitled to receive their anniversary bonus and as to their salaries at that time. The provision was accounted for in accordance with IAS 19.

The provision for redundancy costs is related to redundancy payments in the ordinary course of business.

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

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

This note provides information about the terms and conditions of the Group's interest-bearing loans and borrowings, all of which are measured at amortised cost. More information about the Group's exposure to interest rate, foreign currency and liquidity risk is provided in note 31.

Interest-bearing liabilities

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

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

* first option to redeem the bonds

Of this amount EUR 51,084 (2011: EUR 57,504) is classified within current liabilities in the statement of financial position.

The bank overdrafts are due in the following year respectively. The finance lease liabilities are detailed in note 18.

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

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

CORPORATE BONDS I

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

CORPORATE BONDS II

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

CORPORATE BONDS III

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

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

CONVERTIBLE BONDS I

On 11 April 2007 the Group issued EUR 220,000 of convertible bonds due 2027. The bond issue is made up of 2,200 bonds with a principal amount of EUR 100 each, earning yearly interest of 1.5%. The initial conversion price is EUR 22.47 which results in an initial conversion ratio of 4,450 ordinary shares per bond. Gross proceeds from the bond issue amounted to EUR 220,000. Transaction costs incurred were EUR 6,391.

The convertible bond was split into its equity and debt components in accordance with IAS 32. The equity component, less transaction costs net of tax, is shown as a separate line item in equity.

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

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

The bonds are convertible into 4,450 ordinary shares per bond at the option of the bondholder at any time beginning 40 days following closing and ending 14 days before maturity (21 May 2007 to 25 March 2027). In addition, the bondholder has the option to require the Company to repurchase the bonds at principal amount plus accrued interest on 11 April 2012, 11 April 2017, and 11 April 2022 or upon change in control. The Company has the option to redeem the bonds in whole at their principal amount plus accrued interest at any time as of 30 April 2014, so long as the trading price of the airberlin share exceeds 150% of the conversion price.

CONVERTIBLE BONDS II

On 20 August 2009 the Group issued EUR 125,000 of convertible bonds due in 2014. The bond issue is made up of 2,500 bonds with a principal amount of EUR 50 each, earning yearly interest of 9.0%. Interest is paid quarterly. The initial conversion price is EUR 4.01 which results in an initial conversion ratio of 12,469 ordinary shares per bond. Proceeds from the bond issue amounted to EUR 125,000. Transaction costs incurred were EUR 6,338.

The convertible bond was split into its equity and debt component in accordance with IAS 32. The equity component, less transaction costs net of tax, is shown as a separate line item within equity.

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

LOANS FROM RELATED PARTIES

Loans from related parties are disclosed in note 32.

Interest-bearing liabilities due to aircraft financing

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

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

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

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

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

18. LEASING

Operating leases

The Group leases various aircraft, engines, some warehouse and office facilities and other assets under leasing agreements which qualify as operating lease agreements. The leases typically run for a period of up to 21 years and terminate automatically upon expiry of the lease term. The leases expire between 2013 and 2034, with an option to renew the leases after these dates. No restrictions have been placed on the lessee as a result of these leases.

Non-cancellable operating lease rentals are payable as follows:

In thousands of EUR	2012	2011
Less than one year	522,321	446,300
Between one and five years	1,570,827	1,162,312
More than five years	790,115	617,804
	2,883,263	2,226,416

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

During the year ended 31 December 2012, EUR 505,852 (2011: EUR 497,428) was recognised as an expense in the statement of comprehensive income in respect of operating leases.

The Group also leases assets as lessor under agreements which qualify as operating leases. The contracts expire in 2014–2017.

Future minimum lease payments are receivable as follows:

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

Finance leases

The Group leases certain technical equipment under an agreement which qualifies as a finance lease. The finance lease relates to technical equipment for aircraft leased under operating leases with various leasing terms, the latest of which phase out in 2015.

The Group also leases two aircraft under agreements which qualify as finance leases. The lease agreements are for terms of eleven years, the latest of which expires in 2018. The agreements contain various put and call options relating to the right of the lessee to purchase the aircraft or the right of the lessor to require the lessee to purchase the aircraft on certain dates at prices and conditions set out in the agreements. In addition, the lessor has the right to require the lessee to name a purchaser at the end of the lease term for a fixed price (guaranteed residual value). Lease payments are in USD and vary based on changes in the interest rate component of the lease. The present value of future minimum lease payments was therefore determined by using the expected lease payments based on the preliminary interest rate stated in the lease.

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

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

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

Future minimum lease payments are as follows:

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

19. TRADE AND OTHER PAYABLES

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

Accrued liabilities include expenses for services provided and goods received before the end of the period but not yet invoiced, credit notes and commissions to travel agencies in connection with the sale of tickets, accrued vacation and payroll and accruals for aircraft and engine maintenance checks and overhauls.

Information about the Group's exposure to foreign currency and liquidity risk related to trade payables and other financial liabilities is provided in note 31.

20. ADVANCED PAYMENTS RECEIVED

Advanced payments primarily relate to payments received in advance for single-seat ticket sales for which the scheduled flight is to be provided in the following financial period and for which no revenue has been recorded.

21. REVENUE

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

* adjusted

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

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

Segment information

The Group is managed by the Board of Directors as a single business unit in one geographical area and performing one service. The key figures and ratios presented to the Board of Directors in managing the Group are: Result from operating activities, EBITDAR, net debt, revenues, passengers, yield and block hours. Resource allocation decisions are made based on the entire route network and the deployment of the entire fleet. The vast majority of revenues derive from the principal activity as an airline and include flights, commissions, in-flight and related sales that are generated in Europe. Since airberlin's aircraft fleet is employed across its scheduled destinations on an as needed basis all assets and liabilities are allocated to the one segment. The Board has also determined that there is no reasonable basis of allocating assets and related liabilities, income and expenses to geographical areas other than Europe or to individual groups of customers.

22. OTHER OPERATING INCOME

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

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

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

23. EXPENSES FOR MATERIALS AND SERVICES

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

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

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

24. PERSONNEL EXPENSES AND STAFF NUMBERS

The aggregate payroll costs were as follows:

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

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

Remuneration of the Executive Directors is as follows:

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

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

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

The average number of persons employed by the Group (including Directors) during the year and the number of employees at year-end, analysed by category and on a full-time basis, were as follows:

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

25. OTHER OPERATING EXPENSES

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

Remuneration of the auditor is as follows:

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

26. NET FINANCING COSTS

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

As described in note 4n, exchange rate differences not arising from interest-bearing liabilities and other financing activities are reclassified to the relevant line items within operating expenses.

Total net foreign exchange gains (losses) are reconciled to foreign exchange gains or (losses) in profit or loss as follows:

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

27. SHARE OF PROFIT OF AT EQUITY INVESTMENTS

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

28. INCOME TAX EXPENSES AND DEFERRED TAXES

Loss before tax is primarily attributable to Germany and Austria.

Income tax benefit is as follows:

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

* restated

The current income tax expense of the airberlin group includes corporate tax, a solidarity charge in addition to corporate tax, trade tax and foreign income taxes. The current income tax expense of EUR 3,957 (2011: EUR 5,844) includes EUR 110 of prior year income tax expenses (2011: EUR 1,799).

The tax rate for the airberlin group equals 30.18% (2011: 30.18%). It consists of corporate tax rate and solidarity charge of 15.83% and trade tax of 14.35%. The calculation of the trade tax rate includes the effect of the different trade tax rates depending on the municipality in which the Company operates.

As a result of variations in the tax rate in different jurisdictions, several subsidiaries have tax rates which differ from the airberlin group tax rate. The difference to the Group tax rate is shown as "effect of tax rates in different jurisdictions" in the tax rate reconciliation in the amount of EUR 4,556 (2011: EUR (6,889)).

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

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

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

The reasons for the differences between the tax benefit expected on the basis of loss for the period and the recognised income tax benefits are as follows:

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

* restated

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

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

As of 31 December 2012, total tax loss carry forwards for which deferred tax assets were recognised amounted to EUR 198,753 for trade tax purposes and EUR 221,559 for corporate tax purposes (2011 restated: EUR 70,278 and EUR 90,373 respectively). Thereof EUR 103,753 (2011 restated: EUR 70,278) for trade tax purposes and EUR 129,559 (2011 restated: EUR 99,373) for corporate tax purposes have been recognized to offset deferred tax liabilities. Tax loss carry forwards amounting to EUR 95,000 is forecast to be recovered through future taxable profits. As of 31 December 2012, no additional deferred tax assets were recognised for further loss carry forwards of EUR 456,966 for trade tax and EUR 462,654 for corporate tax (2011 restated: EUR 482,729 and EUR 441,245). The tax loss carry forwards are not subject to expiration.

Deferred tax assets and liabilities are attributable to the following assets and liabilities:

In thousands of EUR	2012	2011*
Deferred tax assets:		
Finance lease liabilities and deferred income	0	15,671
Foreign currency receivables and derivatives	9,418	4,861
Intangible assets	1,221	0
Technical equipment	266	18
Accrued liabilities and provisions	38,977	32,239
Tax loss carry forwards	55,957	20,645
	105,839	73,434
Deferred tax liabilities:		
Finance lease liabilities and deferred income	(3,224)	0
Aircraft and related liabilities	(44,468)	(42,176)
Land and buildings	0	(4,740)
Intangible assets	(45,378)	(43,568)
Leasehold improvements	(67)	(79)
Accrued liabilities and provisions	(8,365)	0
Convertible bonds, corporate bonds	(3,949)	(4,779)
Foreign currency liabilities and derivatives	(2,508)	(17,792)
	(107,959)	(113,134)
Offsetting	105,839	60,001
Deferred tax assets (liabilities), net	(2,120)	(39,700)
Deferred tax assets (liabilities), net beginning of period	(39,700)	24,550
Change in deferred tax position	(37,580)	(64,250)
Thereof related to cash flow hedges and items recorded in equity	(23,636)	8,544
Deferred income tax benefit	13,944	(55,706)

* restated

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

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

* restated

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

Income tax recognised in equity

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

Income tax recognised in the statement of other comprehensive income

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

29. CASH FLOW STATEMENT

The cash flow statement of the airberlin group is presented according to the indirect method. Cash and cash equivalents include cash, bank balances and fixed-term deposits with banks with a maturity of less than three months.

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

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

30. DERIVATIVES

Positive and negative market values of derivatives are as follows:

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

Hedge accounting

As an airline, the airberlin group is exposed to currency, interest rate and fuel price risks as well as credit and liquidity risks. airberlin uses derivatives to limit these risks.

airberlin applies hedge accounting for its hedges of future foreign currency denominated cash flows and its hedges of future cash flows related to the purchase of jet fuel that satisfy the criteria under IAS 39, thus reducing income statement volatility. IAS 39 sets out strict requirements on the use of hedge accounting. airberlin fulfils those requirements by documenting, at the inception of a hedge, both the relationship between the derivative used as the hedging instrument and the hedged item, as well as the aim and strategy of the hedge. This includes assigning the hedging instruments to the corresponding firm commitments and future transactions and also estimating the degree of effectiveness of the hedging instruments employed. The effectiveness of existing hedge accounting is monitored on an ongoing basis. For hedge accounting, the change in the fair value of the hedging instrument is deferred in equity to the extent the hedge is effective. Accumulated fair value changes from qualifying hedges are removed from equity to profit or loss in the period when the hedged cash flow affects profit or loss.

airberlin also uses hedges that do not satisfy the strict hedge accounting criteria of IAS 39. For such derivatives airberlin recognises the changes in fair value in profit or loss. The fair values of derivatives are presented in a separate line in the statement of financial position.

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

Cross-currency-swaps have been classified as held for trading and the changes in fair value are recognized in profit or loss. Cashflow-hedges are to be recognized in profit and loss in the same period as the underlying transactions.

31. FINANCIAL RISK MANAGEMENT

a) Credit risk

The carrying amount of financial assets represents the maximum credit exposure.

The maximum exposure to credit at the reporting date was:

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

b) Impairment losses

— TRADE RECEIVABLES

The aging of trade receivables at the reporting date was:

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

Trade receivables are analysed for a possible impairment loss according to historical data on impairment losses as discussed below. Receivables which are neither past due nor impaired are generally considered to contain only a small risk of impairment based on past experience. The consideration is the same for receivables that are 1–30 days overdue.

The movement in the impairment allowance is as follows:

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

The allowance for impairment losses is used to record impairment losses until the Group determines that the financial asset should be derecognised.

The allowance for impairment losses is based on estimates and judgements regarding the creditworthiness of individual receivables, the actual customer structure and an analysis of historical impairment losses. A company-wide credit control process is implemented. Once the third notice is issued along with a court order, an allowance for impairment losses of 60% is recorded on the receivable. This percentage represents the probability of impairment loss based on past experience. At the balance sheet date the allowance for impairment losses is EUR 14,058 (2011: EUR 14,423).

— OTHER LOANS AND RECEIVABLES

None of the other loans and receivables were past due as of 31 December 2012 (2011: none), and there were no renegotiations of payment terms during the period which would otherwise have resulted in overdue receivables. No impairment losses have been recorded on other financial assets (2011: EUR none).

These receivables relate primarily to amounts due from suppliers (deposits, bonus and claims). The Group only enters into contracts with suppliers of high quality and as such does not consider there to be a significant impairment risk relating to these amounts.

Receivables from related parties relate primarily to receivables related to the joint procurement program with Etihad Airways PJSC and clearing accounts from E190 Flugzeugvermietung GmbH. As the receivables are not overdue and payments have been made on time in the past, the Group does not consider an impairment loss to be necessary.

— CASH AND CASH EQUIVALENTS AND POSITIVE MARKET VALUES OF DERIVATIVES

No impairment has been recorded on bank balances or positive market values of derivatives, as the transactions are only made with parties of the highest credit rating or, in the case of derivative financial instruments, with parties that are known to be reliable based on past experience (past customer behaviour regarding timely payments of amounts due). The Group considers its net position in determining its impairment risk on bank balances and positive market values of derivatives.

c) Liquidity risk

The following are the contractual undiscounted maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements as at 31 December 2012:

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

For 31 December 2011, the maturities were as follows:

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

The amounts disclosed in the maturity analysis are the contractual undiscounted cash flows, including future interest payments. Amounts in USD are translated at the relevant year-end exchange rate, and variable interest payments are calculated using the year-end basis rates.

The Group intends to meet its obligations primarily through cash balances held and cash inflows from operations and in the case of purchases of new aircraft (not included above) through future borrowings which are already in place for aircraft deliveries in 2013 and early 2014.

d) Currency risk

The Group has significant transactions in USD as well as smaller transactions in GBP and CHF. airberlin enters into USD currency forwards and options in order to manage functional currency risk which arises on operating costs (e.g. payments regarding aircraft financing and leasing, fuel, maintenance etc.) denominated in USD. airberlin generally hedges at least 75% of the expected cash flow on a 1–3 month revolving basis and at least 35% of the expected cash flow on a 4–12 month revolving basis (2011: identical).

The Group's exposure to foreign currency risk was as follows based on the currency values at end of year:

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

The estimated forecast purchases shown above are for a twelve-month period. The volume hedged through forward exchange contracts and forward exchange options is for estimated forecast purchases for up to two years. The volume hedged through cross-currency interest rate swaps is the nominal amount of the interest-bearing liabilities in USD.

The following significant exchange rates applied during the year:

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

— SENSITIVITY ANALYSIS

A sensitivity analysis was performed on the year-end balances of foreign currency financial assets and liabilities and the fair values of derivative financial instruments existing at year-end. The assumptions used in the calculation of currency risk were the same as those used in the prior year. Due to options used for hedging purposes the sensitivity is not a linear function of the underlying foreign exchange rates. Assuming that all other variables, in particular interest rates, remain constant, a 10 per cent strengthening of the Euro against the following currencies at 31 December would have increased/(decreased) equity and profit or loss by the following amounts:

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

A 10 per cent weakening of the Euro against the above mentioned currencies at 31 December would have increased/(decreased) equity and profit or loss by the following amounts:

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

e) Interest rate risk

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

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

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

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

The variable rate interest-bearing liabilities and interest-bearing liabilities due to aircraft financing, which are generally denominated in USD, expose the Group to variability in interest payments due to changes in interest rates as well as to a foreign currency risk. The interest risk results from the sensitivity of financial assets and financial liabilities with variable interest rates to changes in the market interest rate. airberlin uses cross-currency interest rate swaps to hedge these risks. The swaps are considered cash flow hedges from their inception until the liability is recorded in the statement of financial position, at which point the interest rate swaps are classified as held for trading, with future changes in market value taken to profit or loss.

— FAIR VALUE SENSITIVITY ANALYSIS

The Group does not account for any fixed rate financial instruments at fair value through profit or loss, and the Group does not designate any of its derivatives (interest rate swaps) as fair value hedge accounting instruments. Therefore a change in interest rates (unless they resulted in the hedge becoming ineffective) at the reporting date would only affect profit or loss to the extent that it affects the fair value of interest rate swaps not designated as hedge accounting (held for trading). A change of +/- 100 basis points in interest rates would have increased or decreased equity by EUR 0 (2011: EUR 0) and increased profit or loss by EUR 5,187 (2011: EUR 1,976) respectively decreased by EUR 5,534 (2011: 408) based on a one year impact.

— CASH FLOW SENSITIVITY ANALYSIS

Assuming that all other variables, in particular foreign currency rates, remain constant, a change of 100 basis points in interest rates would have increased or decreased profit or loss (financial result) by EUR 2,515 (2011: EUR 2,863) and had no effect on equity over the twelve-month period, based on the balance sheet amounts at the reporting date and taking into consideration the effect of interest rate swaps.

f) Fuel price risk

The fuel price (jet fuel) plays an important role as far as the business performance of the Group is concerned. Fuel expense amounted to 25.0% (2011: 23.4%) of the Group's entire operating expenses. airberlin uses commodity swaps as well as commodity options to hedge the exposure to fuel price increases. At the end of the period 2012, the hedged volume was 547,000 tons for the 2013 financial year (2011: 664,500 tons for 2012). The hedged volume with the hedged prices and the underlying USD foreign exchange rate lead to a valuation of EUR 2,742 (2011: EUR 792). The hedging quota was 42.3% for 2013 (in the prior year: 46.1% for 2012).

— SENSITIVITY ANALYSIS

Due to options used for hedging purposes the sensitivity is not a linear function of the underlying foreign fuel price. Assuming that all other variables, in particular foreign currency rates, remain constant, a 10% increase/decrease in the fuel price at the reporting date would have increased/(decreased) equity and profit or loss by the following amounts:

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

g) Categories and fair values

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

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

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

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

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments.

Derivatives

Forward exchange, interest rate and fuel price derivatives are carried at fair value and are internally valued regularly by the use of option pricing models and the discounted cashflow method. The valuation is – performed using the quoted prices that are observable for the asset or liability, either directly (i.e. as prices) or indirectly – (i.e. derived from prices). Therefore, all the derivative financial instruments of airberlin relate to the level 2 of the three level hierarchy as defined in IFRS 7.27A.

Put-option liability

The put-option liability was measured at fair value. The measurement of the liability takes into consideration factors that are not based on observable market data. Therefore the derivative financial instrument held by airberlin is classified in its entirety to level 3 according to IFRS 7.27A defined three-level hierarchy.

The changes in level 3 financial instruments are as follows:

In thousands of EUR	2012	2011
Balance of the liability at 1 January	0	43,538
Changes in fair value of the liability through profit and loss	0	5,714
Settlement of liability by acquisition of remaining shares in NIKI	0	(49,252)
Balance of the liability at 31 December	0	0

Interest-bearing loans and borrowings

Fair value is calculated based on discounted expected future principal and interest cash flows using current rates.

Trade and other receivables/payables

For receivables/payables with a remaining life of less than one year, the carrying value is deemed to reflect the fair value. All other receivables/payables are discounted to determine the fair value.

Cash and cash equivalents

Due to the short maturity date, the notional amount is deemed to reflect the fair value.

h) Net gain or loss

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

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

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

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

32. RELATED PARTY TRANSACTIONS

Transactions with directors of the group

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

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

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

Transactions with major shareholder

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

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

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

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

Transactions with at equity investments

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

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

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

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

33. EXECUTIVE BOARD OF DIRECTORS

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

34. SUBSEQUENT EVENTS

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

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

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

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

a) Significant accounting policies

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

Investments in subsidiaries and in at equity investments are recorded at cost less accumulated impairment losses and are tested for impairment if an indication of impairment exists.

Receivables from subsidiaries and payables to subsidiaries and to at equity investments are initially measured on the basis of their fair value. Subsequently they are carried at amortised cost using the effective interest method.

The Company has recorded financial assets and liabilities in the statement of financial position.

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

- ▶ Loans and receivables
- ▶ Financial assets and liabilities at fair value through profit or loss classified as held for trading in accordance with IAS 39 (derivative financial instruments)
- ▶ Financial liabilities measured at amortised cost (includes trade payables and other financial liabilities as well as interest-bearing liabilities).

The Company has defined the following classes of financial assets and liabilities:

- ▶ Loans and receivables
- ▶ Derivative financial instruments classified as held for trading
- ▶ Financial liabilities measured at amortised cost (includes interest-bearing liabilities, trade payables and other financial liabilities)
- ▶ Cash and cash equivalents.

PRIOR YEAR ADJUSTMENT

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

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

The adjustment had no effect on the loss before tax for 2011 or the opening position at 1 January 2011. The quarterly reports for the financial year 2012 included as comparatives in 2013 will be adjusted accordingly.

b) Investments in subsidiaries

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

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

c) Investments in at equity investments

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

d) Deferred tax assets

Profit or loss before tax is completely attributable to Germany.

Income tax benefit (expense) is as follows:

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

* restated

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

The tax rate of the Company equals 30.03% (2010: 30.03%). It consists of corporate tax rate and solidarity charge of 15.83% and trade tax of 14.20%. The calculation of the trade tax rate includes the effect of the different trade tax rates depending on the municipality in which the Company operates.

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

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

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

The reasons for the differences between the tax benefit expected on the basis of loss for the period and the recognised income tax benefits are as follows:

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

* restated

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

As of 31 December 2012, no additional deferred tax assets were capitalised for further loss carry forwards of EUR 49,991 for trade tax and EUR 452,127 for corporate tax (2011 restated: EUR 58,970 for trade tax and EUR 349,916 for corporate tax). The tax loss carry forwards are not subject to expiration.

Deferred tax assets and liabilities are attributable to the following assets and liabilities:

In thousands of EUR	2012	2011*
Deferred tax assets:		
Receivables	0	7
Accrued liabilities and provisions	937	722
Negative market values of derivatives	646	25
Tax loss carry forwards	17,589	4,604
	19,172	5,358
Deferred tax liabilities:		
Convertible bonds, corporate bonds	(3,949)	(579)
Positive market values of derivatives	(189)	(4,779)
	(4,138)	(5,358)
Offsetting	19,172	(5,358)
Deferred tax assets, net	15,034	0
Deferred tax assets, net beginning of period	0	41,707
Change in deferred tax position	15,034	(41,707)
Thereof related to items recorded in equity	1,665	0
Deferred income tax benefit (expense)	13,369	(41,707)

* restated

Income tax recognised in equity

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

e) Loans to subsidiaries

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

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

The Company signed an unlimited loan with airberlin Technik GmbH amounting to EUR 25,130 (2011: EUR 25,643) with a yearly interest rate of 1%. The loan can be called with a notice period of one month to the end of a month.

f) Loans to associates

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

g) Receivables from subsidiaries

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

Cash pooling agreements were concluded to bundle the Group's financial activities. At the end of the period, the receivables from cash pooling amounts to EUR 35,256 (2011: EUR 41,104).

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

h) Receivables from at equity investments

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

i) Share capital and reserves

The capital structure of Air Berlin PLC is that of the Group, except that certain reserves on the consolidated level are not relevant at Company level.

A full description of the Company's share capital and reserves is detailed in note 13 to the consolidated financial statements.

j) Pensions

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

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

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

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

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

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

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

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

The actual loss on plan assets was EUR 1,505 during the period (2011: loss EUR 110). No experience adjustments were made during the period.

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

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

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

Principal actuarial assumptions at the reporting date are as follows:

in %	2012	2011
Discount rate at 31 December	3.57	4.63
Expected return on plan assets at 1 January	4.30	4.30
Future salary increases	0.00	0.00
Cost of living adjustment (future pension increases)	1.00	1.00

Assumptions regarding future mortality are based on published statistics and mortality tables ("Richttafeln 2005 G" published by Heubeck-Richttafeln-GmbH). The average remaining life expectancy of an individual retiring at age 65 is 20 years for males and 25 years for females.

k) Other liabilities to subsidiaries

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

The convertible bonds were issued by AB Finance B.V., and the proceeds were transferred to Air Berlin PLC with the same conditions as the bonds.

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

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

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

l) Accrued liabilities

Accrued liabilities primarily relate to expenses for services received but not yet invoiced as of the end of the period.

m) Payables to subsidiaries

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

n) Fair values

Fair value is the amount obtainable in an arm's length transaction between knowledgeable willing parties. The carrying amounts of financial assets and liabilities approximate their fair values. The fair values of financial assets and liabilities, together with their carrying amounts as at 31 December shown in the statement of financial position, are as follows:

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

o) Related party transactions

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

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

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

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

p) Employees

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

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

36. CONSOLIDATED ENTITIES

The following entities are included in the consolidated financial statements:

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

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

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

² The company is consolidated as a special purpose entity.

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

Excerpt from the Interim Financial Report for the third quarter and the first three months of the financial year 2014 (unaudited), comprising the following:

Consolidated Financial Statements for the period ended 31 March 2014

Notes to the consolidated Financial Statements as of 31 March 2014

Air Berlin PLC

CONSOLIDATED INCOME STATEMENT (UNAUDITED)

for the period ended 31 March 2014

	1/14-3/14	1/13-3/13
	€ 000	€ 000
Revenue	761,800	791,871
Other operating income	3,074	7,788
Expenses for materials and services	(633,258)	(681,232)
Personnel expenses	(125,439)	(122,480)
Depreciation and amortisation	(17,674)	(18,664)
Other operating expenses	(171,338)	(165,716)
Operating expenses	(947,709)	(988,092)
Result from operating activities	(182,835)	(188,433)
Financial expenses	(21,141)	(20,608)
Financial income	205	1,414
Result on foreign exchange and derivatives, net	(9,596)	(5,787)
Net financing costs	(30,532)	(24,981)
Share of at equity investments, net of tax	0	0
Result before tax	(213,367)	(213,414)
Income tax result	3,566	17,067
Result for the period – all attributable to the shareholders of the Company	(209,801)	(196,347)
Basic earnings per share in €	(1.80)	(1.68)
Diluted earnings per share in €	(1.80)	(1.68)

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME (UNAUDITED)

	1/14-3/14	1/13-3/13
	€ 000	€ 000
Result for the period	(209,801)	(196,347)
Foreign currency translation reserve	99	(86)
Effective portion of changes in fair value of hedging instruments	(10,196)	15,754
Net change in fair value of hedging instruments transferred from equity to profit or loss	5,520	2,942
Remeasurement of net defined liability	0	0
Income tax on other comprehensive income	1,322	(5,566)
Other comprehensive income for the period, net of tax	(3,255)	13,044
Total comprehensive income – all attributable to the shareholders of the Company	(213,056)	(183,303)

Air Berlin PLC**CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)**

as of 31 March 2014

	31/03/2014	31/12/2013
	€ 000	€ 000
Assets		
Non-current assets		
Intangible assets	414,353	415,893
Property, plant and equipment	489,103	497,846
Trade and other receivables	124,840	115,301
Deferred tax asset	16,969	17,063
Positive market value of derivatives	212	105
Net defined benefit asset	3,455	3,455
Deferred expenses	53,791	55,744
At equity investments	6,666	6,666
Non-current assets	1,109,389	1,112,073
Current assets		
Inventories	54,177	53,043
Trade and other receivables	528,864	406,027
Positive market value of derivatives	2,776	14,350
Deferred expenses	63,975	46,620
Assets held for sale	0	30,309
Cash and cash equivalents	272,999	223,063
Current assets	922,791	773,412
Total assets	2,032,180	1,885,485

Air Berlin PLC

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)
as of 31 March 2014

	31/03/2014	31/12/2013
	€ 000	€ 000
Equity and liabilities		
Shareholders' equity		
Share capital	29,273	29,273
Share premium	435,085	435,085
Equity component of convertible bond	597	597
Other capital reserves	217,056	217,056
Retained earnings	(1,071,976)	(862,175)
Hedge accounting reserve, net of tax	(9,258)	(5,904)
Foreign currency translation reserve	3,291	3,192
Remeasurement of the net defined benefit obligation	(3,188)	(3,188)
Total equity – all attributable to the shareholders of the Company	(399,120)	(186,064)
Non-current liabilities		
Interest-bearing liabilities due to aircraft financing	172,863	178,391
Interest-bearing liabilities	686,845	605,265
Provisions	4,295	4,356
Trade and other payables	72,454	72,405
Deferred tax liabilities	24,501	29,707
Negative market value of derivatives	698	577
Non-current liabilities	961,656	890,701
Current liabilities		
Interest-bearing liabilities due to aircraft financing	53,679	76,863
Interest-bearing liabilities	160,654	158,542
Tax liabilities	3,718	3,716
Provisions	25,330	25,777
Trade and other payables	430,754	440,967
Negative market value of derivatives	19,259	23,098
Deferred income	21,066	22,957
Advanced payments received	755,184	428,928
Current liabilities	1,469,644	1,180,848
Total equity and liabilities	2,032,180	1,885,485

Air Berlin PLC

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

for the period ended 31 March 2014

	Share capital	Share premium	Equity component of convertible bonds	Other capital reserves	Retained earnings	Hedge accounting reserve, net of tax	Foreign currency translation reserve	Remeasurement of the net defined benefit liability*	Equity attributable to the shareholders of the Company
	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000
Balances at									
31 December 2012	29,273	435,085	597	217,056	(546,663)	(8,602)	3,429	0	130,175
Total transactions with shareholders									
	0	0	0	0	0	0	0	0	0
Loss for the period					(196,347)				(196,347)
Other comprehensive income						13,130	(86)		13,044
Total comprehensive income					(196,347)	13,130	(86)		(183,303)
Balances at									
31 March 2013	29,273	435,085	597	217,056	(743,010)	4,528	3,343	0	(53,128)
Balances at									
31 December 2013	29,273	435,085	597	217,056	(862,175)	(5,904)	3,192	(3,188)	(186,064)
Total transactions with shareholders									
	0	0	0	0	0	0	0	0	0
Loss for the period					(209,801)				(209,801)
Other comprehensive income						(3,354)	99		(3,255)
Total comprehensive income	0	0	0	0	(209,801)	(3,354)	99	0	(213,056)
Balances at									
31 March 2014	29,273	435,085	597	217,056	(1,071,976)	(9,258)	3,291	(3,188)	(399,120)

* Retrospective application of the revised version of IAS 19 has no material impact on prior year figures.

Air Berlin PLC**CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)
for the period ended 31 March 2014**

	31/03/2014	31/03/2013
	€ 000	€ 000
Result for the period	(209,801)	(196,347)
Adjustments to reconcile profit or loss to cash flows from operating activities:		
Depreciation and amortisation of non-current assets	17,674	18,664
Gain on disposal of non-current assets	(308)	(709)
Increase in inventories	(1,134)	(249)
Increase in trade accounts receivables	(126,352)	(93,139)
Increase in other assets and prepaid expenses	(20,919)	(10,684)
Deferred tax benefit	(3,791)	(18,227)
Increase (Decrease) in provisions	(508)	1,309
(Decrease) Increase in trade accounts payable	(10,544)	31,922
Increase in other current liabilities	324,372	325,602
Result on foreign exchange and derivatives, net	9,596	5,786
Interest expense	20,654	20,584
Interest income	(205)	(1,414)
Income tax expense	225	1,160
Share of profit of associates	0	0
Other non-cash changes	99	(406)
Cash generated from operations	(942)	83,852
Interest paid	(21,376)	(19,185)
Interest received	174	1,366
Income taxes paid	(223)	(1,371)
Net cash flows from operating activities	(22,367)	64,662
Purchases of non-current assets	(4,664)	(2,918)
Net advanced payments for non-current items	(4,361)	(2,414)
Proceeds from sale of tangible and intangible assets	31,775	2,073
Cash flow from investing activities	22,750	(3,259)
Principal payments on interest-bearing liabilities	(24,185)	(57,911)
Proceeds from issue of corporate bonds	76,125	0
Transaction costs related to issue of corporate bonds	(2,333)	0
Proceeds from issue (redemption) of convertible bonds	0	140,000
Transaction costs related to issue of convertible bonds	0	(3,263)
Cash flow from financing activities	49,607	78,826
Change in cash and cash equivalents	49,990	140,229
Cash and cash equivalents at beginning of period	223,006	327,821
Foreign exchange revaluation on cash balances	(49)	2,043
Cash and cash equivalents at end of period	272,947	470,093
thereof bank overdrafts used for cash management purposes	(52)	(144)
thereof cash and cash equivalents in the statement of financial position	272,999	470,237

NOTES TO THE CONDENSED FINANCIAL STATEMENTS AS OF 31 MARCH 2014

(Euro/USD/CHF in thousands, except share data)

1. REPORTING ENTITY

The consolidated interim financial statements of Air Berlin PLC for the three months ended 31 March 2014 comprise Air Berlin PLC ("the Company") and its subsidiaries (together referred to as "airberlin" or the "Group") and the Group's interest in associates. Air Berlin PLC is a company incorporated in England and Wales with its registered office in London. The corporate headquarters of airberlin are located in Berlin. The Company's ordinary shares are traded on the Frankfurt Stock Exchange.

The Group financial statements as at, and for, the year ended 31 December 2013 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 2013 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.

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 2013.

This condensed set of financial statements was approved by the Directors on 14 May 2014.

3. ACCOUNTING POLICIES AND CHANGES IN ACCOUNTING

This interim report up to 31 March 2014 has been drawn up in accordance with IAS 34 and in compliance with the standards and interpretations applicable from 1 January 2014 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 2013.

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2014. The application of IFRS 10, IFRS 11, IFRS 12 has no material impact on the Group.

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 2013.

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 travellers. For the twelve months ended 31 March 2014 the Group had revenue of € 4,116,723 (prior year: € 4,290,658) and result for the period after tax of € -328,966 (prior year: € -25,887). Furthermore, for the twelve months ended 31 March 2014 the EBIT amounted to € -226,282 (prior year: € -30,984).

6. NON-CURRENT ASSETS

During the three months ended 31 March 2014 the Group acquired fixed assets with a cost of € 8,262 (prior year: € 6,020). Assets with a carrying amount of € 880 were disposed of during the three months ended 31 March 2014 (prior year: € 1,936).

Capital commitments for property, plant and equipment amount to 3.3 bn USD (prior year: 3.5 bn USD).

7. SHARE CAPITAL

Of airberlin's authorized share capital, 116,800,508 ordinary shares of € 0.25 each and 50,000 A shares of £ 1.00 each were issued and fully paid up. Included in this amount are 177,600 treasury shares held by airberlin (through the Air Berlin Employee Share Trust).

8. CORPORATE BONDS

On 21 January 2014 the Group increased the aggregate principal amount of its bond placed on 19 April 2011 with a coupon of 8.25% per annum from € 150,000 by € 75,000 to the aggregate principal amount of € 225,000. The notes were issued at 101.50% of their principal amount. Transaction costs incurred were € 2,333. The bonds are measured at amortized cost.

9. REVENUE

In thousands of Euro	1/14-3/14	1/13-3/13
Flight revenue	683,925	718,084
Ground and other services	72,641	68,247
Duty-free / in-flight sales	5,234	5,540
	761,800	791,871

airberlin recognizes ticket sales as income at the time when the transportation is provided. When the fare is for a round-trip and the return flight has not yet been provided at the reporting date, the unearned revenue is deferred in the consolidated balance sheet under "Advanced payments received" until such time the transportation is provided.

SEGMENT INFORMATION

The company is managed by the Board of Directors as a single business unit in one geographical area and one service. The key figures and ratios presented to the Board of Directors in managing the company are: Result from operating activities, net debt, revenues, passengers, yield and block hours. The financial measures are IFRS measures and are shown in the primary statements. Resource allocation decisions are made based on the entire route network and the deployment of the entire fleet. Revenues derive nearly completely from the principal activity as an airline and include flights, commissions, in-flight and related sales that are generated in Europe. Since airberlin's fleet is employed across its scheduled destinations on an as needed basis all assets and liabilities are allocated to the one segment. The Board has also determined that there is no reasonable basis of allocating assets and related liabilities, income and expenses to geographical areas other than Europe or to individual groups of customers.

10. OTHER OPERATING INCOME

In thousands of Euro	1/14-3/14	1/13-3/13
Gain on disposal of long-term assets, net	308	574
Income from insurance claims	624	397
Other	2,142	6,817
	3,074	7,788

11. EXPENSES FOR MATERIALS AND SERVICES

In thousands of Euro	1/14-3/14	1/13-3/13
Fuel for aircraft	208,057	219,991
Airport and handling charges	156,946	171,256
Operating leases for aircraft and equipment	128,143	138,287
Navigation charges	50,343	49,033
Air transportation tax	30,844	30,545
Catering costs and cost of materials for in-flight sales	20,302	26,329
Other	38,623	45,791
	633,258	681,232

The expenses for operating leases for aircraft and equipment include expenses of € 29,048 (prior year: € 20,821) that do not directly relate to the lease of assets.

12. PERSONNEL EXPENSES

In thousands of Euro	1/14-3/14	1/13-3/13
Wages and salaries	105,448	101,929
Social security	10,794	11,254
Pension expense	9,197	9,297
	125,439	122,480

13. OTHER OPERATING EXPENSES

In thousands of Euro	1/14-3/14	1/13-3/13
Repairs and maintenance of technical equipment	60,352	58,968
Sales and distribution expenses (incl. commissions)	26,186	26,762
Advertising	17,916	14,036
Expenses for premises and vehicles	10,734	11,059
Travel expenses for cabin crews	6,436	6,403
Bank charges	6,201	5,912
Audit and consulting fees	6,081	8,646
Insurance	3,722	4,988
Training and other personnel expenses	5,317	4,154
IT related expenses	4,436	3,847
Phone and postage	729	1,351
Allowances for receivables	1,133	1,408
Other	22,095	18,181
	171,338	165,716

14. NET FINANCING COSTS

In thousands of Euro	1/14-3/14	1/13-3/13
Interest expense on interest-bearing liabilities	(20,655)	(20,585)
Other financial expenses	(486)	(23)
Financial expenses	(21,141)	(20,608)
Interest income on fixed deposits	34	60
Interest income on loans and receivables	2	12
Other financial income	169	1,342
Financial income	205	1,414
Result on foreign exchange and derivatives, net	(9,596)	(5,786)
Net financing costs	(30,532)	(24,980)

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, interest-bearing liabilities due to aircraft financing and other financial assets and liabilities which are to be settled in a foreign currency at the balance sheet date as well as from changes in the fair value of derivatives. Realised exchange rate gains or losses not arising from interest-bearing liabilities and other financing activities are reclassified to the various income and expense line items from which they arose within operating result.

15. INCOME TAX AND DEFERRED TAX

Loss before tax is primarily attributable to Germany. The income tax benefit for the period is as follows:

In thousands of Euro	1/14-3/14	1/13-3/13
Current income tax expense	(225)	(1,160)
Deferred income tax benefit	3,791	18,227
Total income tax result	3,566	17,067

16. FAIR VALUE HIERARCHY

The following table presents the group's financial assets and liabilities that are measured at fair value at 31 March 2014.

In thousands of Euro	Level 1	Level 2	Level 3	Total
Assets				
Derivatives classified held for trading	0	64	0	64
Derivatives classified hedge accounting	0	2,924	0	2,924
Total assets	0	2,988	0	2,988
Liabilities				
Derivatives classified held for trading	0	575	0	575
Derivatives classified hedge accounting	0	19,382	0	19,382
Interest bearing liabilities (embedded derivative)	0	22,766	0	22,766
Total liabilities	0	42,723	0	42,723

The following table presents the group's financial assets and liabilities that are measured at fair value at 31 December 2013.

In thousands of Euro	Level 1	Level 2	Level 3	Total
Assets				
Derivatives classified held for trading	0	105	0	105
Derivatives classified hedge accounting	0	14,350	0	14,350
Total assets	0	14,455	0	14,455
Liabilities				
Derivatives classified held for trading	0	662	0	662
Derivatives classified hedge accounting	0	23,013	0	23,013
Interest bearing liabilities (embedded derivative)	0	15,900	0	15,900
Total liabilities	0	39,575	0	39,575

Level 2 derivatives comprise forward exchange, interest rate and fuel price derivatives which have been fair valued using option pricing models and the discounted cashflow method. Material input factors were forward exchange rates, interest forward rates and fuel forward rates that are quoted in an active market. Level 2 interest bearing liabilities relate to an embedded derivative of convertible bonds issued and have been valued using the volatility of the airberlin share, credit risk of airberlin and interest forward rates.

17. FINANCIAL INSTRUMENTS FAIR VALUE

The fair values of the financial assets and liabilities, the carrying amount disclosed and the relevant category as of 31 March 2014 are as follows:

In thousands of Euro	Loans & receivables	Held for trading	Hedge-Accounting	Financial liabilities at amortised costs	Financial liabilities at fair value	Total carrying amount	Fair value at 31 March 2014
Trade receivables and other assets	473,274					473,274	473,274
Derivatives classified as held for trading with positive market values		64				64	64
Derivatives classified as hedge accounting with positive market values			2,924			2,924	2,924
Cash and cash equivalents	272,999					272,999	272,999
	746,273	64	2,924	0	0	749,261	749,261
Derivatives classified as held for trading with negative market values		575				575	575
Derivatives classified as hedge accounting with negative market values			19,382			19,382	19,382
Financial liabilities at amortised costs				1,140,621		1,141,430	1,084,226
Financial liabilities at fair value					22,766	22,766	22,766
Finance lease liabilities				29,706		29,706	27,821
Bank overdrafts used for cash management purposes					52	52	52
	0	575	19,382	1,170,379	22,766	1,213,911	1,154,822

18. CASH FLOW STATEMENT

In thousands of Euro	31/03/2014	31/03/2013
Cash	138	321
Bank balances	148,055	133,288
Fixed-term deposits	124,806	336,628
Cash and cash equivalents	272,999	470,237
Bank overdrafts used for cash management purposes	(52)	(144)
Cash and cash equivalents in the statement of cash flows	272,947	470,093

Cash and cash equivalents include restricted cash of € 124,248 as of 31 March 2014 (prior year: € 103,443).

19. RELATED PARTY TRANSACTIONS

The Group has related party relationships with its Directors, its associates and major shareholder.

Members of the Board of Directors control a voting share of 4.31 % of Air Berlin PLC (prior year: 4.31 %).

One of the non-executive directors, also a shareholder of the Company, is the controlling shareholder of Phoenix Reisen GmbH. The Group had revenues from ticket sales with Phoenix Reisen GmbH of € 1,023 (prior year: € 2,440). At 31 March 2014, € 89 (prior year: € 583) are included in the trade receivables line.

The Group received secured loans that are shown as interest-bearing liabilities from a major shareholder – Etihad Airways PJSC. The outstanding amount at 31 March 2014 equals € 98,894 including accrued interest. Relating to the loan interest expenses of € 1,833 have been accounted for in the income statement in 2014. Etihad Airways PJSC and airberlin cooperate in miscellaneous operative areas e.g. procurement and maintenance. airberlin entered into a code-share-agreement with Etihad Airways PJSC. The Group paid commissions of € 1,710 (prior year: € 3,014) to Etihad Airways PJSC and received from Etihad Airways PJSC commissions of € 1,450 (prior year: € 1,048). At 31 March 2014 € 13,961 (prior year: € 17,778) are included in the trade and other receivables line. The amount of € 345 (prior year: € 2,424) is included in the trade and other payables line.

During the year ended 31 March 2014 respectively 2013 the Group had transactions with associates as follows:

In thousands of Euro	2014	2013
THBG BBI GmbH		
Receivables from related parties	2,396	1,637
Interest Income	30	28
Binoli GmbH		
Receivables from related parties	193	135
Revenues from ticket sales	2,002	1,694
E190 Flugzeugvermietung GmbH		
Receivables from related parties	2,555	4,350
Expenses for leasing	1,515	1,874
IHY IZMIR HAVAYOLLARI A.S.		
Receivables from related parties	304	70
Income from leasing	1,006	688
Topbonus Ltd		
Receivables from related parties	17	543
Payables to related parties	2,825	4,125
Revenues from ticket sales	1,014	0
Expenses for miles	4,796	739
Ausocon Berlin Call Center GmbH		
Receivables from related parties	12	0
Payables to related parties	0	0
Revenues	77	0
Expenses for call center activities	1075	0

Transactions with associates are priced on an arm's length basis.

20. SUBSEQUENT EVENTS

On 27 April 2014 the group has issued a perpetual bond to its shareholder Etihad Airways PJSC in the total amount of € 300,000. The drawdown of the bond is divided in three tranches each € 100,000 and will be paid out at 20 May 2014, 28 August 2014 and 27 November 2014. The perpetual bond has no maturity and bears an interest coupon of 8.0 % per annum. Interest coupons can be deferred indefinite at the discretion of the Group. The perpetual bond bears a conversion right to convert the bonds into ordinary shares at a conversion price of € 1.79. The perpetual bond will be recognized as equity in the Group's consolidated statement of financial position.

On 8 May 2014 the Group issued two corporate bonds amounting to € 170,000 and respectively CHF 100,000. Thereof € 162,706 and CHF 92,725 will be a cash inflow, whereas € 7,294 and CHF 7,275 will be a conversion of the corporate bonds with a maturity 2014 and 2015 into the new issued corporate bond. After the exchange has taken place, the outstanding principal amount of the bond due 2014 will amount to € 141,484 and the outstanding principal amount of the bond due 2015 will amount to € 195,888.

On 1 May 2014 Marco Ciomperlik became a new member of the Management Board. In his position as Chief Restructuring Officer (CRO), he coordinates and manages the restructuring and turnaround processes at airberlin.

21. EXECUTIVE DIRECTORS

Wolfgang Prock-Schauer Chief Executive Officer

22. MANAGEMENT BOARD

Wolfgang Prock-Schauer Chief Executive Officer

Helmut Himmelreich Chief Operating Officer

Ulf Hüttmeyer Chief Financial Officer

Dr. Martina Niemann Chief Human Resources Officer