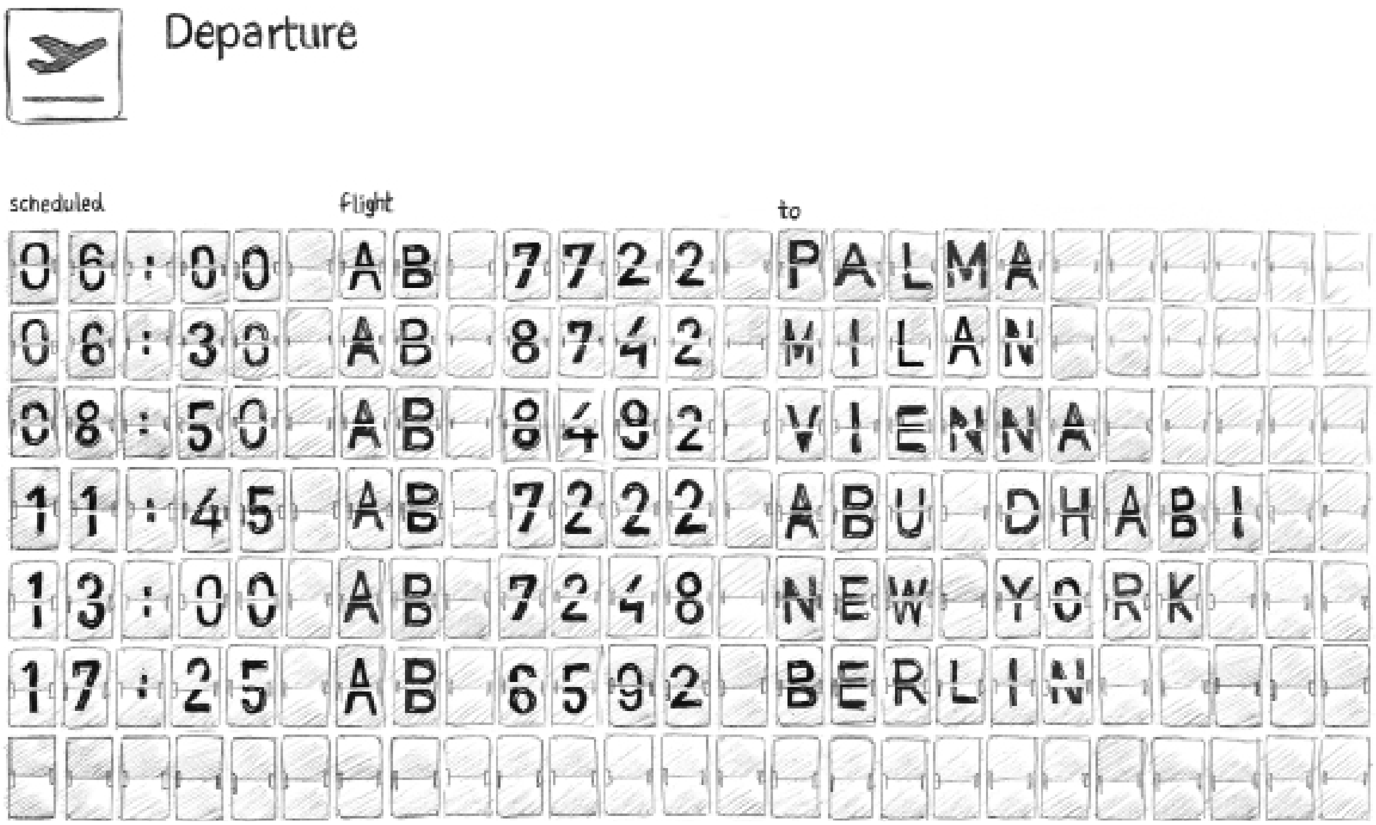



# 2014 ANNUAL REPORT

airberlin
Your Airline.

# AIRBERLIN FINANCIAL FIGURES 2014

## FINANCIAL PERFORMANCE INDICATORS

| | 2014 vs. 2013 in per cent | **2014** | 2013 | 2012 |
|---|---|---|---|---|
| Revenue (in million euros) | +0.3 | 4,160.2 | 4,146.8 | 4,311.7 |
| thereof: ticket sales (in million euros) | –0.0 | 3,808.2 | 3,815.5 | 4,006.7 |
| EBITDAR (in million euros) | –18.8 | 351.2 | 432.7 | 736.4 |
| EBIT (in million euros) | –26.7 | –293.8 | –231.9 | 70.2 |
| Consolidated profit/loss for the period (in million euros) | –19.4 | –376.7 | –315.5 | 6.8 |
| Earnings per share (in EUR) | –22.1 | –3.31 | –2.71 | 0.06 |
| Total assets (in million euros) | –0.0 | 1,863.6 | 1,885.5 | 2,217.6 |
| Employees (as at 31 December) | –5.2 | 8,440 | 8,905 | 9,284 |

## OPERATING PERFORMANCE INDICATORS

| | 2014 vs. 2013 in per cent | **2014** | 2013 | 2012 |
|---|---|---|---|---|
| Passengers (PAX) | +0.57 | 31,716,202 | 31,535,867 | 33,346,495 |
| Flight revenue per PAX (Yields) | –0.8 | 120.1 | 121.0 | 120.2 |
| Available seat kilometres (in billion; ASK) | +3.11 | 59.03 | 57.25 | 60.30 |
| Total Revenue per ASK (RASK; EURct) | –2.7 | 7.05 | 7.24 | 7.15 |
| Total Costs per ASK (CASK; EURct) | –2.8 | 7.53 | 7.75 | 7.47 |
| Revenue passenger kilometres (in billion; RPK) | +1.43 | 49.27 | 48.57 | 50.38 |
| Load factor (in per cent; RPK/ASK) | –1.39* | 83.46 | 84.85 | 83.55 |
| Destinations (as at 31 December) | –14.0 | 147 | 171 | 174 |
| Number of aircraft at year-end (operational fleet) | +6.43 | 149 | 140 | 155 |

* percentage points

**PLEASE NOTE THE FOLLOWING INFORMATION:**

In the following report, Air Berlin PLC is referred to as the "Company". References to "airberlin", "airberlin group", "we", or "our" refer to Air Berlin PLC or, depending on the context, Air Berlin PLC, and/or its subsidiaries.

This report uses the generic masculine form, which refers equally to both male and female persons.

# CONTENTS

# MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

**Stefan Pichler**
Chief Executive Officer (CEO)

SIGNIFICANT IMPROVEMENTS IN PRODUCTIVITY AND, ABOVE ALL, SUSTAINABLY HIGHER YIELDS WILL BE OUR FOCUS IN 2015.

## Dear Shareholders,

The extensive cost reductions achieved by the Turbine programme and harmonisation of the airberlin group's entire organisation did not result in profitability in the 2014 financial year. Therefore, we have initiated further structural measures and a sustainable realignment of our business. The active implementation of our network and revenue management strategy is already showing signs of success. Since the third quarter of 2014, our yields are trending higher. This improvement will lay the foundation to position the airberlin group as a European multi-hub airline with a strong market presence in attractive catchment areas. Additionally, we can build on our three other competitive advantages: lower unit costs in comparison to other network carriers; an experienced sales team for tourism; and our flexible, dynamic staff.

The realignment of our business model will be carried out in three phases. In phase 1, we will continue to leverage our group's structure and processes along the value chain until the third quarter of 2015 which we expect will improve our results. Our network strategy, scheduling and sales channel management will continue to be critically reviewed. We plan to make visible investments in serving our customers and improving our service quality through our 24/7 service campaign. Our goal is to respond to passenger requests within 24 hours and to completely process all customer requests within seven working days of receipt. We plan to achieve this goal by mid-year.

In phase 2, we aim to continue optimising our capacity and expect to significantly improve yields with our revenue management strategy. The realignment of our sales channels and closer coordination with our new and existing partner airlines should lead to synergies and higher market share. To achieve this objective, we are focussing on our strategic target markets and hubs while withdrawing from non-strategic markets. This set of measures is designed to strengthen our core business and further improve our cost structure.

In phase 3, the focus lies on further steps towards profitability and the airberlin group's future growth. To accomplish this, we plan to continue developing our multi-hub strategy and expanding our long-haul service. Other measures in this programme include strategically growing the platform, addressing non-core activities and the systematic development of our IT infrastructure.

The development of the management team to successfully implement this programme continues with recent appointments to the Management Board and includes not only experienced internal appointees but also experienced airline managers from the low cost and network airlines. We will further fill important key positions with internationally experienced managers driving the team along the value chain. In addition, a strong sales team with responsibility for revenue management will meet the demanding sales targets we need for our turnaround.

> *IN 2015, WE AIM TO BREAK THE SPIRAL OF NEGATIVE PERFORMANCE EXPERIENCED IN THE PAST FEW YEARS.*

By implementing these measures, we are following clearly defined objectives: expanding of our market leadership in Berlin, Dusseldorf and Palma de Mallorca and strengthening of our position in other important target markets in the DACH region. Our primary aim, however, is to reach profitability in the next two years. Our new roadmap is ambitious but realistic. In 2015, we aim to break the spiral of negative performance experienced in the past few years.

**STEFAN PICHLER**

CHIEF EXECUTIVE OFFICER

# STATEMENT FROM THE CHAIRMAN OF THE BOARD

**Dr Hans-Joachim Körber**
Chairman of the Board of Directors

THE CURRENT RESTRUCTURING PROGRAMME WILL FUNDAMENTALLY REALIGN THE AIRBERLIN GROUP.

## The financial position of the airberlin group

Although the benefits of the Turbine programme materialised as planned in the 2014 financial year, they were not sufficient to return the airberlin group to lasting profitability. Therefore, the Board of Directors called for additional actions as set forth in the current restructuring programme. The implementation of this programme will lead to a new structure for the airberlin group – both internally and externally in the competitive landscape.

The programme's implementation began in the reporting year and will continue over several phases during the 2015 and 2016 financial years. The most important measures of this package include the recently completed standardisation of the organisation across all platforms and the related review of the management structure and processes that is still under way. The IT-based revenue management system implemented in the reporting year will help to improve our competitive position. This system allows us to manage our business effectively so that we can increase our yields. Better performance

*WE ARE CONFIDENT THAT WE WILL ACHIEVE PROFITABILITY WITHIN THE NEXT TWO YEARS.*

and further cost reductions should make a considerable contribution towards profitability. We also began to harmonise our fleet in 2014 to Airbus aircraft only. In this respect, the agreement with Boeing for the cancellation of an order package comprising 33 aircraft totalling approximately five billion US dollars at list price marks a major success.

To implement this programme and successfully realign the airberlin group's operations, the Management Board will be reinforced with additional internationally experienced airline managers as of 1 June 2015. As our new Chief Commercial Officer (CCO), Julio Rodriguez will be responsible for Sales, Revenue Management and E-Commerce. Oliver Lackmann, a highly experienced captain who joined airberlin in 2001, will retain his role as Accountable Manager and will also assume the newly created position of Chief Flight Operations Officer (CFOO). In this position, he will be responsible for flight operations, crew scheduling, training, as well as Operations Compliance & Safety Management and Aviation Security Management. Marco Ciomperlik, who has been serving as the Chief Restructuring Officer, will assume the newly created position of Chief Production Officer (CPO) and will be responsible for the Hospitality division, which includes future product strategy and the operations along the entire service chain. He will also be in charge of the subsidiaries airberlin technik and Leisure Cargo. The Board of Directors is confident that this programme and the value chain-oriented management team will achieve profitability within the next two years.

To gather the additional financial resources necessary for implementing the restructuring programme and strenghten airberlin's equity, airberlin's strategic partner Etihad Airways subscribed to subordinated perpetual convertible bonds in the 2014 financial year. These bonds, which have no maturity date (so-called perpetual bonds), have a total nominal value of EUR 300 million and were issued in three tranches of EUR 100 million each in 2014. airberlin received additional capital of EUR 327 million in total through the exchange or issuance of fixed interest rate bonds.

## The work of the Board of Directors

The work of the Board of Directors and its committees during the 2014 financial year is discussed in detail in the Corporate Governance Report contained in this Annual Report from page 68.

## Personnel

In the course of the 2014 financial year and until the publication of this Annual Report, the following changes to the composition of the Board of Directors and the Management Board took place:

To reinforce management's capacity for the restructuring process, the Management Board added the function of Chief Restructuring Officer (CRO) and appointed Marco Ciomperlik to the post on 27 April 2014. On that same day, John Shepley joined the Management Board as Chief Strategy and Planning Officer (CSPO) on an interim basis. Mr Shepley stepped down from this position in February 2015 and resigned from the Company. On 1 July 2014, Götz Ahmelmann assumed the position of Chief Commercial Officer (CCO). Mr Ahmelmann is responsible for all sales and marketing areas within the airberlin group. CEO Wolfgang Prock-Schauer acted as CCO on an interim basis before Mr Ahmelmann's appointment.

With effect from 1 August 2014, the Chief Operating Officer (COO) Helmut Himmelreich left the Company for personal reasons. The Board of Directors would like to thank Mr Himmelreich for his service and his important contribution to the airberlin group. Since Mr Himmelreich's resignation, Marco Ciomperlik is acting as COO on an interim basis.

*WITH STEFAN PICHLER AS OUR CHIEF EXECUTIVE OFFICER, WE HAVE THE RIGHT PERSON FOR A NEW BEGINNING.*

The Board of Directors appointed Stefan Pichler as Chief Executive Officer (CEO) and Chairman of the Management Board with effect from 1 February 2015. As CEO, Mr Pichler was also named the Executive Director of the Board of Directors. In these positions, he succeeds Wolfgang Prock-Schauer, who initially remained on airberlin's Board as Chief Strategy and Planning Officer and member of the Management Board.

With effect from 28 February 2015, Mr Prock-Schauer left the Company. The Board of Directors thanks Mr Prock-Schauer for his extraordinary efforts and his achievements during his tenure at airberlin.

Arnd Schwierholz had been acting Deputy Chief Financial Officer (Deputy CFO) since the end of October 2014. He assumed the position of Chief Financial Officer (CFO) of the airberlin group effective 1 April 2015. He succeeds Ulf Hüttmeyer, who has been the group's CFO for the past nine years and has recently accepted a new position at Etihad Airways. The Board of Directors would like to thank Mr Hüttmeyer for his service and important contribution to the airberlin group.

The previous CCO Götz Ahmelmann will leave airberlin effective 1 June 2015 to assume a new position at Etihad Airways. The Board of Directors would like to extend its appreciation to Mr Ahmelmann for his contribution to airberlin and wishes him success in his new role at Etihad Airways.

Heinz-Peter Schlüter, who served as a Non-Executive Director on the Board of Directors since 1 April 2008, has left the Board for personal reasons with effect from 10 February 2015. The Board of Directors would like to thank Mr Schlüter for many years of successful cooperation. After Mr Schlüter's resignation, the Board immediately appointed Dr Alfred Tacke as Non-Executive Director. With his international and cross-industry expertise, airberlin gains valuable expertise.

## A word of thanks

In the 2014 financial year, the employees of the airberlin group and the management were met again with tremendous challenges that they faced with a high level of commitment. The Board of Directors would like to thank them for their dedication and their service.

**HANS-JOACHIM KÖRBER**
CHAIRMAN OF THE BOARD OF DIRECTORS

# THE BOARD OF DIRECTORS

## EXECUTIVE DIRECTOR

### STEFAN PICHLER

CHIEF EXECUTIVE OFFICER (CEO)

**Born 1957 in Munich, Germany and has been Chief Executive Officer (CEO) of Air Berlin PLC since 1 February 2015. Mr Pichler holds a degree in Economics and completed a post-graduate programme at Insead/France. He started his professional career as the Head of Sports Promotions at NIKE International in Beaverton, Oregon. Subsequently, he held various managerial positions at Lufthansa, including positions as Chief Commercial Officer and Member of the Executive Board responsible for worldwide sales & marketing activities. From 2000 to 2003, he served as the Chairman of the Executive Board of Thomas Cook AG. He subsequently took over the position of Chief Commercial Officer & Deputy CEO at Virgin Blue Airlines and simultaneously founded V Australia, where he served as Chairman of the Supervisory Board until 2009. From 2009 to 2013, Mr Pichler was the Managing Director & Chief Executive of Jazeera Airways. Stefan Pichler's most recent position was Managing Director at Fiji Airways.**

## NON-EXECUTIVE DIRECTORS

### DR HANS-JOACHIM KÖRBER

CHAIRMAN OF THE BOARD OF DIRECTORS

**Born 1946 in Braunschweig, Germany. Dr Körber holds a Brewmaster's degree and degree in Business Administration. After several years of holding executive positions at R.A. Oetker-Group, in 1985 he joined Metro SB Großmärkte, a legal predecessor of Metro AG, and held executive positions until 1996. With the founding of Metro AG in 1996, he became a member of the Board of Directors and was CEO from 1999 to 2007. Dr Körber has been a Non-Executive Director of Air Berlin PLC since 10 May 2006 and Chairman of the Board of Directors since 1 January 2011.**

### JAMES HOGAN

VICE CHAIRMAN OF THE BOARD OF DIRECTORS

**Born 1956 in Melbourne, Australia, Mr Hogan has been the President and Chief Executive Officer of Etihad Airways, the national airline of the United Arab Emirates since October 2006. Prior to this, he held senior executive and board positions at Hertz, bmi British Midland and**

Forte Hotels in Asia and Europe. From 2002 to 2006, he was President and Chief Executive of Gulf Air, Bahrain. He is a former member of the UBS Industrial Board, a Fellow of the Royal Aeronautic Society, a member of the International Air Transport Association (IATA) Board of Governors and Vice Chairman of the Executive Committee of the World Travel and Tourism Council (WTTC). Mr Hogan has been a Non-Executive Director of Air Berlin PLC and Vice Chairman of the Board of Directors since 24 January 2012, he has also been a member of the Nominations Committee since 2012 and serves on the Restructuring Committee.

## JOACHIM HUNOLD

CO-VICE CHAIRMAN OF THE BOARD OF DIRECTORS

Born 1949 in Dusseldorf, Germany, Mr Hunold studied law and has been in the aviation industry since 1978. He founded Air Berlin GmbH & Co Luftverkehrs KG in April 1991. From that time until 31 August 2011, he was a Managing Director of the airberlin group and was CEO of the Air Berlin PLC from 1 January 2006 to September 2011. Mr Hunold has been a Non-Executive Director of Air Berlin PLC since 1 September 2011.

## ANDRIES B. VAN LUIJK

Born 1945 in The Hague, Netherlands, Mr van Luijk holds a degree in Business Administration. He began his career at KLM Royal Dutch Airlines in 1969 where he held numerous international senior executive positions until 1999, and most recently was the Executive Vice President of Passenger Sales and Services and the Chairman of the joint venture between KLM and the US carrier Northwest Airlines. Mr van Luijk is a consultant to the Chairman of Jet Airways, a member of the Advisory Board of Deerns (Consulting Engineers), Chairman of the Board of Jet Air WW, AG, Chairman of the Advisory Board of MI Airline and Chairman of the Supervisory Board of Orfeo Clinic. Mr van Luijk has been a Non-Executive Director of Air Berlin PLC since 1 October 2013.

## JAMES RIGNEY

Born 1967 in Melbourne, Australia, Mr Rigney has been the Chief Financial Officer of Etihad Airways, the national airline of the United Arab Emirates, since October 2006. Prior to this, he held numerous senior executive and board positions at KPMG, the Ansett Group, and Gulf Air. As a chartered accountant, Mr Rigney holds a Bachelor and a Master of Business Administration (MBA) from the RMIT University in Melbourne. Mr Rigney is a member of the Finance Committee of the International Air Transport Association (IATA). He has been a Non-Executive Director of Air Berlin PLC since 24 January 2012, a member of the Finance Committee since 2012 and serves on the Restructuring Committee.

## ALI SABANCI

Born 1969 in Adana, Turkey, Mr Sabancı studied political science and economics at Tufts University, USA, from 1987 to 1991. He worked as a financial analyst for Morgan Stanley & Co, Inc. until 1993. He earned his MBA degree in International Finance at Columbia Business School in 1995. From 1997 to 2004, he held various management positions at H.Ö. Sabancı Holding A.Ş. In March 2004, Mr Sabancı resigned from his position and joined ESAS Holding A.Ş. as a Member of the Board. Mr Sabancı is also the dedicated Chairman of TOBB Young Entrepreneurs Council where he works on projects such as angel investing, Global Entrepreneurship Week, Entrepreneurs Club and the G3 Forum in order to foster entrepreneurship. Mr Sabancı has been a Non-Executive Director of Air Berlin PLC since 8 May 2009 and has been a member of the Finance Committee since 2010.

## HEINZ-PETER SCHLÜTER

Born 1949 in Rübehorst/Ruppin, Germany, Mr Schlüter is a merchant in wholesale and foreign trade and began his career in 1971 as a metal trader at W&O Bergmann. Starting in 1979, he had the overall responsibility for its trading division and since 1982, has been a member of the Management Board. In 1985, he founded and was the sole proprietor of TRIMET Metallhandelsgesellschaft, now known as TRIMET Aluminium SE, Germany's largest producer of aluminium. After the acquisition of factories in Saint Jean-de-Maurienne and Castelsarrasin, he became the Chairman of the Supervisory Board of the newly founded TRIMET France SAS. Mr Schlüter was a Non-Executive Director of Air Berlin PLC from 1 April 2008 through 2 March 2015.

## DR LOTHAR STEINEBACH

Born 1948 in Wiesbaden, Germany, Dr Steinebach is a fully qualified lawyer. He started his career at Henkel KGaA in the legal department in 1980 and was the Divisional Director with international responsibilities from 1989 to 1995. He was a member of the Management Committee of Henkel KGaA from 1995 to 2003, responsible for finance and controlling. From 2003 to 2012, he was a member of the Management Board of Henkel AG & Co. KGaA as its Executive Vice President & Chief Financial Officer responsible for the Finance, Procurement, IT, and Legal departments. Dr Steinebach is a member of the Supervisory Boards of ALTANA AG, Carl Zeiss AG, Ralf Schmitz GmbH & Co. KGaA and ThyssenKrupp AG. He is also a Member of the Advisory Board of Diem Client Partner AG, Switzerland. Dr Steinebach has been a Non-Executive Director of Air Berlin PLC since 1 October 2013.

## DR ALFRED TACKE

Born 1951 in Celle, Germany, Dr Tacke holds a Ph.D. in economics. From 1987 to 1989, he was the economic and environmental officer at the German Confederation of Trade Unions and from 1991 to 1998, he was the secretary of state in the Lower Saxony Ministry of Economic Affairs. From 1998 to 2005 he held the position of state secretary for the Federal Ministry of Economics and from 2000 to 2005, he was a G8 officer for the Federal Chancellor. In 2005, Dr Tacke switched to the private sector, first as the Chairman of the Board of Steag GmbH from 2005 to 2008, and from 2007 to 2008 he was a member of the Executive Board of Evonik AG. From 2009 to 2011, he was a member of the Advisory Board of the Germany Fund of the Federal Government and from 2010 to 2013 a member of the Public Interest Committee KPMG Europe LLP. On 2 March 2015, Dr Tacke was appointed as a Non-Executive Director of Air Berlin PLC. He serves on the Audit Committee and as Chairman of the Remuneration Committee.

## NICHOLAS TELLER

Born 1959 in London, Great Britain, Mr Teller holds a Bachelor of Commerce degree and held various various management positions at Commerzbank between 1982 and 2002. From 2002 until 2003, he was a Regional Board Member and from 2003 until 2008, he was a member of the Management Board of Commerzbank AG. Since that time, he has been part of the executive management of E.R. Capital Holding, first as its CEO until 2014 and then as its Chairman. Mr Teller is also a member of Commerzbank's Supervisory Board as well as a member of the Executive Committee of the Board of Directors of the American Chamber of Commerce in Germany e. V. He has served as Non-Executive Director of Air Berlin PLC since 10 May 2006.

## JOHANNES ZURNIEDEN

Born 1950 in Bergisch-Gladbach, Germany, Mr Zurnieden studied law and psychology and has been the Managing Director of Phoenix Reisen since 1973. Since 1994, he has been the Deputy Chairman of the Supervisory Board of Deutscher Reisepreis-Sicherungsverein and from 1998, the Vice President of DRV (Deutsche ReiseVerband). He is also a Member of the Advisory Boards of Europäische Reiseversicherung AG, Commerzbank and Sparkasse Köln-Bonn. Mr Zurnieden has been a Non-Executive Director of Air Berlin PLC since 10 May 2006, and he was Chairman of the Board of Directors until 31 December 2010.

# STATEMENTS OF THE MANAGEMENT BOARD

**STEFAN PICHLER**
Chief Executive Officer (CEO)

*"We will do everything in our power to put airberlin on solid financial footing. The clear goal: profitability within the next two years."*

**ULF HÜTTMEYER**
Chief Financial Officer (CFO) until 1 April 2015

*"Optimised routes, demand- and competitive-oriented revenue management and close European and global collaborations. That is the future for airberlin."*

**ARND SCHWIERHOLZ**
Chief Financial Officer (CFO) as of 1 April 2015

*"Our restructuring programme is the clear focus in 2015. With the entire airberlin team and the continuous tracking of success."*

### *GÖTZ AHMELMANN*
Chief Commercial Officer (CCO)

***"Close to the customer, lean and powerful: that's our sales team. New and attractive products, innovative technologies and close collaborations also play a role."***

### *MARCO CIOMPERLIK*
Chief Restructuring Officer (CRO)

***"Safe, smooth, punctual: this is airberlin's focus. Ongoing product improvements and ecological balance are not forgotten."***

### *DR MARTINA NIEMANN*
Chief Human Resources Officer (CHO)

***"The structures necessary for the turnaround are in place. This allows us to make the best use of our many talented employees and their "can-do" mentality."***

# THE MANAGEMENT BOARD

## STEFAN PICHLER

CHIEF EXECUTIVE OFFICER (CEO)

SINCE 1 FEBRUARY 2015

**As CEO, Stefan Pichler has responsibility for all companies and brands of the airberlin group. Mr Pichler's curriculum vitae is presented on page 8.**

## GÖTZ AHMELMANN

CHIEF COMMERCIAL OFFICER (CCO)

**Born 1971 in Kiel, Germany, Mr Ahmelmann was formerly employed at Deutsche Lufthansa, where he held various positions since 1996. After working in product management and corporate strategy, he became the Commercial Director for Lufthansa's hub in Frankfurt, responsible for the management, coordination and development of Lufthansa's global cooperation partners, including its partners in the Star Alliance. He was then appointed the Vice President of Sales and Services Europe responsible for Lufthansa's sales activities in 45 countries, as well as ground handling at over 100 airports. On 1 July 2014 Götz Ahmelmann was appointed Chief Commercial Officer (CCO) of Air Berlin PLC.**

## MARCO CIOMPERLIK

CHIEF RESTRUCTURING OFFICER (CRO)

**Born 1975 in Eisleben, Germany, Mr Ciomperlik has been with the airberlin group since 2010. After several years in senior positions at Deutsche Bank and as the head of restructuring projects at Roland Berger Strategy Consultants, he was appointed Chief Financial Officer and in 2011 assumed the position of Chief Executive Officer of airberlin technik. As Chief Restructuring Officer (CRO) of Air Berlin PLC, he has been coordinating the restructuring and turnaround processes since 27 April 2014.**

## ULF HÜTTMEYER

CHIEF FINANCIAL OFFICER (CFO)

UNTIL 1 APRIL 2015

**Born 1973 in Wildeshausen, Germany, Mr Hüttmeyer holds a degree in Business Administration and in 1996 became a credit and finance analyst at Commerzbank. He then assumed various positions in Germany and abroad (Singapore). He most recently held the senior executive position of Group Manager of Corporate Clients Services in Berlin and was appointed Director in 2005. He has been the Chief Financial Officer (CFO) of Air Berlin PLC since February 2006. With effect from 31 March 2015, Mr Hüttmeyer resigned from this position.**

## MARTINA NIEMANN

CHIEF HUMAN RESOURCES OFFICER (CHO)

**Born 1964 in Duisburg, Germany, Mrs Niemann studied at the Freie Universität Berlin and graduated with a diploma in economics. She then held a management position at a private equity company. She subsequently spent two years at Deutsche Lufthansa and then accepted a position at the Kaufhof Group as Director of Controlling for the travel agency segment. Since 1995, she has held various management positions at Deutsche Bahn AG, including Director of Human Resource Reporting and Analysis, Workforce Deployment, and the Group's labour market. She was most recently the Head of the Remuneration and Welfare Policy Department. She has held the position of Chief Human Resources Officer (CHO) of Air Berlin PLC since 15 February 2012.**

## ARND SCHWIERHOLZ

CHIEF FINANCIAL OFFICER (CFO)

AS OF 1 APRIL 2015

**Born 1970 in Krefeld, Germany, Mr Schwierholz obtained an economics degree in Trier and Manchester and subsequently began his career at UBS Investment Bank in 1995. He started his career in aviation at Deutsche Lufthansa AG in 2002 as Head of Mergers & Acquisitions and was responsible for the acquisitions of Austrian Airlines, SN Brussels as well as a shareholding in Jet Blue. Most recently he held the position of CFO of Lufthansa's catering subsidiary LSG Sky Chefs in North America and was also responsible for procurement and IT. In October 2014, he joined the airberlin group as Deputy CFO. With effect from 1 April 2015, he assumed the position of Chief Financial Officer (CFO) of Air Berlin PLC.**

# THE AIRBERLIN SHARE

**Geopolitical factors and expansive central bank monetary policies took the stock markets on a roller coaster in 2014. The collapse of oil prices offered no support to airline shares.**

### The airberlin share and the stock market in the year 2014

The stock market was driven by strongly opposing forces in 2014. Geopolitical factors, such as the Ukraine crisis and the resulting negative impact on the world economy, caused another wave of uncertainty and led to significant declines in stock prices in the second half. Support for stock prices mainly came from continued interest rate declines in Europe and the high liquidity of the capital markets provided by the central banks. The substantial drop in oil prices sent mixed signals to airlines, despite the positive impact on the overall economy. The European Central Bank's expansive monetary policy and the resulting weakening of the euro caused a significant rebound in stock prices from the year's low beginning in mid-October. The European stock markets rallied until the end of 2014 and, in some cases, ended the year at all-time highs. This was the case for the German DAX index.

The general benchmark for the airberlin share price, the SDAX price, fell to a year low in mid-October with a decline of 11 per cent. It then rebounded and moved substantially higher closing the 2014 trading year almost 4 per cent higher than its close at the end of 2013. European airline shares saw similar share price performance in 2014. The European Stoxx airline sector index fluctuated strongly in 2014 and closed at the level achieved at the end of 2013.

The performance of the airberlin share was distinctly positive in the first months of 2014. The rally led to a year high of EUR 2.35 on 19 March 2014 after ending 2013 at EUR 1.66 (Xetra). Later, the airberlin share was supported by the implementation of recapitalisation measures as set forth below. The publication of our weak 2014 first quarter figures combined with the general sentiment of the market caused our shares to decline, and they remained volatile until the end of the year. At the end of financial year 2014, the airberlin share was quoted at EUR 1.11 and at the time of this report's publication the share was quoted at EUR 1.24.

## Coverage of the airberlin share

airberlin is an integral part of the coverage and monitoring by both national and international banks and investment institutions and detailed company analyses on airberlin are published frequently. At the end of the 2014 financial year, a total of five analysts and research houses covered the Company. The following ratings were known at the time of this report's publication: one buy rating, one neutral rating and three sell or underweight ratings.

## Capital measures

On 21 January 2014, the Company successfully increased the principal amount of the bond issued on 19 April 2011 by EUR 75 million from EUR 150 million to a total of EUR 225 million. The bond's coupon is 8.25 per cent per annum and was placed with institutional investors outside of the USA with the order book closing prematurely. The additional bonds were issued at 101.50 per cent of the principal amount.

In the course of the 2014 financial year, Etihad Airways subscribed to subordinated convertible bonds issued by Air Berlin Finance B.V. and guaranteed by the Company with an aggregate principal amount of EUR 300 million and a coupon of 8.00 per cent per annum. The subordinated convertible bonds are convertible into registered common shares of the Company at a conversion price of EUR 1.79, subject to certain conditions. The subscription rights of the Company's shareholders concerning the shares to be issued through the conversion have been excluded. The convertible bonds have no maturity date (so-called perpetual bonds). Air Berlin Finance B.V. may elect, but is not required, to make interest payments. The interest will be accumulated and added to the original debt to the extent it is not paid. According to the International Financial Reporting Standards (IFRS), the convertible bonds constitute equity. These bonds were issued in three tranches of EUR 100 million each on 20 May 2014, 28 August 2014 and 24 October 2014.

The term of the shareholder loan granted by Etihad Airways in the amount of USD 255 million has been extended from 31 December 2016 to 31 December 2021.

In May 2014, airberlin received proceeds totalling EUR 252 million through the issue of two corporate bonds: a bond denominated in euro with a volume of EUR 170 million and a bond denominated in Swiss francs with a volume of CHF 100 million. The total cash inflow consisted of EUR 163 million and CHF 93 million. Investors in the outstanding bonds maturing in 2014 and 2015 converted a total amount of EUR 13 million into the new bonds. The difference to the EUR 252 million represents a cash inflow for airberlin.

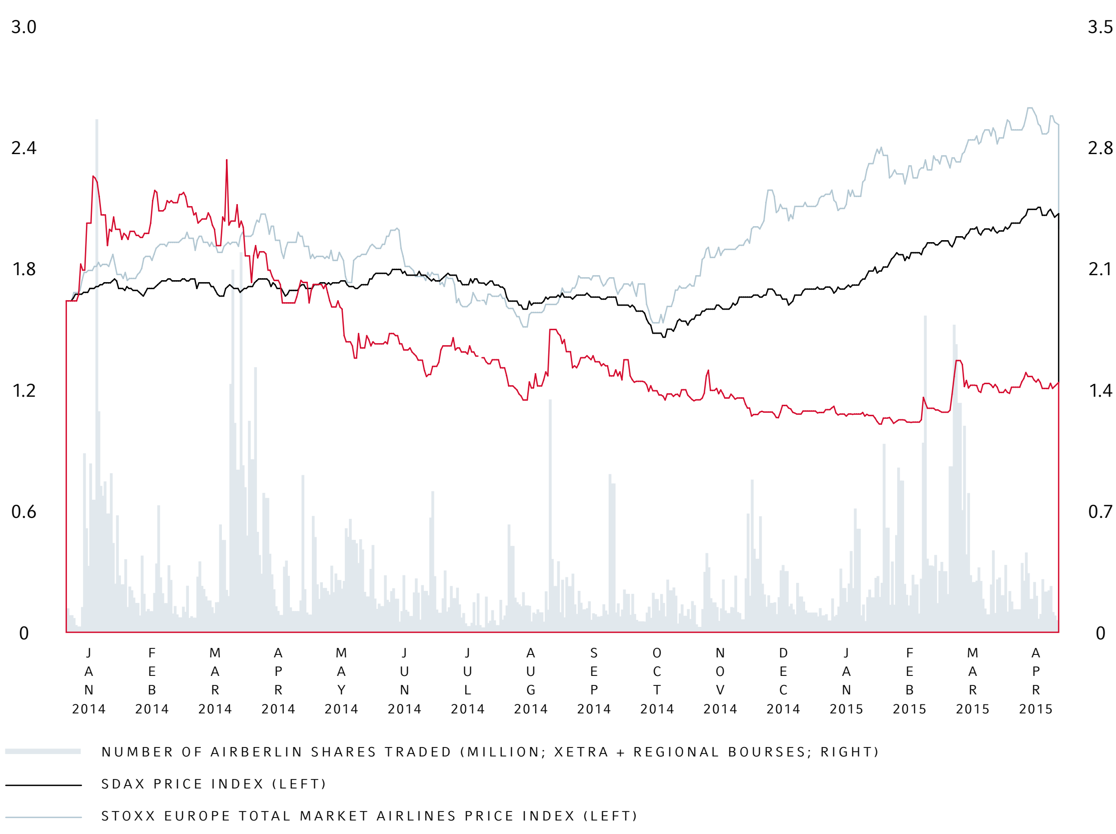
The following bonds are currently outstanding:

| Bond | Term | Volume in EUR million | ISIN |
|---|---|---|---|
| 8.25% | 2011/2018 | 225 (150+75) | DE000AB100B4 |
| 8.50% | 2010/2015 | 195 | DE000AB100A6 |
| EUR 6.75%<br>CHF 5.625% | 2014/2019 | 252 | EUR XS1051719786<br>CHF XS1051723895 |

| Convertible bond | Term | Volume in EUR million | ISIN |
|---|---|---|---|
| 6.0% convertible bond | 2013/2019 | 140 | DE000A1HGM38 |
| 1.5% convertible bond | 2007/2027 | 4.8 outstanding | DE000A0NQ9H6 |

The convertible bonds were issued by Air Berlin Finance B.V. and guaranteed by the Company.

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




SOURCE: REUTERS

### The Air Berlin PLC share

**Data as at 31 December 2014**

| | |
|---|---|
| Share capital | EUR 29,200,127 and GBP 50,000 |
| Total number of issued and fully paid ordinary registered shares as at 31 December 2014 | 116,800,508 |
| Class | Ordinary registered shares |
| Nominal value | EUR 0.25 |
| Bloomberg symbol | AB1 GY |
| Reuters symbol | AB1.DE |
| ISIN | GB00B128C026 |
| WKN | AB1000 |
| Stock exchanges | XETRA, Frankfurt/Main; regulated unofficial market: Berlin, Dusseldorf, Hamburg, Munich, Stuttgart |
| Accounting standards | IAS/IFRS |
| Trading segment | Regulated market (Prime Standard) |
| Primary industry | Transportation and logistics |
| Industry group | Airlines |
| Index membership | Prime All Share, Classic All Share |
| Designated sponsor | Commerzbank AG |

- The shares are officially traded on XETRA as well as on the Frankfurt Stock Exchange. Trading on the regulated unofficial market takes place at the exchanges in Berlin, Dusseldorf, Hamburg, Munich, and Stuttgart.
- airberlin shares are ordinary registered shares. A shareholder register is maintained to ensure compliance at all times with aviation regulatory requirements on the share ownership and effective control over the Company (EU Directive no. 1008/2008 and the air traffic agreements concluded between the Federal Republic of Germany and non-EU member states). The registrar for the shares is registrar services GmbH, Eschborn, Germany.
- Additionally, 'A shares' have been issued.

airberlin provides information on its on-going investor relations activities, ad-hoc notifications, IR releases, investor and analyst presentations, as well as on all other mandatory reports and disclosures in a timely manner. This information may be found on its investor relations website at ir.airberlin.com.

**Main shareholders in Air Berlin PLC as at 31 December 2014**

| Shareholders | Holdings in % |
|---|---|
| Etihad Airways PJSC | 29.21 |
| ESAS Holding A.S. | 12.02 |
| Hans-Joachim Knieps | 3.98 |
| Leibniz-Service GmbH/TUI Travel PLC | 2.99 |
| Joachim Hunold | 1.95 |
| Werner Huehn | 1.93 |
| Severin Schulte | 1.69 |
| Johannes Zurnieden | 1.16 |
| Heinz-Peter Schlüter | 1.03 |
| Reidun Lundgren (Metolius Foundation, Ringerike GmbH & Co. Luftfahrtbeteiligungs KG) | 0.42 |
| Dr Hans-Joachim Körber (Chairman Air Berlin PLC) | 0.17 |
| Free float according to the definition of Deutsche Börse AG | 58.76 |

### Shareholder structure by nationality as at 31 December 2014

In accordance with EU regulations, an airline based in the EU must be at least 50 per cent owned and effectively controlled by EU member states or nationals of EU member states in order to maintain its operating license. Some more restrictive bilateral air transport agreements also require that an airline be more than 50 per cent owned by German nationals. airberlin continuously monitors its shareholder structure using a shareholder register and can appropriately respond if the shareholder structure develops in a manner that would jeopardise the maintenance of the operating licences or individual traffic rights.

At the end of 2014, German investors held 56.51 per cent and European investors 57.90 per cent of the shares of the Company. The largest shareholder of the Company is its partner Etihad Airways PJSC with a 29.21 per cent share followed by ESAS Holding A.S. with a 12.02 per cent share. By the end of financial year 2014, there were nearly 30,000 shareholders listed in the Company's share register.

**Shareholders**

| | Holdings in % |
|---|---|
| Germany | 56.51 |
| United Arab Emirates | 29.21 |
| Turkey | 12.02 |
| Austria | 0.46 |
| Liechtenstein | 0.33 |
| Luxembourg | 0.19 |
| Other EU countries/EEA countries | 0.74 |
| Other countries | 0.52 |

Details on the changes in the authorised and issued share capital may be found in the notes to the consolidated financial statements. The rights and obligations associated with the Company's shares are also described in the notes to the consolidated financial statements.

### Communication with investors

Through airberlin's Investor Relations department, the Company is in continuous dialogue with analysts and institutional and private investors. We are committed to the principles of transparent communication, and accordingly, we provide information in an objective, comprehensive, and timely manner. In addition to quarterly conferences, we maintained communication with the financial community at roadshows and investor conferences throughout the 2014 financial year. In a variety of individual and group meetings, both the members of the Management Board and the Investor Relations department were available to answer all questions. Moreover, dialogue with private investors continued at various investor relations forums.

airberlin's investor relations department also provides an electronic newsletter that keeps all stakeholders up to date on all important events within the airberlin group.

In order to make airberlin's Investor Relations homepage more user-friendly and to provide an up-to-date shareholder service, we also offer a compressed version of the Investor Relations homepage for use with mobile devices.

Interested investors are also invited to contact us directly via the contact form on our homepage, or to write to us at the following address:

Air Berlin PLC
Investor Relations
Saatwinkler Damm 42–43
13627 Berlin, Germany

# STRATEGIC REPORT AND MANAGEMENT REPORT

# BUSINESS REVIEW

## FINANCIAL PERFORMANCE INDICATORS

| | 2014 vs. 2013 in per cent | **2014** | 2013 | 2012 |
|---|---|---|---|---|
| Revenue (in million euros) | +0.3 | **4,160.2** | 4,146.8 | 4,311.7 |
| thereof: ticket sales (in million euros) | –0.0 | **3,808.2** | 3,815.5 | 4,006.7 |
| EBITDAR (in million euros) | –18.8 | **351.2** | 432.7 | 736.4 |
| EBIT (in million euros) | –26.7 | **–293.8** | –231.9 | 70.2 |
| Consolidated profit/loss for the period (in million euros) | –19.4 | **–376.7** | –315.5 | 6.8 |
| Earnings per share (in EUR) | –22.1 | **–3.31** | –2.71 | 0.06 |
| Total assets (in million euros) | –0.0 | **1,863.6** | 1,885.5 | 2,217.6 |
| Employees (as at 31 December) | –5.2 | **8,440** | 8,905 | 9,284 |

## OPERATING PERFORMANCE INDICATORS

| | 2014 vs. 2013 in per cent | **2014** | 2013 | 2012 |
|---|---|---|---|---|
| Passengers (PAX) | +0.57 | **31,716,202** | 31,535,867 | 33,346,495 |
| Flight revenue per PAX (Yields) | –0.8 | **120.1** | 121.0 | 120.2 |
| Available seat kilometres (in billion; ASK) | +3.11 | **59.03** | 57.25 | 60.30 |
| Total Revenue per ASK (RASK; EURct) | –2.7 | **7.05** | 7.24 | 7.15 |
| Total Costs per ASK (CASK; EURct) | –2.8 | **7.53** | 7.75 | 7.47 |
| Revenue passenger kilometres (in billion; RPK) | +1.43 | **49.27** | 48.57 | 50.38 |
| Load factor (in per cent; RPK/ASK) | –1.39* | **83.46** | 84.85 | 83.55 |
| Destinations (as at 31 December) | –14.0 | **147** | 171 | 174 |
| Number of aircraft at year-end (operational fleet) | +6.43 | **149** | 140 | 155 |

* percentage points

## *COMPANY PROFILE*

### Company structure and business activities

The Company is the parent company of the airberlin group. Established in England and Wales, its registered office is located in Rickmansworth, United Kingdom. The Company is a public limited company (PLC) and, accordingly, is managed by a unitary board. The board is comprised of Executive and Non-Executive Directors. The composition of the unitary board during the 2014 financial year is presented on page 68 and the Management Board on page 71. Changes in the composition of the Board and the Management Board during the 2014 financial year are listed on pages 68 and 71 respectively. The Company's head office and the members of the Management Board are based in Berlin, Germany.

*AIR BERLIN PLC IS A COMPANY INCORPORATED UNDER THE LAWS OF ENGLAND AND WALES AND MANAGED BY A UNITARY BOARD*

Air Berlin PLC & Co. Luftverkehrs KG is a domestic and international scheduled airline and has been a member of the International Air Transport Association (IATA) since 1997. The airberlin group has 8,440 employees, operates a fleet of 149 aircraft, and carried 31.7 million passengers in 2014. airberlin is the second largest German airline in terms of passengers. airberlin ranks second even in the densely populated German speaking 'DACH' region (Germany, Austria and Switzerland). airberlin is the largest provider serving the Berlin, Dusseldorf, and Palma de Mallorca airports. In European traffic, airberlin ranks eighth in terms of number of passengers (status as of 31 December 2014).

*AIRBERLIN IS THE SECOND LARGEST AIRLINE IN GERMANY MEASURED BY NUMBER OF PASSENGERS*

## *BUSINESS MODEL AND STRATEGY*

### A value based airline

The European multi-hub airline airberlin is positioned as a value based airline on short-, medium- and long-haul routes with an attractive price/performance ratio and a modern fleet that counts as one of the youngest and most fuel-efficient fleets among international airlines.

### Focused product portfolio

Our product range and our customer approach are continuously optimised according to customer demands and the current trends. We keep the closest contact possible with our customers by employing all of our available sales and distribution channels. airberlin flights can be booked via ticket counters, travel agents, or holiday operators. Tickets can also be booked from anywhere in the world with just a simple phone call to airberlin's 24/7 call centre, using airberlin's service-friendly website, or by using a smartphone or tablet. Customers can book their flights up to two hours in advance using our mobile website mobile.airberlin.com or the mobile airberlin app. Boarding passes can also be stored electronically eliminating any paperwork required for boarding.

*WITH AIRBERLIN, CUSTOMER ORIENTATION IS A CLEAR PRIORITY*

Numerous services are offered on board and on the ground on all German domestic and long-haul flights without charge as standardised basic products: e-services such as web check-in, MMS check-in, quick check-in at airports and priority check-in for premium travellers. Complimentary snacks including cold and warm beverages are currently offered on all routes. Moreover, preparations are being made and partially implemented for in-flight WLAN and automated check-in. Other services, such as warm and cold gourmet menus on short- and medium-haul flights from our cooperation with the Sansibar restaurant on the island of Sylt can be purchased or ordered in advance. Passengers on long-haul flights enjoy a highly differentiated range of services and the all-inclusive airberlin service in business class.

An important step towards customer orientation and an intrinsic element of airberlin's service campaign in the current financial year is the continuous improvement of customer service. The resources used to manage refunds for flight delays and lost luggage notifications will be increased. In 2015, we aim to implement airberlin's new 24/7 service campaign with the goal of a 24-hour turnaround time for acknowledging reported customer issues and conclusive processing of cases within 7 days. In 2015, airberlin also plans to implement a new distribution strategy for approaching individual target groups and exploiting market segments.

Our successful "topbonus" frequent flyer programme cooperates with more than 20 partner airlines and approximately 100 other partners including hotels, rental car agencies, rating platforms and of course airberlin VISA card. A total of 3.7 million members took advantage of the exclusive benefits offered by this programme in the reporting year. topbonus members can collect status miles for a number of exclusive advantages on flights operated by airberlin, our Austrian subsidiary NIKI Luftfahrt GmbH (NIKI), the Etihad Airways partner airlines and all of our **one**world® alliance partners. Participants can also earn award miles with airberlin's partners to be used for complimentary flights worldwide, business class upgrades and to make purchases in our extensive online reward shop. Through the donation of miles, over EUR 100,000 were generated for charity organisations. The number of topbonus members grew worldwide at a rate of more than 1,000 participants per day on average.

Since 2012, the programme has been operating as an independent company under the name topbonus Ltd. A member of the Etihad group and airberlin have shareholdings in this company of 70 per cent and 30 per cent, respectively.

In the area of business travelling, airberlin has reported strong growth and has gained customers with the operation of its new business class, particularly on long-haul routes. The business traveller segment is of high strategic importance to airberlin and will be developed further using innovative solutions.

*"AIRBERLIN BUSINESS BENEFITS" IS THE BEST IN THE INDUSTRY FOR BUSINESS TRAVELLERS AND CORPORATE CUSTOMERS*

Therefore, the many benefits airberlin offers companies will now be offered under a new brand "airberlin business benefits" where the offers can be bundled and better highlighted. At the same, we will enhance the comfort and service for business and corporate clients. Among other things, all companies should have the right product available from the desired booking channel.

Under the new brand, airberlin will offer three different promotional programmes for businesses:

- "Business Points": the proven SME programme is already used by over 15,000 companies;
- "Business Pro", the new company product, which among other things, allows free rebookings even with FlyClassic fares and targets "best buy" focused companies; and
- "Business Prime", airberlin's improved corporate fare model. It offers even more options, flexibility and attractive fares.

airberlin's range of individual services – especially for small- and medium-sized businesses (SMEs) – are continuously growing in popularity. The success of our SME promotions is demonstrated by the rise in the number of companies participating in our "business points" bonus programme (BP). In the last five years, the number of participating companies has grown 31 per cent on average to 15,092 (2013: 13,606). We will continuously enhance our BP programme due to its demonstrated popularity. Since 2013, BP members can collect and redeem points for upgrades on selected flights with American Airlines, Etihad Airways, Air Serbia, Virgin Australia, Darwin Airline and since March 2015, Air Bulgaria. Due to the importance of the SME market for airberlin, BP is being enhanced and extended. During the reporting year, the dedicated sales team responsible for SMEs was expanded, and an external B2B service provider for SMEs was introduced into the important Austrian market.

*COMPREHENSIVE AND HIGHLY INDIVIDUAL SERVICES FOR SMES*

All of the information on "airberlin business benefits" and the related promotion programmes for companies are summarised on the website www. airberlin.com/businessbenefits. Additional new technical solutions are being developed so that we may be able to offer a wider range with more options to our corporate clients in the future, also on the web. At the same time, airberlin will remain a close partner with corporate travel agencies and travel management service providers as well as with providers of online booking systems.

### New fare concept

Following a detailed market analysis, starting on 5 May 2015, airberlin will expand its fare concept for short- and medium-haul routes and focus its offerings more specifically to the wishes and needs of the passengers. One new feature is the attractive and highly available one-way fare "JustFly", which will be offered initially at steeply discounted prices starting at EUR 44. Additional services can also be booked at JustFly. airberlin also has a dedicated package available for business travellers: in addition to maximum flexibility when booking the ticket, the "FlyFlex+" fare also stands out due to its convenience and time-efficient service, which business travellers appreciate in particular. This includes access to lounges and exclusive waiting areas. Therefore, in the future, airberlin's fare concept will include four fares: JustFly, FlyDeal, FlyClassic and FlyFlex+.

### Close international cooperation

airberlin offers the ideal basis for partnerships and collaborates closely with numerous global airlines and continues to systematically build relationships with other airlines. The close strategic partnership with Etihad Airways, airberlin's membership in the global **one**world alliance and code-share agreements with a total of 20 airlines, open up a worldwide network conveniently located to our passengers.

*AIRBERLIN COOPERATES CLOSELY WITH 20 PARTNER AIRLINES*

At the end of 2014, existing partnerships included Etihad Airways; the US airlines American Airlines and US Airways; Alitalia; the Spanish airline Iberia; Russia's S7 Airlines; Finnair; British Airways; Air Serbia, the national airline of the Republic of Serbia; Virgin Australia; Air Seychelles; Pegasus Airlines, the largest private airline in Turkey; Latvia's Air Baltic; Royal Jordanian; Japan Airlines; Bulgaria Air; Thailand's Bangkok Airways; the fourth largest airline in China, Hainan Airlines; Italy's Meridiana Fly; and the Swiss regional airline Darwin Airline.

The **one**world alliance has continued its rapid growth with the addition of three more members in the reporting year.

The airberlin group has positioned itself as one of the leading airlines on short- and medium-haul routes in its strategic core markets within the German-speaking world. These markets include Germany, Switzerland and Austria. airberlin has identified numerous routes and connections in this important economic region that are strategically important to the Company, and it will concentrate on developing the route network in this region. In the reporting year, a codeshare agreement was entered into with Italy's largest airline Alitalia allowing airberlin to gain entry into a further core region: the Italian aviation market.

airberlin and Alitalia have identified numerous routes and connections in this important economic region that are strategically important to the Company and will concentrate on their further development. The codeshare flights of both airlines comprise more than 400 weekly non-stop flights between Italy and Germany, Austria, and Switzerland. airberlin offers passengers more comfort through improved flight connections to and from Berlin, Dusseldorf, Milan-Linate and Rome. airberlin's and Alitalia's mutual frequent flyer agreement reinforces the companies' cooperation.

With respect to long-haul routes, we have focused on our partnership with American Airlines for transatlantic traffic and our strategic cooperation with Etihad Airways for flights to the middle east, Asia and Australia. Our short- and medium-haul routes also benefit from these relationships by improving feeder flight services between airberlin and partner hubs. Taken together, this structure is designed to enable a sustainable load factor and minimize the effects of seasonal fluctuations.

### Strategic cooperation with Etihad Airways

airberlin's partnership with Etihad Airways ideally combines the airlines' complementary route networks, optimises flight offerings for passengers, and creates strong growth. In 2014, the two airlines welcomed over 600,000 passengers, in 2013, there were 560,000 passengers and in 2012, a total of 323,000 passengers.

The combined route network has been refined and covered 213 destinations in 81 countries in 2014 (2013: 228 destinations in 84 countries), and the portfolio consisted of 87 codeshare routes worldwide (2013: 100). airberlin passengers benefit especially from the numerous connections from Etihad Airways' hub in Abu Dhabi to Asia and Australia. Etihad Airways' passengers profit by having access to airberlin's dense European network.

airberlin flies daily from Dusseldorf, Stuttgart and Vienna and twice daily from Berlin to Abu Dhabi. European passengers have access to 70 weekly codeshare flights to and from Abu Dhabi via five German hubs (status as at March 2015).

*A DIRECT CONNECTION TO ETIHAD AIRWAYS' HUB IN ABU DHABI*

### **one**world global alliance

airberlin has been a member of the **one**world global alliance since 2012. NIKI is an 'affiliate member' of the alliance. Numerous other well-known international airlines are also members of **one**world: American Airlines, US Airways, British Airways, Cathay Pacific, Finnair, Iberia, Japan Airlines, LAN, TAM, Malaysia Airlines, Qantas, Qatar Airways, Royal Jordanian, S7 Airlines, and Sri Lankan Airlines, as well as other affiliate members, including American Eagle, Dragonair, LAN Argentina, LAN Colombia, LAN Ecuador, LAN Express, and LAN Peru.

*AIRBERLIN AND **ONE**WORLD FLY TO NEARLY 1,000 DESTINATIONS IN 152 COUNTRIES*

Being a member of the **one**world alliance has significantly expanded the number of services offered to airberlin's passengers: with 241 joint codeshare routes and nearly 6,500 codeshare flights per week, airberlin offers passengers a first-class, comfortable and global route network. Through **one**world, airberlin passengers now have access to 996 travel destinations in 155 countries. In the USA alone, one of the most important air travel markets, together with American Airlines, airberlin operates codeshare flights to 57 destinations. In 2014, more than 657,000 passengers took codeshare flights with airberlin and its **one**world partners. This demonstrates the importance of airberlin's **one**world membership in a fiercely competitive market environment.

### 'Turbine' complete; successor programme in the works

*SUSTAINED COMPETITIVENESS FROM COMPREHENSIVE REALIGNMENT PROGRAMME*

The Turbine efficiency improvement programme was fully completed in the 2014 financial year and achieved the expected EUR 400 million in positive earnings effects. During the year, however, it became obvious that pressure on yields continues to grow in the face of intensive competition. This has led to the need for additional action despite the cost reductions and performance improvements achieved with the Turbine restructuring programme.

Therefore, in the second quarter of 2014, a new restructuring programme was created for the airberlin group. This programme is aimed at improving the efficiency of the airberlin group's platforms – airberlin, NIKI, belair, LGW – and business segments – the European traffic segment, the tourism segment and the long-haul segment – and making them sustainably competitive. Using the latest technology will enable to optimize yield and load factor on all airberlin flights. Our competitive position will also be supported by streamlining and focusing on our network offers.

The new restructuring programme will be implemented in a series of stages during the 2014 to 2016 financial years. Key elements of this programme have been already implemented in the reporting year and include the optimisation and streamlining of the route network and the installation of a new IT-based revenue management system. These improvements will help eliminate sources of loss and reduce seasonal effects.

*SERVICE WITH A HEART STILL TRUMPS*

Even with the support of the latest technology, the importance of properly serving our guests cannot be understated. All employees that come in contact with customers, particularly the flight attendants, will continue to be perfect hosts and offer their passengers service with a heart.

The core business model for European short- and medium-haul routes in the ten key DACH region markets as well as Italy and Palma de Mallorca, is 'point-to-point traffic' between these core markets and direct connections to major European cities and the Mediterranean region. airberlin's leadership in the tourism business is also expected to grow. airberlin is already a strong player in this business with 65 per cent of the group's revenues originating from the DACH region and collaborations with over 100 tour operators. In May 2015, airberlin plans to introduce a tour operator, customer and travel agency advisory board that should enhance the cooperation with these organisations even more.

The growth potential of the long-haul segment is consistently rising. Berlin and Dusseldorf function as long-haul hubs for the airberlin group, whereby Berlin, as the largest base, will remain of key importance. These hubs are particularly useful in helping airberlin establish an excellent position in the Asian hemisphere with its partner Etihad Airways and in North America with American Airlines. Both hubs are located in densely populated regions and have strong regional traffic that connects seemlessly with the short- and medium-haul flights of the airberlin group.

Other stages of the programme include:

- review management structures and processes for added value and management efficiency;
- further improvements in network planning and revenue management;
- realignment of different sales channels;
- optimise market segmentation;
- measures to increase market share through closer cooperation and coordination with partner airlines in airberlin's strategic markets and hubs;
- new partnerships; and
- withdrawal from non-strategic markets.

We have either carried out or are in the process of implementing a sharper focus on the fleet and crew and optimising capacity to go hand in hand with the strategic changes to the route network. Aircraft and crew rotations have been simplified with the number of crew bases declining from fifteen to ten in 2014. By the end of 2016, the airberlin fleet – with the exception of the Q400 turboprops and Boeing aircraft under wet lease – is expected to be a uniform family of Airbus aircraft for short-, medium- and long-haul routes. The first crucial steps in this direction have already been taken in the reporting year. An agreement was made with Boeing for the cancellation of an order for fifteen 787 aircraft and eighteen 737 aircraft at a list price of approximately five billion US dollars. The number of Boeing aircraft in airberlin's fleet fell by three aircraft to 43 in 2014, and aircraft from the Airbus family rose from 77 to 84 aircraft. These changes are designed to generate significant synergies, reduce capital expenditures and improve the balance sheet.

### Safety and security management

*SAFETY HAS ABSOLUTE PRIORITY*

For an airline, safety on the ground as well as in the air is an absolute priority. Safety is practised daily by every employee in all areas, especially in operational areas, such as technical services, cabin, flight and ground operations. To identify risks early, we have defined processes for uncovering potential hazards and events. These are later evaluated and analysed within a risk management system. This gives us a chance to identify potential hazards early on and remedy them before they can lead to a serious incident.

The ever-changing global security situation and current political developments require constant adjustments in security to ensure the safety of our flight operations, our customers and our employees. The challenge of ensuring security in international air transportation has become acute in recent years, and the list of areas of conflict has become much longer. The global threat of terrorist attacks on civil aviation also continues to exist. All this requires a growing catalogue of comprehensive security measures.

The airberlin group's security management has access to an international network of security agencies, partner airlines and private security companies to monitor the global threat situation and its development. The destinations served by the airberlin group and the Company's security measures are certified through regular on-site safety inspections. The aviation security measures taken by the airberlin group meet stringent national and international air carrier requirements and are also checked and confirmed by regular quality audits and IATA Operational Safety Audits (IOSA Audits).

With the help of the Security Management System (SeMS), events are analysed at an early stage so that we can respond proactively to any potential danger and react quickly and efficiently to any incidents.

### Revenue management

The organisational management of the airberlin group is both growth- and value-oriented. Yields from ticket sales and other flight-related services per passenger are clearly a focus of operational management. airberlin operates a sophisticated revenue and yield management system to increase yields systematically. This system underwent a major upgrade in the reporting year through the introduction of modernised IT support as part of the ongoing restructuring programme.

Other operating indicators include the revenue per ASK (RASK), the cost per ASK (CASK) and fleet and aircraft utilisation, measured as the ratio of revenue passenger kilometres (RPK) and available seat kilometres (ASK).

EBITDAR is the key earnings-oriented operational performance indicator. EBITDAR is the profit before interest, taxes, depreciation, amortisation and leasing costs for aircraft. EBITDAR is generally recognised and used by the aviation industry and investors and analysts as the ratio used for measuring operational success.

## ECONOMIC CONDITIONS

### Macroeconomic developments in the 2014 financial year

After starting the year on a positive note, the global economy lost significant momentum as the year progressed. In addition to the macroeconomic slowdown in China, the key causes were increasing geopolitical tensions in Eastern Europe and the Middle East. The Ukraine crisis and the international sanctions against Russia that followed had an adverse effect on trade with Russia and the Russian economy. The negative impact of the Ukraine crisis on the global economy continues. This repeatedly and directly affected the air travel industry and thus also airberlin. This led to considerable declines in traffic in the regions concerned and to higher costs because crisis areas such as the Ukraine have to be widely circumnavigated for safety reasons. airberlin experienced a sharp drop in business on routes to and from Russia and Israel starting in July 2014. This situation has remained unchanged.

Overall, 2014 global economic growth of 3.3 per cent in real terms reached the level reported in 2013. Declining growth rates in the emerging markets, especially in China, were up against robust domestic markets particularly in the U.S. and Great Britain. The eurozone countries managed to report light growth of 0.8 per cent after reporting a decline of –0.5 per cent in the previous year. The German economy benefitted from strong domestic demand and reported above-average growth of 1.5 per cent. The southern European countries, which were mainly impacted by recessionary trends, recovered slightly as reform measures started to take hold. Improvements were especially evident in the principal countries of Spain and Italy. Spain overcame its recession and reported economic growth of 1.4 per cent. Italy's economic contraction improved from –1.9 to –1.4 per cent.

### The airline industry in financial year 2014

According to IATA, the international association of airlines, demand in passenger traffic for the year 2014 rose 5.9 per cent worldwide – a slight acceleration compared to the prior year (5.2 per cent). There was also an improvement in comparison to the average for the past ten years (5.6 per cent). The growth in demand for international flights, at + 6.1 per cent, outpaced domestic flight demand (5.4 per cent). IATA measures demand based on revenue passenger kilometres (RPK) flown of its member companies. Capacity, measured in available seat kilometres (ASK), gained 5.6 per cent in 2014 and utilisation saw a corresponding decline of a mere 0.1 percentage point to 79.2 per cent. Overall, the IATA member airlines achieved a new record in 2014 with a total of 3.3 billion passengers. This is an increase of 170 million passengers compared to 2013.

Although regional development was still varied, every region achieved positive growth rates. Air traffic growth in the Asia-Pacific region (5.8 per cent) was slightly weaker than on a global scale, whereby the trend flattened considerably in the further course of the year. The capacity increase of 7.0 per cent was accompanied by an above-average decline in utilisation of 1.1 percentage points to 76.9 per cent. In Europe, demand for international destinations climbed 5.7 per cent. This ended Europe's three-year trend of declining growth rates but still did not see a return to the growth rate reported in 2011 (9.5 per cent). With capacity increasing 5.2 per cent, utilisation managed to rise 0.6 percentage points to 81.6 per cent. Demand in North America grew 3.1 per cent and was significantly below the worldwide average. With a capacity increase of 4.6 per cent, utilisation declined 1.1 points to 81.7 per cent. Nevertheless, this marks the best regional performance, slightly ahead of Europe. Once again, at 13.0 per cent growth, the Middle East achieved the highest growth in demand. Despite a strong rise in capacity of 11.9 per cent, utilisation still increased 0.8 percentage points to 78.1 per cent. The Latin American carriers were able to generate a 5.8 per cent rise in demand in 2014. With capacity 4.7 per cent higher, utilisation in that region rose 0.8 points to 80.0 per cent. Africa recorded the weakest rise in demand with growth of only 0.9 per cent. Capacity increased 3.0 per cent and was accompanied by a drop in utilisation of 1.5 percentage points to 67.5 per cent.

The statistics given by airport association Airports Council International Europe (ACI Europe) reported a much higher 5.4 per cent increase in passenger traffic at European airports in 2014 as in the prior year (2.8 per cent). The European Union had a visible recovery: passenger traffic climbed 4.9 per cent in 2014 after increasing only one per cent in the previous year. This signified the end of a stagnation phase spanning several years. Outside of the EU, European passenger traffic grew 7.3 per cent and was boosted again by substantial growth in Turkey.

In Germany, the airport operators belonging to the German Airports Association (ADV) accelerated the growth in the number of passengers compared to the previous year. With 207.9 million passengers in 2014, the prior year's number was exceeded by 3.0 per cent. In 2013, the number of passengers grew 0.7 per cent. Growth in 2014 primarily originated from the growth in European traffic (3.1 per cent) and on the intercontinental routes (5.6 per cent). German domestic routes, however, continued the trend seen in recent years and reported growth of merely 0.8 per cent.

## OPERATING DEVELOPMENT

### The route network and the fleet

*STRATEGIC FLEET STANDARDISATION MAKES PROGRESS*

We continued to optimise the route network and the fleet in the 2014 financial year. The establishment of a uniform fleet for the short- and medium-haul segment continued. The number of Boeing aircraft declined from 46 to 43, and the number of aircraft of the Airbus family increased from 77 to 84. Altogether, the number of aircraft in the airberlin group in the reporting year rose by nine to a total of 149 aircraft. This increase in aircraft was mainly due to the higher frequencies to attractive destinations within the DACH region. With the introduction of the 2014/2015 winter schedule, the strategic focus of airberlin's route network has grown significantly. Through the cooperation with Alitalia and our codeshare agreement, the Italian market has gained even more importance for airberlin. Since commencing this agreement, 412 weekly non-stop flights between Italy, Germany, Austria, and Switzerland are offered together with Alitalia, and we now have access to the attractive Linate airport in Milan.

The rising number of aircraft was accompanied by an increase in capacity: the number of seats grew 2.5 per cent in 2014 to 39,849,889 after 38,893,557 in the previous year and the number of available seat kilometres (ASK) expanded by 3.1 per cent from 57.3 billion to 59.0 billion. The number of flights in the reporting year increased 2.1 per cent to 236,790 after 231,836 in the previous year. The average flight route was 0.6 per cent longer than in the previous year and flight hours rose 2.0 per cent to 432,695 after 424,296.

### Passenger volume and yields

*RENEWED STRENGTH IN CODESHARE FLIGHTS*

The importance of codeshares with partner airlines has increased. Meanwhile, airberlin operates a dense network of common flight numbers with a number of airlines. In particular, the codeshare agreements with our strategic partner Etihad Airways resulted in a substantial increase in the number of passengers. This development continued in 2014 from the previous year. After 485,664 passengers in financial year 2013, passengers from codeshares with Etihad Airways grew to 520,411 in 2014. The partnership with the global **one**world alliance also developed positively with codeshares increasing from 889,361 to 897,545. The total number of passengers that flew with airberlin in the reporting year and one of our **one**world partners grew 6.4 per cent to 1,787,319 after 1,680,679 in the prior year.

*UTILISATION AT A HIGH LEVEL*

In 2014, the number of passengers (PAX) increased slightly by 0.6 per cent to 31,716,202 passengers after recording 31,535,867 a year earlier. At 1.4 per cent, revenue passenger kilometres (RPK) increased slightly more and amounted to 49.3 billion after 48.6 billion. Utilisation, measured by the seat load factor (RPK/ASK), declined slightly by 1.3 percentage points to 83.5 per cent and is slightly below the record high of 84.8 per cent reached in the year 2013.

Yields still declined slightly overall in the 2014 financial year. Whereas flight revenue (including taxes and security fees) per PAX in the first three quarters of 2014 was still 2.1 per cent lower than in the previous year, the successful restructuring of our network led to an increase of 4.0 per cent in the fourth quarter of 2014. Flight revenue (including taxes and security fees) per pax declined 0.8 per cent overall to EUR 120.1 in the reporting year from EUR 121.0 in the previous year. At –0.2 per cent, total revenue per PAX remained virtually unchanged (EUR 131.2 after EUR 131.5 in 2013). Total revenue per ASK was 2.7 per cent lower than in the previous year (7.05 eurocents after 7.24 eurocents). The decline in total revenue per RPK of –1.1 per cent was less pronounced (8.44 eurocents from 8.54 eurocents).

Excluding fuel expenses, the cost per ASK at the EBIT level (before other operating income) decreased by 1.7 per cent to 5.79 eurocents in the reporting year after 5.89 eurocents in the prior year. Including fuel expenses, the cost per ASK was 2.8 per cent lower at 7.53 eurocents after 7.75 eurocents in 2013. Fuel expenses per ASK in the reporting year dropped 6.5 per cent and totalled 1.74 eurocents after 1.86 eurocents in the previous year.

**Key flight-related figures (as at 31 December)**

| | +/– % | 2014 | 2013 |
|---|---|---|---|
| Aircraft (operational fleet) | +6.4 | **149** | 140 |
| Flights | +2.1 | **236,790** | 231,836 |
| Destinations | –14.0 | **147** | 171 |
| Capacity (thousands of seats) | +2.5 | **39,850** | 38,894 |
| Passengers (thousands; PAX) | +0.6 | **31,716** | 31,536 |
| Load factor (per cent; RPK/ASK) | +1.3%-points | **83.5** | 84.8 |
| Available seat kilometres (bn; ASK) | +3.1 | **59.03** | 57.25 |
| Revenue seat kilometres (bn; RPK) | +1.4 | **49.27** | 48.57 |
| Number of block hours | +1.9 | **494,587** | 485,604 |
| Average length per destination (km) | +0.6 | **1,481** | 1,472 |

With an average age of 6.6 years, the fleet of the airberlin group continues to be one of the world’s most modern fleets. Consequently, it also flies with comparatively high efficiency in terms of fuel consumption.

**The fleet of the airberlin group**

| | Number at the end of | |
|---|---|---|
| | 2014 | 2013 |
| A319 | **9** | 8 |
| A320 | **44** | 39 |
| A321 | **17** | 16 |
| A330-200 | **14** | 14 |
| B737-700 | **9** | 11 |
| B737-800 | **34** | 35 |
| Q400 | **16** | 10 |
| Embraer E 190 | **6** | 7 |
| **Total** | **149** | 140 |

## NET ASSETS, FINANCIAL POSITION, AND RESULTS OF OPERATIONS

### Report on net assets, financial position, capital expenditure and financing

The group's total assets as of 31 December 2014 declined only slightly compared to the prior year (from EUR 1,885.5 million to EUR 1,863.6 million). Structurally, however, there were significant shifts in the balance sheet, particularly within assets. These shifts mainly resulted from the reclassification from non-current to current assets of ten aircraft held for sale. This reclassification amounted to EUR 142.8 million (after impairments of EUR 25.2 million on seven of the ten aircraft under IFRS 5 and other impairment adjustments). Property, plant and equipment reported an overall decline of 39 per cent to EUR 302.2 million following scheduled depreciation and the sale of two aircraft during the reporting year. Non-current assets declined by 21.8 per cent to EUR 869.7 million. Current assets increased accordingly by 28.5 per cent to EUR 993.9 million. Cash and cash equivalents amounted to EUR 259.2 million at the balance sheet date after a total of EUR 223.1 million at the end of the 2013 financial year.

The decline in group equity resulted from disappointing results, one-off charges for the restructuring programme and hedging losses recognised directly in equity. Equity totalled EUR –415.6 million as at 31 December of the reporting year after EUR –186.1 million as at the reporting date of financial year 2013. This amount includes EUR 309.4 million of hybrid capital classified as equity. This hybrid capital originated from the three tranches of subordinated perpetual bonds issued to Etihad Airways in 2014. These bonds had a total principal amount of EUR 300 million and are guaranteed by the Company. The measurement of shareholder's equity according to IFRS reporting represents a momentary snapshot. It does not affect the operations of the airberlin group. Ongoing operations, the further implementation of the restructuring programme and all other necessary investments are sufficiently secured through the levels of cash available. In accordance with IFRS regulations, the airberlin group's status as a "going concern" and its continuance is secure. On this basis, the Board of Directors sees no reason for a revaluation of the Company's interests in its operating and other subsidiaries.

Non-current liabilities declined 10.5 per cent to EUR 797.1 million from EUR 890.7 million at the end of 2013. This decline reflects their reclassification under assets: non-current financial liabilities originating from aircraft financing for aircraft held for sale were reclassified as current liabilities. Accordingly, current financial liabilities from aircraft financing increased. Other non-current financial liabilities rose from EUR 605.3 million to EUR 640.0 million. Non-current liabilities fell overall by EUR 93.6 million to EUR 797.1 million. Within current liabilities, financial liabilities from aircraft financing increased from EUR 76.9 million to EUR 109.8 million while current financial liabilities grew from EUR 158.5 million to EUR 223.7 million. The rise in other current financial liabilities was mainly caused by the current portion of outstanding bonds. In total, current liabilities increased to EUR 1,482.0 million from EUR 1,180.8 million. As at the reporting date, the sum of current and non-current financial liabilities, excluding financial liabilities from aircraft financing, grew to EUR 863.7 million from EUR 763.8 million in the previous year. The decline in advance payments received from EUR 428.9 million to EUR 396.4 million resulted from a change in our revenue management to purposely holding back seats for lucrative later bookings in order to optimise our yields. Total current liabilities amounted to EUR 1,482.0 million at the end of financial year 2014 for a rise of EUR 301.2 million compared to the 2013 reporting date (EUR 1,180.8 million). Net debt in 2014 increased by 8.3 million to EUR 804.3 million after EUR 796.0 million in the prior year.

Operating cash flow in financial year 2014 amounted to EUR –263.4 million after EUR –96.9 million in the previous year. This included depreciation and amortisation of EUR 97.1 million in the reporting year after EUR 85.2 million in the prior year and contained impairment losses mentioned above. Operating cash flow also included the net loss for the period of –376.7 million after a net loss of EUR –315.5 million in the previous year.

Other significant changes in the reconciliation of profit/loss for the period necessary for determining year-on-year operating cash flow include higher provisions in connection with the current restructuring programme. The decline in operating cash flow in 2014 mainly resulted from a fall in trade payables and other current liabilities of EUR –67.8 million. In the previous year, these items had contributed cash inflows totalling EUR 74.2 million. The same applies to the net cash flows from changes in net working capital items (increase/decrease in inventories, trade accounts payables and trade accounts receivables). Changes in these positions amounted to EUR –37.1 million in the reporting year after EUR 10.8 million in the previous year. Net cash flows from operating activities, including income taxes paid and interest paid and received of EUR 83.8 million (previous year: EUR 74.1 million), reached EUR –347.2 million compared to EUR –171.1 million in the previous year.

Cash flow from investing activities amounted to EUR 36.4 million in the reporting year after EUR 160.0 million in the previous year. This drop is mainly due to lower cash inflows from aircraft sales, which fell from EUR 198.3 million to EUR 68.0 million. This contrasted with the rise in cash outflows to EUR –62.6 million for the purchase of non-current assets after totalling EUR –32.2 million in the prior year due to the purchase of two leased aircraft. The positive swing of EUR 35.2 million in net advanced payments for non-current items from EUR –4.3 million in the previous year to EUR 30.9 million resulted mainly from the repayment of advanced payments for the Boeing aircraft cancelled during the course of 2014.

Cash flow from financing activities was EUR 335.0 million in the reporting year after EUR –92.1 million in the previous year. Payments for the redemption of interest-bearing liabilities in the amount of EUR 449.9 million (previous year: EUR 320.4 million) were offset by proceeds from the assumption of interest-bearing liabilities in a net amount of EUR 484.9 million (previous year: EUR 91.5 million). Of this amount, EUR 317.8 million resulted from the issuance and increase in bonds (previous year: EUR 136.7 million net from a convertible bond). Etihad Airway's subscription to hybrid capital brought airberlin proceeds of EUR 300.0 million in the reporting year.

After foreign exchange effects on cash balances, the inflow of cash and cash equivalents in 2014 amounted to EUR 24.2 million (previous year: EUR –103.2 million). At the end of the reporting year, net cash and cash equivalents amounted to EUR 259.2 million after starting the year at EUR 223.0 million.

**Results of operations**

Group revenue expanded 0.3 per cent in the 2014 financial year, rising from EUR 4,146.8 million in the prior year to EUR 4,160.2 million. Flight revenue of EUR 3,808.2 million, after EUR 3,815.5 million in the prior year, was slightly below last year's level despite the small rise in RPK. This is indicative of the continued significant price pressure in the industry and was the main cause of the disappointing development in revenues. Additionally, business in the peak season during the World Cup was comparatively weaker in the reporting year since many German soccer fans watched the games at home. Revenues from ground services and other services, however, were up 5.8 per cent to EUR 323.5 million after EUR 305.8 million in the previous year. As in the previous year, this rise resulted from higher revenues from technical services. By expanding our services, revenues from inflight sales were able to increase 11.4 per cent to EUR 28.4 million after EUR 25.5 million in the previous year. Other operating income returned to its usual level and amounted to EUR 11.6 million: last year's figure of EUR 59.8 million included non-recurring effects (compensation payments) and gains from the sale of assets totalling EUR 45.7 million.

Expenses incurred in the reporting year included special charges of EUR 100.5 million related to the implementation of the current restructuring programme and other one-off effects. Of this amount, a sum of EUR 47.5 million represents provisions for expenses that will occur in the 2015 financial year. Expenses for consulting services in the context of the restructuring programme, the valuation adjustments under IFRS 5 mentioned above and other expenses for personnel adjustments are also included in this figure.

These were the main factors responsible for the rise in the reporting year's operating expenses from EUR 4,438.4 million to EUR 4,465.6 million. Excluding one-off charges mentioned, operating expenses would have declined to EUR 4,365.1 million. The expenses for materials and services fell by a total of 1.6 per cent to EUR 3,124.4 million compared to EUR 3,174.5 million in the previous year. Fuel expenses amounted to EUR 1,028.6 million compared to EUR 1,067.2 million in the previous year, for a year-on-year decline of 3.6 per cent. The collapse in oil prices had little effect in the course of 2014 as customary hedging transactions were in place. Operating lease expenses were reduced in the course of the fleet's optimisation and fell by 5.4 per cent to EUR 548.0 million compared to EUR 579.3 million in the previous year. Expenses for catering and other in-flight services were cut by 3.6 per cent to EUR 124.5 million from EUR 129.2 million in the prior year.

Expense items that could not be directly influenced by the Company increased again in 2014. Navigation expenses, for example, were 2.9 per cent higher (EUR 265.2 million after EUR 257.8 million in 2013), airport fees increased by 0.3 per cent (EUR 837.8 million after EUR 835.6 million in 2013) and the air transportation tax put pressure of EUR 148.6 million on 2014 earnings (previous year: EUR 142.9). The line item "other" within expenses for materials and services increased in the 2014 financial year was mainly due to the inclusion of the first full year of expenses for the service centre, which airberlin divested in late 2013. Charges for the use of airport lounges rose, and higher miscellaneous fees were incurred.

Personnel expenses grew as a result of the one-time charges mentioned above and wage increases. Personnel expenses totalled EUR 524.5 million in the reporting year after EUR 488.2 million in the previous year. Depreciation and amortisation, including impairments under IFRS 5, amounted to EUR 97.1 million compared to EUR 85.2 million in 2013. Other operating expenses rose 4.2 per cent to EUR 719.8 million from EUR 690.6 million. Special charges resulting from the implementation of the current restructuring programme also had an impact. Excluding these effects totalling EUR 40.0 million, other operating expenses would have decreased by EUR –10.8 million.

Operating earnings before interest, taxes, depreciation, amortisation and leasing expenses (EBITDAR) in the reporting year amounted to EUR 351.2 million after recording EUR 432.7 million in the previous year. EBITDAR increased to EUR 451.7 million if adjusted for exceptional items related to the current restructuring programme. Operating earnings after leasing expenses (EBITDA) amounted to EUR –196.8 million (before exceptional items: EUR –118.8 million) after EUR –146.7 million in the comparable prior year period. Operating earnings before interest and taxes (EBIT) amounted to EUR –293.8 million after EUR –231.9 million in the previous year. Excluding one-off effects, EBIT improved to EUR –193.3 million.

Net financing costs increased by 15.7 per cent to EUR 85.6 million from EUR 74.0 million in the previous year. The loss before tax increased to EUR –378.9 million from EUR –305.2 million in the previous year. After income tax benefits of EUR 2.0 million (previous year: tax expense of EUR –10.3 million), the loss for the 2014 financial year amounted to EUR –376.7 million from EUR –315.5 million in the prior year. After the profit attributable to holders of hybrid capital of EUR 9.4 million, the net loss attributable to the shareholders of the Company amounted to EUR –386.1 million. Diluted and basic earnings per share were EUR –3.31 EUR compared to EUR –2.71 in the prior year.

# RESPONSIBILITY

**airberlin pursues the principle of comprehensive sustainability. This encourages us to be a responsible participant in society and to positively support and foster community.**

## SOCIAL RESPONSIBILITY: A FOCUS ON PEOPLE

*THE AIRBERLIN GROUP EMPLOYS PEOPLE FROM 68 NATIONS*

As an employer, the airberlin group promotes equal opportunity and strives to prevent and eliminate any discrimination. In light of the general principle of equal treatment in the European Union, all collective guidelines and core personnel processes are continuously reviewed for possible discrimination, and managers are informed of the relevant legal requirements. In the 2014 financial year, the employees of the airberlin group represented 68 different nationalities.

### Working at airberlin

#### EMPLOYEES

The airberlin group employed a total of 8,440 people – 4,188 women and 4,252 men – as at 31 December 2014, after employing 8,905 employees in the previous year. Employees have been working at the airberlin group for an average of 10.02 years and are an average of 39.3 years of age. The airberlin group employs 690 people abroad, including 161 in Spain, 313 in Switzerland and 100 in Austria.

At the end of the reporting year, there were 2,463 part-time employees at the airberlin group. Of those, 917 employees took advantage of a work-schedule model with adjusted salaries called a 'free month'. The share of part-time employees is 29.2 per cent (previous year: 27.7 per cent).

**Employee Structure at airberlin**

| | **31.12.2014** | 31.12.2013 |
|---|---|---|
| Pilots | **1,338** | 1,331 |
| Cabin crew | **3,097** | 3,374 |
| Technical staff | **1,286** | 1,251 |
| Administration/services/others | **2,719** | 2,949 |
| **Total** | **8,440** | 8,905 |

As an employer, the airberlin group promotes equal opportunity for all employees. This includes gender diversity. The following table presents the composition of the Directors, the members of the Management Board, the senior management and all employees according to their gender as at 31 December 2014. Of the members of the Management Board, one member is female.

### Diversity at airberlin

| | 31.12.2014 | | 31.12.2013 | |
|---|---|---|---|---|
| | **Women** | **Men** | Women | Men |
| Board of Directors | **0** | **11** | 0 | 11 |
| Management Board | **1** | **4** | 1 | 3 |
| Senior Management (first level of management) | **2** | **21** | 2 | 26 |
| All employees | **4,188** | **4,252** | 4,564 | 4,341 |

### Extensive training and further education

*NUMEROUS BUSINESS AND TECHNICAL TRAINING PATHWAYS*

The airberlin group offers young people a broad spectrum of traditional and technically-oriented occupations: eight training apprenticeships and one dual study programme. We train tourism clerks, air transportation clerks, industrial clerks, marketing communication managers, IT specialists for systems integration, office communications clerks and office managers, as well as aircraft mechanics and aircraft electricians.

Those who are technically inclined can be trained as aircraft mechanics (specialising in maintenance or production) or choose to be trained as an electrician for aviation systems.

*BACHELOR OF ARTS DUAL STUDY PROGRAMME*

airberlin also offers a Bachelor of Arts in business administration with an emphasis in hotel and tourism management as part of a dual study programme in cooperation with the University of Applied Sciences (HWTK).

By the end of the reporting year, a total of 84 trainees were employed by the airberlin group. Two students taking part in the dual study programme and 31 apprentices successfully completed their training in calendar year 2014. Our trainees are also offered a wide range of choices. As at 31 December 2014, a total of 22 trainees were employed in various departments.

*CLOSE COOPERATION WITH PROFESSIONAL SCHOOLS AND UNIVERSITIES*

Close cooperation with professional schools and universities complement programmes promoting young talent and enhances our management of employee expertise. Special trainee programmes are offered over a period of 24 months and with a potential international focus through exchange programmes with our strategic partners. There is also an in-house training centre in Dusseldorf.

We train our flight attendants in-house. In the 2014 financial year, there were 215 flight attendants in training, 331 were in training in the previous year, and 279 flight attendants were trained in the year prior to that. Safety and emergency training, on-board service training, first aid, communication and announcement training, as well as training flights and several practical exercises, are all offered in specialised study courses. These training programmes last for a period of six weeks.

In the year 2014, airberlin was awarded the prestigious Golden Mercury Award in the category of "On Board Service".

*AIRBERLIN TRAINS ITS FLIGHT ATTENDANTS IN-HOUSE*

The airberlin flight school has been training commercial pilots since 2007. At airberlin, those who opt for training at the airberlin flight school receive two years of theoretical and practical training in accordance with the highest international standards. Starting in the spring of 2015, the airberlin flight school will offer an on-the-job Bachelor's in Aviation Management to flight students and to all other employees.

### Health comes first

Healthy, committed and efficient employees are a prerequisite for a successful business. This is the reason airberlin offers its employees a comprehensive occupational health and safety protection. As a preventive measure, we provide risk assessments in all areas to ensure health and safety protection measures at the workplace and ensure that action can be taken early.

*AIRBERLIN OFFERS COMPREHENSIVE OCCUPATIONAL HEALTH AND SAFETY PROTECTION MEASURES*

airberlin receives support at its primary locations from six in-house physicians, as well as one external and one in-house safety specialists. airberlin offers occupational reintegration management for employees who were ill for 42 days or more within a one-year period.

### Social commitment

airberlin is very aware of its social responsibility and is involved in many social projects. In 2014, airberlin supported the fundraising campaign Help&Fly for the benefit of the AIDS-Hilfe Dusseldorf e.V. organisation for the sixteenth time. On a charity flight with a colourful entertainment programme, airberlin flew an aids ribbon over the Rhineland region using a long-haul Airbus A330-200.

*AIRBERLIN SUPPORTS HELP&FLY FOR THE SIXTEENTH TIME*

All donations were given to the AIDS-Hilfe in Dusseldorf as part of the subsequent stage event. airberlin is also a long-time partner of the opera gala event for the German AIDS Foundation in Berlin and in doing so supports both regional and international projects. airberlin also supported community projects with smaller campaigns in 2014.

## AIRBERLIN'S ENVIRONMENTAL MANAGEMENT: TAKING RESPONSIBILITY FOR THE ENVIRONMENT

*AIRBERLIN STRIVES TO MAKE THE SMALLEST ECOLOGICAL FOOTPRINT POSSIBLE*

The strategic and operational management of the airberlin group and its individual companies are not only subject to financial and organisational criteria, but also to the principle of sustainability. Therefore, we make every effort possible to keep our ecological footprint as minimal as possible. Improving the ecological balance constitutes a comprehensive and on-going objective for the entire airberlin group. All employees are called upon to pursue this goal. Even the smallest contributions are considered as they can cumulatively have a significant impact.

Environmental protection is a top priority at airberlin and not only represents an integral part of our corporate philosophy, but is also a quality that is gaining importance for both investors and passengers. The non-profit climate protection organisation atmosfair gave airberlin 72 out of 100 points making it one of the most climate-efficient network carriers in Europe.

### Moving forward: airberlin sets standards for eco-efficient flying

*NUMEROUS MEASURES SAVE AIRBERLIN FUEL*

The focus of eco-efficiency is the gentlest possible use of non-renewable resources, especially fuel. airberlin is very ambitious when it comes to carrying out its 'Eco-efficient Flying' programme. airberlin's experts have been working on the programme across all departments since 2008. We are continually improving all flight-related processes and uncovering potential savings through an extensive proprietary fuel efficiency programme. A variety of factors must come together to reduce $CO_2$. A catalogue of 65 measures from the areas of flight planning, weight reduction, aircraft modernisation and flight operation reduces emissions and saves fuel.

airberlin takes a holistic approach to fuel efficiency. In 2014 alone, 79,000 tonnes of $CO_2$ were saved, which is equivalent to the consumption of more than 1,100 flights from Munich to Mallorca.

### Eco-efficiency of the fleet

*AIRBERLIN'S FLEET IS MORE MODERN THAN THE INDUSTRY AVERAGE*

airberlin's modern fleet is the basis for our record performance in eco-efficient flying and represents a clear competitive advantage for airberlin. With an average age of just over six years, it is one of the most modern, quiet, and efficient fleets in Europe. The IATA average age worldwide is more than 10 years and nine years in Europe. airberlin's aircraft are equipped with the latest technology as a result of our continuous and consistent investment in new technologies.

airberlin was one of the first carriers to accept delivery of its first Airbus A320 with fuel-saving 'sharklets' in 2013 at the Airbus plant in Hamburg. All newly-ordered Airbus A320/321 aircraft will also be equipped with sharklets. The distinctly shaped sharklets developed by Airbus, significantly improve the aerodynamics of the wing and can generate fuel savings of up to 3.5 per cent per aircraft. This results in a savings of nearly 1,200 tonnes of $CO_2$ emissions per year, which corresponds to 55 flights from Berlin to Palma de Mallorca per aircraft annually. An Airbus equipped with sharklets can rise faster due to improved lift, which, in turn, reduces noise on the ground.

*SHARKLETS AND CLEAN AIRCRAFT SAVE THOUSANDS OF TONNES OF FUEL*

Moreover, airberlin cleans its engines regularly and, as a result, increases their efficiency by 0.5 per cent. This is equivalent to 140 flights from Dusseldorf to New York in an Airbus A330. Cleaning the aircraft's surface also improves aerodynamics. Through these measures alone, we save up to 2.0 per cent of our average fuel consumption.

airberlin was one of the first airlines to develop a new method for aerodynamic optimisation. The aim is to have a 'perfectly smooth aircraft'. This included a newly developed measuring tool for optimising the flow of the airstream. This represented a true innovation for airberlin with regard to fuel efficiency.

*AIRBERLIN'S INNOVATION: THE NEW MEASURING TOOL FOR A 'PERFECTLY SMOOTH AIRCRAFT'*

### A new record for the lowest consumption

All of these steps combined lead to noticeable results. airberlin's success story dates back several years. In 1994, an airberlin aircraft consumed an average of almost 4.4 litres of fuel to carry a passenger 100 kilometres (100 PKM; calculation based on the DIN EN 16258 standard). By 2011, airberlin had reduced this amount by 20 per cent to 3.5 litres. In financial year 2012, we cut fuel consumption by more than 2 per cent to just 3.39 litres. In the reporting year, we brought consumption down again to slightly less than 3.3 litres.

*AIRBERLIN SAVES 25,000 TONNES OF FUEL IN 2014*

German airlines have an 11 per cent higher specific fuel consumption of about 3.7 litres per 100 PKM on average than airberlin. A passenger car's consumption, adjusted for utilisation, is as high as 5 litres. Because we improve our fuel efficiency by about 2 per cent a year, we exceed the industry's ACARE reduction targets. Our aim is to reduce fuel consumption to 3 litres.

In this reporting year alone, airberlin saved 25,000 tonnes of fuel, after saving almost 22,000 tonnes in the previous year, and has cut $CO_2$ emissions by 79,000 tonnes. This is equivalent to the emissions of an Airbus A330 on nearly 500 flights from Dusseldorf to New York. In comparison to the year 1994, $CO_2$ has been cut by over 23 per cent.

**Fuel savings and $CO_2$ reductions from 2008 to 2014**

| | 2008 | 2009 | 2010 | 2011 | **2012** | 2013 | 2014 |
|---|---|---|---|---|---|---|---|
| Fuel in thousand tonnes | 7.9 | 10.9 | 14.5 | 19.8 | 31.7 | 22.3 | 25.0 |
| as a percentage of total consumption | 0.6 | 0.9 | 1.1 | 1.5 | 2.2 | 1.7 | 1.8 |
| $CO_2$ emissions in thousand tonnes | 24.9 | 34.3 | 45.7 | 62.4 | 100.2 | 70.2 | 79.0 |
| Consumption per 100 RPK in litres | 3.70 | 3.64 | 3.60 | 3.50 | 3.39 | 3.30 | 3.26 |

### Eco-efficiency in terms of weight and load

*CONSISTENT LIGHTWEIGHT DESIGN LEADS TO SIGNIFICANT WEIGHT REDUCTION*

Reducing an aircraft's weight is a very effective way of improving the fuel efficiency of the entire airberlin fleet. airberlin saves 2,100 tonnes of fuel and 6,600 tonnes of $CO_2$ annually by using lighter seats, carpets, aluminium trolleys and a 'paperless cockpit'.

The new lightweight seats in economy class have also reduced the weight per flight by 575 kg. With the 38 light-weight trolleys required for the service in the Airbus, airberlin saves more than 225 kilogrammes of weight compared to conventional trolleys. The fuel saved is equivalent to 20 flights from Dusseldorf to New York City in an Airbus A330. airberlin uses lightweight containers for the transport of cargo and baggage, and all airberlin aircraft are equipped with special computers that display the aircraft's library and the flight maps. Through optimised loading and lighter cabin equipment, we can save up to three per cent of our average fuel consumption.

### Eco-efficiency on the ground

*USING THE MOST UP-TO-DATE FLIGHT PLANS TO FLY THE MOST FUEL-EFFICIENT ROUTES*

Every process is examined and optimised for fuel efficiency, both in the air and on the ground. This includes the management of flight operations using fuel-efficient flight plans and the calculation of the optimum cruise altitude and the shortest route. Special software calculates the most cost-efficient and most fuel-efficient flight course before each departure.

Flight plans are provided on the spot before each flight, and the data is sent to the cockpit to ensure that each flight is conducted as cost-efficient and as fuel-efficient as possible. An optimally calculated route can result in fuel savings of up to four per cent. airberlin has reduced its travel speed to a sustainable and economic level.

Block time optimisation is yet another effective measure. Instead of scheduling a route at all times of day with the same flight duration, block time optimisation incorporates the expected volume of traffic in the airspace and at the destination airport. This also saves fuel and protects the environment.

*BY ACTIVELY OPTIMISING THE BLOCK TIME WE CAN PREVENT EXPENSIVE FLIGHT ACCELERATION AND AVOID HOLDING PATTERNS*

airberlin's pilots turn off their engines immediately after reaching the gate. This not only prevents unnecessary emissions, but also reduces noise at the airport. Usually, only one engine is necessary for the path from the runway to the gate. airberlin saves up to 1,000 tonnes of fuel each year by employing the 'single engine taxi'.

airberlin uses ground power instead of the auxiliary power unit located in the tail of the aircraft to provide the aircraft with electricity when the engines are turned off. Through the use of more sustainable ground power from the so-called ground power unit, airberlin reduces its consumption by 1,500 tonnes of fuel per year.

Since 2012, airberlin has trained its pilots in eco-efficient flying using a special training programme. After the fuel coaches have completed their training, they pass their knowledge on to fellow pilots during coaching flights referred to as 'fuel efficiency flights'.

### Eco-efficiency in the air

airberlin has been the first airline in Europe to use the satellite-based approach navigation system, GBAS (Ground Based Augmentation System), for precision flights in its scheduled service. This system was initially used by airberlin at the Bremen airport. In terms of the landing system, the GPS data is corrected at a ground station. This allows GPS accuracy of less than one metre when landing and makes secure point landings possible even in poor weather conditions. Since 2008, the German Air Traffic Control (DFS) has worked in close cooperation with airberlin on the development of the GBAS.

*AIRBERLIN WAS THE FIRST AIRLINE IN EUROPE TO USE GBAS*

We can fly higher, faster and more efficient by using up-to-date flight operating schedules. The route consuming the least amount of fuel is determined through a combination of height and wind profiles. A difference of 300 metres in the cruising altitude can amount to a difference in fuel consumption of up to one per cent per flight. Savings: 12,000 tonnes of $CO_2$ every year.

### Environmental conservation on-board

At airberlin, all cleaning supplies found on board, such as folded paper towels, facial tissues, and toilet paper are recyclable. The roll of paper towels carries the FSC Mix seal; the trash bags are made of starch-reduced LDPE film. Since the autumn of 2012, we have been using new and particularly lightweight polypropylene cups. This alone saves more than 200 tonnes in weight annually and more than one tonne of $CO_2$ during waste disposal.

*AIRBERLIN HAS ONE OF THE QUIETEST FLEETS IN EUROPE*

### Less noise means more acceptance

Reducing noise emissions is a complex task that involves numerous players. airberlin has one of the quietest fleets in Europe. A total of 97 per cent of airberlin's fleet complies with the latest ICAO Chapter IV noise standard. This means that all airberlin aircraft, with the exception of four, are at least 10 dB (A) quieter than required by the previous classification, ICAO Chapter III.

airberlin is involved proactively in numerous aircraft noise commissions that have a legal mandate to advise air traffic control in their determination of routes. airberlin also actively promotes intermodal transportation, i.e., the connection of airports to the rail network. We evaluate curved approach procedures so that we can avoid flying over residential areas. Curved approach procedures can use the airspace more efficiently and also save fuel. Densely populated residential areas can also be avoided to reduce the level of noise. The continuous descent approach (CDA) ensures lower noise emissions, even in the greater areas surrounding airports.

Currently, airberlin is developing new procedures for noise reduction as part of a joint research project with the German Aerospace Center (DLR), the German Air Traffic Control (DFS), and Fraport AG. An airberlin Boeing 737-700 participated in 13 of these procedures at DLR's research airport in Braunschweig-Wolfsburg while noise was being measured on the ground.

# PRINCIPAL RISKS AND UNCERTAINTIES

**The airberlin group's strategic and operative management is constantly exposed to risks and uncertainties that endanger achievement of corporate and financial targets. The ability to systematically detect, analyse and manage these risks and uncertainties in an ideal manner is of central importance to the airberlin group.**

## RISK MANAGEMENT SYSTEM

As a globally active corporate group, which includes, among others, three airlines operating internationally, the airberlin group operates in a complex and dynamic environment characterised by a variety of risks and uncertainties. As such, the risk management system and internal control systems are fundamental building blocks of the airberlin group's good corporate governance and integral parts of its overall management and reporting process. These systems apply a common methodology based on a standard framework for enterprise risk management (COSO). Additionally, an airberlin group-wide compliance management system ensures that regulations and guidelines are identified and observed to minimise and, where possible, prevent any exposure to risks resulting from violations of national or international regulations. Moreover, this system enables the airberlin group's processes to adapt to any changes in the relevant current regulations.

Routine reviews in cooperation with the department heads provide for the early identification of threats and risks and facilitates effective management. Throughout the airberlin group, all relevant corporate risks are collated in the central risk management system using an IT-supported process. As an integral part of the management and reporting process, a uniform procedure is applied in cooperation with the department heads to identify the risks, to assess their likelihood of occurrence, to evaluate their possible scope of damage, and to undertake measures to control them.

The Board of Directors has overall responsibility for the establishment of an effective risk management system. The Management Board reports regularly to the Board of Directors on any significant risks. The Management Board's reporting is supported by a central Risk Management Committee, in which the emergence of risks and the measures defined for implementation are monitored. The Management Board appoints the members of the Risk Management Committee. A key component of the routine Risk Management Committee meetings is the discussion of risks and the deliberation and decision on the actions to be implemented to mitigate and limit the principal risks.

The Company has compiled a list of certain principal risks and uncertainties. Should one or more of such risks or uncertainties materialise, this could have a material adverse effect on the airberlin group's strategy, cash flow, operating and financial performance and/or business outlook. All of these risks and uncertainties are contingencies which may or may not occur. The list of risks set out below is not intended to be exhaustive, and the order in which the risks and uncertainties are presented is not indicative of the likelihood of their occurrence, their magnitude, or significance. Additionally, it should be noted that further risks and uncertainties could arise for other reasons which the Company may not have considered to be significant or which it may not have been able to anticipate based on the information available to it at this annual report's publication date.

## INDUSTRY RISKS

### Overall economic environment

As with all companies in the aviation industry, the airberlin group's revenues have an exceptionally high correlation to macroeconomic developments. Any deterioration in either the German domestic or global economy could have a material adverse impact on the airberlin group's financial position, results of operations and operating activities. Moreover, insolvencies among customers or contracting parties, including financial institutions acting as hedge counterparties, could result in losses for the airberlin group.

Additionally, the aviation industry is generally characterised by high fixed costs, the majority of which are fixed or flight-dependent – i.e., they do not vary with the number of passengers transported, but with the number of flights performed. These flight-dependent costs include costs for the use of the airport's infrastructure and services, departure, landing, as well as air traffic fees, maintenance, financing, leasing, and fuel costs. In contrast, revenues are variable and are in direct relation to the number of passengers and to the ticket revenues attained. Should passenger numbers and utilisation decline in response to a slowdown in economic development, the airberlin group's results would be disproportionately impacted.

According to the annual report 2014/2015 of the German federal government's council of economic experts (the "Economic Experts Council Report"), the year 2014 saw the Eurozone return to a path of growth (+0.8 per cent in GDP) with the main contributory reasons being the positive economic momentum in Germany (+1.2 per cent in GDP) and the unexpectedly positive development in Spain (+1.3 per cent in GDP). In some cases, important target markets for airberlin in Southern Europe displayed a positive trend. While Italy experienced a decrease in GDP of –1.9 per cent in 2013 (Greece –3.3 per cent), the figures for 2014 show merely –0.3 per cent (Greece +0.1 per cent). France, one of the euro heavyweights, continues to be static (2013 and 2014: +0.3 per cent in GDP).

According to its annual economy report 2015 (the "Annual Economy Report"), the German federal government expects constant growth of 1.5 per cent of GDP for 2015 in Germany. The German federal government's council of economic experts predicts in its annual report that in 2015 the Eurozone will see GDP growing by +1.0 per cent. While France (+0.4 per cent) and Italy (+0.1 per cent) are likely to achieve only slightly improved growth rates, and will, therefore, remain fragile, the important Spanish market, where economic growth is expected to reach +2.0 per cent in 2015, remains on the road to recovery.

In 2014, economic growth, as measured in terms of GDP, remained robust in the USA, (+2.3 per cent in GDP according to the Economic Experts Council Report). Moreover, Asia continued to register vigorous growth in GDP in 2014 (+4.6 per cent). According to this Economic Experts Council Report, in 2015, strong economic growth of +2.8 per cent is expected for the USA and Asia will also continue to experience constant levels of high growth (+4.6 per cent).

A rise in consumer spending and increased investments due to persistently low interest rates will foster positive economic development in the Eurozone. Inflation is still substantially below the 2 per cent mark considered to be significant by the European Central Bank (ECB), in the fourth quarter of 2014 the ECB predicted an inflation rate of +1.0 per cent for the Eurozone in 2015. The German federal government, pursuant to its Annual Economy Report, expects an inflation rate of +0.8 per cent for Germany in 2015. This likely means that the key interest rate in the Eurozone will continue to languish for the foreseeable future at its current low level of 0.05 per cent, hence promoting investment confidence. Moreover, the price of oil, which experienced a particularly sharp downturn in the last months of 2014, will continue to promote economic development in the Eurozone during 2015, although prices are expected to show volatility.

Currency fluctuations influence financial markets as well as imports and exports of national economies, thereby directly influencing economic development. The value of the euro (EUR) has come under increasing pressure from other major currencies as its value against them falls. Due to a foreseeable interest rate turnaround in the USA and the ECB's plans to purchase bonds, the US dollar (USD) has risen against the euro since summer 2014. While the exchange rate in summer 2014 was almost 1.40 USD to the EUR, this ratio was only in the range of 1.10 to 1.15 in early 2015. Furthermore, when the Swiss National Bank abandoned the minimum exchange rate between the Swiss franc (CHF) and the euro on 15 January 2015, the value of the franc also appreciated against the euro. While the minimum exchange rate previously was 1.20 CHF to the EUR (and the actual rate constantly remained above this minimum value), the value of the euro fell sharply after the abandoned minimum exchange rate's announcement towards approximate parity with the franc, where it initially stabilised. Other major reserve currencies around the world, such as the British pound (GBP) and the Japanese yen (JPY) also showed changes in relation to the euro, albeit to a lesser extent.

*Risk mitigation measures.* airberlin regularly observes the markets relevant to the airberlin group, the overall economic development, and the profitability of its routes, in order to counteract negative trends when possible.

### Market and competitive risks

The aviation industry is characterised by continued increases in the level of competition. airberlin's core markets – the high-volume DACH, European, Middle Eastern, and transatlantic traffic – are particularly marked by extreme competitiveness. Competition has been heightened by low-cost carriers who are increasingly penetrating into the business areas of full-service carriers as well as from a number of newly-established low-cost subsidiaries of legacy carriers.

Lufthansa announced its new low-cost platform Eurowings in December 2014 and that its current low-cost subsidiary Germanwings will be merged into the Eurowings platform. The major low-cost carriers Ryanair, Easyjet, Norwegian and the IAG subsidiary, Vueling, continue to experience strong growth, and are increasingly turning their attention to the German market. The increase in supply could put pressure on airberlin's prices and sales volumes.

The main competitive factors facing the airberlin group include prices, route networks, flight schedules, reputation, safety record as well as range of services for passengers. Intense competitive pressure accelerates the market dynamics and market consolidation. This can be seen in adjustments and further developments in co-operations with partner airlines, shareholdings, and global alliances. Potential acquisitions and mergers among competitors could have a swift and negative impact on the airberlin group's revenues and market position.

Some of the airberlin group's competitors may have more efficient cost structures than the airberlin group. If competitors increase their market share at the airberlin group's expense, this may have significant adverse effects on the airberlin group's business outlook and profitability.

Furthermore, in Germany, airberlin not only competes with other charter and scheduled airlines, but also with railway and bus transportation, whose markets are being further deregulated. This could lead to negative changes in the short-haul segment of the market.

*Risk mitigation measures*. The Company strives to secure and continually improve the airberlin group's network and thus strengthen its competitive position by maintaining key strategic alliances and partnerships, maximising the resulting synergies, and focusing its existing network. Additionally, the Company regularly monitors competitors' activities by using, among other methods, defined early warning indicators to secure important routes and positions in the market. Moreover, the airberlin group applies a strict cost management policy, designed to foster competitiveness.

### Risks associated with cooperation agreements

airberlin has entered into a cooperation agreement with Etihad Airways, which has a shareholding of 29.21 per cent in the Company and is the Company's largest single shareholder. This cooperation includes, among other arrangements, a codeshare agreement, reciprocal frequent flyer programmes, and agreements on ground handling and cargo transportation. An end to, the failure of or a significant decrease in the level of the cooperation with Etihad Airways could have adverse effects on airberlin group's business, operating activities and financial situation.

Since March 2012, airberlin has been a member of the **one**world airline alliance and in the course of this membership, has concluded a series of codeshare agreements. **one**world competes with other airline alliances, which, in some cases, command a larger network. Moreover, these other airline alliances may be able to enhance their market position through mergers and other agreements. Conversely, **one**world may lose its importance in the market or, in the worst case, may be dissolved entirely if, for example, key members leave the alliance.

It can also not be ruled out that airberlin's membership in the **one**world alliance could be terminated. If one or more of the risks described in this paragraph should occur this could have adverse effects on airberlin group's route network and flight offers, and thus a negative impact on the airberlin group's business, financial condition, and operating result.

*Risk mitigation measures*. The airberlin group will continue to develop and strengthen its cooperations with its partners in line with the underlying agreements.

## *REGULATORY RISKS*

### Regulatory risks in general

The regulation of the aviation industry continues to increase and directly impacts many of the airberlin group's activities, including security, aircraft noise and pollutant emission levels, data collection and management, air traffic rights, airport slots, operating licenses and environmental controls.

A significant portion of the airberlin group's regulatory costs are the result of the German aviation tax, which has a direct negative effect on the airberlin group's annual finances (see also the risk factor entitled "aviation tax" below). In addition, fees at German airports have massively increased in 2014, and the likelihood of additional fee increases are likely. The increase in take-off and landing charges at the Berlin-Tegel airport and the increase in aviation safety charges at several German airports both constitute a cost risk. At the same time, airberlin is confronted with fee increases for German air traffic services (DFS). Legislators and regulatory authorities may impose additional operating or other restrictions at airports with regard to, for example, more comprehensive landing and take-off curfews at night, reduced aircraft noise and aircraft pollutant emission levels, mandatory flight paths, runway restrictions, and limits on the number of average daily departures and slots. Such restrictions could limit airberlin's ability to provide or increase its range of services at these airports and may cause airberlin to incur additional costs.

Additional restrictions on exhaust emissions and related emissions trading remain a possibility. This could have an adverse effect on the airberlin group's business activities, financial condition and results of operations.

In addition, airberlin's business is subject to applicable European and international laws, bilateral and multilateral treaties, regulations pertaining to the aviation industry, and the airberlin group's own internal rules, policies and regulations. airberlin cannot predict what future changes will be made to the German, European Union and international air traffic rules and treaties or what the impact of such changes will be on the aviation industry or airberlin's business activities and costs. Changes to the regulatory framework within which airberlin operates could impose significantly greater costs on airberlin's business activities and could materially and adversely affect the airline industry generally and the airberlin group. A number of EU regulations which could impact airberlin group's costs are currently under revision. These include Regulation 261/2004 on air passenger rights, Regulation 868/2004 on unfair pricing, and the directive on package travel, holidays, and tours.

*Risk Mitigation measures*. The Company strives, on the national, international and EU level, to contribute expertise to ongoing legislative processes and to political discussions which are relevant for the airberlin group – either acting alone, together with other airlines, or through associations – to safeguard the airberlin group's interests.

### Review of Relationship with Etihad Airways by EU Commission and LBA

In 2014, the European commission initiated investigation proceedings with respect to the ownership structure of multiple European airline companies, including Etihad Airways' shareholding in the Company. The investigations considered whether Etihad Airways as a non-EU investor, notwithstanding its minority shareholding, exercises effective control over the Company.

At the national level, the German Federal Aviation Authority (LBA) has conducted its own investigation into this matter, and in December 2014 concluded that there is no indication that Etihad Airways effectively controls the Company and, as such, the Company fully complies with EC Regulation 1008/2008.

According to all the information available to airberlin, the European Commission does not – after thorough analysis of the facts – currently intend to take further steps in this matter. Moreover, airberlin believes that a potential finding by the European Commission that the cooperation between airberlin and Etihad Airways does not comply with European law is very unlikely. This is confirmed by the fact that the European Commission considered airberlin as non-controlling minority shareholding of Etihad Airways, when clearing the proposed acquisition of joint control over Alitalia by Etihad Airways. Nevertheless, it cannot be ruled out that the European Commission or the LBA may, in the future, reconsider the relationship between the Company and Etihad Airways.

*Risk mitigation measures*. If the European Commission should further investigate this matter, the Company will continue to provide evidence that the Company complies with all relevant regulations.

### Codeshares with Etihad Airways

In August 2014, the LBA informed Etihad Airways that 34 codeshare routes with Etihad Airways as marketing carrier and airberlin as operating carrier would not be approved. The action was based on a new interpretation from the German side of the bilateral air transport agreement between the Federal Republic of Germany and the United Arab Emirates (UAE). Previously, the LBA had granted full approval for these same codeshare connections for six prior flight scheduling periods based on the provisions of the bilateral agreement. The codeshare routes for the winter season were ultimately approved. Turnover in the two-digit millions is expected for the routes in question in 2015. In early

March 2015, the LBA also approved airberlin's 2015 summer schedule, including all codeshare connections. However, a future denial of these codeshare connections cannot be ruled out.

*Risk mitigation measures.* The airberlin group will continue to promote its position with regard to the interpretation of the Air Transport Agreement between the Federal Republic of Germany and the United Arab Emirates (UAE).

### Aviation tax

As a German airline, airberlin is disproportionately affected by the aviation tax that was introduced on 1 January 2011. As the aviation tax only applies to departures from airports in Germany, and since airberlin carries predominantly passengers departing from German airports, the ramifications of this tax primarily affect airberlin in its domestic market. Other competitors with strong cargo business or more flights departing from airports outside of Germany are less affected. airberlin is unable to fully absorb the aviation tax's additional costs and may not be able to pass these costs on to its customers in the form of higher ticket prices without resulting adverse effect on revenues and earnings.

In its decision dated 5 November 2014 in a judicial review brought by the state of Rhineland-Palatinate, the German Constitutional Court (BVerfG) ruled that the aviation tax does not violate the German Constitution. airberlin and NIKI Luftfahrt GmbH also have filed suit against the aviation tax. A decision by the German Supreme Court of Appeals is pending. While other European countries have recognised the unavoidable negative effects of such a tax and have decided against its introduction or have abolished it, Germany continues to uphold the tax.

*Risk mitigation measures.* airberlin will continue individually and with the other relevant associations its advocation for the elimination or further reduction of the German aviation tax.

### Air traffic control

Another problem for the aviation industry is the restrictions arising from non-uniform air traffic control throughout Europe. Bottlenecks resulting from a non-uniform air traffic control system result in detours, delays, increased fuel consumption and emissions, and cause significant waiting times. This leads to a burden on the results of the airlines operating in Europe, including airberlin.

Although the European institutions (Commission, Council, and Parliament) paved the way for a unified European airspace (Single European Sky) some time ago, there continues to be a lack of political will in the EU member states to make the Single European Sky a reality. Few EU states are willing to relinquish their national sovereignty and work together closely with neighbouring air traffic control organisations. The last European Commission announced it would be initiating contract violation proceedings, as a number of states had not implemented the Functional Airspace Blocks (FAB) as mandated by European law.

To the disadvantage of airberlin and other – in particular, German – airlines, German air traffic services (DFS) submitted an application to increase air traffic service fees by more than 30 per cent in 2015. This was justified by DFS on grounds of decreasing traffic volumes and a deficit in the pension funds from low interest rates.

*Risk mitigation measures*: Intensive campaigning at the political level resulted in a significant increase of the capital endowment of the DFS by the German Federal Government, thereby reducing the pension fund deficit. The currently ongoing negotiations with the DFS aim to keep the air traffic service fee increase under 14 per cent.

### Emissions trading

The inclusion of the aviation industry in the EU emissions trading system increases costs for the affected airlines. In its current form airlines are affected differently by the regulatory obligations arising from the EU emissions trading system, which has negative ramifications for the competitive landscape.

Non-EU states such as the USA, Russia, the People's Republic of China and India were vehement in their opposition to their inclusion into the European emissions trading system. Seeking to promote a multilateral solution and in particular to support the negotiations on global market-based measures to reduce aviation emissions at the International Civil Aviation Organization (ICAO) level, the EU resolved, initially limited for 2012, to suspend the reporting and emission certificate submission obligations for flights starting or ending outside the European Economic Area (EEA) (the "stop-the-clock" resolution). However, all flights within the EEA remained subject to the emissions trading system during this period. At the ICAO General Assembly held in autumn 2013, the member states agreed that they would develop a global emissions trading solution by 2016 and maintain the "stop-the-clock" regulation through the end of 2016. The result of this regulation is that the EU emissions trading system has a higher negative impact on airlines which (like the members of the airberlin group) operate frequently within the EEA in comparison with their competitors who operate solely outside of, or operate less frequently in, the EEA.

Currently, it is not possible to predict the structure of the EU emissions trading system from 2017 onward.

*Risk Mitigation Measures*. The airberlin group is advocating a global market-based measures solution both in direct political negotiations as well as with national and EU aviation associations, in order to mitigate the risk of unilateral European actions. To satisfy its regulatory obligations arising from the European emissions trading system, the airberlin group has entered into hedging transactions with respect to that portion of emission certificates which is not covered by free allocations. The airberlin group has acquired a sufficient number of emission certificates for the years 2013 and 2014, which are due for physical submission on 30 April 2015.

However, such hedging instruments do not completely protect the airberlin group against the deleterious effects of rising prices for emission certificates within the emissions trading scheme (see also the risk factor entitled “financial risks” below).

## *FINANCIAL RISKS*

### Risks due to fluctuations in fuel prices, interest rates, and exchange rates as well as in the prices of aviation pollution rights

As an internationally operating air carrier, airberlin is exposed to fluctuations in fuel prices, interest rates, and exchange rates – particularly the value of the U.S. dollar – and to the prices for emission certificates. A significant or lasting appreciation of the U.S. dollar, which cannot be or could not have been fully hedged, would have an adverse impact on the airberlin group’s financial performance. Above all, possible increases in fuel prices or a reduction in the availability of fuel may also lead to increased expense items and could have an adverse effect on the airberlin group’s business as well as its operational and financial performance.

*Risk mitigation measures*. Fluctuations in fuel prices, interest rates, and exchange rates are comprehensively hedged through continual hedging activities. Possible risks are reduced in advance through the use of industry standard revolving hedging for the relevant defined time periods. For the systematic management of interest rate and currency risks, an airberlin group-wide treasury management system has been established as well as a separate commodity management system within the existing risk management system to manage the risk of changes in fuel and emission certificates prices. In addition to a review of all underlying transactions and the corresponding hedging transactions concluded on a revolving basis, a comprehensive calculation has been conducted as to the fair value valuation and the effectiveness of the hedging arrangements. There can be no assurance that the airberlin group’s hedging strategy will be successful or that the counterparty to the hedge will not declare bankruptcy or fail to fulfil its obligations.

The developments with regard to the European emissions trading system and the airberlin group’s respective risk management measures are described further in the section above entitled “emissions trading”.

### Future financing

The airberlin group is dependent upon its ability to raise capital for acquiring aircraft, financing current operations, and refinancing existing obligations when they become due. This ability depends on a number of factors which include the financial market situation, the general availability of credit, and the prevailing interest rates. There is no assurance that the airberlin group will be able to secure the required financing at economically acceptable terms or that it will be able to secure the required financing at all.

The airberlin group also incurs financing costs for the existing financings for aircraft and interest payments in the context of its outstanding borrowings. If the airberlin group is not able to generate sufficient revenue to cover these payment obligations, then this could have a negative effect on the airberlin group's financial position.

*Risk mitigation measures.* To minimise financing risk, the airberlin group secures financing far in advance of the delivery dates while taking into account the individual market conditions. In order to manage the financial risks, internal guidelines are applied which define and support an operational framework.

### Restructuring

The Company has developed a comprehensive restructuring programme with the full positive effect of the measures expected in 2016. Under this restructuring programme, the Company has, inter alia, focused its network and is in the process of implementing a single narrow body fleet to increase productivity. These measures were initiated with the aim of improving the airberlin group's operational performance and achieving sustainable profitability. If the Company is not able to fully implement this restructuring programme, or should this programme not meet the Company's expectations, this could have a material adverse effect on the airberlin group's business activities, financial position, and results of operations.

*Risk mitigation measures.* Consistent monitoring and reporting of the restructuring programme ensures a high level of transparency with respect to status and results of the single components of the programme and enables the prompt institution of countermeasures, if necessary.

### Financing risks due to seasonal fluctuations

Demand for airberlin's services changes over the course of the year and this, in turn, leads to fluctuating quarterly results. The nature of this business is to experience the highest demand in the summer season, from May to October, and the lowest demand in the winter season, from November to April (excluding the days around Christmas, New Year's Day, and Easter). Therefore, in the course of the year, there are fluctuations in the utilisation of airberlin's aircraft and in profitability. When flight cancellations or other factors occur which adversely influence the utilisation of the aircraft, especially in the summer season, these can have a particularly negative impact on the airberlin group's business operations, financial position, and results of operations.

*Risk mitigation measures.* The airberlin group's management takes into account the risks associated with seasonal fluctuations. Specifically, the network has been adjusted to reduce such seasonal fluctuations.

### Objection to advance payment practice

In May 2013, airberlin together with other major German airlines received a letter from the consumer organisation in North Rhine-Westphalia (Verbraucherzentrale Nordrhein-Westfalen e.V.) demanding airberlin to discontinue the practice of requiring full payment for a flight at the time of booking. On 25 June 2013, the Verbraucherzentrale Nordrhein-Westfalen instituted an action for unfair competition (unlauterer Wettbewerb). airberlin does not share the view of the consumer organisation and does not intend to discontinue this practice which it considers in line with applicable law. The court of first instance dismissed the action against airberlin. However, the outcome of this matter cannot be determined conclusively at this time, as the Verbraucherzentrale Nordrhein-Westfalen has appealed the decision. Furthermore, it cannot be ruled out that legislation relating to such booking and advance payment practice will be introduced. In the event the aforementioned widespread practice in the German aviation market would be held by a court, including in one of the parallel proceedings against other air carriers, to be unlawful, the results of any such action could have a material adverse effect on the airberlin group's financial condition.

*Risk mitigation measures*. airberlin will continue to defend the legality of the current practice.

## OPERATIONAL RISKS

As part of its risk management system, airberlin also addresses the existing operating and technical risks of flight operations to which it is inherently exposed as an airline operating internationally. These risks are systematically identified, assessed and managed using appropriate measures.

### Delayed opening of BER

The delayed opening of the new Berlin Brandenburg airport (BER), originally scheduled for 3 June 2012 and as advised by the airport operator further delayed until at least the second half 2017, necessitates the continued use of the older and smaller Berlin Tegel airport (TXL) which is already operating at capacity limits with insufficient infrastructure. This means that the expanded flight offering designed by airberlin with the larger BER capacity in mind now has to be operated at TXL. The continued delay in the opening of the new BER airport or difficulty in operating the airport could have an additional adverse effect on the airberlin group's business and operational performance.

*Risk mitigation measures* The implementation of several measures seek to minimise the capacity and structural limitations at TXL. airberlin remains in constant contact with airport management to improve the airport's operations.

### Safety and accident prevention

airberlin's reputation and business operations are dependent upon its ability to proactively avoid serious incidents and accidents. However, should an incident occur, it is important to deal with it effectively. An aircraft accident or incident may not only result in the repair or replacement of the damaged aircraft and its associated removal from service, but could also include the claims of injured passengers and claims of the relatives of passengers fatally injured. If a significant security failure or incident occurs or if airberlin is not able to deal effectively with an aircraft accident or incident, this may have a material adverse effect on the airberlin group's reputation, business activities, and operational and financial performance.

*Risk mitigation measures.* Ensuring safety is the airberlin group's primary task. To minimise this risk, the airberlin group has an extensive safety management system that permeates all operational areas such as flight operations, training, technical services, and ground handling. Safety-relevant information is combined and linked within this system to identify negative trends and potential dangers early on and respond proactively. However, should an incident occur, the airberlin group has developed contingency plans and also continuously trains its employees in handling crisis situations. Furthermore, the airberlin group has insurance for such accidents and incidents which meet the market standards of the European aviation industry.

### Security

As with all companies in the aviation industry, the airberlin group's business is exposed to the dangers of civil, political or military conflicts, riots or terrorism as well as threats to and attacks on its security. The constant changes in the global security situation and current political developments necessitate continuous security reviews and re-evaluations in order to guarantee the safety of our flight operations, our customers and our staff. Over recent years, the security situation in North Africa and the Middle East, the ongoing conflict in Eastern Ukraine, and the persistent threat of terrorist attacks throughout the world have required the airberlin group and the entire civil aviation sector to introduce comprehensive security measures. The extension or continuation of existing conflicts or similar conditions could have material adverse effects on the aviation industry in general and on the airberlin group, especially if they are directed against air traffic or certain markets which are important to the airberlin group. If we are not successful in preventing major security or terrorist threats or in preventing or effectively dealing with an attack, this could have an adverse effect on the airberlin group's reputation, operations, and financial performance. Additionally, future terrorist attacks or other conflicts may lead to increased security regulations for air transportation which would cause a rise in the airberlin group's operating costs.

*Risk mitigation measures.* The airberlin group's security management expertise draws on an international network of security agencies, partner airlines and security companies to monitor the airberlin group's global security situation and its developments. The locations that the airberlin group services and the security measures in place at such locations are validated by regular security analyses and security inspections on the ground. These analyses and inspections are also designed to assess terrorism, criminality and the regulatory structures in place. The security management system is intended to provide rapid analysis of unfolding events to enable proactive responses to possible dangers and to initiate effective measures before the fact, i.e. to respond quickly and effectively in the event of an incident. The airberlin group utilises crisis management processes that also take into account any potential civil and political conflicts in its destination countries. For longer-lasting conflicts, airberlin monitors the situation intensively so that it can react if necessary by adapting its routes or route network. The aviation security measures applied within the airberlin group satisfy the strict national and international requirements placed on aviation companies and are additionally reviewed and confirmed within the framework of regular quality and IOSA (IATA Operational Safety) audits.

### Airport, transit and landing fees, and security charges

Airport, transit, and landing fees, as well as security charges and costs represent a significant portion of airberlin's operating costs and directly affect the prices that airberlin must bill its customers in order to operate cost-effectively. The Company cannot assure that these costs will not rise, or that airberlin will not incur any additional new costs. Any such development could lead to an increase in airberlin's operating costs. If airberlin is not able to pass on increases in fees, charges, or costs to its customers, then these increases could have a significant adverse effect on the airberlin group's business operations, financial position and results of operations.

*Risk mitigation measures.* Together with the German aviation industry, airberlin is committed to ensuring that such fees and charges are minimised and that these fees and charges are as justified and transparent as possible.

### Relationship with employees

Some of the airberlin group's employees are unionised and covered by a number of collective agreements which regulate work conditions and remuneration. These contracts are renegotiated with the unions on a regular basis. The airberlin group may be subject to employee strikes during such re-negotiations or, in general, be subject to a strike or industrial labour dispute within the entire aviation industry. Such events could have a material adverse effect on the airberlin group's ability to maintain or achieve profitability and also on the airberlin group's business operations, its financial position and results of operations.

The airberlin group's success depends on the performance of its Board members, the airberlin group's senior managers, and managers holding key positions. A departure or significant change in the airberlin group's management could lead to a considerable loss of expertise and to a loss of investors' confidence in the airberlin group. Further, it could have a material adverse effect on the airberlin group's business operations, financial condition, and results of operations.

*Risk mitigation measures*. The airberlin group stays in regular contact with its employees, their representatives, and the trade unions, to prevent disputes from escalating.

### Environmental and health risks

Recurrent or prolonged periods of extremely adverse weather conditions such as snow and fog, as well as natural disasters such as earthquakes, volcanic eruptions, or other natural disasters – especially if they occur in the European Union – could lead to a major disruption in routes and in airberlin's network. These extreme weather conditions and natural disasters may also lead to additional costs such as those resulting from flight cancellations, the de-icing of aircraft, and increased fuel consumption. Such events, especially if they occur during peak air travel times, can lead to loss of revenue and have a material adverse effect on airberlin's financial position and results of operations.

Moreover, the outbreak of a pandemic due to an infectious disease such as bird flu or Ebola can cause considerable disruption to the network. Such events, particularly if they occur during the peak holiday seasons, can lead to a decline in travel frequency, increased employee absences, and lost revenue. They could also have a material adverse effect on airberlin's business operations as well as on its financial position and results of operations.

*Risk mitigation measures*: To counter such risk, the airberlin group has put appropriate processes in place so that it may respond to the events described above and, where possible, reduce the consequences through crisis management measures. Crisis management exercises are carried out regularly.

### IT risks

The airberlin group's central business processes would not be possible without adequate and uninterrupted internal and external computer systems, communication systems, IT support and IT systems. These central business processes encompass ticket sales, reservation processes, air traffic management, and flight operations. Computers and communication systems are prone to interference, damage, power outages, acts of terrorism, sabotage, computer viruses, fires, and other incidents. Programming errors can also never be entirely avoided. There can be no certainty of efficient and uninterrupted operation of the systems used by the airberlin group or third parties, including systems that are used by the airberlin group's partners, such as reservation systems in travel agencies.

A loss, failure or interruption of this support or systems, a loss of access to the appropriate facilities in which these systems are housed, or a breach in the security measures that protect these IT systems and the information contained therein, can greatly interfere with the airberlin group's business operations and have a material adverse effect on its reputation, business activities, and operational and financial performance.

*Risk mitigation measures*. The airberlin group's risk management system is specifically focused on the identification and control of IT risks; including those risks arising from outside and inside the airberlin group. The airberlin group-wide internal security policies form the basis for handling IT risks and help us to ensure an appropriate level of IT security. An experienced IT team is available to solve IT problems.

# REPORT ON FORECASTS AND OUTLOOK FOR THE GROUP

## DEVELOPMENT OF THE OVERALL ECONOMY AND THE AVIATION INDUSTRY

### The outlook for the world economy

The IMF expects opposing forces to affect the world economy in the course of 2015. The real growth forecast of 3.5 per cent indicates that only a slight upturn is expected compared to the previous year. The decline in oil prices should have a positive effect; however, this is expected to be more than offset by weaker investment caused by the low growth rates projected for the medium-term.

The IMF also expects clear growth discrepancies among the individual countries and regions in 2015. Based on the continued strength of domestic demand, the US economy is expected to grow 3.6 per cent, which is even stronger than the growth reported in 2014 (+2.4 per cent). The euro area is expected to grow only 1.2 per cent after reporting 0.8 per cent in the reporting year. The chief cause of the euro area's continued low growth rate is the expected slowdown in German growth from 1.5 per cent in 2014 to 1.3 per cent in 2015. Other key European countries such as France, Italy and Spain are projected to grow slightly more, but from low levels. Outside of the eurozone, Great Britain is expected to experience a small acceleration in its comparatively strong growth rate of +2.7 per cent versus the previous year.

While Japan's very expansionary economic policy is expected to lead only to a slight upturn in growth in 2015, China's economic growth is predicted to decline even further. The Chinese economy is projected to grow only 6.8 per cent in the current year after reporting growth of 7.4 per cent in 2014. The IMF believes Russia will encounter a severe recession in 2015 and projects a decline in gross domestic product of three per cent after seeing economic growth almost halve in 2014 to 0.6 per cent.

### International air travel in the year 2015

The group of IATA scheduled airlines expect positive earnings developments in the current year. The main factors supporting their expectations are the decline in commodity prices – notably fuel – and rising volumes. Despite some doubts as to the further development of the world economy, the airlines expect these trends to continue throughout the year. This is in contrast with the trend in declining yields, which accelerated in the final quarter of 2014. Falling fuel prices could have an impact and lead to lower fuel surcharges in the ticket prices for competitive reasons.

For the year 2015, IATA expects a global increase in passenger numbers of 6.8 per cent to 3.53 billion passengers after 3.31 billion in 2014, and an expansion in RPK of 7.0 per cent to 6.55 trillion after 6.13 trillion. The growth in passenger traffic will benefit from a rise in tourism that is expected to result from a projected increase of 4.3 per cent in consumer holiday budgets to a total of USD 644 billion worldwide.

The fleets of IATA companies are expected to increase 3.6 per cent to just over 26,000 aircraft; capacity should rise 5.5 per cent to 3.7 million seats, and ASK should rise 7.3 per cent. Utilisation is expected to decline from 79.9 per cent to 79.6 per cent. For Europe, the following development is expected: with an increase in the ASK of 5.8 per cent, the RPK will grow only 5.5 per cent and, therefore, a slight decrease in utilisation is expected.

In 2015, airlines are expected to achieve a margin of 6.0 per cent at the EBIT level compared to the level of 5.1 per cent achieved in the previous year. The main reason for this increase is the major cost factor of fuel, which is expected to decline by 5.6 per cent to USD 192 billion after USD 204 billion (2014) and be accompanied by 5.1 per cent higher fuel consumption. After interest and taxes (the latter will rise again in the current year by 7.2 per cent according to IATA) the association expects net profits to increase to a total of USD 25.0 billion after USD 19.9 billion in the previous year. This should lead to an expansion in the net margin from 2.7 per cent to 3.2 per cent. For European airlines, net profits should rise from USD 2.7 billion to USD 4.0 billion. This would result in a rise in the net margin from 1.3 per cent last year to 1.8 per cent in 2015.

## *REPORT ON EXPECTED DEVELOPMENTS IN FINANCIAL YEAR 2015*

The current restructuring programme will extend through the 2015 financial year and is expected to be completed in 2016. During this time, the programme will pass through three phases. In the first phase, which will continue until the third quarter of 2015, all management structures and processes will be reviewed for their added value and efficiency and where necessary modified. Additional synergies and efficiency improvements are expected after completing the standardisation of the airberlin group's organisational structure across all platforms. We also plan to exploit potential improvements in network planning, revenue management and sales.

Starting on 5 May 2015, airberlin will expand its fare concept for short- and medium-haul in an effort to cater more specifically to the wishes and needs of its passengers. A significant enhancement in this regard is the attractive one-way fare "JustFly" at steeply discounted prices starting from EUR 44. Passengers were given a sneak preview of this fare at the International Travel Trade Show in early March where airberlin made one million tickets available during an entire week. Additionally, airberlin offers business travellers a special service package FlyFlex+. With the addition of this package, airberlin's planned future fare concept will include four fares: JustFly, FlyDeal, FlyClassic and FlyFlex+.

In the second phase, which is scheduled to end in the first quarter of 2016, we expect to see an improvement in our capacity in the first half of 2015. We then plan to make the corresponding adjustments in our cost structure. We are also targeting a significant improvement in yields with the help of our new revenue management strategy. Additionally, we plan to realign various sales channels and increase market share though closer cooperation and coordination with our partner airlines. airberlin's market share should expand particularly in the Company's target markets and hubs and should also rise as a result of new partnerships. The programme also includes airberlin's withdrawal from non-strategic markets. Overall, these measures should improve our market segmentation – as a provider of scheduled flights in Europe and an independent tourism carrier and a full-service airline for long-haul routes – to allow us to focus more closely on our core business.

Phase three is planned to begin in April 2016. This phase will focus on improving profitability and further growth. In addition to the anticipated achievements of the previous two phases, this phase should serve as a basis for future growth through new long-haul destinations, development of the multi-hub and platform strategies, the outsourcing of non-core activities and the consistent development of the IT infrastructure.

In light of the risks presented in the risk report (pages 49 to 63), airberlin expects revenue passenger kilometres (RPK) to rise during the 2015 financial year and expects yields to improve despite fierce price competition. The development we have seen since the beginning of the year is encouraging: RPK has seen a noticeable increase, despite fewer passengers compared to the previous year, and utilisation has remained at a satisfactory level for this time of year.

Other positive effects on the trend in revenues are expected to come from the systematic development of the product offering, the high degree of network optimisation, and from extended collaborations with our partners Etihad Airways, among others, and the **one**world alliance. The dynamic growth momentum from codeshare agreements we have experienced in recent years is expected to continue. Thus, airberlin expects revenue to increase in the current financial year.

Although the current restructuring programme will continue to generate costs in the current year, the programme's gradual implementation and the targeted improvements in yields are designed to result in a noticeable earnings improvement in the 2015 financial year compared to 2014. We expect, after full implementation of the restructuring programme, to be in a position to achieve profitability within the next two years.

## *OVERALL STATEMENT ON THE ECONOMIC DEVELOPMENT OF THE GROUP*

The road to sustainable profitability is longer than expected for the airberlin group. With the successful completion of the Turbine programme in 2014, the Company achieved all of the targeted improvements. These improvements, however, were not sufficient to attain sustained profitability, especially in light of growing competitive intensity. This has prompted us to initiate a comprehensive restructuring programme in the 2014 financial year, which we expect to complete by the year 2016.

The Board believes that the airberlin group will be in a position to achieve profitability on a sustained basis after full implementation of these measures. The Board remains convinced that the airberlin group is through partnerships with Etihad Airways and its membership in the leading international airline alliance **one**world well positioned for international competition.

# SUPPLEMENTARY REPORT

1 February 2015: The Board of Directors appointed Mr Stefan Pichler as Chief Executive Officer (CEO) and Chairman of the Management Board. As CEO, Mr Pichler was also named the Executive Director of the Board of Directors. In these positions, he succeeds Wolfgang Prock-Schauer, who remained on the Company's Management Board as Chief Strategy and Planning Officer through 28 February 2015.

28 February 2015: Wolfgang Prock-Schauer, Chief Strategy and Planning Officer (CSPO) and former CEO resigned from the Company.

2 March 2015: Heinz-Peter Schlüter, a Non-Executive Director and member of the Board of Directors since 1 April 2008, resigned from the Company. Upon such resignation, the Board of Directors appointed Dr Alfred Tacke as Non-Executive Director.

1 April 2015: Arnd Schwierholz assumed the position of Chief Financial Officer (CFO) of the Company. Prior thereto he served as Deputy CFO from October 2014 and succeeds Ulf Hüttmeyer, who left the Company.

24 April 2015: airberlin announced changes to its Management Board as of 1 June 2015. Julio Rodriguez has been named the new Chief Commercial Officer (CCO). He succeeds Götz Ahmelmann, who is leaving airberlin. In addition to his role as Accountable Manager, captain Oliver Lackmann will assume the newly created position of Chief Flight Operations Officer (CFOO). Marco Ciomperlik, who until this point will have served as Chief Restructuring Officer, will assume the newly created position of Chief Production Officer (CPO).

**STEFAN PICHLER**

CHIEF EXECUTIVE OFFICER

# CORPORATE GOVERNANCE REPORT

**This reports sets out the ways in which the Company is committed to responsible corporate management, effective and transparent corporate governance, business integrity, sustainability and ethical values. The Company conducts its affairs in keeping with these principles.**

## BOARD COMPOSITION

As at 31 December 2014, the Board comprised the following ten Non-Executive Directors: Dr Hans-Joachim Körber (Chairman of the Board), James Hogan (Vice Chairman of the Board), Joachim Hunold, James Rigney, Ali Sabancı, Heinz-Peter Schlüter, Dr Lothar Steinebach, Nicholas Teller, Andries van Luijk and Johannes Zurnieden and one Executive Director, Wolfgang Prock-Schauer. The Board met 11 times in 2014.

Effective 1 February 2015, Mr Prock-Schauer stepped down from his role of Chief Executive Officer and Chairman of the Management Board. Mr Stefan Pichler assumed both such roles, effective 1 February 2015. Mr Wolfgang Prock-Schauer re-assumed his position as Chief Strategy and Planning Officer, which he originally held when he joined the Company in 2012, until 28 February 2015 when he resigned from the Company. Effective 10 February 2015, Mr Heinz-Peter Schlüter retired as a Non-Executive Director and Dr Alfred Tacke was appointed as an independent Non-Executive Director.

The Board is responsible for determining the airberlin group's risk profile, limits and long-term strategy, upholding the airberlin group's ethical values and optimising shareholder value. The Board also considers and makes all key decisions that affect the airberlin group's risks, composition and profile, including the annual budget and performance targets, financial statements, strategic planning, and key capital investments. Further, the Board periodically reviews the Management Board's structure and identifies, in consultation with the Nominations Committee, additional Management Board candidates as the need arises. The Chairman is responsible for leading the Board and ensuring the Board's effectiveness in all of its tasks, including communication with shareholders, setting the Board's agenda and encouraging all Board members to participate fully in its activities and decision-making.

### Non-Executive Directors and Independence

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

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

The Board is satisfied that the Chairman and each Non-Executive Director committed sufficient time during 2014 to fulfilling their duties as Board members and that their contributions and performance continue to be insightful, effective, timely and relevant. The Nominations Committee reviews on an ongoing basis the interests of the Non-Executive Directors to ensure that the Board's effectiveness is not jeopardized. The main external commitments of the Board's Chairman, Dr Hans-Joachim Körber, did not change during the reporting year.

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

After due consideration, the Board determined that Messrs Schlüter, Tacke, Teller, Zurnieden, Steinebach and van Luijk are independent Non-Executive Directors. In reaching these determinations, the Board has considered these Non-Executive Directors' relevant external commitments during the period under review. The Board has also considered whether they are nevertheless independent in judgment and character and free from circumstances or relationships which are likely to affect, or could affect, their judgment. Following its review of such considerations, the Board is satisfied that the independence of the above-named independent Non-Executive Directors who either serve as directors on the boards of entities and/or who hold other positions outside the airberlin group has not been compromised.

Additionally, the Board has closely reviewed the independence of Mr Zurnieden and Mr Teller, each of whom will have served on the Board for nine years by the time of the Company's next annual general meeting ("AGM"). As such, each of Mr Zurnieden and Mr Teller will not satisfy the length of service criteria for non-executive director independence set out in the UK Corporate Governance Code, but will otherwise satisfy all relevant independence criteria. The Board has determined that both Mr Zurnieden and Mr Teller meet the Board's criteria for independent Non-Executive Directors, despite their length of service on the Board, and will keep this issue under review going forward. The Board believes that Mr Zurnieden and Mr Teller's respective experience as a long-serving Board member provides the Company with invaluable knowledge, perspective and continuity. Moreover, the Board believes that they continue to make constructive contributions to Board discussions and exhibit the essential characteristics of independence, and that their independence will not be impaired due to their length of service.

The Board determined that each such independent Non-Executive Director strengthens the Board through his level of expertise and senior experience gained in his respective professional and business field. The Board also considered, where applicable, the above-named independent Non-Executive Directors' Company shareholdings and financial interests (see page 91) in the Company as compared to the total number of Company shares outstanding. The Board has concluded that such shareholdings and interests are sufficiently low so as not to interfere with independence.

## THE BOARD'S WORK IN 2014

During the period under review, the Board considered various matters including, inter alia:

- the Company's positioning and business model, including the further development of its network and partnerships, in particular with Etihad Airways and **one**world;
- the harmonization of the airberlin group's fleet from Boeing to Airbus aircraft;
- the restructuring of the airberlin group's network to strengthen the Company's presence in its core markets and remove less profitable routes;
- the status of the implementation of the restructuring programme and associated measures, including discussions with various stakeholders;
- the out-of-court settlement with the BER Berlin Brandenburg airport operators with respect to airberlin's compensation claim for damages arising out of the continuing delays in the BER Berlin Brandenburg airport's opening;
- implementation of certain capital market measures; and
- the introduction of improved revenue management and IT systems.

During the period under review, the Board also carried out a robust assessment of the internal controls and the principal risks facing the Company and the airberlin group as a whole, including, without limitation, any applicable risks that would threaten the Company's and/or the airberlin group's business model, future performance, solvency or liquidity. A description of such internal controls, principal risks, and how such risks are monitored, managed and mitigated, is set out on pages 78 to 79 ("Internal Controls and Board Performance"), 49 to 63 ("Principal Risks and Uncertainties"), and 80 to 84 ("Audit Committee Report").

The Board, acting together with the Audit Committee, monitors the Company's and the airberlin group's risk management and internal control systems and carries out a review of their effectiveness on an on-going basis, but in any case, at least once a year.

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

## MANAGEMENT BOARD

The Board of Directors is responsible for the Company's strategic management and has overall oversight of the Company's management, including the Management Board. The Management Board is responsible for the Company's daily management and execution of the Company's strategy within the parameters set by the Board of Directors. The Management Board regularly reports to the Board of Directors on all material business planning and performance matters, including risk status and risk management.

As at 31 December 2014, the Management Board comprised the following six members: Chief Executive Officer Wolfgang Prock-Schauer, Chief Financial Officer Ulf Hüttmeyer, Chief Commercial Officer Götz Ahmelmann, Chief Strategy and Planning Officer John Shepley, Chief Restructuring Officer and acting Chief Operational Officer Marco Ciomperlik and Chief Human Resources Officer Dr Martina Niemann.

On 27 April 2014, Mr Marco Ciomperlik was appointed Chief Restructuring Officer and Management Board member and Mr John Shepley assumed the position of Chief Strategy and Planning Officer and joined the Management Board on an interim basis. Mr Götz Ahmelmann assumed the position of Chief Commercial Officer and joined the Management Board on 1 July of 2014, after Mr Gregorowitsch stepped down from this position in December 2013. In the meantime, the Chief Executive Officer Mr Prock-Schauer performed the function of the Chief Commercial Officer on an interim basis. With effect from 1 August 2014, Mr Helmut Himmelreich resigned from the Management Board and from his position as Chief Operational Officer. On 27 October 2014, Mr Arnd Schwierholz assumed the position of Deputy Chief Financial Officer and has attended the Management Board meetings on a regular basis since assuming this executive position and made effective contributions to the Management Board's discussion. With effect from 1 April 2015, Mr Schwierholz was appointed Chief Financial Officer and Management Board member, after Mr Ulf Hüttmeyer resigned from this position and the Management Board as of the same date. Effective 1 February 2015, Mr Prock-Schauer stepped down from his role of Chief Executive Officer and Management Board Chairman. As of the same date, Mr Stefan Pichler assumed both such roles. Mr Prock-Schauer re-assumed his position as Chief Strategy and Planning Officer, which he originally held when he joined the Company in 2012, until 28 February 2015 when he resigned from the Company. Mr John Shepley stepped down in February 2015 from this position, which he held on an interim basis. With effect as of 1 May 2015, Mr Ahmelmann will resign from the Management Board and his position as Chief Commercial Officer. With effect as of 1 June 2015, Julio Rodriguez will assume the position of Chief Commercial Officer and join the Management Board.  Also with effect as of 1 June 2015, Mr Ciomperlik, who until this point will have served as Chief Restructuring Officer, will assume the newly created position of Chief Production Officer.  Further on 1 June 2015, Oliver Lackmann will assume the newly created position of Chief Flight Operations Officer and join the Management Board.

As Management Board Chairman and CEO in 2014, Mr Prock-Schauer was responsible for the airberlin group's leadership and operational and performance management, each within the guidelines set by the Board. The Management Board meets weekly, or more frequently as circumstances require. The Management Board's Chairman may choose to invite individuals who are not

Management Board members, such as appropriate employees and/or external advisers, to attend its meetings. The Company Secretary, Michelle Johnson, serves as secretary to the Management Board.

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

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

## BOARD COMMITTEES

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

### Audit Committee

The terms of reference of the Audit Committee are documented and agreed by the Board.

The Audit Committee report is set out on pages 80 to 84.

The Audit Committee's primary function is to assist the Board in fulfilling its oversight responsibilities in relation to internal and external audits and controls. The Committee's tasks include reviewing the Company's consolidated annual financial statements and other financial information before their publication, including trading statements and formal announcements relating to the Company's performance, determining the annual audit's scope, and advising on the shareholders' appointment of external auditors.

### Nominations Committee

As of 31 December 2014, the Nominations Committee comprised the following two Non-Executive Directors: Dr Hans-Joachim Körber (as Committee Chairman) and James Hogan, and three independent Non-Executive Directors: Dr Lothar Steinebach, Heinz-Peter Schlüter and Johannes Zurnieden.

The Committee met three times in 2014. The Committee is primarily responsible for assisting the Board in determining the Board's composition, member selection criteria and balance. In so doing, the Committee considers the knowledge, skill set, independence, experience, gender and diversity required for the Board. The Company believes that corporate boards perform better when they include the most qualified individuals who come from a range of perspectives and backgrounds. The Company continues to be committed to developing a diverse workforce and being an equal opportunity employer. The Nominations Committee therefore aims to achieve a balance of appointing competent and high-calibre individuals to the Board who together offer an appropriate mix of skills, experiences and backgrounds, while still ensuring that the best qualified person obtains the job.

The Nominations Committee is integral to supporting the airberlin group's commitment to diversity and reviews opportunities for increasing the Board's diversity, in the broadest sense of the term.

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

Further, the Committee determines the succession plans for the Chairman of the Board and the Chief Executive Officer. The Committee meets as required, but no less than once per year. Director appointments are generally the result of a search process carried out by the Board and/or an independent professional consulting agency. The Company did not engage the services of any independent professional consultancy for Board appointments.

### Nominations Committee's Work in 2014

In 2014, the Committee discharged its duties by, among other activities:

- ensuring that the Company maintained contact as necessary with its major shareholders about appointments to the Board;
- reviewing the Board's and the Management Board's structure, size and composition (including the Board and the Management Board members' skills, knowledge and experience) and making recommendations to the Board with regard to adjustments;
- reviewing the Management Board's succession plans;
- identifying and nominating future candidates for the Board's and the Management Board's approval following the Board's and the Management Board's comprehensive restructuring;

- considering succession planning for directors and other senior executives taking into account the challenges and opportunities facing the Company and the skills and expertise which the Company will require in the future;
- ensuring that, before the appointment of the Non-Executive Directors, the proposed appointee discloses any other business interests that may result in a conflict of interest and ensuring that they are required to report any future business interests that could result in a conflict of interest; and
- determining the statement of responsibilities for the Board Chairman and Chief Executive Officer and ensuring that the they have been formally informed with respect to their role and time commitments.

### Remuneration Committee

As at 31 December 2014, the Remuneration Committee comprised three independent Non-Executive Directors Heinz-Peter Schlüter (as Committee Chairman), Johannes Zurnieden and Nicholas Teller as well as the Non-Executive Director Dr Hans-Joachim Körber. Effective 10 February 2015, Mr Heinz-Peter Schlüter retired as a Non-Executive Director and stepped down from his position as Committee Chairman. The Committee meets as required, but no less than once per year. The Remuneration Committee met six times in 2014. The Remuneration Committee makes recommendations to the Board on the Executive Director's and the Management Board members' compensation, including any bonuses, pension rights (where appropriate) and share-based compensation payments. The Committee oversees and reviews the airberlin group's remuneration principles. It reports its decisions to the Board and updates the Board on the airberlin group's overall remuneration policy. The Committee regularly reviews both the effectiveness of the airberlin group's remuneration policy in incentivising executives to enhance value for the shareholders and its competitiveness. The remuneration report on pages 85 to 96 provides further details of the Committee's work.

### Finance Committee

As at 31 December 2014, the Finance Committee comprised four Non-Executive Directors: Nicholas Teller (as Committee Chairman), Hans-Joachim Körber, Ali Sabancı and James Rigney. The Committee meets as required, but no less than twice per year. The Committee met three times in 2014. The Committee oversees and reviews the airberlin group's financial plans and policies and their implementation. Further, the Finance Committee supports the Board in various activities (such as investment, asset disposals or capital expenditure) that may have a material financial impact. It monitors hedging policy and activities and the financing budget and provides advice with respect to financing opportunities. The Finance Committee works closely with the Management Board and the Chief Financial Officer in exercising its functions.

### Finance Committee's Work in 2014

In 2014, the Finance Committee discharged its duties by, among other activities:

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

## BOARD AND COMMITTEE MEETINGS

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

A table detailing the individual Directors' attendance at each of the Board and Committee meetings held in 2014 is set out below:

| | Board | Audit Committee | Nominations Committee | Remunera-tion Com-mittee | Finance Committee |
|---|---|---|---|---|---|
| Total meetings held | 11 | 7 | 3 | 6 | 3 |
| **Meetings attended** | | | | | |
| Dr Hans Joachim Körber<br>CHAIRMAN OF THE BOARD,<br>NON EXECUTIVE DIRECTOR | 11 | NA | 3 | 5 | 3 |
| Wolfgang Prock-Schauer*<br>CHIEF EXECUTIVE OFFICER,<br>EXECUTIVE DIRECTOR,<br>CHAIRMAN OF THE MANAGEMENT BOARD | 10 | NA | NA | NA | NA |
| Joachim Hunold<br>NON-EXECUTIVE DIRECTOR | 9 | NA | NA | NA | NA |
| James Hogan<br>NON-EXECUTIVE DIRECTOR,<br>VICE-CHAIRMAN OF THE BOARD | 9 | NA | 3 | NA | NA |
| James Rigney<br>NON-EXECUTIVE DIRECTOR | 8 | NA | NA | NA | 2 |

| | Board | Audit Committee | Nominations Committee | Remuneration Committee | Finance Committee |
|---|---|---|---|---|---|
| Ali Sabancı<br>NON-EXECUTIVE DIRECTOR | 9 | NA | NA | NA | 0 |
| Heinz-Peter Schlüter**<br>INDEPENDENT NON-EXECUTIVE DIRECTOR | 7 | 4 | 2 | 4 | NA |
| Nicholas Teller<br>INDEPENDENT NON-EXECUTIVE DIRECTOR*** | 10 | 7 | NA | 5 | 3 |
| Johannes Zurnieden<br>INDEPENDENT NON-EXECUTIVE DIRECTOR*** | 10 | NA | 2 | 5 | NA |
| Andries van Luijk<br>INDEPENDENT NON-EXECUTIVE DIRECTOR | 10 | NA | NA | NA | NA |
| Dr Lothar Steinebach<br>INDEPENDENT NON-EXECUTIVE DIRECTOR | 10 | 7 | 3 | NA | NA |

The above table does not reflect guest participation in meetings.
"NA" means not applicable, because the relevant individual is not a member of the relevant Committee.

* Effective 1 February 2015, Mr Prock-Schauer stepped down from his role of Chief Executive Officer and Chairman of the Management Board. Mr Stefan Pichler assumed both such roles, effective 1 February 2015. Mr Wolfgang Prock-Schauer re-assumed his position as Chief Strategy and Planning Officer, which he originally held when he joined the Company in 2012, until 28 February 2015 when he resigned from the Company.

** Effective 10 February 2015, Mr Schlüter retired as a Non-Executive Director.

*** Further information on the Board's review of Mr Teller and Mr Zurnieden's independence is set out on page 69.

## COMPANY SECRETARY

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

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

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

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

## POLITICAL DONATIONS

In line with its established policy, the airberlin group made no political donations pursuant to the authority granted at the 2014 AGM. The definition of political donations under the Companies Act 2006 is very broad and includes expenses legitimately incurred as part of the process of talking to legislative members and opinion formers to ensure that the airberlin group's issues and concerns are addressed and considered. These activities are not intended to support any political party and the airberlin group's policy is not to make any donations for political purposes in the normally accepted sense. Therefore, at the 2014 AGM, a resolution was passed giving the directors authority to make donations and incur expenditure in compliance with the terms of the Companies Act 2006. The authority is limited to a maximum amount of £100,000 (or its Euro equivalent) per airberlin group company but so as not to exceed £100,000 (or its Euro equivalent) for the entire airberlin group in aggregate.

## POLICY AND PRACTICE ON PAYMENT OF CREDITORS

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

We observe the following practices in concluding such agreements:

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

At 31 December 2014, the number of creditor days outstanding for the airberlin group was 11 days (2013: 11 days), and for the Company was 16 days (2013: 24 days).

### Change of control

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

## SHAREHOLDER RELATIONS

The Company believes that maintaining open communication lines with its shareholders is extremely important. The AGM provides all shareholders with the opportunity to communicate directly with the Board, including the chairmen of the Committees. In accordance with applicable law, the Company provides all shareholders with adequate notice of the AGM, at which the Chief Executive Officer reviews and presents the airberlin group's business and performance for the year and answers questions from the shareholders. At the AGM, the number of proxy votes cast on each resolution is made available, both at the meeting and, subsequently, on the Company's website. Each substantially separate issue is presented as a separate resolution. Additionally, the Company once again facilitated shareholder participation in the 2014 AGM by continuing to make shareholder and proxy voting services available online via the Company's website.

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

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

Moreover, the Company ensures that all Directors understand the major shareholders' views and concerns. A separate investor relations department facilitates engagement with shareholders.

## INTERNAL CONTROLS AND BOARD PERFORMANCE

The Directors are responsible for establishing and reviewing the effectiveness of the Company's risk management and internal control systems, including, without limitation, with respect to the airberlin group's financial reporting process and the preparation of the airberlin group's consolidated accounts.

Internal control procedures are only designed to provide reasonable, but not absolute, assurance regarding the safeguarding of assets against misuse or unauthorised disposition and the risk of material misstatement or loss, or failure to achieve business objectives.

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

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

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

The Company has developed an on-going process for effective risk identification and management, whereby key Company departments identify, monitor and report on potential risks. Detailed risk management reports are then provided to the Management Board, which reflect risks identified within the airberlin group. The Board as a whole addresses significant risks.

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

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

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

## *UNITED KINGDOM CORPORATE GOVERNANCE CODE*

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

# AUDIT COMMITTEE REPORT

## AUDIT COMMITTEE

As at 31 December 2014, the Audit Committee members comprised the following three independent Non-Executive Directors: Heinz-Peter Schlüter, Nicholas Teller and Dr Lothar Steinebach (as Committee Chairman). The qualifications of the Audit Committee members in 2014 are set out on page 8 ff. of this annual report, and the Board considers that at least one member of the Audit Committee had recent and relevant financial experience for the period under review in compliance with the UK Corporate Governance Code provision C3.1.

## MEETINGS

The Audit Committee met seven times during 2014. Generally, the Committee meets at least three times a year or more frequently as circumstances may require and where appropriate, such meetings coincide with key dates in the Company's financial reporting cycle. A representative of the Company's external auditors and the Chief Financial Officer attend the Audit Committee's meetings. Board members or senior executives may attend meetings upon invitation from the Committee. Furthermore, the Company's external auditors, the head of internal audit and officers responsible for risk assurance may request a meeting with the Committee if they consider one to be necessary. The Committee's Chairman attends the Company's AGM in order to answer any questions on the Committee's activities and responsibilities.

## ROLE

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

## AUDIT COMMITTEE'S WORK IN 2014

In 2014, the Committee discharged its duties by, among other activities, conducting a review of:

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

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

## FINANCIAL REPORTING AND SIGNIFICANT FINANCIAL ISSUES

We reviewed the integrity of the financial statements of the Company and all formal announcements relating to the Company's financial performance.

Certain significant issues considered in the year are detailed below:

- In particular, the Committee considered the matters brought to its attention by the management, such as foreign exchange and hedge accounting and the treatment of aircraft transactions.
- The Committee also receives regular and detailed reporting as to the Company's financial and operational performance. The matters reviewed and assessed also included the Company's accounting principles, such as the treatment or recognition of deferred tax assets.
- The Committee also considered the accounting treatment of the perpetual subordinated convertible bonds to which Etihad Airways subscribed and the corporate bonds, each issued in 2014.
- Annually the Committee reviews and agrees the audit plan with the auditors and areas of judgement included going concern, valuation of intangibles, deferred tax valuation and certain aircraft financing arrangements. Accounting standards on the impairment of intangible assets and the external auditors' opinion were taken into account. Following the advice of financial advisors, the Committee came to the conclusion that an impairment of intangible assets was not necessary.
- With respect to going concern, the Committee considered the Company's financing requirements and committed financing, the Company's ability to generate cash from operations, liquidity projections and historical performance. The Committee challenged management's assumptions and projections and considered sensitivities. The Committee also considered detailed reports from its external auditors. Following such discussions, the Committee recommended that the Board of Directors adopt the going concern statement for inclusion in the consolidated financial statements for the financial year 2014.

## EFFECTIVENESS OF EXTERNAL AUDITORS

The Committee annually assesses the external auditor's qualification, expertise and resources and the effectiveness of the audit process, including where the auditor provides non-audit services. Each year, the external auditor is required to report on its internal quality control procedures and the steps it has taken to ensure its independence and objectivity. The Committee monitors the external auditor's performance, behaviour and effectiveness during the exercise of its duties, which informs the Audit Committee's decision to recommend reappointment on an annual basis.

In 2014, the airberlin group paid the following amounts to KPMG: EUR 1.4 million for applicable audit services, EUR 0.3 million for audit-related services and EUR 0.4 million for non-audit related services. The majority of non-audit related services related to consulting services for a treasury management system.

## RELATIONSHIP WITH EXTERNAL AUDITORS

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

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

## NON-AUDIT SERVICES

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

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

## AUDIT TENDERING

The Audit Committee has noted the changes emerging in Europe, pursuant to the EU Directive 2014/56/EU (amending Directive 2006/43/EC) and Regulation (EU) No. 537/2014 (repealing Commission Decision 2005/909/EC, each effective as of 17 June 2016 to tender for the external audit contract at least every ten years, and plans to implement measures to comply with such applicable law, as it may be adopted in the EU and in Germany. The Committee also makes recommendations to the Board regarding external auditors' reappointment or removal, terms of engagement and remuneration. KPMG have been the Company's external auditors since 2006. The responsible partner at the external auditing firm has rotated periodically. Following its review of the external auditor's performance and effectiveness, relationship with the Company, independence, objectivity, and non-audit related fees and services, each as described above, the Committee and the Board have recommended the existing external auditors' reappointment for the 2015 fiscal year.

Accordingly, resolutions to reappoint KPMG as the Company's external auditors, and to authorise the Directors to determine the auditors' remuneration, will be proposed at the Company's next AGM. The Committee will continue to consider the timing of the next formal tender in light of applicable regulatory requirements and any further changes in the regulatory framework. The Committee's choice of external auditors is not limited by any contractual obligations.

Lothar Steinebach

**DR LOTHAR STEINEBACH**

CHAIRMAN OF THE AUDIT COMMITTEE

29 April 2015

# DIRECTORS' REMUNERATION REPORT

## ANNUAL STATEMENT BY THE CHAIRMAN OF THE BOARD OF DIRECTORS ON BEHALF OF THE REMUNERATION COMMITTEE

Dear Shareholders,
On behalf of the Board of Directors and in absence of the Chairman of the Remuneration Committee, I, the Chairman of the Board, am pleased to present the Directors' Remuneration Report for the year ended December 31, 2014.

The Directors' Remuneration Report describes the Company's implementation of its remuneration policy for Directors, and discloses the amount paid to Directors during the 2014 financial year. It has been prepared in accordance with the Companies Act 2006 and Schedule 8 of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended). It has also been prepared in line with the recommendations of the UK Corporate Governance Code. Those sections of the Directors' Remuneration Report that are subject to audit have been labeled appropriately below. The Directors' Remuneration Report will be put to an advisory shareholder vote at the annual general meeting in 2015.

### Membership and Activities of the Remuneration Committee

As at 31 December 2014, the Remuneration Committee consisted of three independent Non-Executive Directors: Nicholas Teller, Heinz-Peter Schlüter and Johannes Zurnieden as well as the Non-Executive Director Dr Hans Joachim Körber. The Remuneration Committee members' biographies are set out on pages 8 to 11. The Remuneration Committee met six times in 2014.

The Remuneration Committee made the following key decisions and engaged in the following activities in 2014:

- considering German market standards and the UK Corporate Governance Code as they impact remuneration policy;
- reviewing its remuneration policy generally, including a review of its appropriateness and relevance;
- preparing to implement the new remuneration policy, which entered into effect as of 1 January 2015;
- considering the compensation of the Company's new CEO effective as of 1 February 2015, Mr Stefan Pichler;
- considering the settlement and compensation package for Mr Wolfgang Prock-Schauer who, effective 1 February 2015, stepped down from his position of Chief Executive Officer and Management Board Chairman and re-assumed his position as Chief Strategy and Planning Officer, until 28 February 2015 when he resigned from the Company; and

- considering the settlement package for those members of the Management Board who have stepped down from their positions as well as the compensation package for those members of the Management Board who joined in 2014.

The circumstances in which such decisions were made and further details of each such decision are outlined below and in the Annual Report on Directors' Remuneration. A summary of the way in which the Remuneration Committee discharged its duties in 2014 is set out on page 88.

### Remuneration Policy

The Company's remuneration policy (the "Policy") is set out in the annual report for the financial year ending on 31 December 2013 which is publically available on the airberlin investor relations website at ir.airberlin.com. The Policy received the shareholders' positive and binding vote at the 2014 AGM and applies to any Executive Directors and Non-Executive Directors. The Policy took effect as from 1 January 2015.

### Remuneration Decisions

Effective 1 February 2015, Mr Prock-Schauer stepped down from his role of Chief Executive Officer and Chairman of the Management Board. Mr Stefan Pichler assumed both such roles, effective 1 February 2015. Mr Prock-Schauer re-assumed his position as Chief Strategy and Planning Officer, which he originally held when he joined the Company in 2012, until 28 February 2015 when he resigned from the Company. In connection with Mr Prock-Schauer's resignation as Executive Director and in fulfilment of the contractual obligations under the service agreement and the re-assumption of his position as Chief Strategy and Planning Officer, it was agreed that Mr Prock-Schauer would receive the same basic salary for his position as Chief Strategy and Planning Officer as under his Executive Director contract through January 2017. In connection with Mr Prock-Schauer's resignation from the Company and the early termination of his service agreement as of 28 February 2015, Mr Prock-Schauer has, in fulfilment of the contractual obligations under the service agreement, received a severance payment of EUR 1.1 million gross. Neither a bonus nor other variable compensation has been awarded to him for 2014 and 2015.

The Company's Policy is intended to be flexible and to give the Remuneration Committee discretion in how the Policy is implemented to enable the Company to respond appropriately to circumstances, including changes in the market and the Company's performance. In order to secure the services of Stefan Pichler as the Company's Chief Executive Officer, the Remuneration Committee has used the discretion the shareholders afforded to it under the Policy to structure appropriately his remuneration package. Accordingly, Mr Pichler was granted an annual gross basic salary of EUR 950,000 and a maximum variable payment (as determined by the Remuneration Committee) of EUR 1,425,000 subject to achievement of certain targets. The targets have been set and relate to the fulfilment of the Company's business plan. Mr Pichler's variable compensation will be settled in cash and the Company has guaranteed him a minimum quantum (of EUR 400,000 and EUR 200,000 respectively) for the first two years of his tenure. Each such payment will be offset against any variable payment granted as outlined above. In structuring his package, the Remuneration Committee has balanced the Company's need to secure Mr Pichler's services at this critical time with a desire to ensure he is not rewarded for failure.

**Engagement**

In pursuing the goals set out in the Policy and implementing the Policy, the Remuneration Committee will remain engaged in transparent and open dialogues with shareholders on an on-going basis and will closely follow voting outcomes. The Remuneration Committee will continue to review all feedback it receives from shareholders and other stakeholders and looks forward to continued dialogues in 2015. The Remuneration Committee continues to believe that its approach to remuneration is aligned with the Company's business strategy and goal of optimizing shareholder value. We thank you for your continued support.

**HANS-JOACHIM KÖRBER**

ON BEHALF OF THE REMUNERATION COMMITTEE, CHAIRMAN OF THE BOARD OF DIRECTORS

29 April 2015

## ANNUAL REPORT ON DIRECTORS' REMUNERATION

### Responsibilities of the Remuneration Committee

The Remuneration Committee determines on the Board's behalf the Executive Director's overall remuneration package in accordance with the Company's remuneration policy, including any applicable bonuses, pension rights (where appropriate) and share-based compensation payments as described below.

The Committee discharges its duties by, inter alia:

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

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

### Executive Directors' Remuneration

In keeping with the Company's remuneration policy, the Company provides a compensation package that reflects the relevant Executive Directors' level of responsibility and contribution to the Company in the competitive environment. When considering the competitive environment, the Company considers its position on Executive Director remuneration relative to that of other companies it deems to be its competitors (based on its review of the marketplace for companies of similar complexity, size, and global reach). The Company designs the Executive Director compensation package to promote the airberlin group's and the Company's long-term success. When designing such package, the Company ensures that its performance-related elements are stretching and rigorously applied while at the same time taking into consideration the Company's needs. Additionally, the Company ensures that the performance-related elements of such compensation package are transparent and can be easily understood by both its shareholders and the relevant Executive Director. The Company also considers, where appropriate, a comparison of executive pay and remuneration and changes in pay level throughout the airberlin group. The Remuneration Committee periodically reviews its remuneration policy and approach to target-setting as appropriate.

The compensation package for the Executive Director who served on the Board in 2014 comprised a combination of a basic salary, a variable bonus scheme and benefits in kind. Basic salaries are reviewed as required and are based, among other factors, on the following factors:
a) an appraisal of the relevant executive and his or her contribution to the business;
b) the Company's remuneration policy; and
c) the competitive environment and the marketplace for companies of similar complexity, size, and global reach.

The basic gross fixed salaries of the Executive Director who served on the Board in 2014 are set out in the table below:

| Name | Basic gross fixed remuneration in 2014 (EUR) |
|---|---|
| Wolfgang Prock-Schauer* | 800,000 |

* Effective 1 February 2015, Mr Prock-Schauer stepped down from his role of Chief Executive Officer and Chairman of the Management Board. Mr Stefan Pichler assumed both such roles, effective 1 February 2015. Mr Wolfgang Prock-Schauer re-assumed his position as Chief Strategy and Planning Officer, which he originally held when he joined the Company in 2012, until 28 February 2015 when he resigned from the Company.

Subject to meeting pre-defined benchmarks, the Executive Director who served on the Board in 2014 was entitled to receive an annual bonus as determined by the Remuneration Committee. Such bonus was capped at a pre-determined maximum bonus amount established by the Committee. The bonus is intended to incentivise these individuals to achieve certain annual operational and financial goals, thereby aligning the relevant executive's interests with those of the Company's shareholders. The Remuneration Committee determines, on an annual basis, the payment of any such bonus compensation and, in deciding to award any such bonus, considers a weighted combination of several factors.

In 2014, such factors included the impact of the restructuring programme Turbine in terms of the savings made by the airberlin group, EBIT and other executive-specific performance conditions.

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

### No Bonus for Financial Year 2014

A crucial tenet of the Company's bonus policy is that no bonus should be awarded if, among other factors, the airberlin group has not achieved certain goals set by the Remuneration Committee. As such, in light of the current economic climate and the Company's results, no bonus has been awarded for the 2014 financial year.

### Service Contracts

The service contract of the sole Executive Director of the Company in 2014 contained an obligation not to compete with the Company's business for one year following termination or expiry of the service contract. In consideration for such obligation, the Executive Director is entitled to receive 50 per cent of his fixed remuneration for that year. In connection with Mr Prock-Schauer's resignation as Executive Director and the re-assumption of his position as Chief Strategy and Planning Officer effective as of 1 February 2015, it was agreed that this non-competition obligation is repealed with effect from 1 February 2015.

### Additional Benefits

The sole Executive Director in 2014 was provided with a company telephone, car and telecommunications equipment. Additionally, the Executive Director was entitled to reduced or free air transportation on flights operated by the Company or its affiliates. The Executive Director has the benefit of directors' and officers' insurance and accident insurance, at appropriate levels, with respect to any legal actions taken against the director in the course of exercising its duties.

### No Pension Entitlements

Mr Wolfgang Prock-Schauer was not entitled to pension benefits in 2014.

### Percentage change in remuneration of CEO

The following table shows the percentage change in remuneration comprising basic salary, benefits and bonus between the financial year ended 31 December 2013 and the financial year ended 31 December 2014 for the CEO compared to the average of all airberlin group employees in Germany during each year.

| | Percentage change of CEO against the previous year | Average percentage change for employees of the Company taken as a whole against the previous year |
|---|---|---|
| Salary/Fees | –16.5% | 8.7% |
| Taxable Benefits | –19.4% | 1.3% |
| Short-term Incentives | 0%[1] | 100%[2] |
| Other Benefits: Total Estimated Value of Benefits Received Other Than in Cash That Are Emoluments | 0% | 0% |

1 No short-term incentives were awarded in 2013 and 2014.
2 In 2013, no short term incentives were awarded, while in 2014, sales incentives for 130 employees have been established.

### Remuneration Policy for 2015 and Beyond

In implementing the Policy in 2015 and beyond, structuring Mr Stefan Pichler's arrangements, as outlined above, the Remuneration Committeee has used the flexibility and allowance of discretion afforded to it. The Board currently anticipates that the Policy will be applied when determining basic salary, bonuses, pensions and all other benefits for any other executive directors in 2015. The Board currently expects that the Remuneration Committee, using its discretion, will determine the level of any annual bonus award made by taking into consideration the airberlin group's financial and operational performance.

### Non-Executive Directors' Remuneration

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

Non-Executive Directors do not enter into service contracts with the Company but instead are paid a fee for the provision of their services under the terms of appointment letters. Specifically, each Non-Executive Director is paid EUR 50,000 a year and EUR 25,000 a year for each Committee that the relevant Non-Executive Director chairs. Messrs Rigney, Hogan, Sabanci and Zurnieden chose to waive such fees for 2014 in their entirety. Non-Executive Directors are not eligible for share options or pension benefits.

### Directors' Shareholdings (subject to audit)

The following table shows details of the Directors' current shareholdings as of 31 December 2014:

| Director | Beneficially owned shares* |
|---|---|
| Dr Hans-Joachim Körber | 203,000 |
| Joachim Hunold | 2,275,004 |
| Ali Sabancı | 14,045,031 |
| Heinz-Peter Schlüter | 1,200,000 |
| Johannes Zurnieden | 1,350,268 |

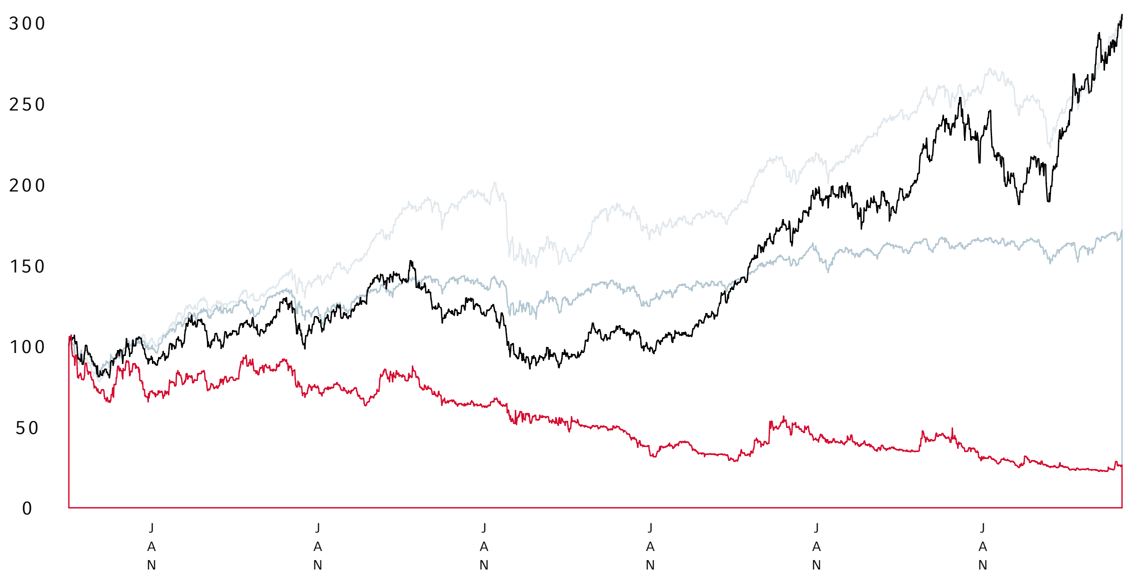
* includes any shares owned by connected persons in the meaning of sec. 252 Companies Act 2006.

There is no requirement for the Company's directors to have a shareholding in the Company.

## Performance graph and table

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

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




AIR BERLIN
STOXX TOTAL MARKET AIRLINES
FTSE ALL SHARE
SDAX

SOURCE: REUTERS

The following table shows the total remuneration figure for the Company's CEOs over a period of six years.

| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|---|
| Total Remuneration (in Thousand Euros) | 1,621 | 1,205 | 4,805 | 1,083 | 1,057 | 830 |
| Short Term Incentive payout (% against Maximum) | 39% | 12% | 0 | 0 | 0 | 0 |
| Long Term Incentives payout (% against Maximum)[1] | NA | NA | NA | NA | NA | NA |

"NA" means not applicable.
1 No long-term incentives were awarded in 2014

### Relative Importance of Spend on Pay

The following table shows the total pay for all airberlin group employees compared to other key financial indicators:

| (In thousand Euros, except average number of employees) | 2014 | 2013 | Percentage Change |
|---|---|---|---|
| Employee costs | 524,479 | 488,164 | 7.4% |
| Average number of employees | 8,612 | 8,991 | –4.2% |
| Revenues | 4,160,154 | 4,146,794 | 0.3% |
| Result from operating activities | –293,767 | –231,881 | –26.7% |
| Result before tax | –378,862 | –305,232 | –24.1% |
| Result for the period | –376,669 | –315,512 | –19.4% |
| Dividends | 0 | 0 | |

Additional information on number of employees, revenue and profit has been provided for context.

## Directors' Remuneration (subject to audit)

The Directors' remuneration during 2014 was: Messrs Rigney, Hogan, Sabanci and Zurnieden chose to waive such fees for 2014 in their entirety. Non-Executive Directors are not eligible for share options or pension benefits each Non-Executive Director is paid EUR 50,000 a year and EUR 25,000 a year for each Committee that the relevant Non-Executive Director chairs.

The Directors' remuneration during 2014 was:

| in Thousand EURs | Basic Salary and Fees Paid or Receivable | | Taxable Benefits[6] | | Short-term incentives | |
|---|---|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 | **2014** | 2013 |
| **Executive Director:** | | | | | | |
| Wolfgang Prock-Schauer | 800 | 708[1] | 29 | 19 | 0 | 0 |
| **Non-Executive Directors:** | | | | | | |
| Dr Hans-Joachim Körber | 179 | 134[4] | 3 | 2 | 0 | 0 |
| Joachim Hunold | 60 | 15[4] | 7 | 1 | 0 | 0 |
| Ali Sabancı[2] | 0[2] | 25 | 0 | 0 | 0 | 0 |
| Heinz-Peter Schlüter[3] | 89 | 67[4] | 2 | 3 | 0 | 0 |
| Nicholas Teller | 89 | 67[4] | 2 | 2 | 0 | 0 |
| Johannes Zurnieden[3] | 0[2] | 30 | 0 | 0 | 0 | 0 |
| James Hogan | 0[2] | 0 | 0 | 0 | 0 | 0 |
| James Rigney | 0[2] | 0 | 0 | 0 | 0 | 0 |
| Lothar Steinebach[3] | 89 | 15[5] | 1 | 0 | 0 | 0 |
| Andries B. van Luijk[3] | 50 | 13[4] | 0 | 0 | 0 | 0 |
| **Aggregate emoluments** | 556 | 366 | 15 | 8 | 0 | 0 |

1 Mr Prock-Schauer has waived 10% of his basic salary in 2013 and this waived portion has been subtracted from this number.
2 The relevant Director has waived his remuneration for 2014 in its entirety.
3 Independent Non-Executive Director.
4 The relevant Director has waived his remuneration for the first quarter in 2013 (being 25% in total) and this waived portion has been subtracted from this number.
5 Joined the Board on 1 October 2013.
6 Company car, health care allowance, reduced or free air transportation on flights.
7 Telephone connection fee and foreign health, accident and luggage insurance.

| | Long-term incentives | | One-time extra-ordinary payment | | Other Benefits[7] | | Total | |
|---|---|---|---|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 | **2014** | 2013 | **2014** | 2013 |
| | | | | | | | | |
| | 0 | 0 | 0 | 63 | 1 | 1 | 830 | 790 |
| | | | | | | | | |
| | 0 | 0 | 0 | 0 | 0 | 0 | 182 | 136 |
| | 0 | 0 | 0 | 0 | 0 | 0 | 67 | 16 |
| | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 25 |
| | 0 | 0 | 0 | 0 | 0 | 0 | 91 | 70 |
| | 0 | 0 | 0 | 0 | 0 | 0 | 91 | 69 |
| | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 30 |
| | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | 0 | 0 | 0 | 0 | 0 | 0 | 90 | 15 |
| | 0 | 0 | 0 | 0 | 0 | 0 | 50 | 13 |
| | 0 | 0 | 0 | 0 | 0 | 0 | 571 | 374 |

### Voting at AGM 2014

The following table shows the results of the advisory vote on the 2013 Directors' remuneration report at the 18 June 2014 AGM.

| | Total number of votes | % of votes cast |
|---|---|---|
| For | 64,481,135 | 94.2 |
| Against | 3,978,478 | 5.8 |
| **Total votes cast (excluding withheld votes)** | 68,459,613 | 100 |
| Votes withheld* | 140,837 | |
| **Total votes cast (including withheld votes)** | 68,600,450 | |

* A withheld vote is not a vote in law and is not counted in the calculation of the proportion of votes cast for and against a resolutions

By order of the Board

## HANS-JOACHIM KÖRBER

CHAIRMAN OF THE BOARD ON BEHALF OF THE REMUNERATION COMMITTEE

29 April 2015

# DIRECTORS' REPORT

Air Berlin PLC is a public limited company incorporated under the laws of England and Wales and registered as such in the English commercial register under the number 5643814. The registered office of Air Berlin PLC is The Hour House, 32 High Street, Rickmansworth, Hertfordshire, WD3 1ER, Great Britain. Air Berlin PLC is the parent company of the airberlin group.

The Directors present the Annual Report and the annual and consolidated financial statements for the financial year ending on 31 December 2014. References to "airberlin", "airberlin group", "Company", "we" or "our " refer to Air Berlin PLC or to Air Berlin PLC and its subsidiaries where appropriate.

Pages 99 to 100 ("Statement of Directors' Responsibilities in respect of the preparation of the Annual Report and the annual and consolidated financial statements") include the Directors' Report, which was prepared and submitted in accordance with English company law. The liabilities of the Directors in connection with the Directors' Report shall be subject to the limitations and restrictions provided for in English company law.

## SHAREHOLDER INFORMATION

### Capital

Details of the movements in the authorised and issued share capital are set out in note 11 to the consolidated financial statements.

The rights and obligations attaching to the Company's ordinary registered shares of the Company are set out in the Company's Articles of Association and in note 11 to the consolidated financial statements.

### Voting rights and restrictions on the transfer of shares

There are no ordinary registered shares that carry special rights in relation to the control of the Company.

A shareholder register (the so-called "CI register") is maintained to ensure compliance at all times with aviation regulatory requirements on the share ownership and effective control over the Company (EU Directive No. 1008/2008 and the air traffic agreements concluded between the Federal Republic of Germany and non-EU member states). Air Berlin PLC's Articles of Association stipulate that shareholders of Air Berlin PLC are only entered into the shareholder register when they disclose their nationality to the Company. If maintaining the operating license or the individual traffic rights is at risk, then the Directors of Air Berlin PLC may restrict the exercise of voting rights or request the sale of shares as well as refuse to consent to the transfer of shares, the registration of shareholders, or may request information from shareholders. If the deadline expires without the sale of shares, the Directors may sell the shares themselves on behalf of the shareholder.

Information regarding the major shareholders and the shareholder structure by nationality as at 31 December 2014 is contained on pages 20 to 21 of this Annual Report.

**Registered office**
The Hour House, 32 High Street, Rickmansworth, Hertfordshire, WD3 1ER, Great Britain

**Shareholder registrar**
Registrar Services GmbH, Frankfurter Straße 84–90a, 65760 Eschborn, Germany; Mailing address: P.O. Box 60630, Frankfurt/Main, Germany

**Company registration number**
5643814

**Auditor**
A resolution to reappoint KPMG LLP as the Company's auditors is proposed to the shareholders at the forthcoming Annual General Meeting.

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

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

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

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

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

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

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

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

The Directors consider to their knowledge that the Annual Report and accounts, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's and airberlin group's position and performance, business model and strategy.

## GOING CONCERN

After making inquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future as disclosed in note 2 to the financial statements. For this reason, they continue to adopt the going concern basis of accounting in preparing the accounts and believe that it is appropriate to do so.

## STATEMENT OF THE DIRECTORS REGARDING THE DISCLOSURE OF INFORMATION TO AUDITORS

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

a) so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and

b) he has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

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

The Annual Report on pages 2 to 167 was approved by the Board of Directors and authorised for issue on 29 April 2015 and signed on behalf of the Board of Directors by:

**STEFAN PICHLER**

CHIEF EXECUTIVE OFFICER

# DECLARATION BY THE LEGAL REPRESENTATIVES

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

Berlin, 29 April 2015

**STEFAN PICHLER**

CHIEF EXECUTIVE OFFICER

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

We have audited the financial statements of the Company for the year ended 31 December 2014 set out on pages 105 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 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 99, 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 2014 and of the group's loss for the year 2014;
- 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 the audit.

Darren Turner (Senior Statutory Auditor)
for and on behalf of: KPMG LLP,
Statutory Auditor

One Snowhill
Snow Hill Queensway
Birmingham B4 6GH Great Britain
29 April 2015

## Air Berlin PLC
## CONSOLIDATED INCOME STATEMENT
### for the period ended 31 December 2014

| | Note | 1/14–12/14 € 000 | 1/13–12/13 € 000 |
|---|---|---|---|
| **Revenue** | 20 | **4,160,154** | 4,146,794 |
| Other operating income | 21 | **11,636** | 59,753 |
| Expenses for materials and services | 22 | **(3,124,364)** | (3,174,504) |
| Personnel expenses | 23 | **(524,479)** | (488,164) |
| Depreciation, amortisation and impairment losses | 5,6 | **(96,950)** | (85,191) |
| Other operating expenses | 24 | **(719,764)** | (690,569) |
| **Operating expenses** | | **(4,465,557)** | (4,438,428) |
| **Result from operating activities** | | **(293,767)** | (231,881) |
| Financial expenses | 25 | **(99,733)** | (87,898) |
| Financial income | 25 | **4,167** | 7,124 |
| Result on foreign exchange and derivatives, net | 25 | **9,944** | 6,786 |
| **Net financing costs** | | **(85,622)** | (73,988) |
| Share of at equity investments, net of tax | 26 | **527** | 637 |
| **Result before tax** | | **(378,862)** | (305,232) |
| Income tax result | 27 | **2,193** | (10,280) |
| **Result for the period** | | **(376,669)** | (315,512) |
| **of which: attributable to hybrid capital investors** | | **9,356** | 0 |
| **of which: attributable to Air Berlin PLC shareholders** | | **(386,025)** | (315,512) |
| **Basic earnings per share in €** | 13 | **(3.31)** | (2.71) |
| **Diluted earnings per share in €** | 13 | **(3.31)** | (2.71) |

## CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

| | Note | 1/14–12/14 € 000 | 1/13–12/13 € 000 |
|---|---|---|---|
| **Result for the period** | | **(376,669)** | (315,512) |
| Foreign currency translation reserve | | **462** | (237) |
| Effective portion of changes in fair value of hedging instruments | | **(155,892)** | (29,607) |
| Net change in fair value of hedging instruments transferred from equity to profit or loss | | **6,488** | 33,242 |
| Income tax on other comprehensive income | 27 | **1,875** | (937) |
| Remeasurement of net defined liability | | **(5,788)** | (3,188) |
| Other comprehensive income for the period, net of tax | | **(152,855)** | (727) |
| **Total comprehensive income** | | **(529,524)** | (316,239) |
| **of which: attributable to hybrid capital investors** | | **9,356** | 0 |
| **of which: attributable to Air Berlin PLC shareholders** | | **(538,880)** | (316,239) |

Air Berlin PLC

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as of 31 December 2014

| | Note | 31/12/2014 | 31/12/2013 |
|---|---|---|---|
| | | € 000 | € 000 |
| **Assets** | | | |
| **Non-current assets** | | | |
| Intangible assets | 5 | **408,798** | 415,893 |
| Property, plant and equipment | 6 | **302,176** | 497,846 |
| Trade and other receivables | 9 | **85,303** | 115,301 |
| Deferred tax asset | 27 | **16,835** | 17,063 |
| Positive market value of derivatives | 29 | **8** | 105 |
| Net defined benefit asset | 14 | **709** | 3,455 |
| Deferred expenses | 10 | **49,117** | 55,744 |
| At equity investments | 7 | **6,762** | 6,666 |
| **Non-current assets** | | **869,708** | 1,112,073 |
| **Current assets** | | | |
| Inventories | 8 | **64,929** | 53,043 |
| Trade and other receivables | 9 | **396,483** | 406,027 |
| Positive market value of derivatives | 29 | **82,467** | 14,350 |
| Deferred expenses | 10 | **47,936** | 46,620 |
| Assets held for sale | 6 | **142,806** | 30,309 |
| Cash and cash equivalents | 28 | **259,229** | 223,063 |
| **Current assets** | | **993,850** | 773,412 |
| **Total assets** | | **1,863,558** | 1,885,485 |

Air Berlin PLC

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as of 31 December 2014

| | Note | 31/12/2014 | 31/12/2013 |
|---|---|---|---|
| | | € 000 | € 000 |
| **Equity and liabilities** | | | |
| **Shareholders' equity** | | | |
| Share capital | 11 | **29,273** | 29,273 |
| Share premium | 11 | **435,085** | 435,085 |
| Equity component of convertible bonds | 16 | **597** | 597 |
| Other capital reserves | 11 | **217,056** | 217,056 |
| Retained earnings | | **(1,248,200)** | (862,175) |
| Hedge accounting reserve, net of tax | | **(153,433)** | (5,904) |
| Foreign currency translation reserve | 11 | **3,654** | 3,192 |
| Remeasurement of the net defined benefit obligation | 14 | **(8,976)** | (3,188) |
| **Equity attributable to shareholders of the Company** | | **(724,944)** | (186,064) |
| **Equity attributable to the hybrid capital investors** | 12 | **309,356** | 0 |
| **Total equity** | | **(415,588)** | (186,064) |
| **Non-current liabilities** | | | |
| Interest-bearing liabilities due to aircraft financing | 16 | **89,961** | 178,391 |
| Interest-bearing liabilities | 16 | **639,967** | 605,265 |
| Provisions | 15 | **6,095** | 4,356 |
| Trade and other payables | 18 | **37,201** | 72,405 |
| Deferred tax liabilities | 27 | **23,817** | 29,707 |
| Negative market value of derivatives | 29 | **93** | 577 |
| **Non-current liabilities** | | **797,134** | 890,701 |
| **Current liabilities** | | | |
| Interest-bearing liabilities due to aircraft financing | 16 | **109,758** | 76,863 |
| Interest-bearing liabilities | 16 | **223,714** | 158,542 |
| Tax liabilities | | **3,266** | 3,716 |
| Provisions | 15 | **42,350** | 25,777 |
| Trade and other payables | 18 | **446,290** | 440,967 |
| Negative market value of derivatives | 29 | **240,548** | 23,098 |
| Deferred income | | **19,654** | 22,957 |
| Advanced payments received | 19 | **396,432** | 428,928 |
| **Current liabilities** | | **1,482,012** | 1,180,848 |
| **Total equity and liabilities** | | **1,863,558** | 1,885,485 |

The financial statements were approved by the Board of Directors and authorised for issue on 29 April 2015 and signed on behalf of the Board:

**STEFAN PICHLER**

CHIEF EXECUTIVE OFFICER

Air Berlin PLC

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2014

| | Share capital | Share premium | Equity component of convertible bonds |
|---|---|---|---|
| | € 000 | € 000 | € 000 |
| **Balances at 31 December 2012** | **29,273** | **435,085** | **597** |
| Loss for the period | | | |
| Other comprehensive income | | | |
| **Total comprehensive income** | **0** | **0** | **0** |
| **Balances at 31 December 2013** | **29,273** | **435,085** | **597** |
| Issue of hybrid capital | | | |
| **Total transactions with shareholders and hybrid capital investors** | **0** | **0** | **0** |
| Loss for the period | | | |
| Other comprehensive income | | | |
| **Total comprehensive income** | **0** | **0** | **0** |
| **Balances at 31 December 2014** | **29,273** | **435,085** | **597** |

| Other capital reserves | Retained earnings | Hedge accounting reserve, net of tax | Foreign currency translation reserve | Reasurement of the net defined benefit obligation | Equity attributable to the shareholders of the Company | Equity attributable to the hybrid capital investors | Total equity |
|---|---|---|---|---|---|---|---|
| € 000 | € 000 | € 000 | € 000 | € 000 | € 000 | € 000 | € 000 |
| **217,056** | **(546,663)** | **(8,602)** | **3,429** | **0** | **130,175** | **0** | **130,175** |
| | (315,512) | | | | (315,512) | | (315,512) |
| | | 2,698 | (237) | (3,188) | (727) | | (727) |
| **0** | **(315,512)** | **2,698** | **(237)** | **(3,188)** | **(316,239)** | **0** | **(316,239)** |
| **217,056** | **(862,175)** | **(5,904)** | **3,192** | **(3,188)** | **(186,064)** | **0** | **(186,064)** |
| | | | | | | 300,000 | 300,000 |
| **0** | **0** | **0** | **0** | **0** | **0** | **300,000** | **300,000** |
| | (386,025) | | | | (386,025) | 9,356 | (376,669) |
| | | (147,529) | 462 | (5,788) | (152,855) | | (152,855) |
| **0** | **(386,025)** | **(147,529)** | **462** | **(5,788)** | **(538,880)** | **9,356** | **(529,524)** |
| **217,056** | **(1,248,200)** | **(153,433)** | **3,654** | **(8,976)** | **(724,944)** | **309,356** | **(415,588)** |

Air Berlin PLC

## CONSOLIDATED STATEMENT OF CASH FLOWS

for the period ended 31 December 2014

| | Note | 31/12/2014 | 31/12/2013 |
|---|---|---|---|
| | | € 000 | € 000 |
| Result for the period | | **(376,669)** | (315,512) |
| **Adjustments to reconcile profit or loss to cash flows from operating activities:** | | | |
| Depreciation and amortisation of non-current assets | 5,6 | **71,822** | 85,190 |
| Impairment losses on property, plant and equipment | 6 | **25,233** | 0 |
| Gain on disposal of long-term assets | 21, 24 | **(713)** | (11,289) |
| Increase in inventories | | **(11,886)** | (3,176) |
| Decrease (Increase) in trade accounts receivables | | **7,803** | (4,634) |
| Increase in other assets and prepaid expenses | | **(8,199)** | (11,441) |
| Deferred tax (benefit) expense | 27 | **(3,788)** | 9,587 |
| Increase in provisions | | **21,058** | 7,306 |
| (Decrease) Increase in trade accounts payable | | **(32,982)** | 18,556 |
| (Decrease) Increase in other current liabilities | | **(34,807)** | 55,643 |
| Result on foreign exchange and derivatives, net | 25 | **(9,944)** | (6,786) |
| Interest expense | 25 | **92,489** | 86,898 |
| Interest income | 25 | **(4,209)** | (7,125) |
| Income tax expense | 27 | **1,595** | 693 |
| Share of profit of equity investments | 7 | **(527)** | (637) |
| Other non-cash changes | | **301** | (197) |
| **Cash generated from operations** | | **(263,423)** | (96,924) |
| Interest paid | | **(83,550)** | (79,645) |
| Interest received | | **1,813** | 7,002 |
| Income taxes paid | | **(2,025)** | (1,491) |
| **Net cash flows from operating activities** | | **(347,185)** | (171,058) |
| Purchases of non-current assets | | **(62,615)** | (32,212) |
| Net advanced payments for non-current items | 9 | **30,948** | (4,338) |
| Proceeds from sale of tangible and intangible assets | | **68,016** | 198,328 |
| Acquisition of equity investments | | **0** | (1,819) |
| **Cash flow from investing activities** | | **36,349** | 159,959 |
| Principal payments on interest-bearing liabilities | 16 | **(295,809)** | (320,358) |
| Proceeds from issue of interest-bearing liabilities | 16 | **495,202** | 91,525 |
| Transaction costs related to issue of interest-bearing liabilities | 16 | **(10,326)** | 0 |
| Redemption of interest-bearing liabilities | 16 | **(154,070)** | 0 |
| Proceeds from issue of hybrid capital | 12 | **300,000** | 0 |
| Proceeds from issue of convertible bonds | 16 | **0** | 140,000 |
| Transaction costs related to issue of convertible bonds | 16 | **0** | (3,263) |
| **Cash flow from financing activities** | | **334,997** | (92,096) |

| | Note | 31/12/2014 | 31/12/2013 |
|---|---|---|---|
| | | **€ 000** | € 000 |
| **Change in cash and cash equivalents** | | **24,161** | (103,195) |
| **Cash and cash equivalents at beginning of period** | | **223,006** | 327,821 |
| Foreign exchange gains (losses) on cash balances | | **12,013** | (1,620) |
| **Cash and cash equivalents at end of period** | 28 | **259,180** | 223,006 |
| thereof bank overdrafts used for cash management purposes | | **(49)** | (57) |
| thereof cash and cash equivalents in the statement of financial position | | **259,229** | 223,063 |

Air Berlin PLC

## COMPANY STATEMENT OF FINANCIAL POSITION

as at 31 December 2014

| | Note | 31/12/2014 | 31/12/2013 |
|---|---|---|---|
| | | € 000 | € 000 |
| **Assets** | | | |
| **Non-current assets** | | | |
| Investments in subsidiaries | 34b | **1,165,018** | 966,200 |
| Positive market value of derivatives | | **0** | 14 |
| Loans to subsidiaries | 34d | **118,395** | 0 |
| Net defined benefit asset | 34h | **677** | 2,719 |
| Deferred expenses | 34f | **11,660** | 14,450 |
| **Non-current assets** | | **1,295,750** | 983,383 |
| **Current assets** | | | |
| Receivables from subsidiaries | 34e | **64,219** | 9,802 |
| Positive market value of derivatives | | **12,929** | 3,351 |
| Trade and other receivables | | **3,324** | 2,340 |
| Deferred expenses | 34f | **4,693** | 3,232 |
| Cash and cash equivalents | | **3,738** | 4,321 |
| **Current assets** | | **88,903** | 23,046 |
| **Total assets** | | **1,384,653** | 1,006,429 |

Air Berlin PLC

## COMPANY STATEMENT OF FINANCIAL POSITION

as at 31 December 2014

| | Note | 31/12/2014 | 31/12/2013 |
|---|---|---|---|
| | | € 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 bonds | | **597** | 597 |
| Retained earnings | | **(321,101)** | (167,869) |
| Remeasurement of the net defined benefit obligation | | **(3,785)** | (1,277) |
| **Equity attributable to shareholders of the Company** | | **140,069** | 295,809 |
| **Equity attributable to the hybrid capital investors** | | **309,356** | 0 |
| **Total equity** | | **449,425** | 295,809 |
| **Non-current liabilities** | | | |
| Interest-bearing liabilities | | **467,732** | 343,699 |
| Other liabilities to subsidiaries | 34i | **137,602** | 164,551 |
| Deferred tax liabilities | 34c | **250** | 641 |
| Negative market value of derivatives | | **33** | 0 |
| **Non-current liabilities** | | **605,617** | 508,891 |
| **Current liabilities** | | | |
| Interest-bearing liabilities | | **203,653** | 155,724 |
| Tax liabilities | | **1,705** | 1,705 |
| Trade and other payables | | **3,753** | 7,617 |
| Payables to subsidiaries | 34k | **60,020** | 33,286 |
| Negative market value of derivatives | | **60,480** | 3,397 |
| **Current liabilities** | | **329,611** | 201,729 |
| **Total equity and liabilities** | | **1,384,653** | 1,006,429 |

The financial statements were approved by the Board of Directors and authorised for issue on 29 April 2015 and signed on behalf of the Board:

**STEFAN PICHLER**

CHIEF EXECUTIVE OFFICER

Air Berlin PLC

## COMPANY STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2014

| | Share capital | Share premium | Equity component of convertible bonds | Retained earnings | Reasurement of the net defined benefit obligation | Equity attributable to the shareholders of the Company | Equity attributable to the hybrid capital investors | Total equity |
|---|---|---|---|---|---|---|---|---|
| | € 000 | € 000 | € 000 | € 000 | € 000 | € 000 | € 000 | € 000 |
| **Balances at 31 December 2012** | **29,273** | **435,085** | **597** | **(58,960)** | **0** | **405,995** | **0** | **405,995** |
| Loss for the period | | | | (108,909) | | (108,909) | | (108,909) |
| Other comprehensive income | | | | | (1,277) | (1,277) | | (1,277) |
| **Total comprehensive income** | **0** | **0** | **0** | **(108,909)** | **(1,277)** | **(110,186)** | **0** | **(110,186)** |
| **Balances at 31 December 2013** | **29,273** | **435,085** | **597** | **(167,869)** | **(1,277)** | **295,809** | **0** | **295,809** |
| Issue of hybrid capital | | | | | | | 300,000 | 300,000 |
| **Total transactions with shareholders and hybrid capital investors** | **0** | **0** | **0** | **0** | **0** | **0** | **300,000** | **300,000** |
| Loss for the period | | | | (153,232) | | (153,232) | 9,356 | (143,876) |
| Other comprehensive income | | | | | (2,508) | (2,508) | | (2,508) |
| **Total comprehensive income** | | | | **(153,232)** | **(2,508)** | **(155,740)** | **9,356** | **(146,384)** |
| **Balances at 31 December 2014** | **29,273** | **435,085** | **597** | **(321,101)** | **(3,785)** | **140,069** | **309,356** | **449,425** |

Air Berlin PLC

## COMPANY STATEMENT OF CASH FLOWS

for the year ended 31 December 2014

| | Note | 31/12/2014 | 31/12/2013 |
|---|---|---|---|
| | | € 000 | € 000 |
| Loss for the period | | **(143,876)** | (108,909) |
| **Adjustments to reconcile profit or loss to cash flows from operating activities:** | | | |
| (Increase) Decrease in receivables from subsidiaries | | **(54,417)** | 140,778 |
| Decrease (Increase) in other assets and prepaid expenses | | **9,527** | (13,409) |
| Deferred tax (benefit) expense | 34c | **(391)** | 15,674 |
| Decrease in trade accounts payable and other liabilities | | **(3,741)** | (999) |
| Increase in net defined benefit asset | | **(466)** | (1,134) |
| Increase (Decrease) in payables to subsidiaries | 34k | **12,934** | (220,096) |
| Result on foreign exchange and derivatives, net | | **31,428** | (1,429) |
| Interest expense | | **76,185** | 59,075 |
| Interest income | | **(9,258)** | (7,132) |
| Income tax expense | | **0** | 23 |
| Share of profit of equity investments | | **0** | (1,331) |
| **Cash generated from operations** | | **(82,075)** | (138,889) |
| Interest paid | | **(66,533)** | (52,996) |
| Interest received | | **68** | 1,172 |
| Income taxes paid | | **(122)** | 0 |
| **Net cash flows from operating activities** | | **(148,662)** | (190,713) |
| Disposal of investments in subsidiaries | | **1,182** | 440 |
| Increase in share capital of subsidiaries | 34b | **0** | (61,599) |
| Loans given to subsidiaries | 34d | **(318,395)** | 0 |
| Repayments of loans given to at equity investments | | **0** | 148 |
| Dividends received from subsidiaries | | **0** | 1,331 |
| Acquisition of at equity investments | | **0** | (30) |
| **Cash flow from investing activities** | | **(317,213)** | (59,710) |
| (Redemption) Issue of corporate bonds/convertible bonds | 16 | **(154,070)** | 140,000 |
| Transaction costs related to issue of convertible bonds | 16 | **0** | (3,263) |
| Proceeds from issue of interest-bearing liabilities | 16 | **328,083** | 0 |
| Payment of transaction costs related to issue of interest bearing liabilities | 16 | **(10,326)** | 0 |
| Proceeds from issue of hybrid capital | | **300,000** | 0 |
| **Cash flow from financing activities** | | **463,687** | 136,737 |
| **Change in cash and cash equivalents** | | **(2,188)** | (113,686) |
| **Cash and cash equivalents at beginning of period** | | **4,321** | 118,067 |
| Foreign exchange gains (losses) on cash balances | | **1,605** | (60) |
| **Cash and cash equivalents at end of period** | | **3,738** | 4,321 |
| thereof cash and cash equivalents in the statement of financial position | | **3,738** | 4,321 |

# NOTES TO THE CONSOLIDATED AND COMPANY FINANCIAL STATEMENTS AS OF 31 DECEMBER 2014

## 1. INTRODUCTION

The consolidated financial statements of Air Berlin PLC for the year ended 31 December 2014 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 0.7789 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 29 April 2015.

### Going concern

The group’s business activities, together with the factors likely to affect its future development, performance and position are set out in the Report on Forecasts and Outlook for the group on pages 64 to 66.

The financial position of the group, its cash flows, and liquidity position are described in the Development in Financial Figures on pages 37 to 40. 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 Outlook for the group on pages 64 to 66, 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 the committed aircraft 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 (see notes 6 and 31) and operating cash flows to meet its liabilities in the foreseeable future. This forecast includes repayment of a bond due in November 2015 of EUR 195 million which can be settled by drawdown of a loan facility in place at the end of the year. In the event that actual trading performance falls below the sensitized forecast levels, the directors believe, based on ongoing negotiations, that additional sources of funding are readily available to the group. In addition there are other actions available to the directors to provide further alleviation.

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 financial statements.

**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. The group controls an entity when the group is exposed to, or has right to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. 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 Ltd. & Co. Verwaltungs KG (primary: Air Berlin PLC & Co. Verwaltungs KG)
- Air Berlin Ltd. & Co. Service Center KG (primary: Air Berlin PLC & Co. Service Center KG)
- AB Sechste Flugzeugvermietungs GmbH & Co. KG
- AB Siebte Flugzeugvermietungs GmbH & Co. KG
- AB Zwölfte Flugzeugvermietungs GmbH & Co. KG

Air Berlin Finance GmbH is exempt due to Article 291(1) German Commercial Code for the presentation of consolidated financial statements under German statutory law.

**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.

**c) Investments in associates and joint ventures (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. Joint ventures arise where the group has rights to the net assets of the arrangement.

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 |
| 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 an unpredictable time 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 Airbus A319, A320 and A321 and Boeing 737. 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 highly 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 29.

#### 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 in-flight 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.

**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 2015 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.

**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. Where possible 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 Management 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 or that are known to be reliable based on past experience the risk of non-payment is extremely low. Cash in bank is held only at banks with the highest credit ratings. 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 29.

### Capital management

The group considers bonds, equity (excluding hedge accounting reserves and foreign currency reserves), hybrid capital, 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, 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. INTANGIBLE ASSETS

| In thousands of Euro | Software, licenses | Goodwill | Landing rights | Trademarks | Total |
|---|---|---|---|---|---|
| Acquisition cost | | | | | |
| Balance 1 January 2013 | 75,411 | 196,763 | 176,249 | 8,500 | **456,923** |
| Additions | 8,189 | 0 | 0 | 0 | **8,189** |
| Currency translation adjustments | 0 | (68) | 0 | 0 | **(68)** |
| Disposals | (93) | 0 | 0 | 0 | **(93)** |
| Balance 31 December 2013 | 83,507 | 196,695 | 176,249 | 8,500 | **464,951** |
| Additions | 4,422 | 0 | 0 | 0 | **4,422** |
| Currency translation adjustments | 0 | 157 | 0 | 0 | **157** |
| Disposals | (2) | 0 | 0 | 0 | **(2)** |
| Balance 31 December 2014 | 87,927 | 196,852 | 176,249 | 8,500 | **469,528** |
| Amortisation | | | | | |
| Balance 1 January 2013 | 35,879 | 0 | 0 | 0 | **35,879** |
| Amortisation charge for the year | 13,262 | 0 | 0 | 0 | **13,262** |
| Disposals | (83) | 0 | 0 | 0 | **(83)** |
| Balance 31 December 2013 | 49,058 | 0 | 0 | 0 | **49,058** |
| Amortisation charge for the year | 11,672 | 0 | 0 | 0 | **11,672** |
| Balance 31 December 2014 | 60,730 | 0 | 0 | 0 | **60,730** |
| Carrying Amount | | | | | |
| At 1 January 2013 | 39,532 | 196,763 | 176,249 | 8,500 | **421,044** |
| At 31 December 2013 | 34,449 | 196,695 | 176,249 | 8,500 | **415,893** |
| At 31 December 2014 | 27,197 | 196,852 | 176,249 | 8,500 | **408,798** |

The group performed an impairment test on landing rights, goodwill and trademarks in the fourth quarter of 2014 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 | 165,852 | **196,852** |
| 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 intangible assets 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 (including the benefits and expenses committed to in the recent restructuring plan) approved by management, sensitised for the purposes of the Impairment test and extrapolated to perpetuity using a 0.5% growth rate (2013: 0.5%) and discounted to their present value. The pre-tax peer-group discount rate was 8.55% (2013: 9.39%). The discount rate reflects management's estimate of the risks associated 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. A compound adjustment to remove a projected seat load factor increase of 2.7% and reduction by 50% of expected yield growth does not result in an impairment of the carrying value.

## 6. 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 2013 | 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** |
| Additions | 683 | 41,680 | 26,943 | 1,648 | **70,954** |
| Disposals | 0 | (69,565) | (8,829) | (512) | **(78,906)** |
| Reclassification held for sale | 0 | (428,428) | 0 | 0 | **(428,428)** |
| Balance at 31 December 2014 | 14,860 | 224,357 | 176,339 | 17,134 | **432,690** |
| Depreciation | | | | | |
| Balance at 1 January 2013 | 9,960 | 292,523 | 37,201 | 6,654 | **346,338** |
| Depreciation charge for the year | 956 | 50,169 | 16,916 | 3,888 | **71,929** |
| Disposals | 0 | (48,773) | (3,262) | (3,068) | **(55,103)** |
| 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** |
| Depreciation charge for the year | 901 | 38,708 | 16,736 | 3,700 | **60,045** |
| Disposals | 0 | (35,265) | (4,711) | (391) | **(40,367)** |
| Impairment loss | 0 | 25,233 | 0 | 0 | **25,233** |
| Reclassification held for sale | 0 | (285,622) | 0 | 0 | **(285,622)** |
| Balance at 31 December 2014 | 11,817 | 45,034 | 62,880 | 10,783 | **130,514** |
| Carrying amount | | | | | |
| At 1 January 2013 | 3,632 | 500,328 | 85,211 | 8,719 | **597,890** |
| At 31 December 2013 | 3,261 | 378,691 | 107,370 | 8,524 | **497,846** |
| At 31 December 2014 | 3,043 | 179,323 | 113,459 | 6,351 | **302,176** |

Impairment loss of EUR 20,999 was recognised for seven aircraft upon the classification as assets held for sale in accordance with IFRS 5.

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 0.7 bn USD (2013: 3.4 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 | 2014 | 2013 |
|---|---|---|
| Aircraft | **32,436** | 38,755 |
| Technical equipment and machinery | **34,668** | 1,589 |
| | **67,104** | 40,344 |

Finance leases are explained in more detail in note 17.

**Assets held for sale**

Assets held for sale position includes ten aircraft, which are expected to be sold by the group. When publishing these financial statements all sale agreements have been firmly signed and four aircraft have been finally settled. The aircraft held for sale were written down to their fair value less costs to sell, based upon sales contracts and letters of intent from prospective purchasers. Non-current liabilities relating to aircraft financing of the aircraft held for sale have been classified to current liabilities.

## 7. AT EQUITY INVESTMENTS

| In thousands of Euro | 2014 | 2013 |
|---|---|---|
| Acquisition cost | | |
| Balance at 1 January | **6,666** | 4,847 |
| Acquisition | **0** | 1,819 |
| Reclassification from other assets at equity investments | **(431)** | (637) |
| Share of profit | **527** | 637 |
| Balance at 31 December | **6,762** | 6,666 |

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

## 8. INVENTORIES

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

| In thousands of Euro | 2014 | 2013 |
|---|---|---|
| Supplies and spares | **64,442** | 52,237 |
| Purchased merchandise | **487** | 806 |
| | **64,929** | 53,043 |

Inventories are measured at the lower of cost and net realisable value. In 2014 the impairment of inventories was EUR 9,883 (2013: EUR 8,386). The amount of inventories expensed directly in the statement of comprehensive income is reported in note 22 (fuel for aircraft and catering cost).

## 9. TRADE AND OTHER RECEIVABLES

| | 2014 | | | 2013 | | |
|---|---|---|---|---|---|---|
| In thousands of Euro | Current | Non-current | Total | Current | Non-current | Total |
| Trade receivables | 181,024 | 0 | **181,024** | 188,827 | 0 | 188,827 |
| Receivables from related parties | 12,746 | 2,930 | **15,676** | 14,702 | 2,364 | 17,066 |
| Accrued receivables | 0 | 0 | **0** | 259 | 0 | 259 |
| Security deposits and deposits with suppliers | 47,070 | 33,391 | **80,461** | 15,166 | 29,768 | 44,934 |
| Receivables for bonus and claims | 42,946 | 0 | **42,946** | 49,526 | 0 | 49,526 |
| Other receivables | 30,929 | 1,828 | **32,757** | 32,680 | 1,526 | 34,206 |
| Loans and receivables | 314,715 | 38,149 | **352,864** | 301,160 | 33,658 | 334,818 |
| Receivables from tax authorities | 9,619 | 0 | **9,619** | 11,084 | 0 | 11,084 |
| Advanced payments | 36,686 | 47,154 | **83,840** | 44,463 | 81,643 | 126,106 |
| Other assets | 35,463 | 0 | **35,463** | 49,320 | 0 | 49,320 |
| | 396,483 | 85,303 | **481,786** | 406,027 | 115,301 | 521,328 |

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 include suppliers with debit balances (2014: EUR 10,180 and 2013: EUR 8,051).

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 3,614 (2013: EUR 34,251) were made during the period and EUR 11,318 was capitalised (2013: EUR 19,697).

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.

## 10. DEFERRED EXPENSES

| | 2014 | | | 2013 | | |
|---|---|---|---|---|---|---|
| In thousands of Euro | Current | Non-current | Total | Current | Non-current | Total |
| Lease rate prepayments | 19,586 | 7,037 | **26,623** | 17,402 | 15,029 | 32,431 |
| Deferred losses from sale-and-leaseback transactions and smoothing of leasing rates | 9,138 | 37,088 | **46,226** | 7,827 | 30,381 | 38,208 |
| Other deferred expenses | 19,212 | 4,992 | **24,204** | 21,391 | 10,334 | 31,725 |
| | 47,936 | 49,117 | **97,053** | 46,620 | 55,744 | 102,364 |

Other deferred expenses consist of prepayments and a participation fee in a rotable-pool for aircraft spare parts.

## 11. 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.

**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).

**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.

## 12. HYBRID CAPITAL

On 27 April 2014 the group issued a perpetual bond to its shareholder Etihad Airways PJSC in the total amount of EUR 300,000. The drawdown of the bond was divided in three tranches of EUR 100,000 and paid on 20 May 2014, 28 August 2014 and 23 October 2014. The perpetual bond has no maturity, is repayable only at the discretion of the group and bears an interest coupon of 8.0% per annum. Interest coupons can be deferred indefinitely at the discretion of the group. Settlement of all arrears of interest is payable only in the event that group declares or pays a dividend or repurchases its own ordinary shares. An amount of EUR 9,356 was transferred from retained earnings to hybrid capital to reflect the amount of interest payable in such an event. The perpetual bond bears a conversion right to convert the bonds to ordinary shares at conversion price of EUR 1.79 per ordinary share. Conversion to ordinary shares is at the discretion of the bond holder and can be exercised from the date of issue but is subject to the limitations imposed by the Articles of Association that the group must at all times be controlled or majority owned by nationals of the European Community or European Economic Area. As there is no obligation on the group to repay the capital and can indefinitely defer payments of interest until a dividend is declared (which is at the discretion of the group), the perpetual bond is recognized as equity in the group's consolidated statement of financial position.

## 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 | 2014 | 2013 |
|---|---|---|
| Result for the period | **(376,669)** | (315,512) |
| Result attributable to hybrid capital investors | **9,356** | 0 |
| Result attributable to ordinary shareholders (basic and diluted) | **(386,025)** | (315,512) |
| Issued ordinary shares at 1 January | **116,801** | 116,801 |
| Effect of treasury shares held | **(178)** | (178) |
| Weighted average number of ordinary shares outstanding (basic) | **116,623** | 116,623 |
| Weighted average number of ordinary shares outstanding (diluted) | **116,623** | 116,623 |
| Basic earnings per share (in EUR) | **(3.31)** | (2.71) |
| Diluted earnings per share (in EUR) | **(3.31)** | (2.71) |

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.

## 14. PENSION LIABILITIES/EMPLOYEE BENEFITS

The group held provisions for the following employee benefits at 31 December 2014:

| In thousands of Euro | 2014 | 2013 |
|---|---|---|
| Provision for anniversary bonuses | **1,245** | 2,075 |
| Pension liabilities | **4,850** | 2,421 |
| Total employee benefits | **6,095** | 4,496 |

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 group's defined benefit obligations at the year end was as follows:

| In thousands of Euro | 2014 | 2013 |
|---|---|---|
| Present value of funded obligations | **23,820** | 25,520 |
| Fair value of plan assets | **(19,679)** | (26,555) |
| Total funded status deficit (surplus) | **4,141** | (1,035) |
| Pension liabilities | **4,850** | 2,420 |
| Net defined benefit asset | **(709)** | (3,455) |

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

| In thousands of Euro | 2014 | 2013 |
|---|---|---|
| Defined benefit obligation at 1 January | **25,520** | 20,542 |
| Current service cost | **787** | 1,941 |
| Benefits paid | **(9,167)** | (578) |
| Interest on obligation | **741** | 754 |
| Actuarial losses | **5,939** | 2,861 |
| Defined benefit obligation at 31 December | **23,820** | 25,520 |

Sensitivities of the defined benefit obligation are as follows:

| In thousands of Euro | 2014 |
|---|---|
| Defined benefit obligation at 31 December 2014 | **23,820** |
| Defined benefit obligation at 0.5 percentage points lower interest rate | **26,489** |
| Defined benefit obligation at 0.5 percentage points higher interest rate | **21,512** |

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

| In thousands of Euro | 2014 | 2013 |
|---|---|---|
| Fair value of plan assets at 1 January | **26,555** | 23,318 |
| Contribution | **1,413** | 3,211 |
| Benefits paid | **(9,167)** | (556) |
| Interest income on plan assets | **727** | 909 |
| Actual gain (loss) on plan assets | **151** | (327) |
| Fair value of plan assets at 31 December | **19,679** | 26,555 |

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 | 2014 | 2013 |
|---|---|---|
| Current service cost | **787** | 1,941 |
| Net interest on defined benefit pension plan | **14** | (155) |
| Pension expense recognized in profit and loss | **801** | 1,786 |
| Actuarial loss on defined benefit obligation | **5,939** | 2,861 |
| Actual (gain) loss on plan assets | **(151)** | 327 |
| Net loss recognised in other comprehensive income | **5,788** | 3,188 |

The group expects to contribute EUR 1,371 to its defined benefit pension plans in 2015.

Principal actuarial assumptions at the reporting date are as follows:

| in % | 2014 | 2013 |
|---|---|---|
| Discount rate at 31 December | **1.86–2.17** | 2.77–3.22 |
| 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 2014 as a result of the defined contribution plans is EUR 8,616 (2013: EUR 9,382). There is no contribution outstanding as at year end.

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 29,379 in 2014 (2013: EUR 28,719).

## 15. PROVISIONS

| In thousands of Euro | Balance at 1/1/2014 | Additions | Utilisation | Released | **Balance at 31/12/2014** |
|---|---|---|---|---|---|
| Provision for legal dispute | 20,557 | 0 | (19,343) | (1,214) | **0** |
| Provision for onerous contracts | 776 | 26,748 | 0 | (776) | **26,748** |
| Provision for anniversary bonuses | 2,075 | 159 | (395) | (594) | **1,245** |
| Provision for redundancy costs | 4,304 | 17,875 | (4,442) | (2,135) | **15,602** |
| Provision for pensions | 2,421 | 2,653 | 0 | (224) | **4,850** |
| | 30,133 | 47,435 | (24,180) | (4,943) | **48,445** |

Thereof EUR 6,095 relating to the provision for pensions and anniversary bonuses was classified as non-current as of 31 December 2014 (2013: EUR 4,356).

Provision for litigation is in respect of an historical dispute about airport fees in the past was fully utilised and compensated during 2014.

The group set up a provision for several onerous contracts in the amount of which unavoidable costs of meeting the obligations under the contract exceed the economic benefits. The provision includes EUR 19,867 obligations on maintenance service agreements and EUR 5,188 on early lease termination fees for Boeing aircraft arisen in course of fleet optimization and EUR 4,667 relating to the onerous lease contract on a hangar.

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. Thirty nine (2013: 41) employees have signed such agreements as of the end of the period. A discount rate of 0.45% (2013: 0.68%) and an expected salary increase of 2.0% (2013: 0.7%) 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 EUR 1,744 was compensated by security funds of EUR 1,752 (2013: EUR 4,134).

The provision for anniversary bonuses was calculated using a discount rate of 0.68% (2013: 0.68%) and an expected yearly salary increase of 2.0% (2013: 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 includes EUR 12,863 which relate to the announced restructuring program of the group. The remaining amount of the provision relates to redundancy payments in the normal 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 2014 and 2013 are as follows:

| In thousands of EUR | Secured/ unsecured | Currency | Maturity | **Carrying amount 31/12/2014** | Carrying amount 31/12/2013 |
|---|---|---|---|---|---|
| Corporate bonds I | Unsecured | Euro | 2015 | **196,896** | 199,301 |
| Corporate bonds II | Unsecured | Euro | 2018 | **225,689** | 149,237 |
| Corporate bonds III | Unsecured | Euro | 2014 | **0** | 150,886 |
| Corporate bonds IV | Unsecured | Euro | 2019 | **167,121** | 0 |
| Corporate bonds V | Unsecured | CHF | 2019 | **81,679** | 0 |
| Convertible bonds I | Unsecured | Euro | 2017* | **4,852** | 4,852 |
| Convertible bonds III | Unsecured | Euro | 2019* | **130,884** | 145,374 |
| Finance lease liabilities | Secured | Euro | 2015 – 2024 | **40,038** | 899 |
| Loans from related parties | Secured | USD | 2015 – 2016 | **0** | 98,699 |
| Loans | Unsecured | USD | 2015 | **16,473** | 14,502 |
| Bank overdrafts | Unsecured | Euro | | **49** | 57 |
| | | | | **863,681** | 763,807 |

* first option to redeem the bonds

Of this amount EUR 223,714 (2013: EUR 158,542) is classified within current liabilities in the statement of financial position. The bank overdrafts are due in the following year respectively. The amount of EUR 16,473 (2013: 14,502) relates to supplier loan and bears no interest. The finance lease liabilities and Loans from related parties are detailed in note 17 and 31 respectively.

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

| In thousands of EUR | **2014** | 2013 |
|---|---|---|
| Less than one year | **223,714** | 158,542 |
| Between one and five years | **616,546** | 460,318 |
| More than five years | **23,421** | 144,947 |
| | **863,681** | 763,807 |

#### CORPORATE BONDS I

On 10 November 2010 the group issued EUR 200,000 of corporate bonds due for repayment in 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.
In the second quarter of 2014 the group partially repurchased bonds with a total nominal value of EUR 4,112.
The bonds are measured at amortized cost.

#### CORPORATE BONDS II
On 19 April 2011 the group issued EUR 150,000 of corporate bonds due for repayment in 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.
On 21 January 2014 the group increased the aggregate principal amount of that bond by EUR 75,000 to aggregate principal amount of EUR 225,000. The notes were issued at 101.50% of their principal amount. Transaction costs incurred were EUR 2,333. The bonds are measured at amortized cost.

#### CORPORATE BONDS III
On 1 November 2011 the group issued EUR 100,000 of corporate bonds due for repayment in 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.
The corporate bonds were fully repaid in 2014.

#### CORPORATE BONDS IV & V
On 8 May 2014 the group issued two corporate bonds amounting to EUR 170,000 and respectively CHF 100,000 due for repayment in 2019. The bond issue is made up of 170,000 bonds with a principal amount of EUR 1 each, earning yearly interest of 6.75% and respectively 100,000 bonds with a principal amount of CHF 1 each, earning yearly interest of 5.625%. Thereof EUR 162,706 and CHF 92,725 was a cash inflow, whereas EUR 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. Transactions costs incurred were EUR 8,203. The bonds are measured at amortized cost.

#### CONVERTIBLE BONDS I
On 11 April 2007 the group issued EUR 220,000 of convertible bonds due in 2027. The bond issue was 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.
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 2014, 48 convertible bonds with a principal amount of EUR 4,800 are still in the market (2013: EUR 4,800).
The equity component in the statement of financial position totalled EUR 597 (2013: 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, 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 EUR 140,000 convertible bond due in 2019 years. The bond issue was made up of 1,400 bonds with a principal amount of EUR 100 each, earning yearly interest of 6.0%. The initial conversion price is EUR 2.82 which results in an initial conversion ratio of 35,460 ordinary shares per bond. Proceeds from the bond issue amounted to EUR 140,000. Transactions costs incurred were EUR 3,263.

The convertible bond was recognised 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 | 31/12/2014 |
|---|---|
| **Carrying amount on 1 January 2014** | **145,374** |
| Accrued interest | 1,410 |
| Fair valuation on the embedded derivative | (15,900) |
| **Carrying amount on 31 December 2014** | **130,884** |
| thereof the host contract | 130,884 |
| thereof the embedded derivative | 0 |

### 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 are as follows:

| In thousands of EUR | Secured/ unsecured | Currency | Maturity | **Carrying amount 31/12/2014** | Carrying amount 31/12/2013 |
|---|---|---|---|---|---|
| Interest rate | | | | | |
| Variable rate | Secured | Euro | 2015–2023 | **54,712** | 61,480 |
| Variable rate | Secured | USD | 2015–2020 | **52,467** | 101,986 |
| Fixed rate | Secured | Euro | 2015–2021 | **16,583** | 19,236 |
| Fixed rate | Secured | USD | 2015–2023 | **44,366** | 43,303 |
| Finance lease liabilities | Secured | USD | 2015–2018 | **31,591** | 29,249 |
| | | | | **199,719** | 255,254 |

Of this amount EUR 109,758 (2013: EUR 76,863) 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 | **2014** | 2013 |
|---|---|---|
| Less than one year | **109,758** | 76,863 |
| Between one and five years | **66,239** | 125,619 |
| More than five years | **23,722** | 52,772 |
| | **199,719** | 255,254 |

## 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 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 group as a result of these leases.

Non-cancellable operating lease rentals are payable as follows:

| In thousands of EUR | 2014 | 2013 |
|---|---|---|
| Less than one year | **523,105** | 451,596 |
| Between one and five years | **1,703,253** | 1,536,860 |
| More than five years | **712,103** | 828,259 |
| | **2,938,461** | 2,816,715 |

No contingent leasing payments were recognised as lease payments in the period.
During the year ended 31 December 2014, EUR 448,673 (2013: EUR 489,238) 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 2015.

Future minimum lease payments are receivable as follows:

| In thousands of EUR | 2014 | 2013 |
|---|---|---|
| Less than one year | **8,619** | 17,913 |
| Between one and five years | **0** | 47,945 |
| | **8,619** | 65,858 |

### Finance leases

The group leases certain technical equipment for aircraft under various agreements which qualify as a finance lease. The lease agreements are for various terms, the latest of which expires in 2024.
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.

The net book value of assets capitalised at 31 December 2014 as a result of finance leases is detailed in note 6.
No contingent leasing payments were recorded in profit and loss in 2014 (2013: EUR 0).

Future minimum lease payments are as follows:

| In thousands of EUR | At 31 December 2014 Future minimum lease payments | At 31 December 2014 Discounted to present value | At 31 December 2013 Future minimum lease payments | At 31 December 2013 Discounted to present value |
|---|---|---|---|---|
| Less than one year | **11,927** | **7,268** | 3,300 | 3,198 |
| Between one and five years | **63,281** | **40,940** | 34,000 | 26,950 |
| More than five years | **29,942** | **23,421** | 0 | 0 |
| | **105,150** | **71,629** | 37,300 | 30,148 |

## 18. TRADE AND OTHER PAYABLES

| | 2014 | | | 2013 | | |
|---|---|---|---|---|---|---|
| In thousands of EUR | Current | Non-current | **Total** | Current | Non-current | Total |
| Trade payables | 121,327 | 0 | **121,327** | 113,005 | 0 | 113,005 |
| Other financial liabilities | 7,614 | 0 | **7,614** | 3,419 | 0 | 3,419 |
| Trade payables and other financial liabilities | 128,941 | 0 | **128,941** | 116,424 | 0 | 116,424 |
| Accrued liabilities | 303,625 | 37,201 | **340,826** | 308,897 | 72,405 | 381,302 |
| Receivables with credit balances | 1,538 | 0 | **1,538** | 2,668 | 0 | 2,668 |
| Payroll tax | 7,056 | 0 | **7,056** | 6,672 | 0 | 6,672 |
| VAT | 949 | 0 | **949** | 1,321 | 0 | 1,321 |
| Social insurance contributions | 1,718 | 0 | **1,718** | 1,107 | 0 | 1,107 |
| Other non-financial liabilities | 2,463 | 0 | **2,463** | 3,881 | 0 | 3,881 |
| | 446,290 | 37,201 | **483,491** | 440,967 | 72,405 | 513,375 |

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 | 2014 | 2013 |
|---|---|---|
| Flight revenue | 3,808,230 | 3,815,537 |
| Ground and other services | 323,493 | 305,758 |
| Duty-free/in-flight sales | 28,431 | 25,499 |
| | 4,160,154 | 4,146,794 |

Ground and other services primarily include freight, technical services and ancillary sales.

**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.

## 21. OTHER OPERATING INCOME

| In thousands of EUR | 2014 | 2013 |
|---|---|---|
| Income from indemnities received | 0 | 34,404 |
| Gain on disposal of long-term assets, net | 0 | 11,289 |
| Income from subleases | 0 | 4,022 |
| Income from insurance claims | 2,860 | 852 |
| Other | 8,776 | 9,186 |
| | 11,636 | 59,753 |

## 22. EXPENSES FOR MATERIALS AND SERVICES

| In thousands of EUR | 2014 | 2013 |
|---|---|---|
| Fuel for aircraft | 1,028,629 | 1,067,154 |
| Airport and handling charges | 837,770 | 835,591 |
| Operating leases for aircraft and equipment | 548,027 | 579,342 |
| Navigation charges | 265,205 | 257,755 |
| Air transportation tax | 148,636 | 142,873 |
| Catering costs and cost of materials for in-flight sales | 124,532 | 129,194 |
| Other | 171,565 | 162,595 |
| | 3,124,364 | 3,174,504 |

The expenses for operating leases for aircraft and equipment include expenses of EUR 141,939 (2013: EUR 125,517) that do not directly relate to the lease of assets and EUR 5,188 relating to the early terminations fees for lease contracts (note 15).

The expenses from material and services have been reduced by EUR 0 (2013: EUR 24,000) 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 | 2014 | 2013 |
|---|---|---|
| Wages and salaries | **444,281** | 406,556 |
| Pension expense | **38,759** | 39,921 |
| Social security | **41,439** | 41,687 |
| | **524,479** | 488,164 |

The Wages and salaries include EUR 12,863 of redundancy costs which relate to the announced restructuring program of the group (note 15).

Pension expense relates to the defined benefit plan for the Executive Directors and senior management of EUR 691 (2013: EUR 1,721) and the AB Finance II GmbH (former: dba) pension plan of EUR 73 (2013: EUR 39), contributions paid to defined contribution plans of EUR 8,616 (2013: EUR 9,442) and to social security systems of EUR 29,379 (2013: EUR 28,719) 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 | 2014 | 2013 |
|---|---|---|
| Basic remuneration | **800** | 708 |
| Bonus | **0** | 62 |
| Other | **30** | 20 |
| | **830** | 790 |

The highest paid Director received EUR 830 in total remuneration in 2014 (2013: EUR 790). Directors' Remuneration is detailed in the Directors' Remuneration Report on pages 88 to 96.

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 3,759 (2013: 3,282), of which EUR 766 (2013: EUR 389) related to pension schemes.

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 | **Annual average 2014** | Annual average 2013 | **At 31 December 2014** | At 31 December 2013 |
|---|---|---|---|---|
| Flight and cabin crew | **4,590** | 4,700 | **4,435** | 4,705 |
| Sales, operations and administration | **4,022** | 4,291 | **4,005** | 4,200 |
| | **8,612** | 8,991 | **8,440** | 8,905 |

## 24. OTHER OPERATING EXPENSES

| In thousands of EUR | 2014 | 2013 |
|---|---|---|
| Repairs and maintenance of technical equipment | **233,058** | 242,150 |
| Sales and distribution expenses (incl. commissions) | **121,820** | 123,210 |
| Advertising | **56,271** | 48,893 |
| Expenses for premises and vehicles | **46,898** | 45,685 |
| Travel expenses for cabin crews | **28,405** | 30,253 |
| Bank charges | **31,852** | 26,307 |
| Consulting fees | **29,506** | 34,481 |
| Insurance | **14,432** | 18,506 |
| Training and other personnel expenses | **19,590** | 16,253 |
| Net loss on disposal of non-current assets and related expenses | **19,156** | 0 |
| IT related expenses | **16,103** | 14,919 |
| Phone and postage | **4,070** | 5,116 |
| Allowances for receivables | **6,218** | 4,738 |
| Remuneration of the auditor | **2,087** | 1,540 |
| Other | **90,298** | 78,518 |
| | **719,764** | 690,569 |

The Other operating expenses include EUR 39,918 arisen in context of the announced restructuring programme of the group.

Remuneration of the auditor is as follows:

| In thousands of EUR | 2014 | 2013 |
|---|---|---|
| Audit of the annual accounts | **292** | 144 |
| Audit of accounts of subsidiaries of the Company | **1,077** | 917 |
| Audit related services | **360** | 371 |
| Taxation services | **33** | 15 |
| Other services | **325** | 93 |
| | **2,087** | 1,540 |

## 25. NET FINANCING COSTS

| In thousands of EUR | 2014 | 2013 |
|---|---|---|
| Interest expense on interest-bearing liabilities | **(96,538)** | (86,900) |
| Other financial expenses | **(3,195)** | (998) |
| Financial expenses | **(99,733)** | (87,898) |
| Interest income on fixed deposits | **388** | 160 |
| Interest income on loans and receivables | **62** | 34 |
| Other financial income | **3,717** | 6,930 |
| Financial income | **4,167** | 7,124 |
| Gain on foreign exchange and derivatives, net | **9,944** | 6,786 |
| Net financing costs | **(85,622)** | (73,988) |

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 (losses) gains are reconciled to foreign exchange gains or (losses) in profit or loss as follows:

| In thousands of EUR | 2014 | 2013 |
|---|---|---|
| Total net foreign exchange gain (loss) recognised in profit or loss | **17,699** | (15,843) |
| Thereof reclassified to operating expenses | **(24,042)** | 25,802 |
| Foreign exchange gains in financial result | **(6,343)** | 9,959 |

## 26. SHARE OF PROFIT OF AT EQUITY INVESTMENTS

| In thousands of EUR | 2014 | 2013 |
|---|---|---|
| airberlin holidays GmbH (primary: Binoli GmbH) | **95** | 0 |
| THBG BBI GmbH | **432** | 637 |
| | **527** | 637 |

## 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 | 2014 | 2013 |
|---|---|---|
| Current income tax expense | **(1,595)** | (693) |
| Deferred income tax expense | **3,788** | (9,587) |
| Total income tax expense | **2,193** | (10,280) |

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 1,595 (2013: EUR 693) includes EUR 1 of prior year income tax expenses (2013: expenses of EUR 2,289).

The tax rate for the airberlin group equals 30.18% (2013: 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 (7,940) (2013: EUR 7,651).

As at 31 December 2014, 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 positive factors of the announced restructuring programme of the group will have a positive impact on the group's profits in 2015 too. Nevertheless, deferred tax assets on tax losses were also as at 31 December 2014 only recognised up to a very restricted level.

The group account for the market value of derivatives, which have been designated for hedge accounting purposes, net of deferred tax within the other comprehensive income. As at 31 December 2014 no deferred tax asset has been recognized on the negative market value of fuel hedge contracts since the conditions for the recognition has not been met.

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 | **2014** | 2013 |
|---|---|---|
| Loss before tax | **(378,862)** | (305,232) |
| Expected income tax benefit at 30.18% (2013: 30.18%) | **114,341** | 92,119 |
| Effect of tax rates in different jurisdictions | **(7,940)** | 7,651 |
| Movement in deferred tax assets on tax loss carry forwards | **(79,015)** | (57,296) |
| Tax-free income and non-tax deductible expenses | **(26,717)** | (28,494) |
| Adjustment to tax audits | **0** | (27,563) |
| Deferred tax benefit due to prior years | **0** | 2,289 |
| Current tax expenses for previous years | **1** | 0 |
| Other | **1,523** | 1,014 |
| Total income tax benefit (expense) | **2,193** | (10,280) |

Due to organisational changes in the group's structure tax loss carry forwards of EUR 117,710 for trade tax and EUR 124,369 for corporate tax purposes were lost. From these amounts deferred tax asset on tax loss carry forwards had been accounted for EUR 103,446 for trade tax purposes and EUR 110,106 for corporate tax purposes. The forfeiture of these deferred tax assets has been compensated by utilising other tax loss carry forwards previously not recognised.

As of 31 December 2014, total tax loss carry forwards for which deferred tax assets were recognised amounted to EUR 349,831 for trade tax purposes and EUR 222,534 for corporate tax purposes (2013: EUR 271,996 and EUR 345,859 respectively). Thereof EUR 310,633 (2013: EUR 271,996) for trade tax purposes and EUR 163,293 (2013: EUR 251,072) for corporate tax purposes have been recognised to offset deferred tax liabilities. Tax loss carry forwards amounting to EUR 39,199 for trade tax purposes (2013: EUR 0) and EUR 59,242 for corporate tax purposes (2013: EUR 94,787) are forecasted to be recovered through future taxable profits or by using adequate tax structuring strategies. As of 31 December 2014, additional deferred tax assets have not been recognised for further loss carry forwards of EUR 741,852 for trade tax and EUR 894,633 for corporate tax (2013: EUR 679,007 and EUR 631,341). The tax loss carry forwards are not subject to expiration.

In 2013, 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 | 2014 | 2013 |
|---|---|---|
| Deferred tax assets: | | |
| Foreign currency receivables and derivatives | **6,251** | 6,474 |
| Intangible assets | **977** | 1,099 |
| Technical equipment | **2,254** | 383 |
| Accrued liabilities and provisions | **5,653** | 3,581 |
| Tax loss carry forwards | **85,388** | 86,160 |
| | **100,523** | 97,697 |
| Deferred tax liabilities: | | |
| Finance lease liabilities and deferred income | **(4,916)** | (3,487) |
| Aircraft and related liabilities | **(34,794)** | (43,385) |
| Intangible assets | **(50,477)** | (49,791) |
| Leasehold improvements | **(44)** | (56) |
| Accrued liabilities and provisions | **(8,032)** | (9,079) |
| Convertible bonds, corporate bonds | **(7,335)** | (1,786) |
| Foreign currency liabilities and derivatives | **(1,906)** | (2,757) |
| | **(107,504)** | (110,341) |
| Offsetting | **100,523** | 97,697 |
| Deferred tax assets (liabilities), net | **(6,981)** | (12,644) |
| Deferred tax assets (liabilities), net beginning of period | **(12,644)** | (2,120) |
| Change in deferred tax position | **5,663** | (10,524) |
| Thereof related to cash flow hedges and items recorded in equity | **(1,875)** | 937 |
| Deferred income tax benefit | **3,788** | (9,587) |

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

| In thousands of EUR | 2014 | 2013 |
|---|---|---|
| Deferred tax asset | **16,835** | 17,063 |
| Deferred tax liabilities | **(23,817)** | (29,707) |
| | **(6,982)** | (12,644) |

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

**Income tax recognised in the statement of other comprehensive income**

| | **2014** | | | 2013 | | |
|---|---|---|---|---|---|---|
| In thousands of EUR | Before tax | Tax expense | **Net of tax** | Before tax | Tax expense | Net of tax |
| Foreign currency translation differences for foreign operations | 462 | 0 | **462** | (237) | 0 | (237) |
| Fair value of hedging instruments | (149,404) | 1,875 | **(147,529)** | 3,635 | (937) | 2,698 |
| | (148,942) | 1,875 | **(147,067)** | 3,398 | (937) | 2,461 |

## 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 | 2014 | 2013 |
|---|---|---|
| Cash | **117** | 148 |
| Bank balances | **157,323** | 117,274 |
| Fixed-term deposits | **101,789** | 105,641 |
| Cash and cash equivalents | **259,229** | 223,063 |
| Bank overdrafts used for cash management purposes | **(49)** | (57) |
| Cash and cash equivalents in the statement of cash flows | **259,180** | 223,006 |

Cash and cash equivalents include restricted cash of EUR 101,699 as at 31 December 2014 (2013: EUR 105,131).

## *29. DERIVATIVES*

Positive and negative market values of derivatives are as follows:

| In thousands of EUR | 2014 Current | 2014 Non-current | 2014 Total | 2013 Current | 2013 Non-current | 2013 Total |
|---|---|---|---|---|---|---|
| **Derivatives classified as hedge accounting:** | | | | | | |
| Positive market values | 82,445 | 0 | **82,445** | 14,350 | 0 | 14,350 |
| Negative market values | (240,248) | 0 | **(240,248)** | (23,013) | 0 | (23,013) |
| | (157,803) | 0 | **(157,803)** | (8,663) | 0 | (8,663) |
| **related underlying:** | | | | | | |
| Fuel price | (239,417) | 0 | **(239,417)** | 13,252 | 0 | 13,252 |
| Foreign exchange rate | 81,614 | 0 | **81,614** | (21,915) | 0 | (21,915) |
| | (157,803) | 0 | **(157,803)** | (8,663) | 0 | (8,663) |
| **Derivatives classified as held for trading:** | | | | | | |
| Positive market values | 22 | 8 | **30** | 0 | 105 | 105 |
| Negative market values | (300) | (93) | **(393)** | (85) | (577) | (662) |
| | (278) | (85) | **(363)** | (85) | (472) | (557) |
| **related underlying:** | | | | | | |
| Fuel price | 0 | 0 | **0** | (37) | 0 | (37) |
| Foreign exchange rate | 22 | 0 | **22** | (48) | 0 | (48) |
| Interest rate | (300) | (85) | **(385)** | (0) | (472) | (472) |
| | (278) | (85) | **(363)** | (85) | (472) | (557) |

### 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 payables 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 2014:

| 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 | **84,038** | **(1,563)** | **82,475** | **(69,523)** | **0** | **12,952** |
| Derivatives with negative market value | **(242,204)** | **1,563** | **(240,641)** | **69,523** | **0** | **(171,118)** |

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 | (13,344) |

## 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 | 2014 | 2013 |
|---|---|---|---|
| Loans and receivables | 9 | **352,864** | 334,818 |
| Positive market values of derivatives classified as held for trading | 29 | **30** | 105 |
| Positive market values of derivatives classified as hedge accounting | 29 | **82,445** | 14,350 |
| Cash and cash equivalents | 28 | **259,229** | 223,063 |
| | | **694,568** | 572,336 |

### b) Impairment losses

— **TRADE RECEIVABLES**

The aging of trade receivables at the reporting date was:

| | 2014 | | 2013 | |
|---|---|---|---|---|
| In thousands of EUR | Gross | Impairment | Gross | Impairment |
| Not past due | **163,137** | **0** | 170,391 | 0 |
| Past due 1–30 days | **5,287** | **84** | 2,671 | 32 |
| Past due 31–120 days | **8,380** | **228** | 2,446 | 15 |
| Past due 121–365 days | **9,155** | **4,990** | 2,533 | 906 |
| More than one year past due | **14,478** | **14,111** | 23,350 | 11,611 |
| | **200,437** | **19,413** | 201,391 | 12,564 |

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 | 2014 | 2013 |
|---|---|---|
| Balance at 1 January | **12,564** | 14,058 |
| Increase in allowance for impairment losses | **7,349** | 1,017 |
| Release of allowance for impairment losses | **(500)** | (2,511) |
| Balance at 31 December | **19,413** | 12,564 |

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 19,413 (2013: EUR 12,564).

— **OTHER LOANS AND RECEIVABLES**

None of the other loans and receivables were past due as of 31 December 2014 (2013: 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 (2013: EUR 0).
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 2014:

| 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 | **(210,672)** | **(110,825)** | **(75,760)** | **(24,087)** |
| Interest bearing liabilities | 16 | **(1,082,124)** | **(276,469)** | **(770,392)** | **(35,264)** |
| Trade payables and other financial liabilities | 18 | **(128,941)** | **(128,941)** | **0** | **0** |
| **Total non-derivative financial liabilities** | | **(1,421,737)** | **(516,235)** | **(846,152)** | **(59,351)** |
| **Derivatives** | | | | | |
| Derivatives with positive market values | 29 | | | | |
| Outflow | | **(875,830)** | **(875,830)** | **0** | **0** |
| Inflow | | **955,929** | **955,929** | **0** | **0** |
| Derivatives with negative market values | 29 | | | | |
| Outflow | | **(296,339)** | **(296,264)** | **(75)** | **0** |
| Inflow | | **51,665** | **51,665** | **0** | **0** |
| **Total derivatives** | | **(164,575)** | **(164,500)** | **(75)** | **0** |

For 31 December 2013, 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 | (278,708) | (81,915) | (140,719) | (56,074) |
| 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) | (202,868) |
| **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 |

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 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 (2013: identical).

The group's exposure to foreign currency risk was as follows based on the currency values at end of year:

| | 2014 | | | 2013 | | |
|---|---|---|---|---|---|---|
| In thousands of currency units | **USD** | **GBP** | **CHF** | USD | GBP | CHF |
| Loans and receivables | **88,580** | **840** | **465** | 77,121 | 748 | 418 |
| Cash and cash equivalents | **61,850** | **135** | **6,680** | 66,090 | 391 | 12,125 |
| Interest-bearing liabilities due to aircraft financing aircraft financing | **(156,467)** | **0** | **0** | (240,706) | 0 | 0 |
| Interest-bearing liabilities | **(67,928)** | **0** | **(100,990)** | (156,116) | 0 | 0 |
| Trade payables and other financial liabilities liabilities | **(105,462)** | **(1,018)** | **(5,026)** | (101,856) | (675) | (3,066) |
| Total exposure of balance positions | **(179,427)** | **(43)** | **(98,871)** | (355,467) | 464 | 9,477 |
| Estimated forecast purchases | **(2,028,474)** | **17,974** | **(51,149)** | (2,128,673) | 19,854 | (44,409) |
| Gross exposure | **(2,207,901)** | **17,931** | **(150,020)** | (2,484,140) | 20,318 | (34,932) |
| Hedged volume | **1,196,260** | **0** | **0** | 1,463,000 | 0 | 13,400 |
| Net exposure | **(1,011,641)** | **17,931** | **(150,020)** | (1,021,140) | 20,318 | (21,532) |

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:

| | Average rate | | Reporting date spot rate | |
|---|---|---|---|---|
| Currency units to the EUR | **2014** | 2013 | **2014** | 2013 |
| USD | **1.3285** | 1.3281 | **1.2141** | 1.3791 |
| GBP | **0.8061** | 0.8493 | **0.7789** | 0.8337 |
| CHF | **1.2146** | 1.2311 | **1.2024** | 1.2276 |

— **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:

| | **2014** | | | 2013 | | |
|---|---|---|---|---|---|---|
| Effect in thousands of EUR | **USD** | **GBP** | **CHF** | USD | GBP | CHF |
| Profit or loss | **13,435** | **5** | **2,887** | 22,715 | (51) | (1,694) |
| Equity | **(76,181)** | **0** | **0** | (82,424) | 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:

| | **2014** | | | 2013 | | |
|---|---|---|---|---|---|---|
| Effect in thousands of EUR | **USD** | **GBP** | **CHF** | USD | GBP | CHF |
| Profit or loss | **(16,420)** | **(6)** | **(3,479)** | (26,867) | 62 | 2,071 |
| Equity | **90,114** | **0** | **0** | 96,605 | 0 | 0 |

### e) Interest rate risk

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

| | Carrying amount | |
|---|---|---|
| In thousands of EUR | **2014** | 2013 |
| **Fixed rate instruments** | | |
| Financial assets | **2,930** | 2,364 |
| Financial liabilities | **(930,043)** | (832,925) |
| Interest rate instruments | **(385)** | (471) |
| | **(927,498)** | (831,032) |
| **Variable rate instruments** | | |
| Financial liabilities | **(107,228)** | (192,772) |
| | **(107,228)** | (192,772) |

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

| In thousands of EUR | **2014** | 2013 |
|---|---|---|
| Variable rate financial liabilities net of nominal value of interest rate instruments | **40,536** | (62,687) |
| | **40,536** | (62,687) |

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 (2013: EUR 0) and increased profit or loss by EUR 363 (2013: EUR 952) respectively decreased by EUR 1,150 (2013: 1,468) 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 profit or loss (financial result) by EUR 619 respectively decreased by EUR 512 (2013: increased or decreased by EUR 627) 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 22.9% (2013: 24.0%) 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 2014, the hedged volume was 952,000 tons for the 2015 financial year (2013: 645,500 tons for 2014). The hedging quota was 71.5% for 2015 (2013: 48.3% for 2014).

#### — 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:

| | **2014** | | 2013 | |
|---|---|---|---|---|
| Effect in thousands of EUR | **+10%** | **−10%** | +10% | −10% |
| Profit or loss | **(683)** | **384** | (2,694) | (6,409) |
| Equity | **42,477** | **(42,477)** | 42,135 | (29,917) |

**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 2014 are as follows:

| In thousands of EUR | Note | Loans & receivables | Held for trading | Hedge-Accounting | Financial liablities at amortised costs/ at fair value | Total carrying amount | Fair value |
|---|---|---|---|---|---|---|---|
| Trade receivables and other assets | 9 | **352,864** | **0** | **0** | **0** | **352,864** | **352,864** |
| Derivatives classified as held for trading with positive market values | 29 | **0** | **30** | **0** | **0** | **30** | **30** |
| Derivatives classified as hedge accounting with positive market values | 29 | **0** | **0** | **82,445** | **0** | **82,445** | **82,445** |
| Cash and cash equivalents | 28 | **259,229** | **0** | **0** | **0** | **259,229** | **259,229** |
| | | **612,093** | **30** | **82,445** | **0** | **694,568** | **694,568** |
| | | | | | | | |
| Derivatives classified as held for trading with negative market values | 29 | **0** | **(393)** | **0** | **0** | **(393)** | **(393)** |
| Derivatives classified as hedge accounting with negative market values | 29 | **0** | **0** | **(240,248)** | **0** | **(240,248)** | **(240,248)** |
| Financial liabilities at amortised costs | 16 | **0** | **0** | **0** | **(1,160,790)** | **(1,160,790)** | **(1,184,800)** |
| Finance lease liabilities | 17 | **0** | **0** | **0** | **(71,629)** | **(71,629)** | **(70,748)** |
| Bank overdrafts used for cash management purposes | 28 | **0** | **0** | **0** | **(49)** | **(49)** | **(49)** |
| | | **0** | **(393)** | **(240,248)** | **(1,232,468)** | **(1,473,109)** | **(1,496,238)** |

The fair values of the financial assets and liabilities, the carrying amount disclosed and the relevant category as of 31 December 2013 were as follows:

| In thousands of EUR | Note | Loans & receivables | Held for trading | Hedge-Accounting | Financial liablities at amortised costs/ at fair value | Total carrying amount | Fair value |
|---|---|---|---|---|---|---|---|
| Trade receivables and other assets | 9 | 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 | | | | | (15,900) | (15,900) | (15,900) |
| Finance lease liabilities | 17 | 0 | 0 | 0 | (30,148) | (30,148) | (27,880) |
| Bank overdrafts used for cash management purposes | 28 | 0 | 0 | 0 | (57) | (57) | (57) |
| | | 0 | (662) | (23,013) | (1,152,277) | (1,175,952) | (1,154,618) |

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 valuated 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)** |
| Fair value through profit and loss | **15,900** |
| Fair value 31 December 2014 | **0** |

**Financial liabilities**

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 | 2014 | 2013 |
|---|---|---|
| Loans and receivables | **6,015** | (1,023) |
| Cash and cash equivalents | **12,013** | (1,620) |
| Derivatives | **(3,923)** | (26,840) |
| Financial liabilities measured at amortised cost | **(21,678)** | 15,336 |
| Financial liabilities measured at fair value | **15,900** | (6,940) |
| | **8,327** | (21,087) |

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 (2013: none). Interest income/expense is disclosed in note 25.

## 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 88 to 96).

Members of the Board of Directors control a voting share of 4.31% of Air Berlin PLC (2013: 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 EUR 3,586 (2013: EUR 6,573). At 31 December 2014, EUR 48 (prior year: EUR 75) are included in the trade receivables line.

**Transactions with major shareholder**

In 2013 the group received secured loans that are shown as interest-bearing liabilities from a major shareholder – Etihad Airways PJSC. This loan was repaid in full during the year, an amount of EUR 0 was outstanding at 31 December 2014 (2013: EUR 98,699 including accrued interest). Relating to the loan interest expenses of EUR 4,100 have been accounted for in the income statement in 2014 (2013: EUR 8,689). 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 EUR 8,476 to Etihad Airways PJSC and received from Etihad Airways PJSC commissions of EUR 8,166 (2013: EUR 8,135 and EUR 8,166 respectively). At 31 December 2014 the group was owed EUR 1,188 by Etihad Airways PJSC (2013: EUR 1,209) and owed Etihad Airways PJSC EUR 972 (2013: EUR 489). These amounts are recorded in trade and other receivables and payables respectively. In 2013 the group received EUR 24,000 related to the joint procurement program which have been allocated to expenses for materials and services. At 31 December 2014 EUR 12,308 are included in the trade and other receivables line (2013: EUR 12,308). Additionally the group purchased business class seats from Etihad Airways PJSC for EUR 15,219 in 2013.

**Transactions with at equity investments**

During the year ended 31 December 2014 respectively 2013 the group had transactions with associates as follows:

| In thousands of EUR | 2014 | 2013 |
|---|---|---|
| **THBG BBI GmbH** | | |
| Receivables from related parties | **2,930** | 2,364 |
| Interest Income | **137** | 121 |
| **airberlin holidays GmbH (primary: Binoli GmbH)** | | |
| Receivables from related parties | **88** | 167 |
| Revenues from ticket sales | **1,401** | 9,520 |
| **E190 Flugzeugvermietung GmbH** | | |
| Receivables from related parties | **553** | 2,394 |
| Expenses for leasing | **6,698** | 7,765 |
| **IHY IZMIR HAVAYOLLARI A.S.** | | |
| Income from leasing | **1,085** | 2,899 |
| **Topbonus Ltd** | | |
| Receivables from related parties | **1,312** | 136 |
| Payables to related parties | **4,072** | 4,982 |
| Revenues from ticket sales | **6,898** | 5,172 |
| Expenses for miles | **25,417** | 24,955 |
| **AuSoCon Berlin Call Center GmbH** | | |
| Payables to related parties | **1,963** | 0 |
| Expenses for services | **2,234** | 0 |

Transactions with associates are priced on an arm's length basis.
In 2014 EUR 0 dividends have been received from at equity investments (2013: 0).

## 32. EXECUTIVE BOARD OF DIRECTORS

| | | |
|---|---|---|
| Stefan Pichler | Chief Executive Officer | (since 2 February 2015) |
| Wolfgang Prock-Schauer | Chief Executive Officer | (until 2 February 2015) |

## 33. SUBSEQUENT EVENTS

From the end of 2014 financial year till end of the editorial deadline of this Annual report on 29 April 2015 no events occurred that could have significant impact on the business development of the Company.

## 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.

In 2013 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 2014 additional EUR 200,000 intercompany loans have been capitalised.

To assess the recoverable amount of investments, management has performed a value-in-use calculation to derive a value for the recoverable amount of the Company investments. This has been performed by taking value-in-use of cash-generating unit Flight Operations and then adjusting for the fair values of other assets and liabilities of the wider Air Berlin PLC group which are expected to create future cash flows. This results in the recoverable amount being materially equal to the carrying value of the investments. The assumptions used by value-in-use calculation are detailed in note 5 to the consolidated financial statements. Any adverse change to any of these assumptions will lead to impairment of investments in subsidiaries of the Company.

| In thousands of EUR | 2014 | 2013 |
|---|---|---|
| **Acquisition cost** | | |
| Balance at 1 January | **966,200** | 720,925 |
| Acquisition | **0** | 30 |
| Cash capital contribution to subsidiaries' equity | **0** | 7,000 |
| Contribution of intercompany loans to subsidiaries' equity | **200,000** | 184,523 |
| Contribution of intercompany receivables and payables into to subsidiaries' equity, net | **0** | 53,344 |
| Contribution of at equity investments to subsidiaries' equity | **0** | 409 |
| Disposals | **(1,182)** | (31) |
| Balance at 31 December | **1,165,018** | 966,200 |

### 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 | 2014 | 2013 |
|---|---|---|
| Current income tax expense | **122** | (23) |
| Deferred income tax benefit | **391** | (15,675) |
| Total income tax benefit | **513** | (15,698) |

Current income taxes of the Company include corporate tax, a solidarity charge in addition to corporate tax and trade tax. The current income tax benefit includes EUR 122 of prior year income tax benefit (2013: EUR 452 expense). The tax rate of the Company equals 30.03% (2013: 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.

As at 31 December 2014, 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 positive factors of the announced restructuring programme of the Company will have a positive impact on the group's profits in 2015 too.

As at 31 December 2014 deferred tax assets on tax loss carry forwards have only been recognised insofar as they could be set off against deferred tax liabilities. As at 31 December 2013 no deferred tax assets on tax loss carry forwards had been recognised at all.

The Company accounts for the market value of derivatives net of deferred tax. As at 31 December 2014 no deferred tax asset has been recognised on the negative market value of such contracts since the conditions for the recognition have not been met.

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 | 2014 | 2013 |
|---|---|---|
| Loss before tax | **(142,044)** | (93,594) |
| Expected income tax benefit at 30.03% (2013: 30.03%) | **42,656** | 28,106 |
| Effect of tax pooling agreements with subsidiaries | **(1,218)** | (3,464) |
| (Write down) Recognition of deferred tax assets on tax loss carry forwards | **(3,631)** | (17,589) |
| Non-recognition of deferred tax assets on negative market values of derivatives | **(10,676)** | 0 |
| Effect of differences in tax base (from non-deductible expenses) | **(27,696)** | (23,528) |
| Current tax expenses for previous years | **(122)** | 452 |
| Other | **1,200** | 325 |
| Total income tax benefit (expense) | **513** | (15,698) |

As of 31 December 2014, total tax loss carry forwards for which deferred tax assets were recognised amounted to EUR 20,382 (2013: EUR 0) for trade tax purposes and EUR 20,382 (2013: EUR 0) for corporate tax purposes. Thereof EUR 20,382 (2013: EUR 0) for trade tax purposes and EUR 20,382 (2013: EUR 0) for corporate tax purposes have been recognised to offset deferred tax liabilities.

As of 31 December 2014, no additional deferred tax assets were capitalised for further loss carry forwards of EUR 59,764 for trade tax and EUR 390,575 for corporate tax (2013: EUR 42,275 for trade tax and EUR 383,337 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 | 2014 | 2013 |
|---|---|---|
| Deferred tax assets: | | |
| Accrued liabilities and provisions | **963** | 1,136 |
| Negative market values of derivatives | **0** | 992 |
| Tax loss carry forwards | **6,122** | 0 |
| | **7,085** | 2,128 |
| Deferred tax liabilities: | | |
| Convertible bonds, corporate bonds | **(7,335)** | (1,786) |
| Positive market values of derivatives | **0** | (983) |
| | **(7,335)** | (2,769) |
| Offsetting | **7,085** | 2,128 |
| Deferred tax assets, net | **(250)** | (641) |
| Deferred tax assets, net beginning of period | **(641)** | 15,034 |
| Change in deferred tax position | **391** | (15,675) |
| Thereof related to items recorded in equity | **0** | 0 |
| Deferred income tax benefit (expense) | **391** | (15,675) |

**d) Loans to subsidiaries**

During 2014 Air Berlin PLC gave EUR 318,395 loans to Air Berlin PLC & Co. Luftverkehrs KG, of which EUR 200,000 have been contributed to equity of the subsidiary (note 34b). As of 31 December 2014 loans were outstanding to Air Berlin PLC & Co. Luftverkehrs KG of EUR 118,395.

As of 31 December 2013 there were no loans to subsidiaries outstanding.

**e) Receivables from subsidiaries**

Receivables from subsidiaries include EUR 7,825 (2013: EUR 7,825) in relation to due to profit and loss transfer agreements. 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 and hybrid capital is detailed in note 11 and 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 | 2014 | 2013 |
|---|---|---|
| Present value of funded obligations | **5,179** | 10,717 |
| Fair value of plan assets | **(5,856)** | (13,436) |
| Funded status | **(677)** | (2,719) |
| Net defined benefit asset | **(677)** | (2,719) |

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

| In thousands of EUR | 2014 | 2013 |
|---|---|---|
| Defined benefit obligation at 1 January | **10,717** | 7,776 |
| Current service cost | **400** | 1,614 |
| Benefits paid | **(8,853)** | 0 |
| Interest on obligation | **294** | 274 |
| Actuarial losses | **2,621** | 1,053 |
| Defined benefit obligation at 31 December | **5,179** | 10,717 |

Sensitivities of the defined benefit obligation are as follows:

| In thousands of EUR | 2014 |
|---|---|
| Defined benefit obligation at 31 December 2014 | **5,179** |
| Defined benefit obligation at 0.5 percentage points lower interest rate | **5,859** |
| Defined benefit obligation at 0.5 percentage points higher interest rate | **4,599** |

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

| In thousands of EUR | 2014 | 2013 |
|---|---|---|
| Fair value of plan assets at 1 January | **13,436** | 10,638 |
| Contribution | **821** | 2,599 |
| Benefits paid | **(8,853)** | 0 |
| Expected return on plan assets | **339** | 423 |
| Actual gain (loss) on plan assets | **113** | (224) |
| Fair value of plan assets at 31 December | **5,856** | 13,436 |

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 113 during the period (2013: loss EUR 224).
The amount recognised as pension expense in profit or loss and other comprehensive income is as follows:

| In thousands of EUR | 2014 | 2013 |
|---|---|---|
| Current service cost | **400** | 1,614 |
| Net interest on defined benefit pension plan obligation | **(45)** | (149) |
| Pension expense recognised in profit and loss | **355** | 1,465 |
| Net actuarial losses recognised in the period | **2,621** | 1,053 |
| Actuarial (gain) loss on plan assets | **(113)** | 224 |
| Loss recognized in other comprehensive income | **2,508** | 1,277 |

The Company expects to contribute EUR 781 to its defined benefit pension plans in 2015.

Principal actuarial assumptions at the reporting date are as follows:

| in % | 2014 | 2013 |
|---|---|---|
| Discount rate at 31 December | **1.86** | 2.77 |
| 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 40,427 (2013: EUR 25,380) regarding profit and loss transfers, EUR 384 (2013: 384) regarding cash pooling agreements, EUR 17,908 (2013: EUR 9,373) related to deferred purchase price payments of aircraft.

#### l) Fair values

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:

| | | 2014 | | 2013 | |
|---|---|---|---|---|---|
| In thousands of EUR | Note | Carrying amount | Fair value | Carrying amount | Fair value |
| Loans to subsidiaries | 34d | **118,395** | **118,395** | 0 | 0 |
| Receivables from subsidiaries | 34e | **64,219** | **64,219** | 9,802 | 9,802 |
| **Total loans and receivables** | | **182,614** | **182,614** | 9,802 | 9,802 |
| Positive market values of derivatives classified as held for trading | | **12,929** | **12,929** | 3,365 | 3,365 |
| Cash and cash equivalents | | **3,738** | **3,738** | 4,321 | 4,321 |
| Interest-bearing liabilities | 16 | **(671,385)** | **(681,297)** | (499,423) | (527,925) |
| Payables to subsidiaries | 34k, i | **(197,872)** | **(197,872)** | (197,837) | (197,837) |
| Trade and other payables | | **(3,753)** | **(3,753)** | (7,617) | (7,617) |
| Total financial liabilities measured at amortised cost | | **(873,010)** | **(832,922)** | (704,877) | (733,379) |
| Negative market values of derivatives classified as held for trading | | **(60,513)** | **(60,513)** | (3,397) | (3,397) |
| | | **(734,242)** | **(744,154)** | (690,786) | (719,288) |

**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 (2013: 4.31%).

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

| In thousands of EUR | 2014 | 2013 |
|---|---|---|
| Air Berlin PLC & Co. Luftverkehrs KG | | |
| Revenues | **20,380** | 10,463 |
| Interest income | **9,521** | 2,170 |
| Other operating expenses | **680** | 15,760 |
| Receivables from subsidiaries | **173,951** | 1,613 |
| Payables to subsidiaries | **878** | 1,730 |
| Pegasus 1. – 7. Luftfahrtbeteiligungsgesellschaft mbH | | |
| Revenues | **24** | 27 |
| airberlin technik GmbH | | |
| Revenues | **386** | 464 |
| Interest income | **0** | 239 |
| Interest expenses | **15,047** | 25,380 |
| Receivables from subsidiaries | **46** | 46 |
| Payables to subsidiaries | **40,427** | 25,380 |
| Leisure Cargo GmbH | | |
| Revenues | **34** | 41 |
| Interest income | **0** | 7,824 |
| Receivables from subsidiaries | **7,829** | 7,829 |
| Air Berlin 1. – 9. LeaseLux Sàrl | | |
| Revenues | **152** | 218 |
| Receivables from subsidiaries | **164** | 2 |
| Payables to subsidiaries | **8,535** | 8,535 |
| Air Berlin Finance B.V. | | |
| Revenues | **69** | 84 |
| Expenses from convertible bonds | **218** | 103 |
| Receivables from subsidiaries | **9,414** | 9,415 |
| Payables to subsidiaries | **155,810** | 155,960 |
| Air Berlin Technik Ltd. | | |
| Interest income | **0** | 21 |
| Payables to subsidiaries | **140** | 26 |
| Air Berlin Fünfte Flugzeug GmbH | | |
| Revenues | **1** | 1 |
| Receivables from subsidiaries | **1** | 0 |
| Payables to subsidiaries | **2** | 0 |
| Air Berlin Sechste Flugzeug GmbH | | |
| Revenues | **1** | 1 |
| Payables to subsidiaries | **1** | 0 |

| | | |
|---|---|---|
| Air Berlin Siebte Flugzeug GmbH | | |
| Interest income | **1** | 1 |
| Receivables from subsidiaries | **1** | 0 |
| Air Berlin Zwölfte Flugzeug GmbH | | |
| Revenues | **1** | 1 |
| Receivables from subsidiaries | **1** | 0 |
| Air Berlin Dritte Flugzeugvermietungs GmbH | | |
| Revenues | **4** | 5 |
| Receivables from subsidiaries | **5** | 0 |
| Air Berlin Vierte Flugzeugvermietungs GmbH | | |
| Revenues | **4** | 5 |
| Receivables from subsidiaries | **5** | 0 |
| Air Berlin Achte Flugzeugvermietungs GmbH | | |
| Revenues | **0** | 5 |
| Air Berlin Finance GmbH | | |
| Revenues | **2** | 1 |
| Receivables from subsidiaries | **115** | 112 |
| AB Finance II GmbH | | |
| Revenues | **61** | 72 |
| Receivables from subsidiaries | **12** | 7 |
| Belair Airlines AG | | |
| Dividends received | **833** | 819 |
| Revenues | **2,940** | 494 |
| Receivables from subsidiaries | **257** | 61 |
| CHS Holding Service GmbH | | |
| Revenues | **21** | 26 |
| Receivables from subsidiaries | **3** | 3 |
| Air Berlin PLC & Co. Verwaltungs KG | | |
| Revenues | **42** | 48 |
| Receivables from subsidiaries | **21** | 3 |
| Air Berlin PLC & Co. Service Center KG | | |
| Revenues | **101** | 113 |
| Receivables from subsidiaries | **28** | 10 |
| Air Berlin PLC & Co. Airport Service KG | | |
| Revenues | **0** | 89 |
| Receivables from subsidiaries | **0** | 7 |
| Niki Luftfahrt GmbH | | |
| Revenues | **6,514** | 1,166 |
| Interest expenses | **57** | 9 |
| Receivables from subsidiaries | **138** | 95 |
| Payables to subsidiaries | **9,372** | 9,372 |

**n) Employees**

The Company employed one Director (2013: one Director). The Directors remuneration is included in note 23 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 | 2014 | 2013 |
|---|---|---|---|
| AB Zweite Flugzeugvermietungs GmbH (merged to Air Berlin PLC & Co. Luftverkehrs KG) | Germany | ○ | **O** |
| AB Dritte Flugzeugvermietungs GmbH | Germany | **O** | **O** |
| AB Vierte Flugzeugvermietungs GmbH | Germany | **O** | **O** |
| AB Achte Flugzeugvermietungs GmbH (merged to Air Berlin PLC & Co. Luftverkehrs KG) | Germany | ○ | **O** |
| AB Neunte Flugzeugvermietungs GmbH (merged to Air Berlin PLC & Co. Luftverkehrs KG) | Germany | ○ | **O** |
| AB Zehnte Flugzeugvermietungs GmbH (merged to Air Berlin PLC & Co. Luftverkehrs KG) | Germany | ○ | **O** |
| Air Berlin Finance B.V.[1, 2] | Netherlands | **O** | **O** |
| Air Berlin Finance GmbH[1] | Germany | **O** | **O** |
| Air Berlin Finance II GmbH | Germany | **O** | **O** |
| Air Berlin PLC & Co. Luftverkehrs KG | Germany | **O** | **O** |
| Air Berlin PLC & Co. Airport Service KG (merged to Air Berlin PLC & Co. Luftverkehrs KG) | Germany | ○ | **O** |
| Air Berlin Ltd. & Co. Verwaltungs KG (primary: Air Berlin PLC & Co. Verwaltungs KG) | Germany | **O** | **O** |
| Air Berlin Ltd. & Co. Service Center KG (primary: Air Berlin PLC & Co. Service Center KG) | Germany | **O** | **O** |
| airberlin technik GmbH | Germany | **O** | **O** |
| airberlin technik Slovakia s.r.o. | Slovakia | **O** | **O** |
| Air Berlin Holding Limited (primary: Air Berlin Technik Ltd.[2]) | United Kingdom | **O** | **O** |
| Air Berlin 1. LeaseLux Sàrl | Luxembourg | **O** | **O** |
| Air Berlin 2. LeaseLux Sàrl | Luxembourg | **O** | **O** |
| Air Berlin 3. LeaseLux Sàrl | Luxembourg | **O** | **O** |
| Air Berlin 4. LeaseLux Sàrl | Luxembourg | **O** | **O** |
| Air Berlin 5. LeaseLux Sàrl | Luxembourg | **O** | **O** |
| Air Berlin 6. LeaseLux Sàrl | Luxembourg | **O** | **O** |
| Air Berlin 7. LeaseLux Sàrl | Luxembourg | **O** | **O** |
| Air Berlin 8. LeaseLux Sàrl | Luxembourg | **O** | **O** |
| Air Berlin 9. LeaseLux Sàrl | Luxembourg | **O** | **O** |
| Air Berlin Fünfte Flugzeug GmbH | Germany | **O** | **O** |
| Air Berlin Sechste Flugzeug GmbH | Germany | **O** | **O** |
| Air Berlin Siebte Flugzeug GmbH | Germany | **O** | **O** |
| Air Berlin Zwölfte Flugzeug GmbH | Germany | **O** | **O** |
| AB Sechste Flugzeugvermietungs GmbH & Co. KG | Germany | **O** | ○ |
| AB Siebte Flugzeugvermietungs GmbH & Co. KG | Germany | **O** | ○ |
| AB Zwölfte Flugzeugvermietungs GmbH & Co. KG | Germany | **O** | ○ |
| Air Berlin Americas Inc. | USA | **O** | **O** |
| Bairs GmbH (liquidated) | Switzerland | ○ | **O** |
| Belair Airlines AG | Switzerland | **O** | **O** |
| CHS Switzerland AG | Switzerland | **O** | **O** |
| CHS Holding & Services GmbH | Germany | **O** | **O** |

| | | | |
|---|---|---|---|
| Gehuba Beteiligungs-Verwaltungs GmbH | Austria | O | O |
| JFK Stiftung | Switzerland | O | O |
| Leisure Cargo GmbH | Germany | O | O |
| NIKI Luftfahrt GmbH | Austria | O | O |
| NL AB Beteiligungs GmbH | Austria | O | O |
| Pegasus Erste Luftfahrtbeteiligungsgesellschaft mbH | Germany | O | O |
| Pegasus Zweite Luftfahrtbeteiligungsgesellschaft mbH | Germany | O | O |
| Pegasus Dritte Luftfahrtbeteiligungsgesellschaft mbH | Germany | O | O |
| Pegasus Vierte Luftfahrtbeteiligungsgesellschaft mbH | Germany | O | O |
| Pegasus Fünfte Luftfahrtbeteiligungsgesellschaft mbH | Germany | O | O |
| Pegasus Sechste Luftfahrtbeteiligungsgesellschaft mbH | Germany | O | O |
| Pegasus Siebte Luftfahrtbeteiligungsgesellschaft mbH | Germany | O | O |
| Air Berlin Employee Share Trust[3] | United Kingdom | O | O |

1 Shares held directly by Air Berlin PLC as of 31 December 2014 (the remaining subsidiaries are held indirectly through other group companies).
2 Shares held directly by Air Berlin PLC as of 31 December 2013 (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.

OTHER INFORMATION

# AVIATION GLOSSARY

**ANCILLARY REVENUE**
Supplementary revenue beyond ticket sales.

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

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

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

**DRY LEASE**
Leasing of an aircraft without personnel.

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

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

**IATA**
International Air Transport Association.

**LOW-COST CARRIER (LCC)**
Also known as "low-fare carrier". "No-frills airline".

**PAX**
Passenger.

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

**LOAD FACTOR**
The ratio of revenue passenger kilometres to available seat kilometres within a certain time period, either on a route or withing a route network.

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

**WET LEASE**
Leasing an aircraft including personnel.

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

**YIELD MANAGEMENT**
Price management system to increase average earnings.

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# AIRBERLIN
# FINANCIAL CALENDAR
# 2015

## REPORTING DATES

| | |
|---|---|
| 29 April 2015 | Publication of the Annual Report 2014 |
| 13 May 2015 | Publication of the Interim Report as of 31 March 2015 (Q1)<br>Analyst & Investor Conference Call |
| 23 June 2015 | Annual General Meeting (AGM) Air Berlin PLC, London Heathrow |
| 13 August 2015 | Publication of the Interim Report as of 30 June 2015 (Q2)<br>Analyst & Investor Conference Call |
| 12 November 2015 | Publication of the Interim Report as of 30 September 2015 (Q3)<br>Analyst & Investor Conference Call |

## RELEASE OF TRAFFIC FIGURES

| | |
|---|---|
| 9 April 2015 | Traffic figures March 2015 |
| 7 May 2015 | Traffic figures April 2015 |
| 5 June 2015 | Traffic figures May 2015 |
| 7 July 2015 | Traffic figures June 2015 |
| 6 August 2015 | Traffic figures July 2015 |
| 8 September 2015 | Traffic figures August 2015 |
| 6 October 2015 | Traffic figures September 2015 |
| 6 November 2015 | Traffic figures October 2015 |
| 4 December 2015 | Traffic figures November 2015 |

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